

# Colgate Palmolive (India)Ltd.

Industry	Cons. Staples
Bloomberg	CLGT IN
BSE CODE	500830

## Volume impacted by rural slowdown

RATING	ACCUMULATE
CMP	1162
Price Target	1281
Potential Upside	10%

Rating Change	↔
Estimate Change	↓
Target Change	↓

### Stock Info

52wk Range H/L	1365/1020
Mkt Capital (Rs Cr)	31964
Free float (%)	49%
Avg. Vol 1M (,000)	361
No. of Shares (Cr)	27
Promoters Pledged %	NA

### Research Analyst

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### 4QFY19 Result update

- ❑ COLPAL's 4QFY19 numbers remained slightly below our estimates, revenue grew by 5.7% YoY to Rs. 1154 cr (vs. expect. of Rs. 1192 cr) backed by domestic and overall volume growth 5% YoY and 3% YoY.
- ❑ The Company's volume remained subdued on account of slowdown in rural & Natural space and higher competitive intensity but managed its domestic volumes through focus on Go-to-market initiatives, higher advertising expense and distribution expansion.
- ❑ The Company's Toothpaste and Toothbrush volume market share as of Mar-19 stood at 52% and 48.2% respectively while company's volume market share in Natural portfolio in India stood in a range of 8-8.1% in CY18 vs. 6.5-7% in CY17.
- ❑ Gross margin declined by 109 bps to 64.57% YoY (vs. expect. of 66% YoY) which is mainly on account of higher promotions made by the company while EBITDA margin declined by 126 bps to 26.9% YoY led by decline in gross margin and higher Ad & P expense.
- ❑ The Company re-launched Colgate total with new ad campaigns while launched Colgate ProClinical 150 which is a battery operated Tooth Brush in 4QFY19. Also, expanding Palmolive facial bar to more metro cities across countries and looking at bringing in new innovation in this portfolio as well as in oral care portfolio in 2HFY20.
- ❑ The Company has reported PAT growth of 5% YoY to Rs. 198 cr (vs. expect. Rs. 218 cr) while PAT margin declined by 17 bps YoY to 17.1%.

### View and Valuation

COLPAL has reported numbers below than our expectations in 4QFY19, sales grew by 5.7% to Rs. 1154 cr (vs. expect of Rs. 1192 cr) while gross and EBITDA margin deteriorated by 109 and 126 bps YoY to 64.57% (vs. expect of 66%) and 26.9% (vs. expect of 28.2%). Domestic vol. growth for this quarter remained subdued at 5% despite lower base of 4% in 4QFY18 mainly due to rural slowdown and higher competitive intensity in tooth paste segment. Key positive for this quarter remained stabilization of Toothpaste volume market share at ~52%. Going forward company will focus more on sales growth over margin expansion which is a prudent step in this juncture. Considering slowdown in rural market and stress in liquidity in near-term we have reduced sales estimates of FY20e by 5% and taking account of higher promotional and advertisement going forward, we have reduced our EBITDA margin for FY20e by 38 bps to 27.8% which translates into reduction of our PAT estimates for FY20e by ~8%. We maintain ACCUMULATE rating with the target price of 1281(43x FY20e's eps)(earlier 1388).

### Key Risks to our rating and target

- ❑ Subdued Domestic volume growth.
- ❑ Higher Ad & Promotion expense due to brand building activities.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	3868	3982	4188	4462	4854
EBITDA	939	944	1112	1236	1350
EBIT	827	810	956	1077	1185
PAT	581	577	673	776	820
EPS (Rs)	21	21	25	29	30
EPS growth (%)	4%	-1%	17%	15%	6%
ROE (%)	56%	45%	44%	54%	54%
ROCE (%)	80%	64%	63%	71%	74%
BV	38	47	56	53	56
P/B (X)	26	20	19	22	21
P/E (x)	47	43	43	41	39

