Colgate Palmolive

Accumulate

DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH•PRECISE•ACTIONABLE

Result Update

Hints of volume recovery

The Q2FY19 results came in line with our expectation. On a favorable base of 1% volume decline the company was able to post 7% growth. After consecutive 7 quarters of lackluster volume performance, the company was able to show some improvement in volume growth. Our analysis suggests that the company has gained 220bps volume MS in toothpaste category sequentially and 20bps on YoY. However, Colgate lost 250bps market share in toothbrush category sequentially, was discouraging. We attribute the improvement in volume performance to recent launch of Swarna Vedshakti and corrective action in natural portfolio. We believe that the company would report gradual recovery in volume growth on favorable base as better monsoon during the year would support. In addition, we believe that the impact of increase in reach of Swarna Vedshakti would help it to garner share in the natural category. We have revised our FY19E & FY20E earnings to ₹ 28.1 & ₹ 30.6 respectively to factor in the Q2 performance. Maintain Accumulate with TP of ₹ 1,223 (40x FY20E).

Operational performance was in line

Net revenues jumped 7.7% YoY to ₹ 11.7bn came in line with estimate. Volume growth during the quarter stood at 7%. EBITDA jumped by 9.5% YoY to ₹ 3.3bn – came in line with our estimate. The EBITDA margin expanded by 50bps to 28.2% as 90/100bps increase in A&P spends/Other expense was completely offset by 130/100bps decline in RM/employee expenses during the quarter. RPAT jumped 11.1% to ₹ 2.0bn. Excluding OCI and EI, APAT increased 10.6% YoY to ₹ 2.0bn – came in line.

Volume growth was encouraging

Colgate reported 7% volume growth vs our est of 5%. Though the volume growth was on a very favourable base of 1% de-growth, it was encouraging considering lacklustre volume performance by the company on favourable base in earlier few quarters. We attribute this to enrichment of natural portfolio and decline in competitive intensity. Going ahead, we believe that the company would continue to gain MS primarily driven by new product launch and decline in competitive pressure from Patanjali.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	11,680	10,849	7.7	10,413	12.2
Total Expense	8,385	7,840	6.9	7,597	10.4
EBITDA	3,296	3,009	9.5	2,816	17.0
Depreciation	398	392	1.7	394	1.1
EBIT	2,897	2,617	10.7	2,422	19.6
Other Income	86	86	0.3	92	(5.7)
Interest	0	0		0	
EBT	2,984	2,695	10.7	2,855	4.5
Tax	1,020	927	10.0	960	6.3
RPAT	1,964	1,768	11.1	1,895	3.6
APAT	1,964	1,776	10.6	1,554	26.4
			(bps)		(bps)
Gross Margin (%)	64.8	63.4	134	65.9	(114)
EBITDA Margin (%)	28.2	27.7	48	27.0	117
NPM (%)	16.8	16.3	52	18.2	(139)
Tax Rate (%)	34.2	34.4	(22)	33.6	57
EBIT Margin (%)	24.8	24.1	69	23.3	155

CMP	₹ 1,102
Target / Upside	₹ 1,223 / 11%
BSE Sensex	34,067
NSE Nifty	10,251

Scrip Details

Equity / FV	₹ 272mn / ₹ 1
Market Cap	₹ 300bn
	US$ 4bn
52-week High/Low	₹ 1,282/₹ 1,015
Avg. Volume (no)	486,088
NSE Symbol	COLPAL
Bloomberg Code	CLGT IN

Shareholding Pattern Sep'18(%)

Promoters	51.0
MF/Banks/FIs	13.1
FIIs	13.8
Public / Others	22.1

Valuation (x)

	FY18A	FY19E	FY20E
P/E	43.8	39.2	36.0
EV/EBITDA	26.5	22.9	20.8
ROE (%)	48.1	46.9	40.2
RoACE (%)	45.8	43.1	38.0

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	41,880	45,012	48,959
EBITDA	11,124	12,732	13,786
PAT	6,734	7,992	8,320
EPS (₹)	25.2	28.1	30.6

