May 22, 2018

Colgate-Palmolive India (COLPAL) ₹ 1230

Volume recovers but market share fall continues

Rating matrix

Rating	:	Hold
Target	:	₹ 1250
Target Period	:	12 months
Potential Upside	:	2%

What's changed?

Target	Changed from ₹ 1120 to ₹ 1250
EPS FY19E	Changed from ₹ 24.1 to ₹ 26.0
EPS FY20E	Changed from ₹ 26.7 to ₹ 30.7
Rating	Unchanged

Quarterly performance

	Q4FY18	Q4FY17	YoY (%)	Q3FY18	QoQ (%)
Sales	1091.7	1037.5	5.2	1033.3	5.6
EBITDA	307.5	243.0	26.6	282.4	8.9
EBITDA (%)	28.2	23.4	475 bps	27.3	84 bps
PAT	188.8	142.6	32.4	170.7	10.6

Key financials

₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	4,489.9	4,299.9	4,848.0	5,329.5
EBITDA	943.5	1,112.4	1,124.4	1,276.6
PAT	577.4	673.4	707.0	835.1
EPS (₹)	21.2	24.8	26.0	30.7

Valuation summary

	FY17	FY18E	FY19E	FY20E
P/E	57.9	49.7	47.3	40.1
Target P/E	58.9	50.5	48.1	40.7
Div. Yield	0.8	1.4	1.4	1.4
Mcap/Sales	7.5	7.8	6.9	6.3
RoNW (%)	45.3	44.7	45.4	45.3
RoCE (%)	64.1	62.9	62.9	62.6

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	33,454.3
Total Debt (FY18) (₹ Crore)	0.0
Cash and Investments (FY18) (₹ Crore)	456.2
EV (₹ Crore)	32,998.1
52 week H/L	1285 / 975
Equity capital	₹ 27.2 crore
Face value	₹ 1

Price performance

	1M	3M	6M	12M
Colgate	8.7	14.3	14.6	21.8
Dabur	9.0	9.4	10.2	36.6
HUL	10.9	16.4	23.3	57.7
Gillette	-0.8	-3.0	8.6	31.5

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- The company reported 7.2% YoY decline in revenue (5.2% growth on a comparable base) to ₹ 1,091.7 crore (I-direct estimate: ₹ 1,123.4 crore) with healthy volume growth of 4% aided by low base quarter
- CPIL maintained its leadership position with 53.4%, 44.8% market share in toothpaste, toothbrush categories, respectively. However, it is losing market share in toothpaste segment due to aggressive competition especially in ayurvedic and naturals toothpaste
- Operating profit increased 26.6% to ₹ 307.5 crore (I-direct estimate: ₹ 303.5 crore) mostly on account of soft raw material prices. As a result, operating margins surged 475 bps to 28.2%. PAT witnessed growth of 32.4% YoY to ₹ 188.1 crore (I-direct estimate: ₹ 172.5 crore) despite an exceptional loss of ₹ 11.65 crore witnessed during the quarter due to certain organisation structural changes

Loses market share but best placed to evade competition

Colgate-Palmolive India (CPIL) is the largest player in oral care with market share of 53.4% in toothpaste, 44.8% in toothbrush category as on March 2018. The aggressive competition by Dabur & Patanjali in ayurvedic space has led to the erosion in market share of CPIL & HUL. Though, it has introduced mass segment Cibaca Vedshakti and Premium brand Colgate Swarna Vedshakti in naturals space, it still has not been able to curb market share decline. The company has lost market share by ~250 bps in last two years. Though, we believe FY18 has been the exceptional year with low trade activity, Colgate, historically has evaded competition by insistent spend towards A&P. We believe CPIL has an edge over its indigenous rival in form of strong brand equity. Additionally, a) CPIL's renewed focus on naturals segment under toothpaste through Colgate Vedshakti (priced lower than Patanjali's Dant Kanti), b) its presence across traditional segments and reach to 5.8 million outlets and c) continuous launch of innovative products and aggressive marketing expense, would continue to support CPIL amid a highly competitive environment.

