

## Estimate change



## TP change



## Rating change



Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	387.7 / 5.4
52-Week Range (INR)	1641 / 1065
1, 6, 12 Rel. Per (%)	-3/-31/-11
12M Avg Val (INR M)	1185

## Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E
Sales	45.3	47.7	52.6
Sales Gr. (%)	1.4	5.4	10.3
EBITDA	12.0	14.2	15.3
EBITDA Mrg. (%)	26.6	29.8	29.0
Adj. PAT	8.2	9.3	10.2
Adj. EPS (INR)	30.0	34.3	37.5
EPS Gr. (%)	8.1	14.3	9.3
BV/Sh.(INR)	58.6	53.1	44.1

## Ratios

RoE (%)	53.7	61.4	77.1
RoCE (%)	52.2	61.7	77.4
Payout (%)	93.2	93.5	100.0

## Valuation

P/E (x)	47.5	41.5	38.0
P/BV (x)	24.3	26.8	32.3
EV/EBITDA (x)	31.9	26.8	25.0
Div. Yield (%)	2.0	2.3	2.6

## Shareholding pattern (%)

As On	Jun-20	Mar-20	Jun-19
Promoter	51.0	51.0	51.0
DII	11.5	10.2	10.5
FII	15.3	16.2	15.1
Others	22.2	22.7	23.4
FII Includes depository receipts			

**CMP: INR1,425 TP: INR1,720 (+21%)**
**Buy**

## Record high operating margin leads to beat on estimates

- Colgate (CLGT) reported a beat on all fronts relative to expectations, led by all-time high EBITDA margins.
- HUVR (the second largest oral care player) disclosed in its 2QFY21 results that it had achieved double-digit sales growth in oral care in the quarter. In view of this, CLGT's 5% top line growth and likely 4% volume growth in 2QFY21 seems disappointing, even as we await numbers from Dabur, the third largest player in the category.
- There was a hint of some incipient revival in market share in 4QFY20. Therefore, further loss of share to peers, if true, would be disappointing.
- We **retain Buy** on CLGT as (a) management's efforts over the last 2-3 years on direct distribution expansion, increased ad spends and new launches give hope for revival, (b) rural outlook is getting better and the company could be among the key beneficiaries with 40% rural sales contribution, and (c) its valuations are relatively inexpensive (38x FY22, ~15% discount to peer average) despite superior RoCE.

## Sales better than expected, significant beat on profitability

- Net sales grew 5.2% YoY to INR12.9b** (v/s est. INR12.3b) in 2QFY21 with domestic net sales growth of 7.1% YoY. EBITDA grew 26.7% YoY to INR4.1b (v/s est. INR3.4b). PBT increased 32.3% YoY to INR3.7b (v/s est. INR3b). Adj. PAT grew 12.3% YoY to INR2.7b (v/s est. INR2.3b).
- We believe domestic toothpaste volumes grew 4% YoY (v/s est. 3%).
- Gross margin expanded 340bp YoY to 68.1%.** Higher staff costs as % of sales (up 80bp YoY) was offset by lower other expenses (down 120bp YoY) and lower ad-spends (down 160bp YoY). Thus, **EBITDA margins expanded by 540bp YoY to highest-ever margins of 31.8%** (v/s est. 27.5%). Absolute ad spends were down 6.5% YoY during the quarter.
- 1HFY21 sales/EBITDA/PAT grew 0.8%/15.2%/14.3% YoY.
- Inventory and payables as of Sep'20 were up 55.6% YoY and 25.6% YoY, respectively, while receivables were down 39.3% YoY.
- CLGT has declared its first interim dividend of INR18/share (1HFY20: INR12).

## Highlights from management commentary

- All categories saw positive growth in 2QFY21 with toothpaste continuing its accelerated performance, driven by strong brand fundamentals and household penetration.
- The company's efforts to fulfill demand and ensure uninterrupted access led to agile and innovative approaches, especially in its supply chain and distribution efforts.
- CLGT's resilience and disciplined approach in managing all revenue and cost drivers, despite all the uncertainties and challenges around it, drove improvements in key financial metrics.

