JM FINANCIAL

Colgate-Palmolive India | HOLD

Toothpaste market share looking steadier now

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Colgate's 4QFY18 volume growth was a tad below our forecast at 4% - on a soft comparator, though (volume had declined 3% in 4Q LY due to the continued impact of demonetisation). Overall revenue, though, was significantly lower (470bps) vs expectations due to a rather sharp deceleration in net realisation growth to merely 1% in 4Q vs 4-6% in past 6M - possibly a function of Colgate's pre-GST price-hike having now anniversarised. On the positive side, toothpaste market share appears to have now stabilised for past 9M at c.53% without any incremental loss therein. On the flip side, management is pointing to a volume growth trajectory of just 4-5% level for the company going forward, which is a tad lower vs the current industry growth rate of 5.5-6%. The other disappointment is that Colgate's naturals portfolio appears to be growing at half the rate (c.10%) of industry (c.20-21% - was 30%+ earlier). Stock seems quite reasonably valued on relative basis at c.43x NTM EPS which is a c.15% discount to sector ex-ITC average of 50-51x, but lacks near-term trigger, in our view. Interestingly, Colgate's trailing (FY18) EV-EBITDA of 29x is lower vs HUL's 2-year forward (FY20) EV-EBITDA of 32-33x.

- **4% volume growth off a soft base:** Colgate's 4QFY18 sales, EBITDA and adjusted net profit grew 5.1%, 26.6% and 25.2% to INR10.9bn (net of all taxes), INR3.1bn and INR1.8bn respectively. Revenue was 4-5% below our forecasts (mostly due to lower realisation) while earnings, on the other hand, were 3-4% ahead on the back of much sharper than anticipated GPM expansion (3ppt vs JMFe of 1.3ppt) and lower SG&A (flattish YoY vs expected increase of 7%). Overall volumes grew 4% which is only a tad below our expectation of 5% but have lagged the industry growth rate of 5.7% - a key result disappointment. Realisation growth turned out much lower vs our forecast - grew merely 1% YoY vs past 6M's 4- 6% as the company has not effected any realisation hike post GST (retail prices were, in fact, lowered to pass on GST benefits to consumers) and the pre-GST hike has anniversarised by 4Q. Management, however, opined that prices are likely to go up sooner or later since input-costs have now turned inflationary. Colgate's 'Swarna Vedshakti' now constitutes c.4% of its turnover and the brand is now planned to be scaled up nationally (currently present only in the South).
- **Margin gains were much stronger than anticipated:** Pace of GPM expansion accelerated to 300bps vs 150bps in 3Q and 50-100bps seen in earlier 6M – some base-effect is also at play, though – GPM was quite similar QoQ. EBITDA margin expansion was even sharper at 480bps which was further helped by cost efficiencies as SG&A was largely flattish during the quarter – tax-credits now available under GST likely helped to some extent. The flattish A&P during the quarter was, as per management, a function of high base as spends had grown 24% in 4Q LY. Adjusted net profit growth of 25% was a tad below EBITDA growth due to decline in other income and higher tax rate.
- **Toothpaste share seems to have stabilized over past 9M:** Colgate's toothpaste volume market share for FY18 stood at 53.4% - while this is 170bps lower vs FY17's print of 55.1%, our workings indicate that Colgate's toothpaste share has now broadly stabilised at c.53% level over the past 9M. The toothbrush business, on the other hand, appears to have gained 220bps of share in the past 3M, as per our workings, though share for FY18 (44.8%) was 260bps lower vs FY17's.

Recommendation and Price Target	
Current Reco.	HOLD
Previous Reco.	HOLD
Current Price Target (12M)	1,240
Upside/(Downside)	2.6%
Previous Price Target	1,225
Change	1.2%

Key Data – CLGT IN	
Current Market Price	INR1,208
Market cap (bn)	INR328.7/US$4.8
Free Float	43%
Shares in issue (mn)	272.0
Diluted share (mn)	272.0
3-mon avg daily val (mn)	INR403.1/US$5.9
52-week range	1,285/975
Sensex/Nifty	34,616/10,517
INR/US$	68.1

Price Performance			
%	1M	6M	12M
Absolute	9.6	15.7	18.9
Relative*	9.0	11.9	4.6

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY16A*	FY17A	FY18E	FY19E	FY20E
Sales	43,190	44,898	42,999	46,362	51,482
Sales growth (%)	9.2	4.0	-4.2	7.8	11.0
EBITDA	9,385	9,449	11,124	12,692	14,515
EBITDA (%)	21.7	21.0	25.9	27.4	28.2
Adjusted net profit	5,708	5,613	6,464	7,372	8,418
EPS (INR)	21.0	20.6	23.8	27.1	30.9
EPS growth (%)	2.1	-1.7	15.2	14.0	14.2
ROIC (%)	97.0	66.3	65.9	66.6	74.6
ROE (%)	63.4	48.7	46.2	51.4	58.3
PE (x)	57.6	58.5	50.8	44.6	39.0
Price/Book Value (x)	31.9	25.8	21.6	24.4	21.3
EV/EBITDA (x)	34.7	34.4	29.1	25.7	22.3
Dividend Yield (%)	0.8	0.8	2.0	1.5	1.7

