

# Colgate-Palmolive (India) (COLPAL)

CMP: ₹ 1605

Target: ₹ 1860 ( 16%)

Target Period: 12 months

January 29, 2021

BUY

## Elevated margins to sustain...

Colgate reported robust results with 7.8% consolidated revenue growth led by double digit domestic sales growth of 10.1%. We believe growth was largely driven by volumes given the company has significantly increased its marketing spends in brand building & promotions. Further, we believe new mouth spray also started contributing to revenues. CPIL launched Oil Pulling & toothpaste for diabetics during the quarter. The company also launched Naturals toothbrush portfolio with the launches of Super Flexi Salt and Zig Zag Turmeric. Given the sharp decline in commodity cost, gross margins expanded 400 bps. Further it has saved 244 bps in overhead spends through various cost cutting measures post pandemic. However, the company has significantly increased its advertisement spend (360 bps higher) during the quarter. Operating profit witnessed strong growth of 17.3% to ₹ 370.6 crore. Operating margins expanded 253 bps to 30.1%. Led by healthy growth in operating profit, lower interest cost & depreciation provisioning, net profit witnessed a robust growth of 24.7% to ₹ 248.4 crore.

## Investing behind brands to drive volumes

The company has been investing hugely behind brands through media spends & consumer promotions. Unlike other FMCG majors, it has increased its marketing spends in Q3 to support new launches & drive premiumisation. We expect it to spend ~13% of sales towards marketing in FY21 (similar to FY20) despite significant decline in ad-rates in H1FY21. It has launched Mouth Spray & Oil Pulling under Vedshakti brand and is spending aggressively on advertisement to drive penetration led growth. In oral care it introduced toothpaste for diabetics with Ayurveda ingredients. The company has also launched natural's toothbrush portfolio with Super Flexi Salt, Zig Zag Turmeric & Colgate Magik in Kids toothbrush. We believe renewed focus on new launches would aid volumes, going forward. We estimate 6.6% CAGR revenue growth in FY20-23E.

## Margin to sustain at elevated levels

With the significant decline in crude based packaging cost, stable sorbitol prices & various cost cutting measures taken by company post pandemic, the company has witnessed a ~300 bps operating margin expansion in 9MFY21 to above 30%. We believe CPIL would be able to maintain this elevated margins with some of the permanent saving from overhead spends and expected benign raw material prices. We estimate operating margins at 30.2% & 30.3% for FY22E & FY23E, respectively.

## Valuation & Outlook

The company has been able to maintain its market share in the last one year after the aggressive launches of natural brands under Vedshakti. Though the penetration led growth opportunities are limited in toothpaste, the company is well poised to take advantage of consumption shift towards Naturals & Ayurveda products. We maintain our **BUY** rating with a revised target price of ₹ 1820/share (earlier ₹ 1700).

### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Total Operating Income	4462.4	4525.1	4714.8	5147.0	5488.8	6.6%
EBITDA	1236.1	1201.7	1445.8	1555.6	1664.4	11.5%
EBITDA Margin %	27.7	26.6	30.7	30.2	30.3	
Net Profit	775.6	816.5	952.9	1029.4	1100.6	10.5%
EPS (₹)	28.52	30.02	35.03	37.85	40.47	
P/E	54.9	52.1	44.6	41.3	38.7	
RoNW %	52.2	51.2	58.7	61.5	64.3	
RoCE (%)	70.7	60.7	76.7	80.2	83.7	

Source: Company, ICICI Direct Research



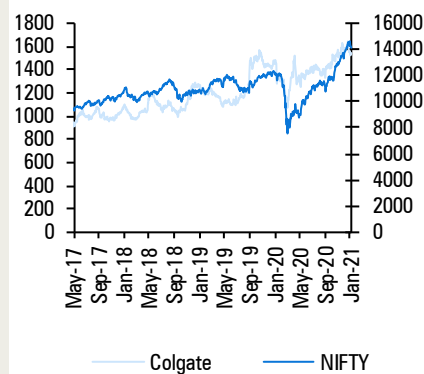
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	42,542.7
Total Debt (FY20)	84.0
Cash and Investments (FY20)	421.3
EV	42,205.4
52 week H/L (₹)	1675.8 / 1065.2
Equity capital	27.2
Face value (₹)	1.0

