

## Accumulate

### Strong operational performance continues; Upgrade to Accumulate

- Colgate's Q3FY21 revenue and EBITDA were in line with our expectation but APAT was marginally ahead. Domestic business posted 10.1% sales growth during Q3. All categories witnessed positive growth driven by household penetration.
- A 400bps expansion in GM was a key positive. With better product mix, we expect gross margins to remain healthy. A&P spends increased significantly by 360bps, to support innovations. We believe that the A&P spends would remain elevated to support volume growth and gain market share.
- 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 FY21/22/23E EPS estimates to Rs 36.1/36.9/40.9. We value the stock at 43x FY23 EPS (In line with peers) to arrive at a TP of Rs 1,760. Upgrade to Accumulate.

### Revenue and EBITDA in line with estimates

Net revenues increased 7.4% YoY to Rs 12.3bn. Both toothbrush and toothpaste recorded positive growth during the quarter. EBITDA increased by 17.3% YoY to Rs 3.7bn. A 360/30bps increase in Ad spends/employee expense was completely offset by 400/240bps decline in RM/other expense respectively. Consequently, EBITDA margin expanded 250bps to 30.1%. APAT increased 24.7% to Rs 2.5bn.

### Step-up in A&SP spends to support innovations

Colgate lost market share marginally in 2019. Continuous gain in market share by Dabur remains a key challenge for Colgate. During December'20, Colgate reported mid-single digit volume growth in toothpaste category. We view this performance positively considering sequential improvement. A&P spends increased by 360bps during Q3FY21 as the company has invested in brand developments. The company launched Asia's first diabetics toothpaste and expanded Naturals toothbrush portfolio -.Super Flexi Salt and Zig Zag Turmeric. Further, the company broadened Vedshakti platform with launch of Vedshakti oil pulling at Rs 350 (200ml) and Vedshakti mouth protection spray. We believe that the company would benefit from strong brand recognition and robust supply chain, which is now back on track.

### Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	12,319	11,472	7.4	12,855	(4.2)
Total Expense	8,613	8,311	3.6	8,762	(1.7)
EBITDA	3,706	3,161	17.3	4,093	(9.5)
Depreciation	456	515	(11.5)	461	(1.2)
EBIT	3,251	2,646	22.9	3,632	(10.5)
Other Income	99	58	70.3	76	30.5
Interest	19	29	(35.3)	18	3.8
EBT	3,330	2,674	24.5	3,689	(9.7)
Tax	847	683	23.9	947	(10.6)
RPAT	2,484	1,991	24.7	2,742	(9.4)
APAT	2,484	1,991	24.7	2,742	(9.4)
			(bps)		(bps)
Gross Margin (%)	69.8	65.7	403	68.1	163
EBITDA Margin (%)	30.1	27.6	253	31.8	(176)
NPM (%)	20.2	17.4	280	21.3	(117)
Tax Rate (%)	25.4	25.6	(12)	25.7	(25)
EBIT Margin (%)	26.4	23.1	332	28.3	(187)

CMP	Rs 1,564
Target / Upside	Rs 1,760 / 13%
NIFTY	13,818

### Scrip Details

Equity / FV	Rs 272mn / Rs 1
Market Cap	Rs 425bn
	USD 6bn
52-week High/Low	Rs 1,676/ 1,065
Avg. Volume (no)	754,249
Bloom Code	CLGT IN

### Price Performance

	1M	3M	12M
Absolute (%)	(1)	2	6
Rel to NIFTY (%)	0	(16)	(9)

### Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	51.0	51.0	51.0
MF/Banks/FIs	15.0	15.0	16.6
FIIs	15.3	15.3	10.4
Public / Others	18.7	18.7	22.0

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	43.4	42.3	38.2
EV/EBITDA	29.2	28.2	25.5
ROE (%)	61.9	64.3	72.2
RoACE (%)	58.6	60.8	68.1

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	47,819	51,521	55,295
EBITDA	14,442	14,876	16,427
PAT	9,809	10,049	11,130
EPS (Rs.)	36.1	36.9	40.9

