

Colgate Palmolive (CLGT IN)

Rating: HOLD | CMP: Rs1,204 | TP: Rs1,208

July 18, 2019

Q1FY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	HOLD		HOLD	
Target Price	1,208		1,220	
Sales (Rs. m)	48,069	52,617	49,375	55,029
% Chng.	(2.6)	(4.4)		
EBITDA (Rs. m)	14,039	15,286	14,016	15,580
% Chng.	0.2	(1.9)		
EPS (Rs.)	29.4	32.9	30.3	33.9
% Chng.	(3.1)	(2.9)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	41,880	44,624	48,069	52,617
EBITDA (Rs. m)	11,124	12,361	14,039	15,286
Margin (%)	26.6	27.7	29.2	29.1
PAT (Rs. m)	6,595	7,164	7,985	8,944
EPS (Rs.)	24.2	26.3	29.4	32.9
Gr. (%)	14.2	8.6	11.5	12.0
DPS (Rs.)	13.0	15.0	20.0	25.0
Yield (%)	1.1	1.2	1.7	2.1
RoE (%)	47.1	48.2	52.5	59.6
RoCE (%)	68.3	72.4	78.6	88.9
EV/Sales (x)	7.7	7.3	6.7	6.1
EV/EBITDA (x)	29.0	26.2	22.9	21.1
PE (x)	49.6	45.7	41.0	36.6
P/BV (x)	21.5	22.6	20.5	23.2

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,365 / Rs.1,018
Sensex / Nifty	38,897 / 11,597
Market Cap	Rs.327bn/ \$ 4,744m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.939.87m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	15.37
Domestic Institution	10.18
Public & Others	23.45
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	(8.2)	8.6
Relative	5.7	(14.2)	1.6

Amnish Aggarwal

amnishaggarwal@plindia.com | 91-22-66322233

Nishita Doshi

nishitadoshi@plindia.com | 91-22-66322381

Toothpaste share loss remains a drag

Quick Pointers:

- Domestic Volumes up 4%; domestic sales up 6% as Export sales decline
- Toothpaste share declined ~30bps YTD, toothbrush share has increased. Toothpaste Industry volumes growing at ~5%.
- Rural sales is growing slower than Urban sales, recovery hinges on monsoons.

We cut our EPS estimates for FY20 and FY21 by 3.1% and 2.9% due to 1) 4% domestic volume growth on a low base (4% in 1QFY19) 2) Inability to arrest decline in toothpaste market share (down ~30bps YTD) 3) heightened competitive intensity and trade promotions. Colgate is pinning hopes on monsoons and rural demand recovery to accelerate growth in 2HFY20. CLGT needs significant recovery in rural demand and increased traction in CDC and Colgate Swarna Vedshakti to arrest further decline in market share. We expect competitive intensity to remain high given renewed thrust by Patanjali and Vicco Vajardanti.

We believe slowdown in category, poor visibility on pick-up in demand, low growth in premium segment, cannibalization by Swarna Vedshakti and sustained competition will prevent significant increase in growth rates. We estimate 5.5% volume growth and 11.7% PAT CAGR over FY19-21. We value the stock at 36xJune21 EPS and assign a target price of Rs1208 (earlier 1220 at 36xFY21 EPS). Retain "Hold".

