

Estimate change



TP change



Rating change



Motilal Oswal values your support in the Asiamoney Brokers Poll 2020 for India Research, Sales and Trading team. We [request your ballot](#).



Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USD\$b)	393.9 / 5.1
52-Week Range (INR)	1641 / 1065
1, 6, 12 Rel. Per (%)	-5/5/24
12M Avg Val (INR M)	1125

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	45.3	46.6	52.2
Sales Gr. (%)	1.4	3.0	12.1
EBITDA	12.0	12.6	14.4
EBITDA Mrg. (%)	26.6	27.1	27.6
Adj. PAT	8.2	8.5	10.0
Adj. EPS (INR)	30.0	31.2	36.7
EPS Gr. (%)	8.1	3.8	17.8
BV/Sh.(INR)	58.6	53.6	44.8
Ratios			
RoE (%)	53.7	55.5	74.6
RoCE (%)	52.2	55.8	74.9
Payout (%)	93.2	93.5	100.0
Valuation			
P/E (x)	48.3	46.5	39.5
P/BV (x)	24.7	27.0	32.3
EV/EBITDA (x)	32.4	30.7	26.9
Div. Yield (%)	1.9	2.0	2.5

Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	51.0
DII	11.5	10.2	10.5
FII	15.3	16.2	15.1
Others	22.2	22.7	23.4
FII Includes depository receipts			

CMP: INR1,448
TP: INR1,660 (+15%)
Buy

Beat on estimates; Medium-term outlook positive

- The COVID-19 led lockdown had lower impact on Colgate's (CLGT) 1QFY21 results (v/s est.). While overall sales did decline 4.1% YoY, we reckon that toothpaste volumes (80% of sales) were flattish. However, we believe categories like toothbrushes and body-washes saw a sharper impact.
- After a long time, CLGT reported market share gain in the preceding quarter (4QFY20). While the company did not give out market share for 1QFY21, we believe the flattish volumes indicate good performance under the current circumstances. We maintain **Buy with a TP of INR1,660, with 15% upside**.

Significant beat on overall estimates

- **Revenue declined 4.1% YoY** in 1QFY21 to INR10.4b (v/s est. INR9.5b). EBITDA grew 2.7% YoY to INR3b (v/s est. INR2.4b). PBT grew 1.6% YoY to INR2.7b (v/s est. INR2b). Adj. PAT grew 17.2% YoY to INR2b (v/s est. INR1.5b). We believe domestic toothpaste volumes were flat YoY (v/s est. 11% decline).
- **1QFY21 gross margin expanded by 30bp to 66.1%**. Higher staff costs as % of sales (up 100bp YoY) and higher other expenses (up 30bp YoY) was offset by lower ad-spends (down 300bp YoY). Thus, EBITDA margins expanded by 200bp YoY to 29.6% – the highest ever. Absolute ad spends were down 24.7% YoY.

Highlights from management commentary

- Toothpaste business delivered positive sales growth for 1QFY21. Brand penetration remained strong. The toothbrush category, being more discretionary in nature, did impact overall results.
- CLGT's disciplined approach to managing revenue and cost drivers despite all the uncertainties/challenges on account of the COVID-19 pandemic drove improvement in gross/EBITDA margins.
- The company launched a new range of toothbrushes – *Colgate Gentle*.

Valuation and view

- We maintain **Buy** on CLGT given that (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has amongst the best-of-breed balance sheets, (c) valuations are moderate at 39.5x FY22E EPS, close to its 10-year average, and (d) there is a spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,660/share (target multiple of 43x Jun'22E EPS, based on 5-year average).