### Key Risk

- Any runaway increase in crude based raw material prices or other key raw material prices could pressurise margins
- Aggressive competitive activity towards new launches or significant increase in promotions by peers would hurt growth in medium term

### Price Chart



### Research Analyst

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Total Operating Income	1,231.9	1,225.2	1,147.2	7.4	1,285.5	-4.2	Net sales reported strong growth of 7.4% led by domestic growth of 10.1%. We believe this would be entirely contributed by volumes in Q3
Operating Income	7.7	9.7	11.2	-30.8	7.8	-1.3	
Raw Material Expenses	372.5	406.6	393.1	-5.2	409.6	-9.1	Benign crude based commodity prices led to 400 bps expansion in gross margins
Employee Expenses	86.9	86.5	77.0	12.8	96.6	-10.1	
SG&A Expenses	198.3	154.7	143.4	38.3	164.4	20.6	The company increase its advertisement spends to support new launches & penetration led growth
Other operating Expenses	203.6	212.5	217.6	-6.4	205.6	-0.9	Overhead spends were down 244 bps mainly on account of various cost saving measures
EBITDA	370.6	364.8	316.1	17.3	409.3	-9.5	
EBITDA Margin (%)	30.1	29.8	27.6	253 bps	31.8	-176 bps	Led by strong sales growth & higher gross margins, operating margins expanded 253 bps in Q3
Depreciation	45.6	51.6	51.5	-11.5	46.1	-1.2	
Interest	1.9	2.9	2.9	NA	1.8	NA	
Other Income	9.9	11.9	5.8	70.3	7.6	30.5	
PBT before exceptional	333.0	322.2	267.4	24.5	368.9	-9.7	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
Tax Outgo	84.7	81.2	68.3	23.9	94.7	-10.6	
PAT	248.4	241.0	199.1	24.7	274.2	-9.4	Net profit witnessed robust net profit growth of 24.7%
Adjusted PAT	248.4	241.0	199.1	24.7	274.2	-9.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chan	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	4,642.1	4714.8	1.6	5,067.4	5,147.0	1.6	5,403.9	5,488.8	1.6	Slight change in revenues
EBITDA	1370.2	1445.8	5.5	1449.9	1555.6	7.3	1552.7	1664.4	7.2	
EBITDA Margin (%)	29.5	30.7	115 bps	28.6	30.2	161 bps	28.7	30.3	159 bps	With benign commodity prices, elevated margins can sustain. We are changing our margins estimates for FY21E, FY22E & FY23E
PAT	907.8	952.9	5.0	962.2	1029.4	7.0	1029.4	1100.6	6.9	
EPS (₹)	33.4	35.0	4.9	35.4	37.8	6.9	37.8	40.5	7.1	