- Innovations and new launches during the quarter include: (a) *Colgate Visible White Instant*, (b) re-launch of *Colgate Zig Zag* toothbrushes, and (c) *Colgate Vedshakti Mouth spray*.

### Valuation and view

We **maintain Buy** on CLGT given that (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has best-of-breed balance sheet, (c) valuations are moderate at 38x FY22E EPS, close to its 10-year average, and (d) there is a spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,720 (target multiple of 40x Sep'22E EPS, close to 5-year average).

### Quarterly Performance

Y/E March	FY20				FY21				FY20	FY21E	FY21	(INR m)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	Var. (%)
<b>Toothpaste Volume Gr %</b>	<b>4.0</b>	<b>4.0</b>	<b>2.3</b>	<b>-8.0</b>	<b>0.0</b>	<b>4.0</b>	<b>4.5</b>	<b>15.0</b>	<b>0.6</b>	<b>5.9</b>	<b>3.0</b>	
<b>Net Sales (inclgd. OOI)</b>	<b>10,849</b>	<b>12,218</b>	<b>11,472</b>	<b>10,713</b>	<b>10,406</b>	<b>12,855</b>	<b>12,103</b>	<b>12,325</b>	<b>45,251</b>	<b>47,689</b>	<b>12,340</b>	4.2%
YoY change (%)	4.2	4.6	4.3	-7.1	-4.1	5.2	5.5	15.1	1.4	5.4	1.0	
<b>Gross Profit</b>	<b>7,145</b>	<b>7,910</b>	<b>7,541</b>	<b>6,926</b>	<b>6,883</b>	<b>8,759</b>	<b>8,113</b>	<b>8,129</b>	<b>29,522</b>	<b>31,883</b>	<b>8,138</b>	7.6%
Gross margin (%)	65.9	64.7	65.7	64.7	66.1	68.1	67.0	66.0	65.2	66.9	65.9	
<b>EBITDA</b>	<b>2,998</b>	<b>3,230</b>	<b>3,161</b>	<b>2,629</b>	<b>3,080</b>	<b>4,093</b>	<b>3,576</b>	<b>3,452</b>	<b>12,017</b>	<b>14,201</b>	<b>3,398</b>	20.5%
Margins (%)	27.6	26.4	27.6	24.5	29.6	31.8	29.6	28.0	26.6	29.8	27.5	
YoY growth (%)	6.5	-2.0	0.5	-15.3	2.7	26.7	13.2	31.3	-2.8	18.2	5.2	
Depreciation	499	504	515	462	454	461	520	584	1,979	2,019	489	
Interest	23	24	29	20	20	18	29	29	96	96	24	
Financial other Income	152	86	58	196	63	76	87	170	492	395	86	
<b>PBT</b>	<b>2,628</b>	<b>2,788</b>	<b>2,674</b>	<b>2,344</b>	<b>2,669</b>	<b>3,689</b>	<b>3,114</b>	<b>3,009</b>	<b>10,434</b>	<b>12,481</b>	<b>2,971</b>	24.2%
Tax	937	347	683	302	687	947	747	762	2,269	3,144	645	
Rate (%)	35.7	12.4	25.6	12.9	25.7	25.7	24.0	25.3	21.7	25.2	21.7	
<b>Adj PAT</b>	<b>1,691</b>	<b>2,441</b>	<b>1,991</b>	<b>2,042</b>	<b>1,982</b>	<b>2,742</b>	<b>2,366</b>	<b>2,247</b>	<b>8,165</b>	<b>9,337</b>	<b>2,326</b>	17.9%
YoY change (%)	1.3	24.3	3.6	2.1	17.2	12.3	18.9	10.0	8.1	14.4	-4.7	