Source: Company data, JM Financial. Note: Valuations as of 21/May/2018

JM Financial Research is also available on: Bloomberg - JMFR <GO>, Thomson Publisher & Reuters S&P Capital IQ and FactSet

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 4Q & FY18 result snapshot (INR mn)

	4QFY18	4QFY17	YoY chg	4QFY18E	% var	FY18	FY17	YoY chg
Net Sales	**10,851**	**10,326**	**5.1%**	**11,384**	**-4.7%**	**41,594**	**39,515**	**5.3%**
Other Operating Income	66	49	33.6%	62	6.9%	285	304	-6.0%
Total Revenue	10,917	10,375	5.2%	11,446	-4.6%	41,880	39,818	5.2%
Gross Profit	**7,101**	**6,449**	**10.1%**	**7,252**	**-2.1%**	**26,694**	**24,751**	**7.8%**
Gross Profit Margin %	65.4%	62.5%	299 bps	63.7%	174 bps	64.2%	62.6%	154 bps
Staff Cost	758	763	-0.6%	831	-8.8%	3,059	2,885	6.0%
A&P	1,436	1,443	-0.5%	1,531	-6.2%	5,268	5,117	3.0%
Other Expenses	1,898	1,862	1.9%	1,992	-4.7%	7,528	7,617	-1.2%
EBITDA	**3,075**	**2,430**	**26.6%**	**2,959**	**3.9%**	**11,124**	**9,436**	**17.9%**
EBITDA margin %	28.3%	23.5%	481 bps	26.0%	235 bps	26.7%	23.9%	286 bps
Depreciation	405	341	18.6%	398	1.6%	1,565	1,332	17.5%
EBIT	**2,670**	**2,089**	**27.8%**	**2,561**	**4.3%**	**9,559**	**8,103**	**18.0%**
EBIT margin %	24.6%	20.2%	438 bps	22.5%	212 bps	23.0%	20.5%	247 bps
Net Financial Other Income	85	93	-9.0%	91	-6.9%	388	411	-5.6%
PBT	**2,755**	**2,182**	**26.3%**	**2,652**	**3.9%**	**9,947**	**8,514**	**16.8%**
PBT after exceptional	2,639	2,182	20.9%	2,652	-0.5%	9,830	8,514	15.5%
Tax	751	756	-0.7%	915	-18%	3,097	2,740	**13.0%**
Net Profit	**1,888**	**1,426**	**32.4%**	**1,737**	**8.7%**	**6,734**	**5,774**	**16.6%**
Adjusted Net Profit	**1,785**	**1,426**	**25.2%**	**1,737**	**2.8%**	**6,464**	**5,613**	**15.2%**

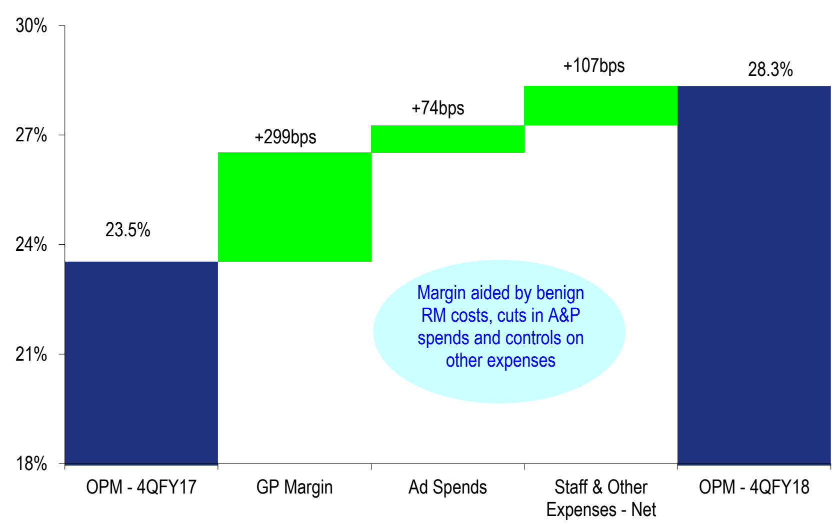
Source: Company, JM Financial

Exhibit 2. Costs breakdown

% of sales	4QFY18	4QFY17	4QFY18E	FY18	FY17
Cost of Goods Sold	34.6%	37.5%	36.3%	35.8%	37.4%
Staff Cost	7.0%	7.4%	7.3%	7.4%	7.3%
Advertisement	13.2%	14.0%	13.5%	12.7%	13.0%
Other Expenses	17.5%	18.0%	17.5%	18.1%	19.3%

