

# Colgate Palmolive (India) Ltd.



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**Cut in discretionary/ad spends supports margin**

CMP <b>INR 1,434</b>	Target <b>INR 1,507</b>	Potential Upside <b>5.1%</b>	Market Cap (INR Mn) <b>INR 3,90,150</b>	Recommendation <b>ACCUMULATE</b>	Sector <b>Consumer Goods</b>
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## Result Highlights of Q1FY21

- Colgate Palmolive reported revenue decline of 4.1% YoY (down 2.9% QoQ) to INR 10,406 mn as toothpaste/toothbrush volumes were affected due to COVID-19 led lockdown and disruptions.
- EBITDA margin expanded to 29.6% in Q1FY21 (27.6% in Q1FY20). EBITDA increased 2.7% YoY/ +17.2% QoQ.
- Net Profit grew 17.2% YoY (down 2.9% QoQ) to INR 1,982 mn due to lower taxation rate.
- Net Profit margin for the quarter expanded by 346 bps YoY to 19.0% (flat QoQ).

## MARKET DATA

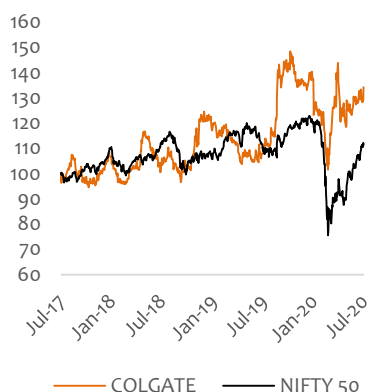
Shares outs (Mn)	272
Equity Cap (INR Mn)	15,942
Mkt Cap (INR mn)	390,150
52 Wk H/L (INR)	1,643/1,065
Volume Avg (3m K)	1,077
Face Value (INR)	1
Bloomberg Code	CLGT IN

## KEY FINANCIALS

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Revenue	43,284	44,624	45,251	46,608	48,939
EBITDA	11,137	12,360	12,017	12,548	13,713
PAT	6,734	7,756	8,165	8,579	9,422
Adj PAT	6,850	7,450	8,165	8,579	9,423
EPS (INR)	24.8	28.5	30.0	31.5	34.6
Adj. EPS (INR)	25.2	27.4	30.0	31.5	34.6
EBITDA Margin (%)	25.7%	27.7%	26.6%	26.9%	28.0%
NPM (%)	15.6%	17.4%	18.0%	18.4%	19.3%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## Growth in Toothpaste segment in value terms

The revenue was negatively impacted (decline of 4.1% YoY; down 2.9% QoQ) due to the COVID-19 pandemic resulting in country-wide shutdown which began in late March and eased down in mid-June. While volume decline was witnessed in toothpaste business (~80% of revenue), the segment recorded a positive sales growth in value terms due to removal of promotional offers. However, the sales of toothbrush was impacted on account of its discretionary nature. The supply chain and retail network which experienced disruptions in the earlier part of the quarter, is now back on track. Plants have also resumed operations at different locations.

## Lower ad spends/ cost rationalization supports margin

Gross margin improved by 28bps YoY to 66.1% (+148 bps QoQ) despite decline in volume growth. Raw material cost stood at ~23% of sales (vs 29% of sales in Q1FY20). Advertisement spend as a percentage of sales reduced to 10.9% during the quarter (14.5% in Q4FY20/ 13.9% in Q1FY20). Cost rationalization led to lower other expenses. The overall impact was expansion in EBITDA margin by 196 bps YoY (+506 bps QoQ). Net Profit grew 17.2% YoY (down 2.9% QoQ due to lower taxation rate at 25.7% vs 35.7% in Q1FY20). Net Profit margin for the quarter expanded by 346bps YoY to 19.0% (flat QoQ)

## MARKET INFO

SENSEX	37,736
NIFTY	11,102

## Innovative products launched to adapt to changing consumer habits

During the quarter, Colgate launched a brand-new range of toothbrushes, 'Colgate Gentle' designed with Dentists and is endorsed by the Indian Dental Association. In order to adapt to the changing trends of consumer behavior with focus on hygiene and health, the company had launched innovative products such as Palmolive Hand sanitizer in April which has received good response and the company will continue to accelerate on innovation.

