

January 24, 2019

Q3FY19 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	1,245		1,157	
Sales (Rs. m)	49,374	55,028	51,488	57,390
% Chng.			(4.1)	(4.1)
EBITDA (Rs. m)	13,867	15,524	14,160	15,963
% Chng.			(2.1)	(2.7)
EPS (Rs.)	30.1	34.1	30.8	35.1
% Chng.			(2.1)	(2.9)

Key Financials

	FY18	FY19E	FY20E	FY21E
Sales (Rs. m)	41,880	44,729	49,374	55,028
EBITDA (Rs. m)	11,124	12,476	13,867	15,524
Margin (%)	26.6	27.9	28.1	28.2
PAT (Rs. m)	6,595	7,373	8,191	9,275
EPS (Rs.)	24.2	27.1	30.1	34.1
Gr. (%)	14.2	11.8	11.1	13.2
DPS (Rs.)	13.0	16.0	20.0	25.0
Yield (%)	1.0	1.2	1.5	1.9
RoE (%)	47.1	50.8	56.0	57.9
RoCE (%)	68.3	74.8	82.7	84.9
EV/Sales (x)	8.5	8.0	7.2	6.4
EV/EBITDA (x)	31.9	28.6	25.6	22.7
PE (x)	54.5	48.8	43.9	38.8
P/BV (x)	23.6	26.1	23.3	21.7

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,365 / Rs.1,012
Sensex / Nifty	36,195 / 10,850
Market Cap	Rs.360bn/ \$ 5,048m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.1296.07m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	13.25
Domestic Institution	13.11
Public & Others	22.64
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	0.5	18.3	15.5
Relative	(1.5)	20.3	15.4

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Stable Market share, Patanjali risk re-emerges

Key Points

- Volume growth of 7% on a high base (12% in 3QFY18) aided by trade and consumer promotions
- Market share stable, however Patanjali becoming aggressive again
- "Palmolive Facial Bars" in 3 variants marks Colgate's re-entry in the premium personal wash bar segment.

CLGT sustained positive volume growth for 5th consecutive quarter and sustained market share (52.5% for April Dec and April Sept2018) aided by higher consumer and trade promotions. Colgate CDC, Max fresh and Swarna Vedshakti is growing well and Colgate Total gaining momentum post its relaunch. Colgate is showing early signs of faint revival with stabilization of market share in Total. Dabur continues to grow ahead of market while Patanjali's recent aggressiveness makes sustained market share gains look uncertain as of now.

We would watch out for stabilization of market share and ability to grow ahead of the market in coming quarters. We expect gross margin expansion to slow down due to increase in input costs of Mentha, essential oils and packaging, and increase in ad-spends to support the new launches in toothpaste and Palmolive Facial Bars. We estimate 6% volume growth and 12% PAT CAGR over FY19-21. We value the stock at 36x FY21 EPS and assign a target price of Rs1245 (earlier 1157 at 35x Sept20 EPS). Retain "Hold".

- Volumes up 7%, Adj. PAT up 12.6%:** Volumes grew 7% (7% in 2QFY18) despite a high base of 12%. Net sales grew by 6.4% to Rs10.9bn. EBITDA increased 11.3% at Rs.3.1bn, Gross margins remained flat at 65.1%. EBITDA margins increased 130bps as staff costs, ad-spends and other expenses declined by 80bps, 20bps and 30bps respectively. Adj. PAT increased 7.3% to Rs1.83bn. There is a one time tax reversal of Rs 89.7mn in Q3 (Rs130mn in 9mFY19). Colgate has launched "Palmolive Facial Bars" in 3 variants in the premium Naturals segment in Delhi, Kerala and on e-commerce channel all over India. It relaunched "Colgate Total" to provide whole mouth health solution. The relaunch of its flagship "Colgate strong teeth" in 2Q and national launch of Colgate Swarna Vedshakti is showing good traction.
- Demand stable, Patanjali again becoming aggressive:** Value growth is less than volume growth due to higher trade promotions in toothbrushes, increased grammage in certain products and free toothbrushes with some larger SKU's of toothpastes. CLGT has not witnessed any deceleration in Rural demand and it continues to grow ahead of Urban. Market share (52.5%) decline has been arrested, however, competitive intensity remains intense. Dabur continues to grow ahead of market and even competitive intensity from Patanjali is rising.

