

Colgate-Palmolive (India) Limited (COLPAL)

Re-iterating - Accumulate

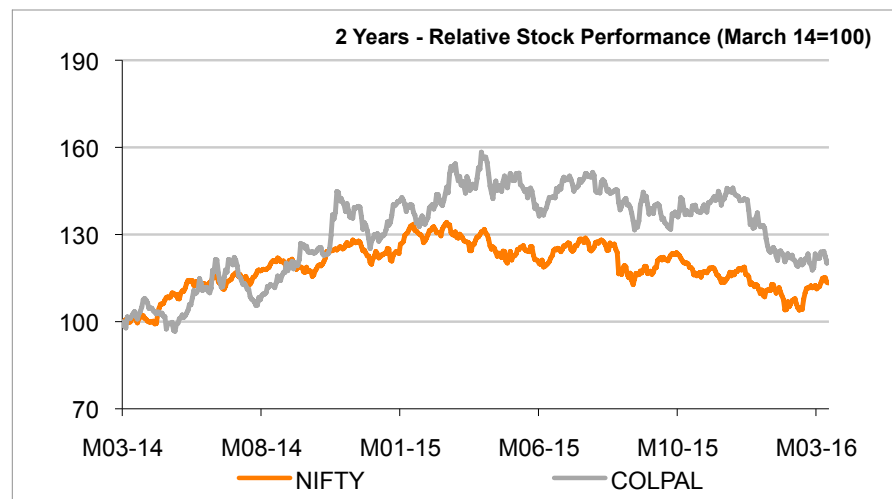
March 30, 2016



Re-iterating - Accumulate



- We had re-iterated Accumulate rating on Colgate-Palmolive (India) Limited (COLPAL) in our last report, based on the Company's new product launches, increasing penetration in rural market and up-selling in the urban market. Shares have outperformed the local index since.
- For the quarter ended December 31, 2016 (Q3FY16), the Company's net sales stood at INR10,064 million, which shows the growth of 1.8% YoY. Its net profit increased 21.8% YoY to INR1,594 million in Q3FY16.
- Volume growth in Q3FY16 was lower at 1%, while for 9MFY16 volume growth was at 2%. Colgate has been facing severe competition from a new player, Pantanjali, with its product range in oral care & personal care.
- However, we expect Colgate to continue its long term growth profile on the back of innovative product launches. Recently, with the launch of its innovative new product "Pain Out", the Company has created a completely new segment of "express tooth pain relief" in the Indian market.
- Colgate continued its leadership position in toothpaste segment by registering a volume market share of 57.3% in FY15. It also maintained its leadership position in toothbrush segment with an increase in its volume market share to 43.8% in FY15.
- We re-iterate Accumulate rating on COLPAL with a revised target price of INR920 per share, an upside of about 11%, valuing it at an EV/EBITDA of 23x 2017.



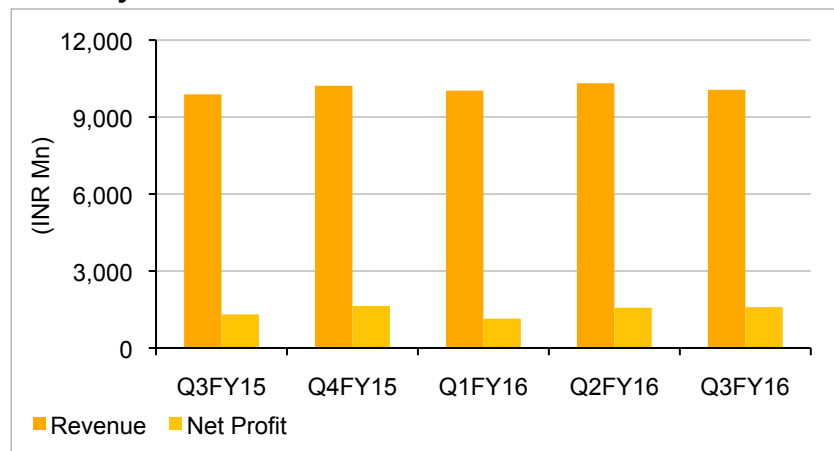
| | FY14 | FY15 | FY16E | FY17E |
|---------------------|--------|--------|--------|--------|
| Revenue (INR Mn) | 35,449 | 39,548 | 41,630 | 46,650 |
| EBITDA (INR Mn) | 6,640 | 8,222 | 9,375 | 10,805 |
| Net Income (INR Mn) | 5,399 | 5,590 | 6,045 | 6,910 |
| EPS (INR) | 19.9 | 20.6 | 22.2 | 25.4 |
| P/E (x) | 41.8 | 40.4 | 37.3 | 32.6 |
| EV/EBITDA (x) | 33.8 | 27.3 | 23.9 | 20.7 |

Source: Company Filings, Riedel Research

Moderate revenue growth in Q3FY16 due to slow volume growth...



