

Estimate change	↓
TP change	↓
Rating change	↔

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	357.3 / 4.8
52-Week Range (INR)	1641 / 1065
1, 6, 12 Rel. Per (%)	-11/11/36
12M Avg Val (INR M)	959

Financials & Valuations (INR b)

Y/E March	2020E	2021E	2022E
Sales	45.3	46.0	51.5
Sales Gr. (%)	1.4	1.6	12.1
EBITDA	12.0	12.2	14.1
EBITDA Mrg. (%)	26.6	26.6	27.4
Adj. PAT	8.2	8.2	9.8
Adj. EPS (INR)	30.0	30.3	36.1
EPS Gr. (%)	8.1	1.0	19.2
BV/Sh.(INR)	58.6	53.8	45.1

Ratios

RoE (%)	53.7	54.0	73.1
RoCE (%)	52.2	54.3	73.4
Payout (%)	93.2	93.5	100.0

Valuation

P/E (x)	43.7	43.3	36.3
P/BV (x)	22.4	24.4	29.1
EV/EBITDA (x)	29.4	28.7	24.9
Div. Yield (%)	2.1	2.2	2.8

Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	51.0	51.0	51.0
DII	10.2	10.4	10.4
FII	16.2	16.5	15.4
Others	22.7	22.1	23.3
FII Includes depository receipts			

CMP: INR1,314 TP: INR1,520 (+16%) Buy

Silver lining in market share gain, but needs sustaining

Brief view on results and stock

- Colgate's (CLGT) 4QFY20 results were disappointing relative to expectations, but understandable, given the COVID-19 related disruptions highlighted by peers that have already declared results.
- We maintain **'Buy'** rating on CLGT due to inexpensive valuations (below 10-year average P/E), relatively resilient portfolio (v/s peers) in an uncertain time, among the best of breed balance sheet metrics and incipient signs of market share gains.

Volumes decline 8% for the quarter; Miss on overall estimates

- Revenue declined 7.1% YoY** to INR10.7b (v/s est. INR11.8b) in 4QFY20. EBITDA was down 15.3% YoY to INR2.6b (v/s est. INR3b). PBT declined 16.5% YoY to INR2.3b (v/s est. INR2.5b). Adj. PAT grew 2.1% YoY to INR2b (v/s est. INR1.8b) on account of low tax rate. Domestic sales decline was led by 8% YoY volume decline (v/s est. 1% growth).
- FY20 revenue grew 1.4% YoY** (~0.6% toothpaste volume growth), while EBITDA/Adj. PAT grew -2.8%/8.1%. EBITDA margins contracted by 110bp YoY to 26.6%.
- 4QFY20 gross margin expanded by 10bp to 64.7%**. EBITDA margin contracted by 240bp YoY to 24.5%. Absolute ad spends were down 0.5% YoY.
- Balance sheet performance:** Increase in inventory days (+3 days) on account of unsold stocks due to the COVID-19 crisis was offset by lower Debtor days (-3 days). Cash conversion cycle, thus, stood at negative 15 days, in line with its historical average. Operating cash flow declined 9.5% while PAT growth came in at 8.1%. FCF stood at INR8.3b (5.5% decline YoY) while RoCE came in at 52.2%.

Highlights from management commentary

- Market share in CY19 was slightly down but for each of the first 4 months in CY20 it was up YoY, including an 80bp market share gain in Mar'20, despite the COVID-19 disruption.
- Herbal market share expanded by 300bp in recent months.
- Re-launched *Colgate Dental Cream* with best clinically superior technology and a new formulation, for which the initial feedback is good.

Valuation and view

- Results were disappointing relative to expectations, but understandable given the COVID-19 related disruptions highlighted by peers that have already declared results. Market share gains in recent months is encouraging but needs to be sustained for making a stronger investment case.
- We **maintain Buy** on CLGT as from a one-year perspective, (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has among the best of breed balance sheets, (c) valuations are inexpensive at 36.3x FY22E EPS, close to its 10-year average, and (d) there is spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,520 (target multiple of 42x FY22E EPS, based on 5-year average).

