

Estimate changes

TP change

Rating change



Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	425.3 / 5.8
52-Week Range (INR)	1676 / 1065
1, 6, 12 Rel. Per (%)	0/-9/-9
12M Avg Val (INR M)	1240

Financials & Valuations (INR b)

Y/E March	2020	2021E	2022E	2023E
Sales	45.3	48.3	53.2	58.5
Sales Gr. (%)	1.4	6.7	10.3	9.9
EBITDA	12.0	14.8	16.1	17.9
EBITDA Mrg. (%)	26.6	30.6	30.3	30.6
Adj. PAT	8.2	9.8	10.9	12.3
Adj. EPS (INR)	30.0	36.1	40.0	45.3
EPS Gr. (%)	8.1	20.4	10.7	13.3
BV/Sh.(INR)	58.6	61.0	61.0	61.0
Ratios				
RoE (%)	53.7	60.4	65.6	74.3
RoCE (%)	52.2	60.6	65.8	74.5
Payout (%)	93.2	93.5	100.0	100.0
Valuation				
P/E (x)	52.1	43.3	39.1	34.5
P/BV (x)	26.7	25.7	25.7	25.7
EV/EBITDA (x)	35.0	28.4	25.9	23.4
Div. Yield (%)	1.8	2.2	2.6	2.9

Shareholding pattern (%)

As On	Dec-20	Sep-20	Dec-19
Promoter	51.0	51.0	51.0
DII	10.4	11.1	10.4
FII	16.6	15.7	16.5
Others	22.0	22.2	22.1

FII Includes depository receipts

CMP: INR1,564
TP: INR1,810 (+16%)
Buy

Gross margin expansion leads to beat on estimates

- Colgate's (CLGT) EBITDA and PAT growth for 3QFY21 was ahead of estimates – led by the highest quarterly gross margin in the last 10 years and lower-than-expected depreciation. Meanwhile, sales and volume growth, currently in the mid-single digits, is yet to show signs of approaching an elevated trajectory.
- As highlighted in our [note in December](#), new launches appear promising of late. However, traction on these launches or entry into new categories is needed for the company to grow the topline and earnings above the low- to mid-single-digit CAGRs seen in the past five years.
- In the meantime, a) healthy rural outlook for the next few quarters, especially in light of CLGT seeing 40% sales contribution from rural, b) the promise of traction in new products, and c) inexpensive valuations of 39.1x FY22E and 34.5x FY23E have led us to maintain our Buy rating on the stock.

Better-than-expected sales; significant beat on profitability

- Net sales grew 7.4% YoY to INR12.3b** (est. INR12.1b) in 3QFY21. EBITDA increased 17.3% YoY to INR3.7b (est. INR3.6b). PBT was up 24.5% YoY to INR3.3b (est. INR3.1b). Adj. PAT grew 24.7% YoY to INR2.5b (est. INR2.4b).
- Gross margins expanded 410bp YoY to 69.8%** (est. 67%) – the highest quarterly gross margin reported in the last 10 years.
- As a percentage of sales, higher staff costs (up 30bp YoY) and higher ad-spends (up 360bp YoY) were offset by lower other expenses (down 240bp YoY). Thus, EBITDA margins expanded 250bp YoY to 30.1% (est. 29.6%).
- Absolute ad spends were up 38.3% YoY in 3Q.

Highlights from management commentary

- Domestic net sales reported healthy 10.1% growth in 3Q.
- Through higher advertising spends, CLGT continues to invest in its brands and support new product launches.
- The company introduced new categories such as Mouth Spray and Oil Pulling under the Vedshakti franchise.
- CLGT recently launched Asia's first toothpaste for diabetics, which utilizes Ayurvedic ingredients to help diabetics maintain good oral health.
- The Naturals Toothbrush portfolio was also expanded with the launch of Super Flexi Salt and Zig Zag Turmeric.
- CLGT also launched Colgate Magik, a unique toothbrush that uses augmented reality to enhance children's experience.

Valuation and view

- Changes to the model have resulted in a 5.4%/5.8%/2.1% increase in FY21/FY22/FY23E EPS, largely led by a gross margin surprise and lower-than-expected depreciation.
- Inexpensive valuations and the potential benefits of a strong rural presence have led us to maintain our **Buy** rating on the stock. This is even as we await traction on new products, market share gains, and any announcement related to entry into newer categories – which would elevate topline growth above the 2.6% CAGR levels and earnings growth above the 7.9% CAGR levels of the last five years. With a target multiple of 40x FY23E, we arrive at TP of INR1,810 – a 16% upside to CMP.