Source: Company, ICICI Direct Research

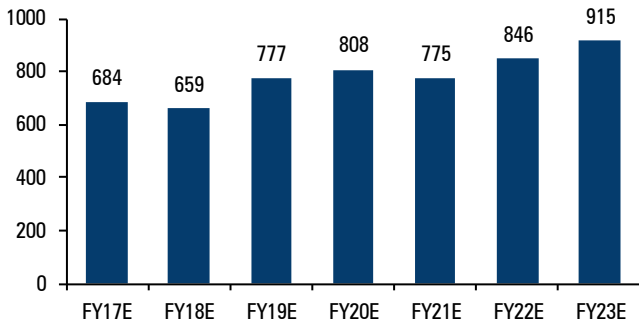
Exhibit 3: Assumptions

	FY19	FY20E	FY21E	FY22E	FY23E	Earlier			Comments
						FY21E	FY22E	FY23E	
Toothpaste Vol. Growth(%)	6.0	6.0	-1.0	7.0	4.0	-2.5	7.0	4.0	Slight change in our FY21 numbers after the results
Toothpaste Value Growth(%)	0.1	7.1	-1.0	9.1	6.1	-2.5	9.1	6.1	
Toothbrush Vol. Growth(%)	6.0	6.0	-4.0	7.0	5.0	-7.0	7.0	5.0	
Toothbrush Value Growth(%)	17.9	4.0	-4.0	9.1	8.2	-7.0	9.1	8.2	
Raw Material/Sales %	34.9	34.8	32.0	32.3	32.6	33.7	34.0	34.3	
Marketing Exp./Sales %	12.7	13.8	13.7	12.4	12.3	12.9	13.9	12.3	