Quarterly Performance

(INR Million)

Y/E March	FY19				FY20				FY19	FY20	FY20	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			4QE	(%)
Toothpaste Volume Gr %	4.0	7.0	7.0	5.0	4.0	4.0	2.3	-8.0	5.0	0.6	1.0	
Net Sales (inclgd. OOI)	10,413	11,680	10,994	11,538	10,849	12,218	11,472	10,713	44,624	45,251	11,844	-9.6%
YoY change (%)	6.5	7.7	6.4	5.7	4.2	4.6	4.3	-7.1	263.7	1.4	2.7	
Gross Profit	6,863	7,565	7,161	7,449	7,145	7,910	7,541	6,926	29,038	29,522	7,721	-10.3%
Gross margin (%)	65.9	64.8	65.1	64.6	65.9	64.7	65.7	64.7	65.1	65.2	65.2	
EBITDA	2,815	3,296	3,145	3,104	2,998	3,230	3,161	2,629	12,360	12,017	2,950	-10.9%
Margins (%)	27.0	28.2	28.6	26.9	27.6	26.4	27.6	24.5	27.7	26.6	24.9	
YoY growth (%)	26.7	9.5	11.2	0.9	6.5	-2.0	0.5	-15.3	308.0	-2.8	-5.0	
Depreciation	394	398	406	394	499	504	515	462	1,592	1,979	492	
Interest	0	0	0	25	23	24	29	20	25	96	4	
Financial other Income	92	86	79	120	152	86	58	196	377	492	39	
PBT	2,513	2,984	2,818	2,805	2,628	2,788	2,674	2,344	11,120	10,434	2,493	-6.0%
Tax	844	1,020	897	805	937	347	683	302	3,566	2,269	697	
Rate (%)	33.6	34.2	31.8	28.7	35.7	12.4	25.6	12.9	32.1	21.7	28.0	
Adj PAT	1,669	1,964	1,921	2,000	1,691	2,441	1,991	2,042	7,554	8,165	1,796	13.6%
YoY change (%)	22.4	10.6	12.6	1.7	1.3	24.3	3.6	2.1	256.3	8.1	-10.2	