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## 4QFY19 Results

### Below expectation

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,092	1,041	1,168	1,099	1,154	5.7%	4.9%	4,188	4,462	6.6%
Other Income	8	9	9	8	12	40.9%	51.1%	39	38	-3.0%
COGS	375	355	412	383	409	9.0%	6.7%	1,490	1,559	4.6%
Gross Margin	66%	66%	65%	65%	65%	-1.1%	-0.6%	64%	65%	0.7%
Emp. Cost	76	75	76	71	73	-3.1%	3.3%	306	296	-3.3%
Other Exp.	190	186	212	205	205	7.9%	0.1%	1,280	1,372	7.2%
EBITDA	308	282	330	314	310	0.9%	-1.3%	1,112	1,236	11.1%
EBITDA Mar.	28%	27%	28%	29%	27%	-1.3%	-1.7%	27%	28%	1.1%
Depreciation	40	39	40	41	39	-2.8%	-3.1%	157	159	1.7%
EBIT	267	242	290	274	271	1.5%	-1.0%	956	1,077	12.7%
Interest	-	-	-	-	3	-	-	-	3	-
PBT	276	251	298	282	281	1.8%	-0.4%	995	1,112	12%
Exceptional	12	(34)	-	-	4	-69%	-	12	(31)	-362%
Tax	75	96	102	90	79	5.6%	-11.5%	310	367	19%
PAT	189	190	196	192	198	4.7%	2.9%	673	776	15%
PAT Margin	17%	18%	17%	17%	17%	-0.2%	-0.3%	16%	17%	1.3%

### Natural's portfolio continues to expand but at a slower pace

The overall volume growth for this quarter stood at 3% with the domestic volume growth of 5% on account of slowdown in rural as well as slower growth in Natural's portfolio. The company's Naturals portfolio led by Swarna Vedshakti continues to gain consumer confidence. Thus, in order to increase the momentum the company launched massive sampling campaign across various platforms and also at Kumbh mela with more than 150 mm footfalls. The Company's volume market share in Natural portfolio in India stood in a range of 8-8.1% in CY18 vs. 6.5-7% in CY17 and has also increased by 120 bps on YTD basis as of Mar-19. The company will continue focusing on driving its naturals portfolio led by brand building activities, higher penetration, innovation, and renovation in the existing product portfolio.

### Higher commodity prices and Promotional expenses impacted the margins

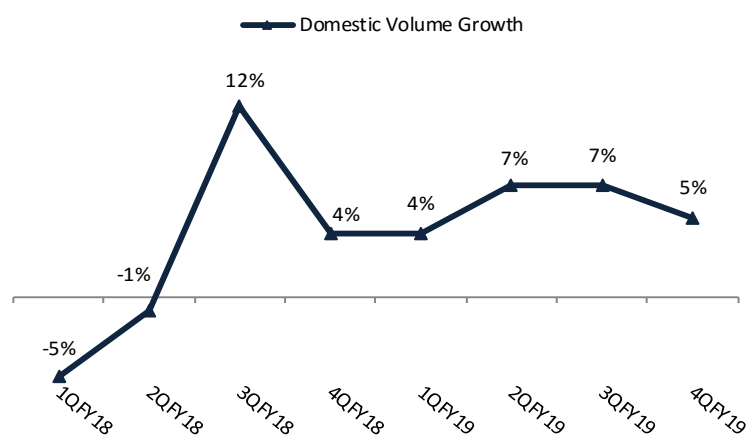
COLPAL gross margin declined by 109 bps to 64.57% YoY on account of higher commodity prices and promotions made by the company while EBITDA margin declined by 126 bps to 26.9% YoY led by decline in gross margin and higher Ad & P expense which increased by 36 bps. However the EBITDA margin decline was reduced due to reduction in employee expense by 58 bps. Going forward, The Company's major focus will be on driving top line growth, protecting and increasing the volume market share by higher media expense and promotional activities.

