

Colgate-Palmolive (India) (COLPAL)

CMP: ₹ 1564

Target: ₹ 1690 (8%)

Target Period: 12 months

HOLD

July 27, 2022

Sustainable growth entails more levers (Personal care)

About the stock: Colgate-Palmolive (India) (CPIL) is the largest oral care company in India. The company has more than 50% market share in the toothpaste category. The major brands include Colgate Dental Cream, Colgate Total, Colgate Max-Fresh. With the changing consumer preference for naturals products, the company is focusing on growing Colgate Vedshakti brand. Recently, it has launched toothpaste for Diabetics, Colgate Visible White O2, Palmolive range in face cleansing category

- Colgate has distribution reach of 6.5 million outlets. The company commands one of the highest gross margins in the industry and spends ~13% of sales on marketing to support existing brands and new launches

Q1FY23 Results: Colgate reported dismal set of numbers with 7.1% dip in earnings

- Sales were up 2.6% YoY led by pricing growth; volume seen de-growth
- EBITDA was at ₹ 325.7 crore, dipped by 8.3% YoY, with margins at 27.2%
- Consequently, adjusted PAT was at ₹ 216.6 crore (down 7.1% YoY)

What should investors do? Colgate's share price has underperformed FMCG index in last five years with of 47% (from ₹ 1070 in July 2017 to ₹ 1564 in July 2022)

- We expect commodities to cool off in next few months & margins, volumes to recover in H2FY23 with grammage reduction in smaller SKUs. However, CPIL require more lever for long term sustainable growth
- We maintain our Hold rating on the stock

Target Price and Valuation: We value the stock at ₹1690, valuing the business at 38x FY24 earnings.

Key triggers for future price performance:

- Innovation & new launches in whitening toothpaste, naturals, Ayurveda & therapeutic toothpaste category help sustaining moderate volume growth in longer run. However, near term growth is only contributed by price hikes
- CPIL saw 460 bps operating margin expansion in FY21. With sharp increase in packaging cost, operating margins have peaked out in the medium term
- The company has launched products in face cleansing category. We believe CPIL require aggressive approach to growth personal care category given oral care category has been saturated with 95% penetration

Alternate Stock Idea: Besides CPIL, we like Tata Consumer in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampaan & Soulful in Indian market expected to drive sales & margins
- We value the stock at ₹ 910 with a BUY rating



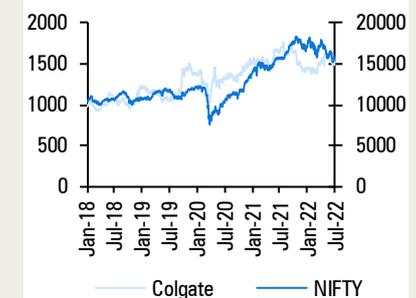
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	42,548.1
Total Debt (FY22)	69.0
Cash and Investments (FY22)	754.7
EV	41,862.4
52 week H/L (₹)	1814 / 1379
Equity capital	27.2
Face value (₹)	1.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.0	51.0	51.0	51.0
FII	19.1	18.0	18.6	18.7
DII	7.7	8.2	8.1	8.8
Others	22.2	22.8	22.3	21.5

Price Chart



Recent event & key risks

- Marketing spends increased by 230 bps sequentially despite pressure on gross margins
- Key Risk:** (i) better than expected traction in natural brands (ii) volatility in RM prices may continue to pressurise margins

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Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	4525.1	4841.2	5099.8	2.4%	5493.3	5945.9	8.0%
EBITDA	1201.7	1509.6	1565.9	10.7%	1636.0	1782.7	6.7%
EBITDA Margin %	26.6	31.2	30.7		29.8	30.0	
Net Profit	816.5	1035.4	1078.3	13.3%	1104.0	1207.8	5.8%
EPS (₹)	30.02	38.07	39.65	13.3%	40.59	44.41	5.8%
P/E	52.1	41.1	39.5		38.5	35.2	
RoNW %	51.2	88.8	62.2		64.1	69.6	
RoCE (%)	60.7	106.4	77.8		84.1	91.2	

