

Colgate Palmolive (India) Ltd.



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New launches and penetration drove the performance

CMP INR 1,465	Target INR 1,622	Potential Upside 10.7%	Market Cap (INR Mn) INR 398,078	Recommendation ACCUMULATE	Sector Consumer Goods
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Result Highlights of Q2FY21

- Colgate reported revenue increase of 5.2% YoY / 23.5% QoQ. Domestic net sales for the quarter reported 7.1% YoY growth.
- EBITDA margin expanded to 31.8% in Q2FY21 (from 26.4% in Q2FY20) primarily benefitting from Change in inventories to the tune of INR 599 Cr. Raw materials stood at 28.5% of sales (vs 28.8% of sales in Q2FY20). Employee cost was also on increase that grew 18.0% YoY. Purchase of stock in trade for the quarter however was higher at 8.1% of revenue (vs 5.1% in Q2FY20). Overall, EBITDA margin expanded sharply by 541 bps YoY / 224 bps QoQ.
- Consequently, Net Profit grew 12.3% YoY (+38.4% QoQ) due to lower cost of sales as total expenditure declined 2.5% YoY and lower interest expense that declined 24.5% YoY.
- Net Profit margin for the quarter expanded by 135bps YoY / 229 bps QoQ to 21.3%.
- The Board declared a first interim dividend for the FY2020-21 of INR 18 per share of Re 1 each (face value)

MARKET DATA

Shares outs (Mn)	272
Equity Cap (INR Mn)	15,942
Mkt Cap (INR Mn)	398,078
52 Wk H/L (INR)	1,641/1,065
Volume Avg (3m K)	755
Face Value (INR)	1
Bloomberg Code	CLGT IN

KEY FINANCIALS

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Revenue	43,284	44,624	45,251	47,061	49,414
EBITDA	11,137	12,360	12,017	14,427	14,651
PAT	6,734	7,756	8,165	10,031	10,139
Adj PAT	6,850	7,450	8,165	10,031	10,139
EPS (INR)	24.8	28.5	30.0	36.9	37.3
Adj. EPS (INR)	25.2	27.4	30.0	36.9	37.3
EBITDA Margin (%)	25.7%	27.7%	26.6%	30.7%	29.7%
NPM (%)	15.6%	17.4%	18.0%	21.3%	20.5%

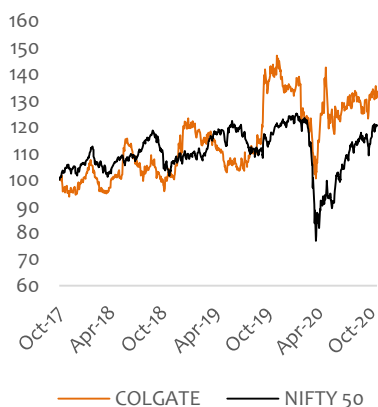
Source: Company, KRChoksey Research

Revenue grew double-digit after slump in Q1: Colgate revenue was up 5.2% YoY at INR 1,285.5 Cr; domestic revenue grew 7.1% YoY. Growth was broad based and witnessed across categories. Both toothpaste (~80% of sales) and toothbrush (~18% of sales) noticed growth through increase in house penetration. The adverse impact of lockdown has been reversed and the company has commenced operations fully from April.

Favorable raw material and higher sales expanded margins: Gross margin improved sharply by 339bps YoY / 199bps QoQ to 68.1% led by decline in cost of raw material. Advertisement spend as a percentage of sales increased to 12.8% during the quarter (10.9% in Q1FY21/ 14.4% in Q2FY20) due to new product launched. Employee cost was also on higher side that grew 18.0% YoY. However, the Change in inventory helped in lifting the EBITDA margin to 31.8%, up by 541bps YoY / 224bps QoQ. Net Profit grew 12.3% YoY (+38.4% QoQ) due to higher sales and cost savings.

New products to drive future growth: In order to adapt to the changing trends of consumer behavior with particular focus on hygiene and health, the company continue to launch new products. In Q2FY21, the company launched three new products namely Colgate Visible White Instant, Colgate Vedshakti Mouth spray and the new Colgate Gentle line of toothbrushes (across price points that ranges between INR 30-130). Also, relaunched its flagship toothbrush, Colgate Zig Zag, with anti-bacterial bristle technology. This 'Colgate Gentle' toothpaste is designed with Dentists and is endorsed by the Indian Dental Association. The company is also aiming at acquiring market share which has been lost against ayurvedic and natural brands over the last few years. Besides, the management is focusing on increasing its online channels and also tied up with dentists over Colgate platform to counter the COVID-19 impact.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	40,686
NIFTY	11,930

SHARE HOLDING PATTERN (%)

Particulars	Sep-20	Jun-20	Mar-20
Promoters	51.0	51.0	51.0
FIIs	15.67	15.27	16.2
DIIIs	11.11	11.5	10.1
Others	22.22	22.23	22.7
Total	100	100	100