Quarterly Revenue and Net Profit



Source: Company Filings

Quarterly Performance

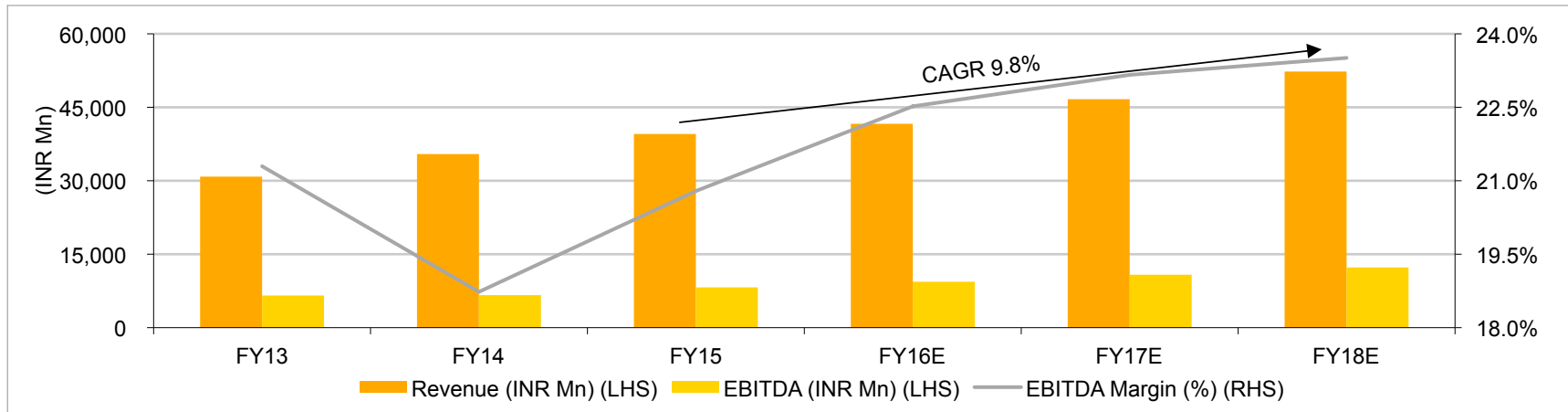
| (INR Mn) | Q3FY16 | Q3FY15 | YoY % Chg | Q2FY16 | QoQ % Chg |
|------------------------|--------|--------|-----------|--------|-----------|
| Net Sales | 10,064 | 9,886 | 1.8% | 10,318 | -2.5% |
| Other Operating Income | 85 | 75 | 14.0% | 67 | 26.9% |
| Total Expense | 7,834 | 8,014 | -2.2% | 7,836 | 0.0% |
| EBIDTA | 2,314 | 1,946 | 18.9% | 2,549 | -9.2% |
| Depreciation | 295 | 203 | 45.4% | 269 | 9.5% |
| Interest | 0 | 0 | - | 0 | - |
| Other Income | 106 | 97 | 10.1% | 108 | -1.1% |
| PBT | 2,126 | 1,840 | 15.5% | 2,388 | -11.0% |
| Tax | 532 | 531 | 0.1% | 818 | -35.0% |
| Net Profit | 1,594 | 1,309 | 21.8% | 1,569 | 1.6% |
| EBITDA Margin % | 23.0% | 19.7% | | 24.7% | |

- Colgate-Palmolive's net sales increased 1.8% to INR10,064 million in Q3FY16 from the same quarter of the previous year. Excluding phasing out of fiscal benefits in the State of Himachal Pradesh, the Organic growth stood at 7% YoY. Unseasonal rains in South India and floods in Chennai along with destocking in certain accounts adversely impacted sales in Q3FY16. Overall volume growth for the Company was 2% in 9MFY16 and 1% in 3QFY16.
- In Q3FY16, net profit stood at INR1,594 million, compared with INR1,309 million posted in the corresponding quarter of the previous year, an increase of 21.8% YoY.
- Colgate's EBIDTA stood at INR2,314 million, which shows a growth of 18.9% compared with the same quarter of the preceding year. Its EBITDA margin for Q3FY16 expanded by 331 bps YoY to 23%, benefitted by a cut in advertising and sales promotion and lower raw material prices.
- In FY15, the Company increased its leadership position in Toothpaste category by 60 bps over same period last year to a volume market share of 57.3%, driven primarily by "Colgate Dental Cream", "Active Salt" and "Max Fresh". In the Toothbrush segment, the Company also enhanced its volume market share to 43.8% in FY15, an increase of 140 bps over same period last year driven majorly by "Zigzag" and "Super Shine".

