

May 24, 2016

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Rating	Accumulate
Price	Rs835
Target Price	Rs867
Implied Upside	3.8%
Sensex	25,305
Nifty	7,749

(Prices as on May 24, 2016)

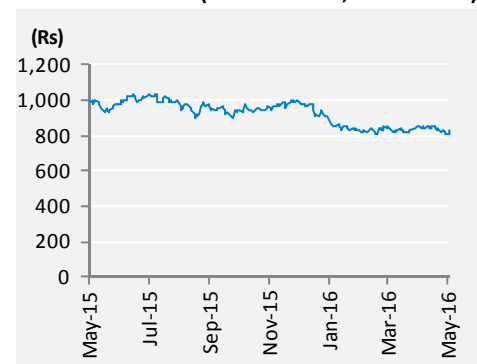
Trading data	
Market Cap. (Rs bn)	113.6
Shares o/s (m)	136.0
3M Avg. Daily value (Rs m)	24

Major shareholders	
Promoters	51.00%
Foreign	18.00%
Domestic Inst.	6.45%
Public & Other	24.55%

Stock Performance			
(%)	1M	6M	12M
Absolute	(1.7)	(11.6)	(16.5)
Relative	0.3	(9.8)	(7.0)

How we differ from Consensus			
EPS (Rs)	PL	Cons.	% Diff.
2017	23.3	25.1	-7.4
2018	26.2	29.3	-10.5

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



Source: Bloomberg

We are cutting FY17 and FY18 EPS estimates of CLGT by 6-8% following 160bps QoQ decline in market share due to rising competition from naturals segment in toothpaste. CLGT has increased focus on natural segment by launch of Sensitive with clove essence, pain out gel and packaging change in active Salt. CLGT has significantly increased advertising and sales promotions and plans to increase its presence in toothpaste having natural ingredients. We believe that loss of market share is understated given limited reach of Nielsen to the exclusive stores of Patanjali. We expect CLGT to sustain high levels of innovation and adspend which would limit meaningful expansion in margins in the near term. We estimate 12% EBITDA CAGR and 12.4% PAT CAGR over FY16-18. CLGT has reacted by 20% from 52 week high given rising competition and loss of market share; although strong innovation and distribution will play out in long term. Retain "Accumulate".

■ **Adj. PAT decline 10.8% on 310bps higher adspend:** Net Sales increased 6.8% (13% excluding excise phase out). Gross margin expanded 30bps to 63.7%. EBITDA margins declined 210bps led by 310bps increase in adspend and 40bps increase in staff cost. EBITDA declined 2.5% to Rs2.4bn. Adspend increased due to increased advertising activity on new launches and to counter competition from Patanjali. Depreciation increased by 45.3% on account of new toothpaste and toothbrush facility. Other income increased 59.5% to Rs114m. Adj. PAT at Rs1.45bn declined 10.8% (14% growth excluding excise duty phase-out impact).

■ **4Q volumes up 4%, 6% including exports, market share declines 160bps QoQ:** CLGT has reported 4% volume growth in 4Q; excluding exports it is 6%. CLGT has toothpaste market share of 55.7%, a decline of 160bps from CY15 average, which shows the impact of rising share of both Dabur and Patanjali. We believe that the actual market share loss for CLGT would be much higher given that major part of Patanjali's sales are through its own stores which won't be fully captured by Nielson. CLGT is making significant revamp of its portfolio in favour of natural products and also changing communication and packing, however improving product range of Patanjali will continue to pose challenges.

Key financials (Y/e March)	2015	2016	2017E	2018E
Revenues (Rs m)	39,822	41,613	45,966	51,337
Growth (%)	11.3	4.5	10.5	11.7
EBITDA (Rs m)	8,225	9,299	10,279	11,646
PAT (Rs m)	5,590	5,650	6,328	7,137
EPS (Rs)	41.1	20.8	23.3	26.2
Growth (%)	15.4	(49.5)	12.0	12.8
Net DPS (Rs)	24.0	10.0	12.5	14.0

*EPS growth for FY16 is 5.2% excluding the impact of bonus issue (1:1)