## SHARE HOLDING PATTERN (%)

Particulars	Jun-20 (%)	Mar-20 (%)	Dec-19 (%)
Promoters	51.0	51.0	51.0
FIIIs	15.3	16.2	16.5
DIIIs	11.5	10.1	10.4
Others	22.2	22.7	22.1
Total	100	100	100

# 4.0%

Revenue CAGR between FY20 and FY22E

# 7.4%

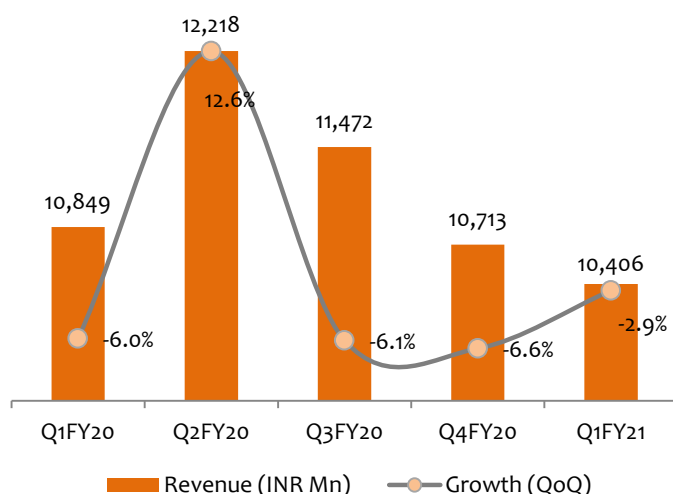
PAT CAGR between FY20 and FY22E

# Colgate Palmolive (India) Ltd.

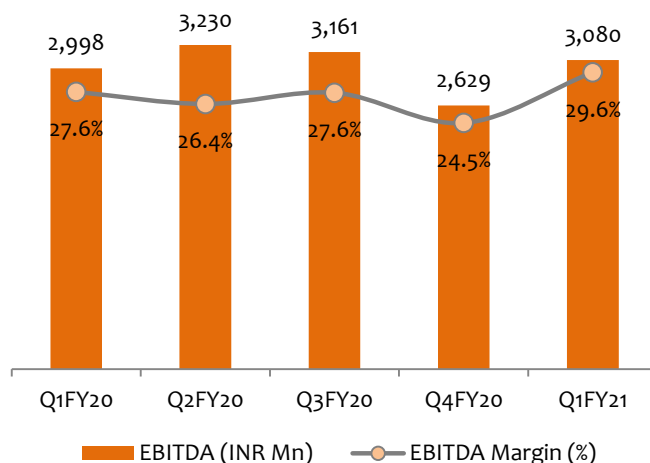
**Key AGM takeaways:** (i) Colgate features as the No.1 Most Trusted Oral Care Brand in India in the Economic Times Brand Equity Most Trusted Brand survey (2) Colgate Vedshakti saw the brand adding 10 lakh new households over the past six months through strong trial generation and massive sampling efforts (3) The company is focusing on strengthening its brand through impactful campaigns and driving innovations (4) In FY20, Colgate relaunched its flagship brand Colgate Strong teeth with new Amino Shakti with superior technology of Fluoride and Arginine. It also launched Colgate Charcoal Clean, the first black coloured toothpaste and has been received well by the consumers. (5) Colgate introduced Kids Zero range of toothpaste which has zero artificial preservatives, colours, flavours and sweeteners (6) It also innovated on many fronts such as launching of Super Flexi Charcoal and Zig zag charcoal. Towards the end of FY20, it launched Colgate bamboo toothbrush which is eco-friendly and has zero plastic packaging (7) Witnessed strong growth in ecommerce channel and has accordingly stepped up organizational capabilities.

**Valuation & view:** Q1FY21 results was characterized by low volumes on account of COVID-19 shutdown and supply disruption. However cut in ad spends and other expenses is likely to further improve margin and we expect this will lead to multiple innovations owing to savings in ad spends. Considering the essentiality of the product, we expect that demand will recover quickly with operations now in track. We continue to believe that Colgate's performance will remain healthy in FY22E and remain positive on Colgate's ability to gain further market share in this environment on back of its strong brand presence and distribution channels well supported by a healthy balance sheet. Due to softening of ad spends and further cost rationalization, we have revised our EPS estimates upwards by 3.4%/ 1.6% for FY21E/FY22E The shares of Colgate are currently trading at 45.5x/41.4x on FY21E/FY22E EPS. **Since our last recommendation on 22<sup>nd</sup> May-20, the shares of Colgate has advanced 9.2%. We apply a PE multiple of 43.5x on FY22E EPS of INR 34.6 (earlier 43.5x on INR 34.1) and arrive at a revised target price of INR 1,507 per share, an upside potential of 5.1% from CMP. Accordingly, we reiterate an "ACCUMULATE" rating on the shares of Colgate Palmolive.**

