

BSE SENSEX

28,183

S&P CNX

8,711

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Bloomberg	CLGT IN
Equity Shares (m)	272.0
M.Cap.(INRb)/(USD\$)	227.2 / 3.4
52-Week Range (INR)	1033 / 788
1, 6, 12 Rel. Per (%)	4/3/0
12M Avg Val (INR M)	336
Free float (%)	49.0

Financials & Valuations (INR b)

Y/E Mar	2016	2017E	2018E
Net Sales	38.0	42.8	49.1
EBITDA	9.5	10.2	13.1
PAT	6.1	6.2	8.1
EPS (INR)	22.3	22.8	29.9
Gr. (%)	8.7	2.2	31.1
BV/Sh (INR)	37.5	41.7	45.2
RoE (%)	67.9	57.7	68.9
RoCE (%)	67.0	56.6	67.6
P/E (x)	45.5	44.5	33.9
P/BV (x)	27.1	24.4	22.5

Estimate change



TP change



Rating change


CMP: INR1,016 TP: INR1,190(+17%)
Buy

Aggression in terms of new launches, advertising heartening

- **Colgate-Palmolive (CLGT) posted net sales growth of 8.9% YoY (est. of 9.5%)** to INR10.1b (Ind-AS). Adjusting for excise impact YoY, organic sales growth was 12.5% YoY, led by 6% volume growth, including exports and 5% domestic volume growth (est. of +4.5%; highest in the past five quarters), selective price increases and product mix changes. EBITDA was up 3.7% YoY (est. of +19.6%) to INR2.11b, mainly because of higher A&P YoY, while Adj. PAT was up 1.3% YoY (est. of +20.8% YoY) to INR1.26b.
- **Toothpaste market share improved 60bp sequentially** to 55.9%, while toothbrushes share rose 100bp to 46.8%. New launches introduced include Colgate Sensitive Clove, a formulation of clove oil and potassium nitrate, as well as Colgate Cibaca Vedshakti with six natural ingredients.
- **Gross margin continued to show strong growth of 140bp YoY** (est. of 70bp YoY) to 62.3%. This was offset by a sharp increase in advertising spends (+ 190bp YoY despite a high base in 1QFY16) and higher staff costs (+40bp YoY). EBITDA margin declined 100bp YoY (est. of +180bp) to 20.9%. EBITDA was up 3.7% YoY (est. of +19.6%) to INR2.11b, while Adj. PAT was up 1.3% YoY (est. of +20.8% YoY) to INR1.26b.
- **Valuation and view:** We are encouraged by the pace of new launches in the herbal/non-herbal space as well as the advertising intensity. While this may affect near-term margins, it augurs well for volume growth recovery and market share growth. Oral care category has high growth potential, and Colgate has strong moats in the form of distribution, category development efforts, brand strength, R&D and advantages of concentrated focus in oral care. It also has a remarkable track record in warding off competition because of these moats. Long-term earnings growth potential is strong and balance sheet is best of breed. Changes to the model have resulted in 4% decline/3% upgrade to FY17/FY18 EPS. Maintain **Buy** with a revised target price of INR1,190 (38x June 2018 EPS, 15% premium to average multiple for the past three years).

