

Market share stabilises; margin contracts...

The company reported 5.7% YoY growth in revenue to ₹ 1,153.8 crore mainly driven by 5% volume growth. Operating profit increased marginally by 0.9% to ₹ 310.4 crore while operating margins contracted 128 bps to 26.9% mainly due to 110 bps decline in gross margins on account of higher promotional spend across platforms. PAT increased 4.7% YoY to ₹ 197.6 crore led by higher other income. The company declared a special interim dividend of ₹ 8 per share.

Volume led growth quarter; Naturals' portfolio outperforms

CPIL has been able to maintain its toothpaste volume market share at 52% and increase its toothbrush market share by 280 bps to 48% on a YoY basis. CPIL posted ~6% topline growth largely driven by volume growth of 5%. Colgate's volume growth has improved in past few quarters (7% each in Q2-Q3FY19) primarily driven by new launches in the naturals' portfolio. CPIL has aggressively increased its promotional spend to drive growth in its 'Naturals' and overall toothpaste portfolios. In naturals, CPIL has increased its volume market share by 120 bps YoY to 8.1%. We expect naturals' portfolio contribution to overall revenues to increase over time resulting in robust volume growth trajectory.

Higher A&P led new launches to support growth in future

With stable market share, CPIL is now targeting market share gains through growth initiatives, including the growth of naturals, kids and Palmolive portfolio, as well as distribution expansion. The company's launch of Swarna Vedshakti nationwide during Q3FY19 is gaining significant traction. In addition, the company has relaunched its key brand Colgate Total. Further, Palmolive Facial Bar was launched in key markets, which resulted in better volume growth. It also launched Colgate ProClinical battery operated toothbrush. Going ahead, we believe the company would gain market share primarily driven by new product launches and decline in competitive pressure from Patanjali. We believe its aggressive stance on increasing A&P spend would support new launches. We expect revenue & PAT to grow at a CAGR of 8.9% & 8.8%, respectively, in FY19-21E.

Valuation & Outlook

CPIL has one of the widest distribution networks in India, which spans across ~6 million outlets across the country. Going forward, the increasing distribution network would help enhance the volume growth of the company. For increasing its presence in rural areas, CPIL has undertaken initiatives like Project Jagruti and Disha for the same. Though the company has been able to stabilise its decline in market share from Q2FY19, we believe there is limited upside (~37x P/E at FY21 EPS) for a single product category company, which is already penetrated by about 88%. We reiterate our **HOLD** rating on CPIL with a revised target price of ₹ 1250/share.

Key Financial Summary

Key Financials	FY17	FY18	FY19E	FY20E	FY21E	CAGR (FY19-21E)
Total Operating Income	4520.2	4328.4	4462.4	4876.9	5287.3	8.9%
EBITDA	943.5	1113.7	1236.1	1347.9	1450.4	8.3%
EBITDA Margin %	20.9	25.7	27.7	27.6	27.4	
Net Profit	577.4	673.4	775.6	839.4	918.7	8.8%
EPS (₹)	21.23	24.76	28.52	30.86	33.78	
P/E	55.6	47.7	41.4	38.2	34.9	
RoNW %	45.3	44.7	52.2	50.7	50.1	
RoCE (%)	64.1	62.9	70.7	71.6	71.0	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	32,094.3
Total Debt (FY19)	77.7
Cash and Investments (FY19)	399.4
EV	31,772.7
52 week H/L (₹)	1365 / 1020
Equity capital	27.2
Face value (₹)	1.0

Key Highlights

- Toothpaste market share flat QoQ at ~52% whereas toothbrush market share increased to ~48% in Q4FY19 from 45.2% in Q4FY18
- CPIL's market share in natural category increased 120 bps to 8.1%
- Launched battery operated toothbrush - Colgate ProClinical 150 and relaunched Colgate Total
- Maintain HOLD with a revised target price of ₹ 1250/per share