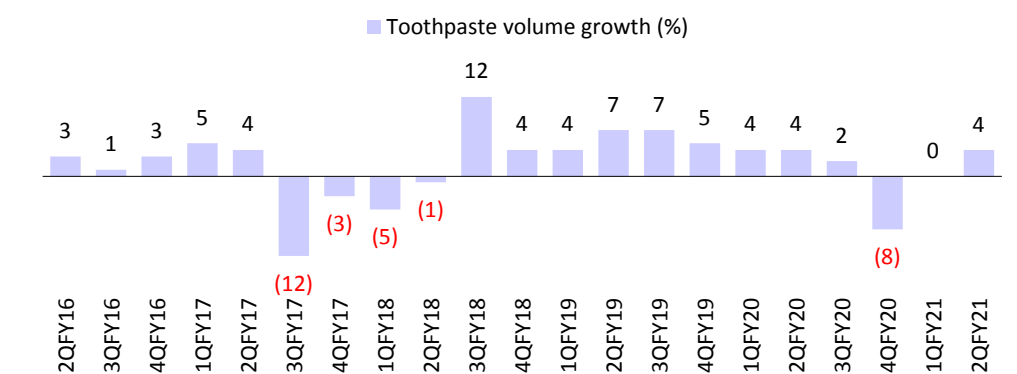
E: MOFSL Estimates

### Key Performance Indicators

Y/E March	FY20				FY21	
	1Q	2Q	3Q	4Q	1Q	2Q
<b>Realization Gr %</b>	<b>0.2</b>	<b>0.6</b>	<b>2.0</b>	<b>0.9</b>	<b>-4.1</b>	<b>1.2</b>
<b>2Y average growth %</b>						
Volumes	4.0	5.5	4.7	-1.5	2.0	4.0
Sales	5.3	6.1	5.4	-0.7	0.1	4.9
EBITDA	16.6	3.8	5.8	-7.2	4.6	12.4
PAT	11.9	17.4	8.1	1.9	9.2	18.3
<b>% sales</b>						
COGS	34.1	35.3	34.3	35.3	33.9	31.9
Others	38.2	38.3	38.2	40.1	36.5	36.3
Depreciation	4.6	4.1	4.5	4.3	4.4	3.6
<b>YoY change %</b>						
COGS	4.3	4.7	2.6	-7.4	-4.9	-4.9
Others	2.5	9.6	9.1	-1.1	-8.3	-0.3
Other income	65.6	-0.1	-26.7	64.4	-58.6	-12.3
EBIT	3.2	-5.9	-3.4	-20.1	5.1	33.3