Quarterly Performance

Y/E March	FY16	FY17				FY16	FY17E	FY17	(INR Million)
	1Q	1Q	2QE	3QE	4QE			1QE	Var. (%)
Toothpaste Volume Gr %	2.0	5.0	5.5	6.5	5.5	2.3	5.5	4.5	
Net Sales	9,237	10,056	10,726	10,555	11,431	38,016	42,768	10,982	-8.4%
YoY Change (%)		8.9	13.0	14.0	13.9	-3.9	12.5	9.5	
COGS	3,641	3,822	4,129	4,044	4,445	14,953	16,439	3,957	-3.4%
Gross Profit	5,596	6,234	6,598	6,511	6,986	23,063	26,329	7,025	
Gross Margin (%)	60.6	62.0	61.5	61.7	61.1	60.7	61.6	64.0	
Other operating Expenses	3,630	4,197	3,974	3,990	4,402	14,051	16,562	4,684	
% to sales	39.3	41.7	37.0	37.8	38.5	37.0	38.7	42.6	
Other operating Income	72	76	67	85	231	451	458	72	
EBITDA	2,038	2,113	2,691	2,606	2,815	9,463	10,225	2,414	-12.5%
Margins (%)	21.9	20.9	24.9	24.5	24.1	24.6	23.7	21.8	
YoY Growth (%)		3.7	10.0	17.7	22.3	15.1	8.1	19.6	
Depreciation	253	316	310	339	348	1,114	1,313	291	
Interest	0	0	0	0	0	0	0	0	
Financial other Income	81	101	108	106	47	246	362	89	
PBT	1,866	1,897	2,489	2,373	2,515	8,595	9,274	2,213	-14.3%
Tax	626	640	821	783	816	2,325	3,061	730	
Rate (%)	33.5	33.7	33.0	33.0	32.4	27.1	33.0	33.0	
Adj PAT	1,241	1,257	1,668	1,590	1,699	6,270	6,214	1,482	-15.2%
YoY Change (%)		1.3	6.3	12.9	16.5	12.2	-0.9	20.8	

E: MOSL Estimates

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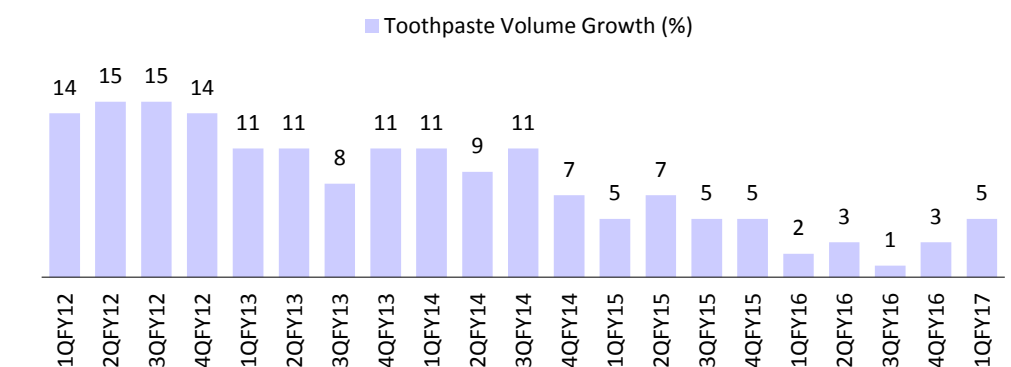
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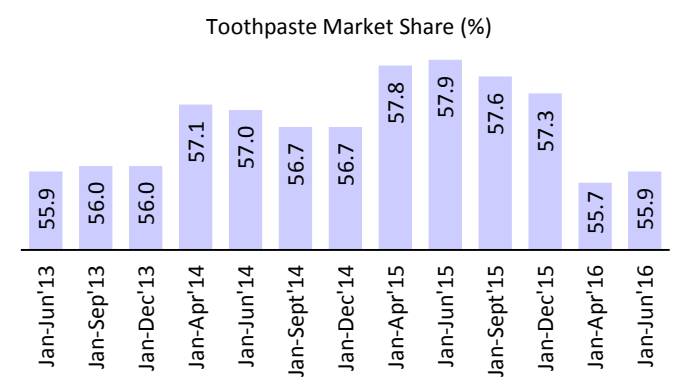
Key Quarterly Charts

