

# Colgate Palmolive (CLGT IN)

Significantly ahead of the sector

INDIA | FMCG | Quarterly Update

1 November 2016

## Top takeaways from Q2FY17

- ✓ Revenue growth at 10% yoy was largely in line with our and consensus expectations
- ✓ Volume growth at 4% yoy was reasonable; pricing growth continued to be robust at 6% yoy
- ⇔ Market share across categories was largely stable with toothpastes registering a slight drop of 20bps qoq to 55.7% but up 40bps compared to Q4FY16; tooth brushes' share declined 20bps qoq to 46.8% but was up 80bps to Q4FY18.
- ✓ Gross margins rose 90bps yoy and 70bps qoq
- ✗ EBIDTA margins declined 30bps yoy impacted by a sharp rise in advertising and publicity expenses.

## Other highlights

- ✗ Tooth paste category volume growth remained sluggish, but it was still ahead of other staples categories.
- ✓ New product launches helped the company to maintain market share and leadership. Recent new launches include – *Colgate Cibaca VedShakti*, *Colgate Sensitive Clove*, *Colgate Kids Toothpaste* and *Colgate Maxfresh Power Freeze Toothpaste*.
- ✓ Innovations like Colgate Sensitive Clove and Colgate A1 Toothbrush have contributed to growth
- ✓ Colgate declared its first interim dividend for the financial year 2016-2017 of Rs 4 on its expanded capital base (after the bonus issue).
- ✗ Advertising expenses increased significantly – by 28% yoy – because of an array of new product launches and an increase in competitive intensity.
- ✗ Staff costs also increased significantly – by 26% yoy – but this was largely in line with expectations.

**Maintain Buy recommendation:** We find Colgate is delivering growth that is significantly ahead of the sector. Its price growth is exemplary and indicative of the category's resilience to a slowdown. We have marginally cut our estimates 3% each for FY17/18 to account for an increase in advertising expense. We maintain our target at Rs 1,110, valuing the company at 38x our September 2018 earnings. Considering the upside, we maintain Buy.

## Buy (Maintain)

CMP RS 962 / TARGET RS 1110 (+15%)

### COMPANY DATA

O/S SHARES (MN) :	272
MARKET CAP (RSBN) :	252
MARKET CAP (USDBN) :	4
52 - WK HI/LO (RS) :	1033 / 788
LIQUIDITY 3M (USDMMN) :	4.6
PAR VALUE (RS) :	1

### SHARE HOLDING PATTERN, %

	Sep 16	Jun 16	Mar 16
PROMOTERS :	51.0	51.0	51.0
FII / NRI :	16.2	16.3	16.3
FI / MF :	8.5	8.3	8.0
NON PRO :	18.8	1.9	1.2
PUBLIC & OTHERS :	5.5	22.5	23.5

### Key Financials

Rs mn	FY17E	FY18E	FY19E
Net Sales	46,257	52,610	59,825
EBIDTA	10,562	12,172	14,010
Net Profit	6,367	7,327	8,446
EPS, Rs	23.4	26.9	31.1
PER, x	41.1	35.7	31.0
EV/EBIDTA, x	24.5	21.2	18.3
ROE, %	50.4	47.6	45.3

### CHANGE IN ESTIMATES

Rs bn	Revised Est.		% Revision	
	FY17E	FY18E	FY17E	FY18E
Revenue	46,257	52,610	(1)	(1)
EBITDA	10,562	12,172	(3)	(3)
Core PAT	6,367	7,327	(3)	(3)
EPS (Rs)	23.4	26.9	(3)	(3)

Naveen Kulkarni and Jubil Jain

(Rs mn)	Q2FY17	Q1FY17	qoq growth %	Q2FY16	yoy growth %	PC yoy growth expectations %	Comments
Volume growth (% yoy)	4.0	6.0	-200 bps	3.0	100 bps	6.0	
Price growth (%yoy)	6.0	5.0	100 bps	7.0	-100 bps	5.0	
Net Sales	11,949	11,415	5	10,885	10	11	
Gross Profits	8,040	7,598	6	7,227	11	14	
Gross Margin (%)	67.3	66.6	72 bps	66.4	88 bps	165 bps	
Staff costs	731	739	(1)	581	26	30	
Ad spends	1,280	1,556	(18)	998	28	10	Ad spends increased significantly
Other operating expenses	1,898	1,901	(0)	1,869	2	12	
EBITDA	2,748	2,117	30	2,543	8	15	
EBITDA margin (%)	23.0	18.5	445 bps	23.4	-36 bps	73 bps	
PBT	2,527	1,897	33	2,380	6	14	
Tax rate (%)	28.3	33.7	-547 bps	34.1	-585 bps	-27 bps	
Reported PAT	1,813	1,257	44	1,569	16	15	

