

Growth prospects remain dismal...

Colgate (CPIL) reported a dismal set of numbers with 7.4% decline in sales and 8% dip in volumes. The growth was largely impacted by 10 days loss of sales due to the lockdown in the country. The company maintained its gross margins at 64.6% in Q4FY20. However, employee expenses as percentage of sales was up 200 bps mainly due to operating de-leverage. The company maintained its marketing spend at ₹ 155 crore, which was 100 bps higher (percentage to sales) given decline in sales. CPIL did not withdraw media spend despite disruption at the end of quarter. Other overhead were lower by 50 bps. Operating profit declined 15.4% and margins contracted by 237 bps to 24.5%. With the sharp cut in corporate tax and ₹ 30 crore tax reversal, PAT rose 3.3% to ₹ 204.2 crore. Adjusting for reversal, PAT fell 5%.

Growth woes continue for fifth year

Revenues have not grown in the last four years impacted by demonetisation, GST implementation, wholesale channels liquidity issues, market share loss to herbal, Ayurveda brands and lockdown due to Covid-19. FY21 would be no different. We expect mere 1.7% revenue growth for the year considering 50% capacity utilisation for the 45 days lockdown period. The company has a large dependency on wholesales channels, specifically in North & East India, which may find it difficult to operate even after lockdown is completely lifted. We expect 9.2% sales growth in FY22E with the management's effort to push the natural's portfolio (Vedshakti, Swarnshakti), re-branding flagship Colgate dental cream, improving direct distribution network and increasing presence in modern trade & e-commerce channels. Lower commodity prices would be the saving grace for operating margins. We believe CPIL would be able to maintain its operating margins in FY21 and would see an improvement of 80 bps in FY22E.

High penetration of oral care category curbing growth

Oral care category is highly penetrated and has limited opportunity to grow by scaling up the distribution network further in rural India. The growth prospects in the category can come from incremental usage (brushing twice a day), differentiated products or gain in market share. We have seen the company is a laggard in all the aspects. We believe CPIL's Palmolive brand has a strong recall value and can be leveraged by driving growth in the personal care space.

Valuation & Outlook

Colgate has a wide distribution network of 6 million, which can be leveraged by promoting brands in natural space and foraying in other personal care categories. The natural space (including Ayurveda) is 20% of the category and growing fastest within oral care. However, we believe recent supply chain disruptions (specifically within wholesale channel) would further derail the recovery with the possibility of down trading or shifting towards smaller brands. We value the company at 40x FY22E earnings with a **HOLD** rating and a revised target price of ₹ 1350/share.

Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	4188.0	4462.4	4525.1	4603.0	5024.8	5.4%
EBITDA	1113.7	1236.1	1201.7	1233.3	1386.0	7.4%
EBITDA Margin %	26.6	27.7	26.6	26.8	27.6	
Net Profit	673.4	775.6	816.5	798.0	914.4	5.8%
EPS (₹)	24.76	28.52	30.02	29.34	33.62	
P/E	53.5	46.4	44.1	45.1	39.4	
RoNW %	44.7	52.2	51.2	50.8	59.5	
RoCE (%)	62.9	70.7	60.7	66.2	77.5	

Source: Company, ICICI Direct Research



Particulars

Particulars (₹ crore)	Amount
Market Capitalization	36,010.9
Total Debt (FY20)	84.0
Cash and Investments (FY20)	421.3
EV	35,673.6
52 week H/L (₹)	1641 / 1056
Equity capital	27.2
Face value (₹)	1.0

Key Highlights

- Revenue decline of 7.4% with 8% de-growth in volumes
- Operating margins contracted by 237 bps due to negative operating leverage. The company maintained its A&P during the quarter
- We revise our target to ₹ 1350/share (earlier ₹ 1430/share) and change our rating from BUY to HOLD

