

View: Toothpaste gains traction; But rich valuations; Maintain Reduce

- Colgate's Q1FY21 results were ahead of our expectation on all parameters. The company posted 7% volume de-growth during Q1. While toothpaste reported mere 3% volume de-growth, a higher decline in toothbrush portfolio impacted overall volume performance.
- A&P spends reduced significantly, in line with lower spends of the peers. We believe that the A&P spends would remain low in the ensuing quarters due to consumer up stocking.
- Going ahead, government efforts to increase farmer's wages and focus on rural infrastructure should boost oral care category. However, increase in competition and better product offerings by competitors like Dabur remains a key challenge for Colgate.
- We have revised our FY21E and FY22E EPS to Rs 32.5 (+7.3%) and Rs 33.8 (+1.6%), respectively to factor in Q1FY21 performance. We value the stock at 43x FY22 EPS to arrive at a TP of Rs 1,460. Maintain Reduce.

Results ahead of our estimates

Net revenues declined 4.1% YoY to Rs 10.4bn - came above our estimate. Volume de-growth during the quarter stood at ~7%. While toothpaste business delivered positive sales growth, decline in toothbrush category impacted overall performance. EBITDA increased by 2.7% YoY to Rs 3.1bn. A 100bps/30bps increase in employee costs/other expenses was completely offset by 30/300bps decline in RM/A&SP spends respectively. Consequently, EBITDA margin expanded 200bps to 29.6%. APAT increased 17.2% to Rs 2.0bn. Lower tax rate further boosted profitability.

Toothpaste performance was better than expectation

Colgate lost market share marginally in 2019. Continuous gain in market share by Dabur remains a key challenge for Colgate. During June'20, Colgate reported mere 3% volume decline in toothpaste category. We view this performance positively considering supply constraints in early April'20.

Going ahead, we expect A&P spends to remain benign due to consumer up-stocking and majority of the spends would get diverted towards launch of new products. Regaining lost market share and increasing brand strength would remain key triggers for future performance. We believe that the company would benefit from strong brand recognition and robust supply chain, which is now back on track.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	10,406	10,849	(4.1)	10,713	(2.9)
Total Expense	7,326	7,851	(6.7)	8,084	(9.4)
EBITDA	3,080	2,998	2.7	2,629	17.2
Depreciation	454	499	(9.0)	462	(1.7)
EBIT	2,626	2,500	5.1	2,167	21.2
Other Income	63	152	(58.6)	196	(68.0)
Interest	20	23	(13.9)	20	0.5
EBT	2,669	2,628	1.6	2,344	13.9
Tax	687	937	(26.7)	302	127.4
RPAT	1,982	1,691	17.2	2,042	(2.9)
APAT	1,982	1,691	17.2	2,042	(2.9)
			(bps)		(bps)
Gross Margin (%)	66.1	65.9	28	64.7	148
EBITDA Margin (%)	29.6	27.6	196	24.5	506
NPM (%)	19.0	15.6	346	19.1	(1)
Tax Rate (%)	25.7	35.7	(991)	12.9	1285
EBIT Margin (%)	25.2	23.0	220	20.2	501

CMP	Rs 1,448
Target / Upside	Rs 1,460 / 1%
BSE Sensex	38,030
NSE Nifty	11,203

Scrip Details

Equity / FV	Rs 272mn / Rs 1
Market Cap	Rs 394bn
	USD 5bn
52-week High/Low	Rs 1,643/Rs 1,065
Avg. Volume (no)	1,095,450
NSE Symbol	COLPAL
Bloomberg Code	CLGT IN

Shareholding Pattern Jun'20(%)

Promoters	51.0
MF/Banks/FIs	10.0
FII	16.2
Public / Others	22.9

Valuation (x)

	FY20A	FY21E	FY22E
P/E	48.2	44.6	42.8
EV/EBITDA	32.5	29.6	28.2
ROE (%)	53.7	55.7	58.7
RoACE (%)	50.7	52.8	55.6

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	45,251	46,524	50,123
EBITDA	12,017	13,156	13,752
PAT	8,165	8,828	9,197
EPS (Rs.)	30.0	32.5	33.8