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Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Total Operating Income	1,153.8	1,191.2	1,091.7	5.7	1,099.4	4.9	Net sales witness growth of 5.7% purely on account of 5% volume growth
Operating Income	7.1	8.5	6.6	7.9	7.7	-7.8	
Raw Material Expenses	408.8	412.9	374.8	9.1	383.3	6.7	Gross margins decline 110 bps due to aggressive promotional spend during the quarter
Employee Expenses	73.5	77.0	75.8	-3.1	71.1	3.3	
SG&A Expenses	156.3	150.1	143.6	8.9	126.0	24.0	
Other operating Expenses	204.8	210.8	189.8	7.9	204.5	0.1	
EBITDA	310.4	340.4	307.7	0.9	314.5	-1.3	
EBITDA Margin (%)	26.9	28.6	28.2	-128 bps	28.6	-170 bps	Operating margins decline 128 bps due to 110 bps reduction in gross margins, 39 bps increase in advertisement spend to sales and 36 bps increase in other overheads to sales, whereas 58 bps decline in employee costs to sales restricted decline in operating margins
Depreciation	39.4	41.0	40.5	-2.8	40.6	-3.1	
Interest	2.5	0.0	0.0	NA	0.0	NA	
Other Income	12.0	8.0	8.3	43.8	7.9	51.1	
PBT before exceptional	280.5	307.4	275.5	1.8	281.8	-0.4	
Exceptional Items	3.6	0.0	11.7	NA	0.0	NA	Exceptional expenses declined by ~8 crore during the quarter
Tax Outgo	79.3	99.5	75.1	5.6	89.7	-11.5	
PAT	197.6	208.0	188.8	4.7	192.1	2.9	PAT increased 4.7% YoY to ₹ 197.6 crore driven by higher other income

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Sales	4,921.6	4843.9	-1.6	5,404.7	5,251.0	-2.8	We change our estimates considering slower-than-expected volume growth
EBITDA	1392.8	1347.9	-3.2	1533.8	1450.4	-5.4	
EBITDA Margin (%)	28.3	27.8	-47 bps	28.4	27.6	-76 bps	We reduce operating margins on account of aggressive A&P spend
PAT	867.1	839.4	-3.2	972.5	918.7	-5.5	
EPS (₹)	31.88	30.86	-3.2	35.8	33.78	-5.5	

Source: Company, ICICI Direct Research

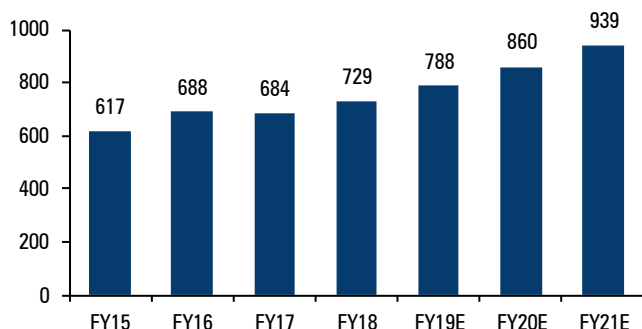
Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY17	FY18	FY19E	FY20E	FY21E	FY20E	
Toothpaste Vol. Growth(%)	-4.0	4.0	6.0	6.0	6.0	6.0	
Toothpaste Value Growth(%)	3.7	-5.3	1.8	8.1	8.1	9.2	
Toothbrush Vol. Growth(%)	-2.0	4.0	6.0	7.0	7.0	10.0	
Toothbrush Value Growth(%)	-0.7	6.6	8.1	9.1	9.1	13.3	We change toothbrush estimates considering sluggish growth in segment
Raw Material/Sales %	32.7	34.4	34.9	35.5	35.5	35.2	
Marketing Exp./Sales %	11.3	12.2	12.7	12.1	11.9	12.1	

Source: Company, ICICI Direct Research

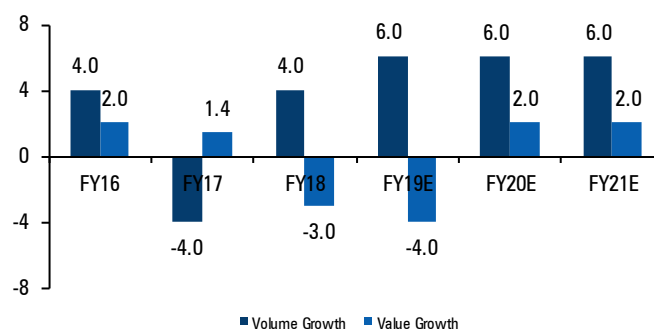
Key Metrics

Exhibit 4: Toothbrush revenue to grow at 9.1% CAGR



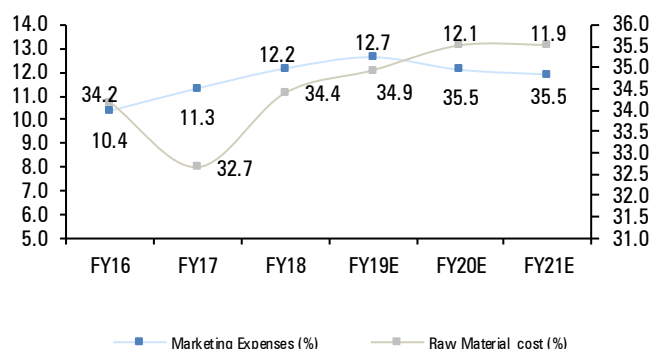
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth expected to grow at 6% CAGR



