



In partnership. With trust.

Colgate-Palmolive

Q4FY16 Result Update

Sector: FMCG

CMP: ₹ 834

“Sales growth improves; High A&P & ETR impacts Earnings”

Recommendation: HOLD

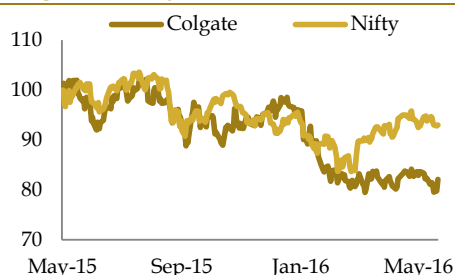
Market Statistics

Current stock price (₹)	834
Shares O/S (cr.)	27.2
Mcap (₹ cr)	22,694
52W H/L (₹)	1,050/788
6m avg. volume	365,647
Bloomberg	CLGT IN

Shareholding pattern

Promoters	51.00
Domestic Institution	18.20
Foreign Institution	6.02
Non-institution	24.78
of which more than 1%	
Life Insurance Corporation of India	4.73
Arisaig Partners (Asia) Pte Ltd A/c	3.38
Arisaig India Fund Ltd	

Colgate vs Nifty



Capital efficiency & valuations

Particulars	FY16P	FY17E	FY18E
RoE (%)	56.3	53.7	55.6
RoCE (%)	89.3	88.4	86.4
P/B (x)	22.0	19.2	16.7
EV/OCF (x)	36.9	27.4	23.5
EV/EBITDA (x)	24.2	21.4	18.8
P/E (x)	39.0	35.7	30.0

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Colgate reported net sales growth of 6.8% to ₹10,988mn that was better than our expectation of ₹10,601mn, +3.1% YoY. Organic growth (gross sales) was at 13% while phasing out of excise duty impacted net sales growth. Volume growth including exports was 6% while Domestic volume growth was 4% for Q4FY16. Toothpaste volume market share has declined to 55.7% as compared to 57.8%. Toothbrush volume market share increased to 46.2% vs. 42.1% last year.

Gross Margin expanded by 34bps to 64%. A&P expense has increased sharply by 28% and stood at 18.1% of sales (+303bps YoY). A&P expense was down by 6% during 9MFY16. Other expenses contracted by 93bps. Hence, EBITDA Margin slid by 211bps YoY to 22.0% vs. our expectation of 24.5%. EBITDA declined by 2.5% to ₹2,412mn as compared to our expectation of ₹2,592mn. ETR has increased significantly by 443bps YoY to 34.5%. Therefore, PAT contracted by 10.9% to ₹1,459mn (our expectation ₹1,657mn).

Healthy organic sales growth; Market share declines

Colgate's organic growth improved significantly by 13% vs. ~8% organic sales growth in last 3 qtrs. Colgate's volume growth has been under pressure from last 9 qtrs registering mid-single digit range volumes due to weak category growth. Better category growth along with support of new launches, Colgate deliver better sales during the quarter. However, due to rising competitive intensity toothpaste market share has declined by 210bps YoY to 55.7%. Colgate is trying to expand and deepen the portfolio to expand market share. We expect acceleration in volume growth on account of favorable base, improving oral care category growth and support of new launches.

Lumpy A&P expense impacts EBITDA Margin

Gross Margin continues to expand in the last 11 quarters and has increased by 34bps to 64.0% in Q4FY16 driven by input cost softening & product mix advantage. A&P spend was lumpy during the quarter and has increased sharply by 28% (+303bps YoY). A&P expense was down by 6% (down by 200bps) during 9MFY16. Therefore, EBITDA Margin contracted by 211bps to 22% in Q4FY16. We expect EBITDA Margin to be in the range of 22.5%-23% during FY17-18.

Urban recovery to support premium segment

Colgate continues to remain focus in growing Oral care category by launching new products in toothpaste - largely focusing on Natural & Herbal space. Hence, volume growth can be better in the medium term. Contribution of premium products has improved significantly from 15.9% in FY12 to 25.5% in 2015. As most of the new launches are in the mid-to-premium segment, expected urban recovery in the coming quarters would support the overall growth.

Outlook & Valuation

Stiff competition, rising taxes & weak category growth has resulted into Colgate's high double digit sales growth into low single digit growth during FY16. Considering the dynamics, we believe Colgate's historical high double digit growth would be difficult to achieve in the medium term. We expect 11-12% sales growth during FY17-18 on account of new launches, pickup in category growth and favorable base. We expect Colgate would be able to maintain high EBITDA Margin of 22.5%-23% during FY17-18. However, increase in corporate taxes would hamper the net earnings in FY17.

Colgate trades at a high P/E of 37.6x & 32.9x of FY16 & FY17 EPS and captures most of the medium term triggers.

Hence, we maintain HOLD rating on the stock.