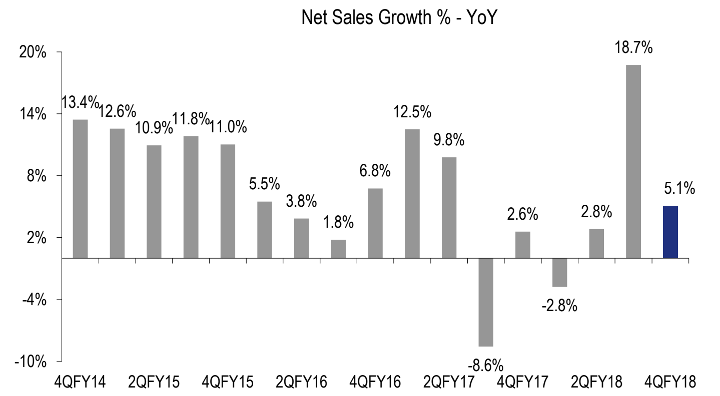
Source: Company, JM Financial

Exhibit 3. Operating margin movement – 4QFY18



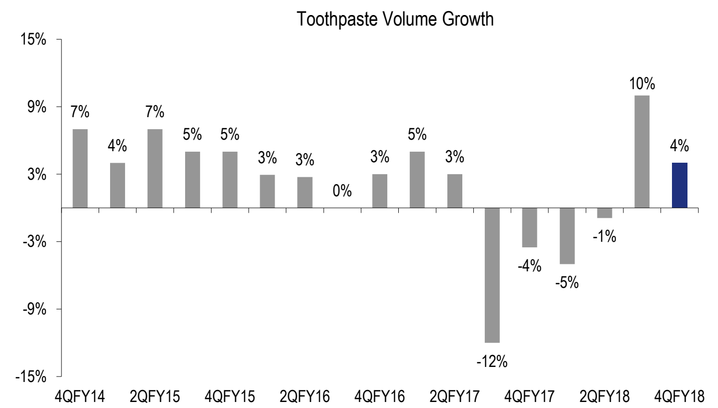
Source: Company, JM Financial

Exhibit 4. Quarterly sales growth trend



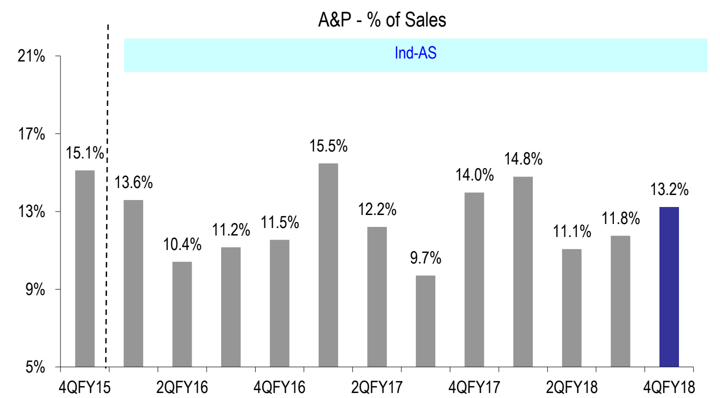
Source: Company, JM Financial

Exhibit 5. Toothpaste volume growth trend



