

COLGATE-PALMOLIVE INDIA

FMCG

23 MAY 2017

Quarterly Update

HOLD

Target Price: Rs 900

Performance remains weak

Net sales grew only 3% YoY as volumes declined ~3% due to sustained pressure in wholesale. Toothpaste market share declined 120 bps YoY to 54.1% but toothbrush market share grew 160 bps YoY to 47.4%. Higher A&P (+242 bps YoY to 14%) offset benefits from lower RM cost (down 153 bps YoY at 37.5%) and other opex (down 89 bps YoY), resulting in OPM decline of 29 bps YoY to 23.7%.

We believe the slowdown in volume growth is structural given high penetration levels (92% in urban, 74% in rural) and strong competition from Dabur and Patanjali in natural segment. Despite EPS CAGR of 4% over FY12-17 and market share loss of 400bps in the past two years, valuations remain elevated at forward P/E of 41x. Maintain **HOLD** with a revised TP of Rs 900 (Rs 840 earlier) based on forward P/E of 32x.

CMP : Rs 994
Potential Upside : -9%

MARKET DATA

No. of Shares : 272 mn
Free Float : 49%
Market Cap : Rs 270 bn
52-week High / Low : Rs 1,049 / Rs 788
Avg. Daily vol. (6mth) : 3,85,708 shares
Bloomberg Code : CLGT IB Equity
Promoters Holding : 51%
FII / DII : 16% / 9%

Volume continues to disappoint: Volume declined 3% YoY on further destocking in the wholesale channel which was under pressure due to the new cash transaction limit. The company expects restocking in the channel only after GST. In toothpaste, segments like family (*Colgate Dental Cream*), natural, kids and fresh posted modest growth but premium offerings like *Colgate Total* and *Colgate Sensitive* and value offering like *Cibaca* registered decline. *Colgate Cibaca Vedshakti* garnered ~0.5% market share pan-India. The company is trying to increase its presence in the personal care segment – it launched men's range of bodywashes and shaving foams under *Palmolive Men*. It also introduced some packaging and product innovations in its *Palmolive* hand wash and bodywash range.

Way forward: Structural slowdown in volume growth and rising competition from domestic players are the key medium-term challenges, while tailwinds from premiumization and slow-but-steady rise in per capita usage are long-term drivers. Hence, we expect volume growth of 5-7% over FY18-19. Given soft commodity prices, we expect current peak margins to be sustained. On a low base of FY17, we estimate sales and EPS CAGR of 13% and 15% over FY17-19.

Financial summary (Standalone)

Y/E March	FY16	FY17P	FY18E	FY19E
Sales (Rs mn)	41,322	42,563	47,736	53,878
Adj PAT (Rs mn)	5,768	5,563	6,457	7,366
Con. EPS* (Rs)	-	-	25.1	29.1
EPS (Rs)	21.2	20.5	23.7	27.1
Change YOY (%)	3.2	(3.5)	16.1	14.1
P/E (x)	46.9	48.6	41.9	36.7
RoE (%)	64.5	48.7	50.6	56.8
RoCE (%)	88.5	68.6	70.3	78.0
EV/E (x)	28.8	28.6	25.3	22.5
DPS (Rs)	10.0	10.0	19.0	22.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17P	FY18E	FY19E
Toothpaste Vol. growth	-2.0	5.0	7.0
Net sales growth	3.0	12.2	12.9
Gross margin	65.6	65.2	64.7
EBITDA margin	22.0	22.2	22.2

