Colgate Palmolive (India)

Accumulate

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

Result Update

View: Volume recovery continues; Maintain Accumulate

The Q3FY19 results came in line with our expectation. On an unfavorable base of 12% volume growth the company was able to post 7% growth. After consecutive 7 quarters of lackluster volume performance, in the second succesive quarter, the company was able to show improvement in volume growth. 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. In addition, the impact of increase in reach of Swarna Vedshakti would help it to garner share in the natural category. We have maintained our FY19E & FY20E earnings to ₹ 28.1 & ₹ 30.6 respectively as our hypothesis on improvement in volume growth is holding true. We have introduced FY21E EPS estimate at ₹ 33.5. Valuing stock at 45x FY21 EPS to arrive at a TP of ₹ 1,509. Maintain Accumulate.

Operational performance was in line

Net revenues jumped 6.4% YoY to ₹ 11.0bn came in line with estimate. EBITDA jumped by 11.2% YoY to ₹ 3.1bn – came in line with our estimate. The EBITDA margin expanded by 120bps to 28.6% as 10bps increase in RM cost was completely offset by 80/30/20bps decrease in Employee cost/Other expense/A&P spends during the quarter. APAT jumped 12.6% to ₹ 1.9bn – came in line with our estimate.

New launches supported growth; but margin expansion is challenge

Colgate's volume growth has improved considerably in past couple of quarters primarily driven by new launches in the naturals portfolio. The company has launched Swarna Vedshakti nationwide during last quarter is gaining significant traction. In addition, the company has relaunched its key brand Colgate Total. Further, Palmolive Facial Bar is launched in key markets, resulted in better volume growth. New advertisement campaigns 'Andar se strong' was launched during the quarter, is expected to boost volumes here on. Going ahead, we believe that the company would gain MS primarily driven by new product launch and decline in competitive pressure from Patanjali. However, the company has consistently improved its margins in past six quarters. We believe that these are peak margins and further expansion would be a challenge.

Q3FY19 Result (₹ Mn)

Particulars	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	10,994	10,333	6.4	11,680	(5.9)
Total Expense	7,849	7,504	4.6	8,385	(6.4)
EBITDA	3,145	2,829	11.2	3,296	(4.6)
Depreciation	406	396	2.6	398	1.9
EBIT	2,739	2,433	12.5	2,897	(5.5)
Other Income	79	86	(7.6)	86	(8.4)
Interest	0	0		0	
EBT	2,818	2,511	12.5	2,984	(5.6)
Tax	897	812	10.4	1,020	(12.1)
RPAT	1,921	1,699	13.1	1,964	(2.2)
APAT	1,921	1,707	12.6	1,964	(2.2)
			(bps)		(bps)
Gross Margin (%)	65.1	65.2	(9)	64.8	37
EBITDA Margin (%)	28.6	27.4	123	28.2	39
NPM (%)	17.5	16.4	103	16.8	66
Tax Rate (%)	31.8	32.4	(53)	34.2	(236)
EBIT Margin (%)	24.9	23.5	136	24.8	11

CMP	₹ 1,322
Target / Upside	₹ 1,509 / 14%
BSE Sensex	36,195
NSE Nifty	10,850

Scrip Details

Equity / FV	₹ 272mn / ₹ 1
Market Cap	₹ 360bn
	US$ 5bn
52-week High/Low	₹ 1,355/₹ 1,018
Avg. Volume (no)	518,788
NSE Symbol	COLPAL
Bloomberg Code	CLGT IN

Shareholding Pattern Dec'18(%)

Promoters	51.0
MF/Banks/FIs	11.9
FIIs	13.8
Public / Others	23.3

Valuation (x)

	FY19E	FY20E	FY21E
P/E	47.0	43.2	39.4
EV/EBITDA	27.6	25.1	22.7
ROE (%)	46.9	40.2	37.0
RoACE (%)	44.0	39.5	36.5

Estimates (₹ mn)

	FY19E	FY20E	FY21E
Revenue	45,012	48,959	53,557
EBITDA	12,732	13,786	15,052
PAT	7,992	8,320	9,124
EPS (₹)	28.1	30.6	33.5

