

# Retail Equity Research

## Colgate Palmolive (India) Limited

Personal Products

BSE CODE: 500830 NSE CODE: COLPAL  
Bloomberg CODE: CLGT:IN SENSEX: 40,165

**HOLD**

12M Investment period Rating as per Large Cap  
CMP Rs 1,534 TARGET Rs 1,632 RETURN 6% ↑  
(Closing: 01-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

### Margins under pressure

Colgate-Palmolive (India) Ltd. manufactures consumer products in the oral care and body care area. The company's products include soaps, cosmetics, toilet preparations, toothpaste, toothbrushes, shaving brushes and glycerin.

- Colgate Palmolive (India) Limited posted Q2FY20 revenue of Rs. 1,213cr (+4.5% YoY), marginally missing street expectations by 0.7%.
- Volume growth subdued at 4.0% YoY due to continued impact of rural slowdown
- EBITDA margin was down by 180bps YoY to 26.6% on account of higher advertising and brand building expenditure.
- PAT was Rs 244.1 cr (+24.3% YoY), beating street estimates by 4.4%, owing to lower tax costs.
- We reiterate our HOLD rating on the stock with a revised target price of Rs 1,632 based on 43x FY21E adj. EPS.

### Rural slowdown hampers growth

Q2FY20 sales were up 4.5% YoY to Rs. 1,213cr. driven by a 5.0% increase in domestic sales that was in line with market expectations. Prevailing liquidity crunch in the economy and rural slowdown along with slow volume growth, negatively impacted the overall topline growth. Colgate Palmolive posted Q2FY20 EBITDA of Rs. 323cr (-2.0% YoY) while the EBITDA margin declined 180bps YoY to 26.6% on account of strong investment in advertising and promotion expenditure on the back of a difficult demand environment. PAT beat consensus estimates by 4.4% and was up 24.3% driven by the change in taxation. Adjusted for the tax change, the Net Profit witnessed a decline of 7.0% YoY.

### Key highlights

- Volume growth remained subdued at 4.0% with the declining trend of July and August being curtailed in September 19.
- Focus on innovation with new products such as Charcoal Clean with Bamboo Charcoal and Mint, Kids Toothpaste and Palmolive Luminous launched in Q2FY20.
- Investment in advertisement and brand building expected to continue as the management is keen on regaining market share and strengthening distribution.
- The board has declared an Interim dividend of Rs.12 per share.

### Strong share price increase

The share price of Colgate witnessed a strong increase the last quarter which was driven, in part, by the appointment of Mr. Ram Raghavan as managing director and the corporate tax benefits to the company. Competition remains aggressive with Patanjali, Dabur and HUL increasing their efforts to capture the market, indicating higher spends by Colgate in the near future.

### Valuation

We estimate PAT to grow at 15.4% FY19-21E CAGR and EBITDA margin to improve to ~29.0% by FY21E. We believe that even though the long-term outlook is positive for the company, the management's focus on regaining market share along with heavy competition and difficult macro environment will put pressure on the margins in the near future. We reiterate our HOLD rating with a target price of Rs 1,632 based on 43x FY21E EPS.

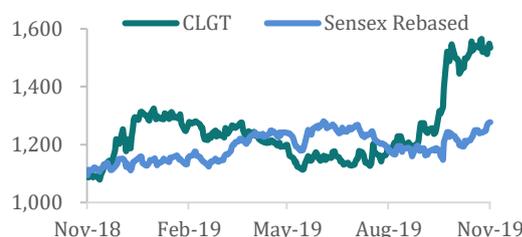
### Company Data

Market Cap (cr)	Rs.41,737
Enterprise Value (cr)	Rs.41,334
Outstanding Shares (cr)	27.2
Free Float	49.0%
Dividend Yield	1.5%
52 week high	Rs.1,588
52 week low	Rs.1,087
6m average volume (lacs)	30,183
Beta	0.8
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	51.0	51.0	51.0
FII's	13.9	15.4	15.5
MFs/Insti	12.1	10.4	11.6
Public	18.5	18.7	18.4
Others	4.5	4.5	3.5
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	29.7%	27.9%	40.8%
Absolute Sensex	8.5%	2.9%	16.7%
Relative Return*	21.2%	25.0%	24.1%

\*over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	4,462	4,787	5,218
Growth (%)	6.6	8.0	9.0
EBITDA	1,236	1,290	1,518
EBITDA Margin (%)	27.9	27.0	29.1
Adj. PAT	745	861	1,033
Growth (%)	8.8	15.6	19.9
Adj. EPS	27.4	31.7	38.0
Growth (%)	8.8	15.6	19.9
P/E	45.4	48.5	40.4
P/B	23.4	24.8	20.0
EV/EBITDA	27.1	32.0	27.1
ROE (%)	53.6	51.2	49.4
D/E	0.1	0.0	0.0