Key takeaways of recent quarter

Q1FY23 Results: Volumes, margins to recoup in H2FY23; Long term growth depends on success in personal care category

- Net sales witnessed mere 2.6% growth to ₹ 1196.8 crore led by pricing growth. We believe steep commodity inflation has resulted in volume de-growth as the company has not tweaked prices of smaller SKUs but reduced grammage. The decline in volumes would have been more prominent in rural regions
- Given elevated crude prices & subsequent increase in packaging cost, gross margin contracted by 282 bps. Employee spends & marketing spends were slightly down by 32 bps & 12 bps respectively. However, overhead spends were up by 86 bps. The marketing spends were up by 230 bps sequentially despite continued gross margin pressure. Subsequently, operating profit declined by 8.3% to ₹ 325.7 crore. Operating margins contracted by 325 bps to 27.2%.
- With contraction in operating margins & exceptional expense of ₹9.3 crore (due to certain organisation structure changes), net profit witnessed a de-growth of 10.1% to ₹ 209.7 crore. Other income more than doubled to ₹11.5 crore. Adjusting for exceptional expense, net profit de-grew by 7.1% to ₹216.6 crore
- Prabha Narasimhan will join Colgate-Palmolive (India) Limited as Managing Director and CEO effective September 1, 2022.
- Oral care category penetration in India is 95% however only 20% people brush twice a day. Though, the opportunity in oral care is large considering potential of increasing consumption through brushing twice a day, but habit change is very difficult & it would take a generation to increase twice brushing population. We believe oral care category would grow at mid-single digit in the long term
- The company is continuing its innovation drive by launching products like Colgate Visible White O2, Colgate Gum Expert & Palmolive face care range of products in FY22. The company also re-launched Colgate strong teeth & Colgate Ved-Shakti last year.
- We believe market share gain in Ayurveda, Natural toothpaste category & faster growth in personal care category is important for the sustainable long term growth for the company. Moreover, with the high penetration levels & slower conversion of 'brushing twice a day' population, oral care category is largely dependent on premiumisation trend for growth.
- CPIL has launched many face cleansing products under Palmolive brand such as face forms, masques & Scrubs. We believe the company is required to spend more on marketing & leverage its distribution network to grow the brand.
- Colgate has not passed on entire inflation & has not tweaked ₹10 & ₹20 price points. It is focusing on LUPs (Low unit packs), Cibaca & Colgate Strong teeth brands to drive long term growth
- The ecommerce business for Colgate has grown 10x in last five years. It has gained market share by 70bps in modern trade channel.

Exhibit 1: Peer Comparison

Sector / Company	CMP		TP Rating	M Cap (₹ Cr)	Sales growth (%)			EBITDA Margins (%)				P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹)			FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Colgate (COLPAL)	1564	1690	Hold	42548	5.3	7.7	8.2	30.9	30.0	30.2	39.5	38.5	35.2	62.2	64.1	69.6	77.8	84.1	91.2	
Dabur India (DABIND)	568	680	Buy	96113	13.9	10.2	11.2	20.7	20.5	20.9	55.2	46.3	41.4	20.8	22.7	22.9	24.9	25.3	26.1	
Hindustan Unilever (HINLEV)	2582	2700	Hold	610844	11.3	12.1	7.5	24.8	24.1	24.5	69.3	63.6	58.0	18.1	19.7	21.5	20.2	22.5	24.6	

Source: Company, ICICI Direct Research

High raw material inflation has not only adversely impacted margins for FMCG companies but it has also slowed down demand conditions in rural & semi-urban regions as consumers are down trading towards smaller SKUs & economy brands. Moreover, oral care is saturated category with 95% penetration & slower rate of habit change of brushing twice a day is also resulting in muted growth in the category. In last one decade, Ayurveda & naturals oral care sub-category is growing faster than white toothpaste & the company is trying to increase its market share in the space with Colgate Ved-Shakti Brand. However, we believe the company is required to aggressively expand its footprint in personal care category with new launches & higher marketing spends. CPIL has strong distribution network & it can leverage it to expand personal care product portfolio. We remain cautious on future growth in the oral care category. We maintain our **HOLD** rating on the stock with the revised target price of ₹ 1690/share (₹ 1700 / earlier).

