



## Colgate Palmolive (India) Dental hygiene focus helps Q3 glow

Consumer Goods

Sharekhan code: COLPAL

Result Update

## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

## What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

## Reco/View

	Change
Reco: Buy	↔
CMP: Rs. 1,564	
Price Target: Rs. 1,850	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

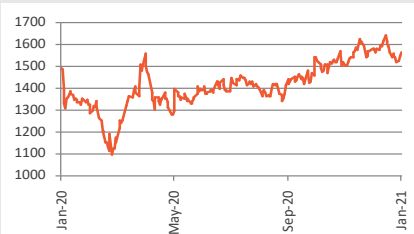
## Company details

Market cap:	Rs. 42,539 cr
52-week high/low:	Rs. 1630/1065
NSE volume: (No of shares)	7.5 lakh
BSE code:	500830
NSE code:	COLPAL
Free float: (No of shares)	13.3 cr

## Shareholding (%)

Promoters	51.0
FII	16.6
DII	10.2
Others	22.2

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	1.4	12.4	5.0
Relative to Sensex	-2.1	-15.6	-12.6	-10.2

Sharekhan Research, Bloomberg

## Summary

- Q3FY2021 net revenue grew by 7.4% (as against a 5.2% growth in Q2FY2021) as domestic business grew by 10% (led by a ~7% volume growth).
- Gross margins improved by 403 bps to 69.8%. Despite higher advertisement spends, OPM expanded by 253bps to 30.1%.
- Colgate Palmolive (India) Ltd is striving to achieve better growth over FY2020-25 by creating awareness on dental habits, winning consumer minds and launching consumer-centric products with a stable go-through market strategy.
- We have fine-tuned our earnings estimates for FY21E/22E/23E to factor in better-than-expected OPM. We maintain a Buy on the stock with price target of Rs. 1,850.

Colgate-Palmolive India (Colpal) delivered steady operating performance in Q3FY2021 with revenue growth of 7.4%. OPM grew by 253bps to 30.1%, while PAT rose by 25%. Domestic business grew by 10% led by ~7% volume growth. Toothpastes (contributing ~85% of total revenue) clocked a volume growth of 5-6%, while toothbrush sales too grew strongly. Consumers are realising the need for having white clean teeth and maintaining overall oral hygiene (especially in urban markets). This has created a niche space for 'whitening' category in which COLPAL has introduced brands such as Colgate Visible White Instant and Visible White Sparkling Mint. Another product the company is prototyping is its Colgate Diabetics launched for consumers who are having diabetes. Under this condition, patients normally face severe oral issues such as high risk of gum disease with bleeding and plaque severity. The company broadened the Colgate Vedshakti franchise from just toothpaste to newly introduced categories like Mouth spray and Oil Pulling. Improving dental habits (both in urban and rural markets), strong traction to naturals and sensitive toothpaste and other new launches will be some of the key revenue drivers in the near term. With gross margin expected to remain higher, we expect OPM to remain high in the coming quarters (also supported by efficiencies). The company paid interim dividend of Rs14 per share.

## Key positives

- Volumes grew by ~7% as compared to mid-single digit volume growth in Q2
- OPM expanded by 253bps to 31.8% driven by higher gross margins

## Key negatives

- Exports business (~5% of revenues) decreased by double digits affecting overall revenue growth

## Our Call

**View: Retain Buy with a price target of Rs. 1,850:** We have fine-tuned our earnings estimates for FY2021/22/23 to factor in better-than-expected Q3FY21 performance along with strong expansion in OPM. Top brand presence with global recognition, strong cash flows and sturdy balance sheet (average dividend payout stood at ~91% over FY2018-20) makes it a good pick in the FMCG space. The stock is current available at 39.3x its FY2023E EPS, which is at a discount to some of the large multinationals. Any improvement in volume growth trajectory and sustained market share gain in core category will reduce valuation gap among close peers. We maintain a Buy recommendation on the stock with the revised price target of Rs. 1,850.

## Key Risks

Any incremental competition from key players in core toothpaste category would continue to put pressure on market share in the near to medium term.

## Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	4,462	4,525	4,695	5,100	5,518
OPM (%)	27.7	26.6	28.6	28.8	29.2
Adjusted PAT	751	816	863	954	1,048
% YoY growth	10.3	8.7	5.7	10.5	9.9
Adjusted EPS (Rs.)	27.6	30.0	31.7	35.1	38.5
P/E (x)	51.6	47.5	44.9	40.6	37.0
P/B (x)	26.8	24.3	25.2	24.6	22.7
EV/EBIDTA (x)	31.1	32.0	28.5	25.9	23.6
RoNW (%)	50.6	53.7	55.1	61.2	63.8
RoCE (%)	71.5	64.6	69.8	77.0	80.0

Source: Company; Sharekhan estimates

**Revenue up 7.4%; efficiencies drive margins:** Revenue grew by 7.4% y-o-y to Rs. 1,231.9 crore in Q3FY2021, slightly better than our expectation of Rs. 1,202.7 crore driven by positive growth across categories. Domestic revenue grew by 10.1% y-o-y (better than a 7.1% growth achieved in Q2FY2021). The toothpaste business registered mid single-digit volume decline whereas toothbrushes saw strong improvement. Overall volumes grew by 7%. Gross margins expanded by 403 bps to 69.8% due to an improved mix. The company continue to invest in our brands with higher advertising spends to support our innovations. Advertisement spends percentage to sales stood higher by 360bps to 16.1%. Despite higher ad-spends the OPM expanded by 253 bps to 30.1%, better than our as well as the street's expectation. Operating profit grew by 17.3% y-o-y to Rs. 370.6 crore. Lower interest and depreciation charges resulted in profit after tax (PAT) to grow by 25% y-o-y to Rs. 248.4 crore.

**Results (Standalone)**

Particulars	Rs cr				
	Q3FY21	Q3FY20	y-o-y (%)	Q2FY21	q-o-q (%)
Net revenue	1231.9	1147.2	7.4	1285.5	-4.2
Raw materials	372.5	393.1	-5.2	409.6	-9.1
Employee costs	86.9	77.0	12.8	96.6	-10.1
Advertising	198.3	143.4	38.3	164.4	20.6
Other expenditure	203.6	217.6	-6.4	205.6	-0.9
Total expenditure	861.3	831.1	3.6	876.2	-1.7
Operating profit	370.6	316.1	17.3	409.3	-9.5
Other income	9.9	5.8	70.3	7.6	30.5
Interest expenses	1.9	2.9	-35.3	1.8	-
Depreciation	45.6	51.5	-11.5	46.1	-1.2
Profit Before Tax	333.0	267.4	24.5	368.9	-9.7
Tax	84.7	68.3	23.9	94.7	-10.6
Reported PAT	248.4	199.1	24.7	274.2	-9.4
Adjusted EPS (Rs)	9.1	7.3	24.7	10.1	-9.4
			<b>bps</b>		<b>bps</b>
GPM (%)	69.8	65.7	403	68.1	163
OPM (%)	30.1	27.6	253	31.8	-176

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Toothpaste category gaining momentum

Toothpaste sales have been recovering gradually, reaching pre-COVID levels. White toothpaste has seen a strong recovery, while natural variants are growing in high-single digit to low-double digits. Lower per-capita consumption (especially in rural India) provides a good scope for oral care players to penetrate deep in the rural markets. Further improvement in dental habits in post pandemic era will help the oral care companies to post steady volume growth in the near to medium term.

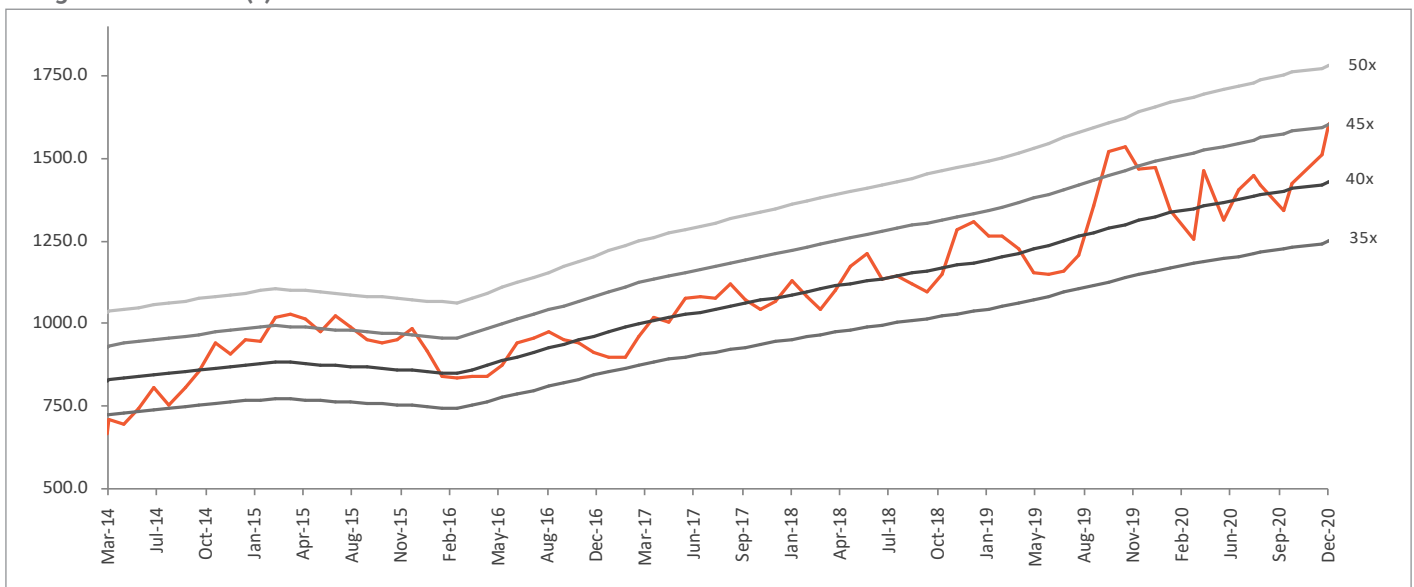
### ■ Company outlook - Growth momentum to sustain