### Concall Highlights

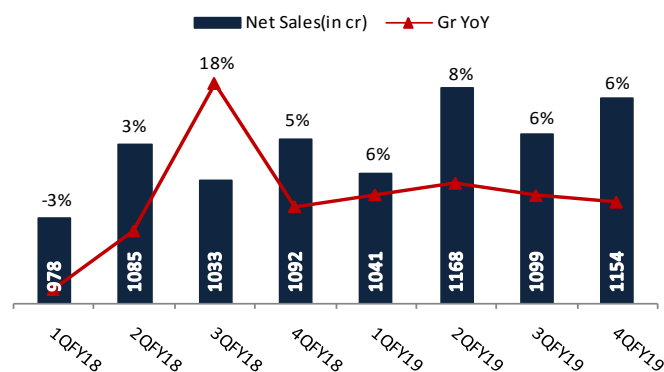
- The Company does not look at double digit growth in immediate quarter due to rural slowdown, slowdown in natural space but in long run expects revival of the same.
- The Company's major focus will be on driving top line growth, protecting and increasing the volume market share by higher media expense and promotional activities.
- The Company is expanding Palmolive facial bar to more metro cities across the countries and are also looking at bringing in new innovation in this portfolio as well as in oral care portfolio in 2HFY20.
- The Company has targeted 7-8 bigger states in terms of consumption under its Go to market initiative and will come up with the strategy to drive penetration depending upon the requirement of each state separately.
- The company will continue focusing on family, Naturals, freshness and kids segment led by innovation, new launches, higher media spends and target based approach for different states. For Colgate Vedshakti, the company launched massive sampling campaign across various platforms and also at Kumbh mela with more than 150 mm footfalls.
- The Company increased its direct coverage by 30% as of Nov-18 and expects to increase it further and drive the growth slowly in future.
- E-commerce contributes to the revenue in a range of 1-2%.
- The Company's Toothpaste and Toothbrush volume market share as of Mar-19 stood at 52% and 48.2% respectively.
- The Company made good progress on natural and increased its market share by 120 bps on YTD basis.

**Exhibit: Domestic Volume Growth**

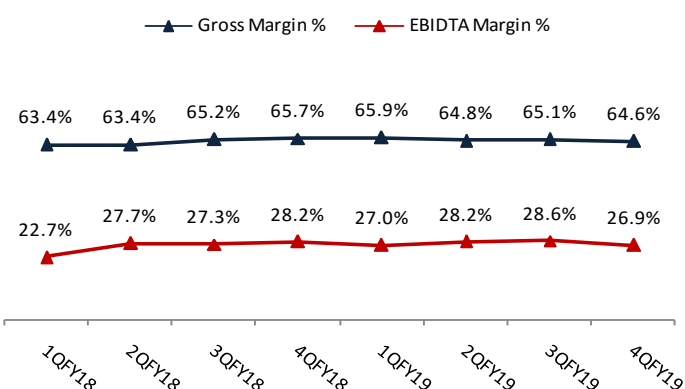
Volumes remained impacted on account of slowdown in rural and slower growth in naturals space.

**Exhibit: Sales and Sales Growth**

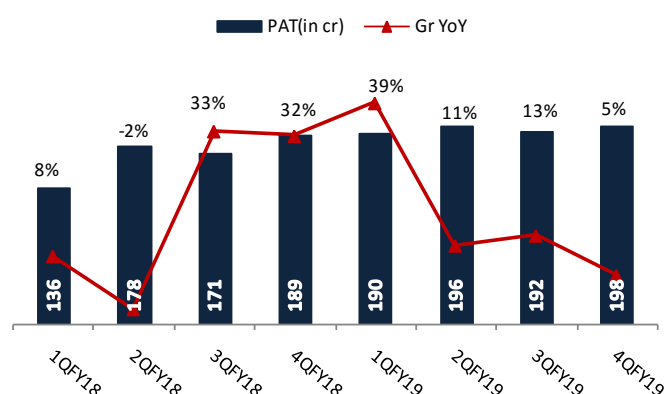
Sales growth led by higher media exp., consumer promotions, new launches and distribution expansion.

**Exhibit: Gross and EBITDA Margin**

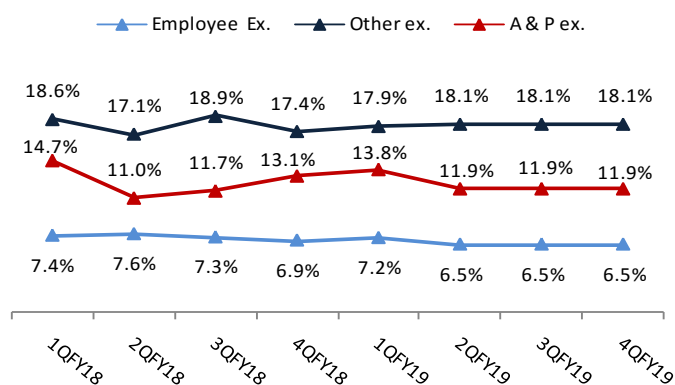
Gross margin remained impacted on account of higher commodity prices and higher promotional activities.