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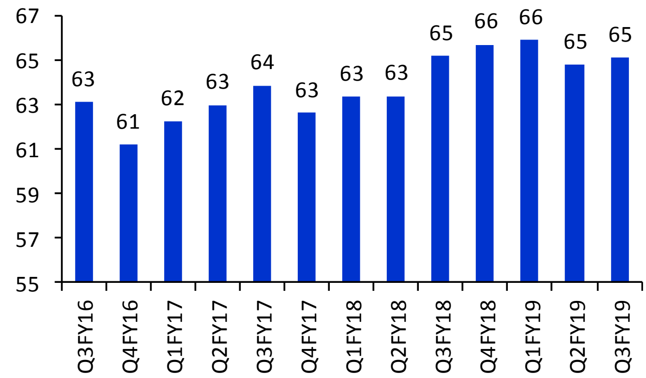
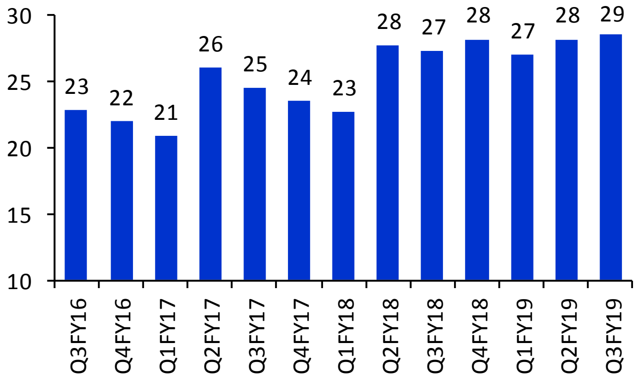
DOLAT CAPITAL

Exhibit 1: Gross Margin (%) Trend



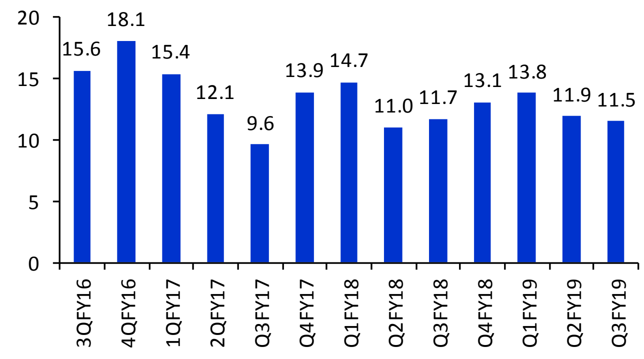
Source: DART, Company

Exhibit 2: Strong EBITDA Margins (%)



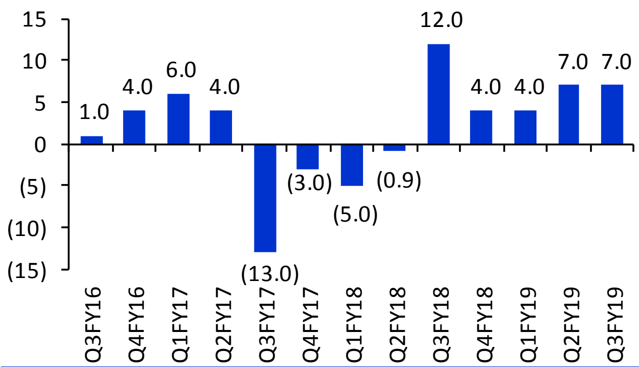
Source: DART, Company

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



Source: DART, Company

Exhibit 4: Volume growth overall (% YoY)



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Revenue	**41,880**	**45,012**	**48,959**	**53,557**
Total Expense	**30,756**	**32,280**	**35,173**	**38,506**
COGS	14,901	15,385	16,930	18,734
Employees Cost	3,070	3,209	3,393	3,604
Other expenses	12,786	13,686	14,850	16,167
EBIDTA	**11,124**	**12,732**	**13,786**	**15,052**
Depreciation	1,565	1,751	1,913	2,075
EBIT	**9,559**	**10,981**	**11,873**	**12,977**
Interest	0	0	0	0
Other Income	388	376	476	566
Exc. / E.O. items	(117)	341	0	0
EBT	**9,830**	**11,698**	**12,350**	**13,543**
Tax	3,097	3,706	4,030	4,419
RPAT	6,734	7,992	8,320	9,124
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**6,850**	**7,651**	**8,320**	**9,124**

