

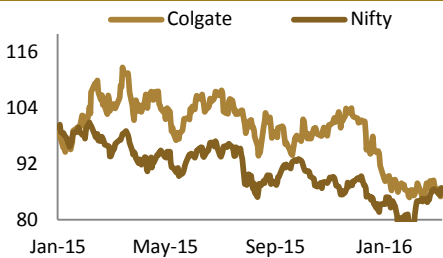
Market Statistics

Current stock price (₹)	879
Shares O/S (cr.)	27.2
Mcap (₹cr)	23,905
52W H/L (₹)	1,033
6m avg. volume	307,940
Bloomberg	CLGT in

Shareholding pattern

Promoters	51.00
Domestic Institution	8.49
Foreign Institution	16.20
Non-institution	24.31
of which more than 1%	
Life Insurance Corporation of India	5.22
Arisaig Partners (Asia) Pte Ltd A/c	3.38
Arisaig India Fund Ltd	

Colgate vs Nifty



Capital efficiency & valuations

Particulars	FY17E	FY18E	FY19E
RoE (%)	50.7	50.7	50.4
RoCE (%)	85.4	83.0	79.5
P/B (x)	20.6	18.2	16.0
EV/OCF (x)	31.8	27.7	24.1
EV/EBITDA (x)	23.9	21.5	19.5
P/E (x)	40.7	35.8	31.7

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Colgate, based on IND AS, reported Sales de-growth of 8.6% to ₹8.7bn much lower than our expectation of 4.0% YoY growth. Volume Market share declined by 30bps on QoQ basis in toothpaste to 55.4% while in toothpowder segment market share increased by 40bps to 47%

Gross Margin expanded by 76bps to 63.9%. Employee & other expenses increased strongly by 57bps & 212bps (% of sales). A&P expenses contracted by 146bps to 9.6% of sales. Hence, EBITDA Margin slid by 47bps YoY to 24.5%. EBITDA de-grew healthy by 10.3% to ₹2.1bn – lower than our expectation of ₹2.3bn

Higher ETR of 33.0% vs. 24.6% last year further impacted PAT. Hence, APAT declined of 23.4% to ₹1,260mn.

Sluggish sales; Market share declines QoQ: We believed Colgate should have been least impacted due to demonetization drive considering the “essential” nature of the product. But, sales decline of 8.6% resembles that pressure in volumes is combination of increase in competitive intensity & trade channel disruption due to liquidity crunch. It also portrays that there is the structural slowdown in volumes and way behind in comparison of historic double digit volumes. Company took price hike of 4-5% in last quarter and we believe, Colgate would have restricted further rate hikes in Q3FY17. Market share declined by 30bps on QoQ basis in toothpaste while in toothpowder segment it has increased by 40bps. A&P spends calibrated & de-grew by 20.7% in Q3FY17, it was growing at >25% rate from three qtrs largely to support new launches. However, its translation into volumes is yet to come. We expect volume growth to gradually pick up in ensuing qtrs on account of favorable base, improving liquidity and support of new launches. But it would largely at 6-8% volume growth.

Measures undertaken to deal with Demonetization event: Company took proactive measures to combat the demonetization situation like 1) Supported business partners to ensure ease of business 2) Extended credit to customers, provided additional incentives 3) Gave Advanced payments to supply chain partners.

EBITDA margins blips by 47ps to 24.5% in Q3FY17: Gross Margin increased by 76bps to 63.9% in Q3Y17 driven by input cost softening & product mix advantage. Although, A&P spend contracted by 147bps, rise in employee & other expenses by 57bps to 212bps hampered the EBITDA margins.

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 FY17-19. Colgate trades at a high P/E of 35.8x & 31.7x of FY18& FY19 EPS and captures most of the medium term triggers. **Hence, we maintain HOLD rating on the stock.**



Quarterly Performance

Particulars (₹mn)	Q3FY16	Q2FY17	Q3FY17	YoY change (%)
Gross Sales	10,734	11,949	9,816	-8.6%
Other Operating Income	84.9	82.6	96.0	13.1%
Net Sales(excluding Excise Duty)	9,568	10,566	8,746	-8.6%
Total RM	3,528.7	3,909.2	3,158.9	-10.5%
Gross Profit	6,040	6,657	5,587	-7.5%
Gross Profit Margin %	63.1%	63.0%	63.9%	76bps
Employee Expenses	659	731	652	-1.0%
% of net sales	6.9%	6.9%	7.5%	57bps
A&P	1,058	1,280	839	-20.7%
% of net sales	11.1%	12.1%	9.6%	-147bps
Other Expenses	1,936	1,898	1,955	1.0%
% of net sales	20.2%	18.0%	22.4%	212bps
EBITDA	2,387	2,748	2,141	-10.3%
EBITDA Margin %	24.9%	26.0%	24.5%	-47bps
EBIT	2,190	2,528	1,908	-12.9%
EBIT Margin %	22.9%	23.9%	21.8%	-107bps
PBT	2,190	2,528	1,908	-12.9%
Total tax	539	714	630	16.9%
Effective tax %	24.6%	28.3%	33.0%	840bps
Reported PAT	1,651	1,814	1,278	-22.6%
Adjusted PAT	1,644	1,808	1,260	-23.4%