## Financials

### Income Statement

Y/E Mar, Rs mn	FY16E	FY17E	FY18E	FY19E
<b>Net sales</b>	<b>41322</b>	<b>46257</b>	<b>52610</b>	<b>59825</b>
Growth, %	4.5	11.9	13.7	13.7
Other income	301	337	379	426
Total income	41623	46595	52989	60250
Raw material expenses	-14953	-16366	-18515	-20946
Employee expenses	-2698	-3102	-3490	-3928
Other Operating expenses	-14659	-16565	-18812	-21366
<b>EBITDA (Core)</b>	<b>9313</b>	<b>10562</b>	<b>12172</b>	<b>14010</b>
Growth, %	13.3	13.4	15.2	15.1
Margin, %	22.5	22.8	23.1	23.4
Depreciation	-1114	-1311	-1513	-1773
<b>EBIT</b>	<b>8199</b>	<b>9252</b>	<b>10659</b>	<b>12237</b>
Growth, %	9.7	12.8	15.2	14.8
Margin, %	19.8	20.0	20.3	20.5
Interest paid	0	0	0	0
Other Non-Operating Income	396	395	442	559
<b>Pre-tax profit</b>	<b>8595</b>	<b>9647</b>	<b>11101</b>	<b>12797</b>
Tax provided	-2516	-3280	-3774	-4351
<b>Profit after tax</b>	<b>6079</b>	<b>6367</b>	<b>7327</b>	<b>8446</b>
<b>Net Profit</b>	<b>6079</b>	<b>6367</b>	<b>7327</b>	<b>8446</b>
Growth, %	8.8	4.7	15.1	15.3
<b>Net Profit (adjusted)</b>	<b>6079</b>	<b>6367</b>	<b>7327</b>	<b>8446</b>
Unadj. shares (m)	272	272	272	272
Wtd avg shares (m)	272	272	272	272

### Balance Sheet

Y/E Mar, Rs mn	FY16E	FY17E	FY18E	FY19E
Cash & bank	2,883	3,095	3,665	5,056
Debtors	1,015	1,151	1,425	1,678
Inventory	2,927	3,082	3,715	3,974
Loans & advances	1,445	1,618	1,840	2,092
Total current assets	8,270	8,946	10,646	12,800
Investments	301	301	301	301
Gross fixed assets	15,773	19,273	23,273	27,273
Less: Depreciation	-5,691	-7,002	-8,515	-10,288
Add: Capital WIP	784	784	784	784
Net fixed assets	10,865	13,055	15,542	17,769
<b>Total assets</b>	<b>19,220</b>	<b>22,085</b>	<b>26,272</b>	<b>30,653</b>
Current liabilities	9,025	9,440	10,869	12,027
Total current liabilities	9,025	9,440	10,869	12,027
Total liabilities	9,025	9,440	10,869	12,027
Paid-up capital	272	272	272	272
Reserves & surplus	9,922	12,373	15,130	18,354
Shareholders' equity	10,194	12,644	15,402	18,626
<b>Total equity &amp; liabilities</b>	<b>19,219</b>	<b>22,085</b>	<b>26,271</b>	<b>30,653</b>