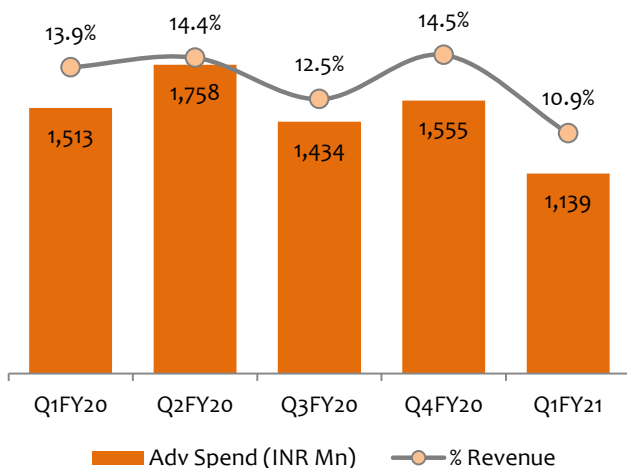
Revenue declines owing to COVID disruption



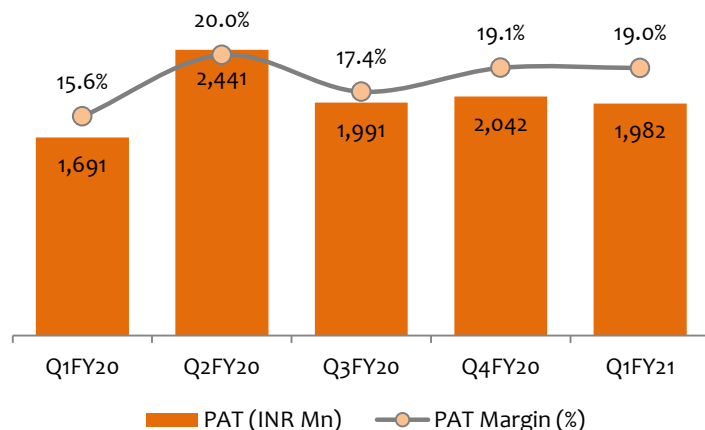
EBITDA margin expansion due to cut in other expenses



Decline in advertising spends leads to margin expansion



Net Profit margin witnessed expansion YoY due to low tax rate



Source: Company, KRChoksey Research

# Colgate Palmolive (India) Ltd.

## KEY FINANCIALS

### Exhibit 1: Profit & Loss Statement

INR Millions	FY 18	FY 19	FY 20	FY 21E	FY 22E
<b>Revenues</b>	<b>43,284</b>	<b>44,624</b>	<b>45,251</b>	<b>46,608</b>	<b>48,939</b>
COGS	16,292	15,586	15,729	16,330	17,146
<b>Gross profit</b>	<b>26,992</b>	<b>29,039</b>	<b>29,522</b>	<b>30,279</b>	<b>31,793</b>
Employee cost	3,059	2,959	3,323	3,422	3,594
Other expenses	12,796	13,719	14,182	14,309	14,486
<b>EBITDA</b>	<b>11,137</b>	<b>12,360</b>	<b>12,017</b>	<b>12,548</b>	<b>13,713</b>
<b>EBITDA Margin</b>	<b>25.7%</b>	<b>27.7%</b>	<b>26.6%</b>	<b>26.9%</b>	<b>28.0%</b>
Depreciation & amortization	1,565	1,592	1,979	1,958	2,055
<b>EBIT</b>	<b>9,572</b>	<b>10,769</b>	<b>10,038</b>	<b>10,590</b>	<b>11,658</b>
Interest expense	0	25	96	87	78
Other income	375	377	492	495	501
<b>PBT</b>	<b>9,830</b>	<b>11,425</b>	<b>10,434</b>	<b>10,999</b>	<b>12,080</b>
Tax	3,097	3,670	2,269	2,420	2,658
<b>PAT</b>	<b>6,734</b>	<b>7,756</b>	<b>8,165</b>	<b>8,579</b>	<b>9,422</b>
<b>Adj. PAT</b>	<b>6,850</b>	<b>7,450</b>	<b>8,165</b>	<b>8,579</b>	<b>9,423</b>
<b>EPS (INR)</b>	<b>24.76</b>	<b>28.52</b>	<b>30.02</b>	<b>31.54</b>	<b>34.64</b>
<b>Adj. EPS</b>	<b>25.19</b>	<b>27.39</b>	<b>30.02</b>	<b>31.54</b>	<b>34.64</b>

Source: Company, KRChoksey Research

### Exhibit 2: Cash Flow Statement

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Net Cash Generated From Operations	6,939	9,830	8,899	10,327	11,673
Net Cash Flow from/(used in) Investing Activities	(2,073)	(957)	(187)	(1,482)	(1,857)
Net Cash Flow from Financing Activities	(3,798)	(8,147)	(8,514)	(7,621)	(7,602)
Net Inc/Dec in cash equivalents	1,068	726	198	1,223	2,215
Opening Balance	1,986	3,054	3,780	3,978	5,202
Closing Balance Cash and Cash Equivalents	3,054	3,780	3,978	5,202	7,417