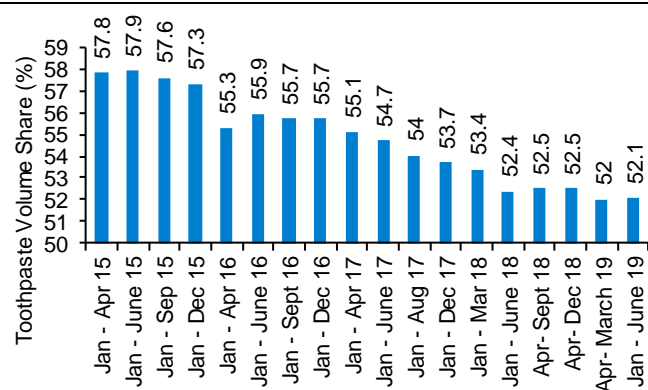
Volumes up 4%, PBT from operations up 2.2%: Volumes grew 4% (3% in 4QFY18) despite a moderate base of 4% due to demand slowdown in rural markets. Rural sales is now growing slower than the Urban growth rate. Net sales grew by 4.1% to Rs10.76bn. Export sales has declined in 1Q also. Realisations in 1Q was at 2%, however, Gross margins declined 10bps to 65.6%. EBITDA increased 6.5% to Rs3bn. EBITDA margins increased by 60bps as other expenses declined by 130bps despite increase in staff cost and ad-spends by 50bps and 20bps respectively. PBT from operations increased by just 2.2% to Rs2.47bn. Adj. PAT increased 5% to Rs1.7bn due to 66% jump in financial other income. We estimate Impact of IndAs116 resulted in increase in EBITDA by Rs100mn, however it remained Adj. PAT neutral.

Toothpaste share declined by ~30bps: Colgate toothpaste market share declined by 20-30bps YTD on high competitive intensity. Colgate total and Swarna Vedshakti is picking up share while Sensitive remains muted. Competition in CDC has normalised. Colgate's share in toothbrush has increased YTD. It launched Colgate Strong teeth with Amino Shakti, Colgate Zig Zag neem toothbrush and Colgate Super Flexi Virat pack in 1Q20.

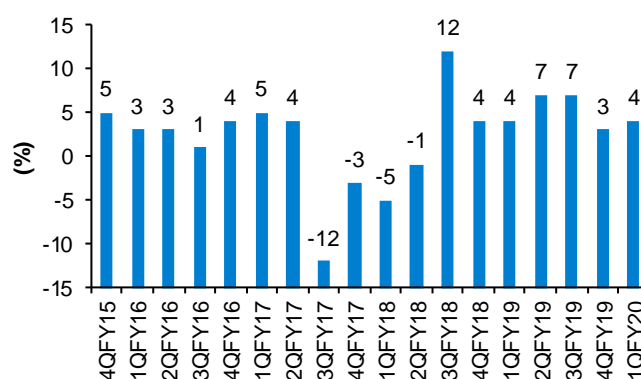
Exhibit 1: Q1FY20: Sales up 4.2% on 4% domestic volume growth

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Sales	10,849	10,413	4.2	11,538	47,792	44,624	7.1
Gross Profit	7,145	6,863	4.1	7,449	31,166	29,039	7.3
Margin %	65.9	65.9		64.6	65.2	65.1	
Other Expenses	4147	4048	2.5	4345	17441	16678	4.6
% of Net sales	38.2	38.9		37.7	36.5	37.4	
EBITDA	2,998	2,816	6.5	3,104	14,039	12,361	13.6
Margin (%)	27.6	27.0		26.9	29.4	27.7	
Depreciation	499	394	26.6	394	2070	1592	30.1
Interest	23	0		25	110	25	
PBT from operations	2476	2422	2.2	2686	11858	10744	10.4
Other Income	152	92	65.6	120	427	377	13.4
PBT	2,628	2,514	4.6	2,805	12,285	11,121	10.5
Tax	937	903	3.8	990	4300	3956	8.7
Tax rate (%)	35.7	35.9		35.3	35.0	35.6	
Adj. PAT	1,691	1,611	5.0	1,815	7,985	7,164	11.5

