

# Colgate-Palmolive (India) (COLPAL)

CMP: ₹ 1451

Target: ₹ 1440 (-1%)

Target Period: 12 months

HOLD

January 25, 2023

## Dismal growth continues...

**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 launched toothpaste for Diabetics, Colgate Visible White O2, Palmolive range in face cleansing category.

- Colgate has distribution reach of 6.5 million outlets. It commands very high gross margins to support existing brands and new launches through marketing spend of ~13% of sales

**Q3FY23 Results:** Colgate reported a weak set of numbers with flat sales growth.

- Sales were up 0.9% YoY led by pricing growth; volume saw de-growth
- EBITDA was at ₹ 361.5 crore, dipping 5% YoY, with margins at 28%
- Consequently, adjusted PAT was at ₹ 243.2 crore (down 3.6% YoY)

**What should investors do?** Colgate's share price has underperformed the FMCG index in the last five years with 30% return.

- Oral care category has been one of the laggard categories with meagre growth largely led by premiumisation & pricing growth. The company is required to expand non-oral care product portfolio to drive growth
- We maintain our **HOLD** rating on the stock

**Target Price and Valuation:** We value the stock at ₹ 1440, valuing the business at 35x FY25 earnings.

**Key triggers for future price performance:**

- The company needs to expand the addressable market by foraying into other personal care categories. Oral care category is saturated and is expected to grow volumes in low single digits in the long run
- Gross margin is expected to remain elevated at ~65% given the decline in crude based commodity prices. The company would increase ad spends to perk up volumes specifically in natural & Ayurveda space
- In natural & Ayurveda toothpaste space, competition has taken pole position and CPIL needs to increase its presence in the natural space given accelerated pace of consumption shift from white to natural toothpaste

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

- Strong innovation & premiumisation strategy in salt, tea, Sampann & Soulful in Indian market expected to drive sales & margins
- We value the stock at ₹ 950 with a BUY rating



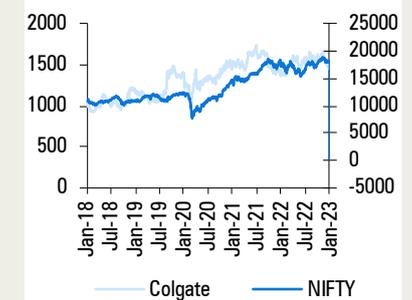
### Particulars

Particulars (₹ crore)	Amount
Market Capitalization	39,473.3
Total Debt (FY22)	69.0
Cash and Investments (FY22)	754.7
EV	38,787.6
52 week H/L (₹)	1695 / 1375
Equity capital	27.2
Face value (₹)	1.0

### Shareholding pattern

(in %)	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	51.0	51.0	51.0	51.0
FII	18.6	18.7	19.5	21.1
DII	8.1	8.8	9.3	7.8
Others	22.3	21.5	20.3	20.1

### Price Chart



### Recent event & key risks

- Launched e-commerce platform 'detistfirst.co.in' for dentist to access Colgate products
- Key Risk:** (i) Better than expected traction in natural brands (ii) Volatility in RM prices may continue to pressurise margins

### Research Analyst

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### Key Financial Summary

Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	FY25E	CAGR (FY22-25E)
Total Operating Income	4525.1	4841.2	5099.8	2.4%	5252.0	5582.4	5912.9	5.1%
EBITDA	1201.7	1509.6	1565.9	10.7%	1524.4	1623.7	1682.0	2.4%
EBITDA Margin %	26.8	31.4	30.9		29.2	29.3	28.6	
Net Profit	816.5	1035.4	1078.3	13.3%	1026.7	1095.2	1133.0	1.7%
EPS (₹)	30.0	38.1	39.6	0.1	37.7	40.3	41.7	1.7%
P/E	48.3	38.1	36.6		38.4	36.0	34.8	
RoNW %	51.2	88.8	62.2		60.4	64.1	65.7	
RoCE (%)	60.7	106.4	77.8		79.3	84.2	86.1	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter

### Q3FY23 Results: Subdued volumes; expansion in new category need of the hour

- Colgate reported a weak set of results with flat revenue at ₹ 1291.3 crore during the quarter. Domestic revenue saw growth of 2.3% whereas exports declined in Q3FY23
- The oral care category has been saturated with penetration levels reaching more than 90% in both urban & rural regions. Moreover, growth in the category is only contributed by naturals & Ayurveda sub-category. The company reported 1.9% sales growth during 9MFY23
- The company partnered with the Andhra Pradesh government to start oral health awareness programme of 'Bright Smile Bright Future' from Nallore district during the quarter
- It also launched an e-commerce platform 'dentistfirst.co.in' for dentist to enable them access to specialty Colgate products
- Gross margin contracted 73 bps YoY but improved 210 bps sequentially given crude related commodity prices have sharply declined during the quarter
- Marketing spends increased 137 bps to 13.2% of sales whereas employee & overhead spends were down 20 bps & 17 bps (percentage of sales) in Q3. Operating profit dipped 5% to ₹ 361.5 crore. Operating margin contracted by 174 bps to 28%. Net profit was down 3.6% to ₹ 243.2 crore
- The company has been focusing on driving premiumisation in oral care category with their new launches like Colgate Visible White O2 & Colgate Diabetics toothpaste
- Colgate has also been focusing on propelling growth through naturals oral care products under Ved-Shakti brand. However, peer companies in the category have been gaining market share in the last five years

Colgate - ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	16.8	16.8	54.6
Social	22.3	22.3	21.8
Governance	78.6	78.6	78.6
<b>Overall ESG Score</b>	<b>39.3</b>	<b>39.3</b>	<b>51.7</b>

Source: Bloomberg, ICICI Direct Research, \*Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

### Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)		RoE (%)			RoCE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E		
Colgate (COLPAL)	1451	1440 Hold	39473	5.3	3.0	6.3	30.9	29.2	29.3	36.6	38.4	36.0	62.2	60.4	64.1	77.8	79.3	84.2
Hindustan Unilever (HINLEV)	2622	2800 Hold	604971	11.3	16.3	9.5	24.8	23.5	24.0	69.9	62.4	56.2	18.1	20.3	22.4	20.2	22.9	25.6

Source: Company, ICICI Direct Research

Oral care category is not growing from the last few years given the category has been saturated with more than 90% penetration levels. Further, brushing twice a day campaigns had limited success (only 18% people brush twice a day in India). Naturals & Ayurveda oral care products are continuously gaining share from white toothpaste & Colgate's peer FMCG companies have been gaining market share in the last five years in the said sub-category. We believe the company needs to push naturals oral care products to gain market share. Moreover, it also needs to aggressively foray in non-oral care categories to propel growth. Considering limited progress on both these fronts, we remain cautious on growth prospects. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1440/share (₹ 1610/earlier).

