

Colgate Palmolive(India)Ltd.

Industry Personal Products
Bloomberg CLGT IN
BSE CODE 500830

Innovation and focused communication led growth

RATING	NEUTRAL
CMP	1322
Price Target	1383
Potential Upside	5%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1365/1020
Mkt Capital (Rs Cr)	35954
Free float (%)	49%
Avg. Vol 1M (,000)	483
No. of Shares (Cr)	27
Promoters Pledged %	NA

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3QFY19 Result Update

- ❑ COLPAL's numbers for Q3FY19 remained better than our estimates, revenue grew by 6.39% YoY to Rs 1099 Cr (Vs our expectations of Rs 1078 Cr) backed by new product launches in natural space and focused communication.
- ❑ Overall volume growth for this quarter remained 7%(vs our expec. 2%) despite intense competition in toothpaste segment and higher base of 12% remained key positive for this quarter.
- ❑ Gross margin declined by 5 bps YoY to 65.14% which is mainly on account of increase in input prices which may be due to volatility in crude prices.
- ❑ Despite of reduction in Gross margin the company's EBITDA margin improved by 127 bps to 28.6% YoY (Vs our expect. of 26.5% YoY) mainly on account of reduction in Ad & P exp, other exp. and employee expense to the extent of 20bps,30bps and 80bps respectively.
- ❑ COLPAL's PAT for this quarter grew by 13% YoY to Rs 192 cr while provisioning of Taxes was lower by 43 bps to 31.8% in this quarter. PAT margin improved by 96 bps YoY to 17.5%.
- ❑ The Company has launched Palmolive facial bars in 3 variants in key markets while re-launched Colgate Total with new advanced formula that provide superior protection to teeth.

View and Valuation

COLPAL has reported numbers better than our expectations for Q3FY19, sales grew by 6% to Rs 1099 cr (expec. Rs 1078 cr) while PAT growth remained Rs 192 cr(expec. Rs 172 cr). Volume growth for this quarter remained 7% despite higher base of 12% in Q3FY18 which is huge positive for the company. Going forward, company's launch in Naturals space, LUP's, expansion in direct reach(looking to expand its direct coverage by 25%in FY19) and recovery in rural demand (~40% of sales) to drive the growth while company judicious pricing will support margin improvement. We continue to keep positive view on COLPAL but as company has sharp run up in last few months, we remain Neutral on COLPAL with our previous target price of Rs 1383(43 x of FY20e's eps).

Key Risks to our rating and target

- ❑ Strong rural growth which lead to robust volume growth for the company.
- ❑ Sharp decline in key input prices which lead to spurt in margins of the company.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3868	3982	4188	4484	5091
EBITDA	939	944	1112	1249	1416
EBIT	827	810	956	1089	1259
PAT	581	577	673	789	885
EPS (Rs)	21	21	25	29	33
EPS growth (%)	4%	-1%	17%	17%	12%
ROE (%)	56%	45%	44%	51%	54%
ROCE (%)	80%	64%	63%	70%	77%
BV	38	47	56	57	60
P/B (X)	26	20	19	23	22
P/E (x)	47	43	43	46	41

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3Q FY 19 Results

Better than expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,033	1,092	1,041	1,168	1,099	6.4%	-5.9%	3,982	4,188	5.2%
Other Income	9	8	9	9	8	-12.5%	-8.4%	41	39	-5.6%
COGS	360	375	355	412	383	6.5%	-6.9%	1,476	1,490	0.9%
Gross Margin	65%	66%	66%	65%	65%	0.0%	0.4%	63%	64%	1.5%
Employee Cost	75	76	75	76	71	-5.3%	-6.9%	289	306	6.0%
Other Expenses	195	190	186	212	205	4.7%	-3.3%	1,273	1,280	0.5%
EBITDA	282	308	282	330	314	11.3%	-4.6%	944	1,112	17.9%
EBITDA Mar.	27%	28%	27%	28%	29%	1.3%	0.4%	24%	27%	2.9%
Depreciation	40	40	39	40	41	2.6%	1.9%	133	157	17.5%
EBIT	243	267	242	290	274	12.8%	-5.5%	810	956	18.0%
Interest	-	-	-	-	-	-	-	-	-	-
PBT	252	276	251	298	282	11.9%	-5.6%	851	995	17%
Exceptional	-	12	(34)	-	-	-	-	-	12	-
Tax	81	75	96	102	90	10.4%	-12.1%	274	310	13%
PAT	171	189	190	196	192	12.6%	-2.2%	577	673	17%
PAT Margin	17%	17%	18%	17%	17%	1.0%	0.7%	15%	16%	1.6%

