MOTILAL OSWAL

24 January 2019

3QFY19 Results Update | Sector: Consumer

Colgate

BSE SENSEX	S&P CNX
36,195	10,850

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	359.5 / 5.1
52-Week Range (INR)	1365 / 1014
1, 6, 12 Rel. Per (%)	-2/23/15
12M Avg Val (INR M)	538
Free float (%)	49.0

Financials & Valuations (INR b)

Y/E Mar	2019E	2020E	2021E
Net Sales	45.0	50.5	57.1
EBITDA	12.6	14.3	16.3
PAT	7.6	8.7	10.1
EPS (INR)	27.9	32.1	37.0
Gr. (%)	10.8	15.1	15.2
BV/Sh (INR)	59.2	59.5	55.7
RoE (%)	48.4	54.1	64.2
RoCE (%)	47.3	52.9	62.8
P/E (x)	47.4	41.2	35.7
P/BV (x)	22.3	22.2	23.7

Estimate change	⟷
TP change	⟷
Rating change	⟷

CMP: INR1,322 TP: INR1,540(+16%) Buy

Healthy volume growth; Operating margins above expectations

- **CLGT posted healthy volume growth of 7% YoY** (est. 4% growth) in 3QFY19. Net sales came in line growing 6.4% YoY to INR11b (est. INR11b). EBITDA was up 11.2% YoY to INR3.1b (est. INR2.9b), while Adj. PAT grew 12.6% YoY to INR1.9b (est. INR1.8b).
- Market share for toothpaste and toothbrush category was reported in the quarterly results this time around.
- **Gross margin saw slight contraction of 10bp YoY** to 65.1% (est. 64.7%). Lower operating costs – staff costs down 80bp YoY as % of sales, other expenses down 30bp YoY and ad spends down 20bp YoY – meant that EBITDA margin expanded 120bp YoY to 28.6%. Absolute ad spends were up 4.4% YoY to INR1.26b (INR4.1b for 9MFY19; up 6.6% YoY).
- **9MFY19 performance:** Sales, EBITDA and Adj. PAT grew 6.9% (~6% toothpaste volume growth on YTD basis), 14.8% and 14.6%, respectively. EBITDA margin expanded 190bp YoY to 28%.
- **Valuation and View:** Results were better-than-expectations leading to 4.1%/3.1%/0.9% upward change in FY19/FY20/FY21 EPS. Factors in Colgate's favor over the medium term are: (a) while the company has not shared market share, the hemorrhage seems to be abating based on the gradual uptrend in volume growth; (b) apparent increased traction in herbal, other new launches and ad spend; (c) its higher market share at ~60% in rural India with rural contributing to over 40% of its sales, making it a promising play on rural recovery, and (d) Irrelatively less expensive valuations of 41.2x FY20 EPS, 5% discount to our ex-cigarette and alcohol consumer peer valuations. With return ratios superior to all peers, barring HUL, and which are likely to improve on better utilization of expanded capacity, such discount is unwarranted when execution starts improving. Valuing the company at 43x December'20 EPS (5% premium 3-year and 5-year average multiple), we get a target price of INR 1,540. Maintain **Buy.**

Quarterly Performance (INR Million)