Source: Company, ICICI Direct Research

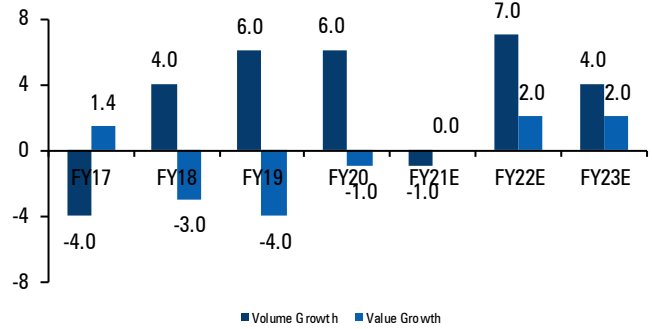
## Key Metrics

Exhibit 4: Toothbrush revenue to be impacted in FY21E



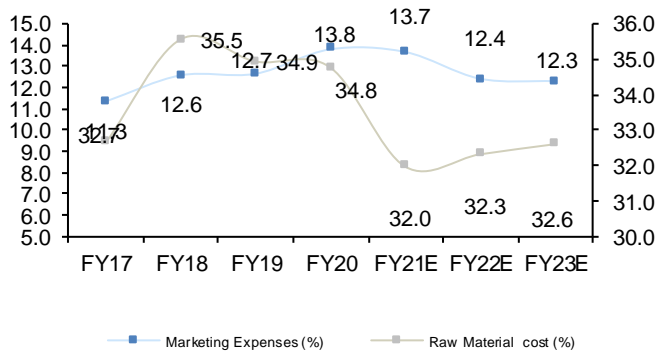
Source: Company, ICICI Direct Research

Exhibit 5: Toothpaste volumes to witness 7% volume growth in FY22E



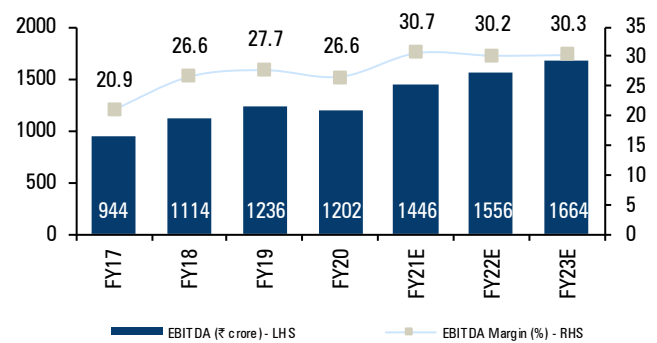
Source: Company, ICICI Direct Research

Exhibit 6: A&P spend to remain high, RM cost to remain low



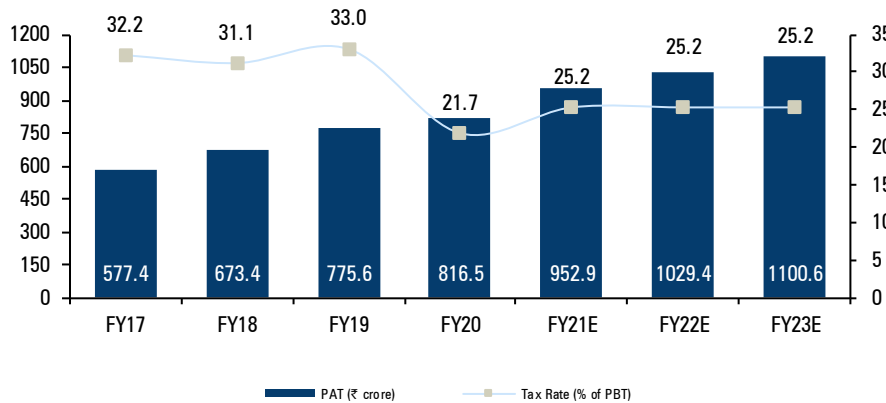
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: Valuations

