Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Colgate Palmolive (India)

Good Q1; brushing up growth plans

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. 1,709**	
Price Target: **Rs. 1,950**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

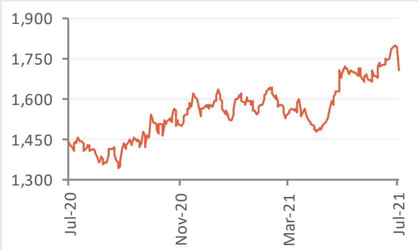
Company details

Market cap:	Rs. 46,482 cr
52-week high/low:	Rs. 1,823 / 1,323
NSE volume: (No of shares)	5.7 lakh
BSE code:	500830
NSE code:	COLPAL
Free float: (No of shares)	13.3 cr

Shareholding (%)

Promoters	51.0
FII	19.3
DII	8.2
Others	21.54

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.4	15.0	6.5	19.3
Relative to Sensex	2.2	9.2	-7.2	-19.0

Sharekhan Research, Bloomberg

Summary

- Colgate Palmolive (India) [COLPAL] Q1FY2022 numbers met expectations as revenues/ PAT grew by 12%/18%; OPM stood at 30.5%. Overall volume growth stood at 10-11% (toothpaste 5% and tooth brush 35-40%) on a low base of Q1FY2021.
- Frequent brushing of teeth especially in rural markets, strong traction for premium products, launch of consumer-centric products with a stable go-to market strategy and market share gains are key growth drivers in medium term. OPM would remain at ~30%.
- Given leadership positioning oral care category, consumers' trust on brand, new leadership focusing on sustainable growth and a strong balance sheet we maintain a Buy on the stock with a revised price target of Rs. 1,950.

Colgate-Palmolive India (COLPAL) registered decent operating performance amid the disruption caused by the second wave of COVID-19 in the domestic market. Standalone revenues grew by 12% y-o-y to Rs. 1,166 crore, driven by high single-digit volume growth of 10-11%. Toothpaste volume growth stood at mid-single digits, while toothbrush volumes grew by 40% during the quarter. Double-digit volume growth can be considered on the back of a low base of mid-single digit volume decline in Q1FY2021 (when toothpaste volumes declined by ~4%; toothbrush volumes fell by over 30%). Gross margins improved by 300 bps to 69.1%. Higher ad spends (up by ~280 bps y-o-y) led to a just 87 bps jump in OPM to 30.5% (in line with our as well as street expectations). PAT grew by ~18% to Rs. 233.2crore (in-line with our expectation of Rs. 231 crore). Sustained investments in brand building and innovations is helping to strengthen the core portfolio. Recent innovation such as Colgate Special Toothpaste for Diabetics, Colgate Vedshakti Mouthspray and Colgate Vedshakti Oil Pulling are gaining good traction. Frequent brushing of teeth (especially in the rural market), strong traction for premium products, launching consumer-centric products with a stable go-to market strategy and market share gains (including in the naturals category) are key growth drivers for the medium term. In addition, the company is focusing on building up the Palmolive portfolio with relevant launches to scale up brand salience in the long run. Increase in raw material prices might impact gross margins in coming quarters. However, we expect Colgate to pass on the effect of higher raw material prices through calibrated price hikes. We expect OPM to sustain at 30-31% in FY2022.

Key positives

- Volumes grew by 10-11% led by a low base of Q1FY2021.
- Gross margins improved by 301 bps mainly on account of benign input prices.

Key negatives

- Higher ad spends led to a just 87 bps increase in OPM to 30.5% (lower than rise in gross margins).

Our Call

View: Retain Buy with a revised price target of Rs. 1,950: We have broadly maintained our earnings estimates for FY2022 and FY2023. With strategies in place, the company is focusing on achieving steady volume growth in the key toothpaste and toothbrush segments in the medium term. Further, the company is banking on better mix and efficiencies to post better margins. The stock is currently available at 40.0x its FY2023E EPS, at a discount to some large multinationals. Any improvement in market share in the backdrop of stiff competition from large players such as HUL and Dabur (sustained market share gains over the past few quarters) would be key re-rating triggers for stock. In view of leadership positioning in the oral care category, consumers trust on brand, new leadership focusing on sustainable growth and strong balance sheet, we maintain a Buy recommendation on the stock with a revised price target of Rs. 1,950.