... however, innovative product launches to continue its long term growth momentum



Growth in Revenues



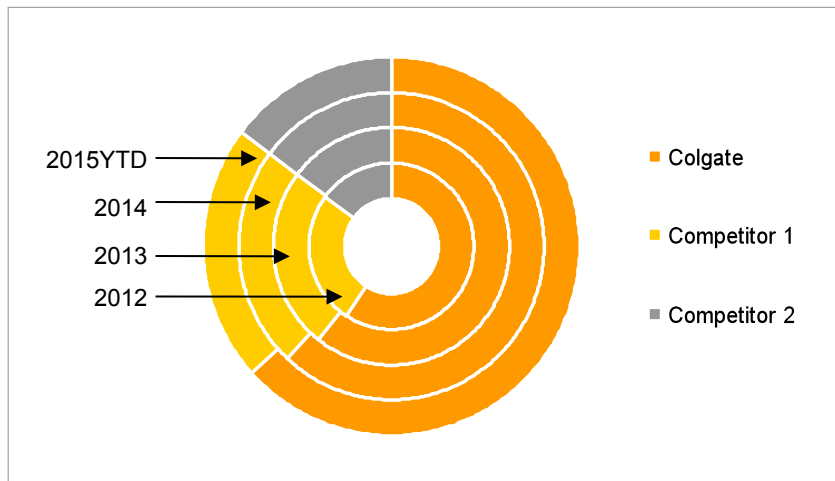
Source: Company Filings, Riedel Research

- ➔ Recently, the product range in oral care & personal care from new player “Pantanjali” has intensified the competitive activity. However, with its innovative product launches, we expect Colgate to continue its long term growth momentum. We expect Colgate’s revenue to grow at 9.8% CAGR from FY12 to FY16.
- ➔ Recently, Colgate-Palmolive (India) Limited has created a completely new segment of "express tooth pain relief" with the launch of their innovative new product "Pain Out". Pain Out is a first-aid solution which can offer temporary relief from tooth pain, so that the consumer can continue with the daily activities before going to a Dentist for permanent solution.
- ➔ In January this year, Colgate-Palmolive (India) Limited announced its national scholarship initiative as a part of its effort to engage with young consumers to build its brands. The initiative offered families a chance to win scholarships up to INR0.1 million lakh from January 1, 2016 to February 29, 2016 period.
- ➔ In 3QFY16, the Company has launched various new products such as Colgate 360 Toothbrush range, Colgate Total Charcoal Deep Clean Toothpaste, Colgate Active Salt Neem Toothpaste, Colgate Zig Zag Black Toothbrush, Palmolive Hand wash range, etc.
- ➔ Colgate has been ranked as India's #1 Most Trusted Brand across all categories for four consecutive years from 2003 to 2007 and in 2011, 2012, 2013, 2014 and 2015 by Brand Equity's Most Trusted Brand Survey. It is also ranked #1 for most chosen consumer brand in India for the third consecutive year by Global Consumer Knowledge and Insights firm, Kantar World panel’s Brand Footprint report.

Market leader in Indian toothpaste and toothbrush market

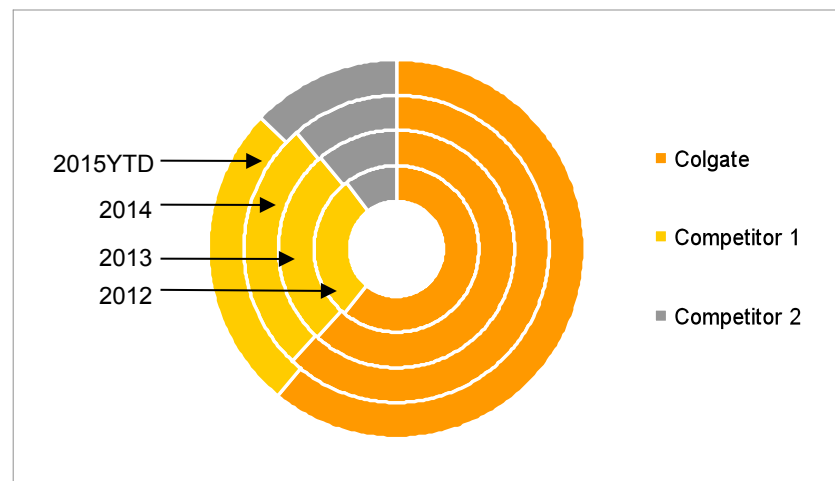


Toothpaste market share – India



Source: Company, Riedel Research

Toothbrush market share – India



Source: Company, Riedel Research

Key Growth Drivers

- ➔ Innovation
- ➔ Engaging with consumers to build brands
- ➔ Winning on the Ground
- ➔ Strong professional partnerships

Key Strategic Initiatives

- ➔ Engage to build brands
- ➔ Innovation for growth
- ➔ Effectiveness & Efficiency
- ➔ Leading to Win