Better volume growth, natural's portfolio continues to perform well

The overall volume growth for this quarter stood at 7% (Vs our expectation of 2%) despite higher base in previous corresponding quarter and intense competition in toothpaste segment. The company's Natural's portfolio continues to do well. Launches like Colgate Vedshakti tooth paste continues to inspire greater confidence among consumers. The company's focused communication helping in garnering better volume growth for the company. The company is also focusing on the expansion of its direct reach.

Managed its EBITDA margin by cutting down its operating expenses

Despite of decline in Gross margin by 5 bps, the company managed its EBITDA margin and posted an expansion to the extent of 127 bps to 28.6% YoY. The company has reduced its employee expense to the extent of 80 bps to 6.5% (Vs our expectation of 6.9% YoY) while have also reduced Ad& P expenses by 20 bps to 11% YoY (Vs our expect. of 13% YoY) which may be because of stabilisation of Tooth paste volume market share(which stood at 52.50% in 2QFY19) and other expense declined by 30 bps to 18.6% YoY(Vs our expect. of 19.5% YoY) which in turn has increased the EBITDA margin thereby resulting into increased Profit after tax.

Exhibit: Overall Volume Growth

Witnessed a volume growth to the extent of 7% led by new launches and innovation in the existing products.

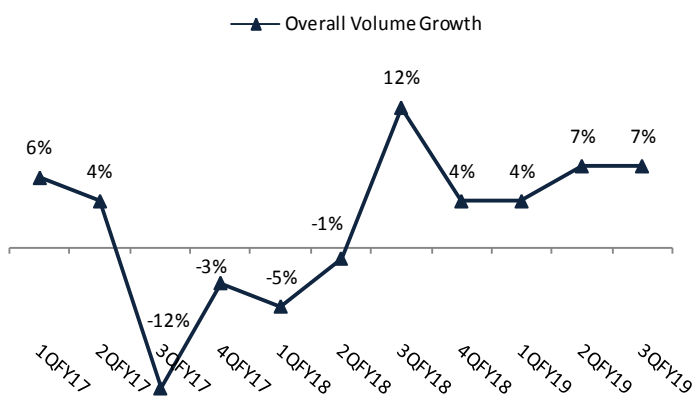


Exhibit: Sales and Sales Growth

Sales grew by 6% YoY to Rs 1099 Cr backed by 7% volume growth.

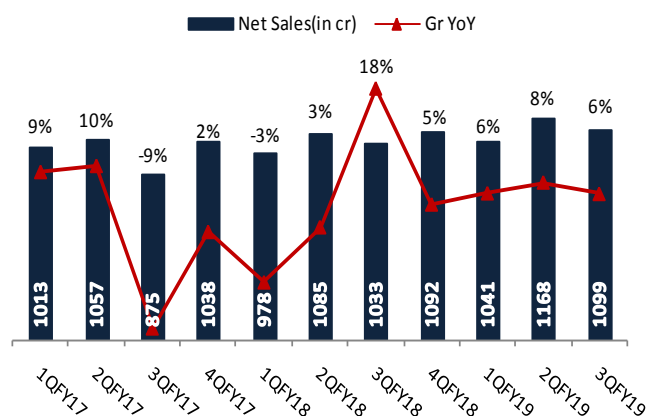


Exhibit: Gross and EBITDA Margin

EBITDA margin improved on account of savings in operating expenses.