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	1,196.8	1,236.9	1,166.0	2.6	1,301.3	-8.0	Revenue saw muted growth of 2.6% led by pricing growth. The volumes were dismal given company took grammage reduction in smaller SKUs & consumption shifted towards lower SKUs & economy brand
Operating Income	10.2	8.8	8.1	26.0	7.9	29.0	
Raw Material Expenses	403.1	414.6	359.7	12.0	431.7	-6.6	Gross margin contracted by 282 bps with steep inflation in crude based packaging costs
Employee Expenses	93.7	103.7	95.0	-1.3	84.9	10.4	
SG&A Expenses	163.0	153.5	160.2	1.8	146.8	11.0	Though marketing spends were flat on YoY basis but increased by 230 bps sequentially
Other operating Expenses	211.4	195.4	195.9	7.9	208.5	1.4	Overhead spends were higher by 86 bps (% to sales) during the quarter
EBITDA	325.7	369.7	355.2	-8.3	429.4	-24.2	
EBITDA Margin (%)	27.2	29.9	30.5	-325 bps	33.0	-579 bps	Dip in gross margins & higher overhead spends led to operating margins contraction of 325 bps during the quarter
Depreciation	44.2	45.2	44.7	-1.2	43.8	0.8	
Interest	1.3	1.6	1.5	-15.6	1.4	-3.7	
Other Income	11.5	6.8	5.2	121.5	8.9	30.2	
PBT before exceptional	291.8	329.7	314.2	-7.1	393.1	-25.8	
Exceptional Items	9.3	0.0	0.0	NA	0.0	NA	Exceptional expense of ₹9.3 crore due to certain organisation structure changes
Tax Outgo	72.7	83.1	81.0	-10.2	69.6	4.6	
PAT	209.7	246.6	233.2	-10.1	323.6	-35.2	
Adjusted PAT	216.6	246.6	233.2	-7.1	323.6	-33.1	Adjusted net profit declined by 7.1% to ₹216.6 crore on account of de-growth in operating profit

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	5,493.3	5,493.3	0.0	5,945.9	5,945.9	0.0	
EBITDA	1674.2	1636.0	-2.3	1806.4	1782.7	-1.3	
EBITDA Margin (%)	30.5	29.8	-70 bps	30.4	30.0	-40 bps	We slightly change our operating margin estimates due to high commodity inflation in H1FY23 & increase in overhead spends to the pre-covid levels.
PAT	1132.6	1104.0	-2.5	1225.5	1207.8	-1.4	
EPS (₹)	41.6	40.6	-2.5	45.1	44.4	-1.4	

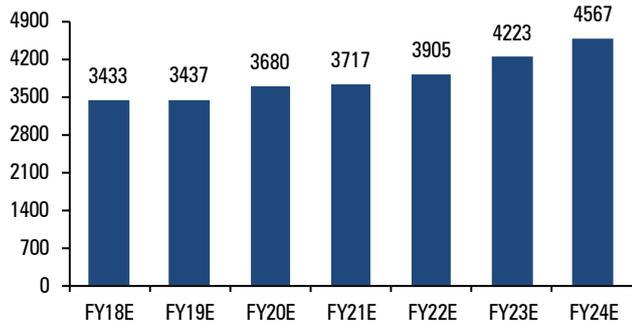
Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Toothpaste Vol. Growth(%)	6.0	6.0	1.0	2.5	5.0	5.0	5.0	5.0	No change in operational assumptions
Toothpaste Value Growth(%)	0.1	7.1	1.0	5.1	8.1	8.1	8.1	8.1	
Toothbrush Vol. Growth(%)	6.0	6.0	-4.0	7.0	6.0	6.0	6.0	6.0	
Toothbrush Value Growth(%)	17.9	4.0	-4.0	9.1	8.1	8.1	8.1	8.1	
Raw Material/Sales %	34.9	34.8	32.0	32.7	33.5	33.8	33.5	33.8	
Marketing Exp./Sales %	12.7	13.8	12.9	12.6	12.6	12.6	12.6	12.6	

