

Colgate Palmolive (India)Ltd.

Industry Cons. Staples
Bloomberg CLGT IN
BSE CODE 500830

Tepid rural growth impacted the overall volume growth

RATING	HOLD
CMP	1203
Price Target	1269
Potential Upside	5%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1365/1020
Mkt Capital (Rs Cr)	32719
Free float (%)	49%
Avg. Vol 1M (,000)	402
No. of Shares (Cr)	27
Promoters Pledged %	NA

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1QFY20 Result update

- ❑ COLPAL's 1QFY20 numbers remained in line with our estimates, revenue grew by 4.2% YoY to Rs. 1085 cr. backed by domestic volume growth 4% YoY while pricing growth remained flat.
- ❑ The Company's volume growth remained subdued on account of slowdown in demand due to lower than expected growth in rural markets although management sees this trend as temporary and expect a pickup over the coming quarters.
- ❑ The Company re-launched Colgate Strong Teeth total with new Amino Shakti while launched Colgate Zig Zag Neem at a price point of Rs. 35 and also launched limited special edition range of toothbrushes under its Colgate Super flexi Viraat Pack.
- ❑ Gross margin deteriorated by 5 bps to 65.86% YoY (vs. expect. of 65.2% YoY) led by increase in COGS while EBITDA margin improved by 59 bps to 27.6% YoY (vs. expect. of 26% YoY) led by reduction in other expense by 131 bps(may have been impacted by adoption of Ind AS lease) while employee expense and Ad & P expense increased by 50 bps and 17 bps.
- ❑ The Company's PAT stood at Rs. 169 cr. (vs. expect. of Rs. 166 cr.) impacted by lower Top line with PAT de-growth of 11% YoY while PAT margin declined by 261 bps YoY to 15.6% due to impact of exceptional item of Rs 34 cr in previous quarter.

View and Valuation

COLPAL has reported numbers inline with our estimates, sales were up by 4% to Rs 1085 cr(vs expec. Rs 1085 cr) while PAT declined by 11% to Rs 169 cr(vs expec. Rs 166 cr) impacted by subdued rural growth. Overall volume grew by 4% (vs expec. 4%). Management sees this rural slowdown as temporary blip, expects recovery soon. Now company is focusing more on their core business with new launches in natural space. The company has increased its investment in A&P and ramping up their distribution which is in our opinion is prudent strategy. This will drive growth for the company going ahead. Waning up of competitive intensity from Patanjali augurs well for the company. We continue to value COLPAL at 43x of FY20e eps and maintain HOLD rating with the target price 1269.

Key Risks to our rating and target

- ❑ Delayed revival in rural growth.
- ❑ Higher Ad & Promotion expense due to brand building activities.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3982	4188	4462	4774	5188
EBITDA	944	1112	1236	1348	1420
EBIT	810	956	1077	1149	1232
PAT	577	673	776	803	865
EPS (Rs)	21	25	29	30	32
EPS growth (%)	-1%	17%	15%	4%	8%
ROE (%)	45%	44%	54%	53%	54%
ROCE (%)	64%	63%	71%	72%	73%
BV	47	56	53	56	59
P/B (X)	20	19	22	21	20
P/E (x)	43	43	41	41	38

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1QFY20 Results

In line with Expectation

<i>Financials</i>	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
<i>Net Sales</i>	1,041	1,168	1,099	1,154	1,085	4.2%	-6.0%	4,188	4,462	6.6%
<i>Other Income</i>	9	9	8	12	15	65.6%	26.9%	39	38	-3.0%
<i>COGS</i>	355	412	383	409	370	4.3%	-9.4%	1,490	1,559	4.6%
<i>Gross Margin</i>	66%	65%	65%	65%	66%	-0.1%	1.3%	64%	65%	0.7%
<i>Emp. Cost</i>	75	76	71	73	83	11.4%	13.6%	306	296	-3.3%
<i>Other Exp.</i>	186	212	205	205	180	-3.4%	-12.1%	1,280	1,372	7.2%
<i>EBITDA</i>	282	330	314	310	300	6.5%	-3.4%	1,112	1,236	11.1%
<i>EBITDA Mar.</i>	27%	28%	29%	27%	28%	0.6%	0.7%	27%	28%	1.1%
<i>Depreciation</i>	39	40	41	39	50	26.6%	26.7%	157	159	1.7%
<i>EBIT</i>	242	290	274	271	250	3.2%	-7.8%	956	1,077	12.7%
<i>Interest</i>	-	-	-	3	2	-	-7.6%	-	3	-
<i>PBT</i>	251	298	282	281	263	4.6%	-6.3%	995	1,112	12%
<i>Exceptional</i>	(34)	-	-	4	-	-100%	-	12	(31)	-362%
<i>Tax</i>	96	102	90	79	94	-2.4%	18.1%	310	367	19%
<i>PAT</i>	190	196	192	198	169	-10.8%	-14.4%	673	776	15%
<i>PAT Margin</i>	18%	17%	17%	17%	16%	-2.6%	-1.5%	16%	17%	1.3%