4.5%

Revenue CAGR between FY20 and FY22E

11.4%

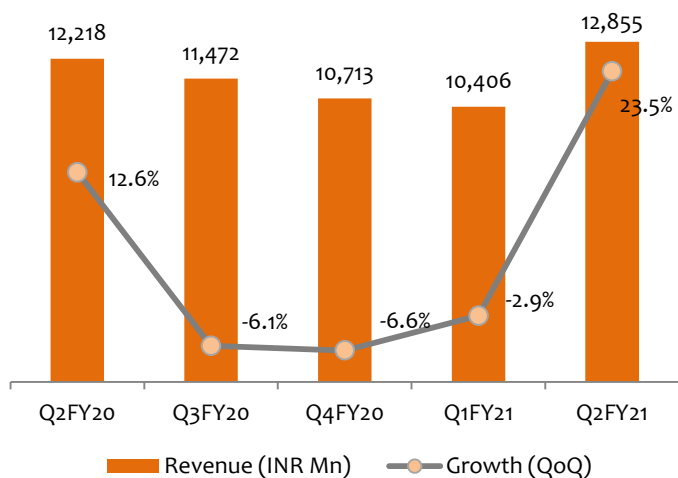
PAT CAGR between FY20 and FY22E

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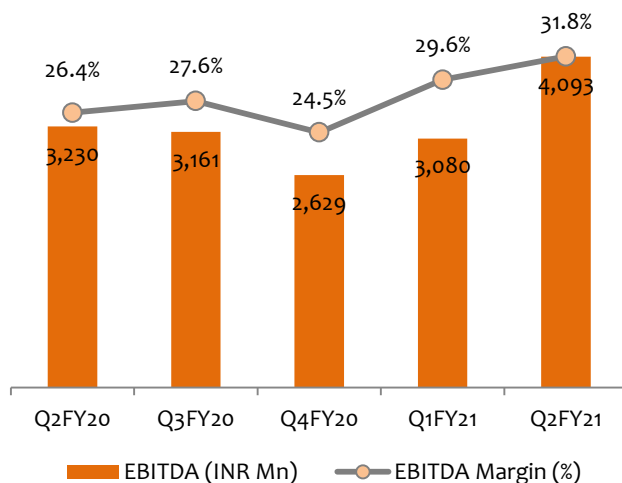
Valuation & view:

Q2FY21 result was characterized as recovery after slump in Q1 performance. The operations are streamlined, and supply chain are fully restored. Considering the essentiality of the product, the demand recovered quickly at primary and secondary level. 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. Besides, the company follows continuous innovation approach and launches new products periodically. The shares of Colgate are currently trading at 45.8x/41.4x on FY21E/FY22E EPS. In terms of margin improvement, we foresee significant upside driven by cost optimization measures and favorable raw material cost. Accordingly, we have revised our revenue/Operating profit/PAT estimates upwards by 1.0%/16.8%/16.9% in FY21E. **We continue to apply multiple of 43.5x on FY22E EPS of INR 37.3 (previous EPS 34.1) and arrive at a revised target price of INR 1,622 per share (previous TP: INR 1,507 per share), an upside potential of 10.7% from CMP. Accordingly, we reiterate an "ACCUMULATE" rating on the shares of Colgate Palmolive.**

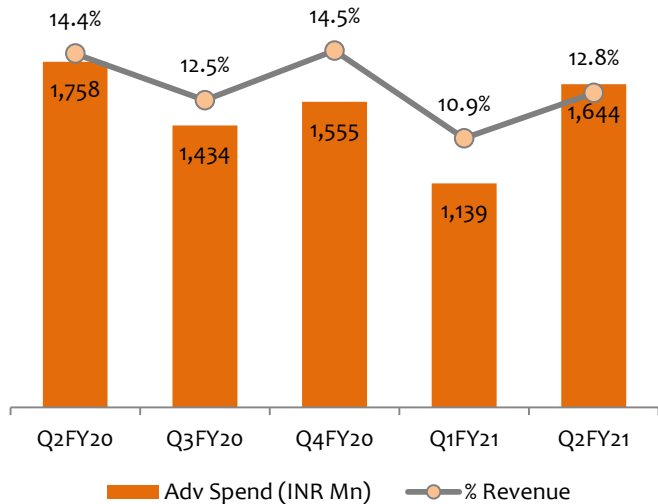
Led by higher penetration, Revenue improved in Q2FY21



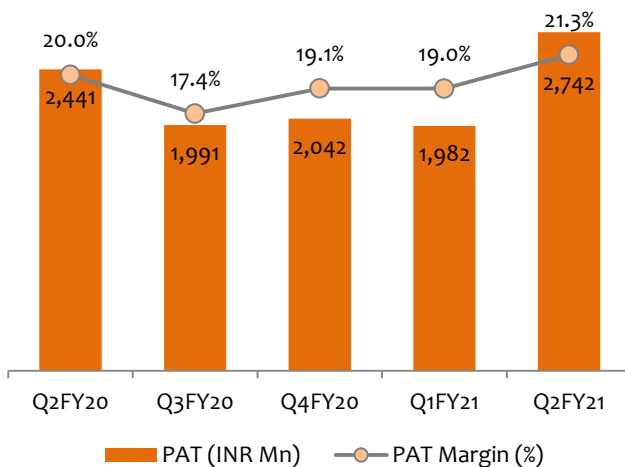
EBITDA margin showing signs of improvement (QoQ)