Exhibit 1: Toothpaste volumes grew 5% in 1QFY17



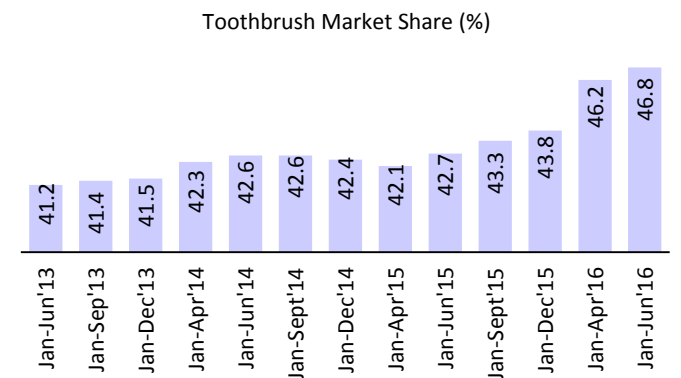
Source: Company, MOSL

Exhibit 2: Toothpaste volume market share stood at 55.9%



Source: MOSL, Company

Exhibit 3: Toothbrush market share stood at 46.8%



Source: MOSL, Company

Valuation and view

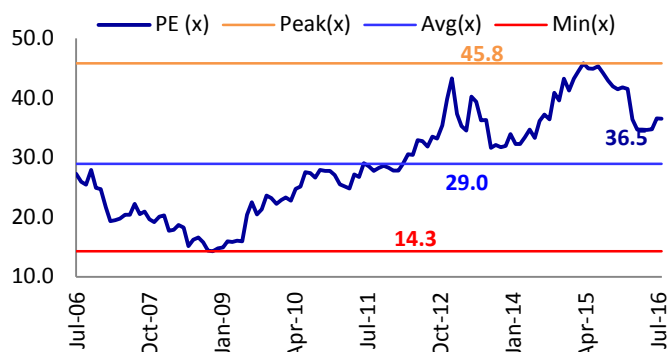
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- It also has a remarkable track record in warding off competition because of these moats. Long term earnings growth potential is strong and balance sheet is best of breed.
- Changes to the model have resulted in 4% decline/3 upgrade to FY17/FY18EPS. Maintain Buy with revised target price of INR1,190 (38x June 2018 EPS, 15% premium to average multiple for the past 3 years).

Exhibit 4: We upgrade FY18 EPS by 3%

	Old		New		Change (%)	
	FY17E	FY18E	FY17E	FY18E	FY17E	FY18E
Sales	45,712	52,529	42,768	49,143	(6.4)	(6.4)
EBITDA	10,633	12,827	10,225	13,118	(3.8)	2.3
EPS	6,483	7,873	6,214	8,144	(4.2)	3.4

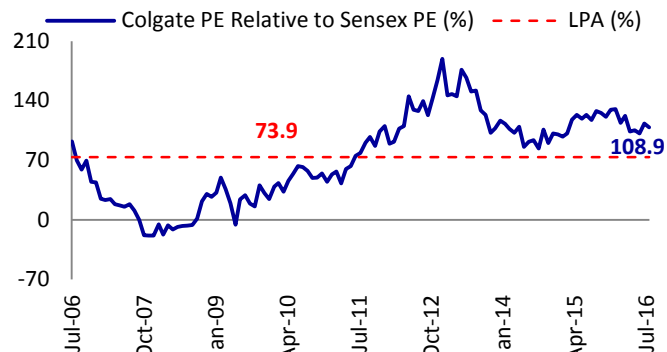
Source: Company, MOSL

Exhibit 5: CLGT P/E (x)



