

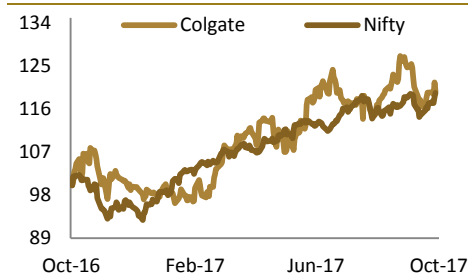
Market Statistics

Current stock price (₹)	1,063
Shares O/S (cr.)	27.2
Mcap (₹cr)	28,924
52W H/L (₹)	1,178/861
6m avg. volume	358,774
Bloomberg	CLGT in

Shareholding pattern

Promoters	51.00
Domestic Institution	10.22
Foreign Institution	15.97
Non-institution	22.81
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	FY17	FY18E	FY19E
RoE (%)	44.9	41.3	39.9
RoCE (%)	74.1	69.6	66.2
P/B (x)	18.8	20.4	18.5
EV/OCF (x)	34.2	39.3	33.6
EV/EBITDA (x)	24.9	28.7	27.1
P/E (x)	41.8	49.4	46.4

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Colgate, based on IND AS, reported sales growth of 2.7% to ₹10.84bn lower than our expectation ₹11.2bn as volumes declined 0.9% YoY affected by GST transition and competitive pressure. Volume market share in toothpaste declined by 170bps YoY to 54% while in toothbrush segment market share declined 110bps YoY to 45%.

Gross margin expanded by 41bps to 63.4% in Q2FY18. A&P expenses declined by 6.8% (-112bps YoY) and other expenses declined 2.1% YoY (-84bps YoY). Resultant, EBITDA grew by 9.4% YoY to ₹3.0bn showing improvement of 170bps YoY in margins to 27.7%.

Colgate reduced prices by 8-9% in key categories of toothpaste and brush to pass on GST benefit to consumer in last qtr. Other income contracted by 21.5% YoY while depreciation increased 17.6% YoY. ETR jumped to 34.3% in Q2FY18 vs 28.3% resulting into 2.1% decline in PAT to ₹1,776mn. APAT (adjusting to exceptional item and other comprehensive income) declined by 2.2% to ₹1,768bn.

Volume growth pressure continues: Colgate's volume growth disappointed with 0.9% decline in Q2FY18. We believe this slowdown is partly due to GST transition and largely due to stiff competition by domestic brands. In last 10 quarters sales trend, Colgate barring two quarters, has shown decline or very low sales growth. However, Dabur toothpaste has been growing healthy at 9-10% sales growth. Patanjali has almost doubles its sales in FY17 to ₹9,400mn with market share of ~10%. Price cut taken in key categories of toothpaste and toothbrush in Q1FY18 also couldn't support volumes. Colgate forayed into Ayurveda segment with Cibacca Vedshakti last year with significant discount (15-20%) to Patanjali Dantkanti but still it has not regained the volumes. However, Colgate further expanded its herbal portfolio with Colgate Swarna Veshakti which is 30% expensive than Dantkanti Regular and 40% cheaper than Dantkanti Advance. We expect volume to pick up by 4-5% on account of favorable base and support of new launches but its way behind in comparison of historic double digit volumes.

EBITDA margins increased 170bps to 22.7% due to low A&P: Gross Margin increased by 41bps to 63.4% in Q2Y18. Other cost saving initiatives in A&P and other expenses led to sharp 170bps YoY expansion in EBITDA margins to 27.7%.

Focus on expansion in Ayurveda Space: Colgate continues to remain focused 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 rural 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 over last 10 quarters. Considering the dynamics, we believe Colgate's historical high double digit growth would be difficult to achieve in the medium term. We expect 6.6% sales growth over FY17-19E on account of new launches, pickup in category growth and low base. We expect Colgate would be able to maintain high EBITDA Margin of ~22-23% over FY17-19. Colgate trades at a high P/E of 50 x & 46.4x of FY18 & FY19 EPS and captures most of the medium term triggers. **Hence, we maintain HOLD rating on the stock.**



Quarterly Performance

Particulars (₹mn)	Q1FY17	Q1FY17	Q2FY18	YoY change (%)
Net Sales	10,566	9,781	10,849	2.7%
Total RM	3,909.2	3,583.9	3,969.3	1.5%
Gross Profit	6,657	6,197	6,880	3.3%
Gross Profit Margin %	63.0%	63.4%	63.4%	41bps
Employee Expenses	731	727	823	12.7%
% of net sales	6.9%	7.4%	7.6%	68bps
A&P	1,280	1,434	1,192	-6.8%
% of net sales	12.1%	14.7%	11.0%	-112bps
Other Expenses	1,898	1,818	1,858	-2.1%
% of net sales	18.0%	18.6%	17.1%	-84bps
EBITDA	2,748	2,218	3,006	9.4%
EBITDA Margin %	26.0%	22.7%	27.7%	170bps
EBIT	2,528	1,970	2,703	6.9%
EBIT Margin %	23.9%	20.1%	24.9%	99bps
PBT	2,528	1,970	2,703	6.9%
Total tax	714	606	927	29.8%
Effective tax %	28.3%	30.8%	34.3%	604bps
Reported PAT	1,814	1,364	1,776	-2.1%
Adjusted PAT	1,808	1,356	1,768	-2.2%