Plans to ramp up distribution of naturals' portfolio

Currently, Colgate's naturals portfolio is growing at 10% against the overall natural's toothpaste segment estimated growth of ~21%. To speed up its naturals' portfolio growth, CPIL plans to ramp up distribution of Colgate Swarna Vedshakti across country in addition to South India. Further, the company is focusing on increasing its direct reach by 20-25% to drive penetration and sales of its products. We believe increasing share in the rapidly growing herbal segment along with low base year impact would perk up Colgate's volumes in FY19-20E. We expect CPIL to clock 6% volume growth in the toothpaste segment for FY19E and FY20E.

Initiatives yet to result in considerable growth; maintain HOLD

Though the competitive intensity in the oral care segment remains high, resulting in increased pressure on Colgate's market share, we believe innovative launches in the natural space and increased investment on brands will continue to drive volume growth, going forward. We expect 11.3% CAGR in both revenue & earnings in FY18-20E. Going ahead, we believe Colgate will benefit from an expected normal monsoon and declining aggression from Patanjali in the category. We reiterate our **HOLD** rating with a target price of ₹ 1250/share.

Variance analysis

	Q4FY18	Q4FY18E	Q4FY17	YoY (%)	Q3FY18	QoQ (%)	
Net Sales	1,091.7	1,134.8	1,037.5	5.2	1,033.3	5.6	Net sales witnessed growth of 5.2% on a comparable basis led by 4% volume growth and ~1% realisation growth (price increase as well as product mix)
Operating Income	6.6	11.4	4.9	33.6	6.4	3.9	
Raw Material Expenses	375.0	385.1	387.7	-3.3	359.8	4.2	Gross margins expanded 281 bps benefitted by soft raw material prices
Employee Expenses	75.8	95.3	76.3	-0.6	75.0	1.1	
SG&A Expenses	143.6	180.7	144.3	-0.5	120.7	18.9	The company was able to maintain its advertisement spend during the quarter. As a percentage of sales, it fell 67 bps YoY
Other operating Expenses	189.8	170.2	186.2	1.9	195.4	-2.9	
Excise duty	0.0	0.0	139.2	NA	0.0	NA	
EBITDA	307.5	303.5	243.0	26.6	282.4	8.9	
EBITDA Margin (%)	28.2	26.7	23.4	475 bps	27.3	84 bps	Operating margins witnessed an expansion of 475 bps largely on the back of higher gross margins and saving in overhead expenditure
Depreciation	40.5	53.7	34.1	18.6	39.6	2.3	
Interest	0.0	0.0	0.0	NA	0.0	NA	
Other Income	8.5	12.3	9.3	-9.0	9.0	-6.2	
PBT before exceptional	275.5	262.1	218.2	26.3	251.9	9.4	
Exceptional Items	11.7	0.0	0.0	NA	0.0	NA	Exceptional expense were witnessed during the quarter due to certain organisation structural changes
Tax Outgo	75.1	89.3	75.6	-0.7	81.2	-7.6	
PAT	188.8	172.9	142.6	32.4	170.7	10.6	PAT surged 32.4% during the quarter

Source: Company, ICICI Direct Research

Change in estimates

	FY19E			FY20E			
(₹ Crore)	Old	New	% Change	Old	New	% Change	Comments
Sales	4884.2	4848.0	-0.7	5,369.0	5329.5	-0.7	We change our estimates considering the company has started showing volume growth and its focus on cost optimistion would help aid margins
EBITDA	1047.5	1124.4	7.3	1172.1	1276.6	8.9	
EBITDA Margin (%)	21.4	23.0	160 bps	21.8	24.0	212 bps	
PAT	655.9	707.0	7.8	757.2	835.1	10.3	
EPS (₹)	24.1	26.0	7.9	27.8	30.7	10.4	