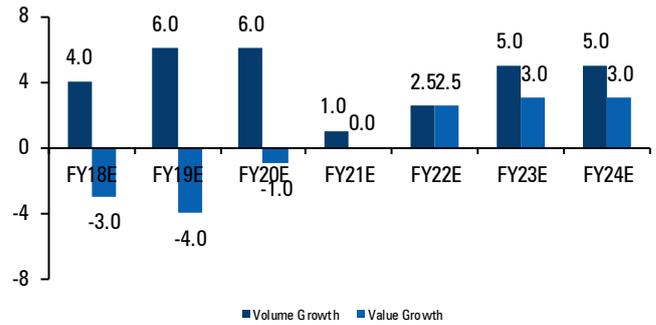
Source: ICICI Direct Research

Exhibit 5: Toothbrush revenue trend (I-direct estimate)



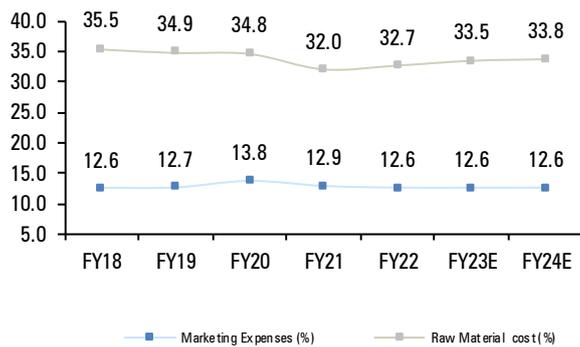
Source: ICICI Direct Research, Company

Exhibit 6: Toothpaste volume growth trend (I-direct estimate)



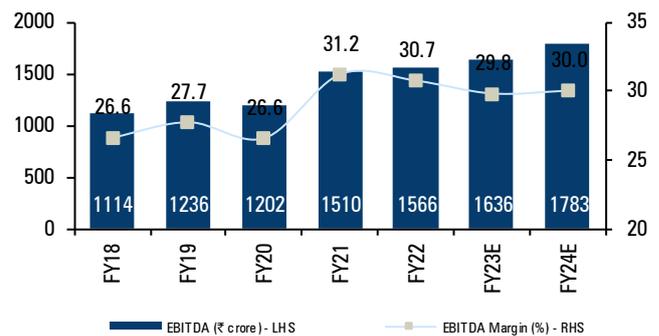
Source: ICICI Direct Research, Company

Exhibit 7: A&P & RM cost trend



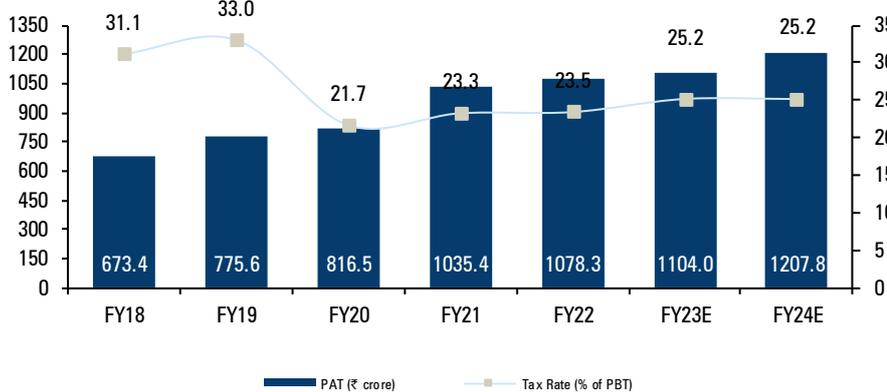
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA margin trend (%)



