

BSE SENSEX

46,961

S&P CNX

13,761


COLGATE-PALMOLIVE
Stock Info

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	435 / 5.9
52-Week Range (INR)	1630 / 1065
1, 6, 12 Rel. Per (%)	-1/-19/-5
12M Avg Val (INR M)	1198
Free float (%)	49.0

Financials Snapshot (INR b)

Y/E March	2020	2021E	2022E
Sales	45.3	47.7	52.6
Sales Gr. (%)	1.4	5.4	10.3
EBITDA	12.0	14.2	15.3
EBITDA Mrg. (%)	26.6	29.8	29.0
Adj. PAT	8.2	9.3	10.2
Adj. EPS (INR)	30.0	34.3	37.5
EPS Gr. (%)	8.1	14.3	9.3
BV/Sh.(INR)	58.6	53.1	44.1

Ratios

RoE (%)	53.7	61.4	77.1
RoCE (%)	52.2	61.7	77.4
Payout (%)	93.2	93.5	100.0

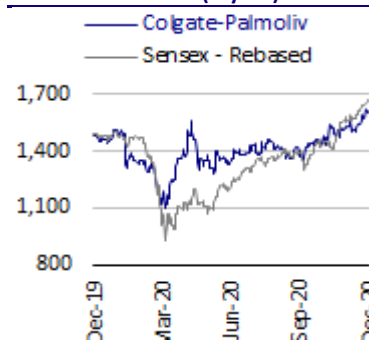
Valuation

P/E (x)	53.3	46.6	42.6
P/BV (x)	27.3	30.1	36.2
EV/EBITDA (x)	35.8	30.1	28.1
Div. Yield (%)	1.7	2.0	2.3

Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	51.0	51.0	51.0
DII	11.1	11.5	11.6
FII	15.7	15.3	15.5
Others	22.2	22.2	22.0

FII Includes depository receipts

Stock Performance (1-year)

CMP: INR1,599
TP: INR1,860 (+16%)
Buy
Market share gains are heartening, but need to sustain

We attended Colgate (CLGT)'s Analyst Meet recently, where we gained some insightful information about the company. Here are the key takeaways:

- **Focus on strengthening the brand is working:** With branding initiatives such as official 'Smile Partner' for 6 teams in the IPL and presenting the stories of real-life heroes, CLGT has achieved strong views across platforms. This has in turn helped drive household penetration to 88% and an increase in top-of-mind recall.
- **Significant efforts on new launches:** CLGT has launched several new innovative products across brands and has some more in the pipeline as well.
 - a) Under the Vedshakti brand, CLGT has launched India's first mouth spray and plans to launch Vedshakti Oil Pulling over the next four weeks.
 - b) In the core portfolio, the re-launch of the flagship brand Strong Teeth has met with good consumer response.
 - c) CLGT has also launched various innovations in toothbrushes: i) the first 100% anti-bacterial brushes under Zig Zag, ii) a full range of Gentle brushes, and iii) toothbrushes with the Naturals positioning.
 - d) CLGT launched Visible White Instant earlier this week, targeted at millennials.
 - e) It is also launching the world's first toothpaste for diabetics.
- **Naturals portfolio seeing strong momentum:** The Naturals category offers a broader perspective and better opportunity to meet customer needs. It further enables customers to uptrade. Therefore, the company is expanding the Vedshakti portfolio with mouth sprays and pulling oil, along with toothpaste. The brand has seen strong momentum in the last few years, with its store availability growing 2x, a 70bp increase in household penetration, and 500bp market share gains in the modern trade (MT) and e-commerce channels.
- **Non oral care roadmap:** Palmolive has very strong residual equity, and CLGT aims to selectively and gradually bring in new launches. The recently launched Palmolive shampoos have been doing well in MT.
- **Increasing consumer frequency of usage:** Increasing the brushing frequency is very high on CLGT's agenda; it has undertaken several efforts in this regard over the years. However, urban India is still largely at 1x a day. The company is devising plans to improve this, but it is a rather challenging task.
- **Toothbrushes transitioning from commodity to branded category:** CLGT is leading the pack in driving the shift in the Toothbrushes category from commodity to branded. Zig Zag is the most recognized toothbrush in the category.
- **2008-15 volumes and growth would not be replicable:** Over 2008-15, penetration increased from the early 60s to the early 90s. CLGT lost market share during FY15-17 and has since arrested share loss. It has also gained some share recently and hopes to sustain this going forward. The next phase of growth would be led by premiumization and behavioral changes, category adjacencies, and (hopefully) share gains as well.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