Source: Company, KRChoksey Research

### Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	25.7%	27.7%	26.6%	26.9%	28.0%
Tax rate (%)	31.5%	32.1%	21.7%	22.0%	22.0%
Net Profit Margin (%)	15.6%	17.4%	18.0%	18.4%	19.3%
RoE (%)	44.2%	53.6%	51.2%	50.7%	50.4%
RoCE (%)	65.2%	73.1%	66.1%	65.6%	65.0%
EPS (INR)	24.8	28.5	30.0	31.5	34.6

Source: Company, KRChoksey Research

# Colgate Palmolive (India) Ltd.

## Exhibit 4: Balance Sheet

INR Millions	FY18	FY19	FY20	FY21E	FY22E
<b>Non-current assets</b>					
Property, plant and equipment	11,459	11,909	11,229	10,669	10,327
Capital work-in-progress	1,586	1,987	1,900	1,900	1,900
Investments	312	312	186	192	201
Loans	31	27	20	21	22
Other financial assets	231	143	177	182	191
Current tax assets (Net)	1,022	1,503	2,247	2,315	2,430
Other non-current assets	392	283	160	164	173
<b>Total non-current assets</b>	<b>15,031</b>	<b>16,163</b>	<b>15,919</b>	<b>15,444</b>	<b>15,245</b>
<b>Current assets</b>					
Inventories	2,267	2,486	2,969	3,058	3,211
Financial assets					
Trade receivables	2,010	2,098	1,326	1,365	1,434
Cash and cash equivalents	3,054	3,780	3,978	5,202	7,417
Bank balances other than (iii) above	1,508	214	235	235	235
Loans	906	1,150	1,135	1,135	1,135
Other financial assets	67	65	73	72	76
Other current assets	795	310	405	857	899
<b>Total current assets</b>	<b>10,607</b>	<b>10,102</b>	<b>10,120</b>	<b>11,923</b>	<b>14,406</b>
<b>TOTAL ASSETS</b>	<b>25,639</b>	<b>26,265</b>	<b>26,040</b>	<b>27,367</b>	<b>29,651</b>
<b>EQUITY AND LIABILITIES</b>					
<b>Equity</b>					
Equity share capital	272	272	272	272	272
Other equity	14,974	14,196	15,670	16,633	18,439
Equity attributable to the equity shareholders	15,246	14,468	15,942	16,905	18,711
<b>Total equity</b>	<b>15,246</b>	<b>14,468</b>	<b>15,942</b>	<b>16,905</b>	<b>18,711</b>
<b>Liabilities</b>					
<b>Non-current liabilities</b>					
Financial liabilities					
Borrowings	0	777	0	0	0
Lease liabilities	0	0	840	840	840
Provisions	191	184	488	562	646
Deferred tax liabilities (Net)	355	309	50	58	67
Other non-current liabilities	18	17	17	17	17
<b>Total non-current liabilities</b>	<b>565</b>	<b>1,286</b>	<b>1,395</b>	<b>1,476</b>	<b>1,569</b>
<b>Current liabilities</b>					
Financial liabilities					
Lease liabilities	0	0	175	175	175
Trade payables	6,203	6,132	6,125	6,359	6,677
Other financial liabilities	1,582	2,198	255	265	278
Other current liabilities	966	1,034	1,034	1,074	1,127
Provisions	603	639	605	605	605
Current tax liabilities (Net)	474	508	508	508	508
<b>Total current liabilities</b>	<b>9,828</b>	<b>10,511</b>	<b>8,703</b>	<b>8,986</b>	<b>9,371</b>
<b>Total liabilities</b>	<b>10,393</b>	<b>11,797</b>	<b>10,098</b>	<b>10,462</b>	<b>10,940</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>25,639</b>	<b>26,265</b>	<b>26,040</b>	<b>27,367</b>	<b>29,651</b>

Source: Company, KRChoksey Research



Colgate Palmolive (India) Ltd.

Colgate Palmolive (India) Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
30-Jul-20	1,434	1,507	ACCUMULATE	Buy	More than 15%
22-May-20	1,313	1,483	ACCUMULATE	Accumulate	5% – 15%
31-Jan-20	1,329	1,513	ACCUMULATE	Hold	0 – 5%
29-Oct-19	1,528	1,610	ACCUMULATE	Reduce	-5% – 0
				Sell	Less than – 5%

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Visit us at [www.krchoksey.com](http://www.krchoksey.com)  
KRChoksey Shares and Securities Pvt. Ltd  
Registered Office:  
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.  
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.  
Corporate Office:  
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.  
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.