Quarterly Performance

(INR Million)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
Toothpaste Volume Gr %	4.0	4.0	2.3	-8.0	0.0	4.0	6.0	15.0	0.6	6.3	-11.0	
Net Sales (inclgd. OOI)	10,849	12,218	11,472	10,713	10,406	12,585	12,103	11,505	45,251	46,598	9,547	9.0%
YoY change (%)	4.2	4.6	4.3	-7.1	-4.1	3.0	5.5	7.4	1.4	3.0	-12.0	
Gross Profit	7,145	7,910	7,541	6,926	6,883	8,299	7,883	7,358	29,522	30,422	6,297	9.3%
Gross margin (%)	65.9	64.7	65.7	64.7	66.1	65.9	65.1	64.0	65.2	65.3	66.0	
EBITDA	2,998	3,230	3,161	2,629	3,080	3,465	3,322	2,766	12,017	12,633	2,352	31.0%
Margins (%)	27.6	26.4	27.6	24.5	29.6	27.5	27.5	24.0	26.6	27.1	24.6	
YoY growth (%)	6.5	-2.0	0.5	-15.3	2.7	7.3	5.1	5.2	-2.8	5.1	-21.6	
Depreciation	499	504	515	462	454	489	520	573	1,979	2,036	469	
Interest	23	24	29	20	20	24	29	22	96	96	23	
Financial other Income	152	86	58	196	63	86	87	92	492	329	106	
PBT	2,628	2,788	2,674	2,344	2,669	3,038	2,860	2,263	10,434	10,829	1,966	35.7%
Tax	937	347	683	302	687	659	621	387	2,269	2,354	427	
Rate (%)	35.7	12.4	25.6	12.9	25.7	21.7	21.7	17.1	21.7	21.7	21.7	
Adj PAT	1,691	2,441	1,991	2,042	1,982	2,379	2,239	1,875	8,165	8,475	1,539	28.7%
YoY change (%)	1.3	24.3	3.6	2.1	17.2	-2.6	12.5	-8.1	8.1	3.8	-9.0	

E: MOFSL Estimates

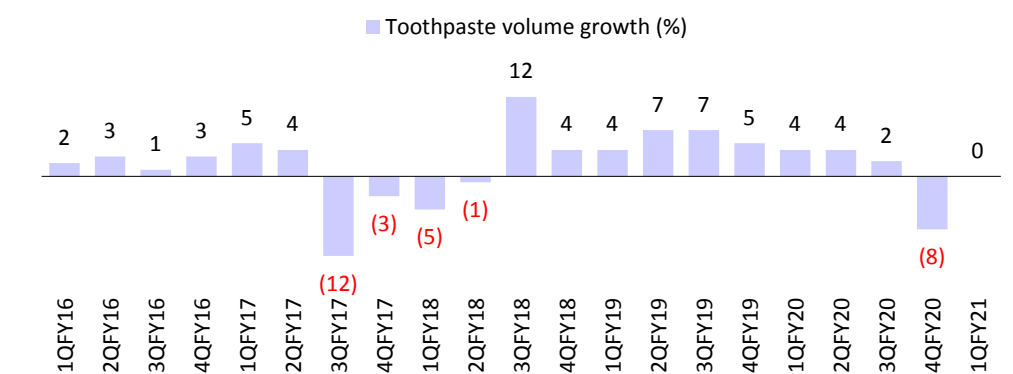
Key Performance Indicators

Y/E March	FY20				FY21			
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE
Realization Gr %	0.2	0.6	2.0	0.9	-4.1	-1.0	-0.5	-7.6
2Y average growth %								
Volumes	4.0	5.5	4.7	-1.5	2.0	4.0	4.2	3.5
Sales	5.3	6.1	5.4	-0.7	0.1	3.8	4.9	0.1
EBITDA	16.6	3.8	5.8	-7.2	4.6	2.6	2.8	-5.1
PAT	11.9	17.4	8.1	1.9	9.2	10.9	8.1	-3.0
% sales								
COGS	34.1	35.3	34.3	35.3	33.9	34.1	34.9	36.0
Others	38.2	38.3	38.2	40.1	36.5	38.4	37.7	39.9
Depriciation	4.6	4.1	4.5	4.3	4.4	3.9	4.3	5.0
YoY change %								
COGS	4.3	4.7	2.6	-7.4	-4.9	-0.5	7.3	9.5
Others	2.5	9.6	9.1	-1.1	-8.3	3.3	4.1	6.9
Other income	65.6	-0.1	-26.7	64.4	-58.6	0.0	50.0	-52.9
EBIT	3.2	-5.9	-3.4	-20.1	5.1	9.2	5.9	1.2