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**Exhibit 1: Actual V/s DART Estimates**

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	12,319	12,160	1.3	
EBITDA	3,706	3,569	3.8	
EBITDA margin %	30.1	29.4	70	Variation due to lower than estimated RM costs and other expenses
APAT	2,484	2,355	5.4	

Source: Company, DART

**Exhibit 2: Change in estimates**

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	47,819	46,889	2.0	51,521	50,519	2.0	55,295	54,219	2.0
EBITDA	14,442	14,053	2.8	14,876	14,470	2.8	16,427	15,983	2.8
EBITDA mgn (%)	30.2	30.0	20 bps	28.9	28.6	20 bps	29.7	29.5	20 bps
Adj PAT	9,809	9,512	3.1	10,049	9,740	3.2	11,130	10,791	3.1
EPS (Rs)	36.1	35.0	3.1	36.9	35.8	3.2	40.9	39.7	3.1

Source: Company, DART

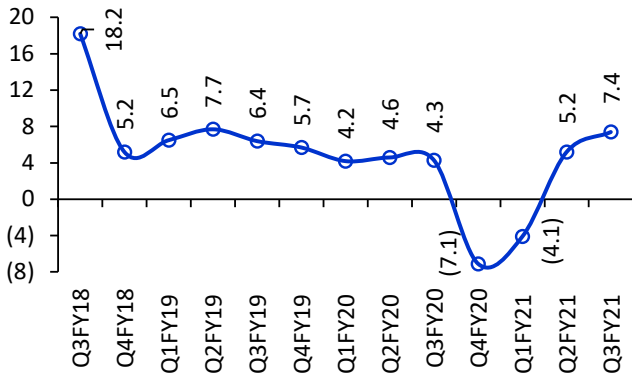
We have upward revised our revenue estimates for FY21/22/23E to factor in improvement in volume performance. We have marginally increased our margin estimates to factor in better operational efficiencies. In line with the EBITDA growth, we have upward revised our EPS estimate.

**Exhibit 3: 9MFY21 Performance**

Particulars (Rs.mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
<b>Net Sales</b>	<b>12,319</b>	<b>11,472</b>	<b>7.4</b>	<b>12,855</b>	<b>(4.2)</b>	<b>35,580</b>	<b>34,538</b>	<b>3.0</b>
<b>Total Expenditure</b>	<b>8,613</b>	<b>8,311</b>	<b>3.6</b>	<b>8,762</b>	<b>(1.7)</b>	<b>24,702</b>	<b>25,150</b>	<b>(1.8)</b>
RM Cost	3,725	3,931	(5.2)	4,096	(9.1)	11,345	11,943	(5.0)
Employee Exp	869	770	12.8	966	(10.1)	2,742	2,424	13.1
Ad & Sales Prom Exp	1,983	1,434	38.3	1,644	20.6	4,766	4,705	1.3
Other Exp	2,036	2,176	(6.4)	2,056	(0.9)	5,848	6,078	(3.8)
<b>PBIDT (Excl OI)</b>	<b>3,706</b>	<b>3,161</b>	<b>17.3</b>	<b>4,093</b>	<b>(9.5)</b>	<b>10,879</b>	<b>9,388</b>	<b>15.9</b>
Other Income	99	58	70.3	76	30.5	237	296	(19.8)
Depreciation	456	515	(11.5)	461	(1.2)	1371	1518	(9.7)
<b>EBIT</b>	<b>3,349</b>	<b>2,704</b>	<b>23.9</b>	<b>3,708</b>	<b>(9.7)</b>	<b>9,746</b>	<b>8,167</b>	<b>19.3</b>
Interest	19	29	(35.3)	18	3.8	57	76	NM
<b>PBT</b>	<b>3,330</b>	<b>2,674</b>	<b>24.5</b>	<b>3,689</b>	<b>(9.7)</b>	<b>9,689</b>	<b>8,090</b>	<b>19.8</b>
Tax	847	683	23.9	947	(10.6)	2481	1967	26.2
<b>Profit After Tax</b>	<b>2,484</b>	<b>1,991</b>	<b>24.7</b>	<b>2,742</b>	<b>(9.4)</b>	<b>7,207</b>	<b>6,123</b>	<b>17.7</b>
<b>Net Profit (adj)</b>	<b>2,484</b>	<b>1,991</b>	<b>24.7</b>	<b>2,742</b>	<b>(9.4)</b>	<b>7,207</b>	<b>6,123</b>	<b>17.7</b>
EPS (based on reported PAT)	9.1	7.3	24.7	10.1	(9.4)	26.5	22.5	17.7
			<b>bps</b>		<b>bps</b>			<b>bps</b>
Gross Profit (%)	69.8	65.7	400	68.1	160	68.1	65.4	269
Employee Exp (%)	7.1	6.7	30	7.5	(50)	7.7	7.0	69
Ad spends (%)	16.1	12.5	360	12.8	330	13.4	13.6	(23)
Other exp (%)	16.5	19.0	(240)	16.0	50	16.4	17.6	(116)
EBITDA (%)	30.1	27.6	250	31.8	(180)	30.6	27.2	339
PAT (%)	20.2	17.4	280	21.3	(120)	20.3	17.7	253

