

Colgate-Palmolive (India)

BUY

| | | | |
|---------------------------------|--------------|-----------|------------|
| INDUSTRY | FMCG | | |
| CMP (as on 12 Mar 2018) | Rs 1,044 | | |
| Target Price | Rs 1,204 | | |
| Nifty | 10,421 | | |
| Sensex | 33,918 | | |
| KEY STOCK DATA | | | |
| Bloomberg | CLGT IN | | |
| No. of Shares (mn) | 272 | | |
| MCap (Rs bn)/(US\$ mn) | 282/4,367 | | |
| 6 m avg traded value (Rs mn) | 330 | | |
| STOCK PERFORMANCE (%) | | | |
| 52 Week high / low | Rs 1,178/947 | | |
| | 3M | 6M | 12M |
| Absolute (%) | (2.2) | (9.8) | 10.3 |
| Relative (%) | (4.2) | (15.3) | (6.8) |
| SHAREHOLDING PATTERN (%) | | | |
| Promoters | 51.00 | | |
| FIs & Local MFs | 12.61 | | |
| FPIs | 13.92 | | |
| Public & Others | 22.47 | | |
| Source : BSE | | | |

Naveen Trivedi

 naveen.trivedi@hdfcsec.com
 +91-22-6171-7324

Siddhant Chhabria

 siddhant.chhabria@hdfcsec.com
 +91-22-6171-7336

End of market share bloodbath?

We met the management of Colgate-Palmolive India (Colgate) to discuss (1) Recovery in the oral care market (2) Analysing Colgate's market share losses in toothpaste and toothbrush (3) Colgate's counter strategy to stabilize and regain market share (4) Health of the trade channels (5) Scope of entering new categories (pollination of global products).

Recap of 3QFY18 results: Colgate's 3QFY18 volume growth of 12% (12% decline in 3QFY17) was its fastest in the last 12 quarters. However, volume growth was below the street and our expectation (13.5%). As a result the stock corrected by 8% post the result. Colgate posted revenue/EBITDA/APAT of 5/15/11% YoY during 9MFY18.

Key takeaways of the meeting

(1) Recovery in the oral care market: As per the mgt. the oral care market (~Rs 100bn) has not yet reached its historical growth rates (single digit vs. low teens). Rural used to grow 200-250bps faster than urban but is now growing 100-150bps faster. Disruption in the trade channels is one of the key factors for this slowdown. Mgt is optimistic for the recovery and expects the market to grow at low teens during FY18-20E.

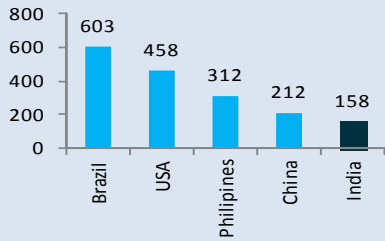
(2) Analysing Colgate's market share losses in toothpaste and toothbrush:

- **Did not attain competitive advantage by being the first mover in 'Naturals':** Colgate always believed naturals had prospects in the oral space, hence it had a presence through Active Salt (Neem and Lemon), few

years prior to Patanjali's entry. However, they underestimated the scope of naturals and hence weren't too gung-ho about it. With Patanjali's entry, the naturals space in the oral market blew up from <10% to 25% share.

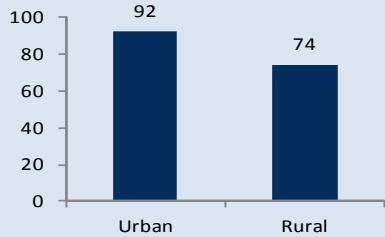
- **Change in consumer perception to Ayurvedic:** Naturals/Ayurvedic did well not because of pricing or quality of product but primarily change in consumer perception from scientific products to ayurvedic. Colgate and HUL lost significant market share in North and East India owing to stronger change in consumer perception in these markets (Baba Ramdev's home turf).
- **Unfortunate with Cibaca Vedshakti's launch:** Colgate launched Cibaca Vedshakti to take on Patanjali's Dant Kati in Oct'16. However, the industry was hit by demonet, followed by GST. Therefore the product did not get an opportunity to make a mark. Post GST transition, Colgate decided to expand the Vedshakti brand with the launch of Swarna Vedshakti (premium product) in the South and West regions.
- **Market share is now stabilizing:** Since their peak volume market share of 57.9% for toothpaste in Q1FY16, Colgate has lost 420bps of share (implying 42bps loss per quarter). Bulk of the market share losses were attributed from Colgate's premium segment (Colgate sensitive and Colgate Total). The premium segment used to contribute ~8% vs. now at ~4%. However their flagship segment i.e. 'pure family' and 'freshness' maintained market share.

Toothpaste Per Capita Consumption (gms)