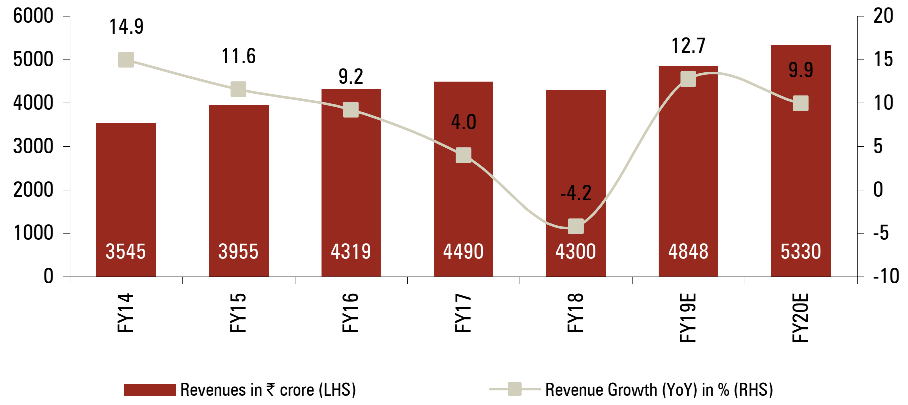
Source: Company, ICICI Direct Research

Assumptions

	Current				Earlier		Comments
	FY17	FY18E	FY19E	FY20E	FY19E	FY20E	
Toothpaste Vol. Growth(%)	-4.0	4.0	6.0	6.0	6.0	6.0	No change in estimates
Toothpaste Value Growth(%)	3.7	-5.3	11.3	9.2	11.3	9.2	
Toothbrush Vol. Growth(%)	-2.0	4.0	10.0	10.0	10.0	10.0	
Toothbrush Value Growth(%)	5.3	2.9	10.5	6.4	11.0	6.4	
Raw Material/Sales %	32.9	34.7	33.7	33.8	33.5	35.0	
Marketing Exp./Sales %	11.4	12.3	11.5	11.3	11.5	11.3	

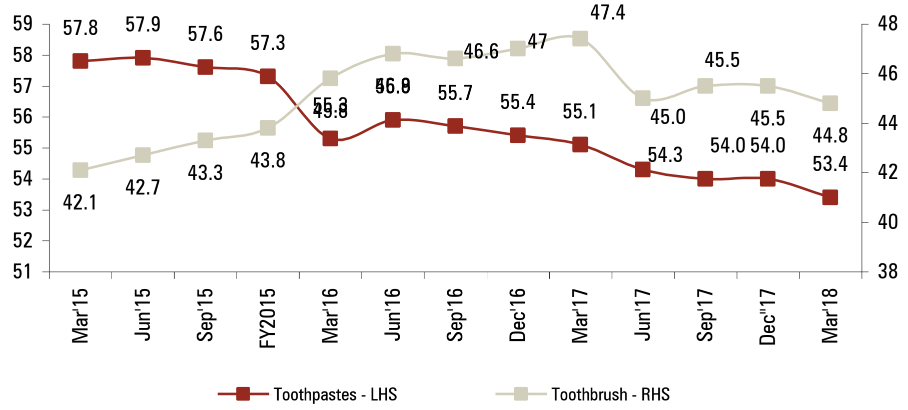
Source: Company, ICICI Direct Research

Exhibit 1: Revenue trend (₹ crore)



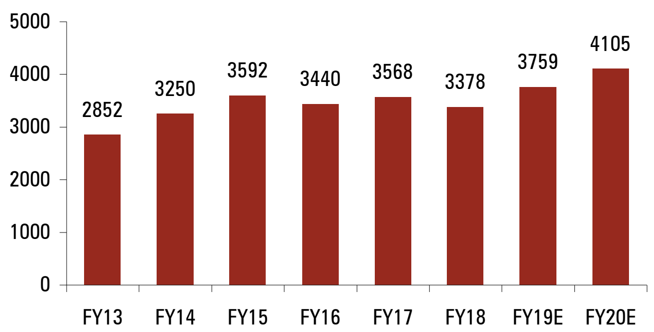
Source: Company, ICCI Direct Research

Exhibit 2: CPIL market share trend (%)