Key Conference Call Highlight

- ❖ **Challenging growth in FY16; Expects better volume growth in FY17:**
 - Management mentioned that Q4FY16 organic sales growth of 13% was encouraging particularly weak growth in 9MFY16.
 - Net sales growth was 6.8% led by 6% volume growth and domestic volume growth was at 4%
 - Management expects volume growth to improve in coming quarters on expectation of better monsoon, 6th pay commission, increasing penetration levels and per capita consumption improvement
 - Capex for FY17 would be ₹ 4,000mn
 - Effective tax rate for FY17 would be 34% and 32% in FY18.
 - New facilities expansion would take place in next 2-3 years.
 - Advertisement spend would increase to support new launches
- ❖ **Focus on Innovation & Premiumisation remains intact.** Management continues to invest in innovative launches and extending its product categories. Colgate continue to gain market share against peers by creating new segments like 1) Colgate Visible White Plus Shine 2) Colgate Sensitive Pro-Relief(CSPR) Enamel Repair 3) Colgate Sugar Acid Neutralizer 4) Colgate Slimsoft Charcoal) 5) Colgate Zigzak black.
- ❖ **Company is keen on expanding portfolio in natural space.** Management mentioned that Colgate is focusing on expanding toothpaste portfolio in natural and ayurvedic space to combat competition. It's going to launch several innovative products in coming qtrs.

Quarterly Performance

Exhibit 1: Quarter Highlight

Particulars (₹ mn)	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Net Sales	9,206	9,506	9,936	9,886	10,220	10,029	10,318	10,064	10,911
YoY Gr %	13.4	12.6	10.9	11.8	11.0	5.5	3.8	1.8	6.8
Total Income	9,273	9,569	10,005	9,960	10,285	10,101	10,385	10,149	10,988
YoY Gr %	11.5	11.3	11.1	11.8	10.9	5.6	3.8	1.9	6.8
EBITDA	2,019	1,937	1,865	1,946	2,475	2,018	2,549	2,314	2,412
YoY Gr %	19.7	17.2	27.5	29.3	22.6	4.2	36.7	18.9	(2.5)
QoQ Gr%	34.1	(4.1)	(3.7)	4.3	27.2	(18.5)	26.3	(9.2)	4.2
EBITDA Margin %	21.8	20.2	18.6	19.5	24.1	20.0	24.5	22.8	22.0
YoY Change	149bps	101bps	240bps	265bps	229bps	-26bps	591bps	326bps	-211bps
PBT before except. item	1,905	1,836	1,787	1,840	2,342	1,853	2,388	2,126	2,229
YoY Gr %	12.4	7.6	21.0	18.9	22.9	1.0	33.6	15.5	(4.8)
Reported PAT	1,323	1,349	1,296	1,309	1,637	1,143	1,569	1,594	1,459
YoY Gr %	7.4	(27.2)	18.3	16.0	23.7	(15.3)	21.1	21.8	(10.9)
Adjusted PAT	1,366	1,349	1,296	1,309	1,637	1,237	1,569	1,594	1,459
YoY Gr %	10.9	4.2	18.3	15.9	19.8	(8.3)	21.1	21.8	(10.9)
QoQ Gr%	21.0	(1.2)	(4.0)	1.0	25.1	(24.4)	26.9	1.6	(8.5)

Source: Company, Trust

Exhibit 2: Sales Breakup

Sales Breakup	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Sales growth (%)	13.4%	12.6%	10.9%	11.8%	11.0%	5.5%	3.8%	1.8%	6.8%
Volume growth (%)	7.0%	5.0%	7.0%	5.0%	5.0%	5.5%	4.0%	2.0%	6.0%
Price growth (%)	6.4%	7.6%	3.9%	6.8%	6.0%	0.0%	-0.2%	-0.2%	0.8%

Source: Company, Trust

**Exhibit 3: Volume Market Share Trend**

Market Share	Jan'13- Apr'14	Jan'14- Jun'14	Jan'14- Sep'14	Jan'14- Dec'14	Jan'14- Apr'15	Jan'14- Jun'15	Jan'15- Sep'15	Jan'15- Dec'15	Jan'14- Apr'15
Toothpaste	57.10%	57.0%	56.7%	56.7%	57.8%	57.9%	57.6%	57.3%	55.7%
Toothbrush	42.30%	42.6%	42.6%	42.4%	42.1%	42.7%	43.3%	43.8%	46.2%

Source: Company, Trust

Exhibit 4: Margin Trend

Particulars	Mar-14	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16
Gross Margin (%)	60.5%	62.7%	62.7%	63.5%	63.7%	63.5%	64.1%	64.7%	64.0%
YoY Change	-71bps	85bps	292bps	228bps	312bps	86bps	137bps	120bps	34bps
Advertising (% of sales)	17.9%	18.9%	20.1%	17.9%	15.0%	19.8%	16.1%	15.6%	18.1%
YoY Change	801bps	75bps	-41bps	-257bps	-287bps	98bps	-404bps	-226bps	303bps
EBITDA Margin (%)	21.8%	20.2%	18.6%	19.5%	24.1%	20.0%	24.5%	22.8%	22.0%
YoY Change	149bps	101bps	240bps	265bps	229bps	-26bps	591bps	326bps	-211bps