Slowdown in rural impacted volumes

In 1QFY20, COLPAL volumes remained impacted due to more than expected slowdown in demand from rural. Despite of the above prevailing conditions the company maintained its volume growth of 4% YoY (vs. expect. of 3.5% YoY). Further, the company will continue investing in advertising and brand building activities in order to strengthen its brands and will also continue increasing its direct reach (increased its direct coverage by 30% as of Oct-18). The Company's Toothpaste and Toothbrush volume market share as of Mar-19 stood at 52% and 48.2% respectively. The company expects the trend of rural slowdown to be temporary and expects revival in rural demand in the coming quarters.

Reduction in other expenses resulted into EBITDA Margin expansion

COLPAL gross margin declined by 5 bps to 65.86% YoY on account of increase in COGS which may be due to higher promotions made by the company while EBITDA margin improved by 59 bps to 27.6% YoY led by decline in other expense by 131 bps to 16.6% YoY while employee expense and Ad & P expense increased by 50 bps and 17 bps. The company will continue investing in advertising and brand building activities which in turn will drive volumes.

Exhibit: Domestic Volume Growth

Volumes remained impacted on account of moderation in demand due to slowdown in rural growth.

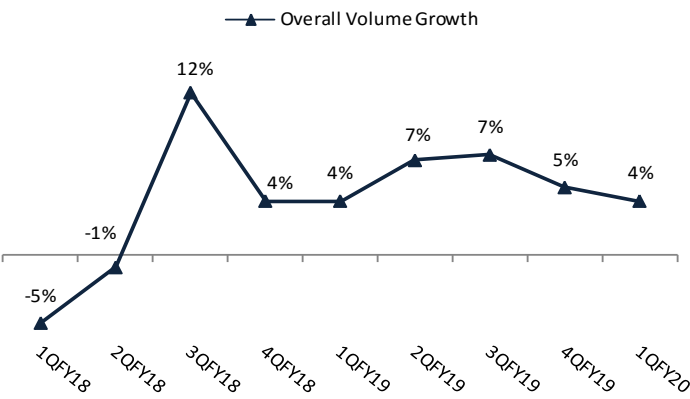


Exhibit: Sales and Sales Growth

Sales growth remained subdued led by lower volumes due to rural slowdown.

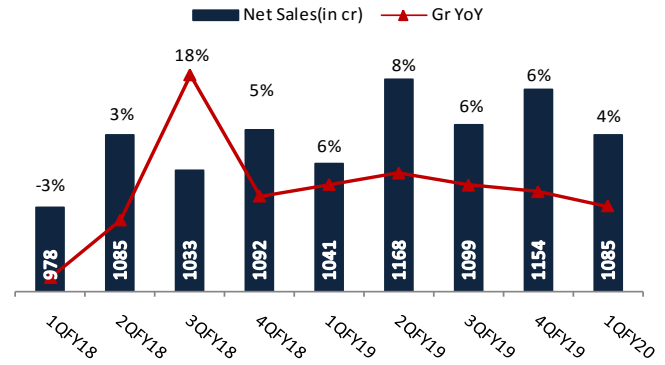


Exhibit: Gross and EBITDA Margin

GROSSM. remained impacted on account of higher COGS while EBITDAM. improved led by reduction in other expense.

