

# Colgate Palmolive (CLGT IN)

## Market share recovers

INDIA | FMCG | Quarterly Update

8 August 2016

### Top takeaways from Q1FY17

- ✓ Revenue growth at 12.5% yoy was ahead of our/street estimates
- ✓ Volume growth at 6% yoy with domestic volume growth of 5% yoy was in line; pricing growth continued to be robust at 6% yoy
- ✓ Market share in Tooth paste recovered 60bps qoq to 55.9%; Tooth brush share improved 100 bps qoq to 46.8%
- ✓ Gross margins rose 240bps yoy and surprised positively
- ✗ EBIDTA margins shrunk 160bps yoy on higher ad spends and EBITDA growth missed estimates

### Other highlights:

- ✓ Tooth paste category volume growth has recovered to 5% yoy in Q1FY17 vs. 0.8%/-2.6% in 2015/2014
- ✓ It is expanding its rapidly growing natural segment to meet consumer needs with two new launches - Colgate Sensitive Clove and Colgate Cibaca Vedshakti
- ✓ Innovations like Colgate Sensitive Clove and Colgate A1 Toothbrush have contributed to growth
- ⇔ Colgate Sensitive Clove is its first sensitivity toothpaste with natural ingredients and provides protection against sensitivity
- ⇔ Colgate Cibaca VedShakti is its new natural toothpaste with power of six natural ingredients and helps in keeping teeth healthy and problem-free for long.
- ✗ Advertising expenses increased significantly by 24% yoy (which we believe is due to higher competitive activity)

**Maintain Buy recommendation:** We have raised our PAT estimates for FY17/18 by 2% each incorporating recovery in growth and lower input prices offset by rise in ad spends. We maintain our Buy recommendation as the company's consistent focus on new product innovations and 'Naturals' category will yield sustainable results. Also the toothpaste category growth has accelerated and Colgate's market share losses have bottomed out – indicating that the company is headed towards a strong revival. The company has historically traded at 5% premium to sector. With a sector target multiple of 38x, we value the company at 40x our FY18E earnings (35x earlier) at Rs 1110 (earlier Rs 960) and maintain Buy.

## Buy (Maintain)

CMP RS 1010 / TARGET RS 1110  
(+10%)

### COMPANY DATA

O/S SHARES (MN) :	272
MARKET CAP (RSBN) :	255
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1029 / 788
LIQUIDITY 3M (USDMN) :	3.9
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Jun 16	Mar 16	Dec 15
PROMOTERS :	51.0	51.0	51.0
FII / NRI :	16.3	16.3	18.4
FI / MF :	8.3	8.0	6.0
NON PRO :	1.9	1.2	1.1
PUBLIC & OTHERS :	22.5	23.5	23.5

### Key Financials

Rs mn	FY16E	FY17E	FY18E
Net Sales	41,323	46,496	53,300
EBIDTA	9,315	10,850	12,518
Net Profit	6,080	6,553	7,555
EPS, Rs	22.4	24.1	27.8
PER, x	45.2	41.9	36.4
EV/EBIDTA, x	29.2	25.0	21.6
ROE, %	59.6	51.1	47.7

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
Revenue	46,496	53,300	1	2
EBIDTA	10,850	12,518	2	2
Core PAT	6,553	7,555	2	2
EPS (Rs)	24.1	27.8	2	2

Naveen Kulkarni and Jubil Jain

(Rs mn)	Q1FY17	Q1FY16	yoy growth %	*PC yoy growth estimates	Comments
Volume growth (% yoy)	6.0	2.3	370 bps	6.0	Volume growth surprised positively
Price growth (%yoy)	6.0	6.5	-150 bps	5.0	
Net Sales	11,415	10,147	12	11	
Gross Profits	7,593	6,506	17	12	
Gross Margin (%)	66.5	64.1	240 bps	53 bps	
Staff costs	739	640	16	9	Staff costs were higher than expected
Ad spends	1,556	1,256	24	11	Ad spends higher on high competitive intensity
Other operating expenses	1,901	1,735	10	12	
EBITDA	2,113	2,038	4	14	Missed estimates on higher ad spends
EBITDA margin (%)	18.5	20.1	-158 bps	49 bps	
PBT	1,897	1,553	22	36	
Tax rate (%)	33.7	25.3	839 bps	22 bps	
Reported PAT	1,257	1,159	8	36	