Source: Bloomberg, Company, MOSL

Exhibit 6: Colgate P/E premium vs. Sensex



Source: Bloomberg, Company, MOSL

Exhibit 1: Valuation Matrix of coverage universe

Company	Reco	Price	Mkt Cap	EPS Growth YoY (%)			P/E (x)			EV/EBITDA (x)			ROE (%)	Div. (%)
		(INR)	(USD M)	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY16
Consumer														
Asian Paints	Neutral	1,149	16,494	25.0	20.1	16.3	62.0	51.6	44.4	41.5	34.4	29.5	34.4	0.8
Britannia	Buy	3,152	5,658	41.9	21.6	15.2	46.5	38.3	33.2	31.8	26.5	22.0	54.6	0.8
Colgate	Buy	1,016	4,137	8.7	2.2	31.1	45.5	44.5	33.9	28.9	26.7	20.7	67.9	1.1
Dabur*	Neutral	293	7,716	17.5	12.3	15.5	41.1	36.6	31.7	33.1	29.5	25.5	33.2	0.7
Emami*	Buy	1,149	3,904	17.7	10.0	23.9	45.6	41.5	33.5	38.9	32.3	26.7	43.4	0.7
Godrej Consumer	Neutral	1,571	8,004	24.4	22.9	25.8	47.3	38.5	30.6	35.1	29.5	24.3	23.4	0.6
GSK Consumer	Neutral	6,305	3,968	20.7	4.6	9.9	37.6	36.0	32.8	27.6	26.3	23.3	30.7	1.0
Hind. Unilever	Neutral	929	30,089	12.9	7.1	12.8	48.8	45.6	40.4	34.1	31.7	28.1	82.4	1.7
ITC	Buy	250	45,162	-3.5	17.9	15.6	32.4	27.5	23.8	20.6	18.2	15.6	29.3	2.7
Jyothy Labs	Buy	290	785	24.2	-6.7	12.4	33.2	35.6	31.6	25.5	22.7	20.1	19.2	1.4
Marico*	Neutral	300	5,791	26.1	14.6	22.8	53.5	46.7	38.0	36.8	32.6	26.7	36.9	1.1
Nestle	Neutral	6,852	9,887	-7.3	-5.5	25.5	57.2	60.5	48.2	40.3	35.2	28.0	40.9	0.7
Page Industries	Buy	14,172	2,366	21.0	25.0	31.3	66.6	53.3	40.6	41.5	33.8	26.1	46.9	0.6
Parag Milk Foods	Neutral	324	341	-66.7	41.1	32.5	48.2	34.1	25.8	18.0	16.3	13.3	19.5	0.0
Pidilite Inds.	Buy	729	5,594	46.6	23.0	18.2	49.1	39.9	33.8	31.0	25.8	21.7	30.4	0.6
P&G Hygiene	Buy	6,695	3,252	19.8	12.0	19.7	52.5	46.8	39.1	35.1	30.2	24.5	31.2	1.0
Radico Khaitan	Buy	91	180	-2.6	14.7	21.0	14.0	12.2	10.1	9.9	8.6	7.4	9.3	1.1
United Spirits	Buy	2,238	4,867	LP	21.1	50.8	72.3	59.7	39.6	33.5	31.6	23.7	36.7	0.0
Retail														
Jubilant Foodworks	Buy	1,208	1,185	-6.0	54.0	46.1	75.8	49.2	33.7	28.2	20.5	15.2	14.1	0.2
Shopper's Stop	Neutral	382	470	19.3	48.9	30.9	65.6	44.0	33.6	15.6	12.9	10.6	6.3	0.0
Titan Company	Neutral	420	5,575	-13.4	11.4	21.0	52.2	46.9	38.7	43.2	35.6	29.1	21.3	0.6

Note: For Nestle FY16 means CY15

Source: Company, MOSL

Financials and Valuations

Income Statement						(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Net Sales	26,239	30,841	35,449	39,548	38,016	42,768	49,143	55,728
Change (%)	18.2	17.5	14.9	11.6	-3.9	12.5	14.9	13.4
COGS	10,502	12,502	14,020	14,677	14,953	16,439	18,711	21,054
Gross Profit	15,736	18,339	21,429	24,871	23,063	26,329	30,432	34,674
Gross Margin (%)	58.2	57.8	59.6	62.4	60.0	60.9	61.3	61.7
Operating expenses	10,645	12,568	15,128	16,920	14,051	16,562	17,779	19,821
Other Operating Income	781	897	484	340	451	458	465	472
EBITDA	5,872	6,668	6,785	8,290	9,463	10,225	13,118	15,325
Change (%)	11.4	13.6	1.8	22.2	14.1	8.1	28.3	16.8
Margin (%)	21.7	21.0	18.9	20.8	24.6	23.7	26.4	27.3
Depreciation	393	437	508	750	1,114	1,313	1,445	1,520
Financial Other Income	434	399	358	264	246	362	483	585
Profit before Taxes	5,883	6,630	6,636	7,804	8,595	9,274	12,155	14,390
Change (%)	13.1	12.7	0.1	17.6	10.1	7.9	31.1	18.4
Margin (%)	22.4	21.5	18.7	19.7	22.6	21.7	24.7	25.8
Tax	1,372	1,766	1,683	2,009	2,325	3,061	4,011	4,749
Tax Rate (%)	24.1	25.1	26.1	28.4	29.3	33.0	33.0	33.0
Adjusted PAT	4,464	4,967	4,906	5,590	6,079	6,214	8,144	9,641
Change (%)	10.9	11.3	-1.2	13.9	8.7	2.2	31.1	18.4
Margin (%)	17.0	16.1	13.8	14.1	16.0	14.5	16.6	17.3
Non-rec. (Exp)/Income	0	0	492	0	-313	0	0	0
Reported PAT	4,464	4,967	5,399	5,590	5,765	6,214	8,144	9,641

Note: We have adjusted FY16, FY17 and FY18 P&L numbers for Ind AS Impact. Since Ind AS Balance Sheet has not been shared we have retained earlier numbers.