Source: Company, PL

Exhibit 2: Toothpaste share declined by 30bps YTD


Source: Company, PL

Exhibit 3: Q1 volumes up 4% on a moderate base


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	41,880	44,624	48,069	52,617
YoY gr. (%)	5.2	6.6	7.7	9.5
Cost of Goods Sold	14,901	15,586	16,590	18,120
Gross Profit	26,979	29,039	31,480	34,497
Margin (%)	64.4	65.1	65.5	65.6
Employee Cost	3,059	2,959	3,343	3,765
Other Expenses	3,395	3,852	3,935	4,317
EBITDA	11,124	12,361	14,039	15,286
YoY gr. (%)	17.9	11.1	13.6	8.9
Margin (%)	26.6	27.7	29.2	29.1
Depreciation and Amortization	1,565	1,592	2,070	1,928
EBIT	9,559	10,769	11,968	13,358
Margin (%)	22.8	24.1	24.9	25.4
Net Interest	-	25	110	116
Other Income	388	377	427	475
Profit Before Tax	9,947	11,121	12,285	13,717
Margin (%)	23.8	24.9	25.6	26.1
Total Tax	3,352	3,956	4,300	4,774
Effective tax rate (%)	33.7	35.6	35.0	34.8
Profit after tax	6,595	7,164	7,985	8,944
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	6,595	7,164	7,985	8,944
YoY gr. (%)	14.2	8.6	11.5	12.0
Margin (%)	15.7	16.1	16.6	17.0
Extra Ord. Income / (Exp)	139	591	-	-
Reported PAT	6,734	7,756	7,985	8,944
YoY gr. (%)	16.6	15.2	3.0	12.0
Margin (%)	16.1	17.4	16.6	17.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	6,734	7,756	7,985	8,944
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	24.2	26.3	29.4	32.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	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	10,116	12,186	14,114
Tangibles	7,617	9,209	11,280	13,207
Intangibles	907	907	907	907
Net fixed assets	11,459	11,953	11,983	12,155
Tangibles	11,459	11,953	11,983	12,155
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)	(474)	(603)	(746)
Other Non-Current Assets	1,414	1,567	1,714	1,883
Current Assets				
Investments	2,817	1,207	3,097	1,235
Inventories	2,267	2,826	2,874	3,077
Trade receivables	2,010	2,186	2,093	2,149
Cash & Bank Balance	1,745	2,365	2,223	2,915
Other Current Assets	795	886	955	1,046
Total Assets	25,639	26,048	28,014	27,554
Equity				
Equity Share Capital	272	272	272	272
Other Equity	14,974	14,228	15,675	13,818
Total Network	15,246	14,500	15,947	14,090
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	191	237	267	301
Other non current liabilities	5	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,145	6,436	6,803	7,163
Other current liabilities	3,683	4,382	4,375	5,235
Total Equity & Liabilities	25,639	26,048	28,014	27,554

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	9,947	11,121	12,285	13,717
Add. Depreciation	1,565	1,592	2,070	1,928
Add. Interest	-	25	110	116
Less Financial Other Income	388	377	427	475
Add. Other	166	608	18	19
Op. profit before WC changes	11,678	13,346	14,483	15,779
Net Changes-WC	(1,499)	1,774	(1,558)	2,721
Direct tax	(3,352)	(3,956)	(4,300)	(4,774)
Net cash from Op. activities	6,827	11,164	8,625	13,727
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)	(8,519)	(6,558)	(10,820)
Interest paid	-	(25)	(110)	(116)
Others	-	-	-	-
Net cash from Fin. activities	(4,253)	(8,543)	(6,667)	(10,935)
Net change in cash	712	620	(142)	692
Free Cash Flow	4,964	9,164	6,525	11,627

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	11,680	10,994	11,538	10,849
YoY gr. (%)	7.7	6.4	5.7	4.2
Raw Material Expenses	4,115	3,833	4,088	3,704
Gross Profit	7,565	7,161	7,449	7,145
Margin (%)	64.8	65.1	64.6	65.9
EBITDA	3,296	3,145	3,104	2,998
YoY gr. (%)	9.6	11.3	0.9	6.5
Margin (%)	28.2	28.6	26.9	27.6
Depreciation / Depletion	398	406	394	499
EBIT	2,897	2,739	2,711	2,500
Margin (%)	24.8	24.9	23.5	23.0
Net Interest	-	-	25	23
Other Income	86	79	120	152
Profit before Tax	2,984	2,818	2,805	2,628
Margin (%)	25.5	25.6	24.3	24.2
Total Tax	1,020	986	990	937
Effective tax rate (%)	34.2	35.0	35.3	35.7
Profit after Tax	1,964	1,831	1,815	1,691
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	1,964	1,831	1,815	1,691
YoY gr. (%)	10.6	7.3	(0.6)	8.8
Margin (%)	16.8	16.7	15.7	15.6
Extra Ord. Income / (Exp)	-	90	161	-
Reported PAT	1,964	1,921	1,976	1,691
YoY gr. (%)	10.6	12.6	4.7	(10.8)
Margin (%)	16.8	17.5	17.1	15.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,964	1,921	1,976	1,691
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	7.2	6.7	6.7	6.2