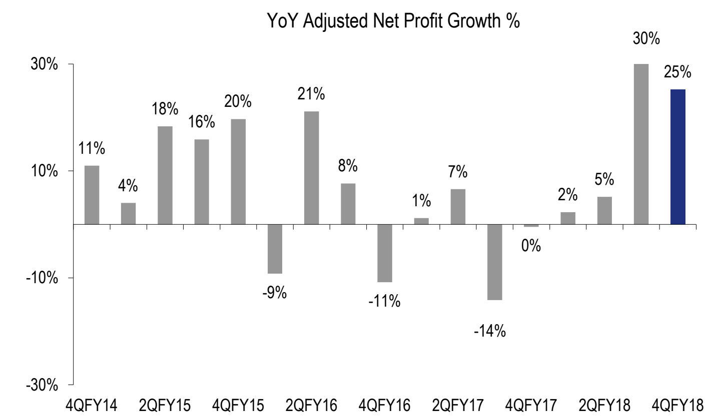
Source: Company, JM Financial

Exhibit 6. A&P trend



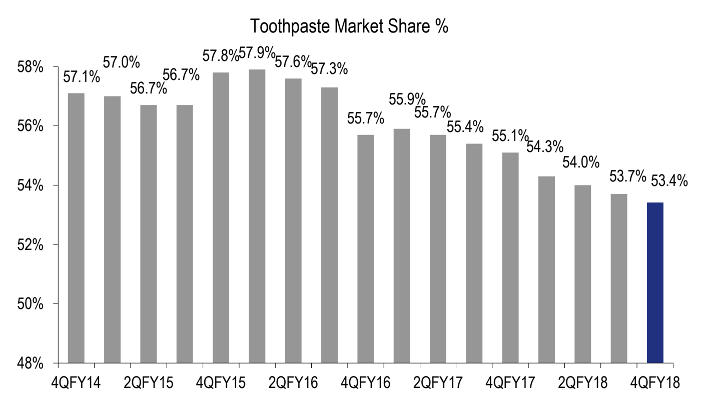
Source: Company, JM Financial

Exhibit 7. Adjusted net profit growth trend



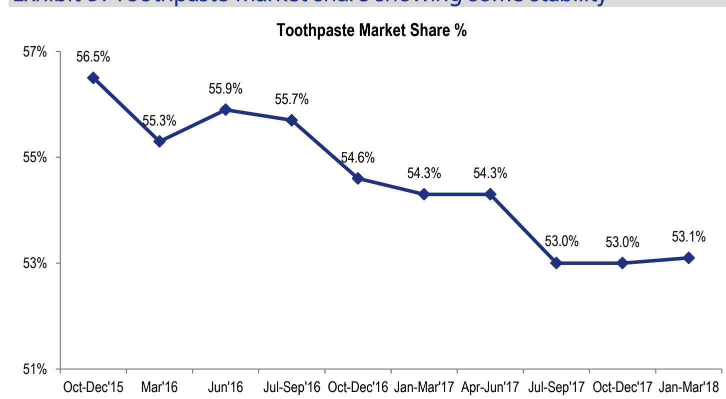
Source: Company, JM Financial

Exhibit 8. Colgate - toothpaste market share trend