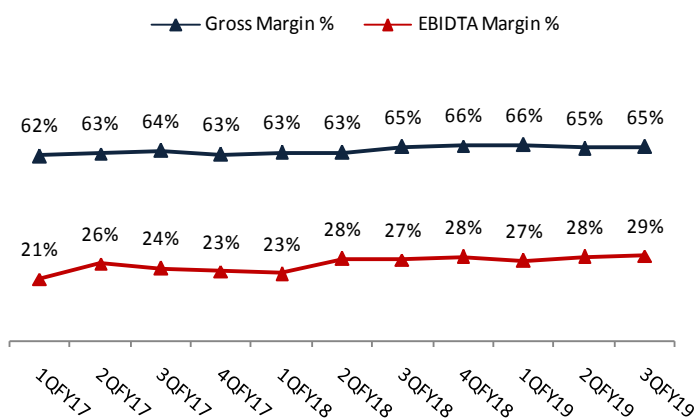


Exhibit: PAT and PAT Growth

The company posted a PAT growth of 13% to Rs 192 Cr on account of better cost management.

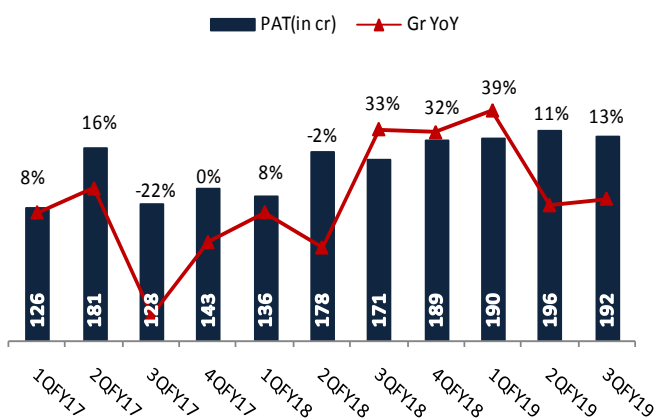


Exhibit: Ad&P, Employee and other expenses

The Company saved its Ad & P, Employee and other expenses to the extent of 20bps, 30bps and 80bps.

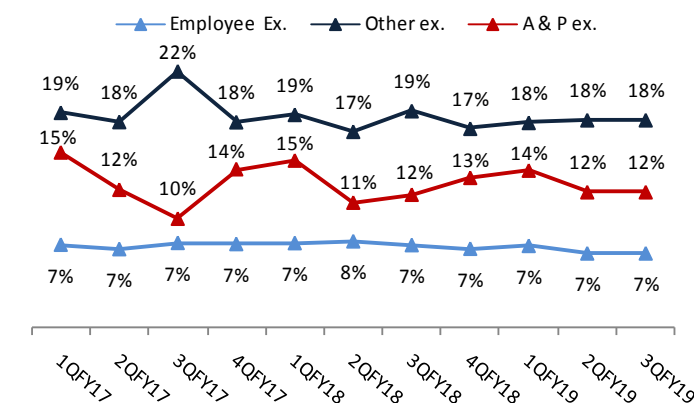
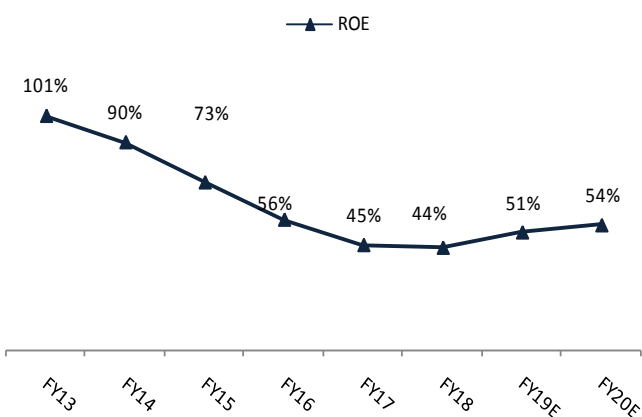


Exhibit: Return on Equity

We expect company's ROE to reach 51% and 54% in FY19 and FY20.