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Exhibit 1: Actual V/s DART Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	10,406	9,639	8.0	Variation due to better than estimated supply chain and distribution amidst lockdown.
EBITDA	3,080	2,740	12.4	
EBITDA margin %	29.6	28.4	120	Variation due to lower than estimated A&SP spends and positive operating leverage
APAT	1,982	1,733	14.4	Cascading effect of higher revenue and EBITDA

Source: Company, DART

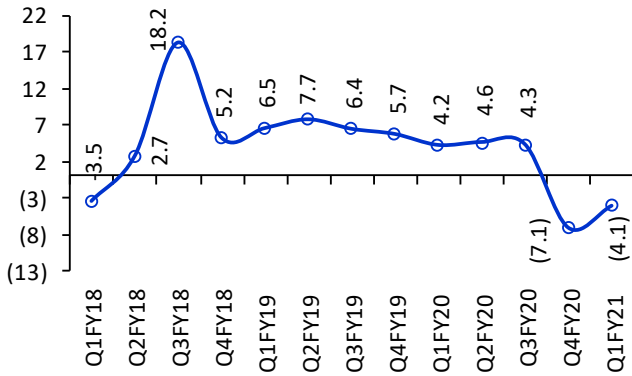
Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	46,524	46,524	-	50,123	50,123	-
EBITDA	13,156	12,365	6.4	13,752	13,552	1.5
EBITDA mgn (%)	28.3	26.6	170 bps	27.4	27.0	40 bps
Adj PAT	8,828	8,225	7.3	9,197	9,049	1.6
EPS (Rs)	32.5	30.2	7.3	33.8	33.3	1.6

Source: DART, Company

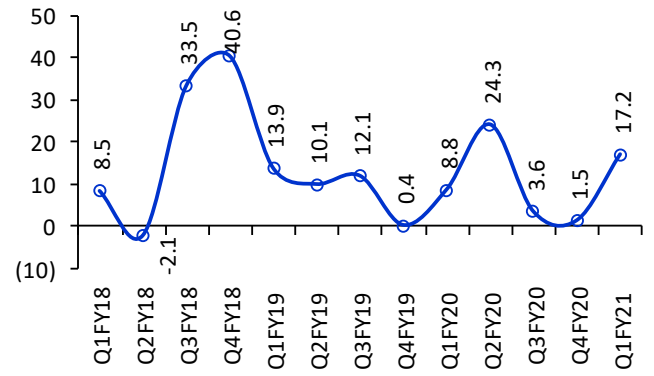
We have maintained our revenue estimates for FY21E and FY22E despite higher than expected sales during Q1FY21 to factor in extended lock downs in smaller towns like Bihar, Jharkhand, etc. Nevertheless, we have increased our OPM estimates as A&P spends were below our expectation and likely to remain low in the ensuing quarters.

Exhibit 3: Sales Growth (%)



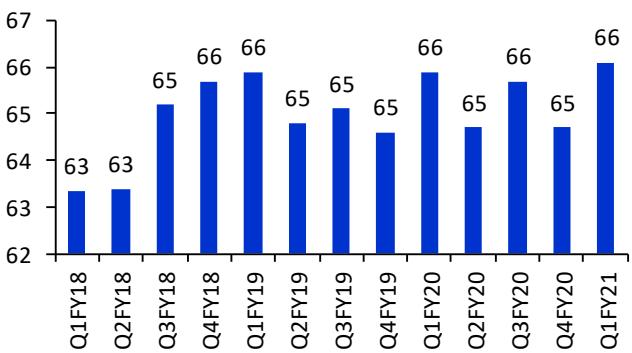
Source: Company, DART

Exhibit 4: Net Profit Growth (%)