## Financials

### Income Statement

Y/E Mar, Rs mn	FY15E	FY16E	FY17E	FY18E
<b>Net sales</b>	<b>39548</b>	<b>41323</b>	<b>46496</b>	<b>53300</b>
Growth, %	11.6	4.5	12.5	14.6
Other income	272	301	338	379
Total income	39819	41624	46834	53679
Raw material expenses	-14677	-14953	-16422	-18706
Employee expenses	-2589	-2698	-2981	-3349
Other Operating expenses	-14331	-14659	-16581	-19106
<b>EBITDA (Core)</b>	<b>8222</b>	<b>9315</b>	<b>10850</b>	<b>12518</b>
Growth, %	23.8	13.3	16.5	15.4
Margin, %	20.8	22.5	23.3	23.5
Depreciation	-750	-1114	-1311	-1513
<b>EBIT</b>	<b>7472</b>	<b>8200</b>	<b>9539</b>	<b>11005</b>
Growth, %	21.8	9.7	16.3	15.4
Margin, %	18.9	19.8	20.5	20.6
Interest paid	0	0	0	0
Other Non-Operating Income	332	396	389	441
<b>Pre-tax profit</b>	<b>7803</b>	<b>8597</b>	<b>9928</b>	<b>11446</b>
Tax provided	-2214	-2516	-3376	-3892
<b>Profit after tax</b>	<b>5589</b>	<b>6080</b>	<b>6553</b>	<b>7555</b>
<b>Net Profit</b>	<b>5589</b>	<b>6080</b>	<b>6553</b>	<b>7555</b>
Growth, %	16.4	8.8	7.8	15.3
<b>Net Profit (adjusted)</b>	<b>5589</b>	<b>6080</b>	<b>6553</b>	<b>7555</b>
Unadj. shares (m)	272	272	272	272
Wtd avg shares (m)	272	272	272	272

### Balance Sheet

Y/E Mar, Rs mn	FY15E	FY16E	FY17E	FY18E
Cash & bank	2,545	2,883	3,285	4,130
Debtors	696	1,015	1,160	1,449
Inventory	2,522	2,927	3,102	3,765
Loans & advances	1,657	1,445	1,626	1,864
Total current assets	7,420	8,270	9,173	11,209
Investments	371	301	301	301
Gross fixed assets	12,829	15,773	19,273	23,273
Less: Depreciation	-5,013	-5,691	-7,002	-8,515
Add: Capital WIP	1,412	784	784	784
Net fixed assets	9,227	10,865	13,055	15,542
<b>Total assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>16,993</b>	<b>19,221</b>	<b>22,313</b>	<b>26,836</b>
Current liabilities	9,290	9,025	9,496	10,997
Total current liabilities	9,290	9,025	9,496	10,997
Total liabilities	9,290	9,025	9,496	10,997
Paid-up capital	136	272	272	272
Reserves & surplus	7,567	9,924	12,545	15,567
Shareholders' equity	7,703	10,196	12,817	15,839
<b>Total equity &amp; liabilities</b>	<b>16,993</b>	<b>19,221</b>	<b>22,313</b>	<b>26,836</b>

