

## Resilient performance amid disruption...

Colgate (CPIL) reported a strong performance with a 196 bps expansion in operating margins and 17.2% growth in earnings. Revenues saw a 4.1% decline in sales with toothpaste growth remaining resilient. However, a dip in sales was largely in the toothbrush category, which is relatively discretionary. The impact of lockdown was minimal given consumer stocking & trade pipelines in toothpaste are relatively higher, which would have mostly filled the gap between halt & resumption of manufacturing. We believe the trade pipeline is back (or higher) to pre-Covid levels by the end of June 2020. The company maintained gross margins helped by stable commodity prices. Further, a reduction in A&P spends by 300 bps (as percentage to sales) led to operating margin expansion of 196 bps to 29.6%. Net profit grew 17.2% aided by reduction in corporate tax rate last year.

### Focus on regaining market share

In the last five years, CPIL has lost market share in toothpaste category with consumer preferences shifting toward Ayurveda & Natural brands. Though market share has stabilised after launch of Ved Shakti, we believe gaining market share would not be easy given overall toothpaste category has been growing at a snail's pace. The company has been putting efforts to drive growth through large scale campaigns & innovations. It has launched Palmolive hand sanitisers & Colgate gentle toothbrushes in Q1. We believe the company would be only able to drive volume through Colgate Vedshakti given naturals & Ayurveda space is growing fastest within toothpaste category. We expect flat revenue growth in FY21E impacted by lockdown in Q1 & possible trade pipeline rationalisation in rest of FY21. Further, FY22 estimate of 9.2% revenue growth (after five years of flattish sales) is likely to be led by 7% volume growth with the assumption of stable market share.

### Weak personal care portfolio; margins to perk up

Personal care (non-oral care) category contributes less than 10% to revenues. Though CPIL has launched body wash, hand wash & hand sanitisers recently, it would be difficult to penetrate the category given the presence of already strong brands. Moreover, the company does not intend to invest aggressively behind brands. Though hand sanitisers would have witnessed strong growth during the quarter, we are already hearing signs of category growth tapering to limited brands. On the overall margins front, we estimate 130 bps margins expansion to 27.8% in FY20-22E on the back of stable commodity prices & rationalisation in promotions.

### Valuation & Outlook

Though the oral care category seems to remain resilient during this disruptive phase, we see limited growth opportunity given high category penetration levels and habit change of brushing twice a day takes almost a generation's time. Hence, the only growth levels for the company remains premiumisation & shift towards naturals & ayurveda space, which makes us cautious on long term growth prospects. We maintain our **HOLD** rating with a revised target price of ₹ 1540/ share.

#### Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Total Operating Income	4188.0	4462.4	4525.1	4642.1	5067.4	5.8%
EBITDA	1113.7	1236.1	1201.7	1282.8	1410.1	8.3%
EBITDA Margin %	26.6	27.7	26.6	27.6	27.8	
Net Profit	673.4	775.6	816.5	842.4	932.4	6.9%
EPS (₹)	24.76	28.52	30.02	30.97	34.28	
P/E	58.5	50.8	48.2	46.7	42.2	
RoNW %	44.7	52.2	51.2	52.1	58.3	
RoCE (%)	62.9	70.7	60.7	68.0	76.0	

Source: Company, ICICI Direct Research



#### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	39,376.8
Total Debt (FY20)	84.0
Cash and Investments (FY20)	421.3
EV	39,039.5
52 week H/L (₹)	1641 / 1056
Equity capital	27.2
Face value (₹)	1.0

#### Key Highlights

- Revenue decline by 4.1% impacted by decline in toothbrush sales
- Operating margins expanded by 196 bps aided by reduction in A&P spends
- Revise our target price to ₹ 1540/share with HOLD rating

#### Research Analyst

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Exhibit 1: Variance Analysis