E: MOFSL Estimates

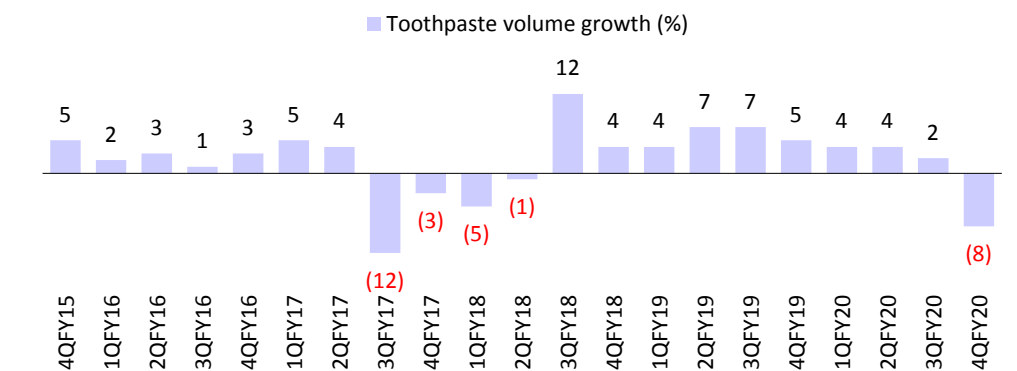
Key Performance Indicators

Y/E March	FY19				FY20			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q
Realization Gr %	2.5	0.7	-0.6	0.7	0.2	0.6	2.0	0.9
2Y average growth %								
Volumes	-0.5	3.1	9.5	4.5	4.0	5.5	4.7	-1.5
Sales	1.5	5.2	12.3	5.5	5.3	6.1	5.4	-0.7
EBITDA	15.9	9.5	21.7	13.8	16.6	3.8	5.8	-7.2
PAT	15.4	4.3	23.0	19.8	11.9	17.4	8.1	1.9
% sales								
COGS	34.1	35.2	34.9	35.4	34.1	35.3	34.3	35.3
Staff cost	7.2	6.5	6.5	6.4	7.7	6.7	6.7	8.4
Advertising	13.8	11.9	11.5	13.5	13.9	14.4	12.5	14.5
Others	17.9	18.1	18.6	17.7	16.6	17.2	19.0	17.2
Depriciation	3.8	3.4	3.7	3.4	4.6	4.1	4.5	4.3
YoY change %								
COGS	-0.8	3.7	6.7	9.1	4.3	4.7	2.6	-7.4
Staff cost	3.0	-7.2	-5.3	-3.1	11.4	7.2	8.4	22.3
Advertising	0.1	16.5	4.4	8.9	5.4	26.5	13.8	-0.5
Others	2.5	13.9	4.7	7.9	-3.4	-0.6	6.4	-9.9
Other income	-23.7	0.3	-7.6	40.9	65.6	-0.1	-26.7	64.4
EBIT	30.9	10.7	12.5	1.5	3.2	-5.9	-3.4	-20.1

E: MOFSL Estimates

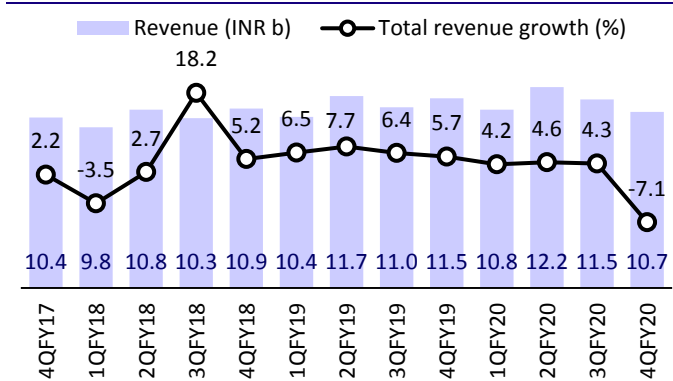
Key Exhibits

Exhibit 1: Toothpaste volumes decline 8% in 4QFY20



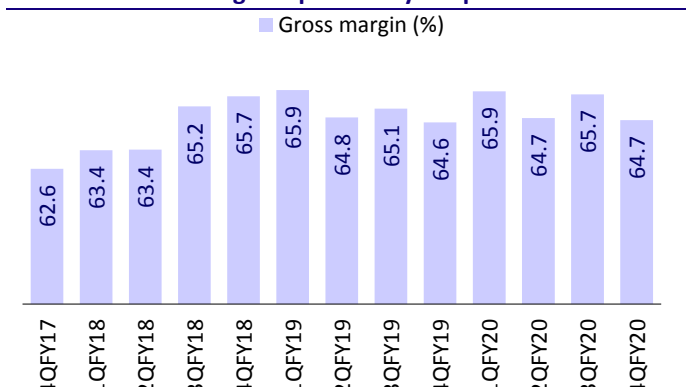
Source: Company, MOFSL

Exhibit 2: Revenue down 7.1% YoY to INR10.7b in 4QFY20



Source: Company, MOFSL

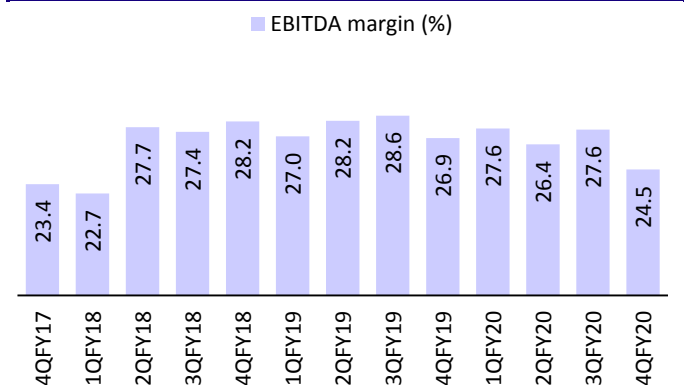
Exhibit 3: Gross margin expanded by 10bp YoY