Source: Company, PhillipCapital India Research Estimates

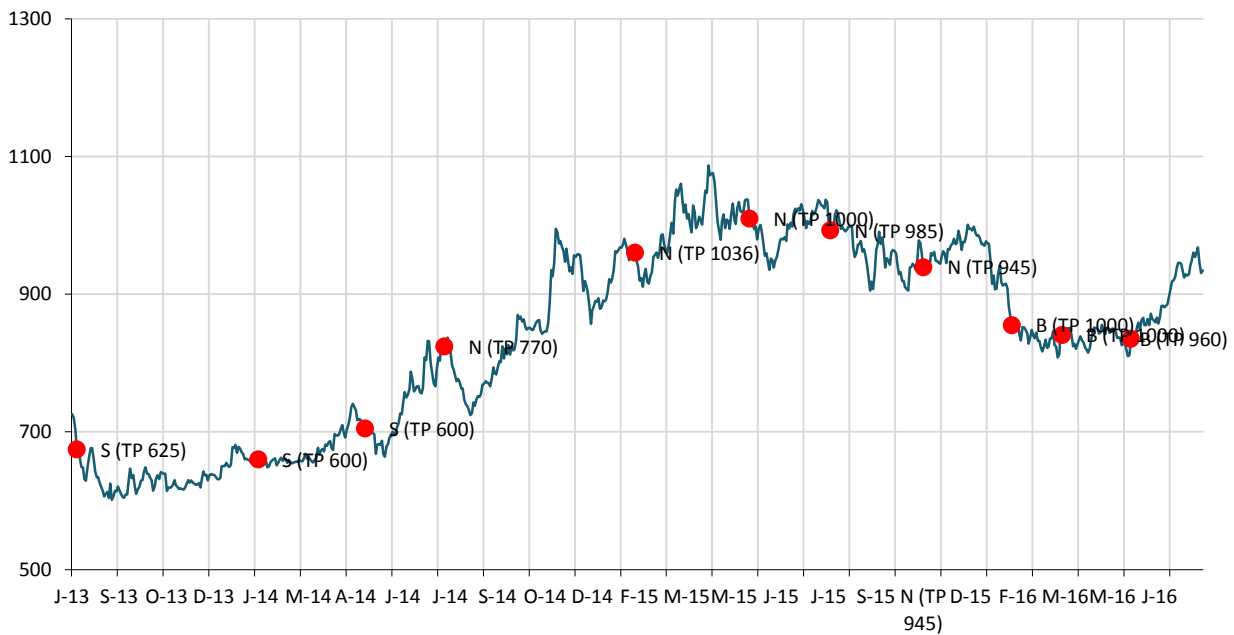
### Cash Flow

Y/E Mar, Rs mn	FY15E	FY16E	FY17E	FY18E
Pre-tax profit	7,803	8,597	9,928	11,446
Depreciation	750	1,114	1,311	1,513
Chg in working capital	20	-777	-30	311
Total tax paid	-2,010	-2,325	-3,376	-3,892
<b>Cash flow from operating activities</b>	<b>6,563</b>	<b>6,609</b>	<b>7,833</b>	<b>9,378</b>
Capital expenditure	-3,004	-2,752	-3,500	-4,000
Chg in investments	0	70	0	0
<b>Cash flow from investing activities</b>	<b>-3,004</b>	<b>-2,682</b>	<b>-3,500</b>	<b>-4,000</b>
Free cash flow	3,559	3,927	4,333	5,378
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-3,884	-3,274	-3,932	-4,533
<b>Cash flow from financing activities</b>	<b>-3,884</b>	<b>-3,274</b>	<b>-3,932</b>	<b>-4,533</b>
Net chg in cash	-325	653	402	846

### Valuation Ratios

	FY15E	FY16E	FY17E	FY18E
<b>Per Share data</b>				
EPS (INR)	20.6	22.4	24.1	27.8
Growth, %	16.4	8.8	7.8	15.3
Book NAV/share (INR)	28.3	37.5	47.1	58.2
FDEPS (INR)	20.6	22.4	24.1	27.8
CEPS (INR)	23.3	26.5	28.9	33.3
CFPS (INR)	22.9	22.8	27.4	32.9
DPS (INR)	12.0	10.0	12.0	13.9
<b>Return ratios</b>				
Return on assets (%)	35.1	33.6	31.6	30.7
Return on equity (%)	72.6	59.6	51.1	47.7
Return on capital employed (%)	81.6	67.9	56.9	52.7
<b>Turnover ratios</b>				
Asset turnover (x)	10.7	6.9	5.6	5.1
Sales/Total assets (x)	2.5	2.3	2.2	2.2
Sales/Net FA (x)	4.9	4.1	3.9	3.7
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Fixed capital/Sales (x)	0.2	0.3	0.3	0.4
Working capital days	(40.7)	(32.1)	(28.3)	(26.8)
<b>Liquidity ratios</b>				
Current ratio (x)	0.8	0.9	1.0	1.0
Quick ratio (x)	0.5	0.6	0.6	0.7
Dividend cover (x)	1.7	2.2	2.0	2.0
Net debt/Equity (%)	(33.0)	(28.3)	(25.6)	(26.1)
<b>Valuation</b>				
PER (x)	49.1	45.2	41.9	36.4
Price/Book (x)	35.7	26.9	21.4	17.3
Yield (%)	1.2	1.0	1.2	1.4
EV/Net sales (x)	6.9	6.6	5.8	5.1
EV/EBITDA (x)	33.1	29.2	25.0	21.6
EV/EBIT (x)	36.4	33.1	28.5	24.6

### Stock Price, Price Target and Rating History



### Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
SELL	$\leq -15\%$	Target price is less than or equal to -15%.

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