**Exhibit: PAT and PAT Growth**

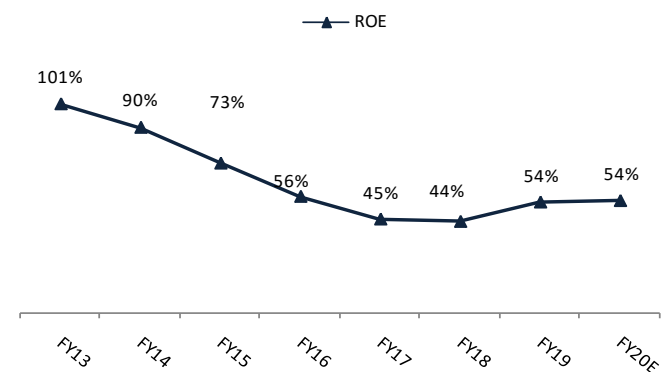
PAT posted a growth of 5% to Rs. 198 cr with a PAT margin of 17.1% YoY in 4QFY19.

**Exhibit: Ad&P, Employee and other expenses**

The co. will continue investing on brand building activities to drive volumes as well as protect market share.

**Exhibit: Return on Equity**

We expect ROE to be flat in FY20e led by Contraction in margins.



## Financial Details

## Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	14	14	14	27	27	27	27	27
Reserves	476	586	757	1,004	1,247	1,497	1,420	1,503
<b>Networth</b>	<b>490</b>	<b>600</b>	<b>770</b>	<b>1,031</b>	<b>1,274</b>	<b>1,525</b>	<b>1,447</b>	<b>1,530</b>
Debt	-	-	-	-	-	-	78	78
Other Non Current Liab	36	52	65	28	53	55	50	50
<b>Total Capital Employed</b>	<b>490</b>	<b>600</b>	<b>770</b>	<b>1,031</b>	<b>1,274</b>	<b>1,525</b>	<b>1,524</b>	<b>1,607</b>
Net Fixed Assets (incl CWIP)	383	697	923	1,087	1,275	1,304	1,390	1,359
Non Current Investments	37	37	30	31	31	31	31	31
Other Non Current Assets	94	89	59	25	54	39	28	28
<b>Non Current Assets</b>	<b>514</b>	<b>823</b>	<b>1,012</b>	<b>1,228</b>	<b>1,468</b>	<b>1,503</b>	<b>1,616</b>	<b>1,586</b>
Inventory	185	226	252	292	293	227	249	270
Debtors	81	55	70	102	130	201	210	228
Cash & Bank	429	285	254	193	199	305	378	548
Other Current Assets	98	104	113	77	69	80	31	34
<b>Current Assets</b>	<b>793</b>	<b>670</b>	<b>690</b>	<b>775</b>	<b>856</b>	<b>1,061</b>	<b>1,010</b>	<b>1,212</b>
Creditors	467	498	514	552	601	614	613	667
Provisions	65	70	66	49	56	60	64	69
Other Current Liabilities	250	273	286	136	136	102	103	113
<b>Curr Liabilities</b>	<b>781</b>	<b>842</b>	<b>867</b>	<b>943</b>	<b>995</b>	<b>983</b>	<b>1,051</b>	<b>1,139</b>
<b>Net Current Assets</b>	<b>12</b>	<b>(172)</b>	<b>(177)</b>	<b>(168)</b>	<b>(140)</b>	<b>78</b>	<b>(41)</b>	<b>73</b>
<b>Total Assets</b>	<b>1,307</b>	<b>1,493</b>	<b>1,702</b>	<b>2,003</b>	<b>2,323</b>	<b>2,564</b>	<b>2,626</b>	<b>2,797</b>

## Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	3,164	3,579	3,982	3,868	3,982	4,188	4,462	4,854
Change (%)		13%	11%	-3%	3%	5%	7%	9%
	50	50	33	40	41	39	38	42
<b>EBITDA</b>	<b>657</b>	<b>664</b>	<b>822</b>	<b>939</b>	<b>944</b>	<b>1,112</b>	<b>1,236</b>	<b>1,350</b>
Change (%)		1%	24%	14%	1%	18%	11%	9%
Margin (%)	21%	19%	21%	24%	24%	27%	28%	28%
Depr & Amor.	44	51	75	111	133	157	159	165
<b>EBIT</b>	<b>613</b>	<b>613</b>	<b>747</b>	<b>827</b>	<b>810</b>	<b>956</b>	<b>1,077</b>	<b>1,185</b>
Int. & other fin. Cost	-	-	-	-	-	-	3	7
Other Income								
<b>EBT</b>	<b>663</b>	<b>664</b>	<b>780</b>	<b>867</b>	<b>851</b>	<b>995</b>	<b>1,112</b>	<b>1,221</b>
Exp Item	-	64	-	(31)	-	(12)	31	-
Tax	166	188	221	254	274	310	367	401
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	497	540	559	581	577	673	776	820
<b>Adjusted PAT</b>	<b>497</b>	<b>494</b>	<b>559</b>	<b>603</b>	<b>577</b>	<b>681</b>	<b>755</b>	<b>820</b>
Change (%)		-1%	13%	8%	-4%	18%	11%	9%
Margin(%)	16%	14%	14%	16%	15%	16%	17%	17%

## Financial Details

## Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	101%	90%	73%	56%	45%	44%	54%	54%
ROCE	125%	102%	97%	80%	64%	63%	71%	74%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	9	6	6	10	12	18	17	17
Inv Days	21	23	23	28	27	20	20	20
Payable Days	54	51	47	52	55	54	50	50
Int Coverage							431	169
P/E	17	17	21	47	43	43	41	39
Price / Book Value	18	15	15	26	20	19	22	21
EV/EBITDA	12	13	14	29	26	26	26	23
FCF per Share	34	10	25	15	13	18	26	33
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	1,143	1,221
(inc)/Dec in Working Capital	138	(37)	5	16	31	(89)	28	35
Non Cash Op Exp	42	44	85	107	130	157	143	165
Int Paid (+)	-	-	-	-	-	-	3	7
Tax Paid	(190)	(178)	(206)	(252)	(301)	(347)	(367)	(401)
others	(38)	(35)	(27)	(17)	(23)	(21)	-	-
<b>CF from Op. Activities</b>	<b>615</b>	<b>457</b>	<b>638</b>	<b>689</b>	<b>688</b>	<b>694</b>	<b>921</b>	<b>1,028</b>
(inc)/Dec in FA & CWIP	(155)	(324)	(300)	(273)	(321)	(209)	(204)	(135)
Free Cashflow	460	134	338	416	367	485	717	893
(Pur)/Sale of Inv	-	10	-	7	-	-	0	-
others	107	133	28	29	(21)	2	-	-
<b>CF from Inv. Activities</b>	<b>(47)</b>	<b>(180)</b>	<b>(272)</b>	<b>(237)</b>	<b>(342)</b>	<b>(207)</b>	<b>(204)</b>	<b>(135)</b>
inc/(dec) in NW	-	-	-	(16)	(14)	(9)	-	-
inc/(dec) in Debt								
Int. Paid	-	-	-	-	-	-	(3)	(7)
Div Paid (inc tax)	(428)	(422)	(385)	(376)	(327)	(371)	(850)	(738)
others	-	-	-	-	-	-	75	(7)
<b>CF from Fin. Activities</b>	<b>(428)</b>	<b>(422)</b>	<b>(385)</b>	<b>(391)</b>	<b>(341)</b>	<b>(380)</b>	<b>(775)</b>	<b>(745)</b>
Inc(Dec) in Cash	140	(145)	(18)	61	5	107	(57)	148
<b>Add: Opening Balance</b>	<b>156</b>	<b>296</b>	<b>151</b>	<b>133</b>	<b>193</b>	<b>199</b>	<b>456</b>	<b>399</b>
Closing Balance	296	151	132	193	199	305	399	548

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