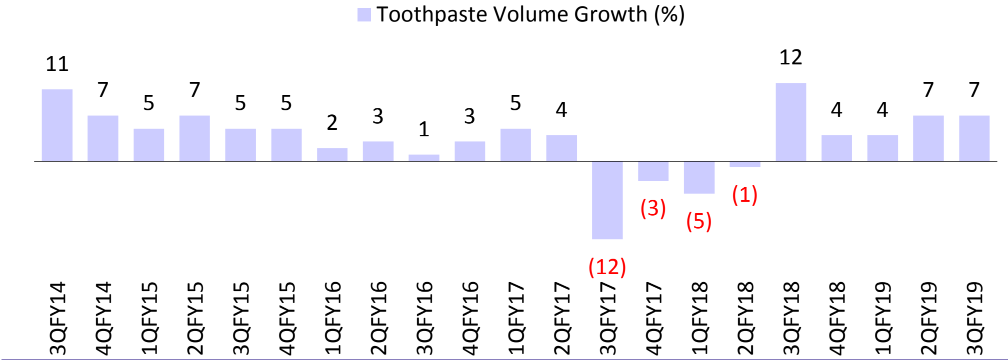
Y/E March	FY18				FY19				FY18	FY19E	FY19	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Toothpaste Volume Gr %	-5.0	-0.9	12.0	4.0	4.0	7.0	7.0	6.0	2.5	6.0	4.0	
Net Sales (incldg. OOI)	9,781	10,849	10,333	10,917	10,413	11,680	10,994	11,866	41,880	44,953	10,953	0.4%
YoY Change (%)	-3.5	2.7	18.2	5.2	6.5	7.7	6.4	8.7	5.2	7.3	6.0	
COGS	3,579	3,967	3,593	3,750	3,550	4,115	3,833	4,145	14,889	15,643	3,868	
Gross Profit	6,202	6,882	6,740	7,167	6,863	7,565	7,161	7,721	26,991	29,310	7,085	1.1%
Gross Margin (%)	63.4	63.4	65.2	65.7	65.9	64.8	65.1	65.1	64.4	65.2	64.7	
Other operating Expenses	3,979	3,873	3,911	4,092	4,048	4,269	4,016	4,366	15,855	16,699	4,146	
EBITDA	2,223	3,009	2,829	3,075	2,815	3,296	3,145	3,355	11,135	12,611	2,939	7.0%
Margins (%)	22.7	27.7	27.4	28.2	27.0	28.2	28.6	28.3	26.6	28.1	26.8	
YoY Growth (%)	5.2	9.5	32.2	26.6	26.7	9.5	11.2	9.1	18.1	13.3	4.1	
Depreciation	373	392	396	405	394	398	406	428	1,565	1,626	431	
Financial other Income	120	86	86	85	92	86	79	83	377	340	101	
PBT	1,970	2,703	2,519	2,755	2,513	2,984	2,818	3,010	9,947	11,325	2,609	8.0%
Tax	606	927	812	789	844	1,020	897	977	3,135	3,737	835	
Rate (%)	30.8	34.3	32.3	28.7	33.6	34.2	31.8	32.4	31.5	33.0	32.0	
Adj PAT	1,364	1,776	1,707	1,966	1,669	1,964	1,921	2,034	6,812	7,588	1,774	8.3%
YoY Change (%)	8.5	-2.1	33.5	37.9	22.4	10.6	12.6	3.5	18.0	11.4	4.0	

Krishnan Sambamoorthy – Research Analyst (Krishnan.Sambamoorthy@MotilalOswal.com); +91 22 6129 1545

Vishal Punmiya – Research Analyst (Vishal.Punmiya@MotilalOswal.com); +91 22 6129 1547