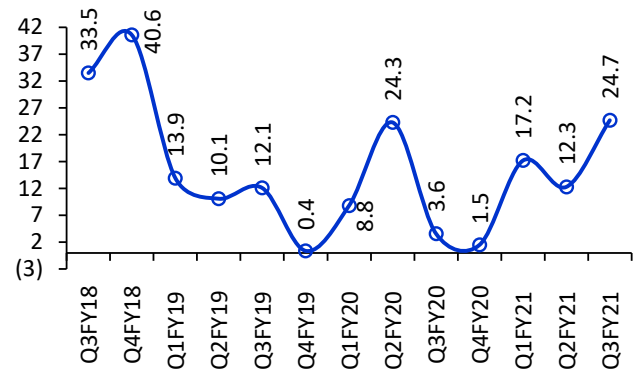
Source: Company, DART

**Exhibit 4: Sales Growth (%)**



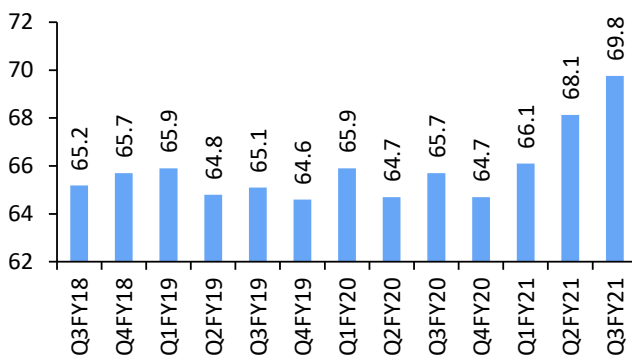
Source: Company, DART

**Exhibit 5: Net Profit Growth (%)**



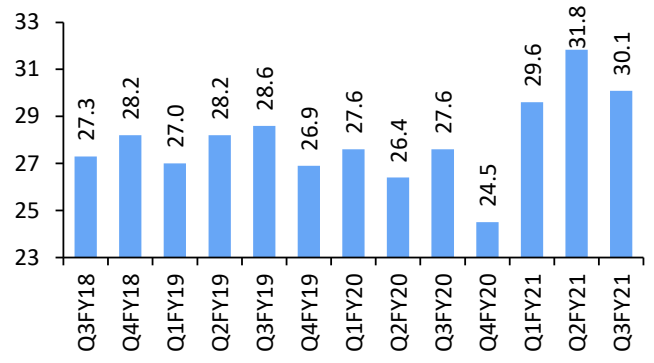
Source: Company, DART

**Exhibit 6: Gross Margin (%) Trend**



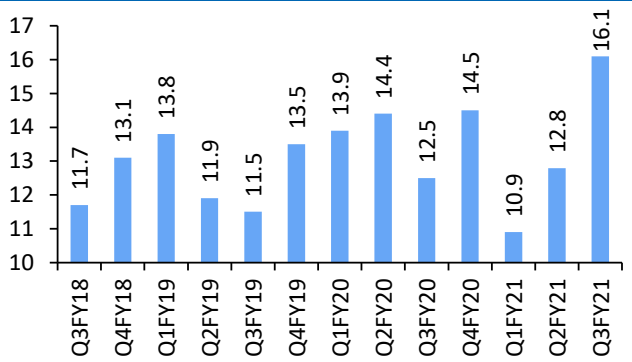
Source: Company, DART

**Exhibit 7: EBITDA Margins Trend (%)**



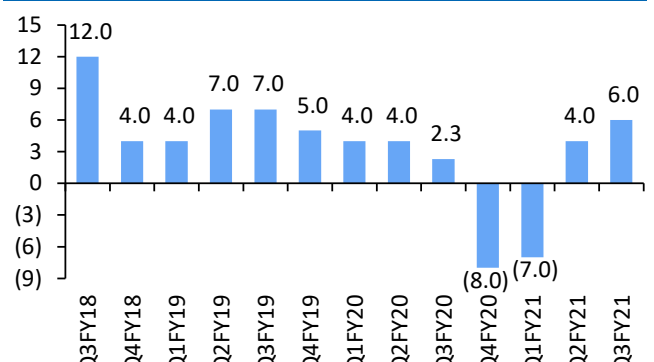
Source: Company, DART

**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
<b>Revenue</b>	<b>45,251</b>	<b>47,819</b>	<b>51,521</b>	<b>55,295</b>
<b>Total Expense</b>	<b>33,234</b>	<b>33,377</b>	<b>36,645</b>	<b>38,868</b>
COGS	15,729	15,665	17,032	18,114
Employees Cost	3,323	3,416	3,577	3,729
Other expenses	14,182	14,296	16,036	17,025
<b>EBIDTA</b>	<b>12,017</b>	<b>14,442</b>	<b>14,876</b>	<b>16,427</b>
Depreciation	1,979	2,132	2,296	2,460
<b>EBIT</b>	<b>10,038</b>	<b>12,310</b>	<b>12,580</b>	<b>13,968</b>
Interest	96	100	100	100
Other Income	492	654	699	729
Exc. / E.O. items	0	0	0	0
<b>EBT</b>	<b>10,434</b>	<b>12,864</b>	<b>13,179</b>	<b>14,596</b>
Tax	2,269	3,055	3,130	3,466
RPAT	8,165	9,809	10,049	11,130
Minority Interest	0	0	0	0
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>8,165</b>	<b>9,809</b>	<b>10,049</b>	<b>11,130</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	15,670	15,468	15,261	15,031
<b>Net Worth</b>	<b>15,942</b>	<b>15,740</b>	<b>15,533</b>	<b>15,303</b>
Total Debt	1,015	1,015	1,015	1,015
Net Deferred Tax Liability	50	50	50	50
<b>Total Capital Employed</b>	<b>17,007</b>	<b>16,804</b>	<b>16,597</b>	<b>16,368</b>

