



Colgate-Palmolive

Q4FY17 Result Update

Sector: FMCG

CMP: ₹ 996

“Volume pressure continues; EBITDA margin contracts”

Recommendation: HOLD

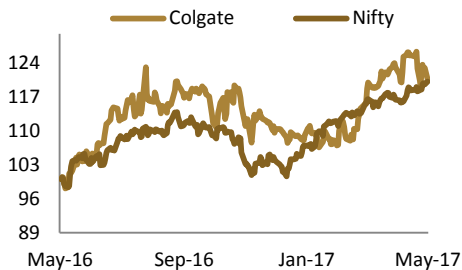
Market Statistics

Current stock price (₹)	996
Shares O/S (cr.)	27.2
Mcap (₹cr)	27,088
52W H/L (₹)	1,049/787
6m avg. volume	390,372
Bloomberg	CLGT in

Shareholding pattern

Promoters	51.00
Domestic Institution	9.05
Foreign Institution	16.25
Non-institution	23.70
of which more than 1%	
Life Insurance Corporation of India	5.54
Arisaig Partners (Asia) Pte Ltd A/c	3.38
Arisaig India Fund Ltd	

Colgate vs Nifty



Capital efficiency & valuations

Particulars	FY17P	FY18E	FY19E
RoE (%)	44.9	43.0	41.8
RoCE (%)	74.1	70.4	66.2
P/B (x)	18.7	19.1	17.2
EV/OCF (x)	36.2	32.4	30.5
EV/EBITDA (x)	24.9	26.5	25.2
P/E (x)	41.7	44.5	41.2

Associate

Ritu Chaudhary

+91-2242245183

ritu.chaudhary@trustgroup.co.in

Colgate, based on IND AS, reported slow sales growth of 2.2% to ₹10.38bn much lower than our expectation of 4.0% YoY growth. Volume Market share declined by 30bps on QoQ basis in toothpaste to 55.1% while in toothpowder segment market share increased by 40bps to 47.4%.

Gross Margin expanded by 142bps to 62.9%. Employee & other expenses moved by 2bps & 83bps % of sales in Q4FY17. A&P expenses grew strong by 24% YoY & moved by 244bps. Hence, EBITDA margin contracted by 22bps to 23.5%YoY while EBITDA grew by 1.2%YoY.

Lower other income (-30%YoY) & higher depreciation impacted the bottom-line. ETR stood at 33.75 vs 35.7% of last year. This translated into flat growth of PAT in Q4FY17. APAT (adjusting to exceptional item and other comprehensive income) declined by 2.4% to ₹ 1,403mn. For FY17, Colgate showed Sales, EBITDA and APAT growth of 2.9%, 0.7%, -4.9% YoY.

Sluggish sales; Market share declines QoQ: Colgate's sales growth of 2.2% is disappointing and resembles that pressure in volumes is combination of increase in competitive intensity & continuation of trade channel woes. It also portrays that there is the structural slowdown in volumes and way behind in comparison of historic double digit volumes. Colgate forayed into Ayurveda segment with significant discount (15-20%) to Patanjali Dantkanti but price hike step taken by the company would have also dented the volumes. Market share declined by 30bps on QoQ basis in toothpaste while in toothpowder segment it has increased by 40bps. Despite high A&P spends by 24% in Q4FY17, largely to support new launches also could not inch up volumes. We expect volume growth to gradually pick up in ensuing qtrs on account of favorable base and support of new launches. But it would largely at 6-8% volume growth. With GST implementation underway, management expects some disruption in trade channel; however Colgate is well placed in terms of internal systems required for GST. Colgate continues focuses on improving the distribution by reaching to 5.8mn touch points in FY17 (3x from FY12) and aims to increase it 10-15% every year.

EBITDA margins blips by 22ps to 23.5% in Q4FY17: Gross Margin increased by 142bps to 62.6% in Q4Y17 due to price hike and cost saving initiatives Rise in A&P spend by 244bps 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 from 15.9% in FY12 to 19% in 2017. 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 weak low single digit growth in FY16 & FY17. Considering the dynamics, we believe Colgate's historical high double digit growth would be difficult to achieve in the medium term. We expect 9-10% 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 ~23% during FY17-19. Colgate trades at a high P/E of 44.5x & 41.2x of FY18 & FY19 EPS and captures most of the medium term triggers. **Hence, we maintain HOLD rating on the stock.**



Quarterly Performance

Particulars (₹mn)	Q4FY16	Q3FY17	Q4FY17	YoY change (%)
Gross Sales	11,424	9,816	11,718	2.6%
Other Operating Income	77.1	96.0	49.4	-35.9%
Net Sales(excluding Excise Duty)	10,156	8,746	10,375	2.2%
Total RM	3,939.2	3,158.9	3,877.3	-1.6%
Gross Profit	6,217	5,587	6,498	4.5%
Gross Profit Margin %	61.2%	63.9%	62.6%	142bps
Employee Expenses	745	652	763	2.4%
% of net sales	7.3%	7.5%	7.4%	2bps
A&P	1,164	839	1,443	24.0%
% of net sales	11.5%	9.6%	13.9%	244bps
Other Expenses	1,894	1,955	1,849	-2.4%
% of net sales	18.7%	22.4%	17.8%	-83bps
EBITDA	2,413	2,141	2,443	1.2%
EBITDA Margin %	23.8%	24.5%	23.5%	-22bps
EBIT	2,230	1,908	2,182	-2.2%
EBIT Margin %	22.0%	21.8%	21.0%	-93bps
PBT	2,230	1,908	2,182	-2.2%
Total tax	797	630	756	-5.1%
Effective tax %	35.7%	33.0%	34.7%	-109bps
Reported PAT	1,433	1,278	1,426	-0.5%
Adjusted PAT	1,437	1,260	1,403	-2.4%