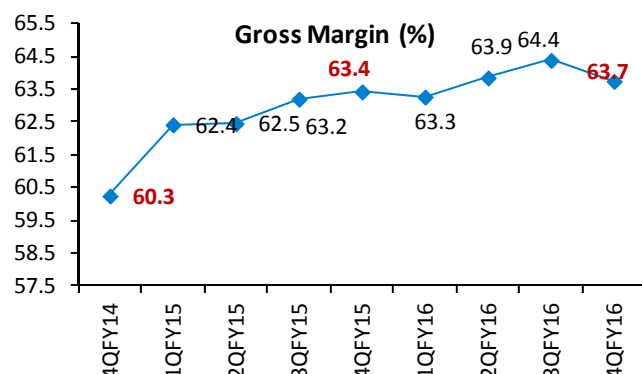
Profitability & Valuation	2015	2016	2017E	2018E
EBITDA margin (%)	20.7	22.3	22.4	22.7
RoE (%)	81.6	63.1	56.2	52.5
RoCE (%)	81.6	63.1	56.2	52.5
EV / sales (x)	2.8	5.4	4.9	4.3
EV / EBITDA (x)	13.5	24.1	21.7	19.1
PE (x)	20.3	40.2	35.9	31.8
P / BV (x)	14.7	22.3	18.5	15.3
Net dividend yield (%)	2.9	1.2	1.5	1.7

Source: Company Data; PL Research

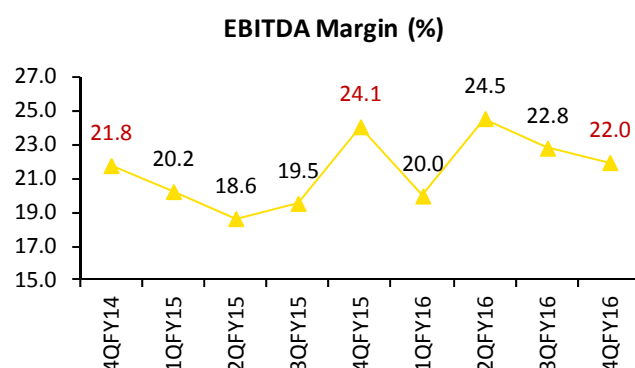
Exhibit 1: Q4FY16 Sales up 6.8%, Domestic volumes up 4%, 160bps loss of market share QoQ

Y/e March	Q4FY16	Q4FY15	YoY gr. (%)	Q3FY16	FY16	FY15	YoY gr. (%)
Net Sales	10,911	10,220	6.8	10,064	41,322	39,548	4.5
Gross Profit	6,956	6,482	7.3	6,480	26,369	24,871	6.0
Margin %	63.7	63.4		64.4	63.8	62.9	
Ad Spend	1984	1545	28.4	1587	7242	7143	1.4
% of Net sales	18.2	15.1		15.8	17.5	18.1	
Other Exp	2637	2528	4.3	2664	10135	9777	3.7
% of Net sales	24.2	24.7		26.5	24.5	24.7	
EBITDA	2,412	2,475	(2.5)	2,314	9,293	8,222	13.0
Margin (%)	22.0	24.1	(2.1)	22.8	22.3	20.6	1.7
Depreciation	297	205	45.3	295	1114	750	48.5
Other Income	114	71	59.5	106	416	332	25.3
PBT	2,229	2,342	(4.8)	2,126	8,595	7,804	10.1
Tax	770	705	9.1	717	2931	2214	32.4
Tax rate (%)	34.5	30.1		33.7	34.1	28.4	
Adj. PAT	1,459	1,636	(10.8)	1,409	5,664	5,590	1.3