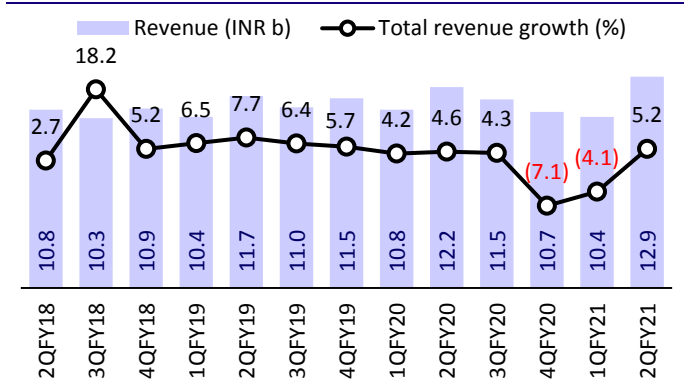
## Key Exhibits

**Exhibit 1: Toothpaste volumes grew 4% YoY in 2QFY21**



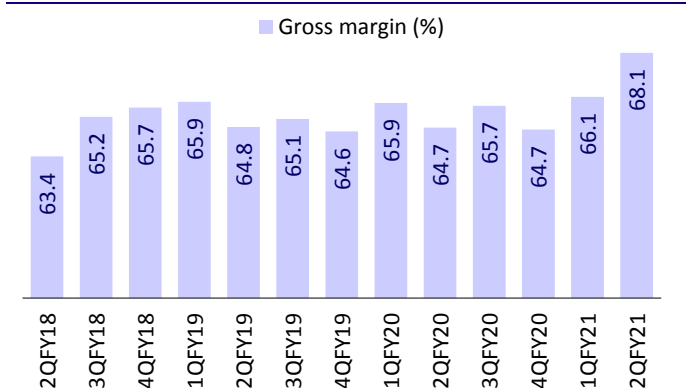
Source: Company, MOFSL

**Exhibit 2: Revenue grew 5.2% YoY to INR12.9b in 2QFY21**



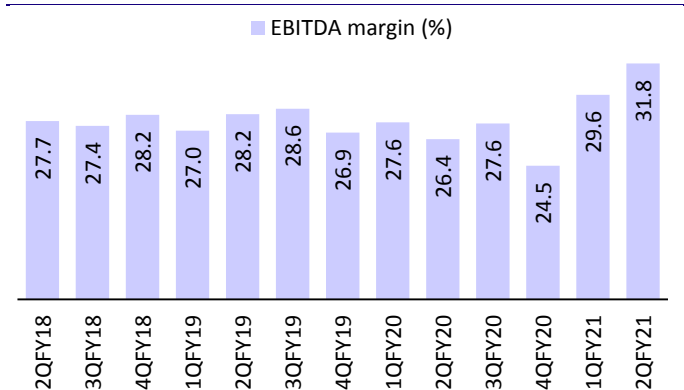
Source: Company, MOFSL

**Exhibit 3: Gross margin expanded by 340bp YoY**



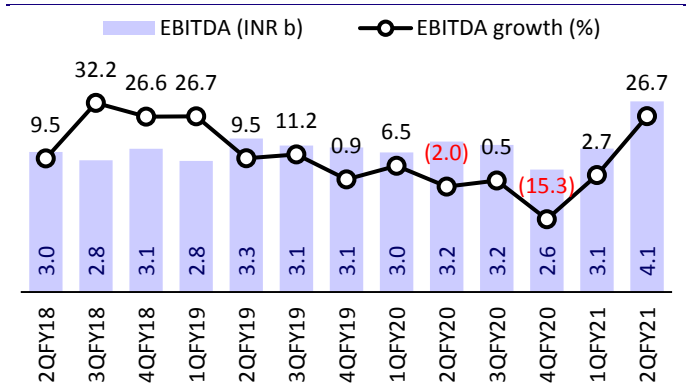
Source: Company, MOFSL

**Exhibit 4: EBITDA margin expanded by 540bp YoY to 31.8%...**



Source: Company, MOFSL

**Exhibit 5: ...thus, EBITDA grew 26.7% YoY to INR4.1b**



Source: Company, MOFSL

## Valuation and view

### What happened over the past decade from a business perspective?

- A combination of the sharp market share decline in recent years and increased penetration of the category itself has meant single-digit top line growth over the last 10 years. In recent years, premiumization also came off, affecting realization growth compared to the past.

- For a company with a modest base of INR20.4b sales in FY10, sales/EBITDA/PBT CAGR of 8-10% over the last 10 years is weak. PAT growth at 7% CAGR was even lower as the company's tax rate stood at 16.7% in FY10.
- Due to the market share decline in recent years, sales/EBITDA/PAT was even lower over the past 5 years at ~3%/~8%/~8% CAGR.

### What is our broad investment argument?

- The new CEO's stated primacy on volume growth and market share gain,
- Visible efforts on branding via sharp increase in ad-spends in recent quarters,
- Pickup in product development,
- Direct distribution expansion in recent years, which augurs well for recouping some of the market share lost over the past few years.

CLGT has strong moats in the form of brand, global expertise, distribution and concentrated category focus. Based on these factors, it has been able to make a comeback several times in the past few decades after losing market share for some time. Corporate tax cuts, which do not benefit peers materially has also boosted competitiveness further. Importantly, the company does not need any material capex until Dec'22.