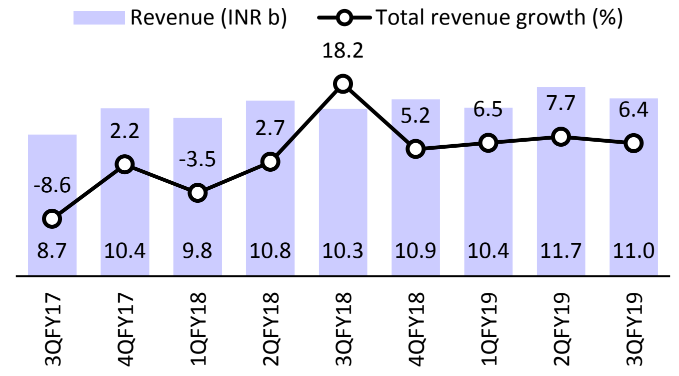
Key Quarterly Charts

Exhibit 1: Toothpaste volumes up 7% in 3QFY19



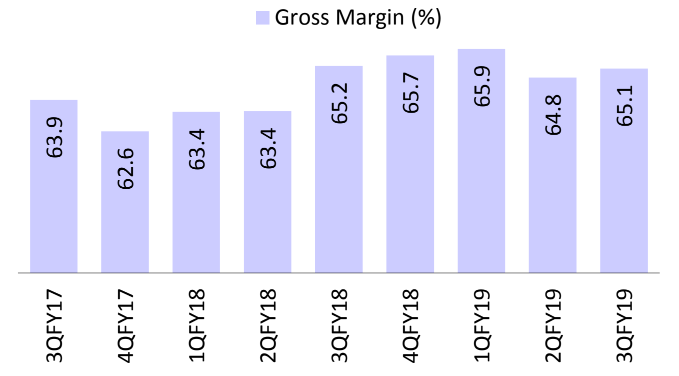
Source: Company, MOSL

Exhibit 2: Revenue up 6.4% YoY to INR11b in 3QFY19



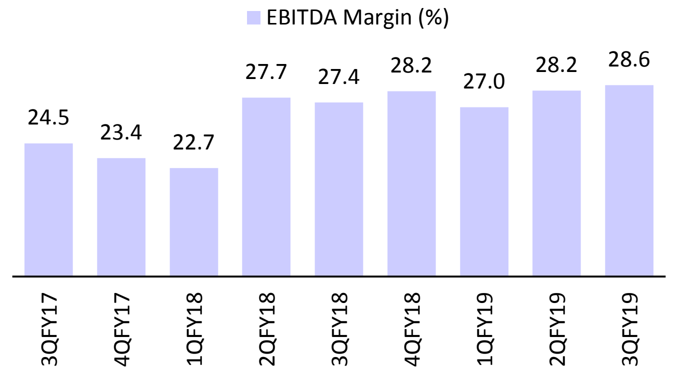
Source: Company, MOSL

Exhibit 3: Gross margin down 10bp YoY to 65.1%



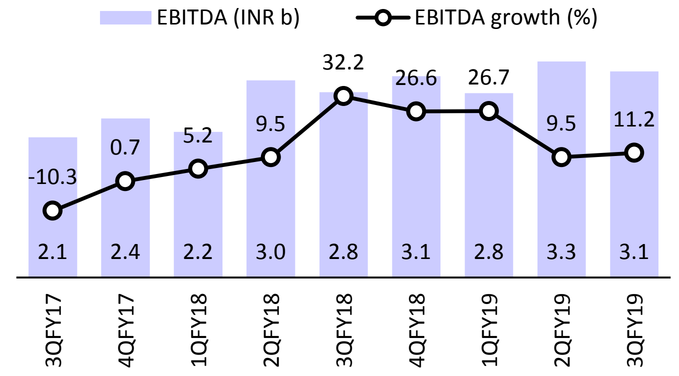
Source: Company, MOSL

Exhibit 4: EBITDA margin expanded 120bp YoY to 28.6%



Source: Company, MOSL

Exhibit 5: Thus, EBITDA grew 11.2% YoY to INR3.1b in 3QFY19



Source: Company, MOSL

Valuation and view

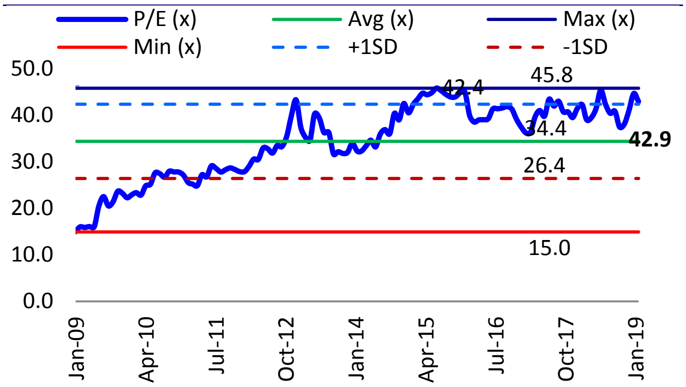
- Results were better-than-expectations leading to 4.1%/3.1%/0.9% upward change in FY19/FY20/FY21 EPS.
- Factors in Colgate's favor over the medium term are: (a) while the company has not shared market share, the hemorrhage seems to be abating based on the gradual uptrend in volume growth; (b) apparent increased traction in herbal, other new launches and ad spend; (c) its higher market share at ~60% in rural India with rural contributing to over 40% of its sales, making it a promising play on rural recovery, and (d) Irrelatively less expensive valuations of 41.2x FY20 EPS, 5% discount to our ex-cigarette and alcohol consumer peer valuations. With return ratios superior to all peers, barring HUL, and which are likely to improve on better utilization of expanded capacity, such discount is unwarranted when execution starts improving.
- Valuing the company at 43x December'20 EPS (5% premium 3-year and 5-year average multiple), we get a target price of INR 1,540. Maintain Buy.