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	1,213	1,161	4.5	1,076	12.8	2,289	2,194	4.3
<b>EBITDA</b>	<b>323</b>	<b>330</b>	<i>(2.0)</i>	<b>300</b>	<b>7.7</b>	<b>623</b>	<b>611</b>	<b>1.9</b>
EBITDA margins	26.6	28.4	<i>(180bps)</i>	27.9	<i>(130bps)</i>	27.2	27.9	<i>(70bps)</i>
Depreciation	50	40	26.6	50	1.1	100	79	26.6
<b>EBIT</b>	<b>273</b>	<b>290</b>	<i>(5.9)</i>	<b>250</b>	<b>9.0</b>	<b>523</b>	<b>532</b>	<i>(1.8)</i>
Interest	2	-	<i>n.m.</i>	2	4.3	5	-	<i>n.m.</i>
Other Income	9	9	<i>(0.1)</i>	15	<i>(43.1)</i>	24	18	33.7
Exceptional Items	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	34	<i>n.m.</i>
<b>PBT</b>	<b>279</b>	<b>298</b>	<i>(6.6)</i>	<b>263</b>	<b>6.1</b>	<b>542</b>	<b>584</b>	<i>(7.2)</i>
Tax	35	102	<i>(66.0)</i>	94	<i>(63.0)</i>	128	198	<i>(35.2)</i>
Share of profit from Associate	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
Minority Interest	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	-	<i>n.m.</i>
<b>Reported PAT</b>	<b>244</b>	<b>196</b>	<b>24.3</b>	<b>169</b>	<b>44.3</b>	<b>413</b>	<b>386</b>	<b>7.1</b>
Adjustments	-	-	<i>n.m.</i>	-	<i>n.m.</i>	-	(34)	<i>n.m.</i>
<b>Adjusted PAT</b>	<b>244</b>	<b>196</b>	<b>24.3</b>	<b>169</b>	<b>44.3</b>	<b>413</b>	<b>352</b>	<b>17.5</b>
No. of shares	27.2	27.2	-	27.2	-	27.2	27.2	-
<b>EPS (Rs)</b>	<b>9.0</b>	<b>7.2</b>	<b>24.3</b>	<b>6.2</b>	<b>44.3</b>	<b>15.2</b>	<b>12.9</b>	<b>17.4</b>

### Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	4,920	5,461	4,787	5,218	<i>(2.7)</i>	<i>(4.4)</i>
EBITDA	1,288	1,458	1,290	1,518	<i>0.2</i>	<i>4.1</i>
Margins (%)	26.2	26.7	27.0	29.1	<i>80bps</i>	<i>240bps</i>
Adj. PAT	826	935	861	1,033	<i>4.2</i>	<i>10.5</i>
EPS	30.4	34.4	31.7	38.0	<i>4.3</i>	<i>10.5</i>



## PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Revenue</b>	<b>3,951</b>	<b>4,159</b>	<b>4,432</b>	<b>4,787</b>	<b>5,218</b>
% change	(4.4)	5.3	6.6	8.0	9.0
<b>EBITDA</b>	<b>975</b>	<b>1,141</b>	<b>1,236</b>	<b>1,290</b>	<b>1,518</b>
% change	1.4	17.0	8.3	4.4	17.7
Depreciation	(133)	(157)	(159)	(201)	(204)
<b>EBIT</b>	<b>842</b>	<b>984</b>	<b>1,077</b>	<b>1,090</b>	<b>1,315</b>
Interest	0	0	(3)	(9)	(11)
Other Income/Costs	40	27	68	38	38
<b>PBT</b>	<b>882</b>	<b>1,012</b>	<b>1,143</b>	<b>1,118</b>	<b>1,341</b>
% change	2.7	14.7	13.0	(2.1)	19.9
Tax	(274)	(310)	(367)	(257)	(308)
Tax Rate (%)	31.1	30.6	32.1	23.0	23.0
<b>Reported PAT</b>	<b>577</b>	<b>673</b>	<b>776</b>	<b>861</b>	<b>1,033</b>
Adj*	0	12	(31)	0	0
<b>Adj PAT</b>	<b>577</b>	<b>685</b>	<b>745</b>	<b>861</b>	<b>1,033</b>
% change	-5.0	18.6	8.8	15.6	19.9
No. of shares (cr)	27.2	27.2	27.2	27.2	27.2
<b>Adj EPS (Rs)</b>	<b>21.2</b>	<b>25.2</b>	<b>27.4</b>	<b>31.7</b>	<b>38.0</b>
% change	-5.0	18.6	8.8	15.6	19.9
DPS (Rs)	10.0	24.0	23.0	23.0	23.0
CEPS (Rs)	26.1	30.9	33.2	39.0	45.4

## CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Net inc. + Depn.</b>	<b>711</b>	<b>830</b>	<b>935</b>	<b>1,062</b>	<b>1,236</b>
Non-cash adj.	(22)	(202)	70	19	78
Changes in W.C	(1)	66	(22)	(16)	(33)
<b>C.F. Operation</b>	<b>688</b>	<b>694</b>	<b>983</b>	<b>1,065</b>	<b>1,281</b>
Capital exp.	(321)	(209)	(104)	(150)	(163)
Change in inv.	(51)	(27)	(23)	-	-
Other invest.CF	30	29	32	(9)	(11)
<b>C.F - Investment</b>	<b>(342)</b>	<b>(207)</b>	<b>(96)</b>	<b>(159)</b>	<b>(175)</b>
Issue of equity	(14)	(9)	(11)	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(272)	(299)	(646)	(626)	(626)
Other finance.CF	(55)	(72)	(157)	(212)	(327)
<b>C.F - Finance</b>	<b>(341)</b>	<b>(380)</b>	<b>(815)</b>	<b>(838)</b>	<b>(953)</b>
Chg. in cash	5	107	73	68	154
Closing cash	294	456	399	467	621

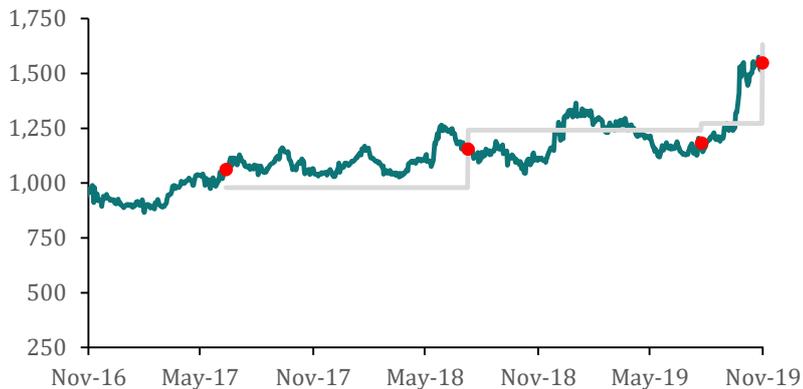
## BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	294	456	399	467	621
Accounts Receivable	130	201	210	239	271
Inventories	293	227	249	264	297
Other Cur. Assets	139	177	152	162	174
Investments	31	31	31	31	31
Gross Fixed Assets	1,577	1,352	1,546	1,695	1,859
Net Fixed Assets	1,108	1,146	1,191	1,140	1,100
CWIP	167	159	199	199	199
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	-	-	-
Other Assets	162	167	196	196	196
<b>Total Assets</b>	<b>2,323</b>	<b>2,564</b>	<b>2,626</b>	<b>2,699</b>	<b>2,889</b>
Current Liabilities	995	983	1,051	1,109	1,215
Provisions	25	19	18	18	18
Debt Funds	0	0	78	78	78
Other Liabilities	29	37	33	(189)	(511)
Equity Capital	27	27	27	27	27
Reserves & Surplus	1,247	1,497	1,420	1,655	2,062
Shareholder's Fund	1,274	1,525	1,447	1,682	2,089
Minority Interest	-	-	-	-	-
<b>Total Liabilities</b>	<b>2,323</b>	<b>2,564</b>	<b>2,626</b>	<b>2,699</b>	<b>2,889</b>
<b>BVPS (Rs)</b>	<b>46.8</b>	<b>56.1</b>	<b>53.2</b>	<b>61.8</b>	<b>76.8</b>

## RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	24.7	27.4	27.9	27.0	29.1
EBIT margin (%)	21.3	23.7	24.3	22.8	25.2
Net profit mgn.(%)	14.6	16.2	17.5	18.0	19.8
ROE (%)	45.3	44.2	53.6	51.2	49.4
ROCE (%)	66.1	64.6	70.6	61.9	60.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	12.0	17.6	17.3	18.3	19.0
Inventory (days)	72.6	56.2	57.3	58.4	60.2
Payables (days)	149.2	152.2	141.4	147.4	154.7
Current ratio (x)	0.9	1.1	1.0	1.0	1.1
Quick ratio (x)	0.4	0.7	0.6	0.6	0.7
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.8	2.8	3.1	3.0	2.9
Total asset T.O (x)	1.9	1.7	1.7	1.8	1.9
Int. covge. ratio (x)	-	-	430.8	116.9	116.4
Adj. debt/equity (x)	0.0	0.0	0.1	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	7.1	8.1	7.6	8.6	7.9
EV/EBITDA (x)	28.6	29.4	27.1	32.0	27.1
P/E (x)	48.9	49.7	45.4	48.5	40.4
P/BV (x)	22.1	22.3	23.4	24.8	20.0

## Recommendation Summary



Dates	Rating	Target
12-Jun-17	REDUCE	979
10-Jul-18	HOLD	1,242
24-Jul-19	HOLD	1,272
4-Nov-19	HOLD	1,632

## Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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