Source: Colgate-Palmolive, HDFC sec Inst Research

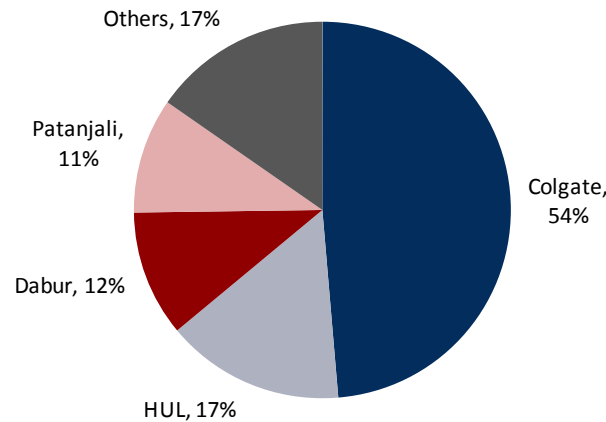
Rural and Urban Penetration



Source: Colgate-Palmolive

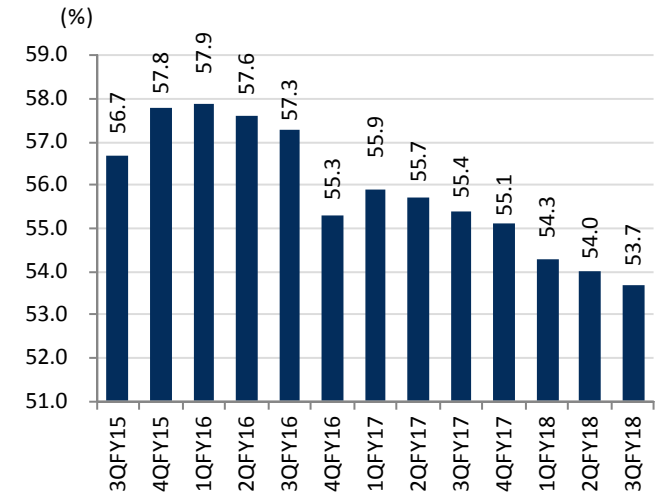
- According to the mgt., market share is now stabilizing and unlikely to fall further.** Unlike the word on the street, the mgt denied softening of Patanjali’s competitive intensity in oral care. However the co. believes Dabur is a stronger competitor with good products (Dabur Red and Babool) and strong distribution strategy. The co. also hasn’t seen any impact with HUL’s Lever Ayush (naturals) launch, however they see HUL as a strong competitor in the freshness space (HUL’s Closeup vs. Colgate’s MaxFresh)

Toothpaste Market Breakup (~Rs 80bn)



Source: Company, HDFC sec Inst Research

Colgate’s Toothpaste Market Share Trend



Source: Company, HDFC sec Inst Research

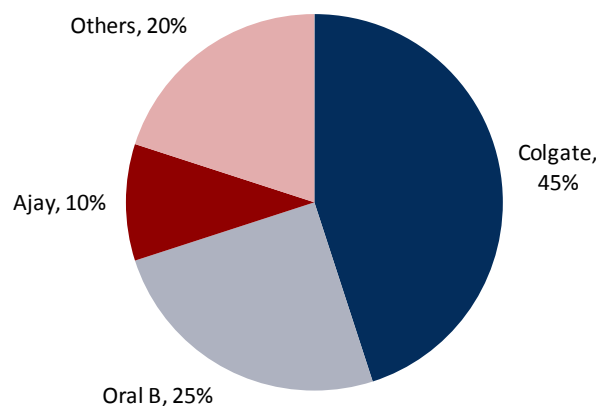
- Toothbrush segment is stable:** Although Colgate’s market share in toothbrush is not at its peak (45.1% vs. 47.4% in Q4FY17), the mgt. believes the toothbrush business is stable and should not read too much into market share numbers on a quarterly basis. P&G and Ajay (South region) are the other major players with 25% and 10% market share respectively. The mgt. stated that the brush business is a price game and hence commands lower gross margins vs. toothpaste. However toothbrush requires lower marketing spend and hence EBITDA margins are at par with toothpaste. Interestingly, retail margins for toothbrush are exorbitant at 25-30%.

Colgate's launches in Naturals are in the mid and mass segments

| Toothpastes Brands | MRP/100gm |
|-----------------------------------|-----------|
| Sensodyne | 131 |
| Colgate Sensitive Original | 124 |
| Patanjali Dant Kanti Advanced | 90 |
| Colgate Total | 71 |
| Colgate Max Fresh (Spicy fresh) | 63 |
| Lever Ayush | 60 |
| Colgate Max Fresh (Peppermint) | 58 |
| Colgate Swarna Vedshakti | 55 |
| Closeup Red Gel | 48 |
| Meswak | 47 |
| Dabur Red | 46 |
| Colgate Active Salt | 45 |
| Colgate Herbal | 44 |
| Pepsodent Germi Check 2in1 | 42 |
| Colgate Dental | 40 |
| Patanjali Dant Kanti Dental Cream | 38 |
| Patanjali Dant Kanti Junior | 35 |
| Colgate Cibaca Vedshakti | 31 |
| Colgate Cibaca | 25 |

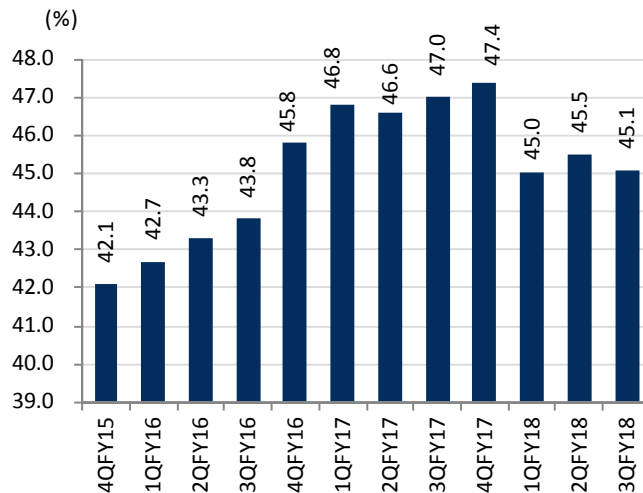
Source: Retail

Toothbrush Market Breakup (~Rs 20bn)



Source: Company, HDFC sec Inst Research

Colgate's Toothbrush Market Share Trend



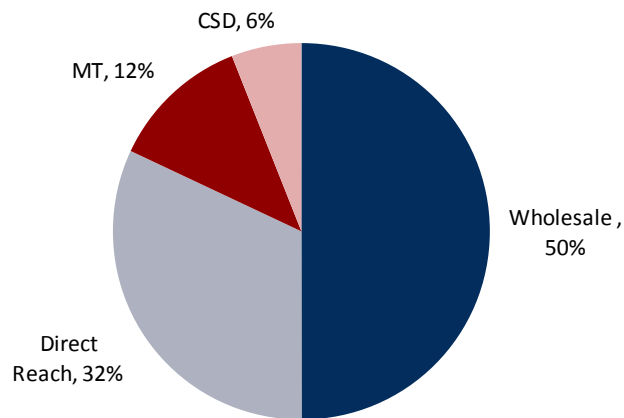
Source: Company, HDFC sec Inst Research

(3) Colgate's counter strategy to stabilize and regain market share:

- **Pan-India launch of Swarna Vedshakti:** With encouraging results from Swarna Vedshakti in South and West regions (2-3% market share in some pockets), mgt now plans to launch it pan-India. The co. is optimistic to capture market share in the Ayurvedic space going ahead.
- **Higher ASP Spend likely:** Globally Colgate's ad spends are 9-10% of their revenues. However in India, Colgate spends 12-14%. The mgt. stated that the ad spend as a percentage is higher in India owing to 1) Support campaigns which help drive penetration (92% in urban and 72% in rural) and 2) Oral care as a category requires higher ad spending (higher oral care mix in India vs. global). In the last few quarters, ad spend has been closer to 12% (lower end of the range). The mgt. stated that ad spend range will continue to be between 12-14% with spikes in few quarters to support new launches. We continue to model 13% ad spend during FY18E-20E.

(4) Health of the trade channels: The mgt. stated that their distribution mix has not changed significantly in the last few quarters. Wholesale contributes ~50% of the mix (higher than desired). As per the mgt wholesale as a channel has seen the maximum disruption during GST transition and is now beginning to stabilize particularly for stronger brands.

Colgate's Distribution Channel Mix



Source: Company, HDFC sec Inst Research

(5) Scope of entering new categories: Interestingly, Colgate's parent company derives only 48% of its total revenues from Oral care. Its other categories like Personal care/Home care/ Pet nutrition derive 19/18/15%, respectively. In India Colgate derives ~95% of their revenues from oral care. The mgt. stated that most of their global categories are futuristic like body wash, liquid dish wash, fabric conditioners etc.

When modern trade hit India, Colgate believed the time was right for these categories. However except for hand wash none of the other categories like body wash grew as expected. Mouth wash for Colgate did well in the first two years of launch but after attaining a certain size it stopped growing at a healthy pace. They did not venture into liquid dish wash inspite of HUL and Jyothy labs doing well as they didn't see healthy margins in that category. The mgt. stated they are constantly on the look-out to enter new categories but are cautious in terms of the scope of the category and attaining company level margins.

Colgate's Global Brands

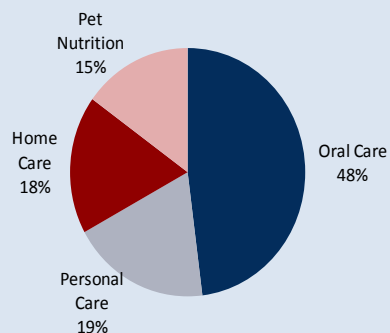
| Oral Care Brands | Category |
|-----------------------|-----------|
| Colgate Total | Oral Care |
| Colgate 360 | Oral Care |
| Colgate MaxFresh | Oral Care |
| Colgate Optic White | Oral Care |
| Colgate Kids | Oral Care |
| Colgate Hydris | Oral Care |
| Colgate Enamel Health | Oral Care |
| Colgate Sensitive | Oral Care |

| Personal Care Brands | Category |
|---------------------------------------|--|
| Palmolive | Body wash |
| Protex | Body wash |
| Sanex | Deodorants and Body wash |
| Soft Soap | Hand and Body wash |
| Gard | Shampoo |
| Speed Stick | Antiperspirants and Deodorants |
| Lady Speed Stick | Antiperspirants and Deodorants |
| Irish Spring | Body Wash |
| Tom's of Maine (Naturals PC products) | Oral care, Deodorants, Baby Care and Body & Lip care |
| Afta | After shave |
| Tahiti | Body wash |
| Tender care | Baby care |

| Home Care Brands | Category |
|------------------|-------------------------------------|
| Brite | Fabric care |
| Suavitel | Fabric Conditioners |
| Murphy oil soap | Wood cleaner |
| Palmolive | Dish Wash |
| Ajax | Dish Liquid and home cleaning agent |
| Fleecy | Fabric softner |
| Pinho Sol | Disinfectant |
| Axion | Dish wash |
| Cuddly | Fabric Conditioners |
| Sta-soft | Fabric Conditioners |
| Soupline | Fabric Conditioners |
| Fluffy | Fabric Conditioners |

| Pet Care | Category |
|----------|------------------|
| Hill's | Cat and Dog food |

Colgate's Global Revenue Mix



Source: Company

Outlook and Valuation

- Our visit gave us confidence in our estimates that Colgate will recover some lost ground and therefore grow at 13% revenue CAGR during FY18E-20E. Owing to stiff competition, we expect Colgate to continue to spend on marketing (growing at 14% CAGR FY18E-20E).
- We believe most of the negatives are now priced in the stock (~8% decline since 3QFY18 results and flat on a 12m basis). Colgate's toothpaste market share is now at its 2012 levels. We believe market share has now bottomed out and a re-rating of the stock is on the cards.
- We value Colgate based on P/E of 35x (earlier 34x) on Mar-20 EPS to arrive at a TP of 1,204. We upgrade our rating to BUY from NEUTRAL.**

Financial Summary

| (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|------------------|--------|--------|--------|--------|--------|
| Net Sales | 38,682 | 39,818 | 43,170 | 48,687 | 54,962 |
| EBITDA | 9,382 | 9,444 | 11,041 | 12,731 | 14,767 |
| APAT | 6,031 | 5,774 | 6,700 | 7,963 | 9,367 |
| Diluted EPS (Rs) | 22.2 | 21.2 | 24.6 | 29.3 | 34.4 |
| P/E (x) | 46.9 | 49.0 | 42.3 | 35.5 | 30.2 |
| EV / EBITDA (x) | 29.8 | 29.6 | 25.1 | 21.5 | 18.4 |
| Core RoCE (%) | 82.2 | 58.3 | 61.5 | 77.2 | 96.5 |

