Colgate-Palmolive (India) (COLPAL)

ICICI direct Research

CMP: ₹ 1427 | Target: ₹ 1700 (19%) | Target Period: 12 months | BUY

October 22, 2020

Favourable costs across the board lift margin…

Colgate reported strong set of numbers with 5.3% revenue growth led by 7.1% domestic business growth. The impact of Covid induced lockdown was minimal in oral care category given inventory levels at trade as well as at consumer were sufficient to cover one month supply disruption. Given manufacturing & supply chain issues were resolved by April, the companies were able to ramp up manufacturing in short period of time. We believe Colgate has recouped first quarter's lost sales in Q2FY21. All categories - toothpaste, toothbrush & personal care witnessed healthy demand conditions. The company launched variant of Colgate visible while toothpaste & new Colgate gentle line of toothbrush. It has also launched a Colgate Vedshakti Mouth spray during the quarter. With a sharp decline in crude based commodity cost, gross margins improved 340 bps. Further, the company got the benefit of lower advertisement rates which resulted in 160 bps lower ad-spend to sales. Moreover, cost cutting measures resulted in overhead spends down by 120 bps to sales. All these factors resulted in operating margin expansion of 540 bps to 31.8%. Net profit increased by 12.3% to ₹ 274.2 crore despite the lower tax in base quarter.

Naturals, new launches helping in maintaining market share

The company has lost market share in last five years with Ayurveda & Natural brands gaining prominence. Colgate is trying to make inroads in naturals sub-categories with two of its brands 'Colgate Vedshakti' & 'Colgate Swarnshakti' started driving growth in a saturated toothpaste category. Moreover, it has been launching three to five new products almost every quarter in oral care space. Re-launch of Colgate Max-Fresh, Colgate dental crème & new launch of Colgate Charcoal clean is gaining traction. With all these efforts, the company has been able to curb the fall in market share in last one year. We expect 7% & 4% volume growth in FY22E & FY23E.

Benign raw material, lower ad-spends to boost margins

The company has witnessed sharp gross margin expansion with the substantial fall in crude based raw material cost. We believe the benefit of low raw material cost & low ad rates would remain in rest of the FY21E. We expect ~300 bps operating margin expansion to 29.5% in FY21E. However, margins at such elevated levels would not sustain considering ad rates & raw material cost would start normalising in medium term. We estimate 28.6% & 28.7% operating margins in FY22E & FY23E.

Valuation & Outlook

The growth opportunity in oral care space is limited given high penetration and slow rate of habit change (brushing twice a day). However, Colgate has been able to improve margins on a continuous basis with periodic favourable conditions. We expect similar conditions would drive earnings growth (8% CAGR in FY20-23E). The dividend payout has considerably increased in last few years. With ₹ 34/share dividend declared in H1FY21, we expect ₹ 40/share pay-out for the full year (~3% dividend yield). We upgrade our rating from HOLD to **BUY** with the revised target price of ₹ 1700 /share.

COLGATE-PALMOLIVE

Particulars

Particulars (₹ crore)	Amount
Market Capitalization	38,730.8
Total Debt (FY20)	84.0
Cash and Investments (FY20)	421.3
EV	38,393.5
52 week H/L (₹)	1641 / 1056
Equity capital	27.2
Face value (₹)	1.0

Key Highlights

- Revenue grew by 5.3% led by 7.1% growth in domestic sales. The company recouped most of the lost sales in Q1 due to lockdown
- Operating margins expanded by 540 bps aided by 340 bps gross margin expansion & 160 bps saving in advertisement spends
- We upgrade the stock to BUY from Hold with the revise target price to ₹ 1700/share