	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Total Operating Income	1,040.6	1,084.9	-4.1	1,071.3	-2.9	Revenues declined 4.1% due to some supply disruption in April. Though toothpaste category saw resilient demand conditions, toothbrush saw lower offtake
Operating Income	7.0	8.9	-20.9	8.9	-21.2	
Raw Material Expenses	352.4	370.4	-4.9	378.6	-6.9	The company was able to maintain gross margins due to stable raw material prices during the quarter
Employee Expenses	90.7	83.5	8.7	89.9	0.9	
SG&A Expenses	113.9	151.3	-24.7	155.5	-26.7	The company cut the A&P spends by 24.7%, which was 300 bps lower (as percentage of sales) compared to corresponding quarter
Other operating Expenses	175.7	179.9	-2.4	184.4	-4.7	
EBITDA	308.0	299.8	2.7	262.9	17.2	
EBITDA Margin (%)	29.6	27.6	196 bps	24.5	506 bps	Operating margins expanded 196 bps largely due to savings in A&P spends
Depreciation	45.4	49.9	-9.0	46.2	-1.7	
Interest	2.0	2.3	NA	2.0	NA	
Other Income	6.3	15.2	-58.6	19.6	-68.0	
PBT before exceptional	266.9	262.8	1.6	234.4	13.9	
Exceptional Items	0.0	0.0	NA	0.0	NA	
Tax Outgo	68.7	93.7	-26.7	30.2	127.4	
PAT	198.2	169.1	17.2	204.2	-2.9	Net profit witnessed growth of 17.2% mainly on account of lower taxation with cut in income tax to 25.2% last year
Adjusted PAT	198.2	169.1	17.2	234.2	-15.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	4,603.0	4642.1	0.8	5,024.8	5,067.4	0.8	No major change in our sales estimates
EBITDA	1233.3	1282.8	4.0	1386.0	1410.1	1.7	We change our gross margins as well operating margins estimates with benign commodity prices in FY21 & lower A&P spends
EBITDA Margin (%)	26.8	27.6	84 bps	27.6	27.8	24 bps	
PAT	798.0	842.4	5.6	914.4	932.4	2.0	We change our depreciation estimates according to the reported numbers in Q1
EPS (₹)	29.3	31.0	5.6	33.6	34.3	2.0	

Source: Company, ICICI Direct Research

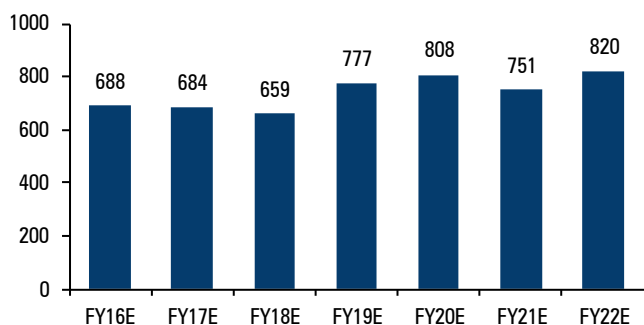
Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY21E	FY22E	
Toothpaste Vol. Growth(%)	4.0	6.0	6.0	-2.5	7.0	-4.0	7.0	We change our volume growth estimates with toothpaste traction better than toothbrush
Toothpaste Value Growth(%)	-3.8	0.1	7.1	-2.5	9.1	-4.0	9.1	
Toothbrush Vol. Growth(%)	4.0	6.0	6.0	-7.0	7.0	-5.0	7.0	
Toothbrush Value Growth(%)	-3.7	17.9	4.0	-7.0	9.1	-5.0	9.1	
Raw Material/Sales %	35.5	34.9	34.8	33.7	34.0	34.4	34.2	Benign commodity prices to benefit
Marketing Exp./Sales %	12.6	12.7	13.8	12.9	13.9	13.9	13.9	Change our marketing spend estimates