Source: Company, HDFC sec Inst Research

Recent Performance

Quarterly Financials

| Particulars (Rs mn) | 3QFY18 | 3QFY17 | YoY (%) | 2QFY18 | QoQ (%) | 9MFY18 | 9MFY17 | YoY (%) |
|--------------------------|---------------|--------------|-------------|---------------|--------------|---------------|---------------|-------------|
| Net Revenue | 10,333 | 8,746 | 18.2 | 10,849 | (4.8) | 30,963 | 29,443 | 5.2 |
| Material Expenses | 3,598 | 3,159 | 13.9 | 3,970 | (9.4) | 11,151 | 10,891 | 2.4 |
| Employee Expenses | 750 | 652 | 15.1 | 823 | (8.9) | 2,301 | 2,122 | 8.4 |
| ASP Expenses | 1,207 | 839 | 43.8 | 1,192 | 1.2 | 3,833 | 3,675 | 4.3 |
| Other Operating Expenses | 1,954 | 1,955 | (0.1) | 1,858 | 5.2 | 5,630 | 5,755 | (2.2) |
| EBITDA | 2,824 | 2,141 | 31.9 | 3,006 | (6.1) | 8,049 | 7,000 | 15.0 |
| Depreciation | 396 | 342 | 15.8 | 392 | 1.0 | 1,160 | 991 | 17.1 |
| EBIT | 2,429 | 1,799 | 35.0 | 2,614 | (7.1) | 7,192 | 6,332 | 13.6 |
| Other Income | 90 | 109 | (17.1) | 89 | 2.1 | 303 | 323 | (6.0) |
| PBT | 2,519 | 1,908 | 32.0 | 2,703 | (6.8) | 7,192 | 6,332 | 13.6 |
| Tax | 812 | 630 | 29.0 | 927 | (12.4) | 2,346 | 1,984 | 18.2 |
| PAT | 1,707 | 1,278 | 33.5 | 1,776 | (3.9) | 4,846 | 4,348 | 11.4 |
| EPS | 6.3 | 4.7 | 33.5 | 6.5 | (3.9) | 17.8 | 16.0 | 11.4 |

Source: Company, HDFC sec Inst Research

Margin Analysis

| Particulars | 3QFY18 | 3QFY17 | YoY (bps) | 2QFY18 | QoQ (bps) | 9MFY18 | 9MFY17 | YoY (bps) |
|--------------------------------------|--------|--------|-----------|--------|-----------|--------|--------|-----------|
| Material Expenses % Net Sales | 34.8 | 36.1 | (130) | 36.6 | (177) | 36.0 | 37.0 | (97) |
| Employee Expenses % Net Sales | 7.3 | 7.5 | (19) | 7.6 | (33) | 7.4 | 7.2 | 22 |
| ASP Expenses % Net Sales | 11.7 | 9.6 | 209 | 11.0 | 69 | 12.4 | 12.5 | (10) |
| Other Operating Expenses % Net Sales | 18.9 | 22.4 | (345) | 17.1 | 179 | 18.2 | 19.5 | (136) |
| EBITDA Margin (%) | 27.3 | 24.5 | 286 | 27.7 | (38) | 26.0 | 23.8 | 222 |
| Tax Rate (%) | 32.3 | 33.0 | (75) | 34.3 | (205) | 32.6 | 31.3 | 129 |
| PAT Margin (%) | 16.5 | 14.6 | 190 | 16.4 | 15 | 15.7 | 14.8 | 88 |

Source: Company, HDFC sec Inst Research

Favorable base (-9% in Q3FY17) aided 18% revenue growth

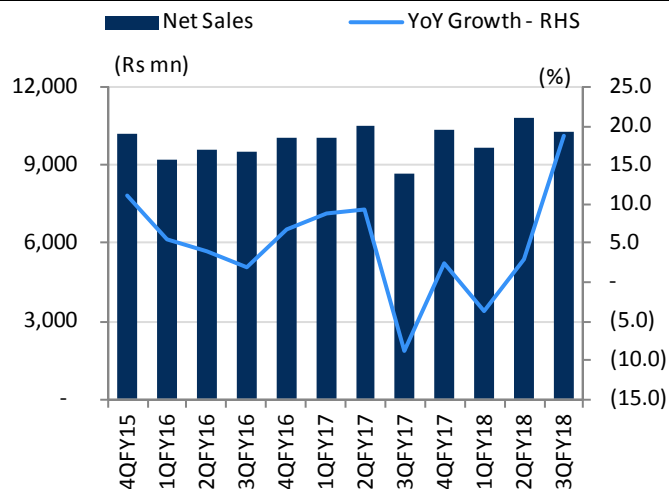
GM expansion continued

We expect Advertising spend to increase in the coming quarters. Colgate would spend more aggressively to accelerate volume growth

EBITDA margin was healthy at 27.3%

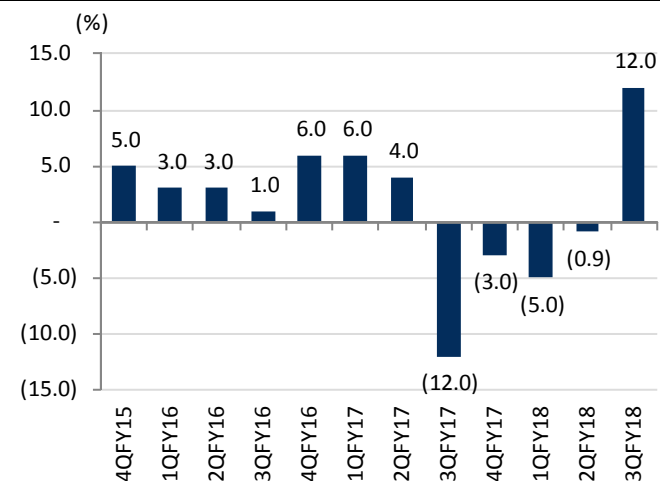
Volume growth challenges have persisted for the past several quarters. Favorable base led to 12% volume growth