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Result Update

ICICI Securities – Retail Equity Research

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	4462.4	4525.1	4642.1	5067.4	5403.9	6.1%
EBITDA	1236.1	1201.7	1370.2	1449.9	1552.7	8.9%
EBITDA Margin %	27.7	26.6	29.5	28.6	28.7	
Net Profit	775.6	816.5	907.8	962.2	1029.4	8.0%
EPS (₹)	28.52	30.02	33.38	35.38	37.85	
P/E	49.9	47.4	42.7	40.3	37.6	
RoNW %	52.2	51.2	64.2	78.0	96.5	
RoCE (%)	70.7	60.7	83.5	100.8	123.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	1,285.5	1,221.8	5.2	1,040.6	23.5	Net sales increased by 5.2% on the back of 7.1% growth in domestic sales. The company largely remain insulated from covid induced lockdown
Operating Income	7.8	8.6	-9.0	7.0	11.4	
Raw Material Expenses	409.6	430.8	-4.9	352.4	16.3	With sharp decline in crude based raw material prices, the company witnessed 340 bps expansion in gross margins
Employee Expenses	96.6	81.9	18.0	90.7	6.5	
SG&A Expenses	164.4	175.8	-6.5	113.9	44.3	Given decline in advertisement rates, colgate benefited in terms of lower media spends
Other operating Expenses	205.6	210.4	-2.3	175.7	17.0	Other cost cutting measures also yielded results with decline in cost
EBITDA	409.3	323.0	26.7	308.0	32.9	
EBITDA Margin (%)	31.8	26.4	541 bps	29.6	224 bps	Across the board cost savings resulted in 540 bps improvement in operating margins
Depreciation	46.1	50.4	-8.5	45.4	1.6	
Interest	1.8	2.4	NA	2.0	NA	
Other Income	7.6	8.6	-12.3	6.3	20.5	
PBT before exceptional	368.9	278.8	32.3	266.9	38.2	
Exceptional Items	0.0	0.0	NA	0.0	NA	
Tax Outgo	94.7	34.7	173.3	68.7	37.9	
PAT	274.2	244.1	12.3	198.2	38.4	Despite low tax in base quarter, net profit increased by 12.3%
Adjusted PAT	274.2	244.1	12.3	198.2	38.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21E			FY22E			FY23E	
(₹ Crore)	Old	New	% Change	Old	New	% Change	New	Comments
Totol Operating Inc.	4,642.1	4642.1	0.0	5,067.4	5,067.4	0.0	5,403.9	No change in our sales estimates. We are introducing FY23E numbers
EBITDA	1282.8	1370.2	6.8	1410.1	1449.9	2.8	1552.7	
EBITDA Margin (%)	27.6	29.5	188 bps	27.8	28.6	79 bps	28.7	With strong gross margins expansion & cost saving across the board, we increase our margin estimates & subsequently earnings estimats
PAT	842.4	907.8	7.8	932.4	962.2	3.2	1029.4	
EPS (₹)	31.0	33.4	7.8	34.3	35.4	3.2	37.8	

Source: Company, ICICI Direct Research

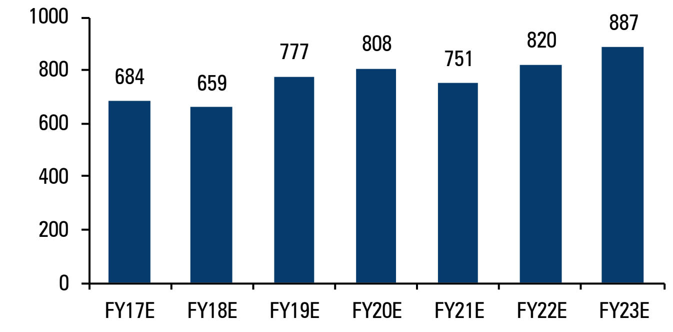
Exhibit 3: Assumptions

	Current						Earlier		Comments
	FY18	FY19	FY20E	FY21E	FY22E	FY23E	FY21E	FY22E	
Toothpaste Vol. Growth(%)	4.0	6.0	6.0	-2.5	7.0	4.0	-2.5	7.0	No signficiant change in our estimates
Toothpaste Value Growth(%)	-3.8	0.1	7.1	-2.5	9.1	6.1	-2.5	9.1	
Toothbrush Vol. Growth(%)	4.0	6.0	6.0	-7.0	7.0	5.0	-7.0	7.0	
Toothbrush Value Growth(%)	-3.7	17.9	4.0	-7.0	9.1	8.2	-7.0	9.1	
Raw Material/Sales %	35.5	34.9	34.8	33.7	34.0	34.3	33.7	34.0	
Marketing Exp./Sales %	12.6	12.7	13.8	11.9	12.4	12.3	12.9	13.9	We cut our advertisement spend estimates mainly due to significant dip in ad rates