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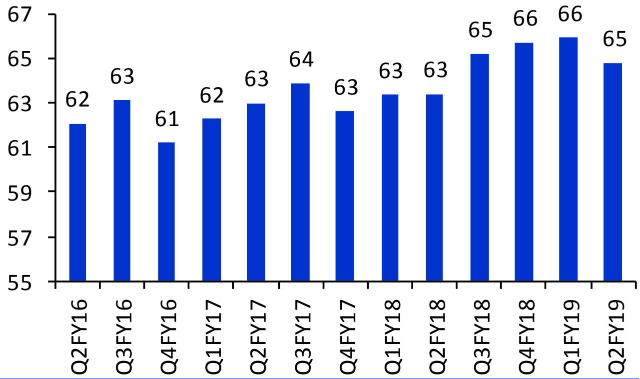
DOLAT CAPITAL

Early sign of MS recovery in toothpaste

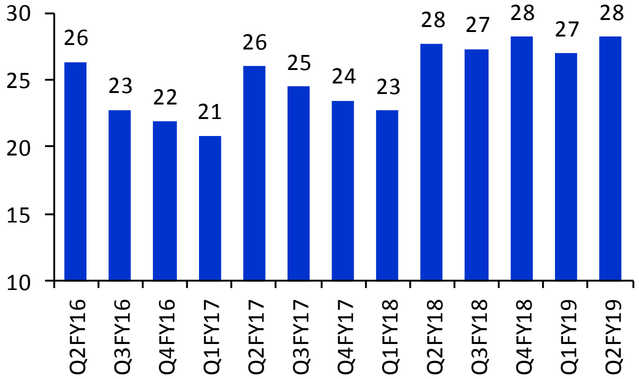
During Jan-Sep'18, the company maintained leadership in toothpaste and tooth brush MS at 52.5% (vs 54.0% in CY17) and 44.2% (vs 45.5% in CY17). Our analysis suggests that the company has sequentially gained MS in toothpaste category but lost marginal MS in tooth brush category. As Colgate was continuously losing MS in the core toothpaste category in past couple of years, recovery in Q2 is highly encouraging.

Exhibit 1: Gross Margin (%) Trend



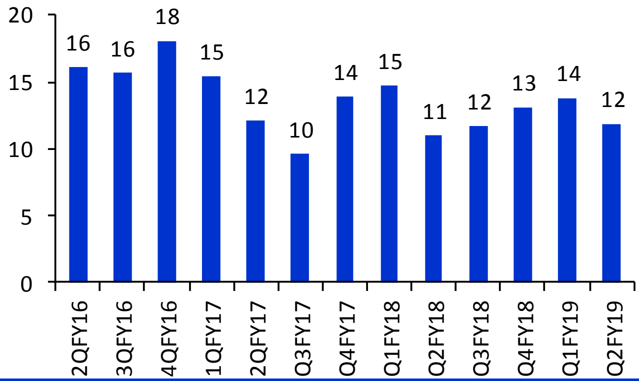
Source: DART, Company

Exhibit 2: Strong EBITDA Margins (%)



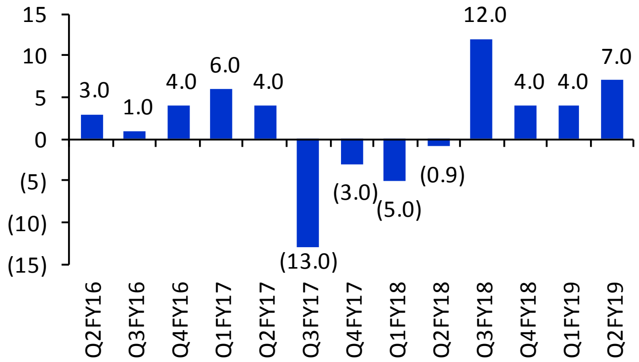
Source: DART, Company

Exhibit 3: A&P Spends (% Of Revenues)