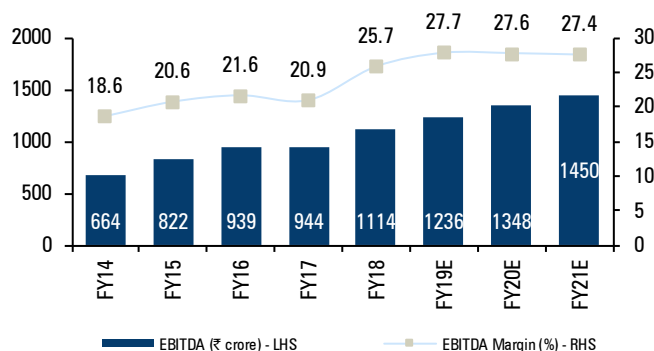
Source: Company, ICICI Direct Research

Exhibit 6: A&P spend to remain high, RM cost to remain low



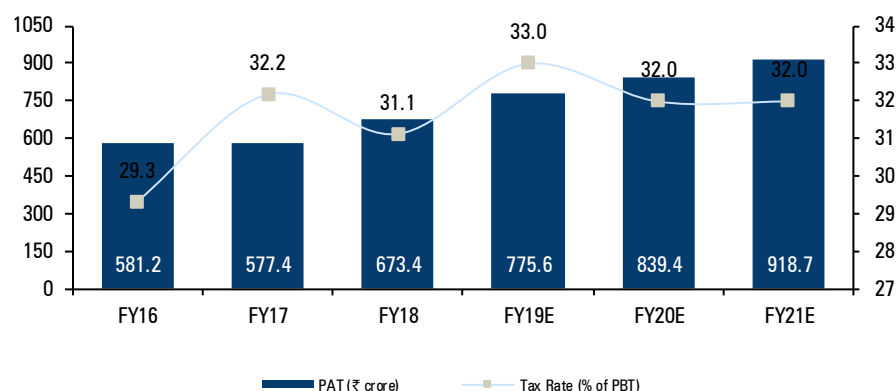
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend

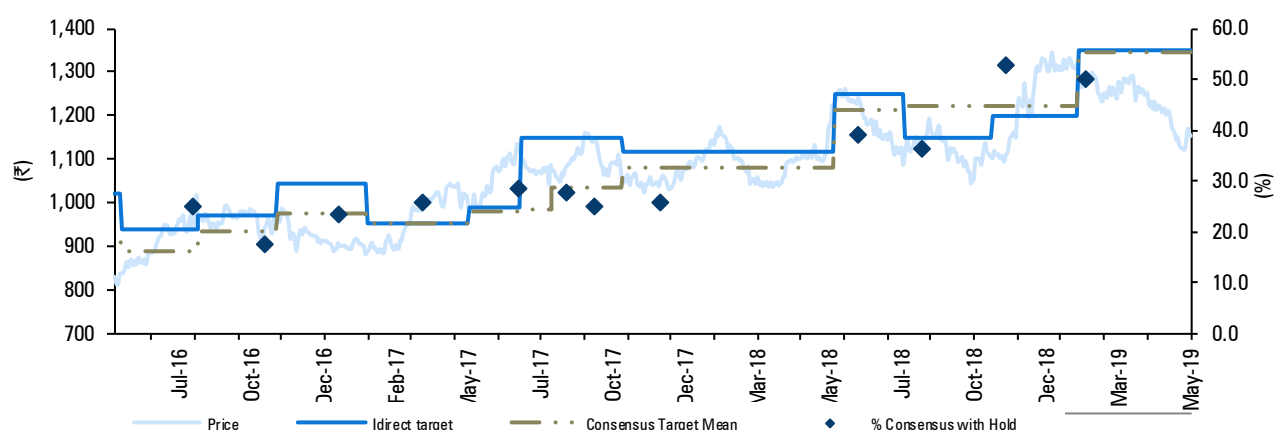


Source: Company, ICICI Direct Research

Exhibit 9: Valuations

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	4299.9	-4.2	24.8	16.6	47.7	28.3	44.7	62.9
FY19E	4432.4	3.1	28.5	15.2	41.4	25.6	52.2	70.7
FY20E	4843.9	9.3	30.9	8.2	38.2	23.2	50.7	71.6
FY21E	5251.0	8.4	33.8	9.4	34.9	21.5	50.1	71.0

Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Colgate-Palmolive Co	31-Dec-18	51.00	138.7	0.0
2	Life Insurance Corporation of India	31-Dec-18	5.19	14.1	-1.1
3	Stewart Investors	28-Feb-19	2.83	7.7	0.2
4	SBI Funds Management Pvt. Ltd.	31-Mar-19	2.14	5.8	-0.2
5	ARISAIG Partners (Asia) Pte. Ltd.	31-Mar-18	2.04	5.5	-2.0
6	First State Investments (U.K.) Ltd	31-Dec-18	1.59	4.3	0.0
7	UTI Asset Management Co. Ltd.	31-Dec-18	1.01	2.8	2.3
8	The Vanguard Group, Inc.	31-Mar-19	0.90	2.4	0.0
9	L&T Investment Management Limited	31-Mar-19	0.72	2.0	0.0
10	T. Rowe Price Hong Kong Limited	31-Mar-19	0.59	1.6	0.2

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
UTI Asset Management Co. Ltd.	44.69m	2.31m	Fundsmith LLP	-23.75m	-1.34m
Robeco Institutional Asset Management B.V.	11.95m	0.67m	Life Insurance Corporation of India	-21.52m	-1.11m
Union Investment Luxembourg S.A.	6.93m	0.36m	SBI Funds Management Pvt. Ltd.	-4.11m	-0.23m
Capital Research Global Investors	4.86m	0.27m	HSBC Global Asset Management (India) Private Limited	-2.91m	-0.16m
Stewart Investors	4.43m	0.25m	William Blair Investment Management, LLC	-2.79m	-0.16m

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	51.0	51.0	51.0	51.0	51.0
FII	12.7	11.5	13.3	13.9	15.4
DII	13.6	15.3	13.1	11.9	10.2
Others	22.8	22.2	22.6	23.2	23.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Total Operating Income	4,328.4	4,462.4	4,876.9	5,287.3
Growth (%)	-4.2	3.1	9.3	8.4
Raw Material Expenses	1,488.7	1,558.6	1,731.9	1,878.3
Employee Expenses	305.9	295.9	324.5	367.6
Marketing Expenses	526.8	564.7	591.0	630.1
Administrative Expenses	0.0	0.0	174.4	194.3
Excise Duty	140.5	0.0	0.0	0.0
Other expenses	752.8	807.2	707.2	766.6
Total Operating Expenditure	3,214.7	3,226.4	3,529.0	3,836.9
EBITDA	1,113.7	1,236.1	1,347.9	1,450.4
Growth (%)	18.0	11.0	9.0	7.6
Depreciation	156.5	159.2	153.0	140.9
Interest	0.0	2.5	0.0	0.0
Other Income	37.5	37.7	39.5	41.5
PBT	994.7	1,112.1	1,234.4	1,351.0
Exceptional items	-11.7	34.1	0.0	0.0
Total Tap	309.7	367.0	395.0	432.3
PAT	673.4	775.6	839.4	918.7
Growth (%)	16.6	15.2	8.2	9.4
EPS (₹)	24.8	28.5	30.9	33.8

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit/Loss after Tax	673.4	775.6	839.4	918.7
Add: Depreciation	156.5	159.2	153.0	140.9
Add: Interest	0.0	2.5	0.0	0.0
(Inc)/dec in Current Assets	-43.2	-6.2	-178.8	-66.4
Inc/(dec) in Current Liabilities	0.2	68.3	-49.1	69.8
CF from operating activities	857.3	999.3	764.4	1,063.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-186.3	-244.2	97.1	-175.0
Others	-16.2	-33.7	7.8	-1.6
CF from investing activities	-202.5	-277.9	104.9	-176.6
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	77.7	-77.7	0.0
Dividend paid & dividend tap	-547.9	-741.3	-741.3	-741.3
Inc/(dec) in Sec. premium	0.0	-2.5	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-547.9	-666.1	-819.0	-741.3
Net Cash flow	106.9	55.3	50.3	145.1
Opening Cash	198.5	305.4	360.8	411.1
Cash with bank	150.8	38.6	150.8	150.8
Closing Cash	456.2	399.4	561.8	706.9

