

July 6, 2017

Colgate-Palmolive India (COLPAL) ₹ 1114

Price cuts ahead of competition to aid volume

With the rollout of GST and tax clarity on the toothpaste category, Colgate-Palmolive (CPIL) has emerged as one of the major beneficiaries of GST among companies under our coverage. Under the new tax regime, the average indirect tax rate for toothpaste has come down to 18% from ~23-24%. Following the anti-profiteering clause, we were expecting price cuts to the tune of ~6-7% for the category. However, CPIL has intimated distributors about the cut across price points in the tune of 7-11% in both toothpaste and toothbrush segments, which we believe is aided by additional input tax benefits. In our view, it levels the playing field for CPIL as well as providing it a competitive advantage vis-à-vis other key players who enjoy various tax benefits on account of their ayurvedic proposition, as they will be unable to undertake price cuts in similar fashion. Though, we remain positive on the company, due to recent run up in the stock, we maintain HOLD on the stock with a revised target price of ₹ 1150.

Volumes to remain impacted in FY18E; FY19E to witness growth

With lower tax incidence, CPIL has already initiated price cuts across price points in the tune of ~7-11% in toothpaste to pass on the benefit to consumers. However, given the higher exposure to the wholesale channel and significant difference in tax incidence pre and post-GST, trade channel for CPIL are expected to be impacted leading to significant de-stocking. Thus, we expect sales to remain impacted for H1FY18E but recover in H2FY18E, thus estimating volume growth of 6.0% for FY18E (the company saw ~4% decline in sales volume for FY17). We are estimating 3.0% blended price cut for the year. Further, we expect volume growth of 8.0% in FY19E coupled with a 5% increase in the realisation. We have cut our tax incidence on the company to factor in lower GST rate leading to revenue growth of 3.6%, 13.6% for FY18E, FY19E, respectively. Additionally, we believe the company would get advertise aggressively to boost volume and gain market share. Thus, on account of volume growth and change in product mix (to optimise the lower tax implication), the company is estimated to report 21.9%, 23.2% EBITDA margin for FY18E, FY19E, respectively. Our PAT estimate remains intact for FY18E & is getting revised upwards by 10.2% for FY19E.

Exhibit 1: Change in estimates

₹ (Crore)	FY18E			FY19E		
	Old	New	% Change	Old	New	% Change
Sales	4901.6	4653.1	-5.1	5395.6	5284.1	-2.1
EBITDA	1023.8	1024.3	0.0	1130.8	1237.1	9.4
EBITDA Margin (%)	20.7	21.9	116 bps	20.8	23.2	245 bps
PAT	640.6	640.9	0.0	708.4	779.6	10.1
EPS (₹)	23.6	23.6	-0.2	26.0	28.7	10.2

Source: Company, ICICIdirect.com Research

Long term outlook remains positive; maintain HOLD on recent run-up

CPIL is the largest player in oral care in India with a market share of 55.6% in toothpaste and 47.3% in toothbrush category for CY16. Though with the entry of Patanjali, CPIL's lost ~180 bps market share in the past year in the toothpaste category, we believe CPIL has an edge over its indigenous rival in the form of strong brand equity along with a vast distribution network of over 5.8 million outlets. We remain positive on the company from a long term outlook and also revise our estimates upwards for FY19E. However, on account of the recent run-up in the stock, we maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 1150/share valuing the stock at 40x its FY19E EPS of ₹ 28.7.

Rating matrix		
Rating	:	Hold
Target	:	₹ 1150
Target Period	:	12 months
Potential Upside	:	3%

What's changed?	
Target	Changed from ₹ 990 to ₹ 1150
EPS FY18E	Unchanged
EBS FY19E	Changed from ₹ 26.0 to ₹ 28.7
Rating	Unchanged

Key financials				
₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	4,319.0	4,489.9	4,653.1	5,284.1
EBITDA	938.5	944.9	1,024.3	1,237.1
PAT	581.2	577.4	640.9	779.6
EPS (₹)	21.4	21.2	23.6	28.7

*From FY16 onwards, financials are reported as per Ind AS

Valuation summary				
	FY16	FY17	FY18E	FY19E
P/E	52.1	52.5	47.3	38.9
Target P/E	53.8	54.2	48.8	40.1
Div. Yield	0.9	1.2	1.5	1.5
Mcap/Sales	7.0	6.7	6.5	5.7
RoNW (%)	58.5	45.3	50.2	51.7
RoCE (%)	81.7	64.1	71.5	74.0