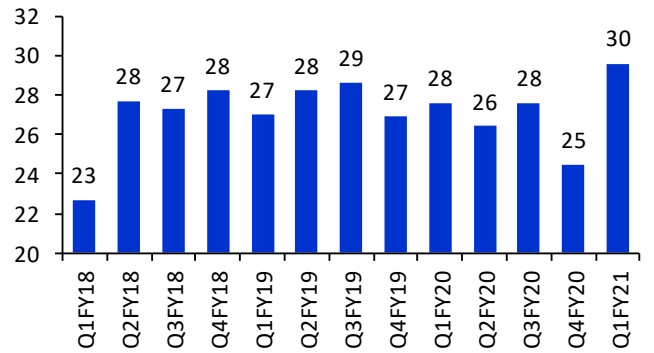
Source: Company, DART

Exhibit 5: Gross Margin (%) Trend



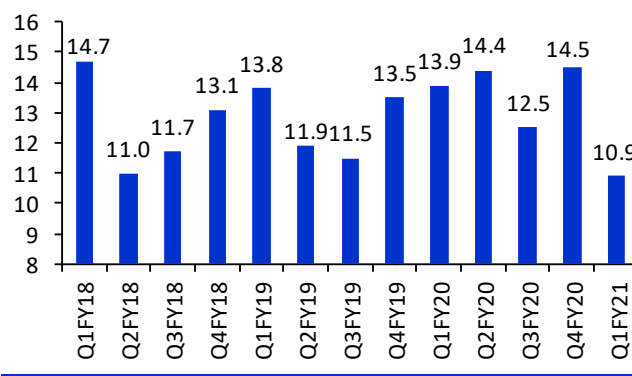
Source: DART, Company

Exhibit 6: EBITDA Margins Trend (%)



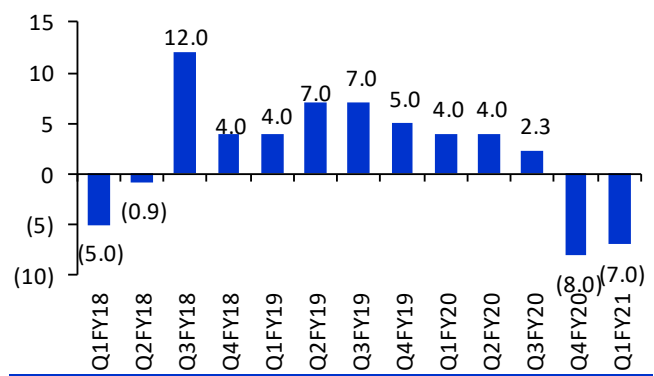
Source: DART, Company

Exhibit 7: A&P Spends (% Of Revenues)



Source: DART, Company

Exhibit 8: Volume growth overall (% YoY)



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	44,624	45,251	46,524	50,123
Total Expense	32,263	33,234	33,368	36,371
COGS	15,586	15,729	15,985	17,072
Employees Cost	2,959	3,323	3,323	3,480
Other expenses	13,719	14,182	14,060	15,819
EBIDTA	12,361	12,017	13,156	13,752
Depreciation	1,592	1,979	2,132	2,296
EBIT	10,769	10,038	11,024	11,457
Interest	25	96	100	100
Other Income	377	492	654	705
Exc. / E.O. items	305	0	0	0
EBT	11,426	10,434	11,577	12,062
Tax	3,670	2,269	2,749	2,864
RPAT	7,756	8,165	8,828	9,197
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,451	8,165	8,828	9,197

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	14,196	15,670	15,488	15,298
Net Worth	14,468	15,942	15,760	15,570
Total Debt	831	1,015	1,015	1,015
Net Deferred Tax Liability	309	50	50	50
Total Capital Employed	15,608	17,007	16,825	16,635

Applications of Funds

Net Block	11,909	11,223	10,591	9,795
CWIP	1,987	1,900	1,900	1,900
Investments	312	186	186	186
Current Assets, Loans & Advances	12,041	13,174	14,364	15,748
Inventories	2,486	2,960	2,799	3,016
Receivables	2,098	1,326	1,760	1,896
Cash and Bank Balances	3,994	4,200	5,669	6,532
Loans and Advances	3,464	4,688	4,136	4,304
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	10,641	9,476	10,217	10,994
Payables	6,158	6,110	6,282	6,768
Other Current Liabilities	4,483	3,366	3,935	4,226
sub total				
Net Current Assets	1,401	3,697	4,148	4,754
Total Assets	15,608	17,007	16,825	16,635