Source: Company, Trust

Exhibit 1: Volume Market Share Trend

Market Share	Jun'14	Sep'14	Dec'14	Apr'15	Jun'15	Sep'15	Dec'15	Mar-16	Jun-16	Sep-16	Dec-16
Toothpaste	57.0%	56.7%	56.7%	57.8%	57.9%	57.6%	57.3%	55.3%	55.9%	55.7%	55.4%
Toothbrush	42.6%	42.6%	42.4%	42.1%	42.7%	43.3%	43.8%	45.8%	46.8%	46.6%	47.0%

Source: Company, Trust



Financials

Income Statement

Y/E Mar (₹mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	39,819	41,623	43,450	47,335	52,889
% Growth	11.3	4.5	4.4	8.9	11.7
Raw Material	14,677	14,953	15,310	16,680	18,911
Staff	2,589	2,698	3,512	3,779	4,223
Other Expenses	14,331	14,659	14,722	15,946	17,868
Total Expenditures	31,598	32,310	33,544	36,405	41,002
EBITDA	8,222	9,313	9,906	10,929	11,887
% Growth	23.9	13.3	6.4	10.3	8.8
EBITDA Margins (%)	20.6	22.4	22.8	23.1	22.5
Other Income	332	396	404	605	858
Interest	-	-	-	-	-
Depreciation	750	1,114	1,428	1,515	1,601
Profit Before Tax	7,803	8,281	8,881	10,020	11,144
Provision for tax	2,214	2,516	2,975	3,306	3,566
Effective tax rate (%)	28.4	30.4	33.5	33.0	32.0
Reported PAT	5,589	5,765	5,906	6,713	7,578
% Growth	3.6	3.1	2.4	13.7	12.9
Adjusted Net Profit	5,589	5,960	5,868	6,673	7,533
% Growth	13.7	6.6	(1.5)	13.7	12.9

Balance Sheet

Y/E Mar (₹mn)	FY15	FY16	FY17E	FY18E	FY19E
Equity Share Capital	136	272	272	272	272
Reserves & surplus	7,567	9,923	11,309	12,886	14,665
Shareholders' funds	7,703	10,195	11,581	13,158	14,937
Minorities interests	-	-	-	-	-
Total Debt	15	17	17	17	17
Capital Employed	7,719	10,212	11,598	13,175	14,954
Net fixed assets	9,228	10,865	13,437	13,022	12,520
Cash & Cash Eq.	2,545	2,883	1,321	3,046	5,277
Net Other current assets	(4,399)	(3,621)	(3,743)	(3,977)	(4,427)
Investments	371	301	801	1,301	1,801
Net Deferred tax Assets	(26)	(217)	(217)	(217)	(217)
Total Assets	7,718	10,211	11,598	13,175	14,954

**Cash Flow Statement**

Y/E Mar (₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	7,804	8,595	8,881	10,020	11,144
Depreciation	750	1,114	1,428	1,515	1,601
Total Tax Paid	(2,055)	(2,836)	(2,975)	(3,306)	(3,566)
Chg in working capital	49	155	122	234	450
Other operating activities	(259)	(214)	-	-	-
Cash flow from oper (a)	6,289	6,814	7,457	8,462	9,629
Capital Expenditure	(2,994)	(2,713)	(4,000)	(1,100)	(1,100)
Chg in investments	-	70	(500)	(500)	(500)
Other investing activities	278	277	-	-	-
Cash flow from inv.(b)	(2,716)	(2,366)	(4,500)	(1,600)	(1,600)
Free cash flow (a+b)	3,573	4,448	2,957	6,862	8,029
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	-	-	-	-	-
Interest paid	-	(771)	-	-	-
Dividend (incl. Tax)	(3,848)	(2,987)	(4,482)	(5,097)	(5,753)
Other financing activities	-	-	-	-	-
Cash flow from fin. (c)	(3,848)	(3,758)	(4,482)	(5,097)	(5,753)
Net chg in cash (a+b+c)	(275)	690	(1,525)	1,766	2,276

Key Ratios

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Raw Material Cost/Sales (%)	36.9	35.9	35.2	35.2	35.8
Manpower Cost/Sales (%)	6.5	6.5	8.1	8.0	8.0
Operating & Other Cost/Sales (%)	36.0	35.2	33.9	33.7	33.8
Revenue Growth (%)	11.3	4.5	4.4	8.9	11.7
EBITDA Margins (%)	20.6	22.4	22.8	23.1	22.5
Net Income Margins (%)	14.0	14.3	13.5	14.1	14.2
ROCE (%)	106.5	91.2	85.4	83.0	79.5
ROE (%)	72.6	58.5	50.7	50.7	50.4

Valuation Parameters

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (₹.)	20.5	21.9	21.6	24.5	27.7
P/E (x)	45.0	38.4	40.7	35.8	31.7
BV (₹)	28.3	37.5	42.5	48.3	54.9
P/BV (x)	32.7	22.4	20.6	18.2	16.0
EV/EBITDA (x)	30.2	24.2	23.9	21.5	19.5
Fixed assets turnover ratio (x)	4.3	3.8	3.2	3.6	4.2
Net Debt/Equity (x)	(0.3)	(0.3)	(0.1)	(0.2)	(0.4)
EV/Sales (x)	6.2	5.4	5.5	5.0	4.4



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