Net Revenue



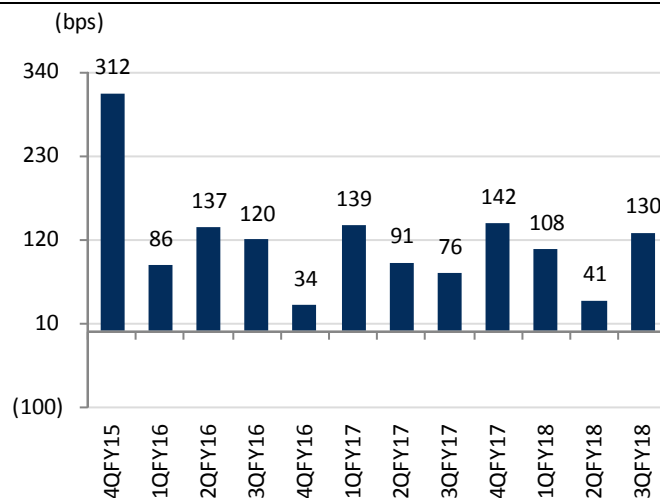
Source: Company, HDFC sec Inst Research
Note: 1QFY16-4QFY16 growth is based on old AS

Volume Growth



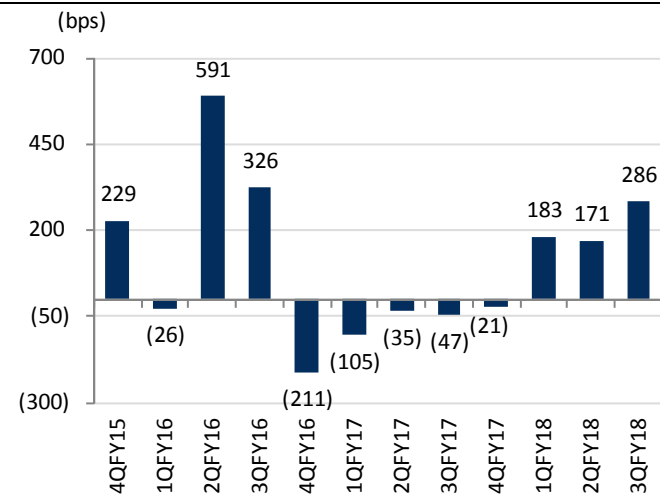
Source: Company, HDFC sec Inst Research

Gross Margin Change



Source: Company, HDFC sec Inst Research
Note: 1QFY16-4QFY16 change is based on old AS

EBITDA Margin Change

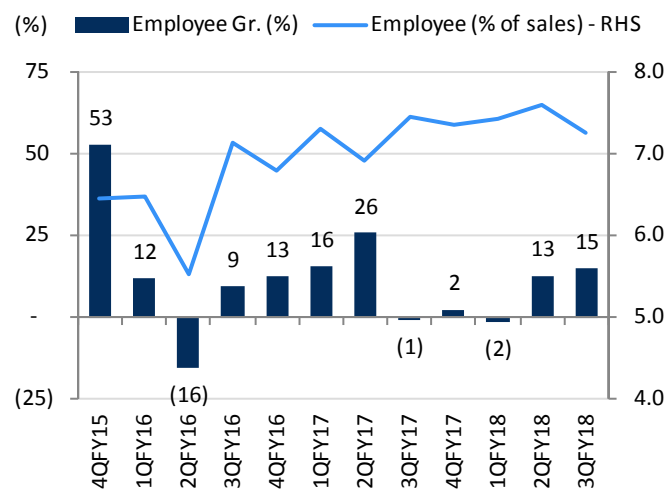


Source: Company, HDFC sec Inst Research
Note: 1QFY16-4QFY16 change is based on old AS

Lower A&P spends (% of sales) and favourable op-lev led to EBITDA margin expansion

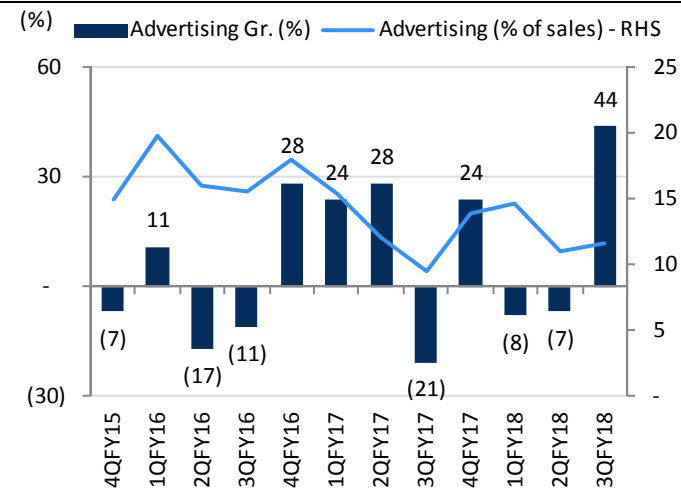
We expect Advertising spend to increase in the coming quarters. Colgate will spend more aggressively to support new launches

Employee Expense



Source: Company, HDFC sec Inst Research
Note: 1QFY16-4QFY16 growth is based on old AS

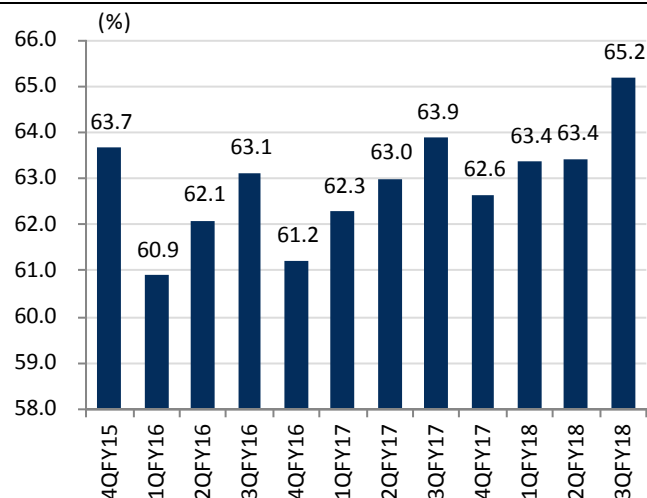
Advertising Expense



Source: Company, HDFC sec Inst Research
Note: 1QFY16-4QFY16 growth is based on old AS

