

Colgate Palmolive (India) Ltd

Accumulate

**View: Satisfactory volume growth; Maintain Accumulate**

The Q1FY20 results were in line with our expectation. On a base of 4%, the company's volume rose 4%. We view this as a decent performance, considering the slowdown in most consumer categories and intense competition in the oral care category. The launch of Swarna Vedshakti and corrective action in the natural portfolio continues to yield benefits

We believe that its volume growth should recover further on a favorable base. Also, as the distribution reach of Swarna Vedshakti continues to rise, the company's market share in the natural category is likely to increase further. The deceleration in Patanjali sales should also help Colgate to regain some lost market share. We maintain our FY20E and FY21E EPS at ₹30.7 and ₹33.2, respectively, as our hypothesis of improvement in volume growth seems to be true. We value the stock at 40x FY21 EPS to arrive at a TP of ₹ 1,329. Maintain Accumulate.

Operational performance was in line

The net revenues rose 4.2% YoY to ₹ 10.8bn—in line with our estimate. The volume growth in the quarter was 4%, marginally lower than the 5% reported in Q4FY19. The EBITDA grew 6.5% YoY to ₹ 3.1bn—in line with our estimate. GM remained flat at 55.9% YoY. A 50/20bps increase in employee cost/A&P spends was completely offset by 130 bps decrease in other expense. Consequently, EBITDA margin expanded 60bps to 27.6% YoY. APAT increased 8.8% YoY to ₹ 1.7bn – more than our estimate.

Expect recovery in market share

The company's market share in the naturals category improved from 6.5-7% in CY18 to 8% in FY19. We believe the fall in overall market share since FY16, primarily due to competition from Patanjali, was arrested. Our channel checks suggest that Patanjali is facing serious distribution led issues. This is most likely to benefit Colgate and Dabur, as these companies were impacted in the past three years. Further, Colgate is likely to experience sales growth stabilization in rural markets; it garners 45%+ of its revenue from these markets. The company is increasing its A&P spend to support volume growth. This is not likely to pressure operating margins, due to benefits from leveraging other operational costs.

Q1FY20 Result (₹ Mn)

Particulars	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Revenue	10,849	10,413	4.2	11,538	(6.0)
Total Expense	7,851	7,597	3.3	8,433	(6.9)
EBITDA	2,998	2,816	6.5	3,104	(3.4)
Depreciation	499	394	26.6	394	26.7
EBIT	2,500	2,422	3.2	2,711	(7.8)
Other Income	152	92	65.6	120	26.9
Interest	23	0		25	(7.6)
EBT	2,628	2,855	3.2	2,769	(5.1)
Tax	937	960	(2.4)	793	18.1
RPAT	1,691	1,895	(10.8)	1,976	(14.4)
APAT	1,691	1,554	8.8	2,012	(15.9)
			(bps)		(bps)
Gross Margin (%)	65.9	65.9	(5)	64.6	129
EBITDA Margin (%)	27.6	27.0	59	26.9	73
NPM (%)	15.6	18.2	(261)	17.1	(154)
Tax Rate (%)	35.7	33.6	204	28.6	700
EBIT Margin (%)	23.0	23.3	(22)	23.5	(46)

CMP	₹ 1,206
Target / Upside	₹ 1,329 / 10%
BSE Sensex	38,938
NSE Nifty	11,597

Script Details

Equity / FV	₹ 272mn / ₹ 1
Market Cap	₹ 328bn
	US\$ 5bn
52-week High/Low	₹ 1,355/₹ 1,018
Avg. Volume (no)	429,542
NSE Symbol	COLPAL
Bloomberg Code	CLGT IN

Shareholding Pattern Jun'19(%)

Promoters	51.0
MF/Banks/FIs	11.9
FII's	13.8
Public / Others	23.3

Valuation (x)