*From FY16 onwards, financials are reported as per Ind AS

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	30,288.4
Total Debt (FY17) (₹ Crore)	0.0
Cash and Investments (FY17) (₹ Crore)	294.3
EV (₹ Crore)	29,994.1
52 week H/L	1133 / 862
Equity capital	₹ 27.2 crore
Face value	₹ 1

Price performance				
	1M	3M	6M	12M
Colgate	8.7	10.8	23.6	18.2
Dabur	5.5	6.4	8.3	-2.0
HUL	-0.5	16.8	31.2	22.6
Gillette	6.1	21.7	21.0	9.5

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Company has undertaken price cuts across price points

As per the company update to the distributors, Colgate has undertaken price cuts in the range of 7-11% across price points in the toothpaste portfolio and 6-20% in the toothbrush product portfolio. CPIL is the first player to come up with the price cuts post GST and we believe this will provide the company with competitive edge and would help in driving volumes. As per our interaction with the distributors, CPIL has extended 2-3% additional incentives in order to push the products. As per media sources, Patanjali has not undertaken any price cuts and Hindustan Unilever is yet to announce any price cut in the toothpaste category.

In line with this, we have undertaken 3% price cuts in our estimate for FY18E largely based on the favourable product mix.

Exhibit 2: Pre and Post GST prices of toothpaste

Product	Grammage	Pre-GST price	Post GST Price	Difference (%)
Colgate Strong Teeth	100.0	52.0	46.0	(11.5)
Colgate Active Salt	100.0	55.0	49.0	(10.9)
Colgate Active Salt Neem	100.0	58.0	54.0	(6.9)
Colgate MaxFresh Spicy fresh	150.0	95.0	88.0	(7.4)
Colgate Cibaca	175.0	50.0	46.0	(8.0)
Colgate Cibaca Vedshakti	175.0	60.0	55.0	(8.3)
Colgate sensitive Original	80.0	110.0	99.0	(10.0)
Colgate Total Advance Health	120.0	92.0	85.0	(7.6)
Colgate Herbal	100.0	55.0	51.0	(7.3)
Colgate Kids toothpaste	80.0	85.0	79.0	(7.1)
Colgate Visible White	100.0	95.0	88.0	(7.4)
Toothpowder	100.0	42.0	39.0	(7.1)

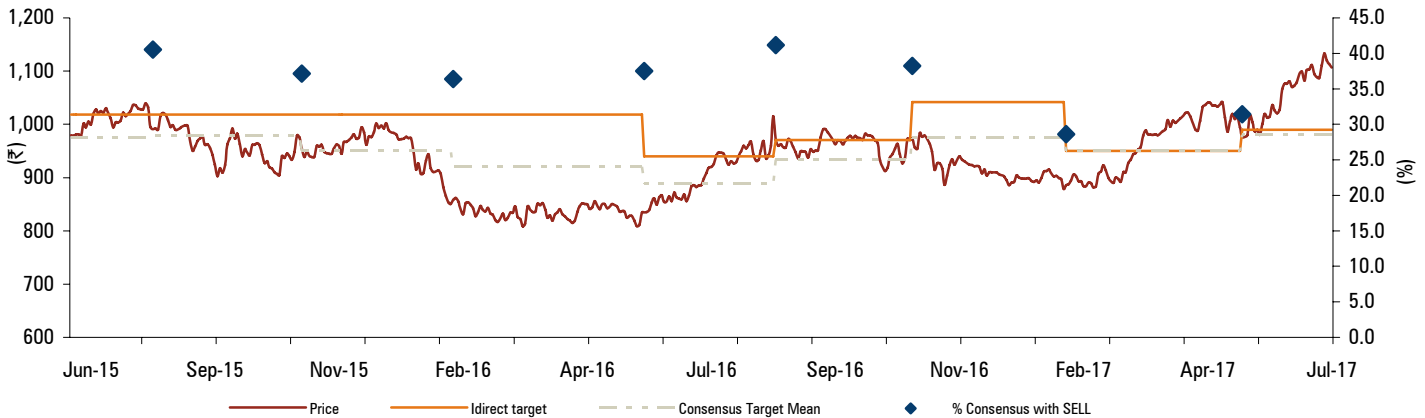
Source: Company, ICICIdirect.com Research