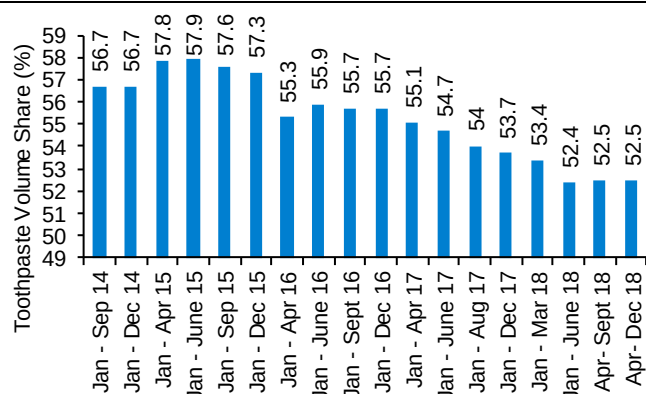
Exhibit 1: Q3FY19: Net Sales up 6.4%; Adj. PAT up 7.3% on 130bps EBITDA margins expansion

Y/e March	Q3FY19	Q3FY18	YoY gr. (%)	Q2FY19	9MFY19	9MFY18	YoY gr. (%)
Net Sales	10,994	10,333	6.4	11,680	33,087	30,963	6.9
Gross Profit	7,161	6,735	6.3	7,565	21,589	19,816	8.9
Margin %	65.1	65.2		64.8	65.3	64.0	
Other Expenses	4016	3911	2.7	4269	12333	11763	4.8
% of Net sales	36.5	37.9		36.6	37.3	38.0	
EBITDA	3,145	2,824	11.3	3,296	9,256	8,053	14.9
Margin (%)	28.6	27.3	1.3	28.2	28.0	26.0	2.0
Depreciation	406	396	2.6	398	1198	1160	3.3
Interest	0	0		0	0	0	
Other Income	79	90	(12.5)	86	257	299	(14.0)
PBT	2,818	2,519	11.9	2,984	8,315	7,192	15.6
Tax	986	812	21.4	1020	2966	2424	22.4
Tax rate (%)	35.0	32.3		34.2	35.7	33.7	
Adj. PAT	1,831	1,707	7.3	1,964	5,349	4,768	12.2