Quarterly Performance

(INR m)

Y/E March	FY20				FY21				FY20	FY21E	FY21	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
Toothpaste Volume Gr %	4.0	4.0	2.3	-8.0	0.0	4.0	6.0	17.0	0.6	6.8	4.5	
Net Sales (inclgd. OOI)	10,849	12,218	11,472	10,713	10,406	12,855	12,319	12,684	45,251	48,264	12,103	1.8%
YoY change (%)	4.2	4.6	4.3	-7.1	-4.1	5.2	7.4	18.4	1.4	6.7	5.5	
Gross Profit	7,145	7,910	7,541	6,926	6,883	8,759	8,594	8,529	29,522	32,764	8,113	5.9%
Gross margin (%)	65.9	64.7	65.7	64.7	66.1	68.1	69.8	67.2	65.2	67.9	67.0	
EBITDA	2,998	3,230	3,161	2,629	3,080	4,093	3,706	3,877	12,017	14,756	3,576	3.6%
Margins (%)	27.6	26.4	27.6	24.5	29.6	31.8	30.1	30.6	26.6	30.6	29.6	
YoY growth (%)	6.5	-2.0	0.5	-15.3	2.7	26.7	17.3	47.5	-2.8	22.8	13.2	
Depreciation	499	504	515	462	454	461	456	489	1,979	1,860	520	
Interest	23	24	29	20	20	18	19	23	96	80	29	
Financial other Income	152	86	58	196	63	76	99	85	492	322	87	
PBT	2,628	2,788	2,674	2,344	2,669	3,689	3,330	3,449	10,434	13,138	3,114	7.0%
Tax	937	347	683	302	687	947	847	828	2,269	3,310	747	
Rate (%)	35.7	12.4	25.6	12.9	25.7	25.7	25.4	24.0	21.7	25.2	24.0	
Adj PAT	1,691	2,441	1,991	2,042	1,982	2,742	2,484	2,621	8,165	9,828	2,366	5.0%
YoY change (%)	1.3	24.3	3.6	2.1	17.2	12.3	24.7	28.4	8.1	20.4	18.9	

