

Reduce

View: Positive volume growth; rich valuations; Maintain Reduce

- Colgate's Q2FY21 results were ahead of our expectation on all parameters. Domestic business posted 7% sales growth during Q2. All categories witnessed positive growth driven by household penetration. A 540bps increase in EBITDA margin was a key positive.
- A&P spends reduced significantly, in line with lower spends of the peers. We believe that the A&P spends would increase gradually to support volume growth. This would restrict margin expansion.
- 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 35.0 (+7.8%) and Rs 35.8 (+5.9%), respectively to factor in Q2FY21 performance and introduced FY23E EPS at Rs 39.7. We value the stock at 38x FY23 EPS to arrive at a TP of Rs 1,507. Maintain Reduce.

Strong operational performance

Net revenues increased 5.2% YoY to Rs 12.9bn - came marginally ahead of our estimate. Both toothbrush and toothpaste recorded positive growth during the quarter. EBITDA increased by 26.7% YoY to Rs 4.1bn - came above our estimate. A 80bps increase in employee costs was completely offset by 340/120/160bps decline in RM/other expense/A&SP spends respectively. Consequently, EBITDA margin expanded 540bps to 31.8% - highest ever Q2 margin. APAT increased 12.3% to Rs 2.7bn. Lower tax rate in the base quarter restricted growth in profitability.

Step-up in A&SP spends to impact margins

Colgate lost market share marginally in 2019. Continuous gain in market share by Dabur remains a key challenge for Colgate. During September'20, Colgate reported mid single digit volume growth in toothpaste category. We view this performance positively considering sequential improvement. A&P spends declined 220bps during H1FY21 due to the pandemic. Going ahead, we expect A&P spends to gradually increase to support new launches and restore volume growth. 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.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	12,855	12,218	5.2	10,406	23.5
Total Expense	8,762	8,988	(2.5)	7,326	19.6
EBITDA	4,093	3,230	26.7	3,080	32.9
Depreciation	461	504	(8.5)	454	1.6
EBIT	3,632	2,726	33.3	2,626	38.3
Other Income	76	86	(12.3)	63	20.5
Interest	18	24	(24.5)	20	(8.5)
EBT	3,689	2,788	32.3	2,669	38.2
Tax	947	347	173.3	687	37.9
RPAT	2,742	2,441	12.3	1,982	38.4
APAT	2,742	2,441	12.3	1,982	38.4
			(bps)		(bps)
Gross Margin (%)	68.1	64.7	339	66.1	199
EBITDA Margin (%)	31.8	26.4	541	29.6	224
NPM (%)	21.3	20.0	135	19.0	229
Tax Rate (%)	25.7	12.4	1325	25.7	(7)
EBIT Margin (%)	28.3	22.3	595	25.2	302

CMP	Rs 1,427
Target / Upside	Rs 1,507 / 6%
NIFTY	11,938

Scrip Details

Equity / FV	Rs 272mn / Rs 1		
Market Cap	Rs 388bn		
	USD 5bn		
52-week High/Low	Rs 1,643/ 1,065		
Avg. Volume (no)	7,19,289		
Bloom Code	CLGT IN		
Price Performance	1M	3M	12M
Absolute (%)	4	1	(7)
Rel to NIFTY (%)	(3)	(6)	(11)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	51.0	51.0	51.0
MF/Banks/FIs	14.0	15.0	15.0
FIs	16.2	15.3	15.3
Public / Others	18.9	18.7	18.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	40.8	39.8	36.0
EV/EBITDA	27.3	26.5	23.9
ROE (%)	60.0	62.3	69.9
RoACE (%)	56.8	58.9	66.0

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	46,889	50,519	54,219
EBITDA	14,053	14,470	15,983
PAT	9,512	9,740	10,791
EPS (Rs.)	35.0	35.8	39.7

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Exhibit 1: Actual V/s DART Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	12,855	12,462	3.1	
EBITDA	4,093	3,418	19.7	
EBITDA margin %	31.8	27.4	440	Lower than estimated RM costs and other expenses
APAT	2,742	2,537	8.1	

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY21E			FY22E		
	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	46,889	46,524	0.8	50,519	50,123	0.8
EBITDA	14,053	13,156	6.8	14,470	13,752	5.2
EBITDA mgn (%)	30.0	28.3	170 bps	28.6	27.4	120 bps
Adj PAT	9,512	8,828	7.8	9,740	9,197	5.9
EPS (Rs)	35	32.5	7.8	35.8	33.8	5.9