Source: Company, PhillipCapital India Research Estimates

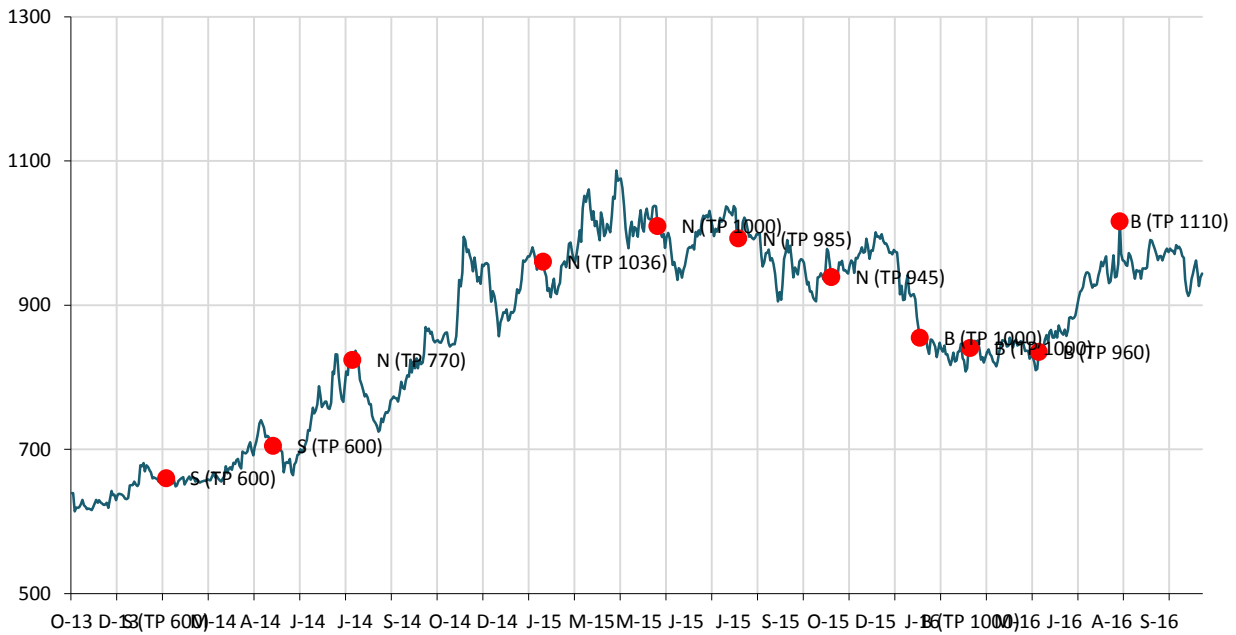
### Cash Flow

Y/E Mar, Rs mn	FY16E	FY17E	FY18E	FY19E
Pre-tax profit	8,595	9,647	11,101	12,797
Depreciation	1,114	1,311	1,513	1,773
Chg in working capital	-777	-48	300	394
Total tax paid	-2,325	-3,280	-3,774	-4,351
<b>Cash flow from operating activities</b>	<b>6,294</b>	<b>7,629</b>	<b>9,139</b>	<b>10,612</b>
Capital expenditure	-2,752	-3,500	-4,000	-4,000
Chg in investments	70	0	0	0
<b>Cash flow from investing activities</b>	<b>-2,682</b>	<b>-3,500</b>	<b>-4,000</b>	<b>-4,000</b>
Free cash flow	3,612	4,129	5,139	6,612
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	0	0	0	0
Dividend (incl. tax)	-3,274	-3,917	-4,569	-5,222
<b>Cash flow from financing activities</b>	<b>-3,274</b>	<b>-3,917</b>	<b>-4,569</b>	<b>-5,222</b>
Net chg in cash	339	212	570	1,390

### Valuation Ratios

	FY16E	FY17E	FY18E	FY19E
<b>Per Share data</b>				
EPS (INR)	22.3	23.4	26.9	31.1
Growth, %	8.8	4.7	15.1	15.3
Book NAV/share (INR)	37.5	46.5	56.6	68.5
FDEPS (INR)	22.3	23.4	26.9	31.1
CEPS (INR)	26.4	28.2	32.5	37.6
CFPS (INR)	22.8	26.6	32.0	37.0
DPS (INR)	10.0	12.0	14.0	16.0
<b>Return ratios</b>				
Return on assets (%)	33.6	30.8	30.3	29.7
Return on equity (%)	59.6	50.4	47.6	45.3
Return on capital employed (%)	67.9	55.8	52.2	49.6
<b>Turnover ratios</b>				
Asset turnover (x)	6.9	5.5	5.0	4.8
Sales/Total assets (x)	2.3	2.2	2.2	2.1
Sales/Net FA (x)	4.1	3.9	3.7	3.6
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Fixed capital/Sales (x)	0.3	0.3	0.4	0.4
Working capital days	(32.1)	(28.3)	(27.0)	(26.1)
<b>Liquidity ratios</b>				
Current ratio (x)	0.9	0.9	1.0	1.1
Quick ratio (x)	0.6	0.6	0.6	0.7
Dividend cover (x)				
Net debt/Equity (%)	2.2	2.0	1.9	1.9
<b>Valuation</b>	(28.3)	(24.5)	(23.8)	(27.1)
PER (x)				
Price/Book (x)	43.0	41.1	35.7	31.0
Yield (%)	25.7	20.7	17.0	14.0
EV/Net sales (x)	1.0	1.2	1.5	1.7
EV/EBITDA (x)	6.3	5.6	4.9	4.3
EV/EBIT (x)	27.8	24.5	21.2	18.3

### 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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