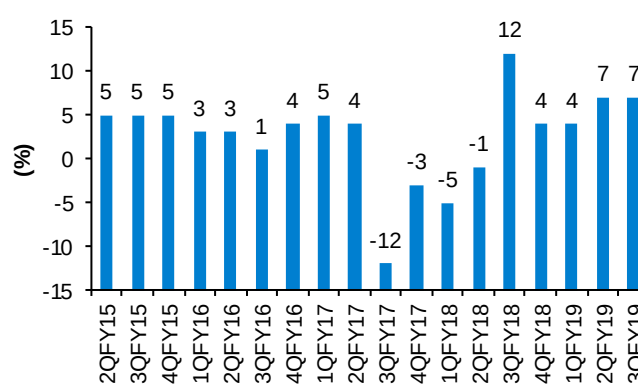
Source: Company, PL

Exhibit 2: Launched “Palmolive Facial Bars” in premium Naturals segment


Source: Company, PL

Exhibit 3: Market share stable in 9MFY19


Source: Company, PL

Exhibit 4: Q3 volumes up only 7% on a high base


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Net Revenues	41,880	44,729	49,374	55,028
YoY gr. (%)	5.2	6.8	10.4	11.5
Cost of Goods Sold	14,901	15,537	17,043	18,956
Gross Profit	26,979	29,192	32,330	36,072
Margin (%)	64.4	65.3	65.5	65.6
Employee Cost	3,059	3,243	3,581	3,993
Other Expenses	3,395	3,625	4,042	4,517
EBITDA	11,124	12,476	13,867	15,524
YoY gr. (%)	17.9	12.2	11.2	12.0
Margin (%)	26.6	27.9	28.1	28.2
Depreciation and Amortization	1,565	1,608	1,768	1,928
EBIT	9,559	10,867	12,099	13,597
Margin (%)	22.8	24.3	24.5	24.7
Net Interest	-	-	-	-
Other Income	388	388	407	564
Profit Before Tax	9,947	11,256	12,506	14,161
Margin (%)	23.8	25.2	25.3	25.7
Total Tax	3,352	3,883	4,315	4,885
Effective tax rate (%)	33.7	34.5	34.5	34.5
Profit after tax	6,595	7,373	8,191	9,275
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,595	7,373	8,191	9,275
YoY gr. (%)	14.2	11.8	11.1	13.2
Margin (%)	15.7	16.5	16.6	16.9
Extra Ord. Income / (Exp)	139	-	-	-
Reported PAT	6,734	7,373	8,191	9,275
YoY gr. (%)	16.6	9.5	11.1	13.2
Margin (%)	16.1	16.5	16.6	16.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,734	7,373	8,191	9,275
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	24.2	27.1	30.1	34.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
Non-Current Assets				
Gross Block	19,983	22,069	24,169	26,269
Tangibles	19,077	21,162	23,262	25,362
Intangibles	907	907	907	907
Acc: Dep / Amortization	8,524	10,132	11,900	13,828
Tangibles	7,617	9,226	10,994	12,921
Intangibles	907	907	907	907
Net fixed assets	11,459	11,937	12,269	12,441
Tangibles	11,459	11,937	12,269	12,441
Intangibles	-	-	-	-
Capital Work In Progress	1,586	1,500	1,500	1,500
Goodwill	-	-	-	-
Non-Current Investments	573	581	591	602
Net Deferred tax assets	(355)	(472)	(601)	(748)
Other Non-Current Assets	1,414	1,568	1,727	1,907
Current Assets				
Investments	2,817	634	2,451	3,604
Inventories	2,267	2,807	2,951	3,218
Trade receivables	2,010	2,191	2,151	2,248
Cash & Bank Balance	1,745	2,017	2,264	2,794
Other Current Assets	795	889	981	1,094
Total Assets	25,639	25,100	27,869	30,399
Equity				
Equity Share Capital	272	272	272	272
Other Equity	14,974	13,526	15,189	16,300
Total Network	15,246	13,798	15,461	16,572
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	191	259	287	319
Other non current liabilities	5	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,145	6,452	6,990	7,493
Other current liabilities	3,683	4,101	4,512	5,248
Total Equity & Liabilities	25,639	25,100	27,869	30,399

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY18	FY19E	FY20E	FY21E
PBT	9,947	11,256	12,506	14,161
Add. Depreciation	1,565	1,608	1,768	1,928
Add. Interest	-	-	-	-
Less Financial Other Income	388	388	407	564
Add. Other	166	17	18	19
Op. profit before WC changes	11,678	12,881	14,292	16,107
Net Changes-WC	(1,499)	2,113	(1,085)	(408)
Direct tax	(3,352)	(3,883)	(4,315)	(4,885)
Net cash from Op. activities	6,827	11,111	8,892	10,813
Capital expenditures	(1,863)	(2,000)	(2,100)	(2,100)
Interest / Dividend Income	-	-	-	-
Others	0	0	-	-
Net Cash from Invt. activities	(1,863)	(2,000)	(2,100)	(2,100)
Issue of share cap. / premium	3	1	1	1
Debt changes	-	-	-	-
Dividend paid	(4,256)	(8,839)	(6,547)	(8,184)
Interest paid	-	-	-	-
Others	-	-	-	-
Net cash from Fin. activities	(4,253)	(8,838)	(6,546)	(8,183)
Net change in cash	712	273	246	530
Free Cash Flow	4,964	9,111	6,792	8,713