Source: Company, MOFSL

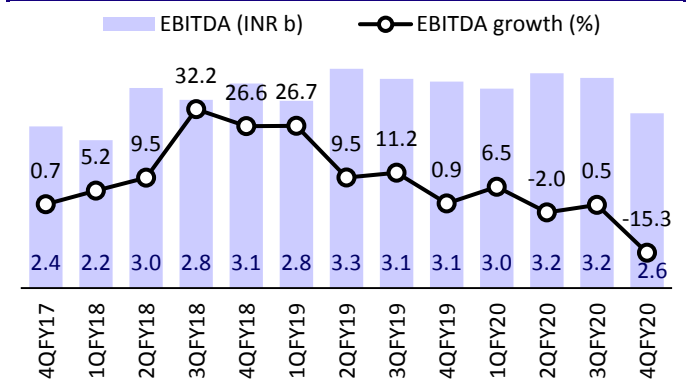
Higher staff costs as % of sales (+200bp YoY) and ad-spends (+100bp YoY) were offset by lower other expenses (-50bp YoY). EBITDA margins, thus, contracted by 240bp YoY to 24.5% (v/s est. 24.9%). Absolute ad spends were down 0.5% YoY.

Exhibit 4: EBITDA margin contracted by 240bp YoY to 24.5%



Source: Company, MOFSL

Exhibit 5: Thus, EBITDA declined 15.3% YoY to INR2.6b



Source: Company, MOFSL

Conference call highlights

Key highlights

- CLGT had a stellar quarter up to the last two weeks of Mar'20.
- Market share in CY19 was slightly down; however, it was up YoY for each of the first 4 months in CY20, including 80bp gain in Mar'20 despite the COVID-19 led disruption.
- CY19 category growth was only 4%.
- Herbal market share was up 300bp in recent months.
- Key focus areas for new MD – sharper focus on driving sales growth, maximizing leadership and bringing in thought leadership.
- CLGT has been rated as the most trusted brand for the 9th consecutive year; the company has witnessed 300bp increase in household penetration over a two-year period in 1QCY20 (v/s 1QCY18).

Key recent initiatives

- The company re-launched *Colgate Dental Cream* with best clinically superior technology and a new formulation. This applies to the INR10 pack as well. CLGT expects to see strong traction here. Also, initial feedback was good.
- Improved *Vedshakti* had seen strong consumer traction (Jan-Feb'20) before the onset of COVID-19 and has strengthened further in recent months. There has been a 2x increase in penetration.
- Black Toothpaste with charcoal was off to a flying start. It captured ~1% share in modern trade in the first 3 months. It is priced at INR100 and is one CLGT's key bets in the premium portfolio.
- Kids segment – launched products with 0% artificial flavors, preservatives, sweeteners and colors.

Outlook and COVID-19 update

- The COVID-19 impact would be more pronounced in 2QCY20 and 3QCY20.
- Portfolio launches would be significant.
- From the second half Apr'20, the impact of lockdowns has started to ease but there were challenges on labor attendance in plants.
- Plants are operational at 70-80% of normal capacity over the last couple of weeks.
- CLGT is managing stock availability on a granular basis and ensuring product availability.
- It aims to grow its Gross Margins.
- On ad-spends, there could be some recalibration in the current environment compared to 120bp YoY increase in FY20.

Channel performance

- 200bp market share gain in Ecommerce in 1QCY20. Sales were up 7x in the last 3 years.
- 160bp market share improvement in modern trade in 1QCY20, sales were up 1.9x in the past 5 years.
- General Trade - Among all companies, CLGT was rated the most preferred among the distributor community.
- Superior technology and analytics enabled better decision making.
- Would look at reducing wholesale dependence in North India.