Advertisement spend reached pre-Covid level



NPM improved QoQ on lower D&A & employee expenses



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
Revenues	43,284	44,624	45,251	47,061	49,414
COGS	16,292	15,586	15,729	15,810	16,529
Gross profit	26,992	29,039	29,522	31,251	32,885
Employee cost	3,059	2,959	3,323	3,412	3,607
Other expenses	12,796	13,719	14,182	13,412	14,627
EBITDA	11,137	12,360	12,017	14,427	14,651
EBITDA Margin	25.7%	27.7%	26.6%	30.7%	29.7%
Depreciation & amortization	1,565	1,592	1,979	1,977	2,075
EBIT	9,572	10,769	10,038	12,450	12,576
Interest expense	0	25	96	87	78
Other income	375	377	492	496	503
PBT	9,830	11,425	10,434	12,860	13,000
Tax	3,097	3,670	2,269	2,829	2,860
PAT	6,734	7,756	8,165	10,031	10,139
Adj. PAT	6,850	7,450	8,165	10,031	10,139
EPS (INR)	24.76	28.52	30.02	36.88	37.28
Adj. EPS	25.19	27.39	30.02	36.88	37.28

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	11,501	12,362
Net Cash Flow from/(used in) Investing Activities	(2,073)	(957)	(187)	(1,523)	(1,875)
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	2,356	2,886
Opening Balance	1,986	3,054	3,780	3,978	6,334
Closing Balance Cash and Cash Equivalents	3,054	3,780	3,978	6,334	9,220

Source: Company, KRChoksey Research

Exhibit 3: Key Ratios

Key Ratio	FY18	FY19	FY20	FY21E	FY22E
EBITDA Margin (%)	25.7%	27.7%	26.6%	30.7%	29.7%
Tax rate (%)	31.5%	32.1%	21.7%	22.0%	22.0%
Net Profit Margin (%)	15.6%	17.4%	18.0%	21.3%	20.5%
RoE (%)	44.2%	53.6%	51.2%	54.6%	48.6%
RoCE (%)	65.2%	73.1%	66.1%	70.5%	62.6%
EPS (INR)	24.8	28.5	30.0	36.9	37.3

Source: Company, KRChoksey Research

Colgate Palmolive (India) Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY18	FY19	FY20	FY21E	FY22E
Non-current assets					
Property, plant and equipment	11,459	11,909	11,229	10,664	10,318
Capital work-in-progress	1,586	1,987	1,900	1,900	1,900
Investments	312	312	186	194	203
Loans	31	27	20	21	22
Other financial assets	231	143	177	184	193
Current tax assets (Net)	1,022	1,503	2,247	2,337	2,454
Other non-current assets	392	283	160	166	174
Total non-current assets	15,031	16,163	15,919	15,466	15,265
Current assets					
Inventories	2,267	2,486	2,969	3,088	3,242
Financial assets					
Trade receivables	2,010	2,098	1,326	1,379	1,448
Cash and cash equivalents	3,054	3,780	3,978	6,334	9,220
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	73	76
Other current assets	795	310	405	865	908
Total current assets	10,607	10,102	10,120	13,108	16,264
TOTAL ASSETS	25,639	26,265	26,040	28,574	31,529
EQUITY AND LIABILITIES					
Equity					
Equity share capital	272	272	272	272	272
Other equity	14,974	14,196	15,670	18,085	20,608
Equity attributable to the equity shareholders	15,246	14,468	15,942	18,357	20,880
Total equity	15,246	14,468	15,942	18,357	20,880
Liabilities					
Non-current liabilities					
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
Total non-current liabilities	565	1,286	1,395	1,476	1,569
Current liabilities					
Financial liabilities					
Lease liabilities	0	0	175	175	175
Trade payables	6,203	6,132	6,125	6,157	6,437
Other financial liabilities	1,582	2,198	255	257	268
Other current liabilities	966	1,034	1,034	1,040	1,087
Provisions	603	639	605	605	605
Current tax liabilities (Net)	474	508	508	508	508
Total current liabilities	9,828	10,511	8,703	8,741	9,080
Total liabilities	10,393	11,797	10,098	10,217	10,649
TOTAL EQUITY AND LIABILITIES	25,639	26,265	26,040	28,574	31,529

Source: Company, KRChoksey Research

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Colgate Palmolive (India) Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
23-Oct-20	1,465	1,622	ACCUMULATE	Buy	More than 15%
24-Sep-20	1,345	1,507	ACCUMULATE	Accumulate	5% – 15%
13-Aug-20	1,446	1,507	ACCUMULATE	Hold	0 – 5%
22-May-20	1,313	1,483	ACCUMULATE	Reduce	-5% – 0
31-Jan-20	1,329	1,513	ACCUMULATE	Sell	Less than – 5%

ANALYST CERTIFICATION:

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