

15 May 2017 14:24:48 ET | 9 pages

Household/Personal Care Products  
Asia | India

# Colgate Palmolive (India) (COLG.BO)

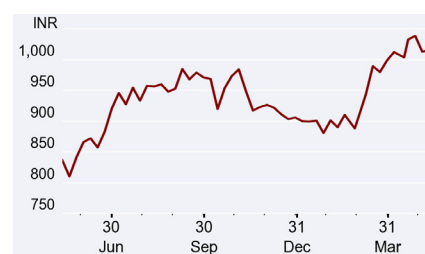
## Results: Margins disappoint: PAT ~16% below ests.

- **Citi's Take** — 4Q saw revenues of Rs11.7bn +2.6% Y/Y, coming in almost 6% ahead of ests, as aggressive price hikes offset (~6-7% Y/Y) deteriorating mix and negative vols (-3% Y/Y). Y/Y, GP margins rose 130 bps due to the price hikes, but higher investments in A&P resulted in EBITDA of Rs2.44bn, missing ests. by ~11%. Slightly higher tax rate compounded this – overall PAT at Rs1.43bn came in 16% below our forecasts.
- **Market shares in toothpaste continue to slide** — now at 55.1% for FY17, vs. 55.7% end FY16 and 57.8% 2 years ago. Patanjali continues to gain share, and we infer Colgate's paste share is 3-4 ppt. lower, as the distribution of toothpaste through Patanjali's chikitsalayas isn't captured in the denominator. In toothbrush, though, they continue to consolidate shares – now at 47.4%, up almost 90bp Y/Y. Within the category, mgmt. noted that premiumization appears to have leveled off – premium variants were almost 20% of revenues in FY16, but this share has tapered down slightly. The growth is in the Colgate dental cream / family segment – the premium segments like whitening, sensitivity are exhibiting flat to declining sales trends, whereas segments like naturals, kids, and freshness are growing.
- **Focus on rural continues** — Rural is where the incremental growth's expected – rural accounts for 60% of Colgate's revenues. Total reach is 5.8m outlets, with 1014 vans enhancing rural reach. Penetration in rural is 74.1% vs. 92.3% in urban; 250m consumers don't use toothpaste.
- **Implications** — We have cut EPS ests. by 3%-6% for FY18/19 as we factor in the slightly slower revenue growth on account of softer volumes and slower pace of premiumization. Competitive intensity remains high – promo spends are at highest levels. TP is revised to Rs850 as we roll forward to Mar 19 EPS. Maintain Sell.

- Estimate Change
- Target Price Change

<b>Sell</b>	<b>3</b>
Price (15 May 17 15:30)	Rs994.05
Target price	Rs850.00
	from Rs845.00
Expected share price return	-14.5%
Expected dividend yield	1.2%
<b>Expected total return</b>	<b>-13.3%</b>
Market Cap	Rs270,367M
	US\$4,209M

## Price Performance (RIC: COLG.BO, BB: CLGT IN)



## Statistical Abstract

Year to	Net Profit	Diluted EPS	EPS growth	P/E	P/B	ROE	Yield
31 Mar	(RsM)	(Rs)	(%)	(x)	(x)	(%)	(%)
2016A	6,125	22.52	9.6	44.1	26.2	68.0	1.0
2017A	5,774	21.23	-5.7	46.8	21.2	50.1	1.0
2018E	6,470	23.79	12.1	41.8	17.5	45.9	1.2
2019E	7,234	26.60	11.8	37.4	15.2	43.6	1.5
2020E	8,243	30.31	13.9	32.8	13.4	43.5	1.8

Source: Powered by dataCentral

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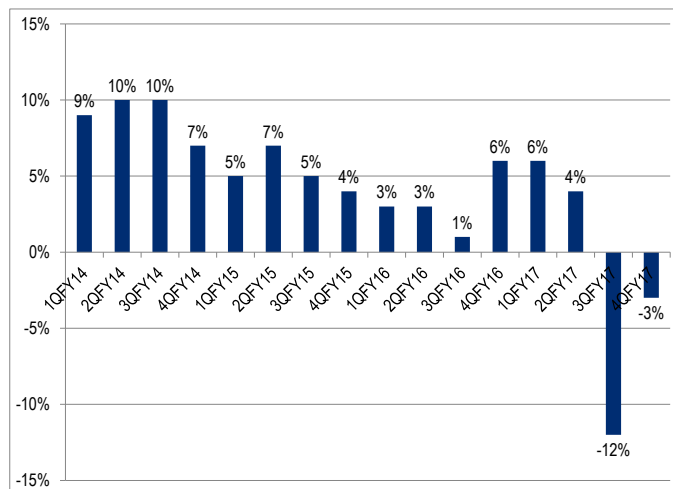
## Results Summary