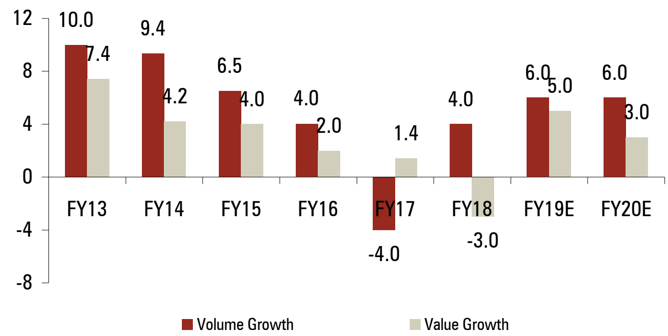
Source: Company, ICICI Direct Research

Exhibit 3: Toothpaste revenue growth trend



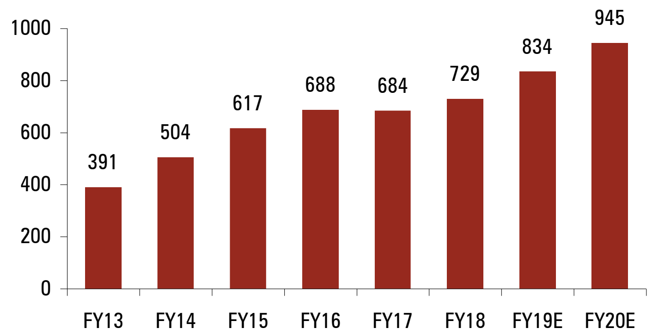
Source: Company, ICICI Direct Research

Exhibit 4: Volume growth showing signs of revival



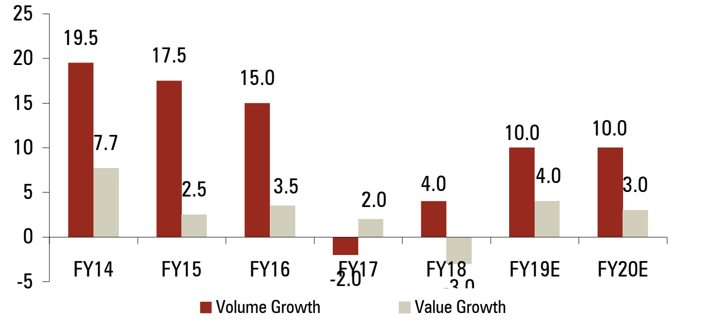
Source: Company, ICICI Direct Research

Exhibit 5: Toothbrush revenue to grow at 11.0% CAGR



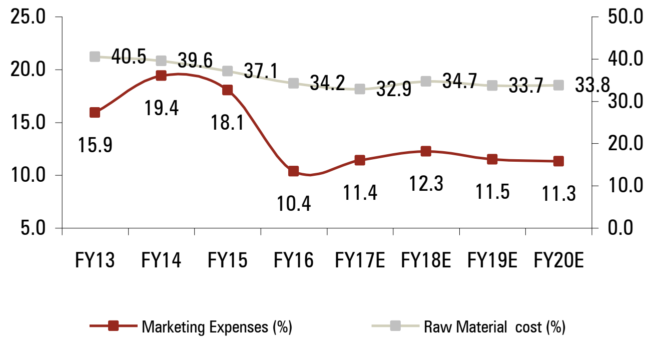
Source: Company, ICICI Direct Research

Exhibit 6: Volume growth expected to grow at 10% CAGR



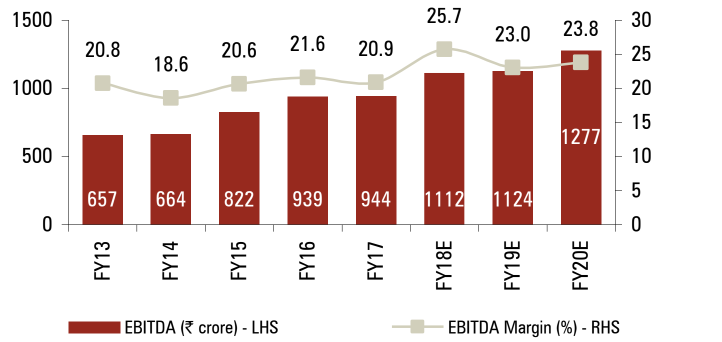
Source: Company, ICICI Direct Research

Exhibit 7: Marketing expenses to remain high, RM cost to remain low



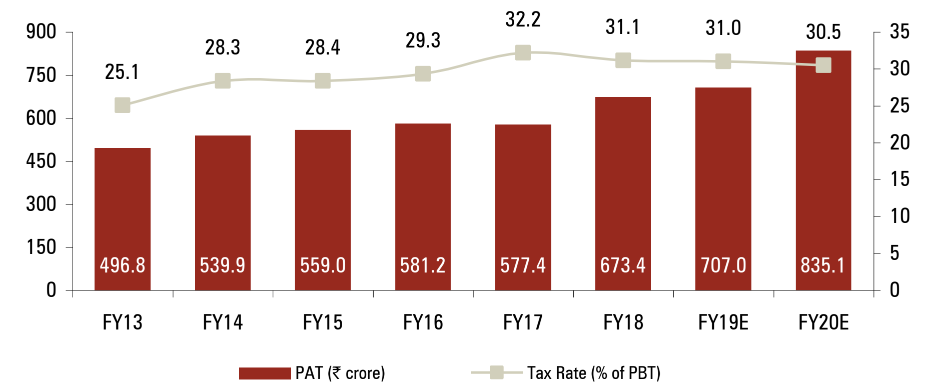
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Outlook & valuation

CPIL is the largest player in oral care in India with a market share of 53.4% in toothpaste and 44.8% in toothbrush category in Q4FY18. The entry of Patanjali has disrupted the toothpaste category, denting CPIL's market share by ~170 