Financial Details
Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	14	14	14	27	27	27	27	27
Reserves	476	586	757	1,004	1,247	1,497	1,523	1,613
Networth	490	600	770	1,031	1,274	1,525	1,550	1,640
Debt	-	-	-	-	-	-	-	-
Other Non Current Liab	36	52	65	28	53	55	55	55
Total Capital Employed	490	600	770	1,031	1,274	1,525	1,550	1,640
<i>Net Fixed Assets (incl CWIP)</i>	383	697	923	1,087	1,275	1,304	1,279	1,257
<i>Non Current Investments</i>	37	37	30	31	31	31	31	31
<i>Other Non Current Assets</i>	94	89	59	25	54	39	39	39
Non Current Assets	514	823	1,012	1,228	1,468	1,503	1,477	1,456
Inventory	185	226	252	292	293	227	243	276
Debtors	81	55	70	102	130	201	215	244
Cash & Bank	429	285	254	193	199	305	532	692
Other Current Assets	98	104	113	77	69	80	85	97
Current Assets	793	670	690	775	856	1,061	1,178	1,425
Creditors	467	498	514	552	601	614	658	747
<i>Provisions</i>	65	70	66	49	56	60	65	73
Other Current Liabilities	250	273	286	136	136	102	110	124
Curr Liabilities	781	842	867	943	995	983	1,049	1,184
Net Current Assets	12	(172)	(177)	(168)	(140)	78	129	241
Total Assets	1,307	1,493	1,702	2,003	2,323	2,564	2,656	2,881

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	3,164	3,579	3,982	3,868	3,982	4,188	4,484	5,091
Change (%)		13%	11%	-3%	3%	5%	7%	14%
	50	50	33	40	41	39	36	59
EBITDA	657	664	822	939	944	1,112	1,249	1,416
Change (%)		1%	24%	14%	1%	18%	12%	13%
<i>Margin (%)</i>	21%	19%	21%	24%	24%	27%	28%	28%
<i>Depr & Amor.</i>	44	51	75	111	133	157	160	157
EBIT	613	613	747	827	810	956	1,089	1,259
<i>Int. & other fin. Cost</i>	-	-	-	-	-	-	-	-
Other Income								
EBT	663	664	780	867	851	995	1,125	1,318
<i>Exp Item</i>	-	64	-	(31)	-	(12)	34	-
<i>Tax</i>	166	188	221	254	274	310	370	433
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<i>Reported PAT</i>	497	540	559	581	577	673	789	885
Adjusted PAT	497	494	559	603	577	681	766	885
<i>Change (%)</i>		-1%	13%	8%	-4%	18%	12%	15%
<i>Margin(%)</i>	16%	14%	14%	16%	15%	16%	17%	17%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	101%	90%	73%	56%	45%	44%	51%	54%
ROCE	125%	102%	97%	80%	64%	63%	70%	77%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	9	6	6	10	12	18	18	18
Inv Days	21	23	23	28	27	20	20	20
Payable Days	54	51	47	52	55	54	54	54
Int Coverage								
P/E	17	17	21	47	43	43	46	41
Price / Book Value	18	15	15	26	20	19	23	22
EV/EBITDA	12	13	14	29	26	26	28	25
FCF per Share	34	10	25	15	13	18	31	35
Div Yield	4%	4%	3%	1%	1%	1%	2%	2%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	663	664	780	867	851	995	1,160	1,318
(inc)/Dec in Working Capital	138	(37)	5	16	31	(89)	24	49
Non Cash Op Exp	42	44	85	107	130	157	154	158
Int Paid (+)	-	-	-	-	-	-	-	-
Tax Paid	(190)	(178)	(206)	(252)	(301)	(347)	(370)	(433)
others	(38)	(35)	(27)	(17)	(23)	6	-	-
CF from Op. Activities	615	457	638	689	688	694	968	1,091
(inc)/Dec in FA & CWIP	(155)	(324)	(300)	(273)	(321)	(209)	(135)	(135)
Free Cashflow	460	134	338	416	367	485	833	956
(Pur)/Sale of Inv	-	10	-	7	-	-	-	-
others	107	133	28	29	(21)	2	-	-
CF from Inv. Activities	(47)	(180)	(272)	(237)	(342)	(207)	(135)	(135)
inc/(dec) in NW	-	-	-	(16)	(14)	(9)	-	-
inc/(dec) in Debt								
Int. Paid	-	-	-	-	-	-	-	-
Div Paid (inc tax)	(428)	(422)	(385)	(376)	(327)	(371)	(758)	(796)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(428)	(422)	(385)	(391)	(341)	(380)	(758)	(796)
Inc(Dec) in Cash	140	(145)	(18)	61	5	107	75	160
Add: Opening Balance	156	296	151	133	193	199	456	532
Closing Balance	296	151	132	193	199	305	531	692

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