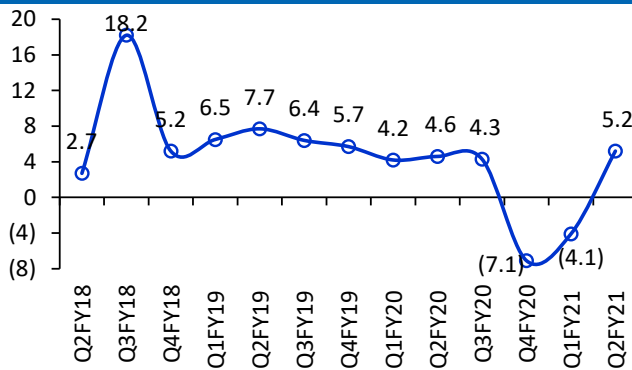
Source: Company, DART

We have upward revised our revenue estimates for FY21E and FY22E to factor in better than anticipated volume growth during the quarter. Further, we have increased our EBITDA margin estimates to factor in cost efficiencies during Q2FY21. However, we believe that the margins would decline gradually as A&P spends would increase. Hence we have estimated lower margins for FY22E.

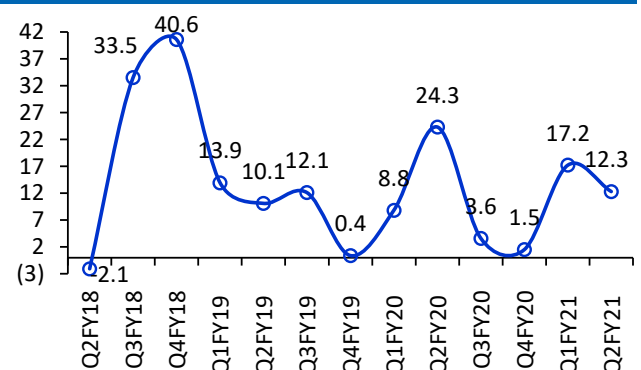
Exhibit 3: Half yearly Performance

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Sales	12,855	12,218	5.2	10,406	23.5	23,261	23,067	0.8
Total Expenditure	8,762	8,988	(2.5)	7,326	19.6	16,088	16,839	-4.5
RM Cost	4,096	4,308	(4.9)	3,524	16.3	7,620	8,011	-4.9
Employee Exp	966	819	18.0	907	6.5	1,873	1,654	13.3
Ad & Sales Prom Exp	1,644	1,758	(6.5)	1,139	44.3	2,783	3,271	-14.9
Other Exp	2,056	2,104	(2.3)	1,757	17.0	3,812	3,903	-2.3
PBIDT (Excl OI)	4,093	3,230	26.7	3,080	32.9	7,173	6,228	15.2
Other Income	76	86	(12.3)	63	20.5	139	238	-41.8
Depreciation	461	504	(8.5)	454	1.6	915	1003	-8.8
EBIT	3,708	2,812	31.9	2,689	37.9	6,396	5,463	17.1
Interest	18	24	(24.5)	20	(8.5)	38	47	NM
PBT	3,689	2,788	32.3	2,669	38.2	6,358	5,416	17.4
Tax	947	347	173.3	687	37.9	1635	1284	27.3
Profit After Tax	2,742	2,441	12.3	1,982	38.4	4,724	4,132	14.3
Net Profit (adj)	2,742	2,441	12.3	1,982	38.4	4,724	4,132	14.3
EPS (based on reported PAT)	10.1	9.0	12.3	7.3	38.4	17.4	15.2	14.3
			bps		bps			bps
Gross Profit (%)	68.1	64.7	340	66.1	200	67.2	65.3	197
Employee Exp (%)	7.5	6.7	80	8.7	(120)	8.1	7.2	88
Ad spends (%)	12.8	14.4	(160)	10.9	180	12.0	14.2	(222)
Other exp (%)	16.0	17.2	(120)	16.9	(90)	16.4	16.9	(53)
EBITDA (%)	31.8	26.4	540	29.6	220	30.8	27.0	384
PAT (%)	21.3	20.0	140	19.0	230	20.3	17.9	239