E: MOFSL Estimates

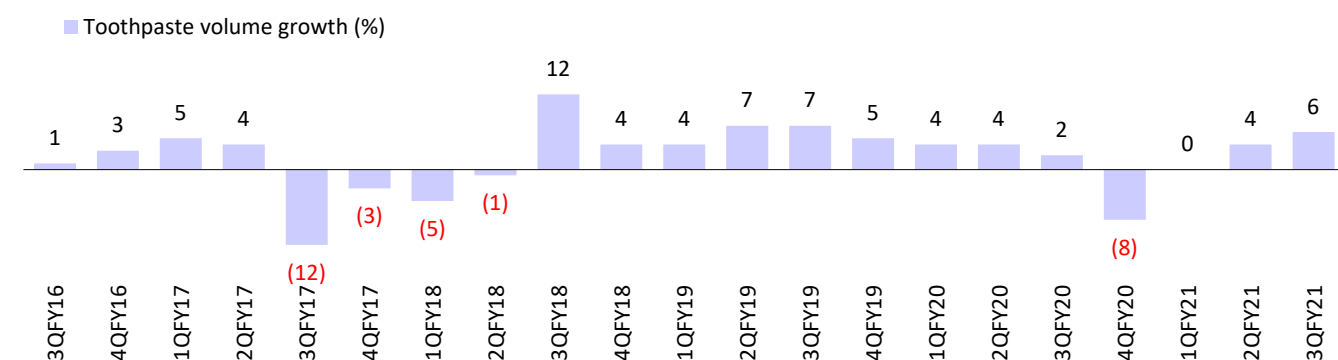
Key Performance Indicators

Y/E March	FY20				FY21		
	1Q	2Q	3Q	4Q	1Q	2Q	3Q
Realization Gr %	0.2	0.6	2.0	0.9	-4.1	1.2	1.4
2Y average growth %							
Volumes	4.0	5.5	4.7	-1.5	2.0	4.0	4.2
Sales	5.3	6.1	5.4	-0.7	0.1	4.9	5.9
EBITDA	16.6	3.8	5.8	-7.2	4.6	12.4	8.9
PAT	11.9	17.4	8.1	1.9	9.2	18.3	14.2
% sales							
COGS	34.1	35.3	34.3	35.3	33.9	31.9	30.2
Others	38.2	38.3	38.2	40.1	36.5	36.3	39.7
Depreciation	4.6	4.1	4.5	4.3	4.4	3.6	3.7
YoY change %							
COGS	4.3	4.7	2.6	-7.4	-4.9	-4.9	-5.2
Others	2.5	9.6	9.1	-1.1	-8.3	-0.3	11.6
Other income	65.6	-0.1	-26.7	64.4	-58.6	-12.3	70.3
EBIT	3.2	-5.9	-3.4	-20.1	5.1	33.3	22.9

E: MOFSL Estimates

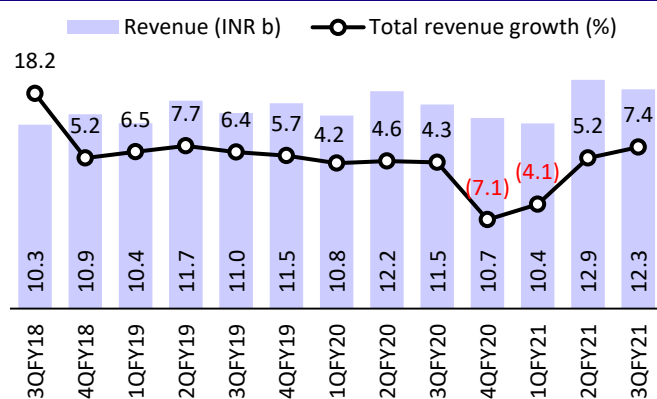
Key exhibits

Exhibit 1: Toothpaste volumes grew 6% YoY in 3QFY21



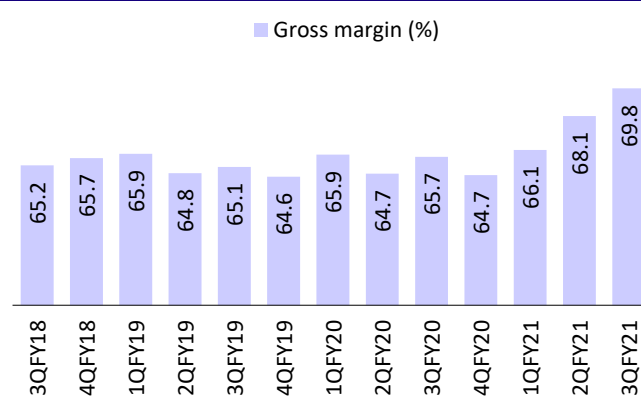
Source: Company, MOFSL

Exhibit 2: Revenue grew 7.4% YoY to INR12.3b in 3QFY21



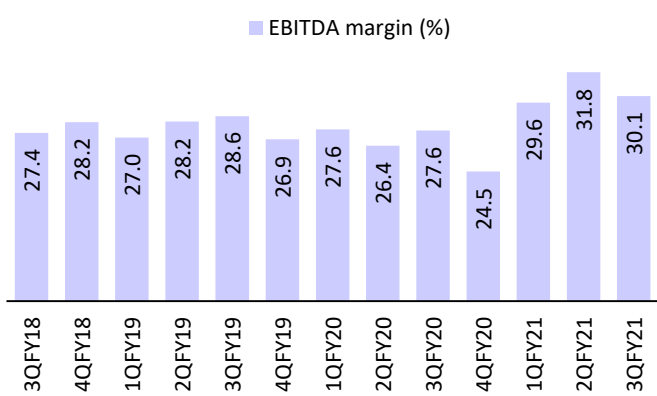
Source: Company, MOFSL

Exhibit 3: Gross margin expanded 410bp YoY



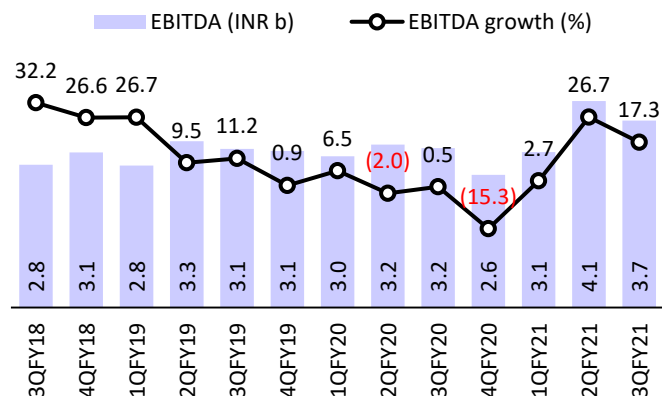
Source: Company, MOFSL

Exhibit 4: EBITDA margin expanded 250bp YoY to 30.1%...