**Applications of Funds**

Net Block	<b>11,223</b>	<b>10,591</b>	<b>9,795</b>	<b>8,836</b>
CWIP	1,900	1,900	1,900	1,900
Investments	186	186	186	186
<b>Current Assets, Loans &amp; Advances</b>	<b>13,174</b>	<b>14,346</b>	<b>15,781</b>	<b>17,087</b>
Inventories	2,960	2,877	3,100	3,327
Receivables	1,326	1,809	1,949	2,092
Cash and Bank Balances	4,200	5,464	6,362	7,121
Loans and Advances	4,688	4,196	4,370	4,546
Other Current Assets	0	0	0	0
<b>Less: Current Liabilities &amp; Provisions</b>	<b>9,476</b>	<b>10,219</b>	<b>11,065</b>	<b>11,641</b>
Payables	6,110	6,457	6,957	7,466
Other Current Liabilities	3,366	3,762	4,109	4,174
<i>sub total</i>				
Net Current Assets	3,697	4,127	4,716	5,447
<b>Total Assets</b>	<b>17,007</b>	<b>16,804</b>	<b>16,597</b>	<b>16,368</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	65.2	67.2	66.9	67.2
EBIDTA Margin	26.6	30.2	28.9	29.7
EBIT Margin	22.2	25.7	24.4	25.3
Tax rate	21.7	23.7	23.7	23.7
Net Profit Margin	18.0	20.5	19.5	20.1
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	34.8	32.8	33.1	32.8
Employee	7.3	7.1	6.9	6.7
Other	31.3	29.9	31.1	30.8
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	104.3	123.1	125.8	139.7
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	33	36
FA T/O	4.0	4.5	5.3	6.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	30.0	36.1	36.9	40.9
CEPS (Rs)	37.3	43.9	45.4	50.0
DPS (Rs)	26.9	30.0	30.8	34.1
Dividend Payout (%)	89.6	83.3	83.3	83.3
BVPS (Rs)	58.6	57.9	57.1	56.3
RoANW (%)	53.7	61.9	64.3	72.2
RoACE (%)	50.7	58.6	60.8	68.1
RoAIC (%)	82.2	102.0	116.6	143.4
<b>(E) Valuation Ratios</b>				
CMP (Rs)	1564	1564	1564	1564
P/E	52.1	43.4	42.3	38.2
Mcap (Rs Mn)	425,449	425,449	425,449	425,449
Mcap/ Sales	9.4	8.9	8.3	7.7
EV	422,264	421,000	420,101	419,342
EV/Sales	9.3	8.8	8.2	7.6
EV/EBITDA	35.1	29.2	28.2	25.5
P/BV	26.7	27.0	27.4	27.8
Dividend Yield (%)	1.7	1.9	2.0	2.2
<b>(F) Growth Rate (%)</b>				
Revenue	1.4	5.7	7.7	7.3
EBITDA	(2.8)	20.2	3.0	10.4
EBIT	(6.8)	22.6	2.2	11.0
PBT	(8.7)	23.3	2.4	10.8
APAT	9.6	20.1	2.4	10.8
EPS	9.6	20.1	2.4	10.8

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	8,150	12,875	12,755	13,718
CFI	(1,082)	(1,500)	(1,500)	(1,500)
CFF	(6,862)	(10,111)	(10,356)	(11,459)
FCFF	6,943	11,375	11,255	12,218
Opening Cash	3,994	4,200	5,464	6,362
Closing Cash	4,200	5,464	6,362	7,121

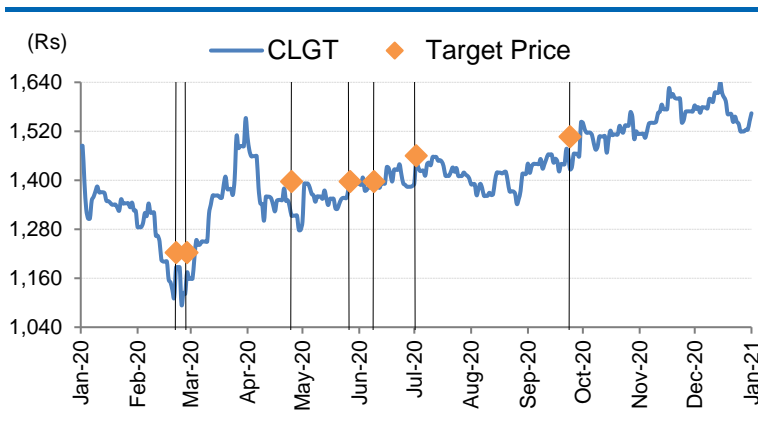
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
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
Oct-20	Reduce	1,507	1,427

\*Price as on recommendation date

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