### Valuations and view

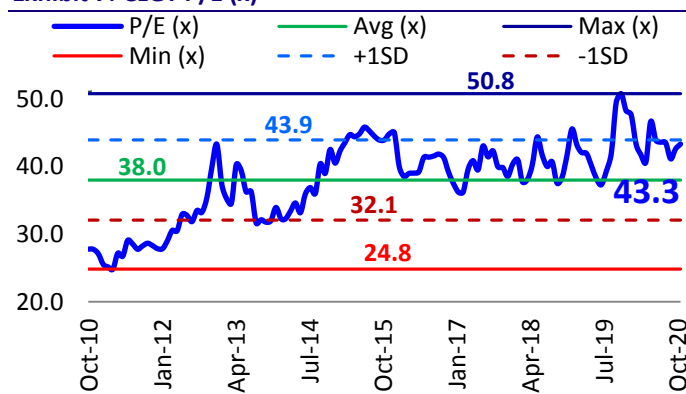
- We **maintain Buy** on CLGT given that (a) the nature of the category (98% of sales from oral care) offers less uncertainty currently, (b) it has best-of-breed balance sheet, (c) valuations are moderate at 38x FY22E EPS, close to its 10-year average, and (d) there is a spark of an incipient market share recovery under the new Managing Director. We arrive at a TP of INR1,720 (target multiple of 40x Sep'22E EPS, close to 5-year average).

**Exhibit 6: Changes to the model has led to 11.3%/3% EPS upgrade for FY21E/ FY22E**

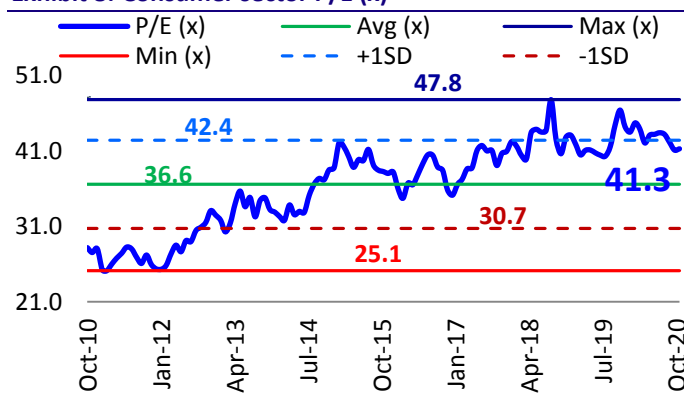
INR m	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Sales	47,162	52,854	47,689	52,613	1.1	(0.5)
EBITDA	12,923	14,732	14,201	15,255	9.9	3.5
PAT	8,388	9,909	9,336	10,205	11.3	3.0

Source: Company, MOFSL

**Exhibit 7: CLGT P/E (x)**



**Exhibit 8: Consumer sector P/E (x)**



## Financials and Valuations

Income Statement						(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>38,682</b>	<b>39,818</b>	<b>41,880</b>	<b>44,624</b>	<b>45,251</b>	<b>47,689</b>	<b>52,613</b>
Change (%)	-3.0	2.9	5.2	6.6	1.4	5.4	10.3
COGS	14,763	14,763	14,887	15,586	15,729	15,806	17,446
<b>Gross Profit</b>	<b>23,919</b>	<b>25,055</b>	<b>26,992</b>	<b>29,039</b>	<b>29,522</b>	<b>31,883</b>	<b>35,166</b>
Gross Margin (%)	61.8	62.9	64.5	65.1	65.2	66.9	66.8
Operating expenses	14,534	15,619	15,855	16,678	17,505	17,682	19,912
<b>EBITDA</b>	<b>9,385</b>	<b>9,435</b>	<b>11,137</b>	<b>12,361</b>	<b>12,017</b>	<b>14,201</b>	<b>15,255</b>
Change (%)	13.2	0.5	18.0	11.0	-2.8	18.2	7.4
Margin (%)	24.3	23.7	26.6	27.7	26.6	29.8	29.0
Depreciation	1,114	1,332	1,565	1,592	1,979	2,019	2,013
Int. and Fin. Charges	0	0	0	25	96	96	100
Financial Other Income	395	411	375	377	492	395	501
<b>Profit before Taxes</b>	<b>8,666</b>	<b>8,514</b>	<b>9,947</b>	<b>11,120</b>	<b>10,434</b>	<b>12,481</b>	<b>13,643</b>
Change (%)	11.1	-1.8	16.8	11.8	-6.2	19.6	9.3
Margin (%)	22.4	21.4	23.8	24.9	23.1	26.2	25.9
Tax	2,541	2,740	3,022	3,566	2,475	3,144	3,437
Tax Rate (%)	29.3	32.2	31.1	32.1	21.7	25.2	25.2
<b>Adjusted PAT</b>	<b>6,125</b>	<b>5,774</b>	<b>6,850</b>	<b>7,555</b>	<b>8,165</b>	<b>9,336</b>	<b>10,205</b>
Change (%)	9.6	-5.7	18.6	10.3	8.1	14.3	9.3
Margin (%)	15.8	14.5	16.4	16.9	18.0	19.6	19.4
Non-rec. (Exp)/Income	-313	0	-117	201	0	0	0
<b>Reported PAT</b>	<b>5,812</b>	<b>5,774</b>	<b>6,734</b>	<b>7,756</b>	<b>8,165</b>	<b>9,336</b>	<b>10,205</b>