Balance Sheet

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	14,974	18,568	22,310	26,413
Net Worth	**15,246**	**18,840**	**22,582**	**26,685**
Total Debt	0	0	0	0
Net Deferred Tax Liability	355	355	355	355
Total Capital Employed	**15,601**	**19,196**	**22,937**	**27,040**
Applications of Funds				
Net Block	**11,459**	**11,208**	**10,795**	**10,220**
CWIP	1,586	1,586	1,586	1,586
Investments	311	311	311	311
Current Assets, Loans & Advances	**12,282**	**16,470**	**21,439**	**27,056**
Inventories	2,267	2,791	3,035	3,320
Receivables	2,010	1,778	1,934	2,116
Cash and Bank Balances	4,562	8,530	12,950	17,926
Loans and Advances	3,443	3,371	3,520	3,693
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**10,037**	**10,380**	**11,195**	**12,134**
Payables	6,219	6,684	7,270	7,953
Other Current Liabilities	3,818	3,696	3,924	4,180
Net Current Assets	2,245	6,090	10,245	14,923
Total Assets	**15,601**	**19,196**	**22,937**	**27,040**

E – Estimates

Important Ratios

Particulars	FY18A	FY19E	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	64.4	65.8	65.4	65.0
EBIDTA Margin	26.6	28.3	28.2	28.1
EBIT Margin	22.8	24.4	24.3	24.2
Tax rate	31.5	31.7	32.6	32.6
Net Profit Margin	16.1	17.8	17.0	17.0
(B) As Percentage of Net Sales (%)				
COGS	35.6	34.2	34.6	35.0
Employee	7.3	7.1	6.9	6.7
Other	30.5	30.4	30.3	30.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage				
Inventory days	20	23	23	23
Debtors days	18	14	14	14
Average Cost of Debt				
Payable days	54	54	54	54
Working Capital days	20	49	76	102
FA T/O	3.7	4.0	4.5	5.2
(D) Measures of Investment				
AEPS (₹)	25.2	28.1	30.6	33.5
CEPS (₹)	30.9	34.6	37.6	41.2
DPS (₹)	13.6	16.2	16.8	18.5
Dividend Payout (%)	54.1	57.5	55.0	55.0
BVPS (₹)	56.1	69.3	83.0	98.1
RoANW (%)	48.1	46.9	40.2	37.0
RoACE (%)	47.9	44.0	39.5	36.5
RoAIC (%)	90.6	101.2	115.0	135.9
(E) Valuation Ratios				
CMP (₹)	1322	1322	1322	1322
P/E	52.5	47.0	43.2	39.4
Mcap (₹ Mn)	359,557	359,557	359,557	359,557
MCap/ Sales	8.6	8.0	7.3	6.7
EV	354,995	351,027	346,607	341,630
EV/Sales	8.5	7.8	7.1	6.4
EV/EBITDA	31.9	27.6	25.1	22.7
P/BV	23.6	19.1	15.9	13.5
Dividend Yield (%)	1.0	1.2	1.3	1.4
(F) Growth Rate (%)				
Revenue	5.2	7.5	8.8	9.4
EBITDA	17.9	14.5	8.3	9.2
EBIT	18.0	14.9	8.1	9.3
PBT	15.5	19.0	5.6	9.7
APAT	18.6	11.7	8.7	9.7
EPS	18.6	11.7	8.7	9.7

Cash Flow

(₹ Mn)	FY18A	FY19E	FY20E	FY21E
CFO	7,743	9,525	10,498	11,497
CFI	(1,863)	(1,500)	(1,500)	(1,500)
CFF	(4,262)	(4,057)	(4,578)	(5,020)
FCFF	5,880	8,025	8,998	9,997
Opening Cash	2,943	4,562	8,530	12,950
Closing Cash	4,562	8,530	12,950	17,926

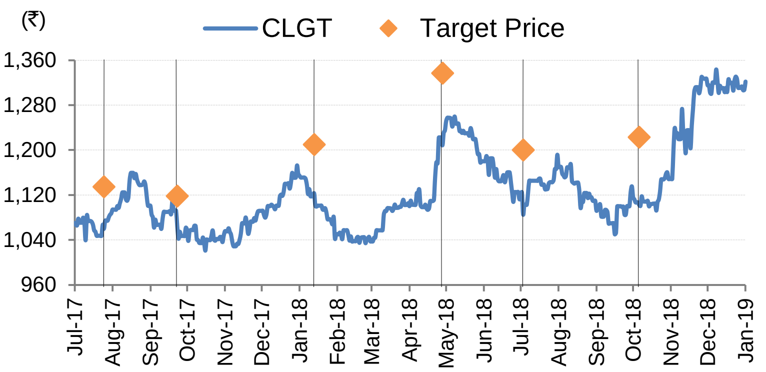
E – Estimates

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
Oct-18	Accumulate	1,223	1,102

*Price as on recommendation date

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