Source: Company, ICICI Direct Research

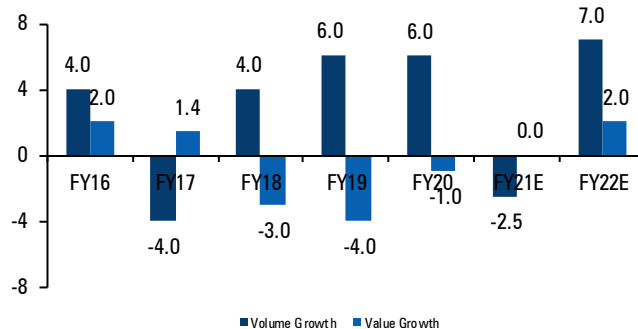
## Key Metrics

Exhibit 4: Toothbrush revenue to be impacted in FY21E



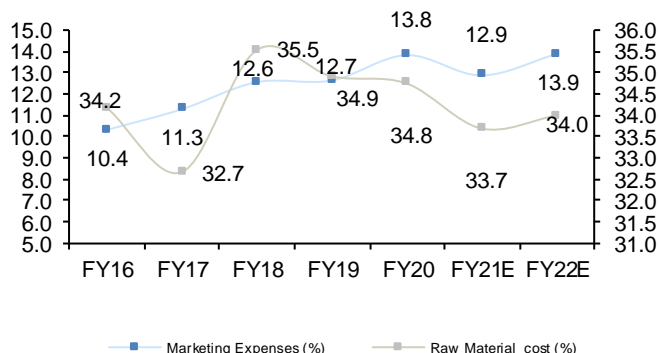
Source: Company, ICICI Direct Research

Exhibit 5: Toothpaste volumes expected to dip 2.5% in FY21E



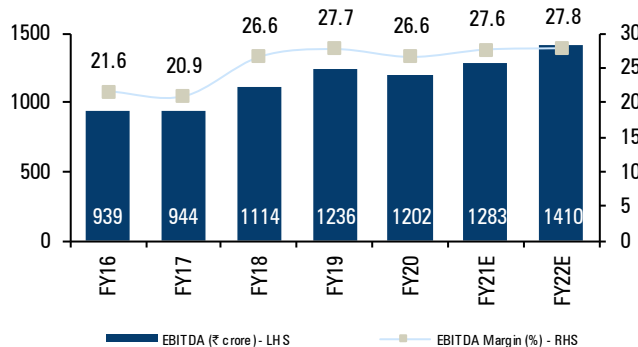
Source: Company, ICICI Direct Research

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



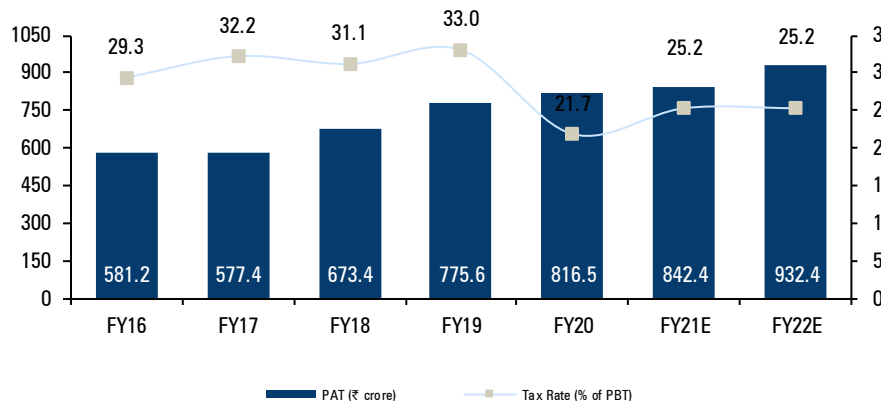
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



