



## 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	✓	↔	✓

## ESG Disclosure Score

NEW

## ESG RISK RATING

Updated Jan 08, 2022

31.31

## High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

## Company details

Market cap:	Rs. 37,937 cr
52-week high/low:	Rs. 1,823 / 1,376
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	18.6
DII	8.2
Others	22.19

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	-9.2	-22.4	-9.8
Relative to Sensex	-4.0	-2.9	-31.5	-31.2

Sharekhan Research, Bloomberg

## Colgate-Palmolive (India) Ltd

## Soft Q3; Strong on innovation

## Consumer Goods

## Sharekhan code: COLPAL

## Reco/View: Buy



CMP: Rs. 1,395

Price Target: Rs. 1,850



Upgrade



Maintain



Downgrade

## Summary

- Colgate Palmolive (India) [COLPAL] posted soft numbers for yet another quarter in Q3FY2022 with revenues growing by ~4% (driven by a 3% rise in volumes) while a 36 bps decline in OPM to 29.7% resulted in a 2% growth in PAT.
- The company launched two new products in Q3FY2022 - Colgate Gum Experts in toothpaste category and Palmolive range of face cleansers.
- Increase in toothpaste usage with an expected rise in frequency of brushing, better traction for innovative products and launch of consumer-centric products would drive growth in medium term; OPM to sustain at ~30%.
- Stock has corrected by 22% in last six months and is currently trading at 35.0/33x its FY2023/24 EPS. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 1850.

Colgate Palmolive India (COLPAL) posted a muted performance in Q3FY2022 with revenues growing by 4% (driven by a 3% volume growth) to Rs. 1280.1 crore while OPM declining by 36 bps to 29.7% resulting in PAT growth of 2% at Rs. 252 crore. Gross margins decreased by 316 bps to 66.6% in Q3. However, lower ad-spends arrested a significant dip in OPM that stood at 29.7%. 9MFY2022 revenues grew by 7% and the OPM stood at ~30%.

## Key positives

- Continuing its innovation spree, Colgate launched innovative products such as Colgate Gum Expert, Face cleansing products such as Palmolive range of face care products and Colgate RecyClean toothbrush.

## Key negatives

- Higher raw material inflation dragged gross margins by 316 bps to 66.6%.
- Revenues growth remained muted at 4%.

## Key management commentary

- Brand penetration remained strong; it is likely to further improve in the coming quarters.
- The company has undertaken 7-10% price increase in selected brands under toothpaste category to pass on the significant increase in the raw material prices.

**Revision in earnings estimates** – With Q3 performance largely in line with expectations, we broadly maintain our earnings estimates for FY2022/23/24. We expect COLPAL revenue growth to be in mid-single digits and expects OPM to sustain at ~30%.

## Our Call

**Valuation – Retain Buy with an unchanged PT of Rs. 1850:** In past few quarters, COLPAL has launched several new products under its core toothpaste category and entered into categories (including skin cleansing). Thus the leadership is focusing on gaining market share in core toothpaste category and improve its revenue growth visibility in the medium term. The stock has corrected by 22% in the last six months and is currently trading at attractive valuations of 35.0x and 33x its FY2023E and FY2024E earnings. 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. We maintain a Buy on the stock with an unchanged 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.

## Valuations (standalone)

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	4,841	5,133	5,412	5,734
OPM (%)	31.2	30.1	30.3	30.5
Adjusted PAT	1,035	1,018	1,083	1,153
% YoY growth	26.8	-1.7	6.4	6.5
Adjusted EPS (Rs.)	38.1	37.4	39.8	42.4
P/E (x)	36.6	37.2	35.0	32.9
P/B (x)	32.5	33.0	31.6	28.7
EV/EBIDTA (x)	25.0	24.4	23.0	21.4
RoNW (%)	75.0	87.9	92.2	91.6
RoCE (%)	76.7	81.9	98.7	109.0