Figure 1. Colgate Palmolive India: 3QFY17 Results

	4QFY16	3QFY17	4QFY17	% Change YoY
Sales	11,424	9,816	11,718	2.6
Other Operating Income	77	96	49	-35.9
<b>Total Revenues</b>	<b>11,501</b>	<b>9,912</b>	<b>11,767</b>	<b>2.3</b>
Net sales	10,156	8,746	10,375	2.2
Expenditure	-9,087	-7,772	-9,324	2.6
<b>EBITDA</b>	<b>2,413</b>	<b>2,141</b>	<b>2,443</b>	<b>1.2</b>
EBITDA Margin (%) – on net sales	23.8	24.5	23.5	-22 bps
EBITDA Margin (%) – on gross sales	21.0	21.6	20.8	-22 bps
Depreciation & Amortisation	-297	-342	-341	14.8
Other Income	114	109	80	-29.5
<b>PBT</b>	<b>2,230</b>	<b>1,908</b>	<b>2,182</b>	<b>-2.1</b>
Tax	-797	-630	-756	-5.1
Tax Rate (%)	35.7	33.0	34.7	-109 bps
<b>PAT</b>	<b>1,433</b>	<b>1,278</b>	<b>1,426</b>	<b>-0.5</b>
<b>Cost Details</b>				
Excise Duty	1,345	1,166	1,392	3.5
% of Sales	11.7	11.8	11.8	14 bps
Total Raw Material Cost	3,939	3,159	3,877	-1.6
% of Sales	34.3	31.9	33.0	-130 bps
Employee/Staff Cost	745	652	763	2.4
% of Sales	6.5	6.6	6.5	0 bps
Advertising Cost	1,164	839	1,443	24.0
% of Sales	10.1	8.5	12.3	214 bps
Other Expenditure	1,894	1,955	1,849	-2.4
% of Sales	16.5	19.7	15.7	-76 bps

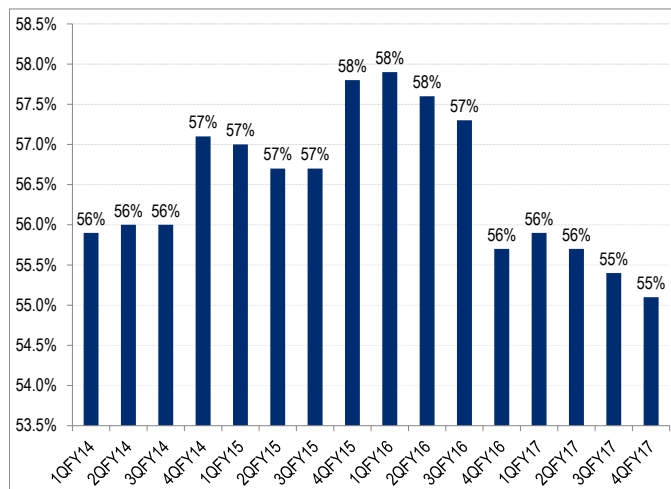
Source: Company Reports

Figure 2. Colgate India – Volume Trends (% YoY)



Source: Company Reports

Figure 3. Toothpaste Market Share Trends (%)



Source: Company Reports; Note – These are typically YTD trends reported each Q

## Colgate Palmolive (India)

### Valuation

We use a P/E based methodology to value Colgate India because of its steady growth profile. Our target price of Rs850 is based on 32x FY19E earnings, set at ~20-25% discount to the stock's past 3-yr historical average. Colgate's brand equity and financial metrics could drive high absolute valuations, but rising risks of competition and margin pressures warrant the discount, in our view, as earnings growth will likely be capped and this may imply lower valuations vs. the past (last 3/5-yr average multiple of ~38-40x 1-yr forward P/E). At current valuations, we believe that the stock fully captures the growth expectations – on a very low base, we forecast ~11% revenue and 12% EPS CAGRs over FY17-FY19E.