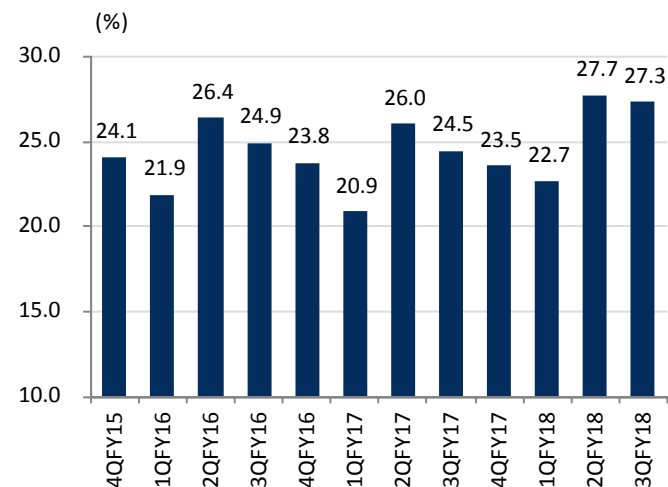
With stiff competition, we see that Colgate would continue to spend a lot on marketing. Hence, we see low-margin expansion of ~120bps over FY18E-20E vs. 500bps gained in the past 3 years

Gross Margin



Source: Company, HDFC sec Inst Research

EBITDA Margin



Source: Company, HDFC sec Inst Research

Key Assumptions

| | FY16 | FY17 | FY18E | FY19E | FY20E |
|-----------------------------|-------|-------|-------|-------|-------|
| Toothpaste revenue growth | (2.6) | 2.7 | 8.7 | 13.4 | 13.4 |
| Toothpaste volume growth | 5.0 | (2.0) | 5.0 | 8.5 | 8.5 |
| GM (%) | 61.8 | 62.9 | 63.9 | 64.5 | 65.1 |
| Employee (% of sales) | 6.8 | 7.2 | 7.4 | 7.3 | 7.1 |
| ASP (% of sales) | 11.6 | 12.9 | 12.8 | 13.0 | 13.1 |
| Distribution (% of sales) | 3.6 | 3.2 | 3.1 | 3.0 | 3.2 |
| Royalty (% of sales) | 5.7 | 5.2 | 5.2 | 5.2 | 5.2 |
| Other expenses (% of sales) | 9.9 | 10.7 | 9.8 | 9.8 | 9.6 |
| EBITDA Margin (%) | 24.3 | 23.7 | 25.6 | 26.1 | 26.9 |
| Tax Rate (%) | 30.4 | 32.2 | 32.2 | 31.5 | 31.5 |

Source: Company, HDFC sec Inst Research

Income Statement

| (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|-----------------------------------|---------------|---------------|---------------|---------------|---------------|
| Net Revenues | 38,682 | 39,818 | 43,170 | 48,687 | 54,962 |
| Growth (%) | 4.5 | 2.9 | 8.4 | 12.8 | 12.9 |
| Material Expenses | 14,766 | 14,768 | 15,459 | 17,295 | 19,132 |
| Employee Expense | 2,624 | 2,885 | 3,179 | 3,540 | 4,039 |
| ASP Expense | 4,476 | 5,118 | 5,484 | 6,341 | 7,158 |
| Distribution Expense | 1,390 | 1,274 | 1,338 | 1,461 | 1,759 |
| Other Expenses | 6,044 | 6,330 | 6,668 | 7,319 | 8,107 |
| EBITDA | 9,382 | 9,444 | 11,041 | 12,731 | 14,767 |
| EBITDA Growth (%) | 14.1 | 0.7 | 16.9 | 15.3 | 16.0 |
| EBITDA Margin (%) | 24.3 | 23.7 | 25.6 | 26.1 | 26.9 |
| Depreciation | 1,114 | 1,332 | 1,557 | 1,691 | 1,858 |
| EBIT | 8,268 | 8,112 | 9,484 | 11,040 | 12,909 |
| Other Income (Including EO Items) | 86 | 403 | 398 | 585 | 766 |
| Interest | - | - | - | - | - |
| PBT | 8,354 | 8,514 | 9,881 | 11,625 | 13,675 |
| Total Tax | 2,541 | 2,740 | 3,182 | 3,662 | 4,308 |
| RPAT | 5,812 | 5,774 | 6,700 | 7,963 | 9,367 |
| Exceptional Gain/(loss) | (218) | - | - | - | - |
| Adjusted PAT | 6,031 | 5,774 | 6,700 | 7,963 | 9,367 |
| APAT Growth (%) | 7.9 | (4.2) | 16.0 | 18.9 | 17.6 |
| Adjusted EPS (Rs) | 22.2 | 21.2 | 24.6 | 29.3 | 34.4 |
| EPS Growth (%) | 7.8 | (4.2) | 16.0 | 18.9 | 17.6 |