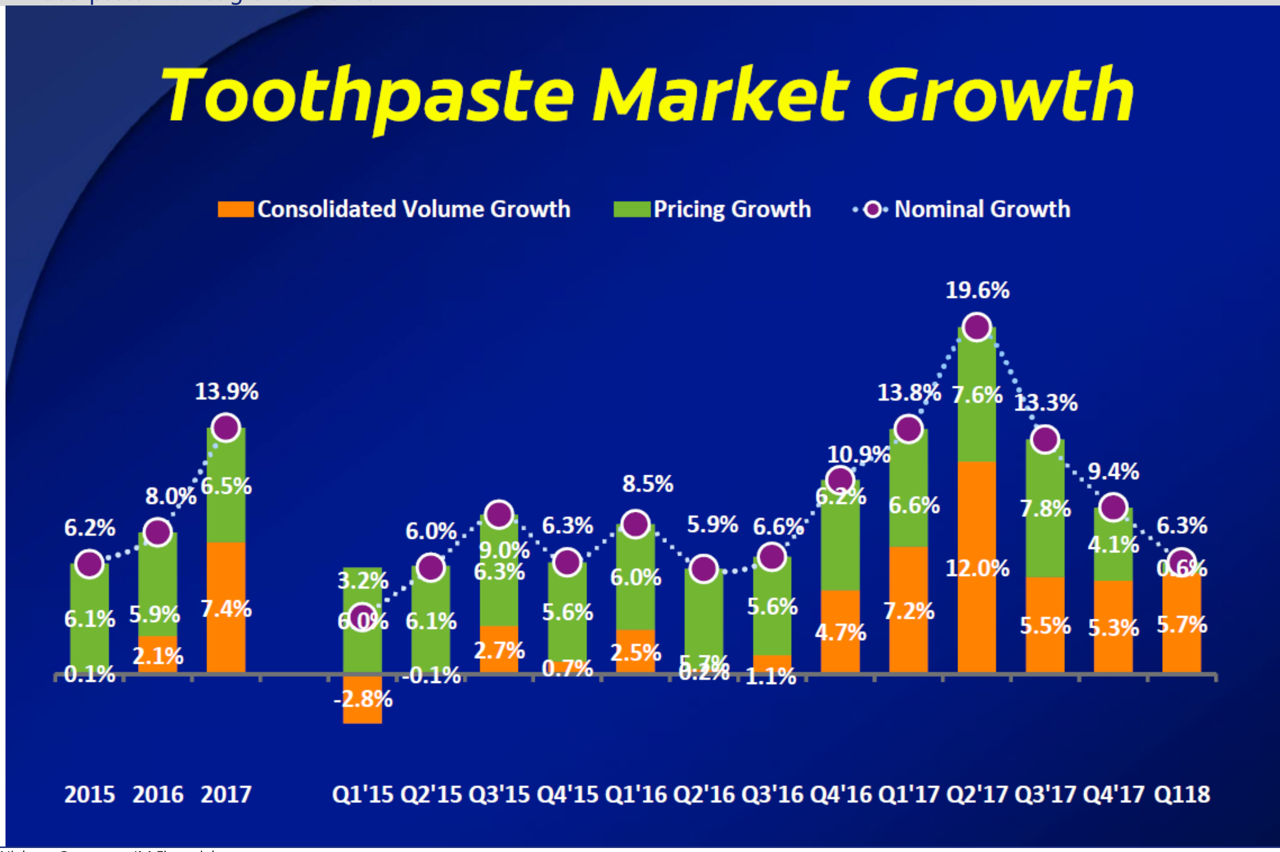
Source: Company, JM Financial

Exhibit 9. Toothpaste market share showing some stability



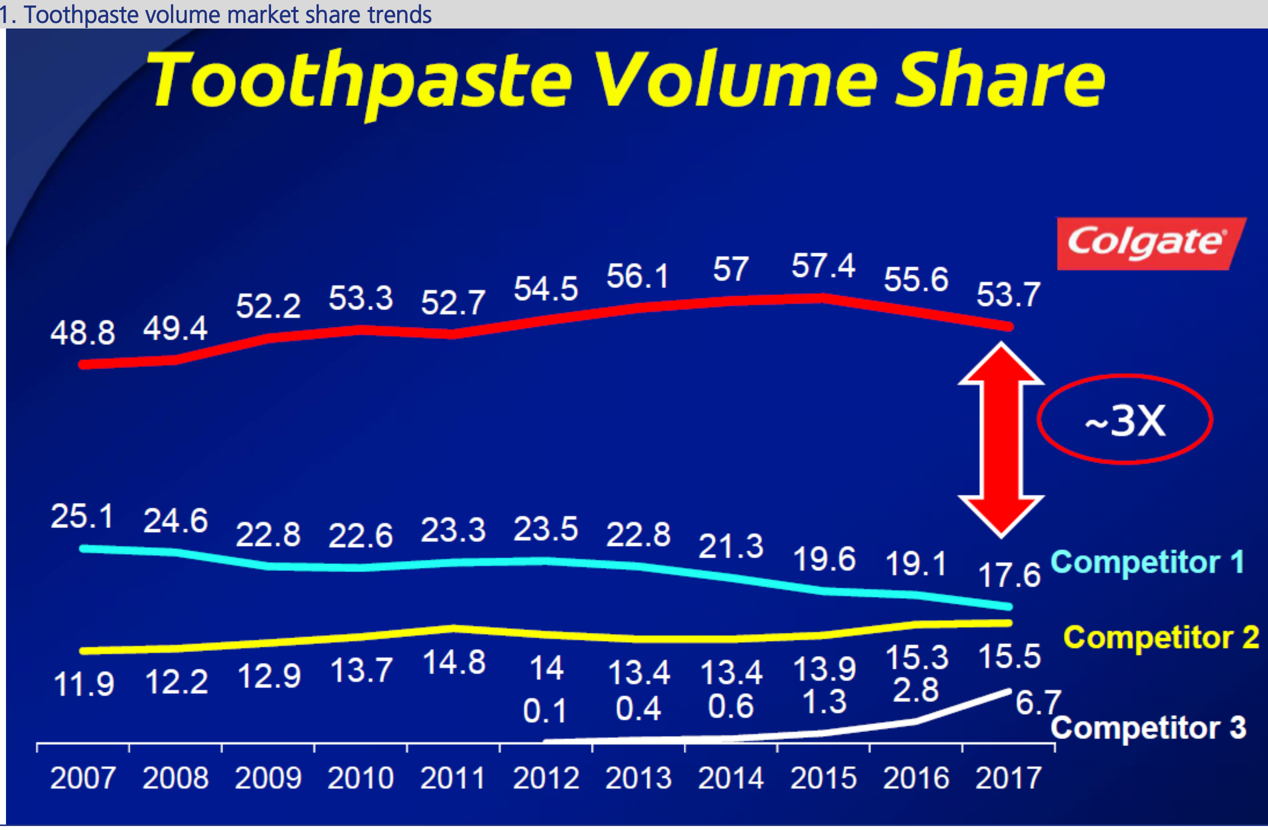
Source: Company, JM Financial

Exhibit 10. Toothpaste market growth trends



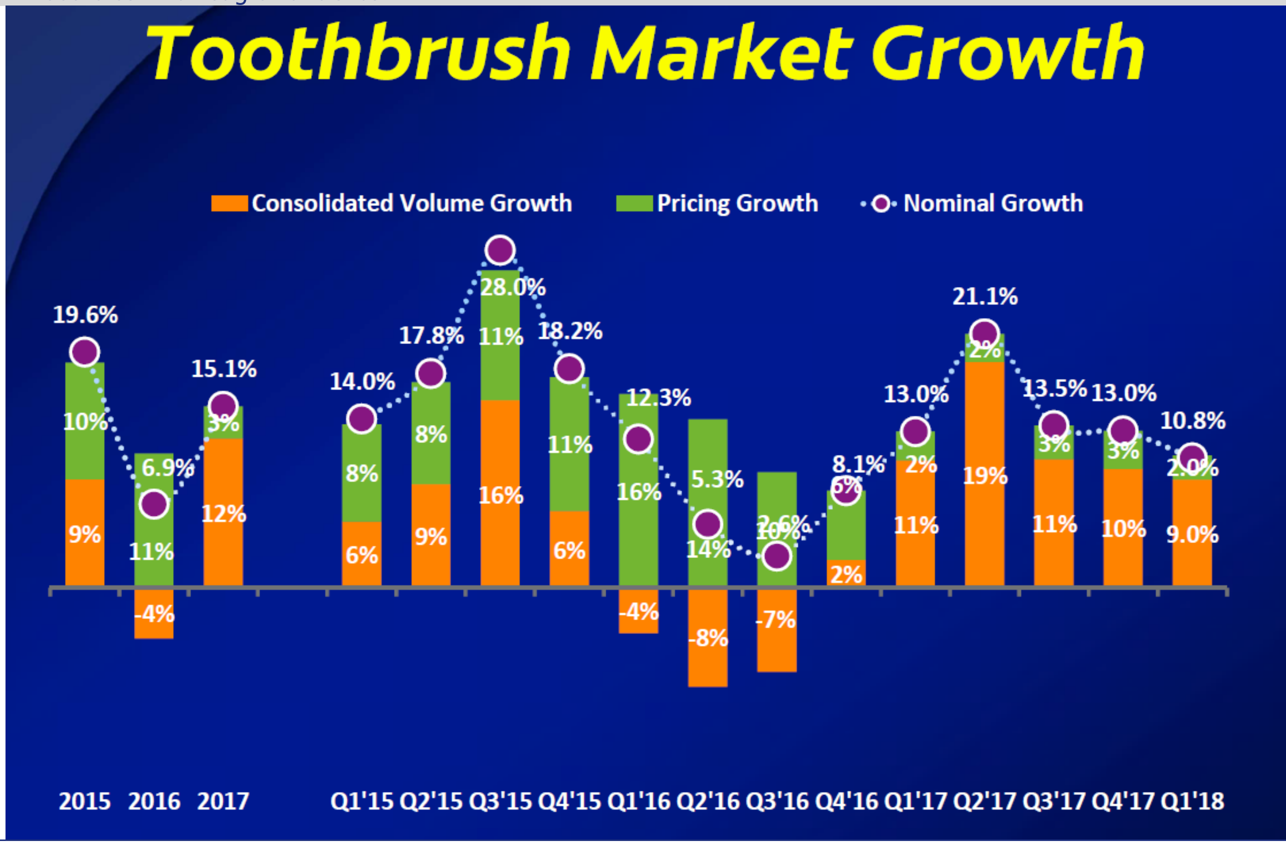
Source: A C Nielsen, Company, JM Financial