Exhibit 2: Variance Analysis

	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	Comments
Total Operating Income	1,291.3	1,394.2	1,280.1	0.9	1,387.5	-6.9	Net sales flat despite price hikes in earlier quarters. We believe volume would have declined during the quarter
Operating Income	10.1	0.0	8.8	13.9	9.1	10.4	
Raw Material Expenses	440.7	488.0	427.5	3.1	502.9	-12.4	Gross margins contracted by 73 bps YoY but it was up 210 bps sequentially given decline in crude based packaging costs
Employee Expenses	98.9	100.4	100.6	-1.7	94.5	4.6	
SG&A Expenses	169.9	167.3	150.9	12.6	158.2	7.4	Marketing spends were up 137 bps (as percentage to sales) mainly to spend behind brands to perk up volumes
Other operating Expenses	220.3	226.5	220.6	-0.1	223.8	-1.6	
EBITDA	361.5	412.1	380.6	-5.0	408.0	-11.4	
EBITDA Margin (%)	28.0	29.6	29.7	-174 bps	29.4	-141 bps	Operating margins contracted by 174 bps
Depreciation	43.7	45.2	43.9	-0.6	43.9	-0.4	
Interest	1.3	1.6	1.5	-16.6	1.3	-0.8	
Other Income	10.4	6.8	5.7	83.3	11.3	-7.7	
PBT before exceptional	326.9	372.1	340.8	-4.1	374.1	-12.6	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
Tax Outgo	83.7	94.9	88.5	-5.4	96.1	-12.9	
PAT	243.2	277.2	252.3	-3.6	278.0	-12.5	Net profit dipped by 3.6%
Adjusted PAT	243.2	277.2	252.3	-3.6	278.0	-12.5	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore)	FY23E			FY24E			FY25E	Comments
	Old	New	% Change	Old	New	% Change	New	
Net Sales	5,372.6	5,216.7	-2.9	5,815.4	5,544.9	-4.7	5,873.2	We cut our volume growth estimate for FY23E & FY24E. We introduce FY25 numbers
EBITDA	1564.5	1524.4	-2.6	1705.0	1623.7	-4.8	1682.0	
EBITDA Margin (%)	29.1	29.2	10 bps	29.3	29.3	-4 bps	28.6	
PAT	1050.6	1026.7	-2.3	1149.6	1095.2	-4.7	1133.0	
EPS (₹)	38.6	37.7	-2.3	42.3	40.3	-4.7	41.7	

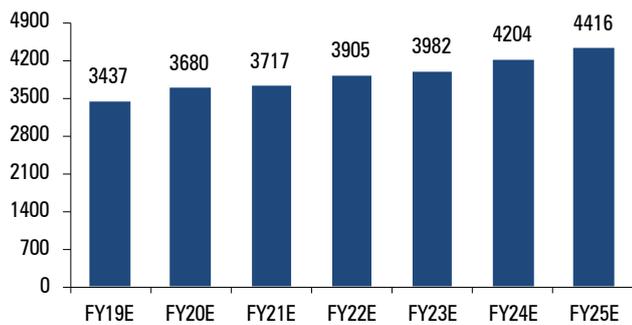
Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current						Earlier		Comments
	FY20E	FY21E	FY22E	FY23E	FY24E	FY25E	FY23E	FY24E	
Toothpaste Vol. Growth(%)	6.0	1.0	2.5	-1.0	2.5	2.0	2.0	5.0	We estimate negative volume growth for FY23 & cut our FY24 volume estimate as well
Toothpaste Value Growth(%)	7.1	1.0	5.1	2.0	5.6	5.1	5.1	8.2	
Toothbrush Vol. Growth(%)	6.0	-4.0	7.0	6.0	6.0	6.0	6.0	6.0	
Toothbrush Value Growth(%)	4.0	-4.0	9.1	8.1	8.1	8.1	8.1	8.1	
Raw Material/Sales %	34.8	32.0	32.7	34.9	35.0	35.2	34.2	34.5	
Marketing Exp./Sales %	13.8	12.9	12.6	12.6	12.6	12.9	12.6	12.6	