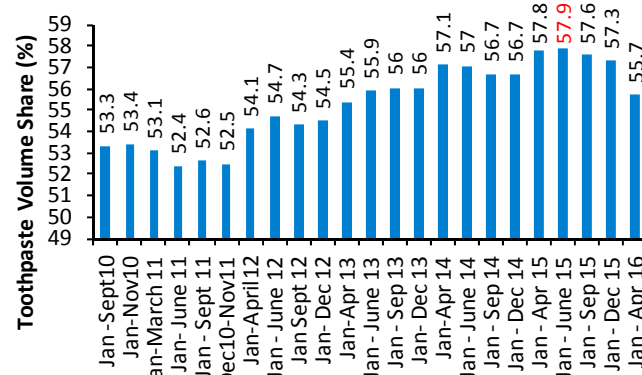
Source: Company Data, PL Research

Exhibit 2: Gross margin expands 30ps YoY to 63.7%


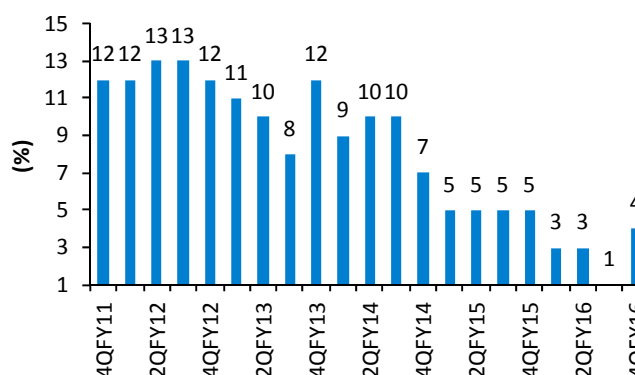
Source: Company Data, PL Research

Exhibit 3: EBITDA margin down 210bps on 310bps higher adspend


Source: Company Data, PL Research

Exhibit 4: 4QFY16 Market share down 160bps QoQ


Source: Company Data, PL Research

Exhibit 5: Volumes up 4%, 6% including exports


Source: Company Data, PL Research

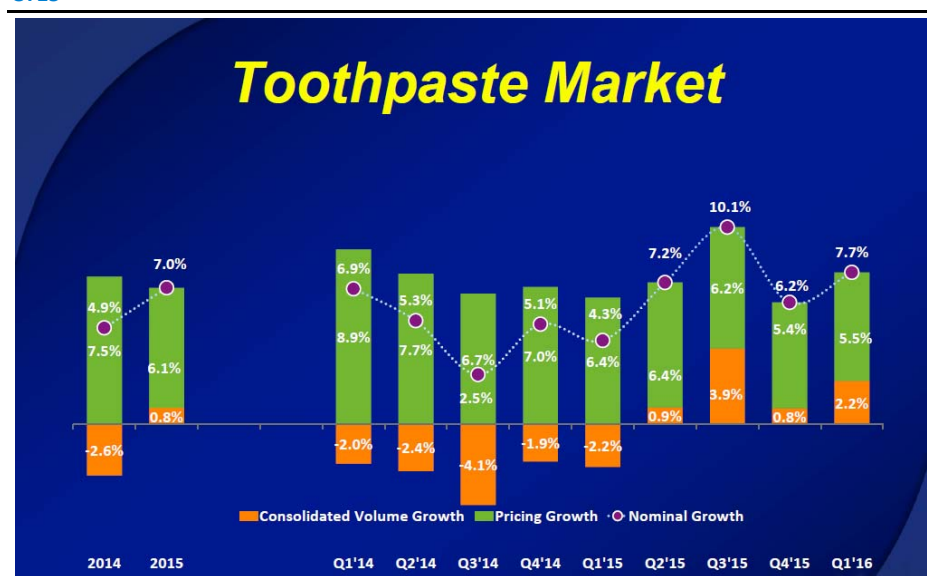
Key takeaways from the Conference call

- Demand conditions for the Toothpaste segment are showing an improving trend improved in 2HFY16, and Urban is showing higher growth as compared to Rural. CY15 sales growth has improved from 4.9% to 7%.
- CLGT is now focusing to achieve growth by increasing the incidence of per capita consumption of toothpaste, at present only 20% of the urban users brush twice a day.
- The contribution of Premium toothpaste has increased from 15.5% in 2011-12 to 19.4% in 2015-16. Natural segment is growing at high double digits, Family segment is growing in line with the market, Sensitive and whitening segments are also growing at healthy clip; however growth in the Low price packs and the multi benefit segment has suffered the most.
- Colgate has done a packaging change in its existing Naturals portfolio and is aggressively looking to expand its natural portfolio. It has entered into therapeutic segment with “Pain Out” - a dental gel with natural ingredients. It is launching Colgate sensitive Clove Essence in the sensitivity segment.