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	4487.6	1.2	30.0	5.3	52.1	34.9	51.2	60.7
FY21E	4682.9	4.4	35.0	16.7	44.6	28.9	58.7	76.7
FY22E	5113.2	9.2	37.8	8.0	41.3	26.8	61.5	80.2
FY23E	5453.0	6.6	40.5	6.9	38.7	24.9	64.3	83.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total Operating Income</b>	<b>4,525.1</b>	<b>4,714.8</b>	<b>5,147.0</b>	<b>5,488.8</b>
Growth (%)	1.4	4.2	9.2	6.6
Raw Material Expenses	1,572.9	1,508.2	1,664.1	1,790.1
Employee Expenses	332.3	365.3	393.4	398.0
Marketing Expenses	626.0	646.2	639.1	674.9
Administrative Expenses	241.8	140.5	173.8	189.2
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	550.4	608.8	721.0	772.1
Total Operating Expenditure	3,323.4	3,269.0	3,591.4	3,824.4
<b>EBITDA</b>	<b>1,201.7</b>	<b>1,445.8</b>	<b>1,555.6</b>	<b>1,664.4</b>
Growth (%)	-2.8	20.3	7.6	7.0
Depreciation	197.9	206.3	215.3	230.3
Interest	9.6	0.0	0.0	0.0
Other Income	49.2	34.5	35.8	37.3
PBT	1,043.4	1,273.9	1,376.2	1,471.4
Exceptional items	0.0	0.0	-3.6	30.5
Total Tax	226.9	321.0	346.8	370.8
<b>PAT</b>	<b>816.5</b>	<b>952.9</b>	<b>1,029.4</b>	<b>1,100.6</b>
Growth (%)	5.3	16.7	8.0	6.9
EPS (₹)	30.0	35.0	37.8	40.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/Loss after Tax	722.1	952.9	1,029.4	1,100.6
Add: Depreciation	197.9	206.3	215.3	230.3
Add: Interest	9.6	0.0	0.0	0.0
(Inc)/dec in Current Assets	25.0	-82.4	-61.9	-48.8
Inc/(dec) in Current Liabilities	-28.4	85.5	87.8	69.4
<b>CF from operating activities</b>	<b>889.9</b>	<b>1,162.4</b>	<b>1,270.6</b>	<b>1,351.4</b>
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-60.4	-35.0	-200.0	-70.0
Others	41.7	-31.7	-1.7	-1.3
<b>CF from investing activities</b>	<b>-18.7</b>	<b>-66.6</b>	<b>-201.7</b>	<b>-71.3</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	-84.0	0.0	0.0
Dividend paid & dividend tap	-731.5	-924.8	-979.1	-1,060.7
Inc/(dec) in Sec. premium	-119.9	0.0	0.0	0.0
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-851.4</b>	<b>-1,008.7</b>	<b>-979.1</b>	<b>-1,060.7</b>
Net Cash flow	19.8	87.0	89.7	219.3
Opening Cash	378.0	397.8	484.8	574.6
Cash with bank	23.5	23.5	23.5	23.5
<b>Closing Cash</b>	<b>421.3</b>	<b>508.3</b>	<b>598.0</b>	<b>817.3</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,567.0	1,595.1	1,645.3	1,685.2
Total Shareholders funds	1,594.2	1,622.3	1,672.5	1,712.4
Total Debt	84.0	0.0	0.0	0.0
Long Term Provisions	48.8	32.8	35.8	38.2
Other Non-current Liabilities	6.7	6.7	6.7	6.7
<b>Total Liabilities</b>	<b>1,733.7</b>	<b>1,661.8</b>	<b>1,715.0</b>	<b>1,757.3</b>
<b>Assets</b>				
Gross Block	1,877.5	2,052.5	2,252.5	2,352.5
Less: Acc Depreciation	754.7	961.0	1,176.3	1,406.5
Net Block	1,122.9	1,091.5	1,076.3	946.0
Capital WIP	190.0	50.0	50.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	18.6	18.6	18.6	18.6
LT Loans & Advances/Others	260.4	276.0	280.8	284.5
<b>Current Assets</b>				
Inventory	296.9	282.3	308.2	328.7
Debtors	132.6	218.1	238.1	254.0
Cash	421.3	508.3	598.0	817.3
Loans & Advances	113.5	121.5	132.6	141.4
Other Current Assets	47.8	51.3	56.0	59.8
<b>Current Liabilities</b>				
Creditors	630.0	615.8	672.4	717.1
Provisions	60.5	57.7	63.0	67.2
Other CL	179.8	282.3	308.2	328.7
Net Current Assets	141.7	225.6	289.4	488.2
<b>Total Assets</b>	<b>1,733.7</b>	<b>1,661.8</b>	<b>1,715.0</b>	<b>1,757.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	30.0	35.0	37.8	40.5
Cash EPS	37.3	42.6	45.8	48.9
BV	58.6	59.6	61.5	63.0
DPS	20.0	34.0	36.0	39.0
Cash Per Share	15.5	18.7	22.0	30.1
<b>Operating Ratios (%)</b>				
EBITDA Margin	26.6	30.7	30.2	30.3
PBT / Net Sales	23.3	27.2	26.9	27.0
PAT Margin	18.2	20.3	20.1	20.2
Inventory days	24.2	22.0	22.0	22.0
Debtor days	10.8	17.0	17.0	17.0
Creditor days	51.2	48.0	48.0	48.0
<b>Return Ratios (%)</b>				
RoE	51.2	58.7	61.5	64.3
RoCE	60.7	76.7	80.2	83.7
<b>Valuation Ratios (x)</b>				
P/E	52.1	44.6	41.3	38.7
EV / EBITDA	34.9	28.9	26.8	24.9
EV / Net Sales	9.4	8.9	8.1	7.6
Market Cap / Sales	9.5	9.1	8.3	7.8
Price to Book Value	26.7	26.2	25.4	24.8
<b>Solvency Ratios</b>				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	0.7	0.7	0.7	0.7
Quick Ratio	0.4	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E		
Colgate (COLPAL)	1,606	1,860	Buy	43,654	35.0	37.8	40.5	45.8	42.4	39.7	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	521	595	Buy	90,864	9.6	10.7	11.8	54.4	48.6	44.3	9.5	8.6	7.8	25.9	26.7	27.1	22.3	22.7	22.9
Hindustan Unilever (HINLEV)	2,275	2,600	Hold	561,507	33.6	40.5	45.0	67.7	56.2	50.6	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	205	225	Buy	213,884	11.2	12.0	13.4	18.3	17.0	15.3	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	162	175	Hold	5,728	5.9	6.4	7.1	27.7	25.3	22.8	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	417	490	Buy	53,156	9.1	9.8	10.9	45.8	42.7	38.1	6.8	6.1	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,419	18,000	Hold	152,970	223.4	253.4	284.2	78.0	68.7	61.3	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	567	605	Buy	52,158	12.0	13.5	15.1	47.3	41.9	37.5	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,560	4,200	Hold	5,809	202.4	218.7	235.2	17.6	16.3	15.1	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	902	730	Hold	19,429	11.3	21.7	26.6	79.8	41.5	33.9	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	1,946	2,300	Buy	11,359	27.8	65.7	71.7	70.1	29.6	27.2	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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