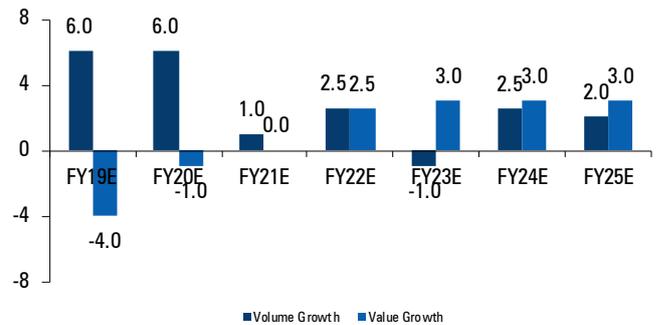
Source: ICICI Direct Research

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



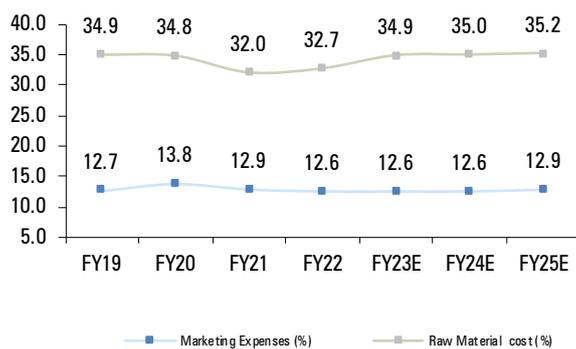
Source: ICICI Direct Research, Company

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



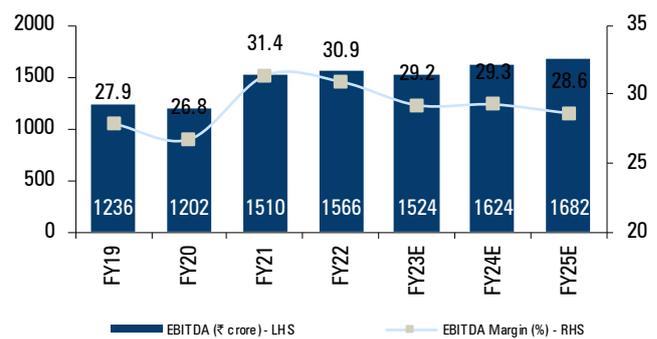
Source: ICICI Direct Research, Company

Exhibit 7: A&P & RM cost trend



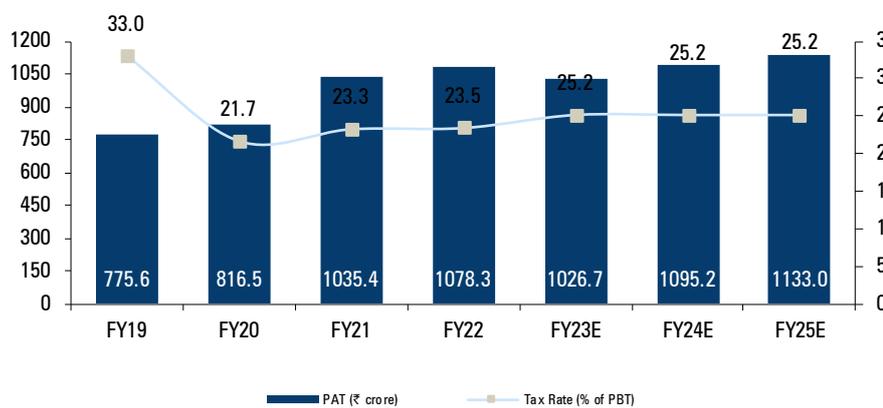
Source: ICICI Direct Research, Company

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 (%)
FY22	5066.5	5.3	39.6	4.1	36.6	24.6	62.2	77.8
FY23E	5216.7	3.0	37.7	-4.8	38.4	25.1	60.4	79.3
FY24E	5544.9	6.3	40.3	6.7	36.0	23.5	64.1	84.2
FY25E	5873.2	5.9	41.7	3.5	34.8	22.6	65.7	86.1