Balance Sheet						(INR Million)		
Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Share Capital	272	272	272	272	272	272	272	272
Reserves	4,082	4,624	5,727	7,431	9,923	11,065	12,035	13,281
Net Worth	4,354	4,896	5,999	7,703	10,195	11,337	12,307	13,553
Deferred Liability	-121	-224	-178	26	217	217	217	217
Capital Employed	4,233	4,671	5,821	7,729	10,412	11,554	12,525	13,770
Gross Block	6,132	6,735	9,927	12,829	15,773	18,773	19,773	20,773
Less: Accum. Depn.	-3,587	-3,929	-4,368	-5,013	-5,691	-7,004	-8,450	-9,970
Net Fixed Assets	2,544	2,807	5,559	7,816	10,081	11,769	11,323	10,803
Capital WIP	694	1,020	1,415	1,412	784	784	784	784
Investments	471	471	371	371	301	301	301	301
Curr. Assets, L&A	7,466	8,546	7,364	7,420	8,270	8,818	11,410	14,395
Inventory	2,177	1,853	2,257	2,522	2,927	3,343	3,716	4,175
Account Receivables	873	812	547	696	1,015	1,146	1,317	1,494
Cash & Bank	3,098	4,288	2,870	2,545	2,883	2,797	4,713	6,919
Others	1,318	1,593	1,690	1,657	1,445	1,532	1,664	1,808
Curr. Liab. and Prov.	6,942	8,172	8,889	9,290	9,025	10,117	11,294	12,512
Account Payables	3,690	4,666	5,100	5,144	5,519	6,136	6,913	7,777
Other Liabilities	2,179	2,510	2,837	2,874	2,399	2,519	2,645	2,777
Provisions	1,073	995	952	1,272	1,106	1,463	1,736	1,958
Net Current Assets	524	374	-1,525	-1,870	-755	-1,300	116	1,882
Application of Funds	4,233	4,671	5,821	7,729	10,412	11,554	12,525	13,770

E: MOSL Estimates

Financials and Valuations

Ratios

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
Basic (INR)								
EPS	16.4	18.3	18.0	20.6	22.3	22.8	29.9	35.4
Cash EPS	17.9	19.9	19.9	23.3	26.4	27.7	35.3	41.0
BV/Share	16.0	18.0	22.1	28.3	37.5	41.7	45.2	49.8
DPS	12.0	13.5	13.4	12.5	11.0	16.0	21.0	24.8
Payout %	73.2	73.6	74.5	60.6	49.1	70.0	70.0	70.0

Valuation (x)

P/E	61.9	55.7	56.3	49.5	45.5	44.5	33.9	28.7
Cash P/E	56.9	51.2	51.1	43.6	38.4	36.7	28.8	24.8
EV/Sales	10.4	8.8	7.7	6.9	7.2	6.4	5.5	4.8
EV/EBITDA	46.5	40.7	40.3	33.0	28.9	26.7	20.7	17.6
P/BV	63.5	56.5	46.1	35.9	27.1	24.4	22.5	20.4
Dividend Yield (%)	1.2	1.3	1.3	1.2	1.1	1.6	2.1	2.4

Return Ratios (%)

RoE	108.9	107.4	90.1	81.6	67.9	57.7	68.9	74.6
RoCE	113.5	111.6	93.5	82.5	67.0	56.6	67.6	73.3
RoIC	-1,009.4	-820.9	16,067.6	236.5	119.9	84.6	108.6	148.1

Working Capital Ratios

Debtor (Days)	12	9	5	6	8	8	8	8
Asset Turnover (x)	8.6	9.7	8.8	6.7	4.1	4.1	4.3	4.4