Revenues and operating profit grew by 3.2% and 15.9% in 9MFY2021, To enhance revenue growth trajectory over the next 3-4 years, the company is focusing on building a portfolio of products such as Colgate Visible White and Colgate Diabetics based on consumer needs, improve penetration in the rural markets through right SKUs, awareness among consumers to improve dental habits and gaining share in the toothbrushes category. Gross margins improved by 269 bps in 9MFY2021 to 68.1% and the company expects gross margin expansion to sustain in near future through a better revenue mix, higher sales volume and efficient raw material purchases.

### ■ Valuation - Recommend Buy with price target of Rs. 1,850

We have fine-tuned our earnings estimates for FY2021/22/23 to factor in better-than-expected Q3FY21 performance along with strong expansion in OPM. Top brand presence with global recognition, strong cash flows and sturdy balance sheet (average dividend payout stood at ~Rs. 91 / share over FY2018-20) makes it a good pick in the FMCG space. The stock is current available at 39.3x its FY2023E EPS, which is at a discount to some of the large multinationals. Any improvement in volume growth trajectory and sustained market share gain in core category will reduce valuation gap among close peers. We maintain a Buy recommendation on the stock with the revised price target of Rs. 1,850.

### One-year forward P/E (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur India	55.7	45.6	38.6	45.1	36.7	30.7	26.9	29.2	29.4
Hindustan Unilever	68.3	51.8	45.2	46.4	37.5	32.6	37.1	28.3	30.7
Colgate-Palmolive	46.5	43.2	39.3	29.7	27.7	25.2	72.8	76.4	78.2

Source: Company, Sharekhan estimates

## About company

Colpal is a leading multi-national consumer products company, focused on production and distribution of oral care and personal care products. Oral care contributes ~90% to the company's turnover. The company has a wide product portfolio comprising toothpastes, toothpowder, toothbrushes, mouthwash, and personal care products at various price points. The company has a leadership position in both the toothbrush and toothpaste categories. In personal care products, the company has varied products, including hand wash and the recently launched facial bars under the Palmolive brand.

## Investment theme

Colpal is among the most trusted brands in Indian households with a market share of ~50% in the domestic toothpaste market. The entrance of new players such as Patanjali in the Naturals space resulted in deceleration in the market share and moderation in volume growth to low single digits. Actions undertaken by the management in the recent past and a new leadership onboard provide visibility of gradual improvement in the market share and volume growth in the coming quarters. With a strong distribution reach and top-of-the-mind recall, Colgate will continue to be a leading player in the domestic toothpaste market.

## Key Risks

- ◆ Any incremental competition from top players would continue to put pressure on market share in the near to medium term.
- ◆ Any slowdown in domestic demand would affect volume growth in the near to medium term.

## Additional Data

### Key management personnel

Ram Raghavan	Managing Director
MukulDeoras	Chairman
M S Jacob	Chief Financial Officer
K Randhir Singh	Company Secretary

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	3.2
2	SBI Funds Management Pvt Ltd	1.7
3	First State Investments ICVC	1.6
4	BMO Financial Corp	1.1
5	Vanguard Group Inc	0.9
6	UTI Retirement Solutions Ltd	0.7
7	Blackrock Inc	0.7
8	First Sentier Global Umbrella Fund PLC	0.7
9	SBI Pension Funds Pvt Ltd	0.6
10	DSP Investment Managers Pvt Ltd	0.6

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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