Source: Company, HDFC sec Inst Research

Balance Sheet

| (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|---------------|---------------|---------------|---------------|---------------|
| SOURCES OF FUNDS | | | | | |
| Share Capital - Equity | 272 | 272 | 272 | 272 | 272 |
| Reserves | 10,038 | 12,614 | 14,984 | 17,334 | 19,547 |
| Total Shareholders Funds | 10,311 | 12,887 | 15,257 | 17,606 | 19,819 |
| Long Term Debt | - | - | - | - | - |
| Short Term Debt | - | - | - | - | - |
| Total Debt | - | - | - | - | - |
| Net Deferred Taxes | 400 | 275 | 275 | 275 | 275 |
| Other Non-current Liabilities & Provns | 1,235 | 1,004 | 1,026 | 1,052 | 1,083 |
| TOTAL SOURCES OF FUNDS | 11,945 | 14,166 | 16,557 | 18,933 | 21,177 |
| APPLICATION OF FUNDS | | | | | |
| Net Block | 10,081 | 11,081 | 11,664 | 11,574 | 11,716 |
| CWIP | 784 | 1,666 | 833 | - | - |
| Other Non-current Assets | 1,191 | 1,157 | 1,272 | 1,400 | 1,536 |
| Total Non-current Assets | 12,056 | 13,904 | 13,770 | 12,973 | 13,252 |
| Inventories | 2,915 | 2,926 | 3,125 | 3,500 | 3,919 |
| Debtors | 1,015 | 1,299 | 1,408 | 1,588 | 1,793 |
| Other Current Assets | 951 | 1,630 | 1,793 | 1,973 | 2,170 |
| Cash & Equivalents | 3,198 | 3,356 | 5,909 | 9,437 | 11,789 |
| Total Current Assets | 8,080 | 9,211 | 12,236 | 16,499 | 19,671 |
| Creditors | 7,902 | 8,653 | 9,152 | 10,243 | 11,450 |
| Other Current Liabilities & Provns | 290 | 296 | 296 | 296 | 296 |
| Total Current Liabilities | 8,191 | 8,949 | 9,448 | 10,539 | 11,746 |
| Net Current Assets | (111) | 262 | 2,788 | 5,960 | 7,925 |
| TOTAL APPLICATION OF FUNDS | 11,945 | 14,166 | 16,557 | 18,933 | 21,177 |

Source: Company, HDFC sec Inst Research

Cash Flow Statement

| (Rs mn) | FY16 | FY17 | FY18E | FY19E | FY20E |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| Reported PBT | 8,595 | 8,514 | 9,881 | 11,625 | 13,675 |
| Non-operating & EO Items | (52) | - | - | - | - |
| Interest Expenses | (246) | - | - | - | - |
| Depreciation | 1,114 | 1,332 | 1,557 | 1,691 | 1,858 |
| Working Capital Change | 155 | (412) | (64) | 258 | 281 |
| Tax Paid | (2,836) | (2,740) | (3,182) | (3,662) | (4,308) |
| OPERATING CASH FLOW (a) | 6,729 | 6,694 | 8,193 | 9,912 | 11,506 |
| Capex | (2,713) | (3,214) | (1,307) | (767) | (2,000) |
| <i>Free Cash Flow (FCF)</i> | <i>4,017</i> | <i>3,480</i> | <i>6,886</i> | <i>9,145</i> | <i>9,506</i> |
| Investments | 70 | - | - | - | - |
| Non-operating Income | 42 | 125 | - | - | - |
| INVESTING CASH FLOW (b) | (2,601) | (3,089) | (1,307) | (767) | (2,000) |
| Debt Issuance/(Repaid) | - | - | - | - | - |
| <i>FCFE</i> | <i>4,128</i> | <i>3,605</i> | <i>6,886</i> | <i>9,145</i> | <i>9,506</i> |
| Share Capital Issuance | - | - | - | - | - |
| Dividend | (2,987) | (3,198) | (4,330) | (5,614) | (7,154) |
| Others | (800) | 250 | (3) | (3) | - |
| FINANCING CASH FLOW (c) | (3,786) | (2,949) | (4,333) | (5,617) | (7,154) |
| NET CASH FLOW (a+b+c) | 342 | 656 | 2,553 | 3,528 | 2,352 |
| EO Items, Others | 0 | 499 | (0) | (0) | - |
| Closing Cash & Equivalents | 2,887 | 3,044 | 5,597 | 9,125 | 11,477 |