- **Go-to-market improvement:** CLGT's efforts in MT and e-commerce have led to market share gains of 170bp and 1300bp, respectively, in these two channels in the last year. At the same time, salience in general trade (GT) is also returning.
- **Margin expansion:** CLGT expects gross margins to improve, led by a better SKU mix and more premium products. The shift in preference among consumers toward large packs has helped improve margins in the current year. Overall, the management believes the company could deliver volume growth, along with margin expansion, and not one at the cost of the other.

Valuation and view

- While progress in terms of new launches is encouraging, most of the launches appear niche. CLGT's right to win in the broader Naturals space still appears unclear.
- While market share gains in recent quarters have been encouraging, this needs to sustain.
- Valuations at 42.6x FY22 and 36.4x FY23 are not particularly expensive for a business that could potentially grow earnings in the double digits and has the best-of-breed ROCE.
- Moreover, with ~40% of its sales coming from rural, the outlook on volume growth is good for the next few quarters.
- Progress on two factors is a key monitorable (a) the company's plans to enter into new categories by capitalising on its distribution strength of over 6m outlets and (b) the longer term benefits of the brushing twice a day that it is formulating.
- Maintain **Buy**, with a TP of INR1,860 (44x Dec'22 EPS).

Detailed takeaways are as follows:

Focus on strengthening the brand is working

- CLGT was the official 'Smile Partner' for 6 teams in the IPL. It achieved a reach of 247m viewers across platforms.
- It further achieved digital views of 200m by presenting stories of real-life heroes.
- These efforts led to 88% household penetration, the foremost across brands in all FMCG categories.
- The company has improved its top-of-mind recall rating by 800bps in recent years.

Exhibit 1: Improving brand metrics



Source: Company, MOFSL

Recent and upcoming launches are significant

- CLGT launched India's first mouth spray under the Vedshakti brand.
- It also plans to launch Vedshakti Oil Pulling over the next four weeks. This includes sesame oil blended with eucalyptus, basil, clove, and lemon oil. It is priced at INR350 for 200ml. The company has explained oil pulling on its [website](#).
- **Core portfolio:** The re-launch of its flagship brand Strong Teeth has met with good consumer response. A 130bp increase has been seen in household penetration and 120bp increase in MT market share in the last year.
- **Brushes:** It launched the first 100% anti-bacterial brushes under *Zig Zag* and the full range of *Gentle* brushes. CLGT also launched toothbrushes with the Naturals positioning – Super Flexi Salt, Super Flexi Charcoal, Zig Zag Neem, Zig Zag Turmeric, and Zig Zag Charcoal.
- CLGT launched Visible White Instant earlier this week targeting millennials largely through digital.
- CLGT is launching the world's first toothpaste for diabetics. As per its research, one in every six global diabetic adults resides in India, and these patients have 3x higher risk of gum disease. This new product delivers 50% reduction in gum bleeding and 22% reduction in plaque. The company has tied up with the Indian Periodontics Association and Indian Diabetics Association.

Exhibit 2: Gentle toothbrush range



Source: Company, MOFSL

Exhibit 3: Visible White Instant



Source: Company, MOFSL

Exhibit 4: Colgate for diabetics



Source: Company, MOFSL

Naturals portfolio in Oral Care

- CLGT defines Naturals as: a) herbal, b) ingredient-based (salt and charcoal), and c) sustainable.
- The Naturals category offers a broader perspective and better opportunity to meet customer needs.