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Total Operating Income	1,071.3	1,153.8	-7.1	1,147.2	-6.6	Net sales decline 7.4% due to 8% volume de-growth
Operating Income	8.9	7.1	25.1	11.2	-20.1	
Raw Material Expenses	378.6	408.8	-7.4	393.1	-3.7	Maintains gross margins mainly due to benign RM cost specifically packaging cost
Employee Expenses	89.9	73.5	22.3	77.0	16.7	
SG&A Expenses	155.5	156.3	-0.5	143.4	8.4	Maintains its A&P spend during the quarter
Other operating Expenses	184.4	204.8	-9.9	217.6	-15.3	
EBITDA	262.9	310.4	-15.3	316.1	-16.8	
EBITDA Margin (%)	24.5	26.9	-237 bps	27.6	-301 bps	Operating margins contract 237 bps due to fixed cost remaining same and loss of sales due to lockdown
Depreciation	46.2	39.4	17.3	51.5	-10.3	
Interest	2.0	2.5	NA	2.9	NA	
Other Income	19.6	12.0	64.4	5.8	238.6	
PBT before exceptional	234.4	280.5	-16.5	267.4	-12.4	
Exceptional Items	0.0	3.6	NA	0.0	NA	
Tax Outgo	30.2	79.3	-61.9	68.3	-55.8	
PAT	204.2	197.6	3.3	199.1	2.5	Net profit increases 3.3% despite loss of sales due to cut in corporate tax rate

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	5,122.2	4603.0	-10.1	5,513.5	5,024.8	-8.9	We cut our FY21 numbers due to manufacturing & supply chain disruption during 45 days of lockdown
EBITDA	1421.4	1233.3	-13.2	1544.4	1386.0	-10.3	
EBITDA Margin (%)	27.7	26.8	-96 bps	28.0	27.6	-43 bps	Operating margins to contract in FY21 due to negative operating leverage
PAT	930.9	798.0	-14.3	1009.0	914.4	-9.4	
EPS (₹)	34.80	29.34	-15.7	37.10	33.62	-9.4	

Source: Company, ICICI Direct Research

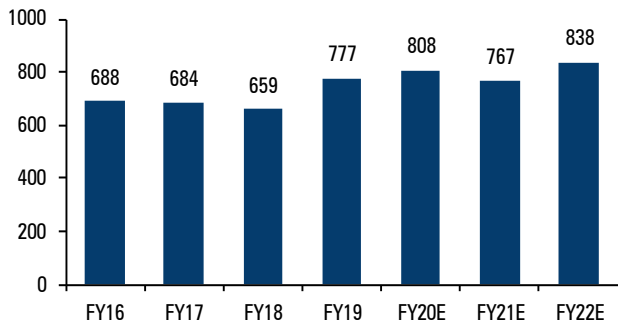
Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY20E	FY21E		
Toothpaste Vol. Growth(%)	4.0	6.0	6.0	-4.0	7.0	6.0	6.0	We cut our volume numbers due to manufacturing & supply chain disruptions during lockdown	
Toothpaste Value Growth(%)	-3.8	0.1	7.1	-4.0	9.1	8.1	8.1		
Toothbrush Vol. Growth(%)	4.0	6.0	6.0	-5.0	7.0	7.0	7.0		
Toothbrush Value Growth(%)	-3.7	17.9	4.0	-5.0	9.1	9.1	9.1		
Raw Material/Sales %	35.5	34.9	34.8	34.4	34.2	35.8	35.8		
Marketing Exp./Sales %	12.6	12.7	13.8	13.9	13.9	12.1	11.9		