Source: Company, Trust

Exhibit 1: Volume Market Share Trend

Market Share	Apr'15	Jun'15	Sep'15	Dec'15	Mar-16	Jun-16	Sep-16	Dec-16	Mar'17	Jun'17	Sept' 17
Toothpaste	57.8%	57.9%	57.6%	57.3%	55.3%	55.9%	55.7%	55.4%	55.10%	54.30%	54.00%
Toothbrush	42.1%	42.7%	43.3%	43.8%	45.8%	46.8%	46.6%	47.0%	47.4%	45.0%	45.5%



Financials

Income Statement

Y/E Mar (₹mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	39,819	38,682	39,818	41,444	45,264
% Growth	11.3	(2.9)	2.9	4.1	9.2
Raw Material	14,677	14,763	14,763	16,443	18,288
Staff	2,589	2,624	2,885	2,965	3,238
Other Expenses	14,331	11,910	12,721	12,193	13,403
Total Expenditures	31,598	29,297	30,370	31,601	34,929
EBITDA	8,222	9,385	9,449	9,843	10,334
% Growth	23.9	14.2	0.7	4.2	5.0
EBITDA Margins (%)	20.6	24.3	23.7	23.7	22.8
Other Income	332	396	398	430	610
Interest	-	-	-	-	-
Depreciation	750	1,114	1,332	1,489	1,583
Profit Before Tax	7,803	8,354	8,514	8,783	9,361
Provision for tax	2,214	2,541	2,740	2,898	3,089
Effective tax rate (%)	28.4	30.4	32.2	33.0	33.0
Reported PAT	5,589	5,801	5,723	5,831	6,212
% Growth	3.6	3.8	(1.3)	1.9	6.5
Adjusted Net Profit	5,589	6,019	5,723	5,831	6,212
% Growth	13.7	7.7	(4.9)	1.9	6.5

Balance Sheet

Y/E Mar (₹mn)	FY15	FY16	FY17	FY18E	FY19E
Equity Share Capital	136	272	272	272	272
Reserves & surplus	7,666	10,038	12,466	13,843	15,311
Shareholders' funds	7,802	10,311	12,738	14,116	15,583
Minorities interests	-	-	-	-	-
Total Debt	15	17	17	17	17
Capital Employed	7,818	10,327	12,755	14,133	15,600
Net fixed assets	9,228	10,865	12,747	12,358	11,875
Cash & Cash Eq.	2,547	2,887	2,943	4,434	6,735
Net Other current assets	(4,601)	(3,868)	(3,207)	(3,031)	(3,531)
Investments	569	541	546	646	796
Net Deferred tax Assets	75	(97)	(275)	(275)	(275)
Total Assets	7,817	10,328	12,755	14,132	15,600

**Cash Flow Statement**

Y/E Mar (₹ mn)	FY15	FY16	FY17	FY18E	FY19E
PBT before EO items	7,803	8,667	8,514	8,783	9,361
Add : Depreciation	853	1,286	1,510	1,489	1,583
Less : Direct taxes paid	2,214	2,541	2,740	2,898	3,089
(Inc)/Dec in WC	(231)	734	661	176	(500)
Extraordinary	-	(325)	(52)	(54)	(61)
CF from Op after extra	6,673	6,353	6,572	7,144	8,294
(Incr)/Decr in FA	3,004	2,752	3,214	1,100	1,100
(Pur)/Sale of Investments	198	(28)	5	100	150
CF from Invest.	(3,201)	(2,724)	(3,219)	(1,200)	(1,250)
Inc/(Dec) in equity	49	(94)	(97)	-	0
Less :					
Dividend paid	3,835	3,198	3,198	4,453	4,744
CF from fin. activity	(3,778)	(3,291)	(3,295)	(4,453)	(4,744)
Incr/Decr of Cash	(306)	339	58	1,491	2,300
Add: Opening Balance	2,853	2,547	2,885	2,943	4,434
Closing Balance	2,547	2,885	2,943	4,434	6,735

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	36.9	38.2	37.1	39.7	40.4
Manpower Cost/Sales (%)	6.5	6.8	7.2	7.2	7.2
Operating & Other Cost/Sales (%)	36.0	30.8	31.9	29.4	29.6
Revenue Growth (%)	11.3	(2.9)	2.9	4.1	9.2
EBITDA Margins (%)	20.6	24.3	23.7	23.7	22.8
Net Income Margins (%)	14.0	15.6	14.4	14.1	13.7
ROCE (%)	105.2	90.9	74.1	69.6	66.2
ROE (%)	71.6	58.4	44.9	41.3	39.9

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	20.5	22.1	21.0	21.4	22.8
P/E (x)	45.0	38.0	41.8	49.4	46.4
BV (₹)	28.7	37.9	46.8	51.9	57.2
P/BV (x)	32.2	22.2	18.8	20.4	18.5
EV/EBITDA (x)	30.2	24.0	24.9	28.7	27.1
Fixed assets turnover ratio (x)	4.3	3.6	3.1	3.4	3.8
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)
EV/Sales (x)	6.2	5.8	5.9	6.8	6.2



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