

9 August 2019

Colgate Palmolive – BUY

CMP :Rs.1,225.0

Target Price :Rs.1,490.0

Upside : 22%+

Stop Loss :Rs.1,094.0 (Closing basis)

Investment Thesis

Recently, the stock price of Colgate-Palmolive (India) Ltd. (Colgate Palmolive) corrected by ~30% from 52-week high of Rs.1,590 as it reported lower margins due to higher advertisement spend in the last quarter.

Colgate Palmolive is the largest player in oral care in India with a market share of ~52% in toothpaste and ~48% in toothbrush category in Q4FY19. Over the years, Colgate Palmolive, with its constant innovation, has built an extensive oral care portfolio and thereby offering products within each sub-category. Recently, it has been aggressive on extension of its premium portfolio to capture upcoming premier consumers. Colgate Palmolive also plans to launch more products under the herbal product portfolio to tap the herbal wave going on in the country currently. Post GST implementation, which is at 18% as compared to 24% indirect tax (excise + VAT) previously, the company has passed on the tax saving benefit by cutting prices by 7-11% across price points. We believe the aggressive price cuts and new launches in toothpaste segment will help Colgate Palmolive to pick up in volume growth and it will grow at over 5% during FY19-21E.

With stable market share, Colgate Palmolive is now targeting market share gains through growth initiatives, including the growth of naturals, kids and Palmolive portfolio, as well as distribution expansion. Its launch of Swarna Vedshakti nationwide during Q3FY19 is gaining significant traction. Colgate Palmolive has also relaunched its key brand Colgate Total. Further, Palmolive Facial Bar was launched in key markets, which resulted in better volume growth. It also launched Colgate ProClinical battery operated toothbrush. Going ahead, we believe, the company will gain market share primarily driven by new product launches and decline in competitive pressure from Patanjali. We believe its aggressive stance on increasing A&P spend would support new launches.

Financials

- During the past 5 years, revenue of Colgate Palmolive grew at a CAGR of 4.6% while PAT grew at a CAGR of 7.5% in the same period.

Standal. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	44,899	42,999	44,324	50,973	58,619
EBITDA	9,449	11,124	12,361	14,215	16,347
% growth	1.5	17.7	11.1	15.0	15.0
PAT	5,774	6,734	7,756	8,919	10,284
EPS (INR)	21.2	24.8	28.5	32.8	37.8
P/E (x)	71.2	61.1	53.0	46.1	40.0
RoE (%)	45.3%	44.2%	53.6%	56.1%	58.9%

- Colgate Palmolive reported 5.7% YoY increase in revenue to Rs.11,538mn in Q4FY19 mainly driven by 5.0% YoY growth in volume.

Stock Data

Market Cap (Rs. Mn)	412,140
Market Cap (\$ Mn)	5,814.6
Shares O/S (in Mn)	272.0
Avg. Volume (3 month)	389,000
52-Week Range (Rs.)	1,590/ 1,018

Shareholding Pattern

Promoters	51.00%
FIIIs	15.37%
Institutions	10.18%
Others (incl. body corporate)	23.45%

Performance (%)	1M	6M	1Yr
Absolute	25.9%	20.4%	37.8%
BSE FMCG	7.9%	1.1%	1.8%

Key Ratios

Div Yield	1.5%
TTM PE	54.5x
ROE	53.2%
TTM EPS (Rs.)	27.8/-

- EBITDA of Colgate Palmolive has marginally increased by 0.9% to Rs.3,104mn in Q4FY19. As a result, EBITDA margin declined by 128bps to 26.9% due to 110 bps reduction in gross margins, 39 bps increase in advertisement spend to sales and 36 bps increase in other overheads to sales, whereas 58 bps decline in employee costs to sales restricted decline in operating margins.
- Colgate Palmolive's PAT has also grown by 4.7% to Rs.1,976mn driven by 43.8% YoY higher other income.

Key Business Highlights

- Colgate Palmolive is one of the leading players in the personal care and oral care business in India. Its personal care products include soaps, cosmetics, toilet preparations, body wash, liquid hand wash, skin care and hair care, among others.
- Colgate Palmolive's oral care product portfolio includes Colgate Sensitive Pro-Relief Enamel Repair Toothpaste, Colgate Visible White Plus Shine Toothpaste, Colgate SlimSoft Charcoal Toothbrush, Colgate ZigZag Black Toothbrush, Plax Active Salt Mouthwash and Colgate Active Salt Neem, among others.
- Colgate Palmolive has set up five manufacturing facilities at Gujarat, Andhra Pradesh, Goa, Himachal Pradesh and Maharashtra to manufacture toothpaste and toothbrush.