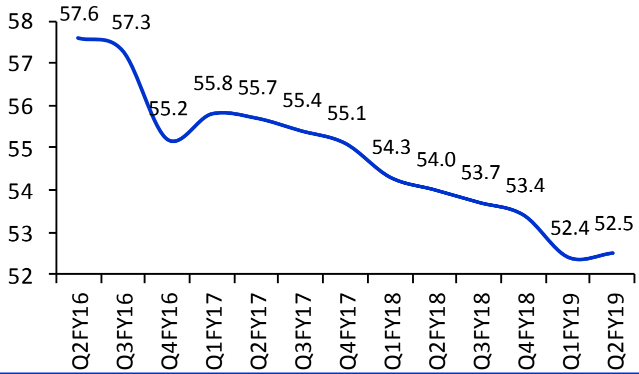
Source: DART, Company

Exhibit 4: Volume growth overall (% YoY)



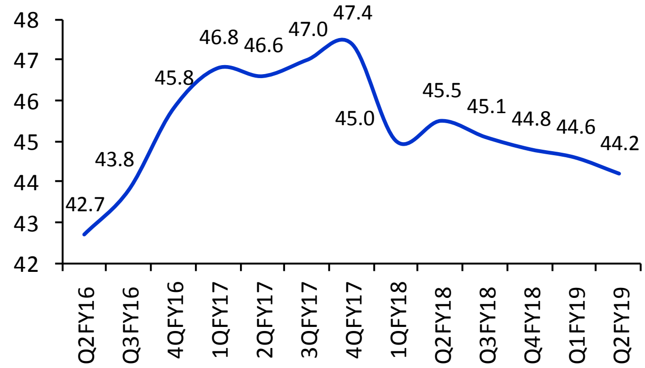
Source: DART, Company

Exhibit 5: Tooth Paste Category (%)



Source: DART, Company

Exhibit 6: Toothbrush Market Share (%)



Source: DART, Company

Exhibit 7: Change in estimates

	FY19E			FY20E		
(₹ Mn)	New	Old	Chg %	New	Old	Chg %
Revenue	45,012	44,476	1.2	48,959	48,376	1.2
EBITDA	12,732	12,513	1.7	13,786	13,549	1.8
EBITDA Margin	28.3	28.1	20 bps	28.2	28.0	20 bps
PAT	7,992	7,845	1.9	8,320	8,159	2.0
EPS (₹)	28.1	27.6	2.0	30.6	30.0	2.0

Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	**39,818**	**41,880**	**45,012**	**48,959**
Total Expense	**30,383**	**30,756**	**32,280**	**35,173**
COGS	14,763	14,901	15,385	16,930
Employees Cost	2,894	3,070	3,209	3,393
Other expenses	12,726	12,786	13,686	14,850
EBIDTA	**9,436**	**11,124**	**12,732**	**13,786**
Depreciation	1,332	1,565	1,751	1,913
EBIT	**8,103**	**9,559**	**10,981**	**11,873**
Interest	0	0	0	0
Other Income	411	388	376	476
Exc. / E.O. items	0	(117)	341	0
EBT	**8,514**	**9,830**	**11,698**	**12,350**
Tax	2,740	3,097	3,706	4,030
RPAT	5,774	6,734	7,992	8,320
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**5,774**	**6,850**	**7,651**	**8,320**

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	12,466	14,974	18,568	22,310
Net Worth	**12,738**	**15,246**	**18,840**	**22,582**
Total Debt	0	0	0	0
Net Deferred Tax Liability	275	355	355	355
Total Capital Employed	**13,013**	**15,601**	**19,196**	**22,937**
Applications of Funds				
Net Block	**11,081**	**11,459**	**11,208**	**10,795**
CWIP	1,666	1,586	1,586	1,586
Investments	312	311	311	311
Current Assets, Loans & Advances	**10,048**	**12,282**	**16,470**	**21,439**
Inventories	2,926	2,267	2,791	3,035
Receivables	1,299	2,010	1,778	1,934
Cash and Bank Balances	2,943	4,562	8,530	12,950
Loans and Advances	2,880	3,443	3,371	3,520
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**10,094**	**10,037**	**10,380**	**11,195**
Payables	6,299	6,219	6,684	7,270
Other Current Liabilities	3,795	3,818	3,696	3,924
Net Current Assets	(46)	2,245	6,090	10,245
Total Assets	**13,013**	**15,601**	**19,196**	**22,937**