### Risks

Key upside risks to our view on Colgate India are: 1) Colgate begins to claw back / grow market share on the back of new launches; 2) Brand building spending remains key toward profitability - any major cutback in ad spending, due to easing competitive pressures or lack of new product launches, may provide upside risk to our estimates; 3) A sharper-than-expected recovery in the economy, especially in rural India, could aid consumer sentiment / demand; 4) Structural improvement in GMs for all industry participants, driven by upward mix shift towards functional toothpastes; 5) Benign input cost environment going forward also may support margins to some extent. If the impact of any of these upside risks is greater than we anticipate, it could prevent the stock from attaining our target price.

## Appendix A-1

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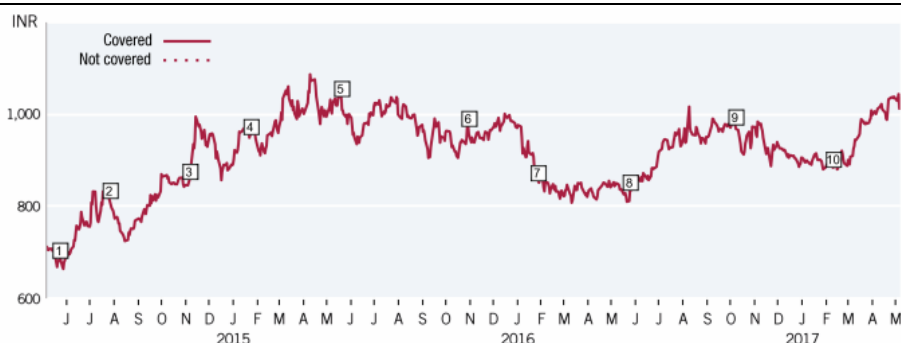
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Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	25-May-14 21:22:13	3	*614.00	686.93
2	27-Jul-14 20:39:16	3	*620.00	815.75
3	05-Nov-14 17:14:58	3	*662.50	857.18
4	26-Jan-15 17:16:17	3	*895.00	955.60

\*Indicates Change

	Date	Rating	Target Price	Closing Price
5	19-May-15 15:13:16	3	*930.00	1,037.23
6	29-Oct-15 22:25:57	3	*905.00	974.05
7	27-Jan-16 15:56:39	3	*835.00	854.95
8	24-May-16 14:29:46	3	*805.00	835.30

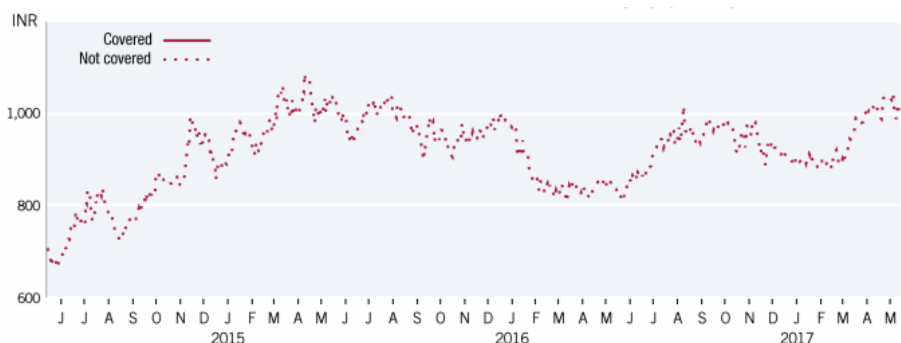
	Date	Rating	Target Price	Closing Price
9	06-Oct-16 10:41:21	3	*875.00	976.90
10	09-Feb-17 12:21:54	3	*845.00	883.95

Rating/target price changes above reflect Eastern Time

### Colgate Palmolive (India) (COLG.BO)

#### Ratings and Target Price History Best Ideas Research Relative Call (3 Month)

Analyst: Jamshed Dadabhoy



\*Indicates Change

Rating/target price changes above reflect Eastern Time

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