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	24.2	26.3	29.4	32.9
CEPS	30.0	32.2	37.0	40.0
BVPS	56.1	53.3	58.6	51.8
FCF	18.3	33.7	24.0	42.7
DPS	13.0	15.0	20.0	25.0
Return Ratio(%)				
RoCE	68.3	72.4	78.6	88.9
ROIC	67.2	61.4	78.6	80.1
RoE	47.1	48.2	52.5	59.6
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.3)
Net Working Capital (Days)	(16)	(12)	(14)	(13)
Valuation(x)				
PER	49.6	45.7	41.0	36.6
P/B	21.5	22.6	20.5	23.2
P/CEPS	40.1	37.4	32.6	30.1
EV/EBITDA	29.0	26.2	22.9	21.1
EV/Sales	7.7	7.3	6.7	6.1
Dividend Yield (%)	1.1	1.2	1.7	2.1

Source: Company Data, PL Research

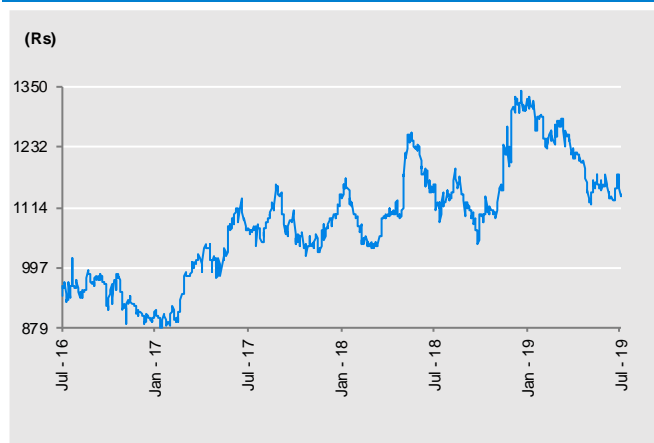
Key Operating Metrics

Y/e Mar	FY18	FY19	FY20E	FY21E
Volume Growth %	2.5	6.0	5.5	6.5

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Hold	1,220	1,152
2	27-May-19	Hold	1,220	1,180
3	5-Apr-19	Hold	1,258	1,227
4	24-Jan-19	Hold	1,245	1,322
5	7-Jan-19	Hold	1,157	1,303
6	29-Oct-18	Hold	1,157	1,102
7	5-Oct-18	Reduce	1,084	1,069
8	26-Jul-18	Reduce	1,084	1,085

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,433	1,360
2	Avenue Supermarts	Hold	1,338	1,359
3	Britannia Industries	Accumulate	3,145	2,841
4	Colgate Palmolive	Hold	1,220	1,152
5	Crompton Greaves Consumer Electricals	BUY	284	234
6	Dabur India	Hold	430	403
7	Emami	Accumulate	382	301
8	Future Retail	BUY	554	471
9	GlaxoSmithKline Consumer Healthcare	Hold	7,744	7,805
10	Hindustan Unilever	Hold	1,753	1,794
11	ITC	BUY	369	278
12	Jubilant FoodWorks	BUY	1,541	1,259
13	Kansai Nerolac Paints	Accumulate	464	442
14	Marico	Hold	351	374
15	Nestle India	Accumulate	10,656	11,884
16	Pidilite Industries	Accumulate	1,184	1,227
17	Titan Company	BUY	1,267	1,290
18	Voltas	Accumulate	584	635

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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