

4th February 2020

COLGATE-PALMOLIVE(INDIA) LTD- BUY

CMP : 1363
Target Price : 1703
Upside : 25%+
Stop Loss : 1261 (closing basis)

About the Company:

Colgate-Palmolive is Rs1,300 cr company started in year 1937. In Rs2,400 cr domestic market it enjoys 50% of market share. It spread across 4.5 million retail outlets out of which 1.5 million are direct outlets. The Company is having four wholly owned subsidiaries namely Colgate-Palmolive (Nepal), Multimint Leasing & Finance and Jigs Investments and Passion Trading & Investment Company. Colgate-Palmolive (India) Ltd is the fastest growing and one of the oldest companies catering to the personal care products. The product range of the company can be broadly classified into Oral care-Under this segment the company offers products like toothpastes, toothbrush, tooth powder & tooth whitening products, Personal care -In this segment it offers products like skin care, hair care, body wash, & shaving creams, Household care-Under this segment it has launched brand AXIOM-a dish washing paste. The company has launched a new line of products for the Dentists - under which it provides products like Gingivitis Treatment, Colgate Sensitive treatment, Tooth Whitening, Fluoride Therapy, Mouth Ulcer Treatment & Specialty Cleaning.

Investment Thesis

New products additions in natural segment restricted market share erosion

CLGT's plans to expand its naturals portfolio by introducing variants and extending its reach (particularly, Cibaca Vedshakti in the North (Oct.2017), it continues to do well and continues to grow, Colgate Swarna Vedshakti launched in market Oct.2017) to other parts of the country will reflect over the next two years. Beginning with the four Southern states of India, the new toothpaste will be launched nationally in a phased manner. Hence, we believe that CLGT's recovery in volume growth would be gradual. Comprehensive marketing campaign will connect Colgate Swarna Vedshakti with consumers, at multiple touch points. Colgate Swarna Vedshakti will be available across various retail formats in a 100gm package priced at MRP Rs.55/- and in a 200gm package priced at MRP Rs. 99/- (incl. of all taxes). Company has launched Swarna Vedshakti in multiple pack sizes at different price points nationally in Q2FY19. The new Charcoal variant is also showing early traction in the markets where it has been launched. Naturals market growth has moderated but still grew much faster (>4%) than the category.

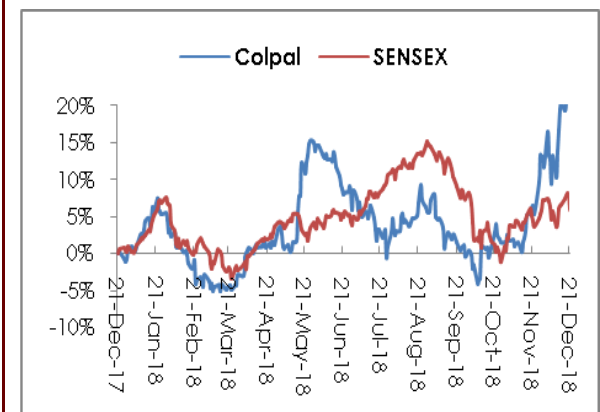
Healthy margins to sustain despite likely step up in A&P spends

Driven by sensible pricing (3-5% price hike undertaken in month of July across large SKUs) and significant cost optimization initiatives. Margins have surprised positively in the recent quarters and we expect current level of margins to sustain. Expect advertising and promotion spends to increase significantly in the coming quarters to support the scale up of Vedshakti brand and strengthen the positioning of Colgate dental care and MaxFresh brands. Over time we expect the company to re-focus on the premiumization strategy as Naturals segment participation stabilizes. **Aggressively looking expansion on direct reach as need of the indirect retailers and avoiding dependence on wholesale.** Colgate intends to increase its direct reach (currently at 1.5mn outlets) by 20-25% over the next 1 year. This would help lower the dependence on the wholesale channel (we note CLGT has significantly higher wholesale contribution at 40%+ vs peers at 30-35%) which has been significantly disrupted post the GST implementation. We believe this initiative could provide the much needed drive to introduce a wider range of its portfolio across more outlets with a more targeted sales effort.