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	62.9	64.4	65.8	65.4
EBIDTA Margin	23.7	26.6	28.3	28.2
EBIT Margin	20.4	22.8	24.4	24.3
Tax rate	32.2	31.5	31.7	32.6
Net Profit Margin	14.5	16.1	17.8	17.0
(B) As Percentage of Net Sales (%)				
COGS	37.1	35.6	34.2	34.6
Employee	7.3	7.3	7.1	6.9
Other	32.0	30.5	30.4	30.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	27	20	23	23
Debtors days	12	18	14	14
Average Cost of Debt				
Payable days	58	54	54	54
Working Capital days	0	20	49	76
FA T/O	3.6	3.7	4.0	4.5
(D) Measures of Investment				
AEPS (₹)	21.2	25.2	28.1	30.6
CEPS (₹)	26.1	30.9	34.6	37.6
DPS (₹)	12.0	13.6	16.2	16.8
Dividend Payout (%)	56.6	54.1	57.5	55.0
BVPS (₹)	46.8	56.1	69.3	83.0
RoANW (%)	50.1	48.1	46.9	40.2
RoACE (%)	46.9	45.8	43.1	38.0
RoAIC (%)	92.1	90.6	101.2	115.0
(E) Valuation Ratios				
CMP (₹)	1102	1102	1102	1102
P/E	51.9	43.8	39.2	36.0
Mcap (₹ Mn)	299,758	299,758	299,758	299,758
MCap/ Sales	23.5	19.7	15.9	13.3
EV	296,815	295,196	291,228	286,808
EV/Sales	7.5	7.0	6.5	5.9
EV/EBITDA	31.5	26.5	22.9	20.8
P/BV	23.5	19.7	15.9	13.3
Dividend Yield (%)	1.1	1.2	1.5	1.5
(F) Growth Rate (%)				
Revenue	2.9	5.2	7.5	8.8
EBITDA	(0.2)	17.9	14.5	8.3
EBIT	(2.8)	18.0	14.9	8.1
PBT	1.9	15.5	19.0	5.6
APAT	(5.7)	18.6	11.7	8.7
EPS	(5.7)	18.6	11.7	8.7

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	6,439	7,743	9,525	10,498
CFI	(3,215)	(1,863)	(1,500)	(1,500)
CFF	(3,169)	(4,262)	(4,057)	(4,578)
FCFF	3,225	5,880	8,025	8,998
Opening Cash	2,887	2,943	4,562	8,530
Closing Cash	2,943	4,562	8,530	12,950

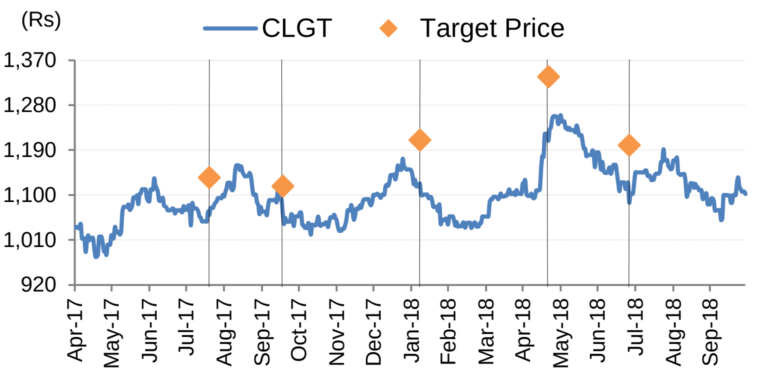
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹) *
Aug-17	Reduce	1,135	1,060
Oct-17	Reduce	1,118	1,063
Feb-18	Reduce	1,210	1,123
May-18	Accumulate	1,337	1,208
Jul-18	Accumulate	1,200	1,085

Price as on Recommendation Date

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