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q4FY18	Q1FY19	Q2FY19	Q3FY19
Net Revenue	10,917	10,413	11,680	10,994
YoY gr. (%)	5.2	6.5	7.7	6.4
Raw Material Expenses	3,750	3,550	4,115	3,833
Gross Profit	7,167	6,863	7,565	7,161
Margin (%)	65.7	65.9	64.8	65.1
EBITDA	3,075	2,816	3,296	3,145
YoY gr. (%)	8.9	(8.4)	17.0	(4.6)
Margin (%)	28.2	27.0	28.2	28.6
Depreciation / Depletion	405	394	398	406
EBIT	2,670	2,422	2,897	2,739
Margin (%)	24.5	23.3	24.8	24.9
Net Interest	-	-	-	-
Other Income	85	92	86	79
Profit before Tax	2,755	2,514	2,984	2,818
Margin (%)	25.2	24.1	25.5	25.6
Total Tax	929	960	1,020	986
Effective tax rate (%)	33.7	38.2	34.2	35.0
Profit after Tax	1,826	1,554	1,964	1,831
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,826	1,554	1,964	1,831
YoY gr. (%)	28.1	20.9	10.6	7.3
Margin (%)	16.7	14.9	16.8	16.7
Extra Ord. Income / (Exp)	61	341	-	90
Reported PAT	1,888	1,895	1,964	1,921
YoY gr. (%)	34.5	39.0	10.6	12.6
Margin (%)	17.3	18.2	16.8	17.5
Other Comprehensive Income	34	-	-	-
Total Comprehensive Income	1,922	1,895	1,964	1,921
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	6.7	5.7	7.2	6.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Per Share(Rs)				
EPS	24.2	27.1	30.1	34.1
CEPS	30.0	33.0	36.6	41.2
BVPS	56.1	50.7	56.8	60.9
FCF	18.3	33.5	25.0	32.0
DPS	13.0	16.0	20.0	25.0
Return Ratio(%)				
RoCE	68.3	74.8	82.7	84.9
ROIC	67.2	60.0	79.9	92.6
RoE	47.1	50.8	56.0	57.9
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	(16)	(12)	(14)	(13)
Valuation(x)				
PER	54.5	48.8	43.9	38.8
P/B	23.6	26.1	23.3	21.7
P/CEPS	44.1	40.0	36.1	32.1
EV/EBITDA	31.9	28.6	25.6	22.7
EV/Sales	8.5	8.0	7.2	6.4
Dividend Yield (%)	1.0	1.2	1.5	1.9

Source: Company Data, PL Research

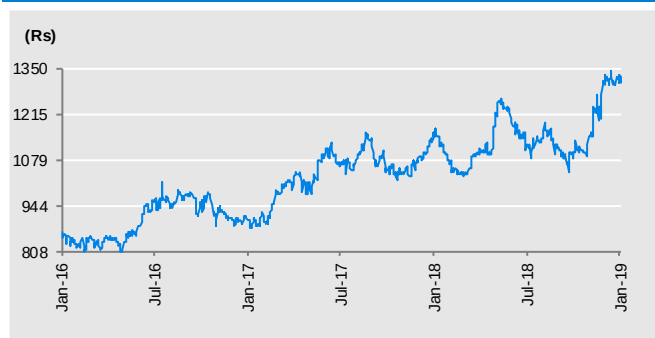
Key Operating Metrics

Y/e Mar	FY18	FY19E	FY20E	FY21E
Volume Growth %	2.5	6.0	6.0	6.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Feb-18	Reduce	1,040	1,121
2	13-Apr-18	Reduce	1,040	1,098
3	21-May-18	Reduce	1,075	1,208
4	10-Jul-18	Reduce	1,075	1,151
5	26-Jul-18	Reduce	1,084	1,085
6	5-Oct-18	Reduce	1,084	1,069
7	29-Oct-18	Hold	1,157	1,102
8	7-Jan-19	Hold	1,157	1,303

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,460	1,407
2	Avenue Supermarts	Reduce	1,270	1,572
3	Britannia Industries	Accumulate	3,231	3,144
4	Colgate Palmolive	Hold	1,157	1,303
5	Crompton Greaves Consumer Electricals	BUY	276	227
6	Dabur India	Hold	427	420
7	Emami	Accumulate	521	419
8	Future Retail	BUY	604	459
9	GlaxoSmithKline Consumer Healthcare	Hold	8,520	7,488
10	Hindustan Unilever	Hold	1,874	1,752
11	ITC	BUY	364	277
12	Jubilant FoodWorks	Accumulate	1,395	1,217
13	Kansai Nerolac Paints	Accumulate	474	467
14	Marico	Accumulate	387	387
15	Nestle India	Accumulate	11,129	10,786
16	Pidilite Industries	Accumulate	1,121	1,103
17	Titan Company	BUY	1,115	944
18	Voltas	Accumulate	658	542

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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