Price performance

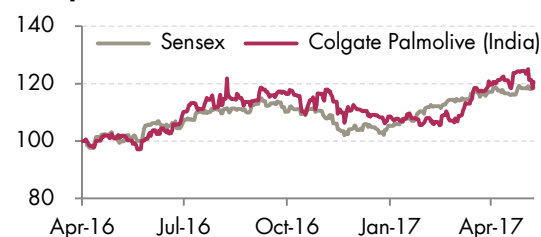
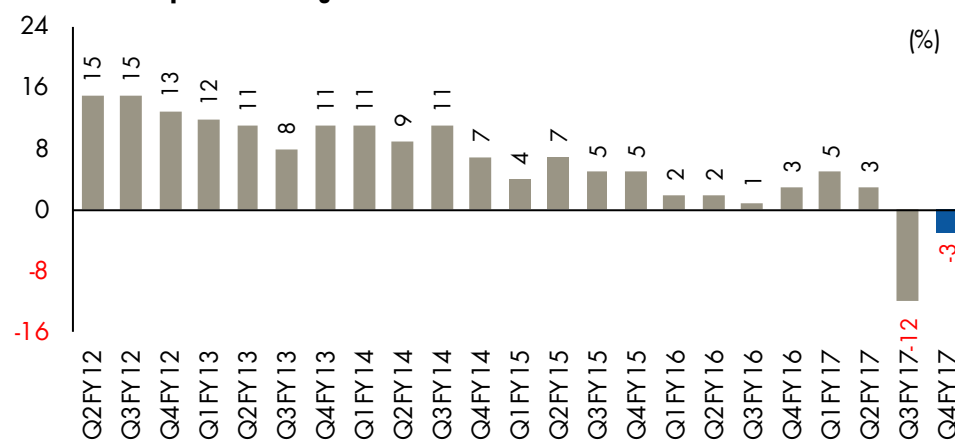


Exhibit 1: Result update

(Rs. mn)	Mar-17	Mar-16	% Chg	Dec-16	% Chg
Net Sales	10,326	10,079	2.5	8,650	19.4
Other operating income	49	77	(35.9)	96	(48.5)
Total revenue	10,375	10,156	2.2	8,746	18.6
Raw material cost	3,877	3,939	(1.6)	3,159	22.7
(% of net sales)	37.5	39.1	-153 bps	36.5	103 bps
Staff expenditure	763	745	2.4	652	17.0
(% of net sales)	7.4	7.4	0 bps	7.5	-15 bps
A&P spends	1,443	1,164	24.0	839	71.9
(% of net sales)	14.0	11.5	242 bps	9.7	427 bps
Other expenses	1,849	1,894	(2.4)	1,955	(5.4)
(% of net sales)	17.9	18.8	-89 bps	22.6	-469 bps
EBITDA	2,443	2,413	1.2	2,141	14.1
EBITDA margin (%)	23.7	23.9	-29 bps	24.7	-109 bps
Other income	80	114	(29.5)	109	(26.5)
PBITD	2,523	2,527	(0.2)	2,250	12.2
Depreciation	341	297	14.8	342	(0.1)
Interest	0	0		0	
PBT	2,182	2,230	(2.1)	1,908	14.4
Tax	756	797	(5.1)	650	16.3
Adjusted PAT	1,426	1,433	(0.5)	1,258	13.3
Extra ordinary income/ (exp.)	0	0		20	
Reported PAT	1,426	1,433	(0.5)	1,278	11.5