Source: Company; Sharekhan estimates

### Q3FY2022 was quarter of soft performance

COLPAL standalone revenue grew by 3.9 % y-o-y to Rs. 1,280.1 crore lower than our expectation of Rs. 1,297 crore and in line with street expectation of Rs. 1,284 crore. Sustained raw material inflation led to 316/23 bps decline in gross margins on a y-o-y/q-o-q basis, respectively, to 66.6%. Lower advertisement spends (decrease of 23.9% y-o-y and 18.6% q-o-q) led to marginal decline in OPM by 36 bps y-o-y while sequentially OPM remained flat at 29.7%; marginally higher than our and street expectation of 29.3-29.5%. Operating profit grew by 2.7% y-o-y to Rs. 380.6 crore. Adjusted PAT marginally grew by 1.6% y-o-y to Rs. 252.3 crore; in line with our and street expectation of Rs. 253 crore and Rs. 252 crore, respectively.

### Continues to add new products under portfolio

The company continued with its strong innovation pipeline with new initiatives launched this quarter. In oral care, the company launched Colgate Gum Expert, a toothpaste variant with curcumin extracts taken from turmeric. The company is also positive on its foray into the face cleansing category with the launch of Palmolive range of face care products. The range includes unique and innovative forms such as face foams, masques & scrubs that have been created with a unique blend of premium natural ingredients and essential oils. It also introduced Colgate RecyClean -a first of its kind tooth brush with bristles that are plant derived and BPA free while the handle is made from 100% recycled plastic.

#### Results (standalone)

Particulars	Rs cr				
	Q3FY22	Q3FY21	y-o-y (%)	Q2FY22	q-o-q (%)
<b>Net revenue</b>	<b>1,280.1</b>	<b>1,231.9</b>	<b>3.9</b>	<b>1,352.4</b>	<b>-5.3</b>
Raw materials	427.5	372.5	14.8	448.6	-4.7
Employee costs	100.6	86.9	15.8	104.7	-3.9
Advertising	150.9	198.3	-23.9	185.3	-18.6
Other expenditure	220.6	203.6	8.3	213.1	3.5
Total expenditure	899.6	861.3	4.4	951.7	-5.5
<b>Operating profit</b>	<b>380.6</b>	<b>370.6</b>	<b>2.7</b>	<b>400.8</b>	<b>-5.0</b>
Other income	5.7	9.9	-42.5	6.5	-12.7
Interest expenses	1.5	1.9	-20.1	1.5	-
Depreciation	43.9	45.6	-3.6	44.9	-2.2
<b>Profit Before Tax</b>	<b>340.8</b>	<b>333.0</b>	<b>2.3</b>	<b>360.9</b>	<b>-5.6</b>
Tax	88.5	84.7	4.5	91.7	-3.5
<b>Adjusted PAT</b>	<b>252.3</b>	<b>248.4</b>	<b>1.6</b>	<b>269.2</b>	<b>-6.3</b>
Adjusted EPS (Rs)	9.3	9.1	1.6	9.9	-6.3
			<b>bps</b>		<b>bps</b>
GPM (%)	66.6	69.8	-316	66.8	-23
OPM (%)	29.7	30.1	-36	29.6	9
NPM (%)	19.7	20.2	-45	19.9	-19
Tax rate (%)	26.0	25.4		25.4	

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector outlook – Toothpaste category gaining momentum

The toothpaste category is one of the highly penetrated category in India with penetration of close to 80%. However, per capita consumption of toothpaste is lower in India as compared to some developing economies. The awareness of better dental habits and usage is low in the rural markets, which provides an opportunity for toothpaste makers to achieve sustain growth momentum in the medium term. Further the companies are adding more premium variants to provide large options to the consumer in the urban markets for better dental habits.