Source: Company, Trust



Financials

Income Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Net Revenues	35,788	39,819	41,621	46,360	51,853
% Growth	13.1	11.3	4.5	11.4	11.8
Raw Material	14,020	14,677	14,952	16,509	18,486
Staff	2,118	2,589	2,698	2,956	3,306
Other Expenses	13,014	14,331	14,661	16,343	18,187
Total Expenditures	29,151	31,598	32,310	35,808	39,979
EBITDA	6,637	8,222	9,311	10,552	11,874
% Growth	1.0	23.9	13.2	13.3	12.5
EBITDA Margins (%)	18.5	20.6	22.4	22.8	22.9
Other Income	503	332	396	574	860
Interest	-	-	-	-	-
Depreciation	508	750	1,114	1,432	1,520
Profit Before Tax	7,276	7,803	8,280	9,694	11,214
Provision for tax	1,881	2,214	2,516	3,296	3,588
Effective tax rate (%)	25.9	28.4	30.4	34.0	32.0
Reported PAT	5,395	5,589	5,763	6,398	7,626
% Growth	8.5	3.6	3.1	11.0	19.2
Adjusted Net Profit	4,918	5,589	5,858	6,398	7,626
% Growth	(1.1)	13.7	4.8	9.2	19.2

Balance Sheet

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Equity Share Capital	136	136	272	272	272
Reserves & surplus	5,863	7,567	10,134	11,646	13,447
Shareholders' funds	5,999	7,703	10,406	11,918	13,719
Minorities interests	-	-	-	-	-
Total Debt	7	15	17	17	17
Capital Employed	6,006	7,719	10,423	11,935	13,736
Net fixed assets	6,974	9,228	10,864	13,431	13,011
Cash & Cash Eq.	2,854	2,545	3,102	1,963	4,030
Net Other current assets	(4,370)	(4,402)	(3,626)	(4,043)	(4,389)
Investments	371	371	301	801	1,301
Net Deferred tax Assets	178	(26)	(217)	(217)	(217)
Total Assets	6,007	7,716	10,423	11,935	13,736



Cash Flow Statement

Y/E Mar (₹ mn)	FY14	FY15	FY16P	FY17E	FY18E
Pre-tax profit	6,636	7,804	8,280	9,694	11,214
Depreciation	508	750	1,114	1,432	1,520
Total Tax Paid	(1,778)	(2,055)	(2,516)	(3,296)	(3,588)
Chg in working capital	(368)	49	(775)	417	346
Other operating activities	(408)	(259)	-	-	-
Cash flow from oper (a)	4,589	6,289	6,102	8,247	9,491
Capital Expenditure	(3,235)	(2,994)	(2,750)	(4,000)	(1,100)
Chg in investments	100	-	70	(500)	(500)
Other investing activities	687	278	191	-	-
Cash flow from inv.(b)	(2,448)	(2,716)	(2,488)	(4,500)	(1,600)
Free cash flow (a+b)	2,142	3,573	3,614	3,747	7,891
Equity raised/(repaid)	-	-	136	-	-
Debt raised/(repaid)	-	-	1	-	-
Interest paid	-	-	-	-	-
Dividend (incl. Tax)	(4,221)	(3,848)	(3,196)	(4,886)	(5,824)
Other financing activities	644	-	-	-	-
Cash flow from fin. (c)	(3,577)	(3,848)	(3,059)	(4,886)	(5,824)
Net chg in cash (a+b+c)	(1,435)	(275)	555	(1,139)	2,067

Key Ratios

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
Raw Material Cost/Sales (%)	39.2	36.9	35.9	35.6	35.7
Manpower Cost/Sales (%)	5.9	6.5	6.5	6.4	6.4
Operating & Other Cost/Sales (%)	36.4	36.0	35.2	35.3	35.1
Revenue Growth (%)	13.1	11.3	4.5	11.4	11.8
EBITDA Margins (%)	18.5	20.6	22.4	22.8	22.9
Net Income Margins (%)	13.7	14.0	14.1	13.8	14.7
ROCE (%)	110.5	106.5	89.3	88.4	86.4
ROE (%)	82.0	72.6	56.3	53.7	55.6

Valuation Parameters

Y/E Mar	FY14	FY15	FY16P	FY17E	FY18E
EPS (₹.)	18.1	20.5	21.5	23.5	28.0
P/E (x)	37.7	45.0	39.0	35.7	30.0
BV (₹)	22.1	28.3	38.3	43.8	50.4
P/BV (x)	30.9	32.7	22.0	19.2	16.7
EV/EBITDA (x)	27.5	30.2	24.2	21.4	18.8
Fixed assets turnover ratio (x)	5.1	4.3	3.8	3.5	4.0
Net Debt/Equity (x)	(0.5)	(0.3)	(0.3)	(0.2)	(0.3)
EV/Sales (x)	5.1	6.2	5.4	4.9	4.3



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