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
<b>Total Operating Income</b>	<b>5,099.8</b>	<b>5,252.0</b>	<b>5,582.4</b>	<b>5,912.9</b>
Growth (%)	5.3	3.0	6.3	5.9
Raw Material Expenses	1,667.5	1,830.5	1,951.6	2,082.1
Employee Expenses	385.1	380.8	410.3	443.4
Marketing Expenses	643.1	662.5	704.2	763.5
Administrative Expenses	0.0	156.5	160.8	170.3
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	838.1	697.2	731.7	771.5
Total Operating Expenditure	3,533.8	3,727.6	3,958.7	4,230.8
<b>EBITDA</b>	<b>1,565.9</b>	<b>1,524.4</b>	<b>1,623.7</b>	<b>1,682.0</b>
Growth (%)	3.7	-2.7	6.5	3.6
Depreciation	177.3	180.8	189.3	197.8
Interest	5.9	6.5	7.1	7.8
Other Income	26.3	35.5	36.9	38.3
PBT	1,409.0	1,372.5	1,464.1	1,514.7
Exceptional items	-3.6	30.5	0.0	0.0
Total Tax	330.7	345.9	369.0	381.7
<b>PAT</b>	<b>1,078.3</b>	<b>1,026.7</b>	<b>1,095.2</b>	<b>1,133.0</b>
Growth (%)	4.1	-4.8	6.7	3.5
EPS (₹)	39.6	37.7	40.3	41.7