Exhibit 3: Pre and Post GST prices of toothbrush

Product	Pre-GST price	Post GST Price	Difference (%)
Colgate Star	12.0	11.0	(8.3)
Colgate Cibaca 123	14.0	13.0	(7.1)
Colgate Super Junior	14.0	13.0	(7.1)
Colgate Extra Clean	17.0	16.0	(5.9)
Colgate Super Flexi	20.0	18.0	(10.0)
Colgate Super Shine	22.0	20.0	(9.1)
Colgate A1	22.0	20.0	(9.1)
Colgate Super Flexi Black	25.0	20.0	(20.0)
Colgate Zig Zag	30.0	25.0	(16.7)
Colgate Zig Zag Black	35.0	30.0	(14.3)
Colgate Sensitive	50.0	45.0	(10.0)

Source: Company, ICICIdirect.com Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICIdirect.com Research

Key events

Date	Event
Jul-09	Rise in share price aided by a special dividend of ₹ 8/share and the increasing attractiveness of the defensives (FMCG Index) following the economic downturn
Nov-09	Second interim dividend of ₹ 7/share taking the total dividend in H1FY10 to ₹ 15/share
May-10	Did not pay any final dividend keeping the dividend per share for FY10 restricted at ₹ 20/share
Jul-10	First interim dividend for FY11 of ₹ 10/share
Mar-11	Lacklustre performance of the stock following lower sales growth of ~13% and a decline in margins and net profit following increased competition
May-12	Significant jump in performance with reported sales growth of ~21% YoY, volume growth of ~12% and improvement in margins. Also, with a run up in FMCG stocks, following the robust growth and subdued performance in other sectors, the stock price witnessed significant gains
Jan-13	Stock gains significantly mirroring the FMCG Index led by the preference of defensives with strong market leadership in a weak economic scenario
Jun-13	Re-entry of P&G in oral care market in the country increased pressure on the stock considering the concerns of increasing competition from a fierce player. Also, following the entry, Colgate's marketing expenses were expected to increase, pressurising margins
Nov-13	Concerns on subdued FMCG volume growth with softening consumer demand impacted the performance of the complete FMCG Index also impacting the stock performance
Apr-15	Announces voluntary retirement scheme at toothpowder manufacturing plant in Waluj
Sep-15	Announces bonus issue in the ratio 1:1

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Colgate-Palmolive Co	31-Mar-17	51.00	138.7	0.0
2	Life Insurance Corporation of India	31-Mar-17	5.54	15.1	0.0
3	ARISAIG Partners (Asia) Pte. Ltd.	31-Mar-17	4.72	12.8	3.2
4	SBI Funds Management Pvt. Ltd.	30-Apr-17	0.97	2.6	1.5
5	The Vanguard Group, Inc.	31-May-17	0.80	2.2	0.0
6	JPMorgan Asset Management U.K. Limited	31-Mar-17	0.59	1.6	0.1
7	Columbia Wanger Asset Management, LLC	31-Mar-16	0.51	1.4	-0.3
8	UTI Asset Management Co. Ltd.	30-Apr-17	0.49	1.3	0.0
9	Morgan Stanley Investment Management Inc. (US)	31-May-17	0.45	1.2	0.0
10	Goldman Sachs Asset Management International	30-Apr-17	0.38	1.0	0.0

Source: Reuters, ICICIdirect.com Research

Shareholding Pattern

(in %)	Jun-16	Sep-16	Dec-16	Mar-16	Jun-16
Promoter	51.0	51.0	51.0	51.0	51.0
FII	16.3	16.8	17.0	16.8	16.8
DII	8.3	8.5	8.8	9.1	9.1
Others	24.4	23.8	23.2	23.2	23.2

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
ARISAIG Partners (Asia) Pte. Ltd.	49.47m	3.22m	Vontobel Asset Management, Inc.	-25.91m	-1.69m
SBI Funds Management Pvt. Ltd.	24.68m	1.53m	Wasatch Advisors, Inc.	-15.3m	-1m
Morgan Stanley Investment Management (Singapore)	9.18m	0.69m	Union Investment Luxembourg S.A.	-9.05m	-0.59m
Comgest S.A.	1.73m	0.13m	Stewart Investors	-8.64m	-0.55m
JPMorgan Asset Management U.K. Limited	1.38m	0.09m	Carnegie Fonder AB	-4.72m	-0.3m

