



Colgate-Palmolive

Q3FY18 Result Update

Sector: FMCG

CMP: ₹ 1,123

“Strong volume led growth, robust EBITDA growth”

Recommendation: HOLD

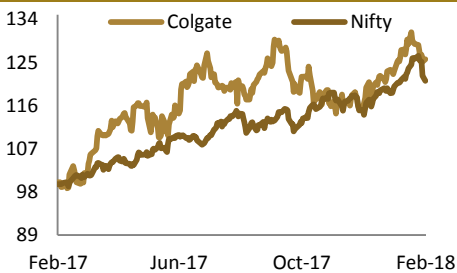
Market Statistics

Current stock price (₹)	1,123
Shares O/S (cr.)	27.2
Mcap (₹cr)	30,534
52W H/L (₹)	1,178/878
6m avg. volume	299,478
Bloomberg	CLGT in

Shareholding pattern

Promoters	51.00
Domestic Institution	12.44
Foreign Institution	13.92
Non-institution	22.64
of which more than 1%	
Life Insurance Corporation of India	8.02
Arisaig India Fund Ltd	2.76

Colgate vs Nifty



Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
RoE (%)	44.9	44.8	45.2
RoCE (%)	74.1	75.2	74.8
P/B (x)	18.8	21.5	19.2
EV/OCF (x)	34.2	39.0	31.8
EV/EBITDA (x)	24.9	28.1	25.1
P/E (x)	41.8	47.9	42.4

Colgate, based on IND AS, reported strong sales growth of 18.2% to ₹10.33bn higher than our expectation of 8%YoY. Volume grew by healthy of 12% due to pick up in demand environment. Volume market share in toothpaste declined by 170bps YoY to 53.7% while in toothbrush segment market share declined 190bps YoY to 45.1%.

Gross margin expanded by 130bps to 65.2% in Q3FY18. Employee & other expenses moved by 15.1% (-19bps YoY) & -0.1% (-345bps YoY). A&P spend was aggressive & grew by 43.8%(+209bps). Resultant, EBITDA grew by 32% YoY to ₹2.8bn showing improvement of 286bps YoY in margins to 27.3%.

Other income contracted by 17% YoY while depreciation increased 15.8% YoY. ETR reduced to 32.3% in Q3FY18 vs 34.7% resulting into 33.5% growth in PAT to ₹1,707mn. APAT (adjusting to exceptional item and other comprehensive income) grew by 34.8% to ₹1,699mn.

Volume led strong sales growth: Colgate's volume growth picked up post stabilization in demand environment in Q3FY18. We believe sales growth of 18% in Q3FY18 is resulted due to 1) Strong brand activation via 43% A&P spend 2)Expansion in herbal portfolio 3)Price cut of 8-9% in last quarter would have also aided the volumes. 4) Low base of 2.2% in Q3FY17 also supported the growth. We believe, entire Oral care category would have witnesses ~20% growth since Dabur Toothpaste too showed strong growth of 26% in Q3FY18. However, we believe volume sustainability need to be closely watched considering the stiff competition from other domestic players. In last 10 quarters sales trend, Colgate barring three 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%.Colgate forayed into Ayurveda segment with Cibacca Vedshakti last year with significant discount (15-20%) to Patanjali Dantkanti last year. However, Colgate further expanded its herbal portfolio in Q1FY18 with Colgate Swarna Veshakti which is 30% expensive than Dantkanti Regular and 40% cheaper than Dankanti Advance. We expect Colgate to show volume 8-9% growth in FY19 on account of favorable base and support of new launches but its way behind in comparison of historic double digit volumes.

EBITDA margins increased 286bps to 27.3%: Gross Margin increased by 130bps to 65.2% in Q3Y18. Other cost saving initiatives employee and other expenses led to sharp 286bps YoY expansion in EBITDA margins to 27.3%.