Balance Sheet						(INR m)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	272	272	272	272	272	272	272
Reserves	10,038	12,466	14,974	14,196	15,670	14,181	11,732
<b>Net Worth</b>	<b>10,310</b>	<b>12,738</b>	<b>15,246</b>	<b>14,468</b>	<b>15,942</b>	<b>14,453</b>	<b>12,004</b>
Loans	0	0	0	777	0	0	0
Deferred Liability	97	275	355	309	50	50	50
<b>Capital Employed</b>	<b>10,407</b>	<b>13,013</b>	<b>15,601</b>	<b>15,553</b>	<b>15,992</b>	<b>14,504</b>	<b>12,055</b>
Gross Block	14,866	17,188	19,077	21,077	22,182	23,182	24,182
Less: Accum. Depn.	-4,785	-6,107	-7,617	-9,169	-10,953	-12,972	-14,985
<b>Net Fixed Assets</b>	<b>10,081</b>	<b>11,081</b>	<b>11,459</b>	<b>11,909</b>	<b>11,229</b>	<b>10,210</b>	<b>9,197</b>
Capital WIP	784	1,666	1,586	1,987	1,900	1,900	1,900
Investments	312	312	312	312	186	186	186
<b>Curr. Assets, L&amp;A</b>	<b>8,852</b>	<b>10,048</b>	<b>12,282</b>	<b>12,058</b>	<b>12,725</b>	<b>14,769</b>	<b>14,272</b>
Inventory	2,915	2,926	2,267	2,486	2,969	2,546	2,560
Account Receivables	1,015	1,299	2,010	2,098	1,326	2,072	2,286
Cash & Bank	2,887	2,943	4,562	3,994	4,213	7,263	6,491
Others	2,035	2,880	3,443	3,481	4,217	2,887	2,935
<b>Curr. Liab. and Prov.</b>	<b>9,622</b>	<b>10,094</b>	<b>10,037</b>	<b>10,712</b>	<b>10,048</b>	<b>12,561</b>	<b>13,501</b>
Account Payables	5,519	5,975	6,203	6,132	6,125	6,470	7,233
Other Liabilities	3,438	3,356	3,040	3,757	2,830	4,943	5,063
Provisions	664	763	794	823	1,093	1,148	1,205
<b>Net Current Assets</b>	<b>-770</b>	<b>-46</b>	<b>2,245</b>	<b>1,346</b>	<b>2,677</b>	<b>2,207</b>	<b>771</b>
<b>Application of Funds</b>	<b>10,407</b>	<b>13,013</b>	<b>15,601</b>	<b>15,553</b>	<b>15,992</b>	<b>14,504</b>	<b>12,055</b>