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR Million)

Y/E March	2012	2013	2014	2015	2016	2017E	2018E	2019E
OP/(loss) before Tax	5,872	6,668	6,785	8,290	9,463	10,225	13,118	15,325
Int./Div. Received	-434	-399	-358	-264	-246	-362	-483	-585
Interest Paid	30	0	0	0	0	0	0	0
Direct Taxes Paid	-1,372	-1,766	-1,683	-2,009	-2,325	-3,061	-4,011	-4,749
(Incr)/Decr in WC	-770	1,339	480	20	-777	459	500	439
CF from Operations	3,327	5,842	5,224	6,037	6,115	7,261	9,124	10,431
(Incr)/Decr in FA	-904	-930	-3,587	-2,898	-2,316	-3,000	-1,000	-1,000
Free Cash Flow	2,422	4,913	1,637	3,139	3,799	4,261	8,124	9,431
(Pur)/Sale of Investments	-84	0	100	0	70	0	0	0
CF from Invest.	-988	-930	-3,487	-2,898	-2,246	-3,000	-1,000	-1,000
Change in Equity	15	-149	-75	-38	484	0	-526	-526
(Incr)/Decr in Debt	-1	0	0	0	0	0	0	0
Dividend Paid	-3,965	-4,276	-4,221	-3,848	-3,758	-5,072	-6,647	-7,869
Others	754	702	1,140	422	-256	725	966	1,170
CF from Fin. Activity	-3,197	-3,723	-3,156	-3,464	-3,530	-4,347	-6,208	-7,226
Incr/Decr of Cash	-858	1,190	-1,418	-325	339	-86	1,917	2,205
Add: Opening Balance	3,956	3,098	4,288	2,870	2,545	2,883	2,797	4,713
Closing Balance	3,098	4,288	2,870	2,545	2,883	2,797	4,713	6,918
E: MOSL Estimates	0							

Corporate profile

Company description

Colgate-Palmolive India (CLGT) is the market leader in the toothpaste segment, with a share of ~56.7%. Oral Care is one of the most under-penetrated segments of the FMCG market, with ~83% of sales from toothpastes. CLGT has presence in toothbrushes and mouthwash, and Personal Care products like body wash.

Exhibit 1: Sensex rebased

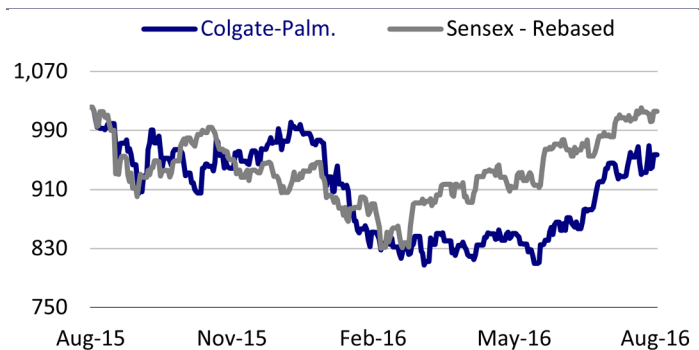


Exhibit 2: Shareholding pattern (%)

	Jun-16	Mar-16	Jun-15
Promoter	51.0	51.0	51.0
DII	8.3	18.3	5.1
FII	16.3	6.0	20.7
Others	24.4	24.7	23.2

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	4.7
Arisaig Partners (Asia) Pte Ltd. A/c Arisaig India Fund Limited	3.4

Source: Capitaline

Exhibit 4: Top management

Name	Designation
M V Deoras	Chairman
Vinod Nambiar	Chairman
P K Ghosh	Deputy Chairman
R A Shah	Vice Chairman
I Bachaalani	Managing Director
Godfrey Nthunzi	Whole Time Director & CFO
N Ghate	Whole-time Director & CS

Source: Capitaline

Exhibit 5: Directors

Name	Name
Indu Shahani	J K Setna
V S Mehta	Shyamala Gopinath

*Independent

Exhibit 6: Auditors

Name	Type
Price Waterhouse	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY17	22.8	23.9	-4.5
FY18	29.9	27.8	7.4

Source: Bloomberg

NOTES

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