Source: Company, ICICI Direct Research

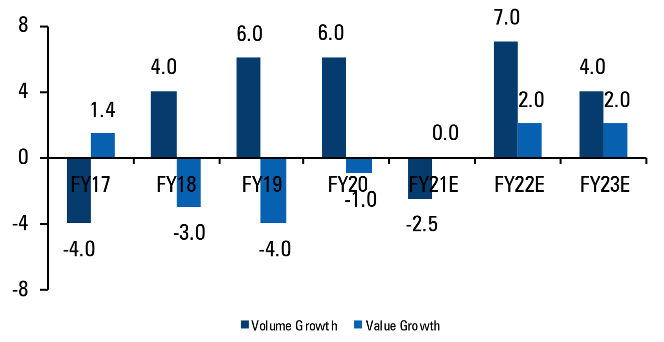
Key Metrics

Exhibit 4: Toothbrush revenue to be impacted in FY21E



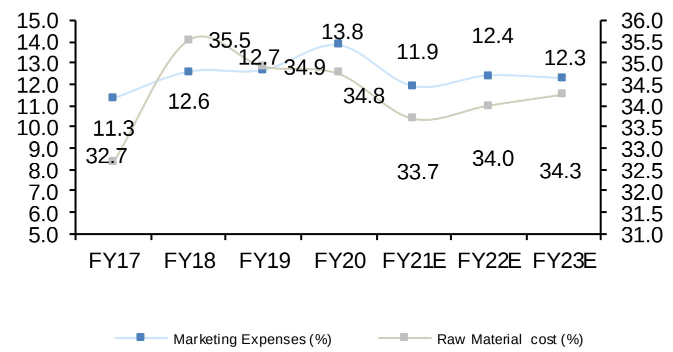
Source: Company, ICICI Direct Research

Exhibit 5: Toothpaste Volumes to witness 7% volume growth in FY22E



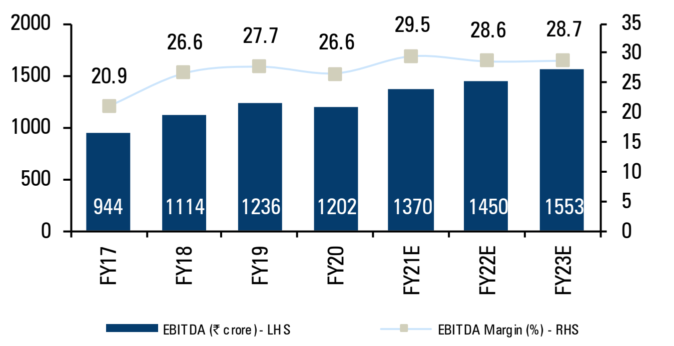
Source: Company, ICICI Direct Research

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



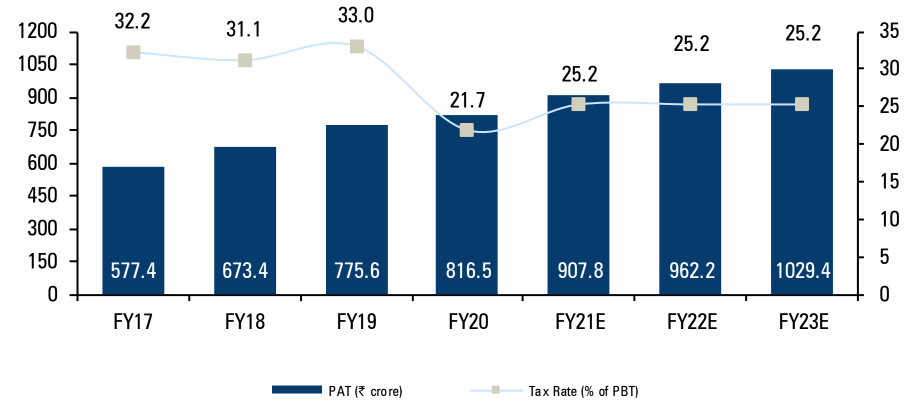
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



