

Colgate Palmolive (India)Ltd.

Industry	Cons. Staples
Bloomberg	CLGT IN
BSE CODE	500830

Subdued rural growth impacted overall volumes

RATING	NEUTRAL
CMP	1565
Price Target	1541
Potential Upside	-2%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	1588/1087
Mkt Capital (Rs Cr)	42560
Free float (%)	49%
Avg. Vol 1M (,000)	43
No. of Shares (Cr)	27
Promoters Pledged %	NA

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2QFY20 Result update

- ❑ COLPAL's 2QFY20 numbers remained mixed; Sales grew by 5% YoY to Rs. 1222 cr. (vs. expect. of Rs. 1170 cr.) backed by domestic volume growth 4% YoY while pricing growth remained flat.
- ❑ The Company's volume growth remained subdued on account of rural slowdown and liquidity issues prevailing in the market. However, despite of the macro challenges the company remains focused on continuously innovating and renovating its brands through innovations, distribution expansion and higher media spends.
- ❑ The Company launched Colgate charcoal clean infused with bamboo charcoal, Colgate kid's toothpaste, Palmolive Luminous shower gel in 2QFY20.
- ❑ Gross margin deteriorated by 2 bps to 64.74% YoY (vs. expect. of 65.8% YoY) led by increase in COGS while EBITDA margin declined by 178 bps to 26.4% YoY (vs. expect. of 29.7% YoY) led by company's higher focus on A&P spends. Ad & P expense increased by 250 bps to 14.4% YoY while other expense declined by 90 bps to 17.2% YoY.
- ❑ The Company's PAT stood at Rs. 244 cr. (vs. expect. of Rs. 259 cr.) with growth of 24% YoY while PAT margin improved by 317 bps to 20%.PAT remained higher on account of lower tax provisioning(12.4% of PBT Vs 34.2% in 2QFY19).

View and Valuation

COLPAL has reported mixed set of numbers, positive remained volume growth which grew by 4% in spite of rural slowdown and higher competitive intensity. Going forward, we expect volumes to remain in pressure due to unfavorable macroeconomic scenario. However, the company will continue investing behind its brands which in turn will restrict EBITDA margin expansion. Presently, we have kept our sales and PAT estimates largely the same, we continue to value COLPAL at 45 x of FY21e EPS and remain Neutral with the target price of Rs 1541.

Key Risks to our rating and target

- ❑ Delayed revival in rural growth.
- ❑ Higher Ad & Promotion expense due to higher competitive intensity.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3982	4188	4462	4671	5028
EBITDA	944	1112	1236	1269	1395
EBIT	810	956	1077	1070	1207
PAT	577	673	776	846	940
EPS (Rs)	21	25	29	31	35
EPS growth (%)	-1%	17%	15%	9%	11%
ROE (%)	45%	44%	54%	55%	58%
ROCE (%)	64%	63%	71%	67%	71%
BV	47	56	53	56	60
P/B (X)	20	19	22	28	26
P/E (x)	43	43	41	50	45

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2QFY20 Results

Mixed Performance

Fig in Rs Cr

<i>Financials</i>	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
<i>Net Sales</i>	1,168	1,099	1,154	1,085	1,222	4.6%	12.6%	4,188	4,462	6.6%
<i>Other Income</i>	9	8	12	15	9	-0.1%	-43.1%	39	38	-3.0%
<i>COGS</i>	412	383	409	370	431	4.7%	16.3%	1,490	1,559	4.6%
<i>Gross Margin</i>	65%	65%	65%	66%	65%	0.0%	-1.1%	64%	65%	0.7%
<i>Emp. Cost</i>	76	71	73	83	82	7.2%	-1.9%	306	296	-3.3%
<i>Other Exp.</i>	212	205	205	180	210	-0.6%	16.9%	1,280	1,372	7.2%
<i>EBITDA</i>	330	314	310	300	323	-2.0%	7.7%	1,112	1,236	11.1%
<i>EBITDA Mar.</i>	28%	29%	27%	28%	26%	-1.8%	-1.2%	27%	28%	1.1%
<i>Depreciation</i>	40	41	39	50	50	26.6%	1.1%	157	159	1.7%
<i>EBIT</i>	290	274	271	250	273	-5.9%	9.0%	956	1,077	12.7%
<i>Interest</i>	-	-	3	2	2	-	4.3%	-	3	-
<i>PBT</i>	298	282	281	263	279	-6.6%	6.1%	995	1,112	12%
<i>Exceptional</i>	-	-	4	-	-	-	-	12	(31)	-362%
<i>Tax</i>	102	90	79	94	35	-66.0%	-63.0%	310	367	19%
<i>PAT</i>	196	192	198	169	244	24.3%	44.3%	673	776	15%
<i>PAT Margin</i>	17%	17%	17%	16%	20%	3.2%	4.4%	16%	17%	1.3%