Exhibit 6: Changes in our model have led to an increase in EPS by 4.1%/3.1% for FY19/FY20

	Old			New			Change (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Sales	44,980	51,061	58,084	44,953	50,455	57,074	(0.1)	(1.2)	(1.7)
EBITDA	12,189	13,960	16,183	12,611	14,302	16,337	3.5	2.4	0.9
PAT	7,289	8,466	9,965	7,588	8,732	10,059	4.1	3.1	0.9

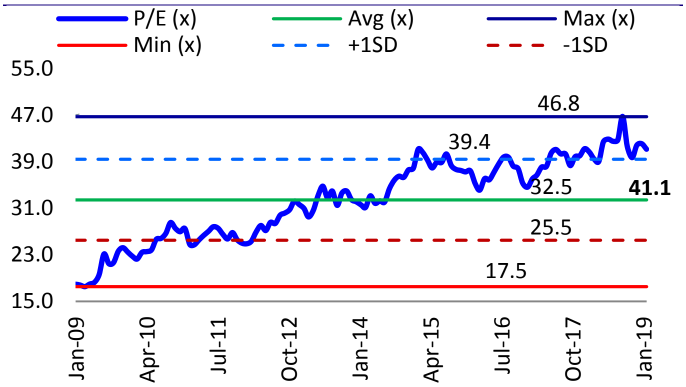
Source: Company, MOSL

Exhibit 7: CLGT P/E (x)



Source: Company, MOSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOSL

Financials and Valuations

Income Statement							(INR m)
Y/E March	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Net Sales	**39,887**	**38,682**	**39,818**	**41,880**	**44,953**	**50,455**	**57,074**
Change (%)	11.0	-3.0	2.9	5.2	7.3	12.2	13.1
COGS	14,677	14,763	14,763	14,901	15,643	17,456	19,614
Gross Profit	**25,210**	**23,919**	**25,055**	**26,979**	**29,310**	**32,999**	**37,460**
Gross Margin (%)	63.2	61.8	62.9	64.4	65.2	65.4	65.6
Operating expenses	16,920	14,534	15,619	15,855	16,699	18,697	21,123
EBITDA	**8,290**	**9,385**	**9,435**	**11,124**	**12,611**	**14,302**	**16,337**
Change (%)	22.2	13.2	0.5	17.9	13.4	13.4	14.2
Margin (%)	20.8	24.3	23.7	26.6	28.1	28.3	28.6
Depreciation	750	1,114	1,332	1,565	1,626	1,749	1,851
Financial Other Income	264	395	411	388	340	479	528
Profit before Taxes	**7,804**	**8,666**	**8,514**	**9,947**	**11,325**	**13,032**	**15,013**
Change (%)	17.6	11.1	-1.8	16.8	13.9	15.1	15.2
Margin (%)	19.6	22.4	21.4	23.8	25.2	25.8	26.3
Tax	2,009	2,541	2,740	3,022	3,737	4,301	4,953
Tax Rate (%)	28.4	29.3	32.2	31.1	33.0	33.0	33.0
Adjusted PAT	**5,590**	**6,125**	**5,774**	**6,850**	**7,588**	**8,732**	**10,059**
Change (%)	13.9	9.6	-5.7	18.6	10.8	15.1	15.2
Margin (%)	14.0	15.8	14.5	16.4	16.9	17.3	17.6
Non-rec. (Exp)/Income	0	-313	0	-117	0	0	0
Reported PAT	**5,590**	**5,812**	**5,774**	**6,734**	**7,588**	**8,732**	**10,059**