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit/Loss after Tax	1,039.1	1,026.7	1,095.2	1,133.0
Add: Depreciation	176.9	180.8	189.3	197.8
Add: Interest	5.9	6.5	7.1	7.8
(Inc)/dec in Current Assets	431.1	-21.7	-47.2	-47.2
Inc/(dec) in Current Liabilities	-16.0	-17.7	67.0	67.0
<b>CF from operating activities</b>	<b>1,625.7</b>	<b>1,174.5</b>	<b>1,311.4</b>	<b>1,358.5</b>
(Inc)/dec in Investments	19.1	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-49.6	1.8	-100.0	-100.0
Others	-77.2	10.8	-1.3	-1.3
<b>CF from investing activities</b>	<b>-107.7</b>	<b>12.6</b>	<b>-101.3</b>	<b>-101.3</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	-69.0	0.0	0.0
Dividend paid & dividend tap	-1,057.2	-1,060.7	-1,087.9	-1,115.1
Inc/(dec) in Sec. premium	-33.4	-6.5	-7.1	-7.8
Others	0.0	0.0	0.0	0.0
<b>CF from financing activities</b>	<b>-1,090.6</b>	<b>-1,136.2</b>	<b>-1,095.1</b>	<b>-1,123.0</b>
Net Cash flow	427.5	50.9	115.1	134.2
Opening Cash	296.6	724.0	775.0	890.0
Cash with bank	30.7	30.7	30.7	30.7
<b>Closing Cash</b>	<b>754.7</b>	<b>805.6</b>	<b>920.7</b>	<b>1,054.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
	FY22	FY23E	FY24E	FY25E
<b>Liabilities</b>				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,707.5	1,673.4	1,680.6	1,698.5
Total Shareholders funds	1,734.7	1,700.6	1,707.8	1,725.7
Total Debt	69.0	0.0	0.0	0.0
Long Term Provisions	14.0	36.5	38.8	41.1
Other Non-current Liabilities	1.7	1.7	1.7	1.7
<b>Total Liabilities</b>	<b>1,819.4</b>	<b>1,738.8</b>	<b>1,748.3</b>	<b>1,768.5</b>
<b>Assets</b>				
Gross Block	2,077.5	2,177.5	2,277.5	2,377.5
Less: Acc Depreciation	1,114.5	1,295.3	1,484.7	1,682.5
Net Block	963.0	882.1	792.8	695.0
Capital WIP	121.8	20.0	20.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	0.0	0.0	0.0	0.0
LT Loans & Advances/Others	334.2	345.9	349.5	353.1
<b>Current Assets</b>				
Inventory	357.2	314.4	334.2	354.0
Debtors	224.7	243.0	258.3	273.5
Cash	754.7	805.6	920.7	1,054.9
Loans & Advances	107.3	135.3	143.8	152.3
Other Current Assets	39.0	57.2	60.8	64.4
<b>Current Liabilities</b>				
Creditors	785.4	686.0	729.2	772.4
Provisions	84.0	64.3	68.4	72.4
Other CL	213.0	314.4	334.2	354.0
Net Current Assets	400.4	490.7	586.0	700.4
<b>Total Assets</b>	<b>1,819.4</b>	<b>1,738.8</b>	<b>1,748.3</b>	<b>1,768.5</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY22	FY23E	FY24E	FY25E
<b>Per share data (₹)</b>				
EPS	39.6	37.7	40.3	41.7
Cash EPS	46.2	44.4	47.2	48.9
BV	63.8	62.5	62.8	63.4
DPS	19.0	39.0	40.0	41.0
Cash Per Share	27.7	29.6	33.9	38.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	30.9	29.2	29.3	28.6
PBT / Net Sales	27.8	26.3	26.4	25.8
PAT Margin	21.3	19.7	19.8	19.3
Inventory days	25.7	22.0	22.0	22.0
Debtor days	16.2	17.0	17.0	17.0
Creditor days	56.6	48.0	48.0	48.0
<b>Return Ratios (%)</b>				
RoE	62.2	60.4	64.1	65.7
RoCE	77.8	79.3	84.2	86.1
<b>Valuation Ratios (x)</b>				
P/E	36.6	38.4	36.0	34.8
EV / EBITDA	24.6	25.1	23.5	22.6
EV / Net Sales	7.6	7.3	6.9	6.5
Market Cap / Sales	7.8	7.6	7.1	6.7
Price to Book Value	22.8	23.2	23.1	22.9
<b>Solvency Ratios</b>				
Debt/EBITDA	0.0	0.0	0.0	0.0
Debt / Equity	0.0	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 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,451	1,440	Hold	39,473	39.6	37.7	40.3	36.6	38.4	36.0	7.8	7.6	7.1	77.8	79.3	84.2	62.2	60.4	64.1
Dabur India (DABIND)	563	700	Buy	97,076	9.9	10.9	12.7	57.2	51.8	44.5	8.9	8.2	7.2	24.9	24.6	26.5	20.8	21.4	22.6
Hindustan Unilever (HINLEV)	2,622	2,800	Hold	6,04,971	37.5	42.0	46.7	69.9	62.4	56.2	12.0	10.3	9.4	20.2	22.9	25.6	18.1	20.3	22.4
ITC Limited (ITC)	339	405	Buy	4,29,858	12.4	14.2	16.7	27.4	23.8	20.4	7.3	6.1	5.7	31.4	35.3	38.8	24.5	27.1	29.7
Jyothy Lab (JYOLAB)	204	205	Hold	7,076	4.3	6.2	7.8	47.9	32.7	26.3	3.3	2.9	2.6	18.7	26.2	31.3	16.6	23.0	26.8
Marico (MARLIM)	505	560	Hold	69,587	9.7	10.2	11.2	52.0	49.5	44.9	7.3	7.1	6.5	41.2	43.6	46.7	37.5	38.3	41.0
Nestle (NESIND)	19,236	22,400	Hold	1,90,912	222.4	255.8	301.1	86.5	75.2	63.9	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,160	1,750	Buy	50,721	27.3	30.9	43.5	42.6	37.5	26.7	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	740	950	Buy	70,169	11.0	13.9	17.1	67.2	53.2	43.2	5.6	5.1	4.6	8.4	9.2	10.8	7.0	8.2	9.7
Varun Beverage (VARBEV)	1,240	1,235	Hold	71,889	17.2	23.2	26.8	72.0	53.4	46.3	8.1	5.6	5.0	17.1	30.3	33.5	18.3	29.0	29.4
VST Industries (VSTIND)	3,114	3,725	Hold	5,615	207.4	228.7	248.3	15.0	13.6	12.5	4.8	4.4	4.0	39.2	43.7	49.9	30.0	33.3	37.5
Zydus Wellness (ZYDWEL)	1,448	2,100	Buy	10,308	48.5	56.5	70.3	29.8	25.6	20.6	5.1	4.5	4.1	6.1	7.0	8.3	6.4	7.2	8.6

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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