	FY19A	FY20E	FY21E
P/E	44.0	39.3	36.3
EV/EBITDA	26.3	23.1	21.2
ROE (%)	52.2	51.1	44.6
RoACE (%)	48.0	48.5	42.8

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	44,624	49,727	53,859
EBITDA	12,361	13,864	14,919
PAT	7,756	8,355	9,037
EPS (₹)	27.4	30.7	33.2

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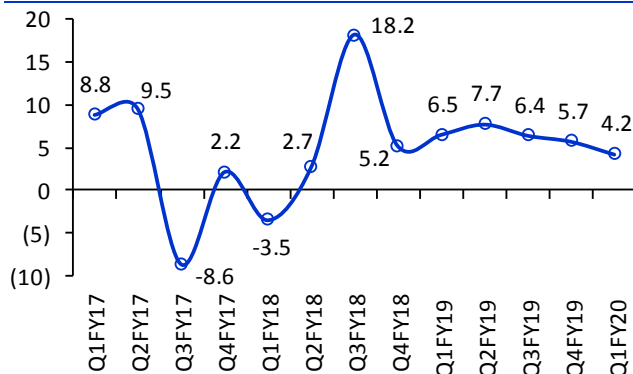
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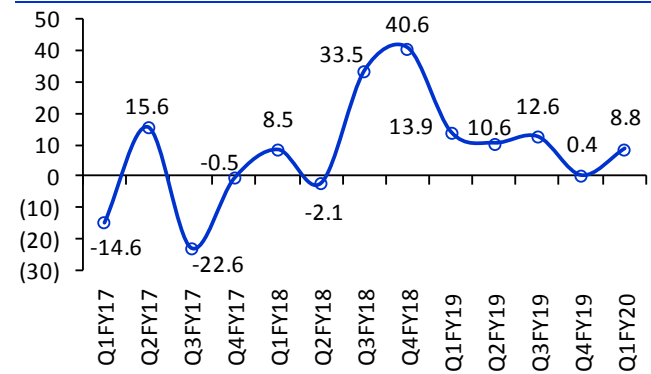
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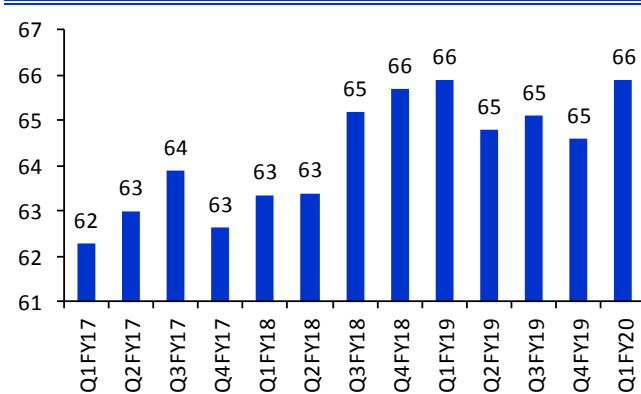


Exhibit 1: Sales Growth (%)


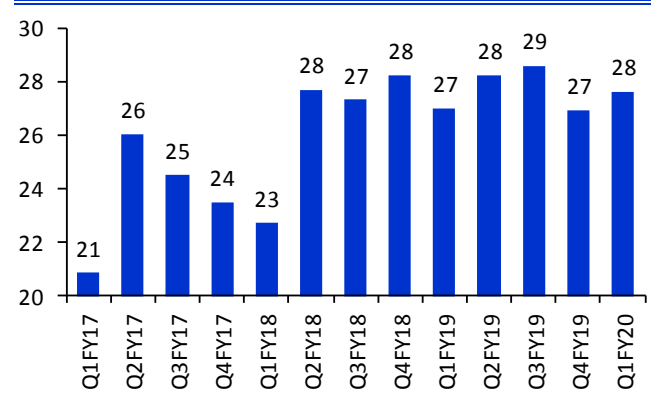
Source: Company, DART

Exhibit 2: Net Profit Growth (%)