Exhibit: Domestic Volume Growth

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

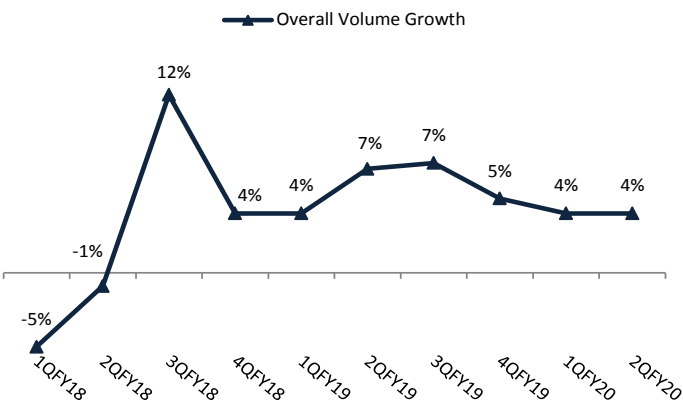


Exhibit: Sales and Sales Growth

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

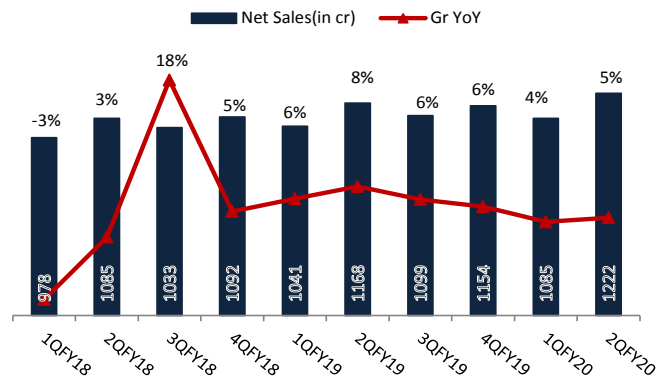


Exhibit: Gross and EBITDA Margin

EBITDA margin declined by 178 bps to 26.4% YoY led by company's higher focus on A&P spends.

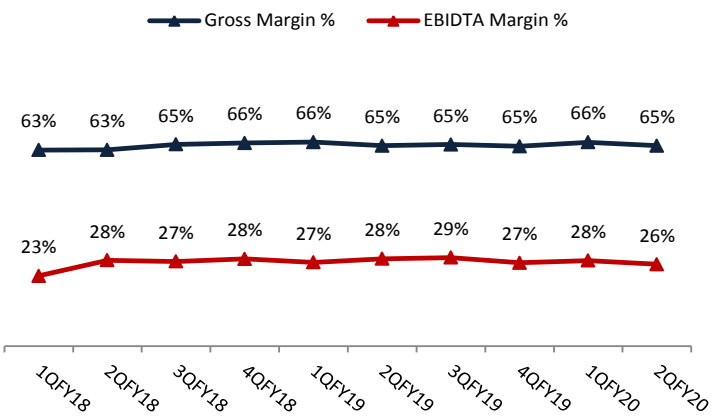


Exhibit: PAT and PAT Growth

PAT grew by 24% YoY to Rs. 244 cr. mainly on account of lower tax with a PAT margin of 20% in 2QFY20.

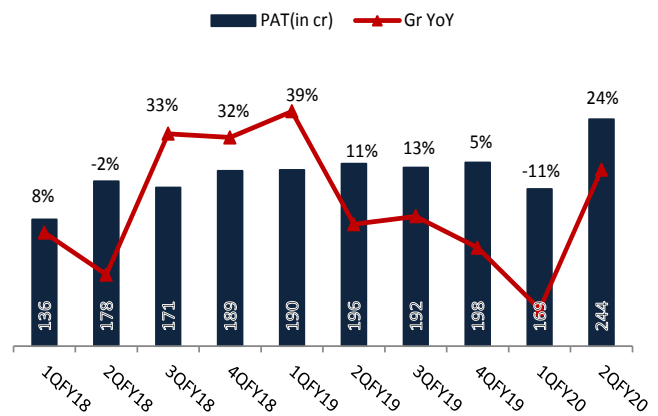
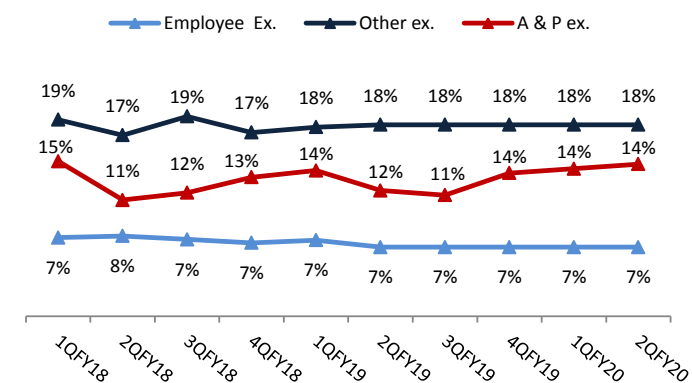


Exhibit: Ad&P, Employee and other expenses

The Company scaled up its A&P expense by 250 bps to 14.4% YoY while employee and other expense declined.