On Palmolive

- Wants to be distinctive in terms of products and experience.

Sustainability

- 37,000kl of water usage reduced in the past 3 years.
- 27% wind power usage at the Sanand plant.
- Self-generated power at the Sri City plant.

Other points

- Reached out to 170m kids through the Bright Smiles Bright Futures Program.

Valuation view**What happened in the past decade from a business perspective?**

- A combination of a sharp fall in market share in recent years and increasing penetration of the category itself has meant single-digit topline growth in the last 10 years. In recent years, premiumization also came off affecting realization growth compared to the past.
- For a company with modest base of INR20.4b sales in FY10, sales/EBITDA/PBT growth for the last 10 years has been weak at 8-10% CAGR. PAT growth is even lower at 7% CAGR as the company was at 16.7% tax rate in FY10.
- Due to market share decline in recent years, growth on these metrics has been even lower in the past 5 years with sales/EBITDA/PAT delivering CAGR of ~3%/~8%/~8%.

What is our broad investment argument?

- The New CEO's stated primacy on volume growth and market share gain,
 - Visible efforts on branding through sharp increase in ad-spends in recent quarters,
 - A pick-up in product development, and
 - Direct distribution expansion in recent years augurs well for recouping some of the market share loss in the past few years.
- Colgate has such strong moats in the form of brand, global expertise, distribution and concentrated category focus. Therefore, it has been able to make a comeback several times in the past few decades after losing market share for some time. Corporate tax cuts, which do not benefit peers materially, also boost competitiveness further. Importantly, the company does not need any material capex until Dec'22.

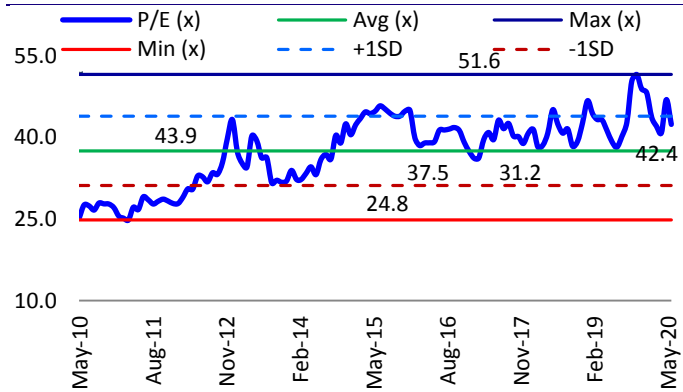
Valuations and view

- Results were disappointing relative to expectations, but understandable given the COVID-19 related disruptions highlighted by peers that have already declared results. Market share gains in recent months is encouraging but needs to be sustained for making a stronger investment case.
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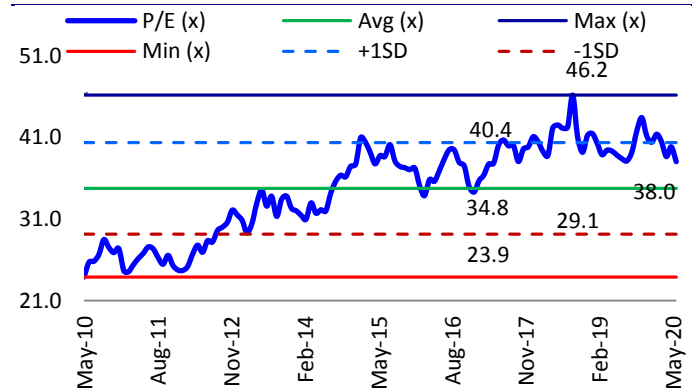
Exhibit 6: Changes to the model led to 1.1% EPS cut for FY21E and 0.3% increase for FY22E

	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	48,081	53,394	45,964	51,512	(4.4)	(3.5)
EBITDA	12,917	14,811	12,248	14,125	(5.2)	(4.6)
PAT	8,338	9,804	8,247	9,830	(1.1)	0.3