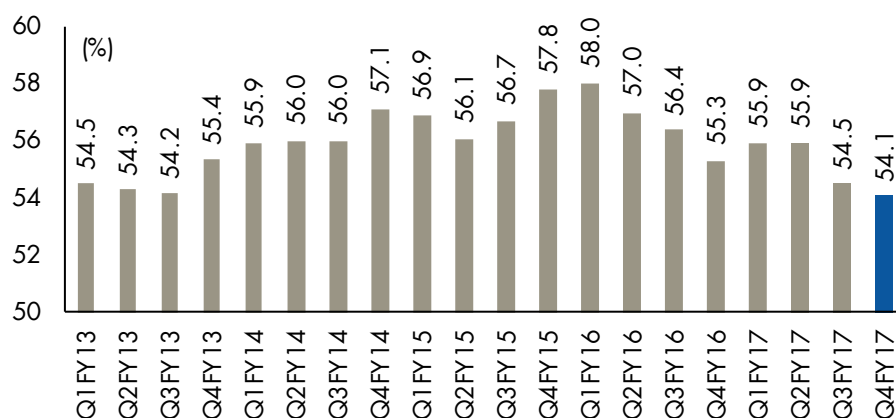
Source: Company, Axis Capital

Exhibit 2: Toothpaste volume growth



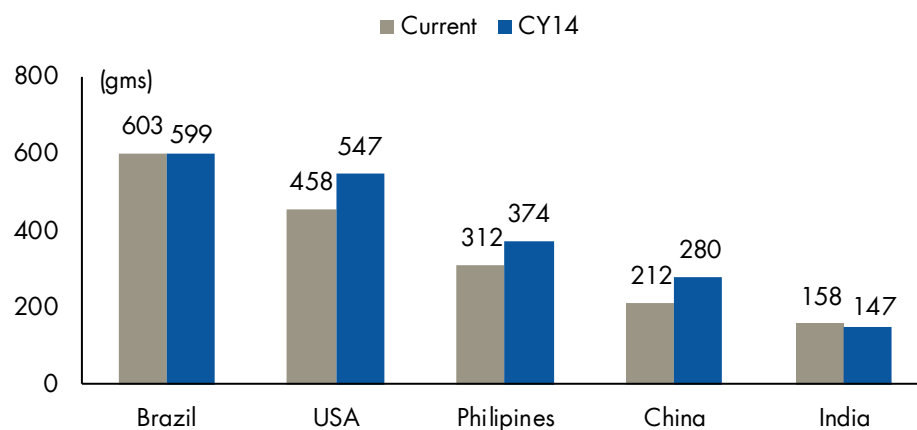
Source: Company, Axis Capital

Exhibit 3: Toothpaste volume market share



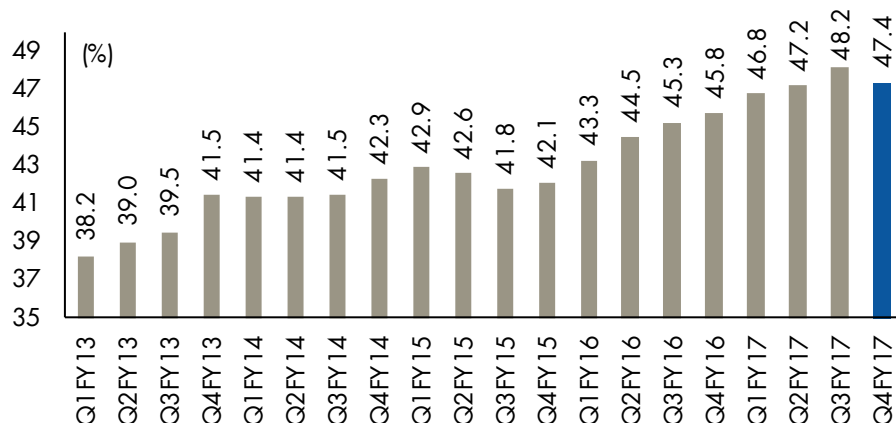
Source: Company, Axis Capital

Exhibit 4: Per capita toothpaste consumption

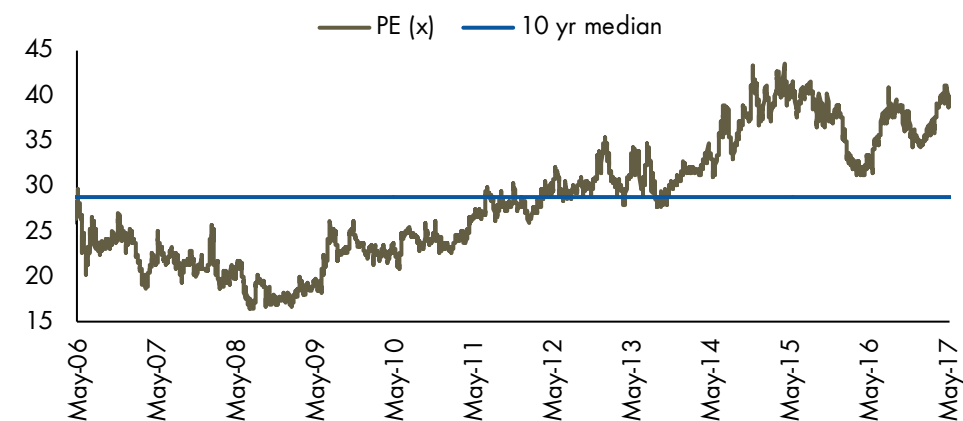


Source: Company, Axis Capital

Exhibit 5: Toothbrush volume market share



Source: Company, Axis Capital

Exhibit 6: 1-year forward PE (on consensus estimates)