- Colgate has intensified its innovation agenda and has made a slew of launches across categories like Toothpaste, Toothbrush, Mouth wash and Personal care. Its latest launch Colgate Salt Neem variant has already gained 1.1% value market share, while Zig Zag Black Toothbrush has gained 4.3% value market share within 4-5 months of its launch.
- CLGT has guided for 4-5% price increase in FY17, while it hasn't given any outlook on the demand scenario however it expects the demand scenario to recover gradually.
- Adspend in Q4 was higher primarily led by increase in advertisement expenditure on the back of several new launches, we expect the adspend to remain at heightened levels given the intense competition in the Toothpaste segment and several new launches planned by CLGT to counter competition.
- CLGT has guided for Capex of Rs 4bn in FY17, Tax rate of 34% and dividend payout ratio above 60%.

Exhibit 6: Cutting EPS estimates by 6-8% on competitive intensity

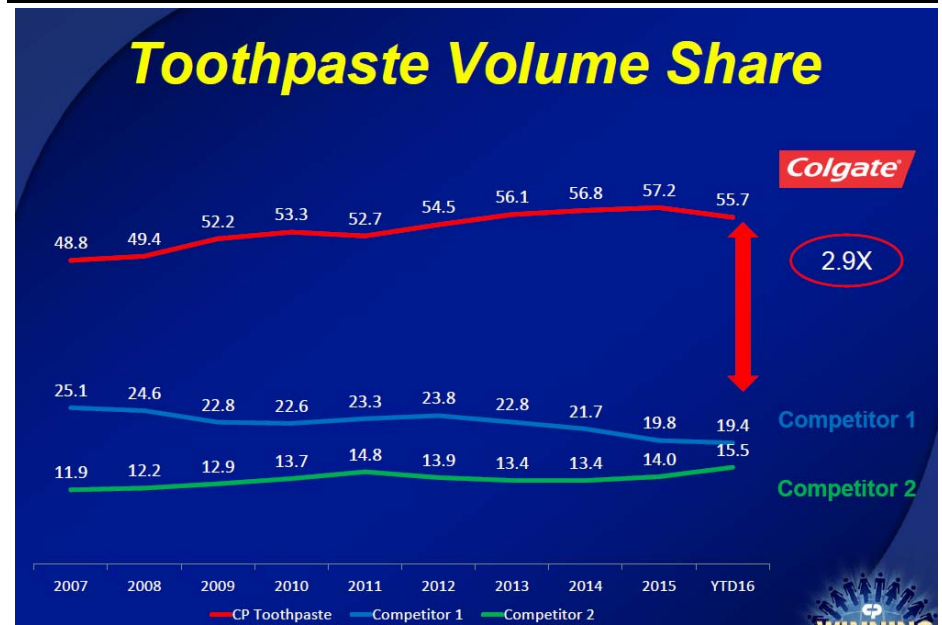
	FY17E			FY18E		
	Earlier	New	% Change	Earlier	New	% Change
<i>Volume growth %</i>	3.5	3.5		5.0	4.5	
Net Sales	45,107	45,660	1.2	50,340	51,014	1.3
<i>Sales Growth %</i>	10.1	10.5		11.6	11.7	
Ad Spend	7,443	8,219	10.4	8,306	8,928	7.5
<i>Adspend % of sales</i>	16.5	18.0		16.5	17.5	
EBITDA	10,840	10,279	(5.2)	12,155	11,646	(4.2)
<i>EBITDA margin %</i>	23.9	22.4		24.0	22.7	
Tax	3395	3260	(4.0)	3742	3677	(1.7)
<i>Tax rate %</i>	33.5	34.0		32.5	34.0	
PAT	6,739	6,328	(6.1)	7,771	7,137	(8.2)
<i>PAT growth %</i>	14.6	12.0		15.3	12.8	
EPS (Rs)	24.8	23.3	(6.1)	28.6	26.2	(8.2)