Source: Company, Trust

Exhibit 1: Volume Market Share Trend

Market Share	Sep'14	Dec'14	Apr'15	Jun'15	Sep'15	Dec'15	Mar-16	Jun-16	Sep-16	Dec-16	Mar'17
Toothpaste	56.7%	56.7%	57.8%	57.9%	57.6%	57.3%	55.3%	55.9%	55.7%	55.4%	55.1%
Toothbrush	42.6%	42.4%	42.1%	42.7%	43.3%	43.8%	45.8%	46.8%	46.6%	47.0%	47.4%



Financials

Income Statement

Y/E Mar (₹mn)	FY15	FY16	FY17P	FY18E	FY19E
Net Revenues	39,819	38,682	39,818	43,481	47,865
% Growth	11.3	(2.9)	2.9	9.2	10.1
Raw Material	14,677	14,763	14,763	16,778	19,010
Staff	2,589	2,624	2,885	3,110	3,424
Other Expenses	14,331	11,912	12,722	13,607	15,010
Total Expenditures	31,598	29,298	30,370	33,495	37,443
EBITDA	8,222	9,384	9,449	9,986	10,422
% Growth	23.9	14.1	0.7	5.7	4.4
EBITDA Margins (%)	20.6	24.3	23.7	23.0	21.8
Other Income	332	396	398	605	858
Interest	-	-	-	-	-
Depreciation	750	1,114	1,332	1,422	1,511
Profit Before Tax	7,803	8,352	8,514	9,170	9,769
Provision for tax	2,214	2,541	2,740	3,026	3,126
Effective tax rate (%)	28.4	30.4	32.2	33.0	32.0
Reported PAT	5,589	5,799	5,723	6,089	6,582
% Growth	3.6	3.8	(1.3)	6.4	8.1
Adjusted Net Profit	5,589	6,017	5,723	6,089	6,582
% Growth	13.7	7.7	(4.9)	6.4	8.1

Balance Sheet

Y/E Mar (₹mn)	FY15	FY16	FY17P	FY18E	FY19E
Equity Share Capital	136	272	272	272	272
Reserves & surplus	7,567	10,038	12,466	13,905	15,460
Shareholders' funds	7,703	10,311	12,738	14,177	15,732
Minorities interests	-	-	-	-	-
Total Debt	15	17	17	17	17
Capital Employed	7,719	10,327	12,755	14,194	15,749
Net fixed assets	9,228	10,865	12,747	12,293	11,882
Cash & Cash Eq.	2,545	2,887	2,943	5,350	7,630
Net Other current assets	(4,399)	(3,866)	(3,207)	(3,821)	(4,284)
Investments	371	541	546	646	796
Net Deferred tax Assets	(26)	(97)	(275)	(275)	(275)
Total Assets	7,718	10,330	12,755	14,193	15,748

**Cash Flow Statement**

Y/E Mar (₹ mn)	FY15	FY16	FY17P	FY18E	FY19E
PBT before EO items	7,803	8,666	8,514	9,170	9,769
Add : Depreciation	954	1,185	1,511	1,422	1,511
Less : Direct taxes paid	2,214	2,541	2,740	3,026	3,126
(Inc)/Dec in WC	(29)	533	660	(615)	(463)
Extraordinary	-	(325)	(52)	(54)	(61)
CF from Op after extra	6,572	6,452	6,573	8,126	8,557
(Incr)/Decr in FA	3,004	2,752	3,214	968	1,100
(Pur)/Sale of Investments	-	170	5	100	150
CF from Invest.	(3,004)	(2,922)	(3,219)	(1,068)	(1,250)
Inc/(Dec) in equity	(50)	6	(99)	-	-
Less :					
Dividend paid	3,835	3,198	3,196	4,651	5,027
CF from fin. activity	(3,877)	(3,191)	(3,295)	(4,651)	(5,027)
Incr/Decr of Cash	(308)	340	59	2,407	2,280
Add: Opening Balance	2,853	2,544	2,884	2,943	5,350
Closing Balance	2,544	2,884	2,943	5,350	7,630

Key Ratios

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
Raw Material Cost/Sales (%)	36.9	38.2	37.1	38.6	39.7
Manpower Cost/Sales (%)	6.5	6.8	7.2	7.2	7.2
Operating & Other Cost/Sales (%)	36.0	30.8	31.9	31.3	31.4
Revenue Growth (%)	11.3	(2.9)	2.9	9.2	10.1
EBITDA Margins (%)	20.6	24.3	23.7	23.0	21.8
Net Income Margins (%)	14.0	15.6	14.4	14.0	13.8
ROCE (%)	106.5	90.9	74.1	70.4	66.2
ROE (%)	72.6	58.4	44.9	43.0	41.8

Valuation Parameters

Y/E Mar	FY15	FY16	FY17P	FY18E	FY19E
EPS (₹.)	20.5	22.1	21.0	22.4	24.2
P/E (x)	45.0	38.0	41.7	44.5	41.2
BV (₹)	28.3	37.9	46.8	52.1	57.8
P/BV (x)	32.7	22.2	18.7	19.1	17.2
EV/EBITDA (x)	30.2	24.0	24.9	26.5	25.2
Fixed assets turnover ratio (x)	4.3	3.6	3.1	3.5	4.0
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.4)	(0.5)
EV/Sales (x)	6.2	5.8	5.9	6.1	5.5



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

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