Key risk

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) Rs cr

Particulars	FY19	FY20	FY21A	FY22E	FY23E
Revenue	4,462	4,525	4,841	5,290	5,724
OPM (%)	27.7	26.6	31.2	30.8	31.2
Adjusted PAT	751	816	1,035	1,067	1,163
Adjusted EPS (Rs.)	27.6	30.0	38.1	39.2	42.7
P/E (x)	61.9	56.9	44.9	43.6	40.0
P/B (x)	32.1	29.2	39.9	38.8	35.0
EV/EBIDTA (x)	37.3	38.4	30.7	28.3	25.7
RoNW (%)	50.6	53.7	75.0	90.2	92.0
RoCE (%)	71.5	64.6	76.7	84.6	100.0
RoCE (%)	71.5	64.6	76.7	83.9	99.6

Source: Company; Sharekhan estimates

Revenues grew by 12%; OPM improved by 87 bps to 30.5%: Revenues grew by 12% y-o-y to Rs. 1,166 crore. Double digit growth is led by a 4% fall in revenues in the base quarter; sequentially revenues are down by 9%. Overall volumes grew by 10-11% on a low base of mid-single-digit volume decline in Q1FY2021. All key categories (including toothpaste) registered good growth. Gross margins improved by 301 bps to 69.1% on back of benign input prices and better revenue mix. As anticipated ad-spends went up by (279 bps y-o-y) resulting in OPM expanding by just 87 bps to 30.5% despite significant increase in gross margins. Operating profit grew by 15.3% y-o-y to Rs. 355.2 crore. Reported PAT grew by 17.7% y-o-y to Rs. 233.2 crore.

Results (Standalone) Rs cr

Particulars	Q1FY22	Q1FY21	y-o-y (%)	Q4FY21	q-o-q (%)
Net revenue	**1166.0**	**1040.6**	**12.0**	**1283.2**	**-9.1**
Raw materials	359.7	352.4	2.1	414.9	-13.3
Employee costs	95.0	90.7	4.7	91.5	3.8
Advertising	160.2	113.9	40.6	148.9	7.6
Other expenditure	195.9	175.7	11.5	206.2	-5.0
Total expenditure	**810.8**	**732.6**	**10.7**	**861.4**	**-5.9**
Operating profit	**355.2**	**308.0**	**15.3**	**421.8**	**-15.8**
Other income	5.2	6.3	-17.0	6.6	-21.3
Interest expenses	1.5	2.0	-22.6	1.6	-
Depreciation	44.7	45.4	-1.5	45.5	-1.7
Profit Before Tax	314.2	266.9	17.7	381.4	-17.6
Tax	81.0	68.7	17.8	66.7	21.4
Reported PAT	**233.2**	**198.2**	**17.7**	**314.7**	**-25.9**
Adjusted EPS (Rs)	8.6	7.3	17.7	11.6	-25.9
			BPS		BPS
GPM (%)	69.1	66.1	301	67.7	148
OPM (%)	30.5	29.6	87	32.9	-240
NPM (%)	20.0	19.0	96	24.5	-452
Tax rate (%)	25.8	25.7		17.5	

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Toothpaste category gaining momentum

Toothpaste category is one of the highly penetrated category in India with penetration of close to 80%. However, the per capita consumption of toothpaste is lower in India as compared to some of the other developing economies. The awareness of better dental habits and usage is low in the rural markets, which provides opportunity for toothpaste companies to achieve sustain growth momentum in the medium term. White toothpaste has seen a strong recovery, while natural variants are growing in high-single digit to low-double digits. Further the companies are adding more premium variants to provide large options to the consumer in the urban markets for better dental habits.