Source: Company, MOFSL

Exhibit 5: ...thus, EBITDA grew 17.3% YoY to INR3.7b



Source: Company, MOFSL

Valuation and view

What happened in the past decade from a business perspective?

- A combination of sharp decline in market share in recent years and increased penetration of the category itself has resulted in single-digit topline growth over the last 10 years. In recent years, premiumization has also come off, affecting realization growth (v/s the past).
- For a company with a modest base of INR20.4b sales in FY10, a sales/EBITDA/PBT CAGR of 8–10% over the last 10 years is weak. The PAT CAGR was even lower at 7% as the company's tax rate stood at 16.7% in FY10.
- Due to market share decline in recent years, the sales/EBITDA/PAT CAGR was even lower in the last five years at ~3%/~8%/~8%.

What is our broad investment argument?

- The new CEO's stated primacy on volume growth and market share gains
- Visible efforts on branding via sharp increase in ad spends in recent quarters
- Uptick in product development
- Direct distribution expansion in recent years, which augurs well for recouping some of the market share loss over the past few years

CLGT has strong moats in the form of brand, global expertise, distribution, and concentrated category focus. Based on these factors, it has been able to make a comeback several times in the past few decades (after losing market share for some time). Corporate tax cuts, which do not benefit peers materially, have also boosted competitiveness further. Importantly, the company does not need any material capex up to Dec'22.

Valuations and view

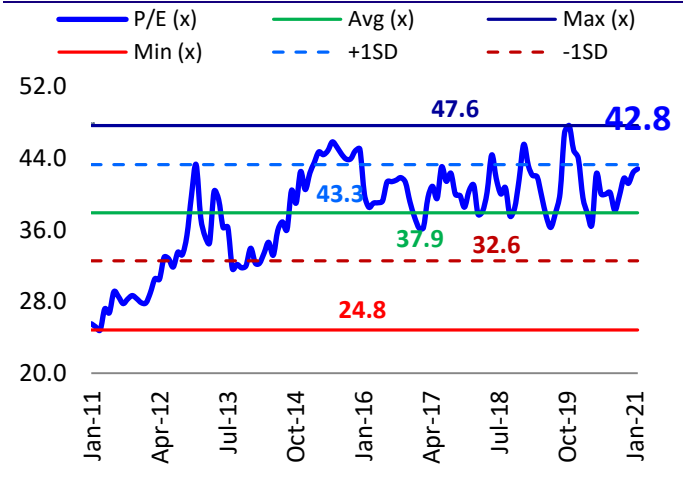
- Changes to the model have resulted in a 5.4%/5.8%/2.1% increase in FY21/FY22/FY23E EPS, largely led by a gross margin surprise and lower-than-expected depreciation.
- Inexpensive valuations and the potential benefits of a strong rural presence have led us to maintain our **Buy** rating on the stock. This is even as we await traction on new products, market share gains, and any announcement related to entry into newer categories – which would elevate topline growth above the 2.6% CAGR levels and earnings growth above the 7.9% CAGR levels of the last five years. With a target multiple of 40x FY23E, we arrive at TP of INR1,810 – a 16% upside to CMP.

Exhibit 6: Changes to the model led to a 5.4%/5.8%/2.1% EPS upgrade for FY21/FY22/FY23E

INR m	Old			New			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Sales	47,689	52,613	57,816	48,264	53,246	58,514	1.2	1.2	1.2
EBITDA	14,201	15,383	17,494	14,756	16,139	17,919	3.9	4.9	2.4
PAT	9,320	10,283	12,071	9,827	10,881	12,324	5.4	5.8	2.1