Stock Details	
Market Cap (RsCr)	35,490
BSE Code	500830
NSE Code	COLPAL
Sector/Index	PP/S&P BSE 100
Year End	March
52 w.High/Low	1495/1223
Shares in Issue (cr)	27.2
BSE Sensex	40,789
NSE Nifty	10,730

Shareholding Pattern	
Indian Promoters	72.54%
DII's	8.20%
FII's	5.64%
Others	13.62%

Key Ratios	
Div Yield	1.84%
TTM PE	48.01x
ROE	12.0%
TTM EPS (INR)	27.40



Building on its strong innovation pipeline

Remains committed to innovation for growth, providing solutions to the consumer's evolving needs. Colgate has a strong innovative pipeline for 2019 with innovation in both- toothpaste and toothbrush portfolio. It has introduced new variants like colgate Swarna vedshakti nad cibaca ved shakti this both premium toothpaste in the natural category was launched in select market region, colgate maxfresh with cooling crystal- new xtra fresh, Colgate Cibaca Vedshakti, Colgate Sensitive Clove, Plax spicy fresh mouthwash, Colgate Kids Toothpaste, Palmolive in mens personal care, In toothbrush Colgate Neo.

Financials

During the past 5 years, revenue of colgate-palmolive grew at a CAGR of 11% while PAT grew at a CAGR of 13% in the same period.

Particulars	FY17	FY18	FY19	FY20E	FY21E
Net Revenue	3981.8	4188.0	4462.4	4859.6	5321.2
EBITDA	943.5	1112.4	1236.1	1341.2	1489.9
EBITDA Margin	23.7%	26.6%	27.7%	27.6%	28.0%
Net Profit	577.4	673.4	747.9	874.8	1001.6
Growth	-0.6%	16.6%	12.7%	12.0%	12.2%
Net Profit Margin	14.5%	16.1%	16.8%	18.0%	18.8%
EPS	21.2	24.8	27.9	31.2	35.1
ROE	50.1%	48.1%	50.3%	62.7%	63.9%
P/E	47.76	50.85	42.22	35.82	33.44

Key Business Highlights

Company continues to maintain its leadership position in both the Toothpaste and Toothbrush categories, with volume market shares at 53.4% and 44.8% respectively during the F.Y. 2017-18.

Toothpaste Segment (79.84% of sales)

Colgate has lost market share in toothpaste category by 510 bps from its peak period in FY16, but was flat QoQ basis due to aggressive competition from Dabur & Patanjali in the ayurvedic space (80% market share combined in natural segment). Though Colgate has introduced mass segment Cibaca Vedshakti (CV) and premium brand Colgate Swarna Vedshakti (CSV) in naturals' space to combat the recent shift towards ayurvedic & herbal push in toothpaste as they are looking to expand market share in natural segment. Toothpaste industry is growing at pace of 5 to 6% volume growth. Rural is growing at slower than urban as compared to historical data expect pickup in rural consumption, volume growth can accelerate to 6-7% for the category yet to see a complete restore and believe market share recovery will be gradual. Due to stiff competition colgate to continue to spend in large quantities on marketing (13% of sales). In Q2FY19 market share decline for colgate in toothpaste have come from its premium segment (colgate sensitive and colgate total) premium segment revenue contribution is at 4% vs 8% earlier. Colgate has introduced mass segment Cibaca Vedshakti (CV) and premium brand Colgate Swarna Vedshakti (CSV) in naturals' space to fight the recent shift towards ayurvedic & herbal push in toothpaste, it has still not been able to curb market share decline. However, we believe with the company planning to expand products in the naturals' portfolio at every price point, innovation of value added products in other categories and widen its distribution reach across new geographies, Colgate should be able to regain some of its lost market share and maintain its dominant position.