bps in the past year in the toothpaste category. However, HUL has been impacted more with market share loss of ~370 bps between 2013 and 2016. In addition to this, Patanjali's erstwhile aggression seems to have declined witnessing flat growth in FY18. We also believe CPIL has an edge over its indigenous rival in the form of strong brand equity along with a vast distribution network covering over 5.8 million outlets. Though we remain positive on the company's constant innovation & aggressive brand building exercises, we would wait for these to result in growth.

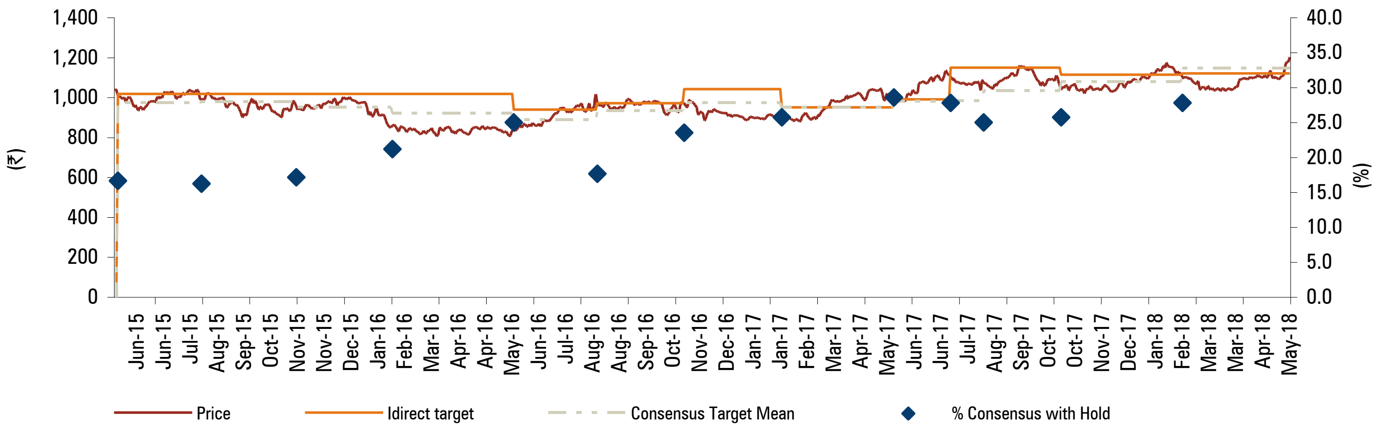
Though the competitive intensity in the oral care segment remains high, resulting in increased pressure on Colgate's market share, we believe innovative launches in the natural space and increased investment on brands will continue to drive volume growth, going forward. We expect a CAGR of 11.3% in both revenue & earnings in FY18-20E. We reiterate our **HOLD** rating with a target price of ₹ 1250/share (40x FY20E EPS).