E: MOFSL Estimates

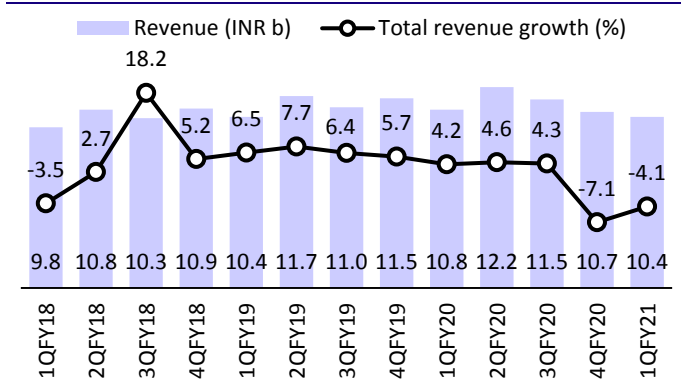
Key Exhibits

Exhibit 1: Toothpaste volumes were flat YoY in 1QFY21



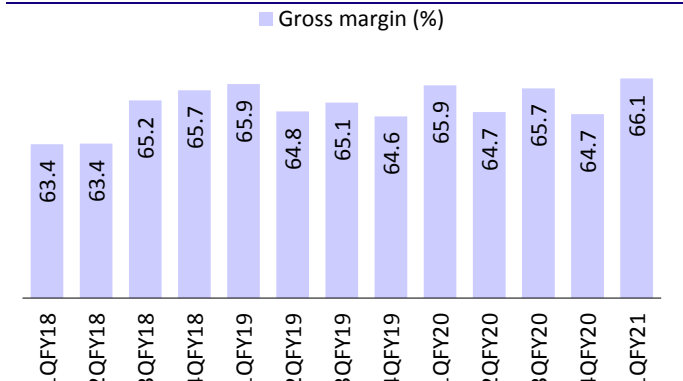
Source: Company, MOFSL

Exhibit 2: Revenue declined 4.1% YoY to INR10.4b in 1QFY21



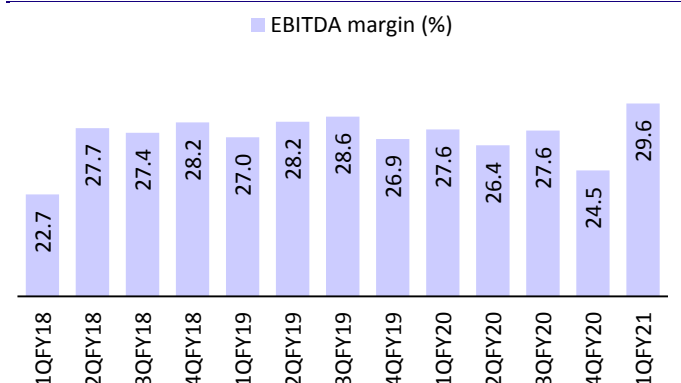
Source: Company, MOFSL

Exhibit 3: Gross margin expanded by 30bp YoY



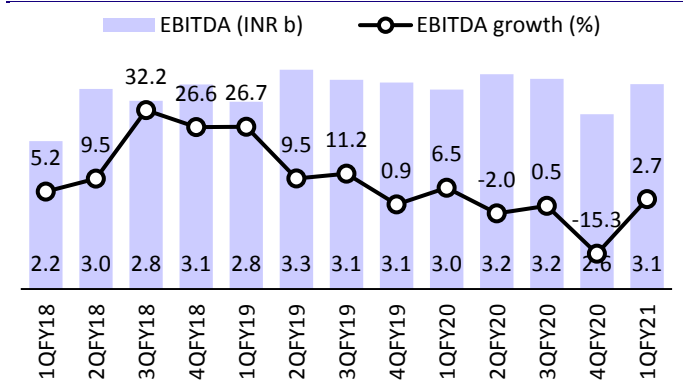
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded by 200bp YoY to 29.6%...