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 11 quarters. However, Sales growth of 18% led by 12% volume growth is highly encouraging and remarkable since after 4.5 years, Colgate showed high double digit growth. However, sustainability of the same is questionable considering the current competitive dynamics. We believe, Colgate can show 8-9% volumes in FY19E. We expect 9.6% 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 ~23.7-25% over FY17-19. Colgate trades at a high P/E of 47.9 x & 42.4x of FY18 & FY19 EPS and captures most of the medium term triggers. **Hence, we maintain HOLD rating on the stock.**

Associate

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Quarterly Performance

Particulars (₹mn)	Q3FY17	Q2FY17	Q3FY18	YoY change (%)
Net Sales	8,746	10,849	10,333	18.2%
Total RM	3,158.9	3,969.3	3,597.8	13.9%
Gross Profit	5,587	6,880	6,735	20.6%
Gross Profit Margin %	63.9%	63.4%	65.2%	130bps
Employee Expenses	652	823	750	15.1%
% of net sales	7.5%	7.6%	7.3%	-19bps
A&P	839	1,192	1,207	43.8%
% of net sales	9.6%	11.0%	11.7%	209bps
Other Expenses	1,955	1,858	1,954	-0.1%
% of net sales	22.4%	17.1%	18.9%	-345bps
EBITDA	2,141	3,006	2,824	31.9%
EBITDA Margin %	24.5%	27.7%	27.3%	286bps
EBIT	1,908	2,703	2,519	32.0%
EBIT Margin %	21.8%	24.9%	24.4%	256bps
PBT	1,908	2,703	2,519	32.0%
Total tax	630	927	812	29.0%
Effective tax %	33.0%	34.3%	32.3%	-75bps
Reported PAT	1,278	1,776	1,707	33.5%
Adjusted PAT	1,260	1,768	1,699	34.8%

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	57.9%	57.6%	57.3%	55.3%	55.9%	55.7%	55.4%	55.10%	54.30%	54.00%	53.7%
Toothbrush	42.7%	43.3%	43.8%	45.8%	46.8%	46.6%	47.0%	47.4%	45.0%	45.5%	45.1%



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	39,819	38,682	39,818	42,824	47,788
Add : Depreciation	11.3	(2.9)	2.9	7.5	11.6
Less : Direct taxes paid	14,677	14,763	14,763	16,443	18,288
(Inc)/Decr in WC	2,589	2,624	2,885	3,063	3,419
Extraordinary	14,331	11,910	12,721	12,594	14,141
CF from Op after extra	31,598	29,297	30,370	32,100	35,848
(Incr)/Decr in FA	8,222	9,385	9,449	10,723	11,941
(Pur)/Sale of Investments	23.9	14.2	0.7	13.5	11.3
CF from Invest.	20.6	24.3	23.7	25.0	25.0
Inc/(Decr) in equity	332	396	398	430	610
Less :	-	-	-	-	-
Dividend paid	750	1,114	1,332	1,553	1,698
CF from fin. activity	7,803	8,354	8,514	9,600	10,853
Incr/Decr of Cash	2,214	2,541	2,740	3,168	3,581
Add: Opening Balance	28.4	30.4	32.2	33.0	33.0
Closing Balance	5,589	5,801	5,723	6,378	7,211

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	36.9	38.2	37.1	38.4	38.3
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	7.5	11.6
EBITDA Margins (%)	20.6	24.3	23.7	25.0	25.0
Net Income Margins (%)	14.0	15.6	14.4	14.9	15.1
ROCE (%)	105.2	90.9	74.1	75.2	74.8
ROE (%)	71.6	58.4	44.9	44.8	45.2

Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (₹.)	20.5	22.1	21.0	23.4	26.5
P/E (x)	45.0	38.0	41.8	47.9	42.4
BV (₹)	28.7	37.9	46.8	52.3	58.6
P/BV (x)	32.2	22.2	18.8	21.5	19.2
EV/EBITDA (x)	30.2	24.0	24.9	28.1	25.1
Fixed assets turnover ratio (x)	4.3	3.6	3.1	3.3	3.6
Net Debt/Equity (x)	(0.3)	(0.3)	(0.2)	(0.3)	(0.4)
EV/Sales (x)	6.2	5.8	5.9	7.0	6.3



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