Exhibit 10: Valuations

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	4489.9	4.0	21.2	-0.6	57.9	35.0	45.3	64.1
FY18E	4299.9	-4.2	24.8	16.6	49.7	29.5	44.7	62.9
FY19E	4848.0	12.7	26.0	5.0	47.3	29.0	45.4	62.9
FY20E	5329.5	9.9	30.7	18.1	40.1	25.2	45.3	62.6

Source: Company, ICICI Direct Research

Recommendation history vs. Consensus



Source: Bloomberg, Company, ICICI Direct 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, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Colgate-Palmolive Co	31-Dec-17	51.00	138.7	0.0
2	Life Insurance Corporation of India	31-Dec-17	8.02	21.8	5.7
3	ARISAIG Partners (Asia) Pte. Ltd.	31-Dec-17	2.76	7.5	-1.6
4	SBI Funds Management Pvt. Ltd.	31-Dec-17	2.16	5.9	0.5
5	Stewart Investors	31-Dec-17	1.03	2.8	0.0
6	First State Investments (U.K.) Ltd	31-Oct-17	1.03	2.8	0.0
7	ICICI Prudential Asset Management Co. Ltd.	30-Apr-18	0.95	2.6	0.0
8	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-18	0.92	2.5	0.0
9	The Vanguard Group, Inc.	30-Apr-18	0.84	2.3	0.0
10	JPMorgan Asset Management U.K. Limited	31-Jan-18	0.54	1.5	0.0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-17	Jun-17	Sep-17	Dec-17	Mar-18
Promoter	51.0	51.0	51.0	51.0	51.0
FII	16.8	16.8	16.8	13.9	12.7
DII	9.1	9.1	9.1	11.9	13.6
Others	23.2	23.2	23.2	23.1	22.8

Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Life Insurance Corporation of India	98.65m	5.72m	ARISAIG Partners (Asia) Pte. Ltd.	-26.86m	-1.56m
SBI Funds Management Pvt. Ltd.	7.94m	0.46m	Wasatch Advisors, Inc.	-12.39m	-0.72m
Lombard Odier Darier Hentsch & Cie	2.65m	0.15m	LGM Investments Limited	-4.74m	-0.29m
DHFL Pramerica Asset Managers Private Limited	0.61m	0.04m	Columbia Threadneedle Investments (US)	-3.3m	-0.2m
Edelweiss Asset Management Ltd.	0.56m	0.03m	Caisse de Depot et Placement du Quebec	-2.29m	-0.13m