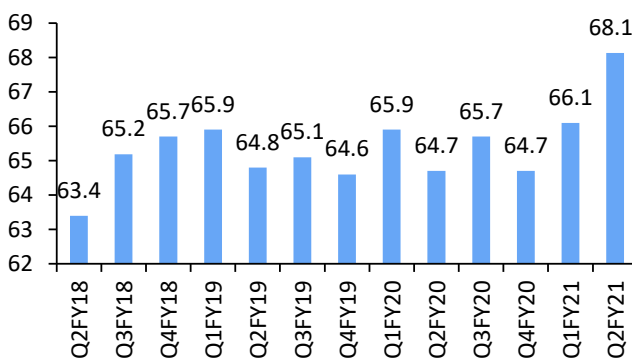
Source: Company, DART

Exhibit 4: Sales Growth (%)


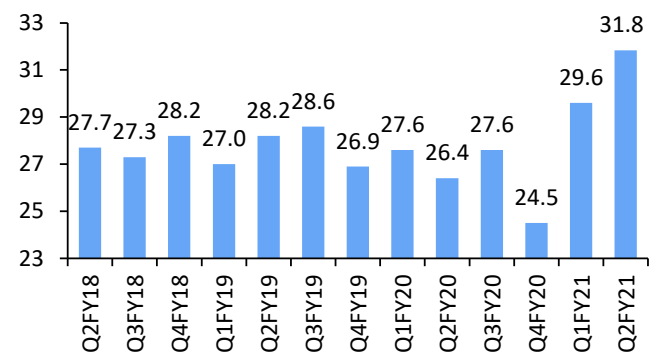
Source: Company, DART

Exhibit 5: Net Profit Growth (%)


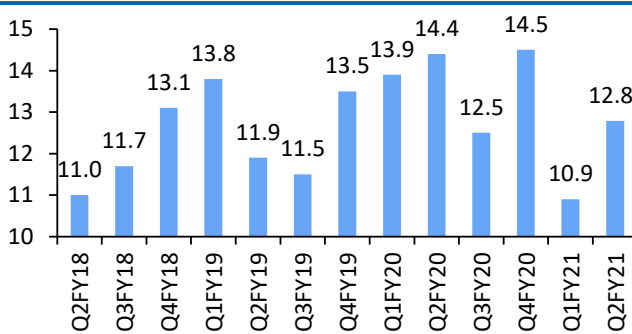
Source: Company, DART

Exhibit 6: Gross Margin (%) Trend


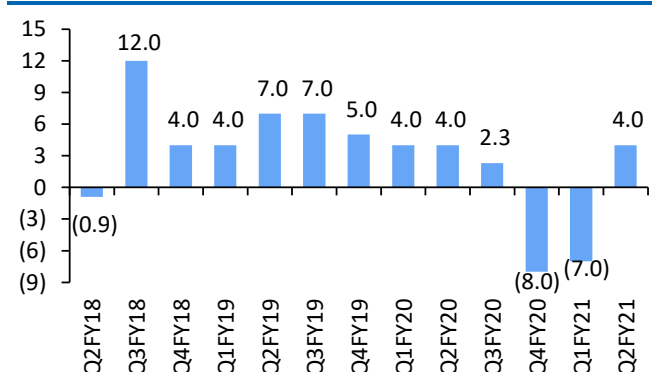
Source: Company, DART

Exhibit 7: EBITDA Margins Trend (%)


Source: Company, DART

Exhibit 8: A&P Spends (% Of Revenues)


Source: Company, DART

Exhibit 9: Volume growth overall (% YoY)


Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	45,251	46,889	50,519	54,219
Total Expense	33,234	32,836	36,049	38,237
COGS	15,729	15,360	16,701	17,762
Employees Cost	3,323	3,349	3,508	3,656
Other expenses	14,182	14,127	15,841	16,819
EBIDTA	12,017	14,053	14,470	15,983
Depreciation	1,979	2,132	2,296	2,460
EBIT	10,038	11,921	12,174	13,523
Interest	96	100	100	100
Other Income	492	654	699	729
Exc. / E.O. items	0	0	0	0
EBT	10,434	12,475	12,773	14,152
Tax	2,269	2,962	3,033	3,361
RPAT	8,165	9,512	9,740	10,791
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	8,165	9,512	9,740	10,791

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	15,670	15,474	15,273	15,051
Net Worth	15,942	15,746	15,545	15,323
Total Debt	1,015	1,015	1,015	1,015
Net Deferred Tax Liability	50	50	50	50
Total Capital Employed	17,007	16,811	16,610	16,388