Source: ICICI Direct Research, Company

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Valuations

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	4810.5	7.2	38.1	26.8	41.1	27.5	88.8	106.4
FY22	5066.5	5.3	39.6	4.1	39.5	26.5	62.2	77.8
FY23E	5458.0	7.7	40.6	2.4	38.5	25.3	64.1	84.1
FY24E	5908.5	8.3	44.4	9.4	35.2	23.1	69.6	91.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	4,841.2	5,099.8	5,493.3	5,945.9
Growth (%)	7.0	5.3	7.7	8.2
Raw Material Expenses	1,549.4	1,667.5	1,842.6	2,010.8
Employee Expenses	365.6	385.1	414.8	455.0
Marketing Expenses	625.5	643.1	693.2	750.4
Administrative Expenses	0.0	0.0	163.7	171.3
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	791.1	838.1	743.0	775.7
Total Operating Expenditure	3,331.6	3,533.8	3,857.3	4,163.1
EBITDA	1,509.6	1,565.9	1,636.0	1,782.7
Growth (%)	25.6	3.7	4.5	9.0
Depreciation	182.5	177.3	180.8	189.3
Interest	7.3	5.9	6.5	7.1
Other Income	30.4	26.3	27.3	28.4
PBT	1,350.2	1,409.0	1,476.0	1,614.7
Exceptional items	0.0	-3.6	30.5	0.0
Total Tax	314.8	330.7	371.9	406.9
PAT	1,035.4	1,078.3	1,104.0	1,207.8
Growth (%)	26.8	4.1	2.4	9.4
EPS (₹)	38.1	39.6	40.6	44.4