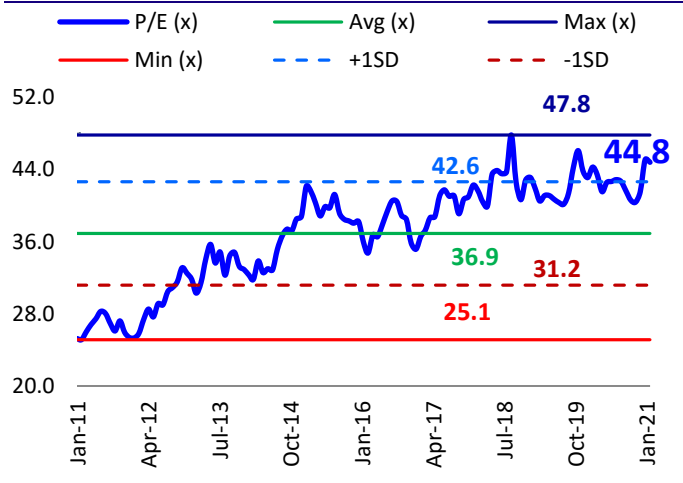
Source: Company, MOFSL

Exhibit 7: CLGT P/E (x)



Source: Company, MOFSL

Exhibit 8: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and valuations

Income Statement

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Net Sales	38,682	39,818	41,880	44,624	45,251	48,264	53,246	58,514
Change (%)	-3.0	2.9	5.2	6.6	1.4	6.7	10.3	9.9
COGS	14,763	14,763	14,887	15,586	15,729	15,500	17,106	18,563
Gross Profit	23,919	25,055	26,992	29,039	29,522	32,764	36,140	39,951
Gross Margin (%)	61.8	62.9	64.5	65.1	65.2	67.9	67.9	68.3
Operating expenses	14,534	15,619	15,855	16,678	17,505	18,008	20,001	22,033
EBITDA	9,385	9,435	11,137	12,361	12,017	14,756	16,139	17,919
Change (%)	13.2	0.5	18.0	11.0	-2.8	22.8	9.4	11.0
Margin (%)	24.3	23.7	26.6	27.7	26.6	30.6	30.3	30.6
Depreciation	1,114	1,332	1,565	1,592	1,979	1,860	1,966	2,049
Int. and Fin. Charges	0	0	0	25	96	80	85	85
Financial Other Income	395	411	375	377	492	322	459	691
Profit before Taxes	8,666	8,514	9,947	11,120	10,434	13,138	14,547	16,476
Change (%)	11.1	-1.8	16.8	11.8	-6.2	25.9	10.7	13.3
Margin (%)	22.4	21.4	23.8	24.9	23.1	27.2	27.3	28.2
Tax	2,541	2,740	3,022	3,566	2,475	3,310	3,665	4,151
Tax Rate (%)	29.3	32.2	31.1	32.1	21.7	25.2	25.2	25.2
Adjusted PAT	6,125	5,774	6,850	7,555	8,165	9,827	10,881	12,324
Change (%)	9.6	-5.7	18.6	10.3	8.1	20.4	10.7	13.3
Margin (%)	15.8	14.5	16.4	16.9	18.0	20.4	20.4	21.1
Non-rec. (Exp)/Income	-313	0	-117	201	0	0	0	0
Reported PAT	5,812	5,774	6,734	7,756	8,165	9,827	10,881	12,324

Balance Sheet

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Share Capital	272	272	272	272	272	272	272	272
Reserves	10,038	12,466	14,974	14,196	15,670	16,308	16,308	16,308
Net Worth	10,310	12,738	15,246	14,468	15,942	16,580	16,580	16,580
Loans	0	0	0	777	0	0	0	0
Deferred Liability	97	275	355	309	50	50	50	50
Capital Employed	10,407	13,013	15,601	15,553	15,992	16,631	16,631	16,631
Gross Block	14,866	17,188	19,077	21,077	22,182	23,182	24,182	25,182
Less: Accum. Depn.	-4,785	-6,107	-7,617	-9,169	-10,953	-12,813	-14,779	-16,827
Net Fixed Assets	10,081	11,081	11,459	11,909	11,229	10,369	9,403	8,355
Capital WIP	784	1,666	1,586	1,987	1,900	1,900	1,900	1,900
Investments	312	312	312	312	186	186	186	186
Curr. Assets, L&A	8,852	10,048	12,282	12,058	12,725	14,601	16,499	18,321
Inventory	2,915	2,926	2,267	2,486	2,969	2,496	2,503	2,974
Account Receivables	1,015	1,299	2,010	2,098	1,326	2,098	2,314	2,543
Cash & Bank	2,887	2,943	4,562	3,994	4,213	6,204	6,546	6,718
Others	2,035	2,880	3,443	3,481	4,217	3,804	5,136	6,087
Curr. Liab. and Prov.	9,622	10,094	10,037	10,712	10,048	10,426	11,358	12,132
Account Payables	5,519	5,975	6,203	6,132	6,125	6,335	7,090	7,678
Other Liabilities	3,438	3,356	3,040	3,757	2,830	2,943	3,063	3,188
Provisions	664	763	794	823	1,093	1,148	1,205	1,265
Net Current Assets	-770	-46	2,245	1,346	2,677	4,176	5,141	6,190
Application of Funds	10,407	13,013	15,601	15,553	15,992	16,631	16,631	16,631