Applications of Funds

Net Block	11,223	10,591	9,795	8,836
CWIP	1,900	1,900	1,900	1,900
Investments	186	186	186	186
Current Assets, Loans & Advances	13,174	14,213	15,640	16,943
Inventories	2,960	2,821	3,040	3,263
Receivables	1,326	1,774	1,911	2,051
Cash and Bank Balances	4,200	5,464	6,366	7,133
Loans and Advances	4,688	4,153	4,323	4,496
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	9,476	10,079	10,911	11,477
Payables	6,110	6,331	6,821	7,321
Other Current Liabilities	3,366	3,748	4,090	4,156
<i>sub total</i>				
Net Current Assets	3,697	4,133	4,729	5,466
Total Assets	17,007	16,811	16,610	16,388

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	65.2	67.2	66.9	67.2
EBIDTA Margin	26.6	30.0	28.6	29.5
EBIT Margin	22.2	25.4	24.1	24.9
Tax rate	21.7	23.7	23.7	23.7
Net Profit Margin	18.0	20.3	19.3	19.9
(B) As Percentage of Net Sales (%)				
COGS	34.8	32.8	33.1	32.8
Employee	7.3	7.1	6.9	6.7
Other	31.3	30.1	31.4	31.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	104.3	119.2	121.7	135.2
Inventory days	24	22	22	22
Debtors days	11	14	14	14
Average Cost of Debt	10.4	9.9	9.9	9.9
Payable days	49	49	49	49
Working Capital days	30	32	34	37
FA T/O	4.0	4.4	5.2	6.1
(D) Measures of Investment				
AEPS (Rs)	30.0	35.0	35.8	39.7
CEPS (Rs)	37.3	42.8	44.2	48.7
DPS (Rs)	26.9	29.1	29.8	33.1
Dividend Payout (%)	89.6	83.3	83.3	83.3
BVPS (Rs)	58.6	57.9	57.2	56.3
RoANW (%)	53.7	60.0	62.3	69.9
RoACE (%)	50.7	56.8	58.9	66.0
RoAIC (%)	82.2	98.7	112.8	138.7
(E) Valuation Ratios				
CMP (Rs)	1427	1427	1427	1427
P/E	47.5	40.8	39.8	36.0
Mcap (Rs Mn)	3,88,090	3,88,090	3,88,090	3,88,090
MCap/ Sales	8.6	8.3	7.7	7.2
EV	3,84,905	3,83,640	3,82,739	3,81,971
EV/Sales	8.5	8.2	7.6	7.0
EV/EBITDA	32.0	27.3	26.5	23.9
P/BV	24.3	24.6	25.0	25.3
Dividend Yield (%)	1.9	2.0	2.1	2.3
(F) Growth Rate (%)				
Revenue	1.4	3.6	7.7	7.3
EBITDA	(2.8)	16.9	3.0	10.5
EBIT	(6.8)	18.8	2.1	11.1
PBT	(8.7)	19.6	2.4	10.8
APAT	9.6	16.5	2.4	10.8
EPS	9.6	16.5	2.4	10.8

Cash Flow

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	8,150	12,573	12,441	13,381
CFI	(1,082)	(1,500)	(1,500)	(1,500)
CFF	(6,862)	(9,808)	(10,040)	(11,113)
FCFF	6,943	11,073	10,941	11,881
Opening Cash	3,994	4,200	5,464	6,366
Closing Cash	4,200	5,464	6,366	7,133

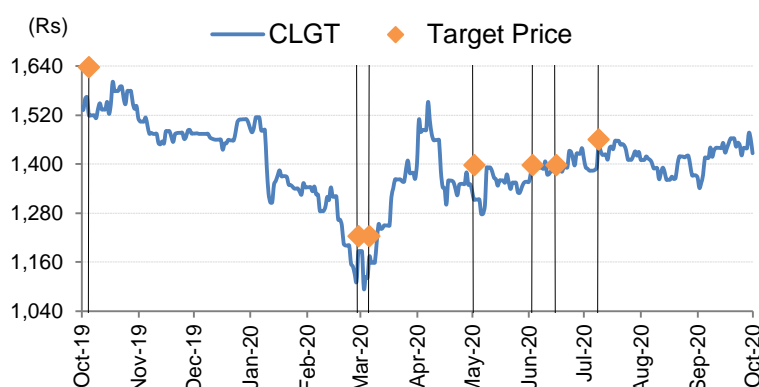
E – Estimates

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.)
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
Jul-20	Reduce	1,460	1,448

*Price as on recommendation date

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