Source: Company, MOFSL

Exhibit 7: CLGT P/E (x)

Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)

Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Net Sales	39,887	38,682	39,818	41,880	44,624	45,251	45,964	51,512
Change (%)	11.0	-3.0	2.9	5.2	6.6	1.4	1.6	12.1
COGS	14,677	14,763	14,763	14,887	15,586	15,729	15,842	17,666
Gross Profit	25,210	23,919	25,055	26,992	29,039	29,522	30,123	33,846
Gross Margin (%)	63.2	61.8	62.9	64.5	65.1	65.2	65.5	65.7
Operating expenses	16,920	14,534	15,619	15,855	16,678	17,505	17,875	19,721
EBITDA	8,290	9,385	9,435	11,137	12,361	12,017	12,248	14,125
Change (%)	22.2	13.2	0.5	18.0	11.0	-2.8	1.9	15.3
Margin (%)	20.8	24.3	23.7	26.6	27.7	26.6	26.6	27.4
Depreciation	750	1,114	1,332	1,565	1,592	1,979	2,036	2,030
Int. and Fin. Charges	0	0	0	0	25	96	96	100
Financial Other Income	264	395	411	375	377	492	423	566
Profit before Taxes	7,804	8,666	8,514	9,947	11,120	10,434	10,539	12,562
Change (%)	17.6	11.1	-1.8	16.8	11.8	-6.2	1.0	19.2
Margin (%)	19.6	22.4	21.4	23.8	24.9	23.1	22.9	24.4
Tax	2,009	2,541	2,740	3,022	3,566	2,475	2,291	2,731
Tax Rate (%)	28.4	29.3	32.2	31.1	32.1	21.7	21.7	21.7
Adjusted PAT	5,590	6,125	5,774	6,850	7,555	8,165	8,247	9,830
Change (%)	13.9	9.6	-5.7	18.6	10.3	8.1	1.0	19.2
Margin (%)	14.0	15.8	14.5	16.4	16.9	18.0	17.9	19.1
Non-rec. (Exp)/Income	0	-313	0	-117	201	0	0	0
Reported PAT	5,590	5,812	5,774	6,734	7,756	8,165	8,247	9,830

Balance Sheet							(INR Million)	
Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	272	272	272	272	272	272	272	272
Reserves	7,431	10,038	12,466	14,974	14,196	15,670	14,355	11,996
Net Worth	7,703	10,310	12,738	15,246	14,468	15,942	14,627	12,268
Loans	0	0	0	0	777	0	0	0
Deferred Liability	26	97	275	355	309	50	50	50
Capital Employed	7,729	10,407	13,013	15,601	15,553	15,992	14,677	12,318
Gross Block	12,829	14,866	17,188	19,077	21,077	22,377	23,377	24,377
Less: Accum. Depn.	-5,013	-4,785	-6,107	-7,617	-9,169	-11,148	-13,184	-15,214
Net Fixed Assets	7,816	10,081	11,081	11,459	11,909	11,229	10,193	9,163
Capital WIP	1,412	784	1,666	1,586	1,987	1,900	1,900	1,900
Investments	371	312	312	312	312	186	186	186
Curr. Assets, L&A	7,420	8,852	10,048	12,282	12,058	12,725	13,893	13,498
Inventory	2,522	2,915	2,926	2,267	2,486	2,969	2,568	2,580
Account Receivables	696	1,015	1,299	2,010	2,098	1,326	1,997	2,238
Cash & Bank	2,545	2,887	2,943	4,562	3,994	4,213	5,834	5,086
Others	1,657	2,035	2,880	3,443	3,481	4,217	3,495	3,595
Curr. Liab. and Prov.	9,290	9,622	10,094	10,037	10,712	10,048	11,495	12,430
Account Payables	5,144	5,519	5,975	6,203	6,132	6,125	6,511	7,322
Other Liabilities	2,874	3,438	3,356	3,040	3,757	2,829	3,836	3,903
Provisions	1,272	664	763	794	823	1,093	1,148	1,205
Net Current Assets	-1,870	-770	-46	2,245	1,346	2,677	2,398	1,069
Application of Funds	7,729	10,407	13,013	15,601	15,553	15,992	14,677	12,318