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
Basic (INR)								
EPS	22.5	21.2	25.2	27.8	30.0	36.1	40.0	45.3
Cash EPS	26.6	26.1	30.9	33.6	37.3	43.0	47.2	52.8
BV/Share	37.9	46.8	56.1	53.2	58.6	61.0	61.0	61.0
DPS	11.0	11.0	24.0	23.0	28.0	33.8	40.0	45.3
Payout %	48.8	51.7	95.3	82.8	93.2	93.5	100.0	100.0
Valuation (x)								
P/E	69.4	73.7	62.1	56.3	52.1	43.3	39.1	34.5
Cash P/E	58.8	59.9	50.5	46.5	41.9	36.4	33.1	29.6
EV/Sales	10.9	10.6	10.0	9.5	9.3	8.7	7.9	7.2
EV/EBITDA	45.0	44.7	37.8	34.1	35.0	28.4	25.9	23.4
P/BV	41.3	33.4	27.9	29.4	26.7	25.7	25.7	25.7
Dividend Yield (%)	0.7	0.7	1.5	1.5	1.8	2.2	2.6	2.9
Return Ratios (%)								
RoE	68.0	50.1	49.0	50.9	53.7	60.4	65.6	74.3
RoCE	67.5	49.3	47.9	48.6	52.2	60.6	65.8	74.5
RoIC	119.0	75.7	76.5	79.5	82.9	107.0	129.8	150.0
Working Capital Ratios								
Debtor (Days)	9	11	17	17	11	16	16	16
Asset Turnover (x)	4.2	3.6	3.1	3.4	3.3	3.3	3.7	4.0
Leverage Ratio								
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0

Cash Flow Statement

(INR m)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E	2023E
OP/(loss) before Tax	8,666	8,514	9,947	11,121	10,434	13,138	14,547	16,476
Depreciation	1,114	1,332	1,565	1,592	1,979	1,860	1,966	2,049
Int./Div. Received	-264	34	81	85	-95	-322	-459	-691
Interest Paid	-261	-297	-290	-317	-171	80	85	85
Direct Taxes Paid	-2,524	-3,014	-3,474	-4,144	-3,213	-3,310	-3,665	-4,151
(Incr)/Decr in WC	156	311	-889	1,494	-35	492	-623	-877
CF from Operations	6,887	6,880	6,940	9,830	8,899	11,938	11,851	12,891
(Incr)/Decr in FA	-2,713	-3,212	-2,087	-1,042	-604	-1,000	-1,000	-1,000
Free Cash Flow	4,175	3,668	4,853	8,788	8,295	10,938	10,851	11,891
(Pur)/Sale of Investments	70	0	0	0	133	0	0	0
Others	12	-205	564	-1,209	305	1,360	1,488	1,719
CF from Invest.	-2,631	-3,418	-1,523	-2,251	-166	360	488	719
Change in Equity	0	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	0	0	-121	0	0	0	0
Dividend Paid	-2,987	-2,717	-2,986	-6,462	-7,315	-9,188	-10,881	-12,324
Others	-928	-689	-812	-1,564	-1,199	-1,119	-1,114	-1,114
CF from Fin. Activity	-3,915	-3,406	-3,798	-8,147	-8,514	-10,308	-11,995	-13,438
Incr/Decr of Cash	342	56	1,619	-568	219	1,991	343	171
Add: Opening Balance	2,545	2,887	2,943	4,562	3,994	4,213	6,203	6,546
Closing Balance	2,887	2,943	4,562	3,994	4,213	6,203	6,546	6,718

E: MOFSL Estimates

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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