Source: Company, MOFSL

Exhibit 5: ...thus, EBITDA grew 2.7% YoY to INR3.1b



Source: Company, MOFSL

Valuation and view

What happened in the past decade from a business perspective?

- A combination of the sharp market share decline in recent years and increased penetration of the category itself has meant single-digit top line growth over the last 10 years. In recent years, premiumization also came off, affecting realization growth compared to the past.

- For a company with a modest base of INR20.4b sales in FY10, sales/EBITDA/PBT CAGR of 8-10% over the last 10 years has been weak. PAT growth was even lower at 7% CAGR as the company’s tax rate stood at 16.7% in FY10.
- Due to the market share decline in recent years, sales/EBITDA/PAT was even lower over the past 5 years at ~3%/~8%/~8% CAGR.

What is our broad investment argument?

- The new CEO’s stated primacy on volume growth and market share gain,
- Visible efforts on branding via sharp increase in ad-spends in recent quarters,
- Pickup in product development,
- Direct distribution expansion in recent years, which augurs well for recouping some of the market share loss over the past few years.

CLGT has such strong moats in the form of brand, global expertise, distribution and concentrated category focus. Based on these factors, 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 has also boosted competitiveness further. Importantly, the company does not need any material capex until Dec’22.

Valuations and view

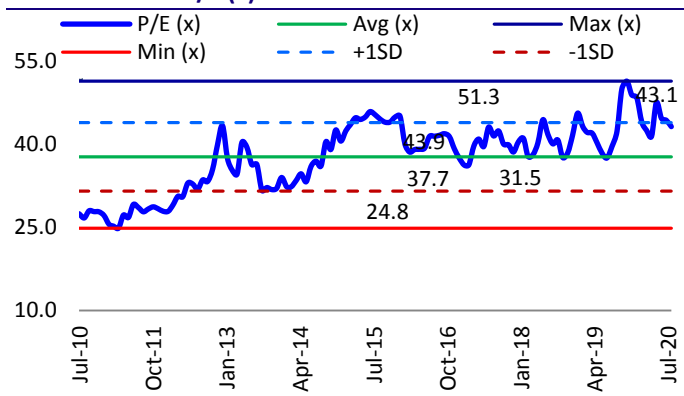
We maintain **Buy** on CLGT from a one-year perspective given that (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has amongst the best-of-breed balance sheets, (c) valuations are moderate at 39.5x FY22E EPS, close to its 10-year average, and (d) there is a spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,660/share (target multiple of 43x Jun’22E EPS, based on 5-year average).

Exhibit 6: Changes to the model has led to 2.8%/1.6% EPS upgrade for FY21E/ FY22E

INR m	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	46,598	52,224	46,598	52,224	0.0	0.0
EBITDA	12,235	14,114	12,633	14,430	3.2	2.2
PAT	8,240	9,830	8,474	9,986	2.8	1.6