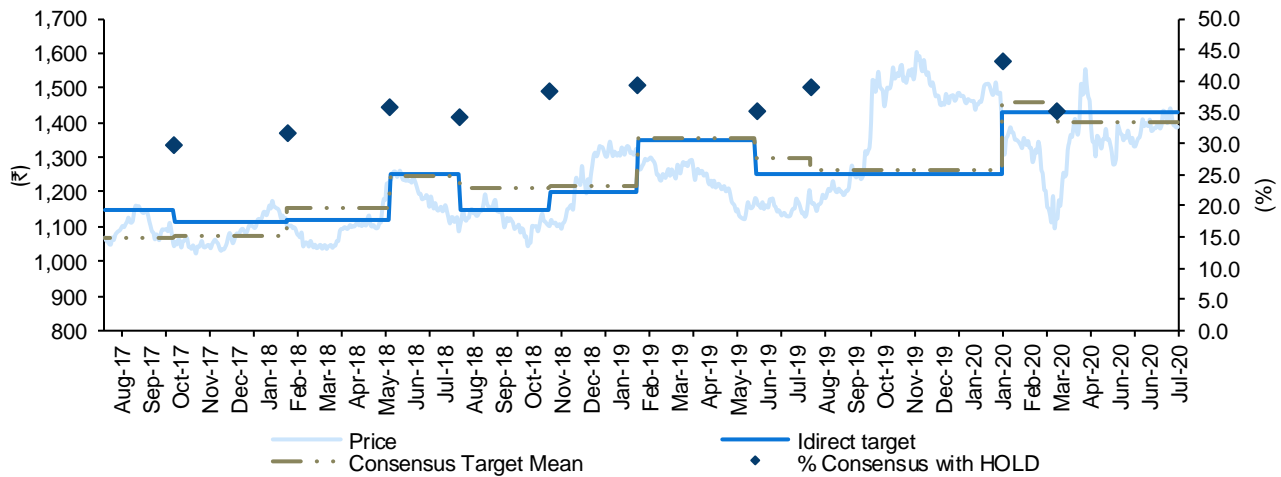
Source: Company, ICICI Direct Research

Exhibit 9: Valuations

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	4432.4	6.6	28.5	15.2	50.8	31.5	52.2	70.7
FY20	4487.6	1.2	30.0	5.3	48.2	32.3	51.2	60.7
FY21E	4603.4	2.6	31.0	3.2	46.7	30.1	52.1	68.0
FY22E	5026.5	9.2	34.3	10.7	42.2	27.4	58.3	76.0

Source: Company, ICICI Direct Research

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	30-Jun-20	40.1	109.0	79.2
2	Colgate Palmolive As	31-Mar-20	10.9	29.8	0.0
3	Life Insurance Corp	30-Jun-20	3.2	8.8	0.2
4	First State Investme	29-Feb-20	1.9	5.0	-0.4
5	Sbi Funds Management	30-Jun-20	1.8	4.9	0.0
6	Bank Of Montreal	30-Jun-20	1.1	2.9	0.0
7	Vanguard Group	30-Jun-20	0.9	2.4	0.0
8	Reliance Capital Tru	27-Jul-20	0.8	2.2	0.2
9	Blackrock	24-Jul-20	0.7	1.8	0.0
10	First State Global U	31-Dec-19	0.6	1.6	-0.2

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	51.0	51.0	51.0	51.0	51.0
FII	15.1	15.5	16.5	16.2	15.3
DII	10.3	11.4	10.2	10.0	11.2
Others	23.6	22.2	22.3	22.8	22.5

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 13: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Total Operating Income</b>	<b>4,462.4</b>	<b>4,525.1</b>	<b>4,642.1</b>	<b>5,067.4</b>
Growth (%)	6.6	1.4	2.6	9.2
Raw Material Expenses	1,558.6	1,572.9	1,564.0	1,722.9
Employee Expenses	295.9	332.3	368.3	336.1
Marketing Expenses	564.7	626.0	598.4	703.7
Administrative Expenses	268.5	0.0	170.3	175.9
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	538.7	792.2	658.3	718.8
Total Operating Expenditure	3,226.4	3,323.4	3,359.3	3,657.3
<b>EBITDA</b>	<b>1,236.1</b>	<b>1,201.7</b>	<b>1,282.8</b>	<b>1,410.1</b>
Growth (%)	11.0	-2.8	6.7	9.9
Depreciation	159.2	197.9	206.3	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	1,126.2	1,246.6
Exceptional items	34.1	0.0	0.0	-3.6
Total Tax	367.0	226.9	283.8	314.1
<b>PAT</b>	<b>775.6</b>	<b>816.5</b>	<b>842.4</b>	<b>932.4</b>
Growth (%)	15.2	5.3	3.2	10.7
EPS (₹)	28.5	30.0	31.0	34.3

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	842.4	932.4
Add: Depreciation	159.2	197.9	206.3	215.3
Add: Interest	2.5	9.6	0.0	0.0
(Inc)/dec in Current Assets	-6.2	25.0	-71.0	-60.8
Inc/(dec) in Current Liabilities	68.3	-28.4	69.3	86.3
<b>CF from operating activities</b>	<b>1,127.8</b>	<b>889.9</b>	<b>1,047.0</b>	<b>1,173.2</b>
(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	-31.4	-1.7
<b>CF from investing activities</b>	<b>-277.9</b>	<b>-18.7</b>	<b>-66.3</b>	<b>-201.7</b>
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
<b>CF from financing activities</b>	<b>-777.3</b>	<b>-851.4</b>	<b>-903.7</b>	<b>-950.9</b>
Net Cash flow	72.6	19.8	77.0	20.7
Opening Cash	305.4	378.0	397.8	474.8
Cash with bank	21.4	23.5	23.5	23.5
<b>Closing Cash</b>	<b>399.3</b>	<b>421.3</b>	<b>498.3</b>	<b>518.9</b>