Source: Company, ICICI Direct Research

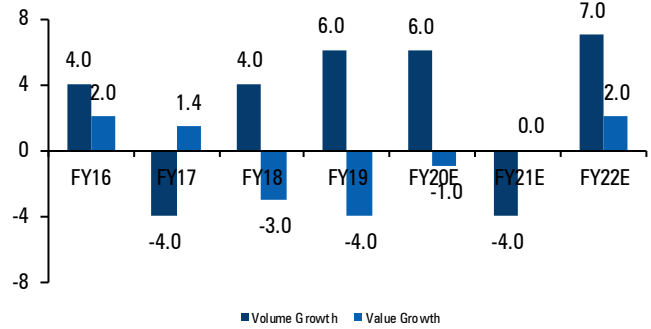
Key Metrics

Exhibit 4: Toothbrush revenue to be impacted in FY21E



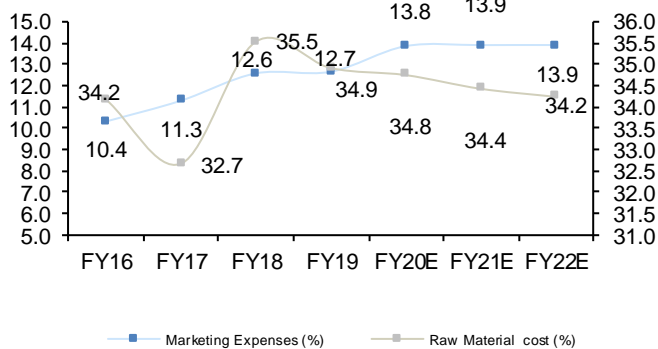
Source: Company, ICICI Direct Research

Exhibit 5: Volume growth expected to dip by 4% in FY21E



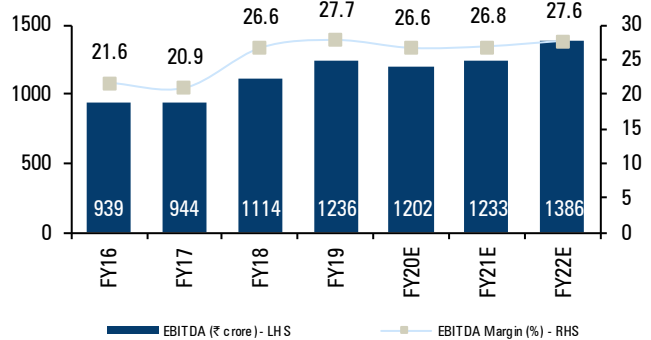
Source: Company, ICICI Direct Research

Exhibit 6: A&P spend to remain high, RM cost to remain low



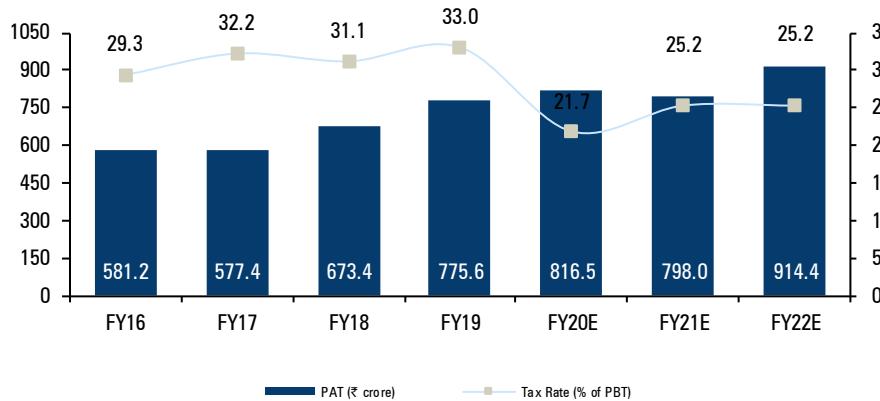
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: Valuations