E: MOFSL Estimates

## Financials and Valuations

### Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>							
<b>EPS</b>	<b>22.5</b>	<b>21.2</b>	<b>25.2</b>	<b>27.8</b>	<b>30.0</b>	<b>34.3</b>	<b>37.5</b>
Cash EPS	26.6	26.1	30.9	33.6	37.3	41.7	44.9
BV/Share	37.9	46.8	56.1	53.2	58.6	53.1	44.1
DPS	11.0	11.0	24.0	23.0	28.0	32.1	37.5
Payout %	48.8	51.7	95.3	82.8	93.2	93.5	100.0
<b>Valuation (x)</b>							
P/E	63.3	67.1	56.6	51.3	47.5	41.5	38.0
Cash P/E	53.5	54.5	46.1	42.4	38.2	34.1	31.7
EV/Sales	9.9	9.7	9.1	8.6	8.5	8.0	7.2
EV/EBITDA	41.0	40.7	34.4	31.1	31.9	26.8	25.0
P/BV	37.6	30.4	25.4	26.8	24.3	26.8	32.3
Dividend Yield (%)	0.8	0.8	1.7	1.6	2.0	2.3	2.6
<b>Return Ratios (%)</b>							
RoE	68.0	50.1	49.0	50.9	53.7	61.4	77.1
RoCE	67.5	49.3	47.9	48.6	52.2	61.7	77.4
RoIC	119.0	75.7	76.5	79.5	82.9	122.7	229.5
<b>Working Capital Ratios</b>							
Debtor (Days)	9	11	17	17	11	16	16
Asset Turnover (x)	4.2	3.6	3.1	3.4	3.3	3.8	5.3
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	0.0	0.0

### Cash Flow Statement

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
OP/(loss) before Tax	8,666	8,514	9,947	11,121	10,434	12,481	13,643
Depreciation	1,114	1,332	1,565	1,592	1,979	2,019	2,013
Int./Div. Received	-264	34	81	85	-95	-395	-501
Interest Paid	-261	-297	-290	-317	-171	96	100
Direct Taxes Paid	-2,524	-3,014	-3,474	-4,144	-3,213	-3,144	-3,437
(Incr)/Decr in WC	156	311	-889	1,494	-35	3,520	663
<b>CF from Operations</b>	<b>6,887</b>	<b>6,880</b>	<b>6,940</b>	<b>9,830</b>	<b>8,899</b>	<b>14,577</b>	<b>12,481</b>
(Incr)/Decr in FA	-2,713	-3,212	-2,087	-1,042	-604	-1,000	-1,000
<b>Free Cash Flow</b>	<b>4,175</b>	<b>3,668</b>	<b>4,853</b>	<b>8,788</b>	<b>8,295</b>	<b>13,577</b>	<b>11,481</b>
(Pur)/Sale of Investments	70	0	0	0	133	0	0
Others	12	-205	564	-1,209	305	1,401	1,499
<b>CF from Invest.</b>	<b>-2,631</b>	<b>-3,418</b>	<b>-1,523</b>	<b>-2,251</b>	<b>-166</b>	<b>401</b>	<b>499</b>
Change in Equity	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	0	0	-121	0	0	0
Dividend Paid	-2,987	-2,717	-2,986	-6,462	-7,315	-10,824	-12,654
Others	-928	-689	-812	-1,564	-1,199	-1,103	-1,099
<b>CF from Fin. Activity</b>	<b>-3,915</b>	<b>-3,406</b>	<b>-3,798</b>	<b>-8,147</b>	<b>-8,514</b>	<b>-11,927</b>	<b>-13,753</b>
<b>Incr/Decr of Cash</b>	<b>342</b>	<b>56</b>	<b>1,619</b>	<b>-568</b>	<b>219</b>	<b>3,051</b>	<b>-773</b>
Add: Opening Balance	2,545	2,887	2,943	4,562	3,994	4,213	7,264
<b>Closing Balance</b>	<b>2,887</b>	<b>2,943</b>	<b>4,562</b>	<b>3,994</b>	<b>4,213</b>	<b>7,264</b>	<b>6,490</b>

E: MOFSL Estimates



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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