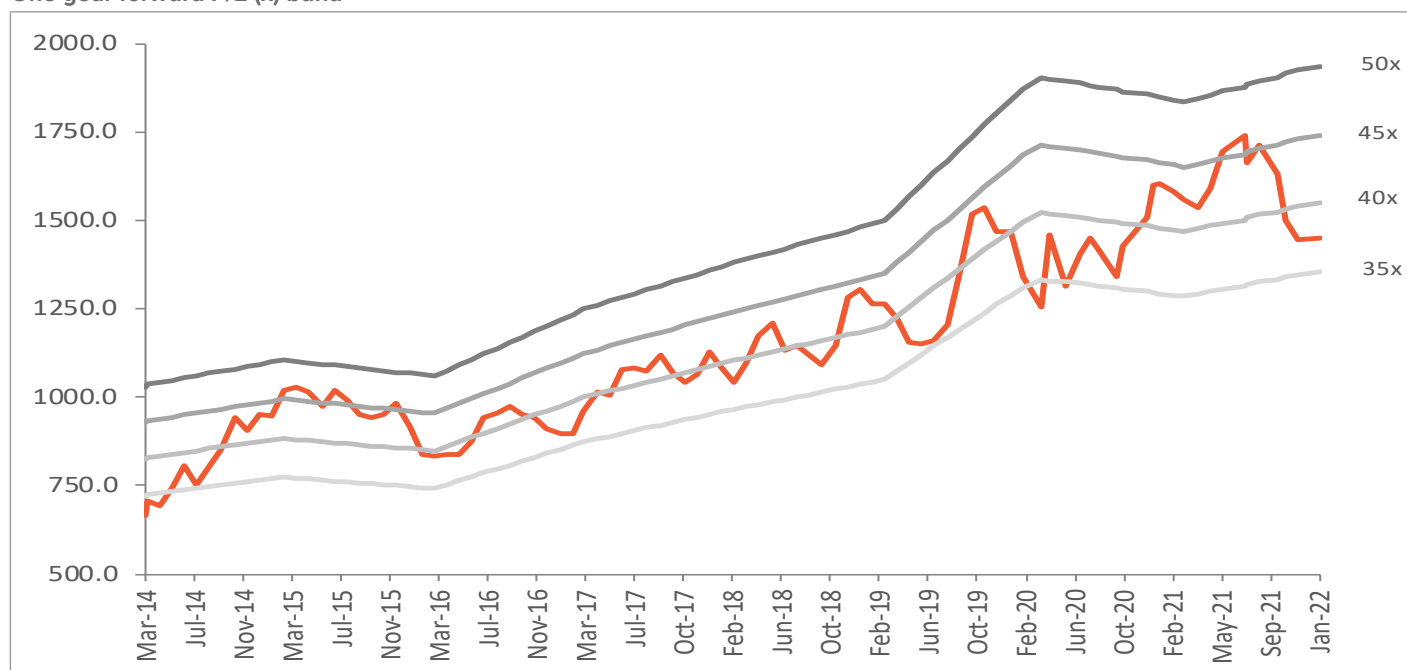
### ■ Company outlook – Strategies in place to achieve sustainable growth

To enhance revenue growth trajectory over the next 3-4 years, the company is focusing on expanding its core toothpaste portfolio by launching products such as Colgate Visible White, Colgate Gum Expert 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 the long run. With company focus on higher side behind branding and promotional activities, the OPM is expected to sustain at ~30%.

### ■ Valuation – Retain Buy with an unchanged price target of Rs. 1,850

In past few quarters, COLPAL has launched several new products under its core toothpaste category and entered into categories (including skin cleansing). Thus the leadership is focusing on gaining market share in core toothpaste category and improve its revenue growth visibility in the medium term. The stock has corrected by 22% in the last six months and is currently trading at attractive valuations of 35.0x and 33x its FY2023E and FY2024E earnings. 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. We maintain a Buy on the stock with an unchanged price target of Rs. 1,850.

One-year forward P/E (x) band



Source: Sharekhan Research

### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Dabur India	55.2	49.9	39.6	44.6	38.8	30.5	26.4	27.8	31.5
Hindustan Unilever	66.3	59.6	49.9	47.2	42.0	36.0	36.5	24.9	30.0
Colgate-Palmolive	36.6	37.2	35.0	25.0	24.4	23.0	76.7	81.9	98.7

Source: Company, Sharekhan estimates

## About the 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)

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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

# Sharekhan

by BNP PARIBAS

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