Source: Bloomberg, Axis Capital

Profit & loss (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Net sales	41,322	42,563	47,736	53,878
Other operating income	301	304	340	374
Total operating income	41,623	42,866	48,076	54,252
Cost of goods sold	(14,953)	(14,934)	(16,946)	(19,396)
Gross profit	26,670	27,932	31,130	34,856
Gross margin (%)	64.5	65.6	65.2	64.7
Total operating expenses	(17,357)	(18,556)	(20,532)	(22,889)
EBITDA	9,313	9,376	10,598	11,967
EBITDA margin (%)	22.5	22.0	22.2	22.2
Depreciation	(1,114)	(1,332)	(1,432)	(1,591)
EBIT	8,199	8,044	9,166	10,375
Net interest	-	-	-	-
Other income	396	398	472	530
Profit before tax	8,595	8,442	9,637	10,905
Total taxation	(2,827)	(2,879)	(3,180)	(3,539)
Tax rate (%)	32.9	34.1	33.0	32.5
Profit after tax	5,768	5,563	6,457	7,366
Minorities	-	-	-	-
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	5,768	5,563	6,457	7,366
Adj. PAT margin (%)	14.0	13.1	13.5	13.7
Net non-recurring items	(3)	162	-	-
Reported net profit	5,765	5,725	6,457	7,366

Balance sheet (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Paid-up capital	272	272	272	272
Reserves & surplus	9,923	12,374	12,611	12,776
Net worth	10,195	12,646	12,883	13,048
Borrowing	17	17	17	17
Other non-current liabilities	860	892	959	1,033
Total liabilities	11,071	13,554	13,859	14,098
Gross fixed assets	15,773	18,105	20,605	22,405
Less: Depreciation	(5,691)	(7,024)	(8,456)	(10,048)
Net fixed assets	10,081	11,081	12,149	12,357
Add: Capital WIP	784	1,666	1,666	1,666
Total fixed assets	10,865	12,747	13,815	14,023
Total Investment	1,255	2,301	3,301	4,301
Inventory	2,927	2,927	3,089	3,701
Debtors	1,015	1,294	222	1,478
Cash & bank	1,929	1,840	2,603	1,191
Loans & advances	875	1,030	1,143	1,271
Current liabilities	8,365	9,230	11,043	12,685
Net current assets	(1,576)	(2,089)	(3,936)	(4,994)
Other non-current assets	527	595	679	767
Total assets	11,071	13,554	13,859	14,098

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17P	FY18E	FY19E
Profit before tax	8,595	8,442	9,637	10,905
Depreciation & Amortisation	1,114	1,332	1,432	1,591
Chg in working capital	155	388	2,593	(368)
Cash flow from operations	7,062	6,885	10,011	8,060
Capital expenditure	(2,727)	(3,214)	(2,500)	(1,800)
Cash flow from investing	(2,386)	(3,862)	(3,028)	(2,270)
Equity raised/ (repaid)	-	-	-	-
Debt raised/ (repaid)	-	-	-	-
Dividend paid	(3,758)	(3,274)	(6,220)	(7,202)
Cash flow from financing	(3,758)	(3,274)	(6,220)	(7,202)
Net chg in cash	918	(251)	763	(1,412)

Key ratios

Y/E March	FY16	FY17P	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	21.2	20.5	23.7	27.1
CEPS (Rs)	25.3	25.9	29.0	32.9
DPS (Rs)	10.0	10.0	19.0	22.0
Dividend payout ratio (%)	47.2	47.5	80.0	81.2
GROWTH				
Net sales (%)	4.5	3.0	12.2	12.9
EBITDA (%)	13.3	0.7	13.0	12.9
Adj net profit (%)	3.2	(3.5)	16.1	14.1
FDEPS (%)	3.2	(3.5)	16.1	14.1
PERFORMANCE				
RoE (%)	64.5	48.7	50.6	56.8
RoCE (%)	88.5	68.6	70.3	78.0
EFFICIENCY				
Asset turnover (x)	5.6	4.5	4.5	4.9
Sales/ total assets (x)	2.3	2.0	2.0	2.1
Working capital/ sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	9.0	11.1	1.7	10.0
Inventory days	33.1	31.9	30.1	31.9
Payable days	62.4	65.5	65.0	67.3
FINANCIAL STABILITY				
Total debt/ equity (x)	-	-	-	-
Net debt/ equity (x)	(0.2)	(0.2)	(0.2)	(0.1)
Current ratio (x)	0.8	0.8	0.6	0.6
Interest cover (x)	-	-	-	-
VALUATION				
PE (x)	46.9	48.6	41.9	36.7
EV/ EBITDA (x)	28.8	28.6	25.3	22.5
EV/ Net sales (x)	6.5	6.3	5.6	5.0
PB (x)	26.5	21.4	21.0	20.7
Dividend yield (%)	1.0	1.0	1.9	2.2
Free cash flow yield (%)	1.6	1.0	2.4	1.9

Source: Company, Axis Capital

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