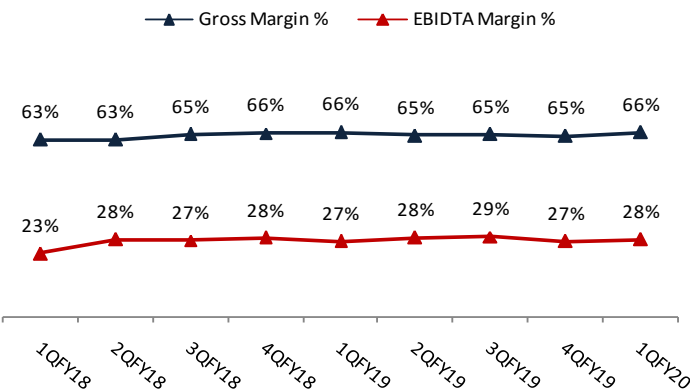


Exhibit: PAT and PAT Growth

PAT posted a de-growth of 11% YoY to Rs. 169 cr. with a PAT margin of 15.6% YoY in 1QFY20.

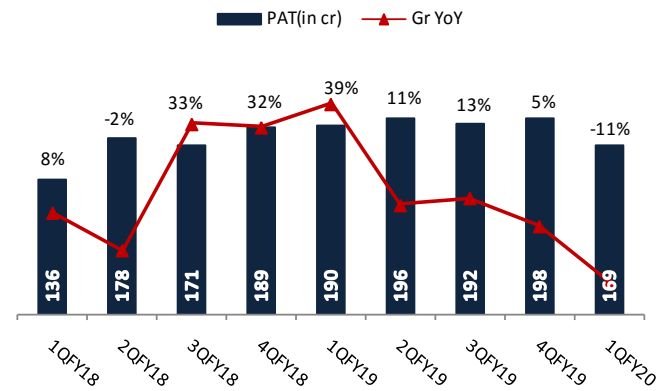


Exhibit: Ad&P, Employee and other expenses

EBITDAM. Improvement led by decline in other exp. while employee and Ad exp. increased by 50 bps and 17 bps.

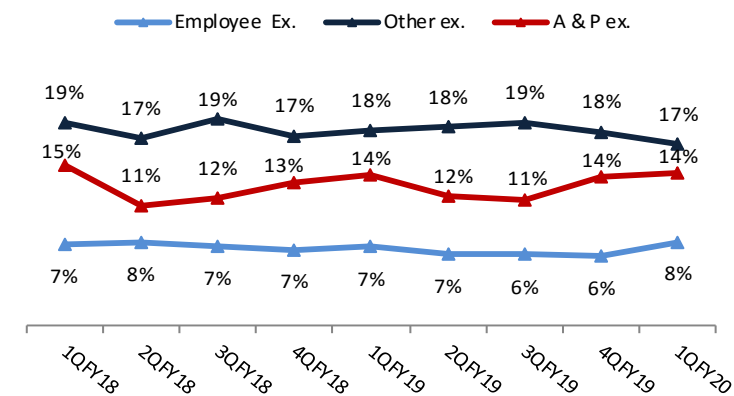
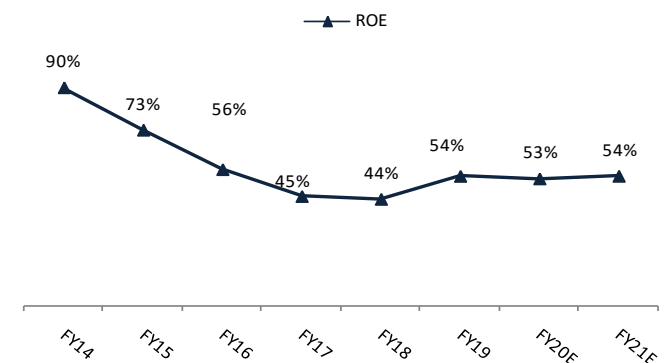