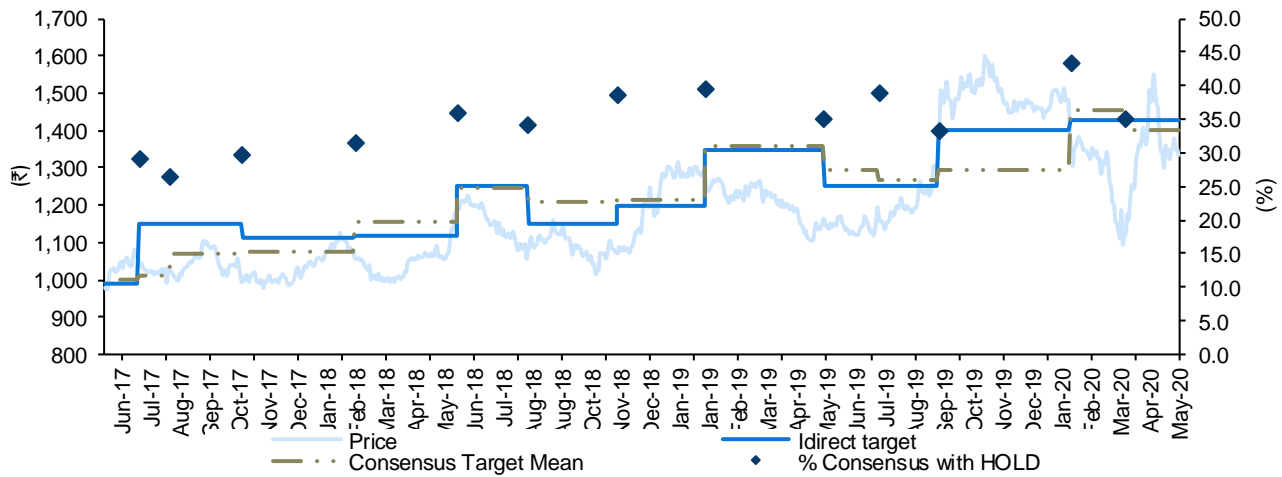
	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	4432.4	6.6	28.5	15.2	46.4	28.7	52.2	70.7
FY20	4487.6	1.2	30.0	5.3	44.1	29.5	51.2	60.7
FY21E	4564.4	1.7	29.3	-2.3	45.1	28.6	50.8	66.2
FY22E	4983.9	9.2	33.6	14.6	39.4	25.4	59.5	77.5

Source: Company, ICICI Direct Research

Conference Call Highlights

- Revenues saw de-growth of 7.4% with 8% volume decline due to loss of sales in the last 10 days of March 2020 given the lockdown situation in the country
- The company is looking to drive growth through brand engagements, innovations, targeting new trade channels & strengthening general trade
- CPIL is very aggressive in brand engagements with various campaigns through TVC and social media. It has increased its A&P spend to highest ever at ~14% of sales. Colgate's household penetration increased 300 bps in the last two years
- It is also focussing on increasing awareness of its naturals brand 'Vedshakti' & 'Swarnshakti' through media spends resulting in penetration of naturals brands increasing 2x in the last year. Further, 'Colgate charcoal' is showing good traction
- Within innovation, the company has launched first Black toothpaste 'Colgate Charcoal Clean', kids toothpaste in the natural space, bamboo handle toothbrush and a battery brush at affordable price. The company has also launched Palmolive hand sanitisers in 100 ml & 500 ml SKUs
- CPIL's presence in e-commerce channel has increased by 7x in last three years and modern trade business has grown 1.9x in the last five years
- Higher dependency on wholesales channels, specifically in North & East India has been a drag for growth. It is looking to increase its direct distribution network. Though wholesale dependence can be reduced in north India, it is difficult to replicate the same in eastern India
- From the past learnings at the time of demonetisation, the company has not stopped media spend during the current crisis. It has continued to advertise even during the lockdown period
- In the last two months, the company is working with various delivery partners like Swiggy, Zomato, Uber, etc. It is looking for a contact less distribution channel. CPIL is trying to rationalise faster moving SKUs during the lockdown. The company is helping vendors through vendor financing programmes in the current difficult times
- Though the company has lost market share in 2019, it gained share in March 2020 by 80 bps. In natural space, it has gained share by 20-30 bps
- Operating margins during the quarter were down 237 bps mainly due to negative operating leverage. Reported net profit was up 3.3% due to cut in corporate tax. However, adjusted for prior tax reversal, net profit was down 5%. The company will focus on increasing gross margins in future
- The company is focussing on increasing per capita consumption in eastern states like Bihar where it is still quite low
- The company declared a dividend of ₹ 16/share