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	991.9	1,039.1	1,104.0	1,207.8
Add: Depreciation	184.1	176.9	180.8	189.3
Add: Interest	7.3	5.9	6.5	7.1
(Inc)/dec in Current Assets	-422.1	431.1	-56.4	-64.8
Inc/(dec) in Current Liabilities	39.6	-16.0	31.6	91.9
CF from operating activities	783.9	1,625.7	1,266.5	1,431.4
(Inc)/dec in Investments	0.0	19.1	0.0	0.0
(Inc)/dec in Fixed Assets	-57.8	-49.6	1.8	-100.0
Others	129.1	-77.2	9.8	-1.8
CF from investing activities	71.4	-107.7	11.7	-101.8
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	-69.0	0.0
Dividend paid & dividend tap	-921.1	-1,057.2	-1,115.1	-1,196.7
Inc/(dec) in Sec. premium	-35.3	-33.4	-6.5	-7.1
Others	0.0	0.0	0.0	0.0
CF from financing activities	-956.5	-1,090.6	-1,190.6	-1,203.9
Net Cash flow	-101.3	427.5	87.5	125.8
Opening Cash	397.8	296.6	724.0	811.5
Cash with bank	571.1	30.7	30.7	30.7
Closing Cash	867.6	754.7	842.2	968.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,138.7	1,707.5	1,696.4	1,707.4
Total Shareholders funds	1,165.9	1,734.7	1,723.6	1,734.6
Total Debt	77.4	69.0	0.0	0.0
Long Term Provisions	31.1	14.0	38.2	41.4
Other Non-current Liabilities	1.7	1.7	1.7	1.7
Total Liabilities	1,276.1	1,819.4	1,763.4	1,777.7
Assets				
Gross Block	2,001.9	2,077.5	2,177.5	2,277.5
Less: Acc Depreciation	937.2	1,114.5	1,295.3	1,484.7
Net Block	1,064.7	963.0	882.1	792.8
Capital WIP	144.9	121.8	20.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	18.6	0.0	0.0	0.0
LT Loans & Advances/Others	293.3	334.2	348.6	353.5
Current Assets				
Inventory	335.8	357.2	329.0	356.1
Debtors	117.1	224.7	254.2	275.2
Cash	867.6	754.7	842.2	968.0
Loans & Advances	6.9	107.3	141.6	153.2
Other Current Assets	45.1	39.0	59.8	64.8
Current Liabilities				
Creditors	774.3	785.4	717.8	777.0
Provisions	81.1	84.0	67.3	72.8
Other CL	762.6	213.0	329.0	356.1
Net Current Assets	-245.4	400.4	512.7	611.3
Total Assets	1,276.1	1,819.4	1,763.4	1,777.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	38.1	39.6	40.6	44.4
Cash EPS	44.8	46.2	47.2	51.4
BV	42.9	63.8	63.4	63.8
DPS	54.0	19.0	41.0	44.0
Cash Per Share	31.9	27.7	31.0	35.6
Operating Ratios (%)				
EBITDA Margin	31.2	30.7	29.8	30.0
PBT / Net Sales	28.1	27.8	27.0	27.3
PAT Margin	21.5	21.3	20.2	20.4
Inventory days	25.5	25.7	22.0	22.0
Debtor days	8.9	16.2	17.0	17.0
Creditor days	58.7	56.6	48.0	48.0
Return Ratios (%)				
RoE	88.8	62.2	64.1	69.6
RoCE	106.4	77.8	84.1	91.2
Valuation Ratios (x)				
P/E	41.1	39.5	38.5	35.2
EV / EBITDA	27.5	26.5	25.3	23.1
EV / Net Sales	8.6	8.2	7.6	7.0
Market Cap / Sales	8.8	8.4	7.8	7.2
Price to Book Value	36.5	24.5	24.7	24.5
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	0.3	0.7	0.7	0.7
Quick Ratio	0.1	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Colgate (COLPAL)	1,564	1,690	Hold	42,548	39.6	40.6	44.4	39.4	38.5	35.2	8.4	7.8	7.2	77.8	84.1	91.2	62.2	64.1	69.6
Dabur India (DABIND)	568	680	Buy	96,113	9.9	11.7	13.1	57.6	48.3	43.3	8.8	8.0	7.2	24.9	25.3	26.1	20.8	22.7	22.9
Hindustan Unilever (HINLEV)	2,582	2,700	Hold	6,10,844	37.5	40.9	44.8	68.8	63.1	57.6	12.1	10.8	10.1	20.2	22.5	24.6	18.1	19.7	21.5
ITC Limited (ITC)	304	310	Buy	3,60,223	12.4	14.0	15.5	24.5	21.7	19.6	6.1	5.6	5.1	31.4	34.9	36.6	24.5	26.7	28.1
Jyothy Lab (JYOLAB)	166	145	Hold	6,077	4.3	5.6	6.4	38.9	29.6	26.0	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	515	530	Hold	64,929	9.7	10.6	11.7	52.9	48.7	44.0	6.8	6.3	5.8	41.2	46.8	52.9	37.5	41.4	47.4
Nestle (NESIND)	18,565	19,050	Hold	1,75,243	222.4	252.9	291.6	83.5	73.4	63.7	12.0	10.8	9.8	58.7	58.8	62.9	111.3	110.4	111.8
Tata Consumer Products (TAT)	802	910	Buy	67,201	11.0	15.0	17.5	72.8	53.5	45.9	5.4	4.9	4.5	8.4	10.3	11.3	7.0	8.8	9.8
VST Industries (VSTIND)	3,171	3,425	Hold	4,986	229.3	252.9	290.5	13.8	12.5	10.9	4.2	3.9	3.6	39.2	44.6	50.6	30.0	33.4	37.8
Varun Beverage (VARBEV)	870	900	Buy	55,179	17.2	17.3	20.2	50.5	50.4	43.0	6.3	5.1	4.5	17.1	25.6	29.7	18.3	22.8	23.0
Zydus Wellness (ZYDWEL)	1,605	2,200	Buy	10,299	48.5	62.6	72.5	33.1	25.6	22.1	5.1	4.6	4.1	6.1	7.8	8.8	6.4	8.1	9.2

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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