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement					₹ Crore
(Year-end March)	FY16	FY17	FY18E	FY19E	
Total Operating Income	4349.1	4520.2	4686.5	5320.8	
Growth (%)	9.2	3.9	3.7	13.5	
Raw Material Expenses	1,476.3	1,476.3	1,574.4	1,749.8	
Employee Expenses	262.4	288.5	297.8	338.2	
Marketing Expenses	447.6	511.7	558.4	607.7	
Administrative Expenses	0.0	0.0	176.8	184.9	
Excise Duty	480.9	538.4	418.8	475.6	
Other expenses	743.5	760.4	636.1	727.6	
Total Operating Expenditure	3,410.6	3,575.3	3,662.2	4,083.8	
EBITDA	938.5	944.9	1,024.3	1,237.1	
Growth (%)	14.1	0.7	8.4	20.8	
Depreciation	111.4	133.2	110.3	119.1	
Interest	0.0	0.0	0.0	0.0	
Other Income	39.5	39.8	42.6	45.6	
PBT	866.6	851.4	956.6	1,163.6	
Exceptional items	-31.3	0.0	0.0	0.0	
Total Tap	254.1	274.0	315.7	384.0	
PAT	581.2	577.4	640.9	779.6	
Growth (%)	4.0	-0.6	11.0	21.6	
EPS (₹)	21.4	21.2	23.6	28.7	

Source: Company, ICICIdirect.com Research

*From FY16 onwards, financials are reported as per Ind AS

Balance sheet					₹ Crore
	FY16	FY17	FY18E	FY19E	
Liabilities					
Equity Capital	27.2	27.2	27.2	27.2	
Reserve and Surplus	1,003.8	1,246.6	1,248.3	1,480.0	
Total Shareholders funds	1,031.0	1,273.8	1,275.5	1,507.2	
Total Debt	0.0	0.0	0.0	0.0	
Long Term Provisions	17.9	25.1	32.6	37.0	
Other Non-current Liabilities	11.4	29.2	29.2	29.2	
Total Liabilities	1,060.3	1,328.1	1,337.3	1,573.4	
Assets					
Gross Block	1,577.3	1,810.5	1,960.5	2,110.5	
Less: Acc Depreciation	569.1	702.4	812.7	931.8	
Net Block	1,008.1	1,108.1	1,147.8	1,178.7	
Capital WIP	78.4	166.6	50.0	50.0	
Deferred Tap Asset	0.0	0.0	0.0	0.0	
Non Current Investments	31.2	31.2	31.2	31.2	
LT Loans & Advances/Others	110.2	161.9	132.4	139.4	
Current Assets					
Inventory	291.5	292.6	344.2	390.9	
Debtors	101.5	129.9	127.5	144.8	
Cash	288.7	294.3	339.2	586.7	
Loans & Advances	12.0	63.0	63.7	72.4	
Other Current Assets	81.4	75.9	76.5	86.9	
Current Liabilities					
Creditors	551.9	601.2	637.4	723.9	
Provisions	48.5	56.4	57.4	65.1	
Other CL	342.2	337.7	280.5	318.5	
Net Current Assets	-167.6	-139.7	-24.1	174.1	
Total Assets	1,060.3	1,328.1	1,337.3	1,573.4	

Source: Company, ICICIdirect.com Research

Cash flow statement					₹ Crore
(Year-end March)	FY16	FY17E	FY18E	FY19E	
Profit/Loss after Tap	581.2	577.4	640.9	779.6	
Add: Depreciation	111.4	133.2	110.3	119.1	
Add: Interest	0.0	0.0	0.0	0.0	
(Inc)/dec in Current Assets	-51.1	-74.9	-50.6	-83.0	
Inc/(dec) in Current Liabilities	76.0	52.7	-20.1	132.3	
CF from operating activities	717.5	688.4	680.5	947.9	
(Inc)/dec in Investments	-1.0	0.0	0.0	0.0	
(Inc)/dec in Fixed Assets	-275.2	-321.4	-33.4	-150.0	
Others	-86.6	-26.7	36.9	-2.5	
CF from investing activities	-362.8	-348.1	3.5	-152.5	
Issue/(Buy back) of Equity	13.6	0.0	0.0	0.0	
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0	
Dividend paid & dividend tap	-327.4	-419.0	-547.9	-547.9	
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0	
Others	-13.6	0.0	0.0	0.0	
CF from financing activities	-327.4	-419.0	-547.9	-547.9	
Net Cash flow	27.3	-78.7	136.1	247.5	
Opening Cash	254.4	281.7	203.1	339.2	
Closing Cash	288.7	294.3	339.2	586.7	