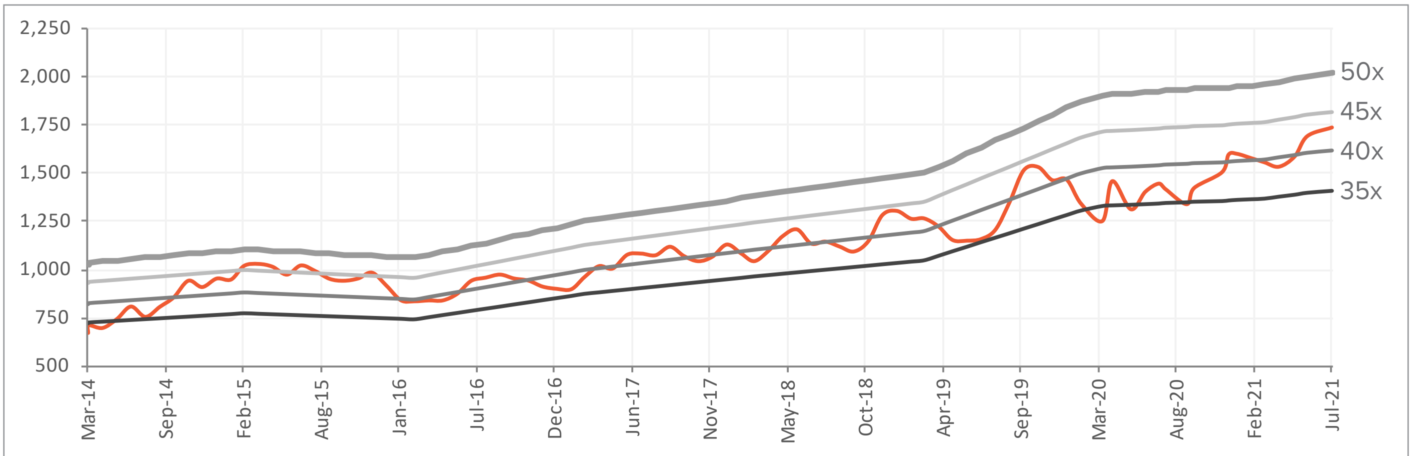
■ Company Outlook – Strategies in place to achieve sustainable growth

Colpal ended FY2021 on strong note with single-digit revenue growth while OPM expansion of 460 bps boosting PAT growth. 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 rural markets through the right SKUs, awareness among consumers to improve dental habits and gaining share in the toothbrushes category. Further, the company is also focusing on building up the Palmolive portfolio with relevant launches to scale up the brand salience in long run. Gross margins improved to 68% in FY2021 from 65.6% in FY2020 on the back of a better mix, procurement efficiencies and benign input prices. We expect gross margins to remain stable or marginally improve from current levels. OPM is expected to sustain at ~30%.

■ Valuation – Maintain Buy with a revised price target of Rs. 1,950

We have broadly maintained our earnings estimates for FY2022 and FY2023. With strategies in place, the company is focusing on achieving steady volume growth in the key toothpaste and toothbrush segments in the medium term. Further, the company is banking on better mix and efficiencies to post better margins. The stock is currently available at 40.0x its FY2023E EPS, at a discount to some large multinationals. Any improvement in market share in the backdrop of stiff competition from large players such as HUL and Dabur (sustained market share gains over the past few quarters) would be key re-rating triggers for stock. In view of leadership positioning oral care category, consumers trust on brand, new leadership focusing on sustainable growth and strong balance sheet, we maintain a Buy recommendation on the stock with a revised price target of Rs. 1,950.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Dabur India	61.0	53.2	43.8	49.5	42.8	34.3	26.4	28.7	31.5
Hindustan Unilever	67.4	57.2	47.3	48.0	41.4	34.3	36.5	26.4	31.6
Colgate-Palmolive	44.9	43.6	40.0	30.7	28.3	25.7	76.7	84.6	100.0

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 ~95% 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 in past last two years. Actions undertaken by the management in the recent past and a new leadership on board provide visibility of gradual improvement in the market share and volume growth in the coming quarters. FY2021 ended on strong note with revenue growth of 7% and PAT growing by 27% on back of strong margin expansion. 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
Mukul Deoras	Chairman
M S Jacob	Chief Financial Officer
K Randhir Singh	Company Secretary

Source: Company Website

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 (old data)

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 detoriating 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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