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	Position (m)	Change (m)
1	Colgate Palmolive Co	31-Mar-20	40.1	109.0	0.0
2	Colgate Palmolive As	31-Mar-20	10.9	29.8	0.0
3	Life Insurance Corp	31-Dec-19	3.0	8.1	-1.0
4	First State Investme	30-Sep-19	2.4	6.6	0.2
5	Sbi Funds Management	31-Mar-20	1.6	4.3	-0.9
6	Bank Of Montreal	31-Mar-20	1.0	2.7	0.2
7	Vanguard Group	8-Apr-20	0.9	2.5	0.0
8	Blackrock	21-Apr-20	0.7	1.8	0.1
9	Mitsubishi Ufj Finan	30-Sep-19	0.7	1.8	-0.5
10	T Rowe Price Group I	31-Mar-20	0.6	1.7	0.2

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	51.0	51.0	51.0	51.0	51.0
FII	15.4	15.1	15.5	16.5	16.2
DII	10.2	10.3	11.4	10.2	10.0
Others	23.5	23.6	22.2	22.3	22.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Total Operating Income	4,462.4	4,525.1	4,603.0	5,024.8
Growth (%)	6.6	1.4	1.7	9.2
Raw Material Expenses	1,558.6	1,572.9	1,585.1	1,720.7
Employee Expenses	295.9	332.3	324.1	333.2
Marketing Expenses	564.7	626.0	639.0	697.7
Administrative Expenses	268.5	0.0	168.9	174.4
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	538.7	792.2	652.7	712.7
Total Operating Expenditure	3,226.4	3,323.4	3,369.7	3,638.8
EBITDA	1,236.1	1,201.7	1,233.3	1,386.0
Growth (%)	11.0	-2.8	2.6	12.4
Depreciation	159.2	197.9	216.2	215.3
Interest	2.5	9.6	0.0	0.0
Other Income	37.7	49.2	49.7	51.7
PBT	1,112.1	1,043.4	1,066.9	1,222.5
Exceptional items	34.1	0.0	0.0	-3.6
Total Tax	367.0	226.9	268.9	308.1
PAT	775.6	816.5	798.0	914.4
Growth (%)	15.2	5.3	-2.3	14.6
EPS (₹)	28.5	30.0	29.3	33.6

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit/Loss after Tax	775.6	722.1	798.0	914.4
Add: Depreciation	159.2	197.9	216.2	215.3
Add: Interest	2.5	9.6	0.0	0.0
(Inc)/dec in Current Assets	-6.2	25.0	-65.3	-60.3
Inc/(dec) in Current Liabilities	68.3	-28.4	61.3	85.6
CF from operating activities	1,127.8	889.9	1,010.2	1,155.0
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-244.2	-60.4	-35.0	-200.0
Others	-33.7	41.7	-31.2	-1.7
CF from investing activities	-277.9	-18.7	-66.2	-201.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	77.7	0.0	-84.0	0.0
Dividend paid & dividend tap	-852.5	-731.5	-819.7	-950.9
Inc/(dec) in Sec. premium	-2.5	-119.9	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-777.3	-851.4	-903.7	-950.9
Net Cash flow	72.6	19.8	40.3	2.4
Opening Cash	305.4	378.0	397.8	438.1
Cash with bank	21.4	23.5	23.5	23.5
Closing Cash	399.3	421.3	461.6	464.0

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
	FY19	FY20E	FY21E	FY22E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,419.6	1,567.0	1,545.2	1,508.8
Total Shareholders funds	1,446.8	1,594.2	1,572.4	1,536.0
Total Debt	77.7	84.0	0.0	0.0
Long Term Provisions	18.4	48.8	32.0	34.9
Other Non-current Liabilities	32.6	6.7	6.7	6.7
Total Liabilities	1,575.4	1,733.7	1,611.1	1,577.6
Assets				
Gross Block	1,747.6	1,877.5	2,052.5	2,252.5
Less: Acc Depreciation	556.7	754.7	970.8	1,186.1
Net Block	1,190.9	1,122.9	1,081.7	1,066.4
Capital WIP	198.7	190.0	50.0	50.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	31.2	18.6	18.6	18.6
LT Loans & Advances/Others	195.6	260.4	274.8	279.3
Current Assets				
Inventory	248.6	296.9	275.1	300.4
Debtors	209.8	132.6	212.6	232.1
Cash	399.3	421.3	461.6	464.0
Loans & Advances	115.0	113.5	118.4	129.3
Other Current Assets	37.5	47.8	50.0	54.6
Current Liabilities				
Creditors	613.2	630.0	600.2	655.4
Provisions	63.9	60.5	56.3	61.4
Other CL	374.0	179.8	275.1	300.4
Net Current Assets	-40.9	141.7	186.0	163.2
Total Assets	1,575.4	1,733.7	1,611.1	1,577.6