Financial Details

Balance Sheet

Fig in Rs Cr

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	1,504	1,598
Networth	600	770	1,031	1,274	1,525	1,447	1,531	1,625
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	1,609	1,703
Net Fixed Assets (incl CWIP)	697	923	1,087	1,275	1,304	1,390	1,326	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	260	280
Debtors	55	70	102	130	201	210	220	236
Cash & Bank	285	254	193	199	305	378	566	745
Other Current Assets	104	113	77	69	80	31	32	35
Current Assets	670	690	775	856	1,061	1,010	1,205	1,433
Creditors	498	514	552	601	614	613	642	691
Provisions	70	66	49	56	60	64	67	72
Other Current Liabilities	273	286	136	136	102	103	108	117
Curr Liabilities	842	867	943	995	983	1,051	1,098	1,178
Net Current Assets	(172)	(177)	(168)	(140)	78	(41)	108	255
Total Assets	1,493	1,702	2,003	2,323	2,564	2,626	2,758	2,932

Income Statement

Fig in Rs Cr

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	4,671	5,028
Change (%)	13%	11%	-3%	3%	5%	7%	5%	8%
Other Income	50	33	40	41	39	38	56	57
EBITDA	664	822	939	944	1,112	1,236	1,269	1,395
Change (%)	1%	24%	14%	1%	18%	11%	3%	10%
Margin (%)	19%	21%	24%	24%	27%	28%	27%	28%
Depr & Amor.	51	75	111	133	157	159	199	188
EBIT	613	747	827	810	956	1,077	1,070	1,207
Int. & other fin. Cost	-	-	-	-	-	3	7	7
EBT	664	780	867	851	995	1,112	1,119	1,257
Exp Item	64	-	(31)	-	(12)	31	-	-
Tax	188	221	254	274	310	367	274	316
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	540	559	581	577	673	776	846	940
Adjusted PAT	494	559	603	577	681	755	846	940
Change (%)	-1%	13%	8%	-4%	18%	11%	12%	11%
Margin(%)	14%	14%	16%	15%	16%	17%	18%	19%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	90%	73%	56%	45%	44%	54%	55%	58%
ROCE	102%	97%	80%	64%	63%	71%	67%	71%
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								
P/E	17	21	47	43	43	41	50	45
Price / Book Value	15	15	26	20	19	22	28	26
EV/EBITDA	13	14	29	26	26	26	33	30
FCF per Share	10	25	15	13	18	31	34	38
Div Yield	4%	3%	1%	1%	1%	3%	1%	2%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	664	780	867	851	995	1,112	1,119	1,257
(inc)/Dec in Working Capital	(37)	5	16	31	(89)	149	19	32
Non Cash Op Exp	44	85	107	130	157	162	199	188
Int Paid (+)	-	-	-	-	-	(2)	7	7
Tax Paid	(178)	(206)	(252)	(301)	(347)	(414)	(274)	(316)
others	(35)	(27)	(17)	(23)	(21)	3	-	-
CF from Op. Activities	457	638	689	688	694	983	1,070	1,167
(inc)/Dec in FA & CWIP	(324)	(300)	(273)	(321)	(209)	(139)	(135)	(135)
Free Cashflow	134	338	416	367	485	844	935	1,032
(Pur)/Sale of Inv	10	-	7	-	-	0	-	-
others	133	28	29	(21)	2	43	-	-
CF from Inv. Activities	(180)	(272)	(237)	(342)	(207)	(96)	(135)	(135)
inc/(dec) in NW	-	-	(16)	(14)	(9)	(11)	-	-
inc/(dec) in Debt								
Int. Paid	-	-	-	-	-	-	(7)	(7)
Div Paid (inc tax)	(422)	(385)	(376)	(327)	(371)	(792)	(761)	(846)
others	-	-	-	-	-	-	(7)	(7)
CF from Fin. Activities	(422)	(385)	(391)	(341)	(380)	(815)	(768)	(853)
Inc(Dec) in Cash	(145)	(18)	61	5	107	73	167	179
Add: Opening Balance	296	151	133	193	199	305	399	566
Closing Balance	151	132	193	199	305	378	566	745

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