Balance Sheet							(INR m)
Y/E March	**2015**	**2016**	**2017**	**2018**	**2019E**	**2020E**	**2021E**
Share Capital	272	272	272	272	272	272	272
Reserves	7,431	10,038	12,466	14,974	15,842	15,903	14,880
Net Worth	**7,703**	**10,310**	**12,738**	**15,246**	**16,114**	**16,175**	**15,152**
Loans	0	0	0	0	0	0	0
Deferred Liability	26	97	275	355	355	355	355
Capital Employed	**7,729**	**10,407**	**13,013**	**15,601**	**16,470**	**16,530**	**15,507**
Gross Block	12,829	14,866	17,188	19,077	20,577	22,077	23,077
Less: Accum. Depn.	-5,013	-4,785	-6,107	-7,617	-9,243	-10,992	-12,843
Net Fixed Assets	**7,816**	**10,081**	**11,081**	**11,459**	**11,333**	**11,085**	**10,233**
Capital WIP	1,412	784	1,666	1,586	1,586	1,586	1,586
Investments	371	312	312	312	312	312	312
Curr. Assets, L&A	**7,420**	**8,852**	**10,048**	**12,282**	**12,238**	**14,191**	**14,258**
Inventory	2,522	2,915	2,926	2,267	2,404	2,779	3,114
Account Receivables	696	1,015	1,299	2,010	1,836	2,474	1,555
Cash & Bank	2,545	2,887	2,943	4,562	4,351	5,068	5,476
Others	1,657	2,035	2,880	3,443	3,648	3,871	4,113
Curr. Liab. and Prov.	**9,290**	**9,622**	**10,094**	**10,037**	**8,999**	**10,643**	**10,882**
Account Payables	5,144	5,519	5,975	6,145	6,456	7,996	8,126
Other Liabilities	2,874	3,438	3,356	3,098	1,709	1,771	1,836
Provisions	1,272	664	763	794	834	876	920
Net Current Assets	**-1,870**	**-770**	**-46**	**2,245**	**3,239**	**3,548**	**3,376**
Application of Funds	**7,729**	**10,407**	**13,013**	**15,601**	**16,470**	**16,530**	**15,507**

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
Basic (INR)							
EPS	**20.6**	**22.5**	**21.2**	**25.2**	**27.9**	**32.1**	**37.0**
Cash EPS	23.3	26.6	26.1	30.9	33.9	38.5	43.8
BV/Share	28.3	37.9	46.8	56.1	59.2	59.5	55.7
DPS	12.5	11.0	11.0	24.0	19.5	25.7	33.3
Payout %	60.6	48.8	51.7	95.3	70.0	80.0	90.0
Valuation (x)							
P/E	64.3	58.7	62.3	52.5	47.4	41.2	35.7
Cash P/E	56.7	49.7	50.6	42.7	39.0	34.3	30.2
EV/Sales	8.9	9.2	8.9	8.5	7.9	7.0	6.2
EV/EBITDA	43.0	38.0	37.8	31.9	28.1	24.8	21.7
P/BV	46.7	34.9	28.2	23.6	22.3	22.2	23.7
Dividend Yield (%)	0.9	0.8	0.8	1.8	1.5	1.9	2.5
Return Ratios (%)							
RoE	81.6	68.0	50.1	49.0	48.4	54.1	64.2
RoCE	82.5	67.5	49.3	47.9	47.3	52.9	62.8
RoIC	236.5	119.0	75.7	76.4	76.0	85.0	109.7
Working Capital Ratios							
Debtor (Days)	6	9	11	17	14	17	10
Asset Turnover (x)	6.7	4.2	3.6	3.1	3.1	3.4	4.2
Leverage Ratio							
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement (INR m)