Valuation

- Colgate Palmolive has one of the widest distribution networks in India, which spans across ~6 million outlets across the country. Going forward, the increasing distribution network would help enhance the volume growth of the company. For increasing its presence in rural areas, Colgate Palmolive has undertaken initiatives like Project Jagruti and Disha for the same.
- Colgate Palmolive has significantly upped its innovation levels in the past couple of years. Colgate has launched Sugar Acid Neutralizer, a breakthrough innovation globally. New kid toothpaste, Colgate Sensitive Clove Essence, Colgate Maxfresh Power Freeze gel and Colgate CibacaVedshakti toothpaste were also launched in FY17. Toothbrush segment has seen launch of Slimsoft charcoal in the premium segment and Zig Zag charcoal in the mass segment. The innovation levels of Colgate Palmolive are far ahead and has considerably increased gap with the competitors in the recent past.
- With benign raw material cost and improving sales mix towards premium products, Colgate Palmolive has maintained its EBITDA margin above 25% despite highly competitive scenario. However, marketing spend is expected to remain at elevated levels courtesy new launches and intense rivalry, we expect Colgate Palmolive to maintain its EBITDA margin above 25.0% by FY20-21E.
- With largest player in oral care in India, built an extensive oral care portfolio, aggressive price cuts and new launches in toothpaste, aggressive stance on increasing A&P spend to support new launches, one of the widest distribution networks in India and benign raw material cost and improving sales mix, we value Colgate Palmolive at 39.4x FY21E EPS of Rs.37.80 to arrive at target price of Rs.1,490.00, an upside of ~22%.

Risk & Concern

- Any increase in competitive intensity from new entrants like Patanjali may challenge Colgate Palmolive's market leader position.
- Any down trading by consumers due to slowdown in rural wage growth and reduced MSP crop prices may be risk to the company.
- Any rupee appreciation may increase cost of imported chemicals and adversely impact margin of Colgate Palmolive.

Graphs & Charts

Figure 1: Net Sales Trend

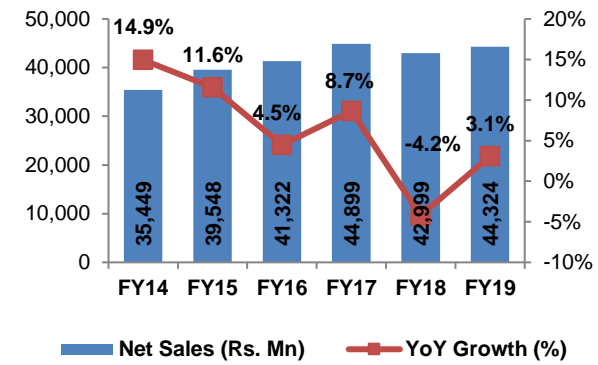


Figure 2: EBITDA & EBITDA Margin Trend

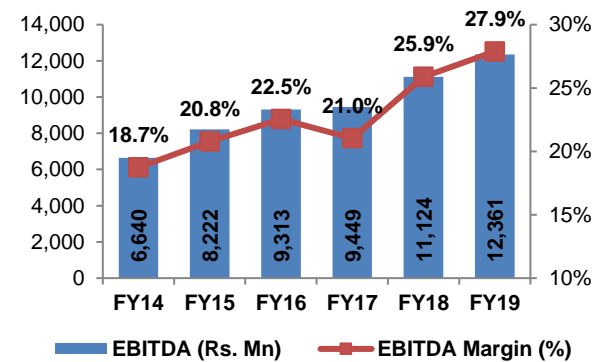


Figure 3: PAT Trend

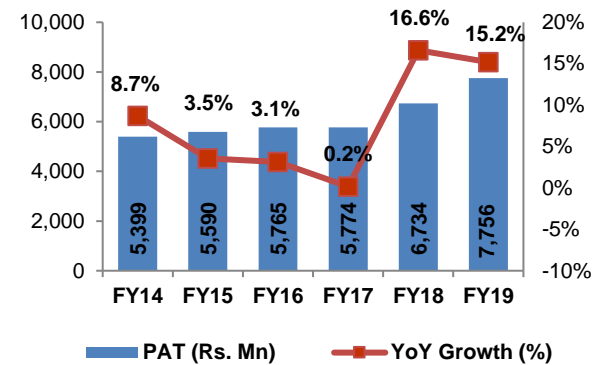
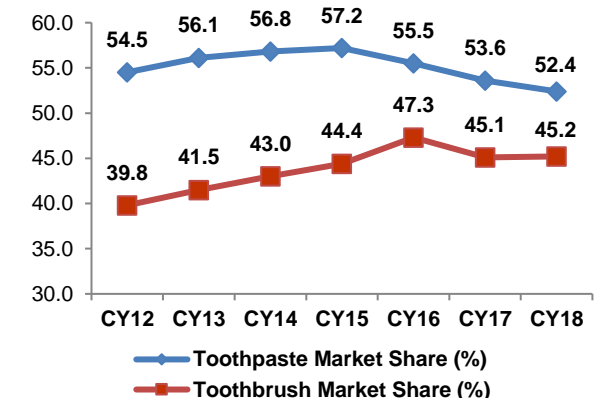


Figure 4: Segmental Revenue Contribution



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