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	65.1	65.2	65.6	65.9
EBIDTA Margin	27.7	26.6	28.3	27.4
EBIT Margin	24.1	22.2	23.7	22.9
Tax rate	32.1	21.7	23.7	23.7
Net Profit Margin	17.4	18.0	19.0	18.3
(B) As Percentage of Net Sales (%)				
COGS	34.9	34.8	34.4	34.1
Employee	6.6	7.3	7.1	6.9
Other	30.7	31.3	30.2	31.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	431.6	104.3	110.2	114.6
Inventory days	20	24	22	22
Debtors days	17	11	14	14
Average Cost of Debt	6.0	10.4	9.9	9.9
Payable days	50	49	49	49
Working Capital days	11	30	33	35
FA T/O	3.7	4.0	4.4	5.1
(D) Measures of Investment				
AEPS (Rs)	27.4	30.0	32.5	33.8
CEPS (Rs)	33.2	37.3	40.3	42.3
DPS (Rs)	23.8	26.9	27.0	28.2
Dividend Payout (%)	86.7	89.6	83.3	83.3
BVPS (Rs)	53.2	58.6	57.9	57.2
RoANW (%)	52.2	53.7	55.7	58.7
RoACE (%)	47.9	50.7	52.8	55.6
RoAIC (%)	95.1	82.2	92.0	107.8
(E) Valuation Ratios				
CMP (Rs)	1448	1448	1448	1448
P/E	52.9	48.2	44.6	42.8
Mcap (Rs Mn)	393,788	393,788	393,788	393,788
MCap/ Sales	8.8	8.7	8.5	7.9
EV	390,626	390,603	389,134	388,271
EV/Sales	8.8	8.6	8.4	7.7
EV/EBITDA	31.6	32.5	29.6	28.2
P/BV	27.2	24.7	25.0	25.3
Dividend Yield (%)	1.6	1.9	1.9	1.9
(F) Growth Rate (%)				
Revenue	6.6	1.4	2.8	7.7
EBITDA	11.0	(2.8)	9.5	4.5
EBIT	12.5	(6.8)	9.8	3.9
PBT	16.2	(8.7)	11.0	4.2
APAT	8.8	9.6	8.1	4.2
EPS	8.8	9.6	8.1	4.2
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	9,344	8,150	12,079	11,849
CFI	(2,442)	(1,082)	(1,500)	(1,500)
CFF	(7,469)	(6,862)	(9,110)	(9,487)
FCFF	6,901	6,943	10,579	10,349
Opening Cash	4,562	3,994	4,200	5,669
Closing Cash	3,994	4,200	5,669	6,532

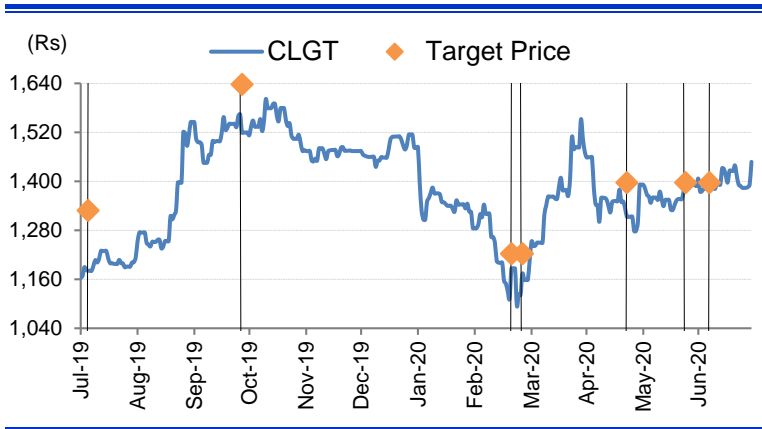
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Accumulate	1,329	1,181
Oct-19	Accumulate	1,638	1,520
Mar-20	Accumulate	1,223	1,186
Mar-20	Reduce	1,223	1,174
May-20	Reduce	1,397	1,313
Jun-20	Reduce	1,397	1,408
Jul-20	Reduce	1,397	1,383

*Price as on recommendation date

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