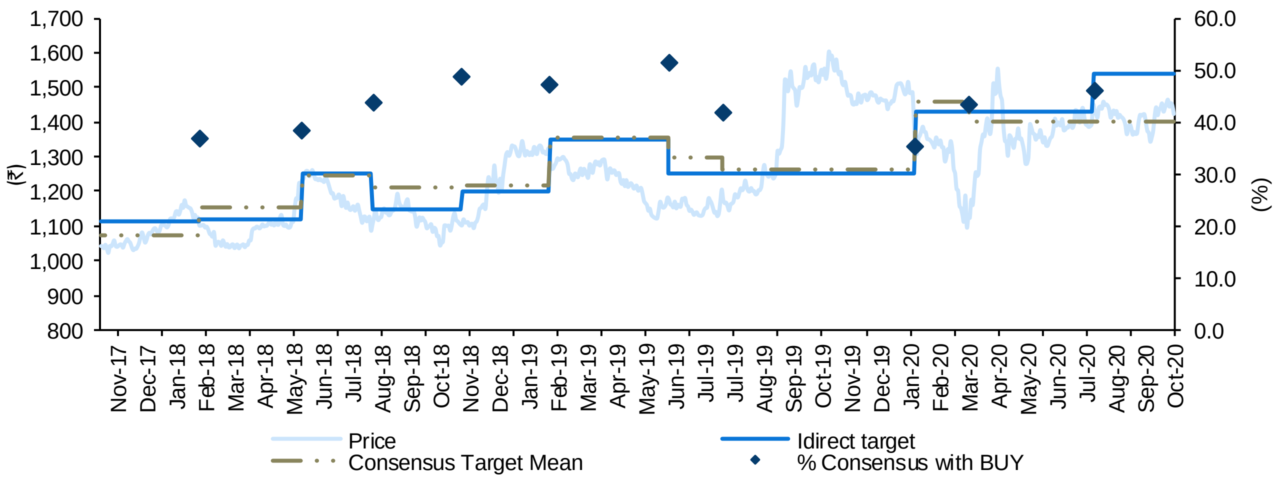
Source: Company, ICICI Direct Research

Exhibit 9: Valuations

	Net Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	4487.6	1.2	30.0	5.3	47.4	31.7	51.2	60.7
FY21E	4603.4	2.6	33.4	11.2	42.7	27.8	64.2	83.5
FY22E	5026.5	9.2	35.4	6.0	40.3	26.4	78.0	100.8
FY23E	5360.5	6.6	37.8	7.0	37.6	24.7	96.5	123.9

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 %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	51.0	51.0	51.0	51.0	51.0
FII	15.5	16.5	16.2	15.3	8.5
DII	11.4	10.2	10.0	11.2	15.7
Others	22.2	22.3	22.8	22.5	24.9

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Total Operating Income	**4,525.1**	**4,642.1**	**5,067.4**	**5,403.9**
Growth (%)	1.4	2.6	9.2	6.6
Raw Material Expenses	1,572.9	1,564.0	1,722.9	1,851.4
Employee Expenses	332.3	368.3	386.7	391.3
Marketing Expenses	626.0	552.4	628.3	663.5
Administrative Expenses	241.8	156.5	170.9	186.0
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	550.4	630.7	708.7	759.0
Total Operating Expenditure	3,323.4	3,271.9	3,617.5	3,851.2
EBITDA	**1,201.7**	**1,370.2**	**1,449.9**	**1,552.7**
Growth (%)	-2.8	14.0	5.8	7.1
Depreciation	197.9	206.3	215.3	230.3
Interest	9.6	0.0	0.0	0.0
Other Income	49.2	49.7	51.7	53.8
PBT	1,043.4	1,213.6	1,286.4	1,376.2
Exceptional items	0.0	0.0	-3.6	30.5
Total Tax	226.9	305.8	324.2	346.8
PAT	**816.5**	**907.8**	**962.2**	**1,029.4**
Growth (%)	5.3	11.2	6.0	7.0
EPS (₹)	30.0	33.4	35.4	37.8

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	722.1	907.8	962.2	1,029.4
Add: Depreciation	197.9	206.3	215.3	230.3
Add: Interest	9.6	0.0	0.0	0.0
(Inc)/dec in Current Assets	25.0	-71.0	-60.8	-48.0
Inc/(dec) in Current Liabilities	-28.4	69.3	86.3	68.2
CF from operating activities	**889.9**	**1,112.5**	**1,203.0**	**1,279.8**
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-60.4	-35.0	-200.0	-70.0
Others	41.7	-31.4	-1.7	-1.3
CF from investing activities	**-18.7**	**-66.3**	**-201.7**	**-71.3**
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	-84.0	0.0	0.0
Dividend paid & dividend tap	-731.5	-1,087.9	-1,142.3	-1,196.7
Inc/(dec) in Sec. premium	-119.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	**-851.4**	**-1,171.9**	**-1,142.3**	**-1,196.7**
Net Cash flow	19.8	-125.8	-141.0	11.8
Opening Cash	378.0	397.8	272.0	131.1
Cash with bank	23.5	23.5	23.5	23.5
Closing Cash	**421.3**	**295.5**	**154.5**	**166.3**

