

# HUL set to be India's top foods firm with boost from Horlicks

Firm acquires GSK's consumer health arm in ₹31,700 cr all-stock deal

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MUMBAI/NEW DELHI

India's largest consumer goods company Hindustan Unilever Ltd (HUL) is set to become the country's largest listed foods company, powered by a ₹31,700 crore all-stock acquisition of GlaxoSmithKline Consumer Healthcare Ltd that will give the local unit of Unilever brands such as Horlicks, Boost and Viva.

The move would also help HUL make its most ambitious foray into the health and wellness space, chairman Sanjiv Mehta said. In addition, HUL will enter into a five-year contract to distribute GSK Consumer's over-the-counter and oral health products.

"Let's look at it from a point of a consumer—health, wellness is a big need. If you look at the nutrition deficiencies, it is massive. This squarely fits into that space. From a strategic point of view, it makes immense sense for us to get into this category. It's a great strategic fit," Mehta told reporters.

The market for health food drinks in India is estimated at ₹7,000 crore, according to HUL, with Horlicks accounting for around 60% of volume.

"We have very carefully examined their strengths, the claims that we will be able to make, the nutritional properties in the brand, the product, and there is a huge opportunity," Mehta said. "Its penetration is low, but we are in a business which knows how to do market development. We are a business which knows how to do premiumization."

The merger is subject to approvals from statutory authorities and shareholders.

This transaction values GSK Consumer at ₹31,700 crore. HUL will issue 4.39 of its own shares for every share of GSK Consumer. Following the issue of new HUL shares, Unilever's holding in HUL would drop from 67.2% to 61.9%, the company said.

HUL will also market and distribute some brands of GSK Healthcare such as Sensodyne, Otrivin, Crocin and Eno.

"HUL will take on the distribution of all of this under a five-year contract. They get the benefits of what we do with our distribution and reach," said Srinivas Pathak, chief financial officer, HUL. "For us, it gives us a sense of the pharma channel and a better understanding of that business."

The company believes that its move to market and distribute GSK Consumer's products is in line with its own

## MINT GRAPHITI HUL GROWS WITH HORLICKS

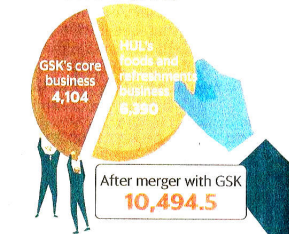
Once GSK Consumer is acquired by HUL, the merged company will emerge as India's largest listed foods and refreshments business

GSK Consumer's Ebit margin has been consistently higher than HUL's foods and refreshments business, making the all-stock acquisition margin accretive for India's largest consumer goods company

For HUL, foods and refreshments contribute 18% of the company's revenue, much lower than its parent's 41.7%

On completion of the merger, HUL's revenue from foods and refreshments will rise to 27%, a nine percentage point increase

Revenue 2017-18 (in ₹ cr)



How rivals stack up (in ₹ cr)



\*Including health and personal care, lifestyle & stationery  
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focus on beauty and personal care (BPC) products.

"For us, pharmacy is an important channel from BPC perspective," Mehta said. "There are many brands sold through chemists. Chemists lend credibility to the brands. For us, that is where the benefits will come in. For GSK, it will also give them access to the massive reach that we have."

HUL's products are available at more than eight million outlets in India.

After the merger, the combined revenue of HUL's foods and refreshments business is expected to cross ₹10,000 crore, which would take HUL slightly ahead of Britannia Industries and Nestle,

which reported revenues of ₹9,830 crore and ₹9,952 crore in 2017-18, respectively.

The annual revenue for ITC from its fast moving consumer goods (FMCG) business that includes home and personal care, lifestyle and stationery stood at ₹11,339.3 crore during the last fiscal. The figures for ITC's food business on a stand-alone basis were not available.

"Post acquisition, HUL will clearly become the largest foods business, considering ITC's core FMCG business to be slightly lower than ₹10,000 crore," said Abneesh Roy, research analyst at Edelweiss Securities Ltd.

For HUL India, foods and refreshments contribute 18% of the revenue, whereas the proportion for parent Uni-



The health drinks market is worth ₹7,000 cr, with Horlicks' share at 60% of volume



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lever is 4.7%.

HUL will further increase penetration with a focus on rural markets and emerging channels while expanding its offerings in the fast-growing premium segment. It believes that customer development will be a growth multiplier, given its network. It expects the business to grow in double digits in the medium term and margins to be accretive to HUL, said the company.

Separately, at a press conference in New Delhi, David Redfern, chief strategy officer for GlaxoSmithKline Plc, said his company would focus purely on the pharmaceutical business. He said that after its acquisition of Swiss pharma giant Novartis earlier this year, GSK's health food business focus on India and Bangladesh became less important.

Redfern said the company would continue to invest in pharmaceuticals, vaccines, oral healthcare and over-the-counter business.

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