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	21.4	21.2	23.6	28.7
Cash EPS	25.5	26.1	27.6	33.0
BV	37.9	46.8	46.9	55.4
DPS	10.0	13.0	17.0	17.0
Cash Per Share	10.6	10.8	12.5	21.6
Operating Ratios (%)				
EBITDA Margin	21.6	20.9	21.9	23.2
PBT / Net Sales	20.1	19.0	20.6	22.0
PAT Margin	13.5	12.9	13.8	14.8
Inventory days	24.6	23.8	27.0	27.0
Debtor days	8.6	10.6	10.0	10.0
Creditor days	46.6	48.9	50.0	50.0
Return Ratios (%)				
RoE	58.5	45.3	50.2	51.7
RoCE	81.7	64.1	71.5	74.0
Valuation Ratios (x)				
P/E	52.1	52.5	47.3	38.9
EV / EBITDA	31.9	31.6	29.1	23.9
EV / Net Sales	6.9	6.7	6.4	5.6
Market Cap / Sales	7.0	6.7	6.5	5.7
Price to Book Value	29.4	23.8	23.7	20.1
Solvency Ratios				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.6	0.6	0.6	0.6
Quick Ratio	0.2	0.3	0.3	0.3

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (FMCG)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)		P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	TP(₹)	Rating		FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Colgate (COLPAL)	1,111	1,150	Hold	30,288	21.2	23.6	28.7	52.3	47.1	40.1	6.7	6.5	5.7	64.1	71.5	74.0	45.3	50.2	51.7
Dabur India (DABIND)	292	305	Hold	49,990	7.2	7.5	8.0	40.3	39.0	38.0	6.5	6.0	5.5	28.0	25.6	25.5	26.4	23.4	22.6
GSK CH (GLACON)	5,354	6,074	Buy	22,775	156.1	176.3	199.2	34.3	30.4	30.5	5.2	4.5	4.0	30.8	30.3	31.3	21.0	21.2	21.7
Hindustan Unilever (HINLEV)	1,080	1,120	Hold	234,662	20.8	22.8	26.7	51.9	47.4	41.9	6.9	6.4	5.8	74.9	82.2	85.6	66.6	66.7	69.0
ITC Limited (ITC)	342	407	Buy	393,394	8.4	10.3	11.6	40.7	33.2	35.0	7.2	6.6	5.8	32.9	38.1	40.2	22.5	26.5	27.9
Jyothy Lab (JYOLAB)	356	397	Hold	6,625	11.1	10.7	12.7	32.0	33.1	31.3	3.9	3.5	3.2	28.1	29.0	30.5	30.9	27.1	28.0
Marico (MARLIM)	314	341	Hold	41,532	6.3	6.9	8.4	49.9	45.5	40.4	7.0	6.0	5.1	44.6	45.1	49.4	34.9	34.6	37.7
Nestle (NESIND)	6,737	7,420	Buy	64,106	103.9	133.4	154.5	64.9	50.5	48.0	6.8	6.0	5.3	34.9	36.7	44.3	36.2	40.0	44.1
Tata Global Bev (TATGLO)	151	147	Hold	9,773	7.2	7.7	8.2	20.9	19.6	18.0	1.4	1.4	1.3	8.8	9.1	9.3	7.2	7.7	7.8
VST Industries (VSTIND)	3,750	4,130	Buy	5,791	108.3	134.6	164.6	34.6	27.9	25.1	6.1	5.3	4.7	45.0	49.0	51.5	31.1	34.1	36.2
Prabhat Dairy (PRADAI)	131	140	Buy	1,160	4.8	6.4	9.5	24.7	18.5	12.5	0.8	0.7	0.6	8.0	9.7	12.2	5.1	6.8	9.7
McLeod Russel (MCLRUS)	174	183	Hold	1,855	7.8	5.6	9.2	NA	31.0	20.0	23.5	16.8	15.1	6.2	5.8	6.5	3.3	2.3	3.6

Source: Company, ICICIdirect.com Research

RATING RATIONALE

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

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