Exhibit: Return on Equity

Return on Equity (ROE) is expected to be at 53% and 54% in FY20e and FY21e respectively.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	14	14	27	27	27	27	27	27
Reserves	586	757	1,004	1,247	1,497	1,420	1,500	1,586
Networth	600	770	1,031	1,274	1,525	1,447	1,527	1,614
Debt	-	-	-	-	-	78	78	78
Other Non Current Liab	52	65	28	53	55	50	50	50
Total Capital Employed	600	770	1,031	1,274	1,525	1,524	1,605	1,691
Net Fixed Assets (incl CWIP)	697	923	1,087	1,275	1,304	1,390	1,325	1,272
Non Current Investments	37	30	31	31	31	31	31	31
Other Non Current Assets	89	59	25	54	39	28	28	28
Non Current Assets	823	1,012	1,228	1,468	1,503	1,616	1,552	1,499
Inventory	226	252	292	293	227	249	266	289
Debtors	55	70	102	130	201	210	224	244
Cash & Bank	285	254	193	199	305	378	571	748
Other Current Assets	104	113	77	69	80	31	33	36
Current Assets	670	690	775	856	1,061	1,010	1,224	1,457
Creditors	498	514	552	601	614	613	656	713
Provisions	70	66	49	56	60	64	68	74
Other Current Liabilities	273	286	136	136	102	103	111	120
Curr Liabilities	842	867	943	995	983	1,051	1,121	1,214
Net Current Assets	(172)	(177)	(168)	(140)	78	(41)	103	243
Total Assets	1,493	1,702	2,003	2,323	2,564	2,626	2,777	2,956

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3,579	3,982	3,868	3,982	4,188	4,462	4,774	5,188
Change (%)	13%	11%	-3%	3%	5%	7%	7%	9%
EBITDA	664	822	939	944	1,112	1,236	1,348	1,420
Change (%)	1%	24%	14%	1%	18%	11%	9%	5%
Margin (%)	19%	21%	24%	24%	27%	28%	28%	27%
Depr & Amor.	51	75	111	133	157	159	199	188
EBIT	613	747	827	810	956	1,077	1,149	1,232
Int. & other fin. Cost	-	-	-	-	-	3	7	7
Other Income	50	33	40	41	39	38	56	56
EBT	664	780	867	851	995	1,112	1,198	1,281
Exp Item	64	-	(31)	-	(12)	31	-	-
Tax	188	221	254	274	310	367	396	416
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	540	559	581	577	673	776	803	865
Adjusted PAT	494	559	603	577	681	755	803	865
Change (%)	-1%	13%	8%	-4%	18%	11%	6%	8%
Margin(%)	14%	14%	16%	15%	16%	17%	17%	17%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	90%	73%	56%	45%	44%	54%	53%	54%
ROCE	102%	97%	80%	64%	63%	71%	72%	73%
Asset Turnover	2	2	2	2	2	2	2	2
Debtor Days	6	6	10	12	18	17	17	17
Inv Days	23	23	28	27	20	20	20	20
Payable Days	51	47	52	55	54	50	50	50
Int Coverage						431	164	176
P/E	17	21	47	43	43	41	41	38
Price / Book Value	15	15	26	20	19	22	21	20
EV/EBITDA	13	14	29	26	26	26	24	23
FCF per Share	10	25	15	13	18	26	33	35
Div Yield	4%	3%	1%	1%	1%	2%	2%	2%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	664	780	867	851	995	1,143	1,198	1,281
(inc)/Dec in Working Capital	(37)	5	16	31	(89)	28	28	37
Non Cash Op Exp	44	85	107	130	157	143	199	188
Int Paid (+)	-	-	-	-	-	3	7	7
Tax Paid	(178)	(206)	(252)	(301)	(347)	(367)	(396)	(416)
others	(35)	(27)	(17)	(23)	(21)	-	-	-
CF from Op. Activities	457	638	689	688	694	921	1,036	1,097
(inc)/Dec in FA & CWIP	(324)	(300)	(273)	(321)	(209)	(204)	(135)	(135)
Free Cashflow	134	338	416	367	485	717	902	962
(Pur)/Sale of Inv	10	-	7	-	-	0	-	-
others	133	28	29	(21)	2	-	-	-
CF from Inv. Activities	(180)	(272)	(237)	(342)	(207)	(204)	(135)	(135)
inc/(dec) in NW	-	-	(16)	(14)	(9)	-	-	-
inc/(dec) in Debt								
Int. Paid	-	-	-	-	-	(3)	(7)	(7)
Div Paid (inc tax)	(422)	(385)	(376)	(327)	(371)	(850)	(723)	(779)
others	-	-	-	-	-	75	(7)	(7)
CF from Fin. Activities	(422)	(385)	(391)	(341)	(380)	(775)	(730)	(786)
Inc(Dec) in Cash	(145)	(18)	61	5	107	(57)	172	176
Add: Opening Balance	296	151	133	193	199	456	399	571
Closing Balance	151	132	193	199	305	399	571	748

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