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
Basic (INR)								
EPS	20.6	22.5	21.2	25.2	27.8	30.0	30.3	36.1
Cash EPS	23.3	26.6	26.1	30.9	33.6	37.3	37.8	43.6
BV/Share	28.3	37.9	46.8	56.1	53.2	58.6	53.8	45.1
DPS	12.5	11.0	11.0	24.0	23.0	28.0	28.3	36.1
Payout %	60.6	48.8	51.7	95.3	82.8	93.2	93.5	100.0
Valuation (x)								
P/E	63.9	58.3	61.8	52.1	47.3	43.7	43.3	36.3
Cash P/E	56.3	49.3	50.3	42.4	39.0	35.2	34.7	30.1
EV/Sales	8.9	9.1	8.9	8.4	7.9	7.8	7.6	6.8
EV/EBITDA	42.7	37.7	37.5	31.6	28.6	29.4	28.7	24.9
P/BV	46.4	34.6	28.0	23.4	24.7	22.4	24.4	29.1
Dividend Yield (%)	0.9	0.8	0.8	1.8	1.8	2.1	2.2	2.8
Return Ratios (%)								
RoE	81.6	68.0	50.1	49.0	50.9	53.7	54.0	73.1
RoCE	82.5	67.5	49.3	47.9	48.6	52.2	54.3	73.4
RoIC	236.5	119.0	75.7	76.5	79.5	82.9	97.2	159.0
Working Capital Ratios								
Debtor (Days)	6	9	11	17	17	11	16	16
Asset Turnover (x)	6.7	4.2	3.6	3.1	3.4	3.3	3.7	5.0
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.0	0.1	0.0	0.0	0.0

Cash Flow Statement

(INR Million)

Y/E March	2015	2016	2017	2018	2019	2020	2021E	2022E
OP/(loss) before Tax	7,804	8,666	8,514	9,947	11,121	10,434	10,539	12,562
Depreciation	750	1,114	1,332	1,565	1,592	1,979	2,036	2,030
Int./Div. Received	97	-264	34	81	85	-23	-423	-566
Interest Paid	-264	-261	-297	-290	-317	96	96	100
Direct Taxes Paid	-2,055	-2,524	-3,014	-3,474	-4,144	-2,475	-2,291	-2,731
(Incr)/Decr in WC	49	156	311	-889	1,494	-1,111	1,900	581
CF from Operations	6,382	6,887	6,880	6,940	9,830	8,899	11,857	11,976
(Incr)/Decr in FA	-2,994	-2,713	-3,212	-2,087	-1,042	-596	-1,000	-1,000
Free Cash Flow	3,388	4,175	3,668	4,853	8,788	8,304	10,857	10,976
(Pur)/Sale of Investments	0	70	0	0	0	125	0	0
Others	135	12	-205	564	-1,209	932	-746	-610
CF from Invest.	-2,859	-2,631	-3,418	-1,523	-2,251	462	-1,746	-1,610
Change in Equity	0	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	0	0	0	-121	-777	0	0
Dividend Paid	-3,388	-2,987	-2,717	-2,986	-6,462	-9,436	-9,561	-12,189
Others	-460	-928	-689	-812	-1,564	1,071	1,071	1,075
CF from Fin. Activity	-3,848	-3,915	-3,406	-3,798	-8,147	-9,142	-8,490	-11,114
Incr/Decr of Cash	-325	342	56	1,619	-568	220	1,621	-749
Add: Opening Balance	2,870	2,545	2,887	2,943	4,562	3,994	4,213	5,834
Closing Balance	2,545	2,887	2,943	4,562	3,994	4,213	5,834	5,085

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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