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
Per share data (₹)				
EPS	28.5	30.0	29.3	33.6
Cash EPS	34.4	37.3	37.3	41.5
BV	53.2	58.6	57.8	56.5
DPS	26.0	28.0	25.0	29.0
Cash Per Share	14.7	15.5	17.0	17.1
Operating Ratios (%)				
EBITDA Margin	27.7	26.6	26.8	27.6
PBT / Net Sales	25.1	23.3	23.4	24.5
PAT Margin	17.5	18.2	17.5	18.3
Inventory days	20.5	24.2	22.0	22.0
Debtor days	17.3	10.8	17.0	17.0
Creditor days	50.5	51.2	48.0	48.0
Return Ratios (%)				
RoE	52.2	51.2	50.8	59.5
RoCE	70.7	60.7	66.2	77.5
Valuation Ratios (x)				
P/E	46.4	44.1	45.1	39.4
EV / EBITDA	28.7	29.5	28.6	25.4
EV / Net Sales	8.0	7.9	7.7	7.1
Market Cap / Sales	8.1	8.0	7.9	7.2
Price to Book Value	24.9	22.6	22.9	23.4
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	0.6	0.7	0.7	0.7
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 17: ICICI Direct coverage universe (FMCG)

Sector / Company	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E
Colgate (COLPAL)	1,313	1,350	Hold	35,712	30.0	29.3	33.6	43.7	44.7	39.1	8.0	7.8	7.2	60.7	66.2	77.5	52.2	51.2	50.8
Dabur India (DABIND)	431	550	Buy	86,947	8.9	9.9	10.9	48.5	43.4	39.5	9.6	8.8	8.1	30.2	29.9	30.6	25.9	26.7	27.2
Hindustan Unilever (HINLEV)	1,987	2,250	Hold	468,000	31.2	33.5	41.3	63.7	59.2	48.1	12.2	11.6	9.7	82.5	24.4	30.3	85.7	20.2	25.0
ITC Limited (ITC)	186	230	Buy	219,868	11.8	13.2	14.9	15.8	14.1	12.5	4.7	4.3	4.0	29.3	29.6	30.2	22.6	22.7	23.1
Jyothy Lab (JYOLAB)	101	110	Hold	4,113	5.3	3.2	4.4	19.2	31.6	23.1	2.3	2.2	2.0	28.6	18.6	23.9	22.6	14.0	18.5
Marico (MARLIM)	317	300	Hold	36,513	8.1	7.8	9.5	39.2	40.4	33.5	5.0	5.2	4.4	41.0	40.1	46.9	34.5	33.8	40.3
Nestle (NESIND)	16,215	18,000	Hold	161,127	204.3	230.9	269.4	79.4	70.2	60.2	13.1	12.1	10.7	56.9	59.3	65.9	101.9	114.1	123.1
Tata Consumer Product (TATGLO)	362	440	Buy	33,433	5.0	8.7	10.9	72.5	41.7	33.3	3.5	3.2	3.0	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,136	4,000	Buy	4,826	196.9	124.8	216.3	15.9	25.1	14.5	3.9	4.4	3.4	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	582	580	Reduce	17,662	16.6	9.9	18.1	35.0	58.8	32.1	4.4	3.5	2.5	15.5	11.3	16.3	14.2	8.8	14.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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