Y/E March	2015	2016	2017	2018	2019E	2020E	2021E
OP/(loss) before Tax	7,804	8,666	8,514	9,947	11,325	13,032	15,013
Depreciation	750	1,114	1,332	1,565	1,626	1,749	1,851
Int./Div. Received	97	-264	34	81	-340	-479	-528
Interest Paid	-264	-261	-297	-290	0	0	0
Direct Taxes Paid	-2,055	-2,524	-3,014	-3,474	-3,737	-4,301	-4,953
(Incr)/Decr in WC	49	156	311	-889	-1,205	408	580
CF from Operations	**6,382**	**6,887**	**6,880**	**6,940**	**7,669**	**10,409**	**11,964**
(Incr)/Decr in FA	-2,994	-2,713	-3,212	-2,087	-1,500	-1,500	-1,000
Free Cash Flow	**3,388**	**4,175**	**3,668**	**4,853**	**6,169**	**8,909**	**10,964**
(Pur)/Sale of Investments	0	70	0	0	0	0	0
Others	135	12	-205	564	626	764	813
CF from Invest.	**-2,859**	**-2,631**	**-3,418**	**-1,523**	**-874**	**-736**	**-187**
Change in Equity	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	0	0	0	0	0	0
Dividend Paid	-3,388	-2,987	-2,717	-2,986	-6,193	-8,145	-10,556
Others	-460	-928	-689	-812	-812	-812	-812
CF from Fin. Activity	**-3,848**	**-3,915**	**-3,406**	**-3,798**	**-7,005**	**-8,957**	**-11,368**
Incr/Decr of Cash	**-325**	**342**	**56**	**1,619**	**-211**	**716**	**409**
Add: Opening Balance	2,870	2,545	2,887	2,943	4,562	4,351	5,067
Closing Balance	**2,545**	**2,887**	**2,943**	**4,562**	**4,351**	**5,067**	**5,476**

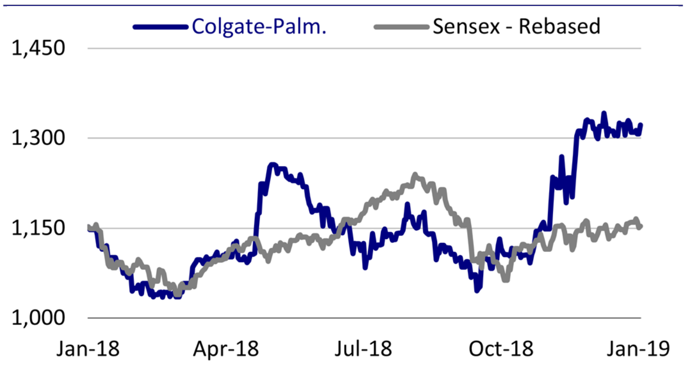
E: MOSL Estimates

Corporate profile

Company description

Colgate-Palmolive India (CLGT) is the market leader in the toothpaste segment, with a share of ~52.5%. Oral Care is one of the most under-penetrated segments of the FMCG market, with ~81% of sales from toothpastes. CLGT has presence in toothbrushes and mouthwash, and Personal Care products like body wash.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-18	Sep-18	Dec-17
Promoter	51.0	51.0	51.0
DII	12.1	13.3	12.7
FII	13.9	13.3	13.9
Others	23.0	22.4	22.4

Note: FII Includes depository receipts Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIC of India	5.2
SBI Magnum Global Fund	2.2
First State Investments Icvc- Stewart Investors global emerging markets leaders fund	1.6
Nps Trust-A/c UTI Retirement Solutions Pension Fund Scheme- State Govt	1.0
NA	0.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
R A Shah	Vice Chairman
I Bachaalani	Managing Director
M S Jacob	Whole Time Director & CFO
M Chandrasekar	Whole-time Director
K Randhir Singh	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Indu Shahani	M S Jacob
Shyamala Gopinath	M Chandrasekar
V S Mehta	

*Independent

Exhibit 6: Auditors

Name	Type
S N Ananthasubramanian & Co	Secretarial Audit
SRBC & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	27.9	27.6	1.2
FY20	32.1	31.2	3.0
FY21	37.0	35.4	4.4

Source: Bloomberg

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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