Exhibit 11. Toothpaste volume market share trends



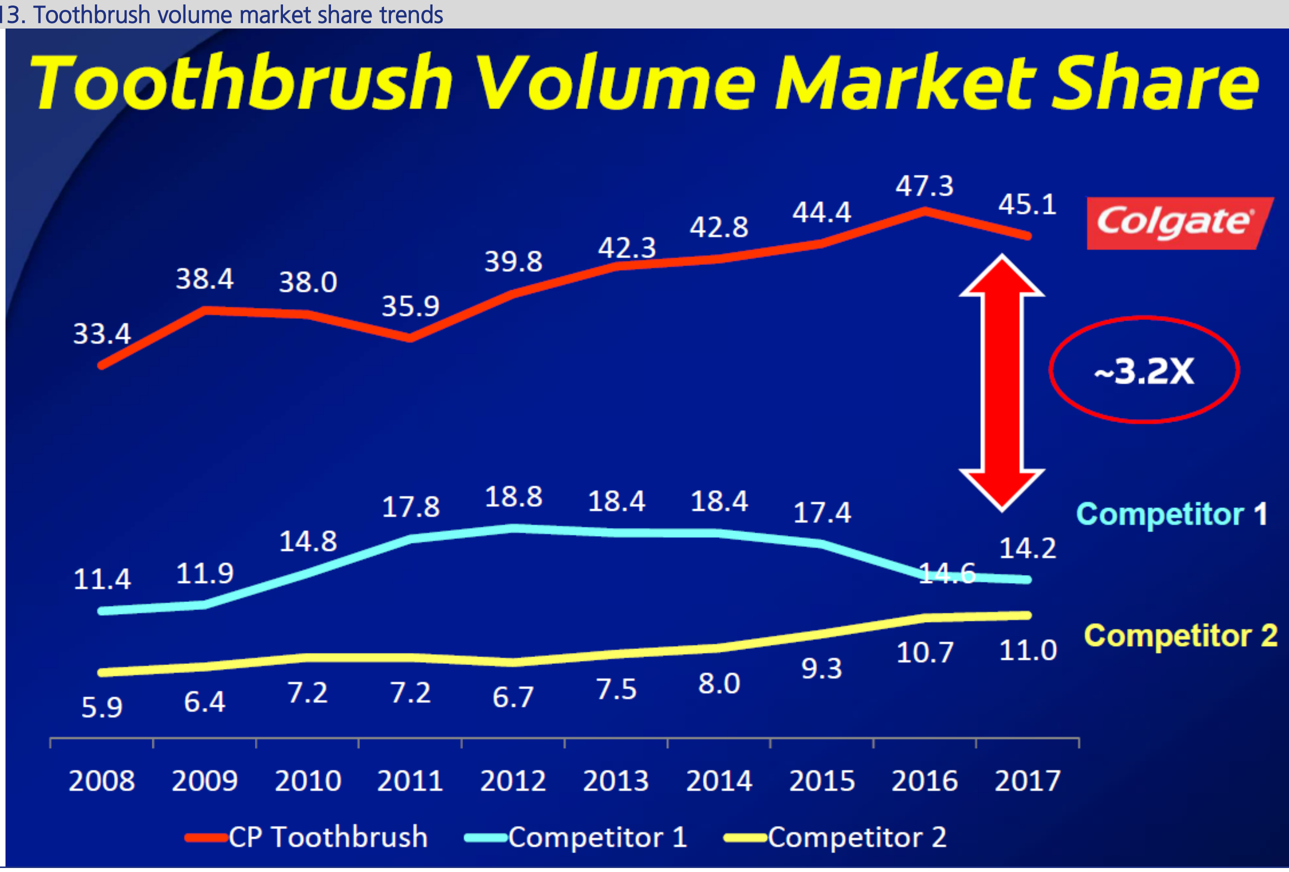
Source: A C Nielsen,Company, JM Financial