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,497.4	1,419.6	1,629.8	1,807.2
Total Shareholders funds	1,524.6	1,446.7	1,657.0	1,834.4
Total Debt	0.0	77.7	0.0	0.0
Long Term Provisions	19.1	18.4	33.9	36.8
Other Non-current Liabilities	37.4	32.6	32.6	32.6
Total Liabilities	1,581.1	1,575.4	1,723.4	1,903.7
Assets				
Gross Block	1,960.5	2,110.5	2,260.5	2,435.5
Less: Acc Depreciation	858.9	1,018.1	1,171.1	1,311.9
Net Block	1,145.9	1,190.9	1,089.4	1,123.6
Capital WIP	158.6	198.7	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	167.5	195.6	203.4	207.9
Current Assets				
Inventory	226.7	248.6	358.3	388.4
Debtors	201.0	209.8	225.6	244.6
Cash	456.2	399.4	561.8	706.9
Loans & Advances	90.6	115.0	99.5	107.9
Other Current Assets	86.2	37.5	106.2	115.1
Current Liabilities				
Creditors	620.3	613.2	650.3	690.5
Provisions	60.4	63.9	59.7	64.7
Other CL	302.1	374.0	292.0	316.5
Net Current Assets	78.0	-40.9	349.5	491.2
Total Assets	1,581.1	1,575.4	1,723.5	1,903.7

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore				
	FY18	FY19E	FY20E	FY21E
Per share data (₹)				
EPS	24.8	28.5	30.9	33.8
Cash EPS	30.5	34.4	36.5	39.0
BV	56.1	53.2	60.9	67.4
DPS	17.0	23.0	23.0	23.0
Cash Per Share	16.8	14.7	20.7	26.0
Operating Ratios (%)				
EBITDA Margin	25.7	27.7	27.6	27.4
PBT / Net Sales	23.1	25.1	25.5	25.7
PAT Margin	15.7	17.5	17.3	17.5
Inventory days	19.2	20.5	27.0	27.0
Debtor days	17.1	17.3	17.0	17.0
Creditor days	52.7	50.5	49.0	48.0
Return Ratios (%)				
RoE	44.7	52.2	50.7	50.1
RoCE	62.9	70.7	71.6	71.0
Valuation Ratios (x)				
P/E	47.7	41.4	38.2	34.9
EV / EBITDA	28.3	25.6	23.2	21.5
EV / Net Sales	7.3	7.1	6.5	5.9
Market Cap / Sales	7.5	7.2	6.6	6.1
Price to Book Value	21.1	22.2	19.4	17.5
Solvency Ratios				
Debt/EBITDA	0.0	0.1	0.0	0.0
Debt / Equity	0.0	0.1	0.0	0.0
Current Ratio	0.6	0.6	0.8	0.8
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Colgate (COLPAL)	1,180	1,250	Hold	32,094	28.5	30.9	33.8	41.4	38.2	34.9	7.2	6.6	6.1	70.7	71.6	71.0	52.2	50.7	50.1
Dabur India (DABIND)	400	450	Buy	66,747	8.2	9.2	10.2	48.9	43.7	39.4	7.8	7.0	6.3	29.6	28.1	28.4	25.7	24.0	24.3
GSK CH (GLACON)	7,400	8,340	Buy	30,028	166.5	233.7	244.1	44.5	31.7	30.3	6.9	6.3	5.8	29.8	36.1	33.4	20.1	24.0	22.8
Hindustan Unilever (HINLEV)	1,765	1,900	Hold	378,000	28.5	32.9	37.9	61.9	53.7	46.6	9.9	8.7	7.6	100.8	123.7	162.3	87.2	106.9	141.3
ITC Limited (ITC)	290	340	Buy	352,275	10.3	11.3	12.6	28.3	25.8	23.0	7.9	7.2	6.6	30.8	32.7	33.3	21.5	22.2	22.6
Jyothy Lab (JYOLAB)	170	220	Buy	6,181	5.3	5.9	6.7	32.0	28.7	25.4	3.5	3.1	2.8	28.6	37.5	38.9	22.6	28.2	29.2
Marico (MARLIM)	365	425	Buy	46,963	8.8	8.7	9.8	41.5	42.1	37.4	6.4	5.5	4.9	38.0	42.6	41.7	31.6	35.8	34.6
Nestle (NESIND)	11,120	12,000	Buy	100,277	166.7	199.7	238.9	66.7	55.7	46.5	8.9	8.0	7.0	42.9	44.5	47.6	45.6	45.9	47.0
Tata Global Bev (TATGLO)	238	250	Buy	12,622	7.2	7.9	8.7	32.9	30.2	27.3	1.7	1.7	1.6	8.4	9.1	9.5	6.5	7.2	7.6
VST Industries (VSTIND)	3,460	3,900	Buy	5,348	146.9	164.4	178.8	23.6	21.0	19.4	4.9	4.4	4.0	51.4	51.1	50.3	34.2	34.4	33.9
Varun Beverage (VARBEV)	940	1,040	Hold	17,530	11.7	16.4	18.6	80.2	57.3	50.5	4.4	3.4	2.5	12.7	14.2	13.3	12.1	15.0	11.0

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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