Toothbrush Segment (15.32% of sales)

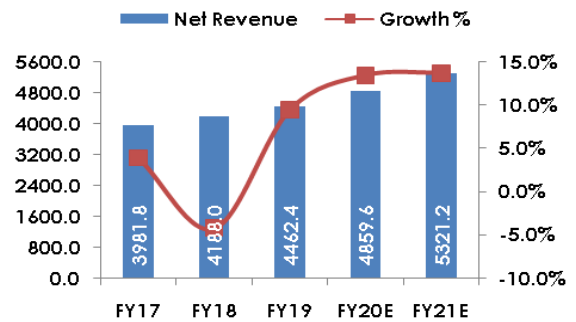
In Q2FY19 toothbrush market share declined by 130 bps YoY to 44.2% (40bps decline in QoQ basis) on account of increased promotional activity by competitors. Toothbrush volume market growth has been steady at 10% while price growth has declined to 2% in last 3 quarters vs 8 to 9% average during FY16-FY17. Higher competition intensity from P&G and unorganized players in toothbrush led to 130bps decline in volume market share to 44.2%.

Risk & Concern

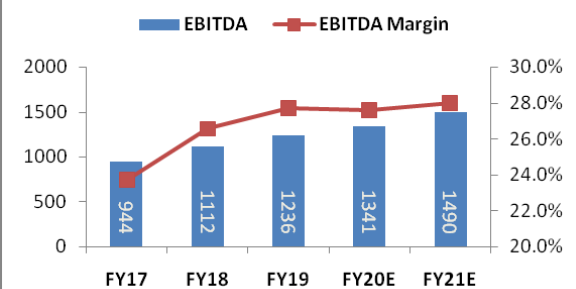
- Loss of market share
- Lower volume growth
- Considering high competitive intensity.

Graphs & Charts

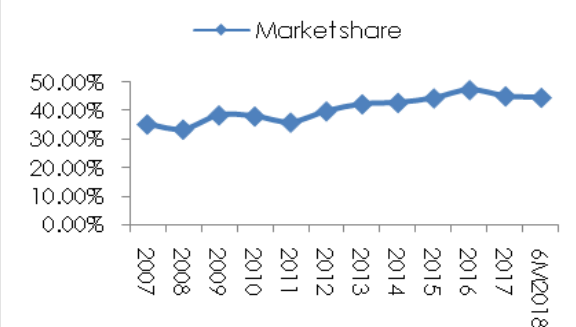
Net Sales Trend



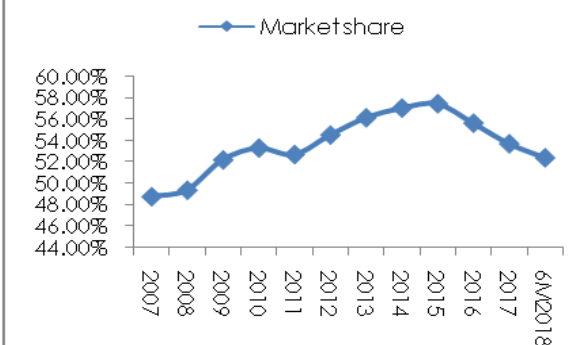
EBITDA & EBITDA Margin Trend



Colgate toothbrush market share trends



Colgate toothpaste market share trends



View and Valuation

CLGT delivered a 2.3% YoY growth in volume in 3QFY20 on a base of 7% growth in 3QFY19(4% in 2QFY20).Focus on towards expanding natural portfolio is concentrating well with the company and looking to expand market share in natural segment .Going forward, we expect better volume growth for Colpal considering revival in rural demand (45% of sales), better traction from naturals portfolio and increased direct reach (looking to expand its direct coverage by 25% in FY19). Pricing action and better product mix will ensure stable margin.Management's decision to invest heavily in advertisement & promotions to drive volume-led sales growth in a subdued environment. While this should lead to sharper market share improvement eventually, margins will remain under pressure in the near term.Our estimates for FY20e and FY21e is largely unchanged, we maintain buy rating with the target price of Rs 1701 (33.44x FY21e's eps).

Disclosure:

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