Exhibit 12. Toothbrush market growth trends



Source: A C Nielsen, Company, JM Financial

Exhibit 13. Toothbrush volume market share trends



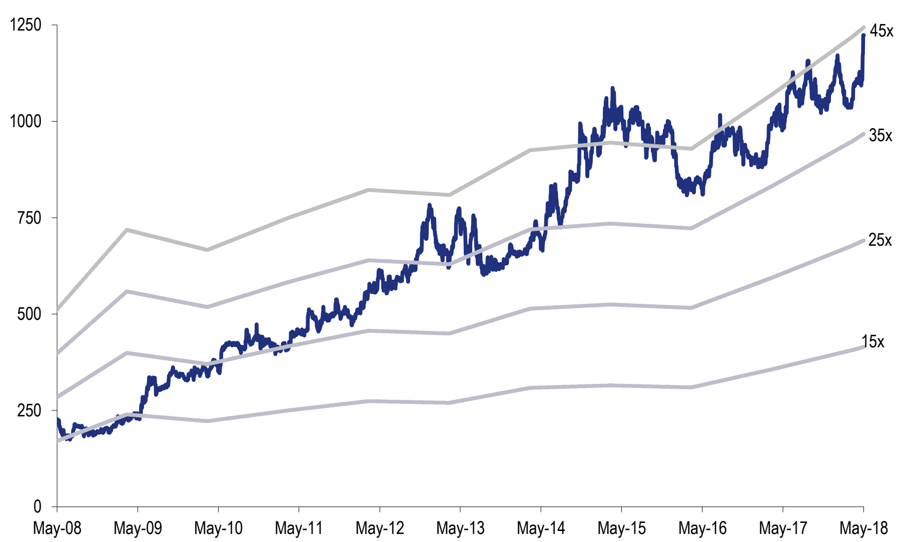
Source: A C Nielsen, Company, JM Financial

Exhibit 14. Summary of estimate changes (INR mn)

Colgate	FY18	FY19	FY20
Current			
Sales	42,999	46,362	51,482
EBITDA	11,124	12,692	14,515
Adjusted Net Profit	6,464	7,372	8,418
EPS	23.8	27.1	30.9
Earlier			
Sales	47,872	53,105	59,588
EBITDA	10,942	12,419	14,253
Adjusted Net Profit	6,491	7,427	8,633
EPS	23.9	27.3	31.7
Change - %			
Sales	-10.2%	-12.7%	-13.6%
EBITDA	1.7%	2.2%	1.8%
Adjusted Net Profit	-0.4%	-0.7%	-2.5%
EPS	-0.4%	-0.7%	-2.5%

Source: Company, JM Financial

Exhibit 15. Colgate one-year forward PE band



Source: Company, JM Financial

Financial Tables (Standalone)

Profit & Loss Statement					(INRmn)
Y/E March	**FY16A***	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Net sales (Net of excise)	**43,190**	**44,898**	**42,999**	**46,362**	**51,482**
Growth (%)	9.2%	4.0%	-4.2%	7.8%	11.0%
Other Operating Income	301	304	285	313	348
Total Revenue	**43,491**	**45,202**	**43,284**	**46,675**	**51,830**
Cost of Goods Sold/Op. Exp.	19,572	20,147	16,305	16,207	17,750
Personnel cost	2,624	2,885	3,059	3,431	3,799
Other expenses	11,910	12,721	12,796	14,345	15,765
EBITDA	**9,385**	**9,449**	**11,124**	**12,692**	**14,515**
EBITDA (%)	21.7%	21.0%	25.9%	27.4%	28.2%
EBITDA Growth (%)	14.1%	0.7%	17.7%	14.1%	14.4%
Depn & Amort	1,114	1,332	1,565	1,766	1,973
EBIT	8,271	8,116	9,559	10,926	12,543
Other Income	395	398	388	345	328
Finance Cost	0	0	0	0	0
PBT before Excep & Forex	8,666	8,514	9,947	11,271	12,870
Excep & forex Inc/Loss(-)	-313	0	-117	0	0
PBT	8,353	8,514	9,830	11,271	12,870
Taxes	2,541	2,740	3,097	3,899	4,452
Extraordinary Inc/Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net profit	5,812	5,774	6,734	7,372	8,418
Adjusted Net Profit	**5,708**	**5,613**	**6,464**	**7,372**	**8,418**
Net Margin (%)	13.2%	12.5%	15.0%	15.9%	16.4%
Diluted share capital (mn)	272.0	272.0	272.0	272.0	272.0
Diluted EPS (Rs)	**21.0**	**20.6**	**23.8**	**27.1**	**30.9**
Diluted EPS Growth	2.1%	-1.7%	15.2%	14.0%	14.2%
Total Dividend + Tax	3,274	3,289	7,894	5,898	6,734
Dividend Per Share (Rs)	10.0	10.0	24.0	18.0	20.6

Source: Company, JM Financial

Balance Sheet					(INRmn)
Y/E March	**FY16A***	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Shareholders' Fund	10,310	12,738	15,246	13,445	15,407
Share capital	272	272	272	272	272
Reserves & Surplus	10,038	12,466	14,974	13,173	15,135
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab / Assets (-)	97	275	355	271	174
Total - Equity & Liab	**10,407**	**13,013**	**15,601**	**13,715**	**15,581**
Net Fixed Assets	10,865	12,747	13,045	13,279	13,306
Gross Fixed Assets	11,184	13,517	15,380	17,380	19,380
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	1,103	2,435	4,001	5,767	7,739
Capital WIP	784	1,666	1,666	1,666	1,666
Investments	312	312	312	374	449
Current Assets	8,852	10,175	12,282	10,484	13,336
Inventories	2,915	2,926	2,267	2,921	3,244
Sundry Debtors	1,015	1,299	2,010	1,905	2,116
Cash & Bank Balances	2,887	2,943	4,562	1,983	4,053
Loans & Advances	1,021	1,770	2,256	2,368	2,487
Other Current Assets	1,013	1,238	1,188	1,306	1,437
Current Liab. & Prov.	9,622	10,221	10,037	10,421	11,510
Current Liabilities	7,918	8,669	8,769	8,753	9,611
Provisions & Others	1,703	1,552	1,268	1,668	1,898
Net Current Assets	-770	-46	2,245	63	1,826
Application of Funds	**10,407**	**13,013**	**15,601**	**13,715**	**15,581**