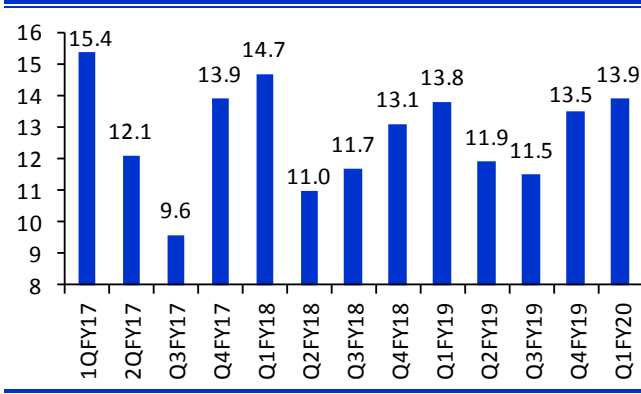
Source: Company, DART

Exhibit 3: Gross Margin (%) Trend


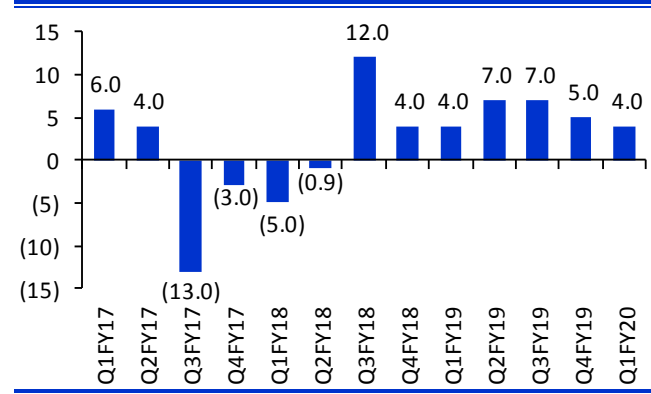
Source: DART, Company

Exhibit 4: Strong EBITDA Margins (%)


Source: DART, Company

Exhibit 5: A&P Spends (% Of Revenues)


Source: DART, Company

Exhibit 6: Volume growth overall (% YoY)


Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	41,880	44,624	49,727	53,859
Total Expense	30,746	32,264	35,862	38,940
COGS	14,901	15,586	17,567	19,242
Employees Cost	3,059	2,959	3,198	3,356
Other expenses	12,786	13,719	15,098	16,342
EBIDTA	11,134	12,361	13,864	14,919
Depreciation	1,565	1,592	1,763	1,908
EBIT	9,569	10,769	12,102	13,012
Interest	0	25	100	100
Other Income	375	377	469	576
Exc. / E.O. items	(117)	305	0	0
EBT	9,827	11,426	12,471	13,488
Tax	3,097	3,670	4,115	4,451
RPAT	6,731	7,756	8,355	9,037
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	6,847	7,451	8,355	9,037

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	14,974	14,196	17,951	22,012
Net Worth	15,246	14,468	18,223	22,284
Total Debt	0	777	777	777
Net Deferred Tax Liability	355	309	309	309
Total Capital Employed	15,601	15,553	19,309	23,370

Applications of Funds

Net Block	11,459	11,908	11,645	11,237
CWIP	1,586	1,987	1,987	1,987
Investments	311	312	312	312
Current Assets, Loans & Advances	12,282	11,933	16,776	22,096
Inventories	2,267	2,486	2,648	2,868
Receivables	2,010	2,097	2,288	2,479
Cash and Bank Balances	4,562	3,990	8,167	12,924
Loans and Advances	3,443	3,361	3,673	3,825
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	10,037	10,586	11,410	12,261
Payables	6,219	6,130	6,831	7,399
Other Current Liabilities	3,818	4,456	4,580	4,863
sub total				
Net Current Assets	2,245	1,347	5,365	9,835
Total Assets	15,601	15,553	19,309	23,370