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement			₹ Crore	
(Year-end March)	FY17	FY18E	FY19E	FY20E
Total Operating Income	4520.2	4328.4	4879.4	5364.1
Growth (%)		-4.2	12.7	9.9
Raw Material Expenses	1,476.3	1,490.1	1,633.0	1,801.1
Employee Expenses	288.5	305.9	339.4	351.8
Marketing Expenses	511.7	526.8	557.5	602.2
Administrative Expenses	256.1	0.0	169.7	186.5
Excise Duty	538.4	140.5	387.8	426.4
Other expenses	505.6	752.8	667.6	719.5
Total Operating Expenditure	3,576.7	3,216.1	3,755.0	4,087.5
EBITDA	943.5	1,112.4	1,124.4	1,276.6
Growth (%)		17.9	1.1	13.5
Depreciation	133.2	156.5	142.5	128.1
Interest	0.0	0.0	0.0	0.0
Other Income	41.1	38.8	42.7	53.2
PBT	851.4	994.7	1,024.6	1,201.6
Exceptional items	0.0	-11.7	0.0	0.0
Total Tap	274.0	309.7	317.6	366.5
PAT	577.4	673.4	707.0	835.1
Growth (%)		16.6	5.0	18.1
EPS (₹)	21.2	24.8	26.0	30.7

Source: Company, ICICI Direct Research

** FY16 onwards numbers are as per IND-AS*

Cash flow statement			₹ Crore	
(Year-end March)	FY17	FY18	FY19E	FY20E
Profit/Loss after Tap	550.1	673.4	707.0	835.1
Add: Depreciation	133.2	156.5	142.5	128.1
Add: Interest	0.0	0.0	0.0	0.0
(Inc)/dec in Current Assets	-28.0	-43.2	-33.0	-63.3
Inc/(dec) in Current Liabilities	59.1	0.2	33.3	100.9
CF from operating activities	688.0	857.3	724.4	1,000.8
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-321.3	-186.3	2.9	-50.0
Others	-20.9	-16.2	27.0	-1.9
CF from investing activities	-342.2	-202.5	29.9	-51.9
Issue/(Buy back) of Equity	-13.5	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tap	-327.0	-547.9	-547.9	-547.9
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-340.5	-547.9	-547.9	-547.9
Net Cash flow	5.3	106.9	206.4	401.0
Opening Cash	193.2	198.5	305.4	511.8
Cash with bank	95.7	150.8	150.8	150.8
Closing Cash	294.3	456.2	662.6	1,063.6

Source: Company, ICICI Direct Research

Balance sheet			₹ Crore	
	FY17	FY18	FY19E	FY20E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,246.6	1,497.4	1,531.1	1,818.3
Total Shareholders funds	1,273.8	1,524.6	1,558.3	1,845.5
Total Debt	0.0	0.0	0.0	0.0
Long Term Provisions	25.1	19.1	33.9	37.3
Other Non-current Liabilities	29.2	37.4	37.4	37.4
Total Liabilities	1,328.1	1,581.1	1,629.6	1,920.2
Assets				
Gross Block	1,810.5	1,960.5	2,110.5	2,160.5
Less: Acc Depreciation	702.4	858.9	1,001.4	1,129.5
Net Block	1,108.1	1,145.9	1,109.1	1,031.0
Capital WIP	166.6	158.6	50.0	50.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	31.2	31.2	31.2	31.2
LT Loans & Advances/Others	149.2	167.5	155.3	160.6
Current Assets				
Inventory	292.6	226.7	358.6	394.2
Debtors	129.9	201.0	132.8	146.0
Cash	294.3	456.2	662.6	1,063.6
Loans & Advances	63.0	90.6	66.4	73.0
Other Current Assets	75.9	86.2	79.7	87.6
Current Liabilities				
Creditors	597.5	614.5	664.1	730.1
Provisions	51.2	60.4	59.8	65.7
Other CL	333.9	308.0	292.2	321.2
Net Current Assets	-126.9	77.9	284.1	647.5
Total Assets	1,328.1	1,581.1	1,629.6	1,920.2