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore

	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,567.0	1,386.8	1,206.7	1,039.4
Total Shareholders funds	1,594.2	1,414.0	1,233.9	1,066.6
Total Debt	84.0	0.0	0.0	0.0
Long Term Provisions	48.8	32.2	35.2	37.5
Other Non-current Liabilities	6.7	6.7	6.7	6.7
Total Liabilities	**1,733.7**	**1,452.9**	**1,275.8**	**1,110.8**
Assets				
Gross Block	1,877.5	2,052.5	2,252.5	2,352.5
Less: Acc Depreciation	754.7	961.0	1,176.3	1,406.5
Net Block	1,122.9	1,091.5	1,076.3	946.0
Capital WIP	190.0	50.0	50.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	18.6	18.6	18.6	18.6
LT Loans & Advances/Others	260.4	275.2	279.8	283.5
Current Assets				
Inventory	296.9	277.5	303.0	323.1
Debtors	132.6	214.4	234.1	249.7
Cash	421.3	295.5	154.5	166.3
Loans & Advances	113.5	119.4	130.4	139.0
Other Current Assets	47.8	50.4	55.1	58.7
Current Liabilities				
Creditors	630.0	605.4	661.0	704.9
Provisions	60.5	56.8	62.0	66.1
Other CL	179.8	277.5	303.0	323.1
Net Current Assets	141.7	17.6	-148.9	-157.3
Total Assets	**1,733.7**	**1,452.9**	**1,275.8**	**1,110.8**

Source: Company, ICICI Direct Research

Exhibit 16: Key ratios ₹ crore

	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	30.0	33.4	35.4	37.8
Cash EPS	37.3	41.0	43.3	46.3
BV	58.6	52.0	45.4	39.2
DPS	20.0	40.0	42.0	44.0
Cash Per Share	15.5	10.9	5.7	6.1
Operating Ratios (%)				
EBITDA Margin	26.6	29.5	28.6	28.7
PBT / Net Sales	23.3	26.4	25.6	25.7
PAT Margin	18.2	19.7	19.1	19.2
Inventory days	24.2	22.0	22.0	22.0
Debtor days	10.8	17.0	17.0	17.0
Creditor days	51.2	48.0	48.0	48.0
Return Ratios (%)				
RoE	51.2	64.2	78.0	96.5
RoCE	60.7	83.5	100.8	123.9
Valuation Ratios (x)				
P/E	47.4	42.7	40.3	37.6
EV / EBITDA	31.7	27.8	26.4	24.7
EV / Net Sales	8.5	8.3	7.6	7.1
Market Cap / Sales	8.6	8.4	7.7	7.2
Price to Book Value	24.3	27.4	31.4	36.3
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	0.7	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	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Colgate (COLPAL)	1,427	1,700	Buy	38,731	30.0	33.4	35.4	47.5	42.7	40.3	8.6	8.4	7.7	60.7	83.5	100.8	51.2	64.2	78.0
Dabur India (DABIND)	516	565	Buy	88,708	8.2	8.8	10.3	63.0	58.5	50.3	10.2	10.1	8.7	26.1	24.0	24.7	21.9	20.9	21.4
Hindustan Unilever (HINLEV)	2,163	2,500	Buy	510,548	31.2	32.4	38.8	69.3	66.8	55.8	13.3	12.0	10.4	89.5	24.5	28.5	85.7	18.6	21.9
ITC Limited (ITC)	168	250	Buy	218,801	12.5	11.7	13.0	13.5	14.3	12.9	4.7	4.6	4.1	29.4	28.3	36.1	23.8	21.7	27.7
Jyothy Lab (JYOLAB)	141	150	Hold	5,141	4.3	5.3	5.8	32.8	26.6	24.2	3.1	2.9	2.6	24.3	29.7	29.9	21.7	24.2	24.1
Marico (MARLIM)	360	380	Hold	45,802	8.1	8.5	9.6	44.6	42.4	37.7	6.3	6.2	5.5	41.0	42.3	46.2	34.5	35.6	39.5
Nestle (NESIND)	16,031	18,000	Hold	151,669	204.3	230.3	268.9	78.5	69.6	59.6	12.3	11.4	10.0	56.9	59.3	65.9	101.9	114.2	123.6
Tata Consumer Products (TATGLO	465	525	Buy	49,578	5.0	9.8	11.7	93.2	47.6	39.9	5.1	4.6	4.3	6.9	8.8	9.4	4.6	6.6	7.5
VST Industries (VSTIND)	3,410	4,450	Buy	5,530	196.9	202.1	222.6	17.3	16.9	15.3	4.5	4.6	3.9	52.1	46.3	44.8	38.6	34.2	33.0
Varun Beverage (VARBEV)	671	700	Hold	19,948	16.4	9.7	17.8	41.0	68.9	37.6	2.8	3.3	2.7	15.5	11.3	16.3	14.2	8.8	14.2
Zydus Wellness (ZYDWEL)	1,791	2,300	Buy	10,782	24.6	43.4	66.4	72.9	41.3	27.0	6.1	5.8	5.2	5.9	7.0	8.3	5.4	5.9	8.6

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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