Source: PL Research

Exhibit 7: Toothpaste market volume growth has increased from -2.6% in CY14 to +0.8% in CY15


Source: Company Data, PL Research

Exhibit 8: Colgate has lost 160bps market share in 1QCY16 over CY15 average, Dabur continues to gain share



Source: Company Data, PL Research

Exhibit 9: Colgate has stepped up its pace of innovation



Source: Company Data, PL Research

Exhibit 10: Colgate has unveiled new range of kid's toothpastes



Source: Company Data, PL Research

Exhibit 11: Colgate has changed the packing of Active salt to convey natural ingredients in the product



Source: Company Data, PL Research

Exhibit 12: Colgate has launched clove essence sensitive, having benefits of clove



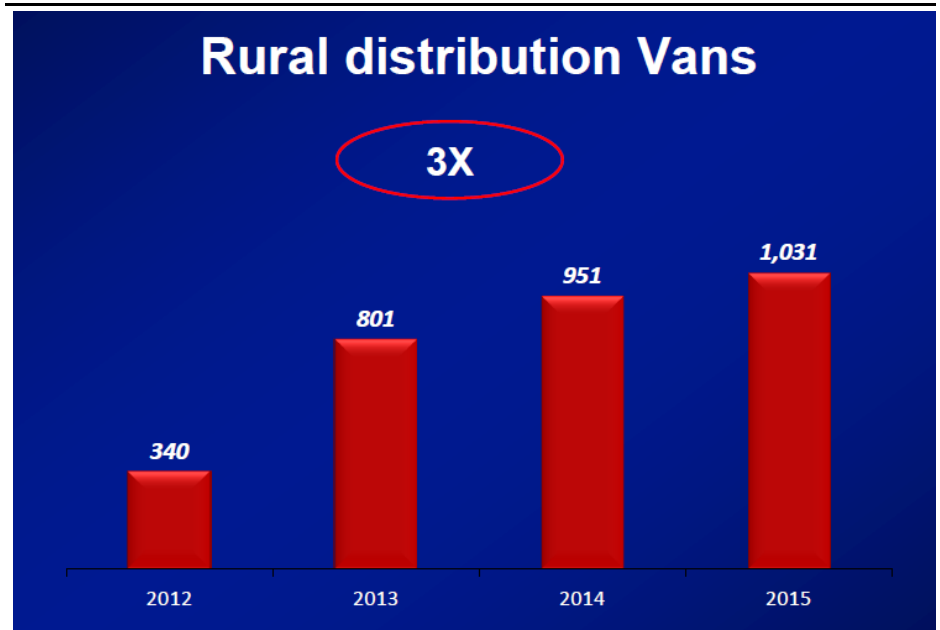
Source: Company Data, PL Research

Exhibit 13: Colgate has launched pain out, a natural express pain relief gel



Source: Company Data, PL Research

Exhibit 14: Rural distribution vans has been increased 2x



Source: Company Data, PL Research



Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	39,822	41,613	45,966	51,337
Raw Material Expenses	14,677	14,953	16,246	18,340
Gross Profit	25,145	26,660	29,720	32,997
Employee Cost	2,589	2,698	3,122	3,546
Other Expenses	14,331	14,663	16,319	17,806
EBITDA	8,225	9,299	10,279	11,646
Depr. & Amortization	750	1,114	1,210	1,472
Net Interest	—	—	—	—
Other Income	329	397	519	640
Profit before Tax	7,804	8,581	9,588	10,814
Total Tax	2,214	2,931	3,260	3,677
Profit after Tax	5,590	5,650	6,328	7,137
Ex-Od items / Min. Int.	—	202	—	—
Adj. PAT	5,590	5,650	6,328	7,137
Avg. Shares O/S (m)	136.0	272.0	272.0	272.0
EPS (Rs.)	41.1	20.8	23.3	26.2