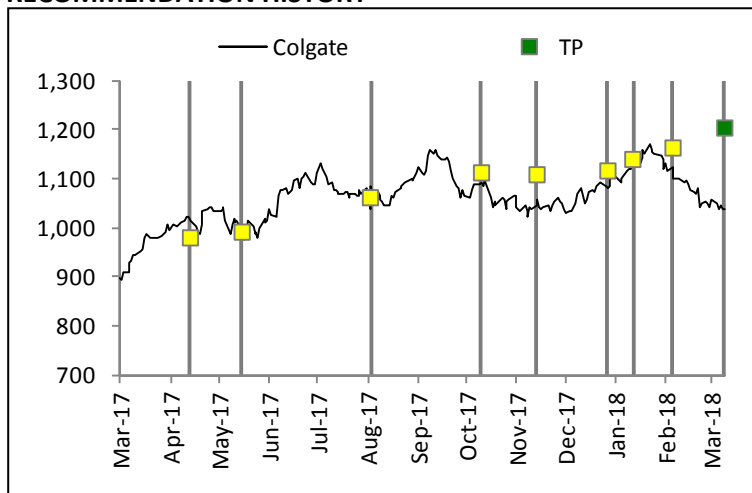
Source: Company, HDFC sec Inst Research

Key Ratios

| | FY16 | FY17 | FY18E | FY19E | FY20E |
|---|-------------|-------------|-------------|-------------|-------------|
| PROFITABILITY (%) | | | | | |
| GPM | 61.8 | 62.9 | 64.2 | 64.5 | 65.2 |
| EBITDA Margin | 24.3 | 23.7 | 25.6 | 26.1 | 26.9 |
| EBIT Margin | 21.4 | 20.4 | 22.0 | 22.7 | 23.5 |
| APAT Margin | 15.6 | 14.5 | 15.5 | 16.4 | 17.0 |
| RoE | 67.0 | 49.8 | 47.6 | 48.5 | 50.1 |
| RoC (or Core RoCE) | 82.2 | 58.3 | 61.5 | 77.2 | 96.5 |
| RoCE | 60.0 | 45.4 | 44.4 | 45.6 | 47.4 |
| EFFICIENCY | | | | | |
| Tax Rate (%) | 30.4 | 32.2 | 32.2 | 31.5 | 31.5 |
| Fixed Asset Turnover (x) | 2.5 | 2.2 | 2.1 | 2.2 | 2.3 |
| <i>Inventory (days)</i> | <i>27.5</i> | <i>26.8</i> | <i>26.4</i> | <i>26.2</i> | <i>26.0</i> |
| <i>Debtors (days)</i> | <i>9.6</i> | <i>11.9</i> | <i>11.9</i> | <i>11.9</i> | <i>11.9</i> |
| <i>Other Current Assets (days)</i> | <i>9.0</i> | <i>14.9</i> | <i>15.2</i> | <i>14.8</i> | <i>14.4</i> |
| <i>Payables (days)</i> | <i>74.6</i> | <i>79.3</i> | <i>77.4</i> | <i>76.8</i> | <i>76.0</i> |
| <i>Other Current Liab & Provns (days)</i> | <i>2.7</i> | <i>2.7</i> | <i>2.5</i> | <i>2.2</i> | <i>2.0</i> |
| Cash Conversion Cycle (days) | (31.2) | (28.4) | (26.4) | (26.1) | (25.7) |
| Net D/E (x) | (0.3) | (0.3) | (0.4) | (0.5) | (0.6) |
| Interest Coverage (x) | - | - | - | - | - |
| PER SHARE DATA (Rs) | | | | | |
| EPS | 22.2 | 21.2 | 24.6 | 29.3 | 34.4 |
| CEPS | 26.2 | 26.1 | 30.3 | 35.5 | 41.2 |
| Dividend | 10.0 | 10.0 | 13.5 | 17.6 | 22.4 |
| Book Value | 37.9 | 47.3 | 56.0 | 64.7 | 72.8 |
| VALUATION | | | | | |
| P/E (x) | 46.9 | 49.0 | 42.3 | 35.5 | 30.2 |
| P/BV (x) | 27.5 | 22.0 | 18.6 | 16.1 | 14.3 |
| EV/EBITDA (x) | 29.8 | 29.6 | 25.1 | 21.5 | 18.4 |
| EV/Revenues (x) | 7.2 | 7.0 | 6.4 | 5.6 | 4.9 |
| OCF/EV (%) | 2.4 | 2.4 | 3.0 | 3.6 | 4.2 |
| FCF/EV (%) | 1.5 | 1.3 | 2.5 | 3.3 | 3.5 |
| FCFE/Mkt Cap (%) | 1.5 | 1.3 | 2.4 | 3.2 | 3.4 |
| Dividend Yield (%) | 1.0 | 1.0 | 1.3 | 1.7 | 2.2 |

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



| Date | CMP | Reco | Target |
|-----------|-------|------|--------|
| 14-Apr-17 | 1,011 | NEU | 980 |
| 16-May-17 | 994 | NEU | 992 |
| 4-Aug-17 | 1,083 | NEU | 1,062 |
| 10-Oct-17 | 1,090 | NEU | 1,112 |
| 13-Nov-17 | 1,063 | NEU | 1,110 |
| 27-Dec-17 | 1,082 | NEU | 1,118 |
| 12-Jan-18 | 1,125 | NEU | 1,139 |
| 6-Feb-18 | 1,121 | NEU | 1,163 |
| 12-Mar-18 | 1,044 | BUY | 1,204 |

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

We, **Naveen Trivedi, MBA & Siddhant Chhabria, PGDBM**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Research Analyst or his/her relative or HDFC Securities Ltd. **does not have** any financial interest in the subject company. Also Research Analyst or his relative or HDFC Securities Ltd. or its Associate may have beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of the Research Report. Further Research Analyst or his relative or HDFC Securities Ltd. or its associate **does not have** any material conflict of interest.

Any holding in stock –No

HDFC Securities Limited (HSL) is a SEBI Registered Research Analyst having registration no. INH000002475.

Disclaimer:

This report has been prepared by HDFC Securities Ltd and is meant for sole use by the recipient and not for circulation. The information and opinions contained herein have been compiled or arrived at, based upon information obtained in good faith from sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. This document is for information purposes only. Descriptions of any company or companies or their securities mentioned herein are not intended to be complete and this document is not, and should not be construed as an offer or solicitation of an offer, to buy or sell any securities or other financial instruments. This report is not directed to, or intended for display, downloading, printing, reproducing or for distribution to or use by, any person or entity who is a citizen or resident or located in any locality, state, country or other jurisdiction where such distribution, publication, reproduction, availability or use would be contrary to law or regulation or what would subject HSL or its affiliates to any registration or licensing requirement within such jurisdiction.

If this report is inadvertently sent or has reached any individual in such country, especially, USA, the same may be ignored and brought to the attention of the sender. This document may not be reproduced, distributed or published for any purposes without prior written approval of HSL.

Foreign currencies denominated securities, wherever mentioned, are subject to exchange rate fluctuations, which could have an adverse effect on their value or price, or the income derived from them. In addition, investors in securities such as ADRs, the values of which are influenced by foreign currencies effectively assume currency risk.

It should not be considered to be taken as an offer to sell or a solicitation to buy any security. HSL may from time to time solicit from, or perform broking, or other services for, any company mentioned in this mail and/or its attachments.

HSL and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.

HSL, its directors, analysts or employees do not take any responsibility, financial or otherwise, of the losses or the damages sustained due to the investments made or any action taken on basis of this report, including but not restricted to, fluctuation in the prices of shares and bonds, changes in the currency rates, diminution in the NAVs, reduction in the dividend or income, etc.

HSL and other group companies, its directors, associates, employees may have various positions in any of the stocks, securities and financial instruments dealt in the report, or may make sell or purchase or other deals in these securities from time to time or may deal in other securities of the companies / organizations described in this report.

HSL or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

HSL or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction in the normal course of business.

HSL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither HSL nor Research Analysts have any material conflict of interest at the time of publication of this report. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions. HSL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. We have not received any compensation/benefits from the subject company or third party in connection with the Research Report.

HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

HDFC Securities Limited, SEBI Reg. No.: NSE-INB/F/E 231109431, BSE-INB/F 011109437, AMFI Reg. No. ARN: 13549, PFRDA Reg. No. POP: 04102015, IRDA Corporate Agent License No.: HDF 2806925/HDF C000222657, SEBI Research Analyst Reg. No.: INH000002475, CIN - U67120MH2000PLC152193

Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.