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	64.4	65.1	64.7	64.3
EBIDTA Margin	26.6	27.7	27.9	27.7
EBIT Margin	22.8	24.1	24.3	24.2
Tax rate	31.5	32.1	33.0	33.0
Net Profit Margin	16.1	17.4	16.8	16.8
(B) As Percentage of Net Sales (%)				
COGS	35.6	34.9	35.3	35.7
Employee	7.3	6.6	6.4	6.2
Other	30.5	30.7	30.4	30.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.1	0.0	0.0
Interest Coverage		430.8	121.0	130.1
Inventory days	20	20	19	19
Debtors days	18	17	17	17
Average Cost of Debt		6.4	12.9	12.9
Payable days	54	50	50	50
Working Capital days	20	11	39	67
FA T/O	3.7	3.7	4.3	4.8
(D) Measures of Investment				
AEPS (₹)	25.2	27.4	30.7	33.2
CEPS (₹)	30.9	33.2	37.2	40.2
DPS (₹)	13.6	15.7	16.9	18.3
Dividend Payout (%)	54.1	57.3	55.1	55.1
BVPS (₹)	56.1	53.2	67.0	81.9
RoANW (%)	48.1	52.2	51.1	44.6
RoACE (%)	47.9	48.0	48.5	42.8
RoAIC (%)	90.7	95.3	106.6	120.5
(E) Valuation Ratios				
CMP (₹)	1206	1206	1206	1206
P/E	47.9	44.0	39.3	36.3
Mcap (₹ Mn)	328,032	328,032	328,032	328,032
MCap/ Sales	7.8	7.4	6.6	6.1
EV	323,470	324,819	320,643	315,885
EV/Sales	7.7	7.3	6.4	5.9
EV/EBITDA	29.1	26.3	23.1	21.2
P/BV	21.5	22.7	18.0	14.7
Dividend Yield (%)	1.1	1.3	1.4	1.5
(F) Growth Rate (%)				
Revenue	5.2	6.6	11.4	8.3
EBITDA	18.0	11.0	12.2	7.6
EBIT	18.1	12.5	12.4	7.5
PBT	15.4	16.3	9.1	8.2
APAT	18.6	8.8	12.1	8.2
EPS	18.6	8.8	12.1	8.2

Cash Flow

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	7,740	9,393	10,376	11,333
CFI	(1,863)	(2,441)	(1,500)	(1,500)
CFF	(4,259)	(7,524)	(4,700)	(5,075)
FCFF	5,877	6,952	8,876	9,833
Opening Cash	2,943	4,562	3,990	8,167
Closing Cash	4,562	3,990	8,167	12,924

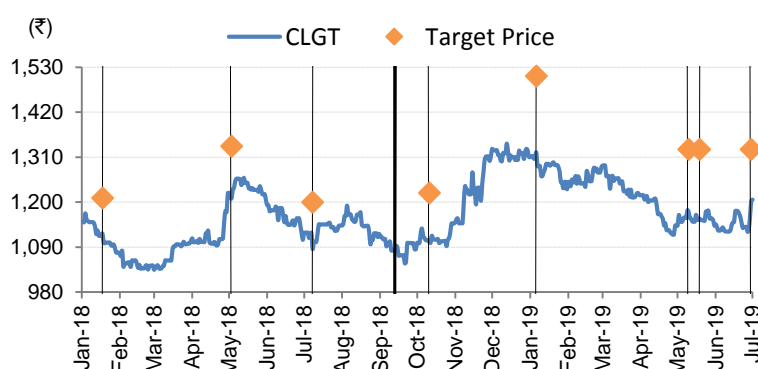
E – Estimates

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 (₹)
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
Jan-19	Accumulate	1,509	1,322
May-19	Accumulate	1,329	1,176
Jun-19	Accumulate	1,329	1,160

*Price as on recommendation date

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