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	6,582	5,818	8,333	9,085
C/F from Investing	(2,898)	(2,682)	(3,036)	(3,000)
C/F from Financing	(3,991)	(3,260)	(4,215)	(4,587)
Inc. / Dec. in Cash	(308)	(124)	1,082	1,498
Opening Cash	3,012	2,704	2,681	3,763
Closing Cash	2,704	2,580	3,763	5,261
FCFF	3,475	3,677	3,898	6,159
FCFE	3,475	3,677	3,898	6,159

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	11.3	4.5	10.5	11.7
EBITDA (%)	24.0	13.1	10.5	13.3
PAT (%)	15.4	1.1	12.0	12.8
EPS (%)	15.4	(49.5)	12.0	12.8
Profitability				
EBITDA Margin (%)	20.7	22.3	22.4	22.7
PAT Margin (%)	14.0	13.6	13.8	13.9
RoCE (%)	81.6	63.1	56.2	52.5
RoE (%)	81.6	63.1	56.2	52.5
Balance Sheet				
Net Debt : Equity	(0.4)	(0.3)	(0.3)	(0.4)
Net Wrkng Cap. (days)	(59)	(54)	(49)	(46)
Valuation				
PER (x)	20.3	40.2	35.9	31.8
P / B (x)	14.7	22.3	18.5	15.3
EV / EBITDA (x)	13.5	24.1	21.7	19.1
EV / Sales (x)	2.8	5.4	4.9	4.3
Earnings Quality				
Eff. Tax Rate	28.4	34.2	34.0	34.0
Other Inc / PBT	4.2	4.6	5.4	5.9
Eff. Depr. Rate (%)	5.8	7.4	6.2	6.5
FCFE / PAT	62.2	65.1	61.6	86.3

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	7,703	10,195	12,308	14,858
Total Debt	—	—	—	—
Other Liabilities	—	—	—	—
Total Liabilities	7,703	10,195	12,308	14,858
Net Fixed Assets	9,228	10,866	12,692	14,220
Goodwill	—	—	—	—
Investments	371	301	301	301
Net Current Assets	(1,870)	(1,005)	(783)	165
<i>Cash & Equivalents</i>	<i>2,704</i>	<i>2,681</i>	<i>3,763</i>	<i>5,261</i>
<i>Other Current Assets</i>	<i>4,716</i>	<i>5,349</i>	<i>5,556</i>	<i>6,043</i>
<i>Current Liabilities</i>	<i>9,290</i>	<i>9,035</i>	<i>10,103</i>	<i>11,139</i>
Other Assets	(26)	33	98	171
Total Assets	7,703	10,195	12,308	14,858

Quarterly Financials (Rs m)

Y/e March	Q1FY16	Q2FY16	Q3FY16	Q4FY16E
Net Revenue	10,102	10,385	10,149	10,988
EBITDA	2,018	2,549	2,314	2,412
% of revenue	20.0	24.5	22.8	22.0
Depr. & Amortization	253	269	295	297
Net Interest	—	—	—	—
Other Income	88	108	106	114
Profit before Tax	1,853	2,388	2,126	2,229
Total Tax	626	818	717	770
Profit after Tax	1,143	1,569	1,594	1,459
Adj. PAT	1,227	1,569	1,409	1,459

Key Operating Metrics

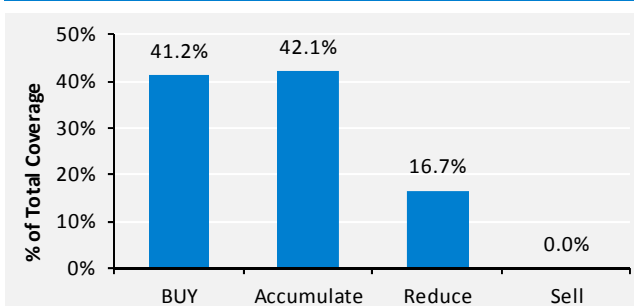
Y/e March	2015	2016	2017E	2018E
Volume Growth %	5.0	3.3	3.5	4.5
Toothpaste market Share (Vol)	57.8	—	—	—
Tax rate %	28.4	34.2	34.0	34.0
Gross margin %	63.1	64.1	64.7	64.3
Ad Spends as % of sales	18.1	17.5	18.0	17.5

Source: Company Data, PL Research.

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