Source: Company, ICICI Direct Research

** FY16 onwards numbers are as per IND-AS*

Key ratios				
(Year-end March)	FY17	FY18E	FY19E	FY20E
Per share data (₹)				
EPS	21.2	24.8	26.0	30.7
Cash EPS	26.1	30.5	31.2	35.4
BV	46.8	56.1	57.3	67.9
DPS	10.0	17.0	17.0	17.0
Cash Per Share	10.8	16.8	24.4	39.1
Operating Ratios (%)				
EBITDA Margin	20.9	25.7	23.0	23.8
PBT / Net Sales	19.0	23.1	21.1	22.5
PAT Margin	12.9	15.7	14.6	15.7
Inventory days	23.8	19.2	27.0	27.0
Debtor days	10.6	17.1	10.0	10.0
Creditor days	48.6	52.2	50.0	50.0
Return Ratios (%)				
RoE	45.3	44.7	45.4	45.3
RoCE	64.1	62.9	62.9	62.6
Valuation Ratios (x)				
P/E	57.9	49.7	47.3	40.1
EV / EBITDA	35.0	29.5	29.0	25.2
EV / Net Sales	7.4	7.6	6.7	6.0
Market Cap / Sales	7.5	7.8	6.9	6.3
Price to Book Value	26.3	21.9	21.5	18.1
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	0.3	0.4	0.3	0.3

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (FMCG)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY17	FY18E	FY19E	P/E (x) FY17	FY18E	FY19E	Price/Sales (x) FY17	FY18E	FY19E	RoCE (%) FY17	FY18E	FY19E	RoE (%) FY17	FY18E	FY19E
Colgate (COLPAL)	1,230	1,250	Hold	33,454	21.2	24.8	26.0	57.9	49.7	48.1	7.5	7.8	6.9	64.1	62.9	62.9	45.3	44.7	45.4
Dabur India (DABIND)	374	415	Buy	65,166	7.2	7.7	8.8	51.6	48.5	42.5	8.5	8.4	7.4	28.0	26.2	27.7	26.4	23.8	24.8
GSK CH (GLACON)	5,940	7,000	Buy	24,813	156.1	166.5	184.0	38.0	35.7	38.0	5.6	5.7	5.3	30.8	29.8	29.8	21.0	20.1	20.5
Hindustan Unilever (HINLEV)	1,600	1,550	Hold	325,080	20.8	24.2	29.2	77.0	66.0	53.0	9.6	9.6	8.2	74.9	79.9	106.1	66.6	74.7	87.5
ITC Limited (ITC)	282	330	Buy	347,416	8.4	9.2	10.2	33.6	30.5	32.5	8.8	8.6	7.9	32.9	30.9	34.6	22.5	21.3	24.0
Jyothy Lab (JYOLAB)	443	520	Buy	8,508	11.1	8.8	10.1	39.8	50.2	51.6	5.2	5.0	4.5	32.1	35.1	33.0	30.9	23.5	24.7
Marico (MARLIM)	315	362	Buy	40,254	6.3	6.4	7.8	50.1	49.1	46.4	6.8	6.4	5.1	44.5	38.9	44.1	34.9	32.5	35.7
Nestle (NESIND)	9,630	9,950	Buy	86,643	127.1	164.0	198.4	75.8	58.7	50.2	8.5	7.7	6.7	34.9	46.3	47.6	37.6	43.1	42.7
Prabhat Dairy (PRADAI)	178	220	Buy	1,739	4.8	4.8	8.7	37.0	36.8	20.4	1.2	1.1	1.0	8.0	9.6	13.6	5.1	7.0	10.0
VST Industries (VSTIND)	3,100	3,900	Buy	4,815	98.1	117.8	139.1	31.6	26.3	28.0	5.2	5.1	4.5	42.0	46.9	47.5	28.1	31.3	33.4
Varun Beverage (VARBEV)	700	840	Buy	13,163	11.7	15.5	22.4	61.6	46.4	32.2	3.3	2.6	2.4	12.7	16.0	19.7	12.1	14.6	19.1

Source: Company, ICICI Direct Research

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