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet				
	₹ crore			
	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,419.6	1,567.0	1,589.6	1,571.1
Total Shareholders funds	1,446.8	1,594.2	1,616.8	1,598.3
Total Debt	77.7	84.0	0.0	0.0
Long Term Provisions	18.4	48.8	32.2	35.2
Other Non-current Liabilities	32.6	6.7	6.7	6.7
<b>Total Liabilities</b>	<b>1,575.4</b>	<b>1,733.7</b>	<b>1,655.7</b>	<b>1,640.2</b>
<b>Assets</b>				
Gross Block	1,747.6	1,877.5	2,052.5	2,252.5
Less: Acc Depreciation	556.7	754.7	961.0	1,176.3
Net Block	1,190.9	1,122.9	1,091.5	1,076.3
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	275.2	279.8
<b>Current Assets</b>				
Inventory	248.6	296.9	277.5	303.0
Debtors	209.8	132.6	214.4	234.1
Cash	399.3	421.3	498.3	518.9
Loans & Advances	115.0	113.5	119.4	130.4
Other Current Assets	37.5	47.8	50.4	55.1
<b>Current Liabilities</b>				
Creditors	613.2	630.0	605.4	661.0
Provisions	63.9	60.5	56.8	62.0
Other CL	374.0	179.8	277.5	303.0
Net Current Assets	-40.9	141.7	220.4	215.5
<b>Total Assets</b>	<b>1,575.4</b>	<b>1,733.7</b>	<b>1,655.7</b>	<b>1,640.2</b>

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
	₹ crore			
	FY19	FY20	FY21E	FY22E
<b>Per share data (₹)</b>				
EPS	28.5	30.0	31.0	34.3
Cash EPS	34.4	37.3	38.6	42.2
BV	53.2	58.6	59.4	58.8
DPS	26.0	28.0	25.0	29.0
Cash Per Share	14.7	15.5	18.3	19.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	27.7	26.6	27.6	27.8
PBT / Net Sales	25.1	23.3	24.5	24.8
PAT Margin	17.5	18.2	18.3	18.6
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
<b>Return Ratios (%)</b>				
RoE	52.2	51.2	52.1	58.3
RoCE	70.7	60.7	68.0	76.0
<b>Valuation Ratios (x)</b>				
P/E	50.8	48.2	46.7	42.2
EV / EBITDA	31.5	32.3	30.1	27.4
EV / Net Sales	8.8	8.6	8.4	7.7
Market Cap / Sales	8.9	8.8	8.6	7.8
Price to Book Value	27.2	24.7	24.4	24.6
<b>Solvency Ratios</b>				
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)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY21E	FY20	FY21E	FY22E	FY20	FY21E
Colgate (COLPAL)	1,448	1,540	Hold	39,377	30.0	31.0	34.3	48.2	46.8	42.2	8.8	8.6	7.8	60.7	68.0	76.0	51.2	52.1	58.3
Dabur India (DABIND)	490	520	Buy	83,283	8.2	8.8	10.3	59.8	55.6	47.7	9.6	9.5	8.2	26.1	25.7	28.3	21.9	22.5	24.8
Hindustan Unilever (HINLEV)	2,231	2,410	Hold	519,159	31.2	32.4	40.1	71.5	68.9	55.6	13.6	12.2	10.6	89.5	26.7	33.0	85.7	20.3	25.4
ITC Limited (ITC)	197	250	Buy	245,475	12.5	11.7	13.0	15.8	16.8	15.1	5.3	5.2	4.6	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	120	115	Hold	4,535	4.3	4.1	5.7	28.0	29.1	20.9	2.7	2.9	2.4	24.3	23.3	28.8	21.7	18.8	23.8
Marico (MARLIM)	362	380	Hold	45,286	8.1	8.5	9.6	44.8	42.6	37.8	6.2	6.1	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	16,598	18,000	Hold	164,869	204.3	230.3	268.9	81.3	72.1	61.7	13.4	12.4	10.9	56.9	59.3	65.9	101.9	114.2	123.6
Tata Consumer Products (TATGLO)	428	440	Buy	37,667	5.0	8.7	10.9	85.7	49.3	39.3	3.9	3.7	3.4	6.9	7.9	8.8	4.6	5.9	7.1
VST Industries (VSTIND)	3,222	4,000	Buy	4,942	196.9	124.8	216.3	16.4	25.8	14.9	4.0	4.5	3.5	52.1	32.9	45.6	38.6	24.3	33.7
Varun Beverage (VARBEV)	697	571	Reduce	20,122	16.4	9.7	17.8	42.6	71.6	39.1	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,604	1,530	Buy	9,445	24.6	31.6	50.3	65.3	50.7	31.9	5.3	5.7	4.6	5.9	5.7	7.4	5.4	5.1	7.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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