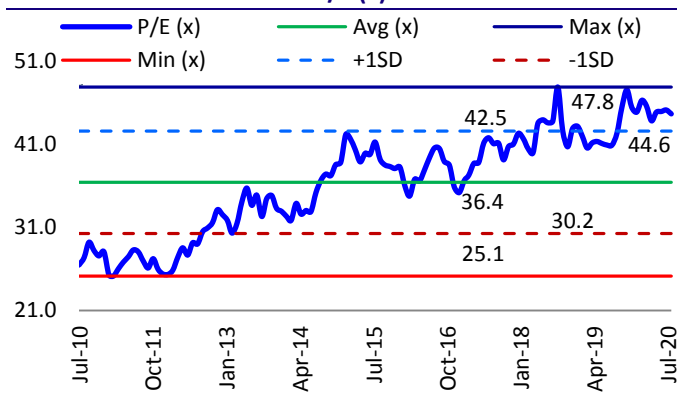
Source: Company, MOFSL

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	46,598	52,224
Change (%)	11.0	-3.0	2.9	5.2	6.6	1.4	3.0	12.1
COGS	14,677	14,763	14,763	14,887	15,586	15,729	16,176	18,041
Gross Profit	25,210	23,919	25,055	26,992	29,039	29,522	30,422	34,183
Gross Margin (%)	63.2	61.8	62.9	64.5	65.1	65.2	65.3	65.5
Operating expenses	16,920	14,534	15,619	15,855	16,678	17,505	17,789	19,753
EBITDA	8,290	9,385	9,435	11,137	12,361	12,017	12,633	14,430
Change (%)	22.2	13.2	0.5	18.0	11.0	-2.8	5.1	14.2
Margin (%)	20.8	24.3	23.7	26.6	27.7	26.6	27.1	27.6
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	329	460
Profit before Taxes	7,804	8,666	8,514	9,947	11,120	10,434	10,829	12,761
Change (%)	17.6	11.1	-1.8	16.8	11.8	-6.2	3.8	17.8
Margin (%)	19.6	22.4	21.4	23.8	24.9	23.1	23.2	24.4
Tax	2,009	2,541	2,740	3,022	3,566	2,475	2,354	2,774
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	8,474	9,986
Change (%)	13.9	9.6	-5.7	18.6	10.3	8.1	3.8	17.8
Margin (%)	14.0	15.8	14.5	16.4	16.9	18.0	18.2	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	8,474	9,986

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	14,319	11,922
Net Worth	7,703	10,310	12,738	15,246	14,468	15,942	14,591	12,194
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	14,641	12,245
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	14,006	13,580
Inventory	2,522	2,915	2,926	2,267	2,486	2,969	2,616	2,629
Account Receivables	696	1,015	1,299	2,010	2,098	1,326	2,025	2,269
Cash & Bank	2,545	2,887	2,943	4,562	3,994	4,213	5,871	5,087
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	11,644	12,585
Account Payables	5,144	5,519	5,975	6,203	6,132	6,125	6,660	7,477
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	2,362	995
Application of Funds	7,729	10,407	13,013	15,601	15,553	15,992	14,641	12,245

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	31.2	36.7
Cash EPS	23.3	26.6	26.1	30.9	33.6	37.3	38.6	44.2
BV/Share	28.3	37.9	46.8	56.1	53.2	58.6	53.6	44.8
DPS	12.5	11.0	11.0	24.0	23.0	28.0	29.1	36.7
Payout %	60.6	48.8	51.7	95.3	82.8	93.2	93.5	100.0
Valuation (x)								
P/E	70.5	64.3	68.3	57.5	52.2	48.3	46.5	39.5
Cash P/E	62.2	54.4	55.5	46.8	43.1	38.9	37.5	32.8
EV/Sales	9.8	10.1	9.8	9.3	8.8	8.6	8.3	7.4
EV/EBITDA	47.2	41.7	41.4	34.9	31.6	32.4	30.7	26.9
P/BV	51.2	38.2	30.9	25.8	27.2	24.7	27.0	32.3
Dividend Yield (%)	0.9	0.8	0.8	1.7	1.6	1.9	2.0	2.5
Return Ratios (%)								
RoE	81.6	68.0	50.1	49.0	50.9	53.7	55.5	74.6
RoCE	82.5	67.5	49.3	47.9	48.6	52.2	55.8	74.9
RoIC	236.5	119.0	75.7	76.5	79.5	82.9	101.3	165.1
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	5.1
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	10,829	12,761
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	-329	-460
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	-2,354	-2,774
(Incr)/Decr in WC	49	156	311	-889	1,494	-1,111	1,973	583
CF from Operations	6,382	6,887	6,880	6,940	9,830	8,899	12,252	12,240
(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	11,252	11,240
(Pur)/Sale of Investments	0	70	0	0	0	125	0	0
Others	135	12	-205	564	-1,209	932	-840	-716
CF from Invest.	-2,859	-2,631	-3,418	-1,523	-2,251	462	-1,840	-1,716
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	-9,825	-12,383
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	-8,754	-11,308
Incr/Decr of Cash	-325	342	56	1,619	-568	220	1,658	-784
Add: Opening Balance	2,870	2,545	2,887	2,943	4,562	3,994	4,213	5,871
Closing Balance	2,545	2,887	2,943	4,562	3,994	4,213	5,871	5,087

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

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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