Source: Company, JM Financial

Cash Flow Statement					(INRmn)
Y/E March	**FY16A***	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Profit before Tax	8,353	8,514	9,830	11,271	12,870
Depn. & Amort.	1,114	1,332	1,565	1,766	1,973
Net Interest Exp. / Inc. (-)	-395	-398	-388	-345	-327
Inc (-) / Dec in WCap.	156	311	-410	-686	198
Others	183	135	80	-85	-97
Taxes Paid	-2,524	-3,014	-3,359	-3,610	-4,344
Operating Cash Flow	**6,887**	**6,880**	**7,319**	**8,312**	**10,272**
Capex	-2,713	-3,212	-1,863	-2,000	-2,000
Free Cash Flow	*4,175*	*3,668*	*5,456*	*6,312*	*8,272*
-Inc/dec in investments	70	0	0	-62	-75
Other current assets	277	-209	388	345	328
Investing Cash Flow	**-2,366**	**-3,422**	**-1,475**	**-1,717**	**-1,747**
Inc/(dec) in capital	0	0	0	0	0
Dividend+Tax Thereon	-3,758	-3,270	-2,631	-9,173	-6,455
Inc/dec in loans	0	0	0	0	0
Other assets	-157	-135	-1,594	0	0
Financing Cash Flow	**-3,914**	**-3,405**	**-4,226**	**-9,173**	**-6,455**
Inc / Dec (-) in Cash	607	53	1,619	-2,579	2,070
Opening cash balance	2,280	2,890	2,943	4,562	1,983
Closing cash balance	2,887	2,943	4,562	1,983	4,053

Source: Company, JM Financial

Dupont Analysis					
Y/E March	FY16A*	FY17A	FY18E	FY19E	FY20E
Net Margin	13.2%	12.5%	15.0%	15.9%	16.4%
Asset Turnover (x)	4.8	3.8	3.0	3.2	3.5
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0
RoE	63.4%	48.7%	46.2%	51.4%	58.3%
Key Ratios					
Y/E March	FY16A*	FY17A	FY18E	FY19E	FY20E
BV/Share (INR)	37.9	46.8	56.1	49.4	56.6
ROIC (%)	97.0%	66.3%	65.9%	66.6%	74.6%
ROE (%)	63.4%	48.7%	46.2%	51.4%	58.3%
Net Debt-equity ratio (x)	-0.3	-0.3	-0.3	-0.2	-0.3
PER	57.6	58.5	50.8	44.6	39.0
PBV	31.9	25.8	21.6	24.4	21.3
EV/EBITDA	34.7	34.4	29.1	25.7	22.3
EV/Net Sales	7.5	7.2	7.5	7.0	6.3
Debtor days	9	11	17	15	15
Inventory days	25	24	19	23	23
Creditor days	85	89	100	94	94

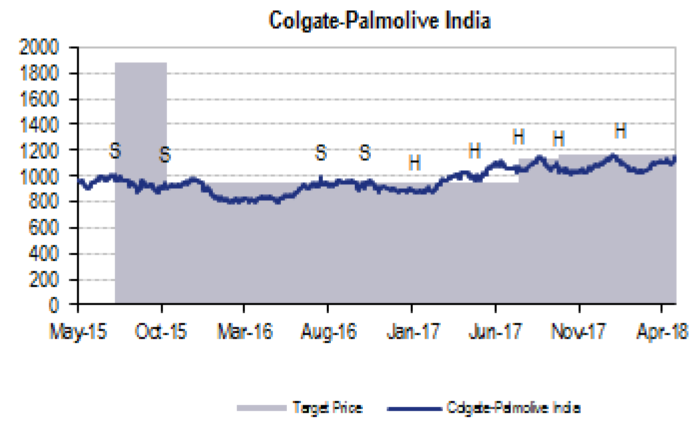
Source: Company, JM Financial

*Note: Growth for FY16 shown in above impacted by Ind-AS transition. FY16 LTL Sales , EBITDA and adjusted EPS grew 4.5%, 13.3% and 1.3% respectively

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
31-Jul-15	Sell	1,880	
30-Oct-15	Sell	940	-50.0
9-Aug-16	Sell	960	2.1
28-Oct-16	Sell	945	-1.6
27-Jan-17	Hold	950	0.5
16-May-17	Hold	940	-1.1
3-Aug-17	Hold	1,135	20.7
16-Oct-17	Hold	1,170	3.1
5-Feb-18	Hold	1,170	0.0

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
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Buy	Total expected returns of more than 15%. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 15% upside from the current market price.
Sell	Price expected to move downwards by more than 10%

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