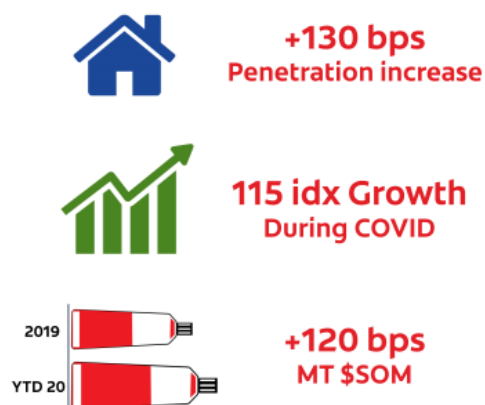
- It further enables customers to upgrade. For example, the Vedshakti mouth spray and Vedshakti Oil Pulling have been launched only because of this success.
- Digital platforms enable niche target audience growth.
- Overall, Vedshakti has seen robust momentum in the last few years. Its store availability has grown 2x, and there has been a 70bp increase in household penetration. It has gained 500bps market share in the MT and e-commerce channels.

Exhibit 5: Expanding Vedshakti portfolio through entry in new categories



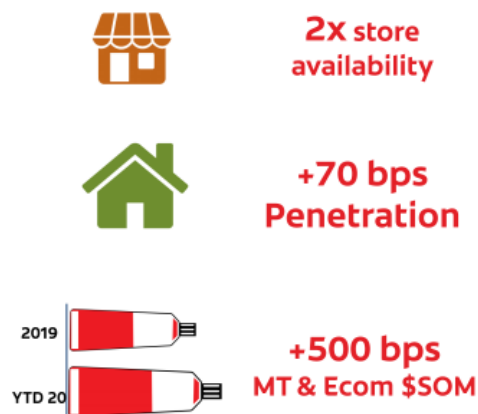
Source: Company, MOFSL

Exhibit 6: Strong momentum in core...



Source: Company, MOFSL

Exhibit 7: ...as well as in Naturals



Source: Company, MOFSL

Non oral care roadmap

- Palmolive has very strong residual equity.
- For new launches, CLGT would enter into the apt category and may even create a new category. The focus would be on the right product solutions.
- However, the company plans to be selective and gradual with the launches.
- Among the recent launches, Palmolive shampoos have been doing well in MT.

Increasing consumer frequency of usage

- Over the years, CLGT has been focusing on increasing consumers' brushing frequency to twice a day.
- However, urban India is still largely at 1x a day.
- This low frequency of brushing is among the worst in the world – both on the urban front and overall India.

- Increasing the brushing frequency is very high on CLGT's agenda. It is devising plans for the same.
- However, consumer behavior on this front is among the toughest to change.

Are toothbrushes still a commodity?

- Toothbrush as a category is gradually evolving from commodity to branded, and CLGT has been leading this change in recent years.
- Zig Zag is the most recognized toothbrush in the category.
- The anti-bacterial, turmeric, neem, and charcoal variants of toothbrushes are also helping drive the change away from commodity.

2008–15 volumes and growth different and would not be replicable

- Penetration increased from the early 60s levels in 2008 to the early 90s levels by 2015.
- CLGT lost market share during FY15–17 and has since arrested share loss. It has also gained some share recently and hopes to sustain this going forward.
- The next phase of growth is expected to be different. It would be led by premiumization and behavioral changes, category adjacencies, and (hopefully) share gains as well.
- Low per person per capita consumption in oral care products (at 220g) offers strong room for growth.

Go-to-market improvement

- **Winning in e-commerce:** CLGT has been able to increase traffic using analytics. Sales in FY20 have grown to 11x 2016 sales. The company has gained 1300bp market share in the last year.
- In MT, CLGT has improved share by 170bp in the last year.
- CLGT is now over-indexed in these two modern channels (MT and e-commerce) v/s being under indexed earlier.
- At the same time, salience in GT is returning.
- However, the management did not comment on GT market share.

Margin expansion

- CLGT expects gross margins to improve, led by a better SKU mix and more premium products.
- The shift in consumer preference toward larger packs has been a major factor driving sharp margin expansion in the current YTD.
- The management aims to keep ad spends in line with competition.
- It believes the company could deliver volume growth, along with margin expansion, and not one at the cost of the other.

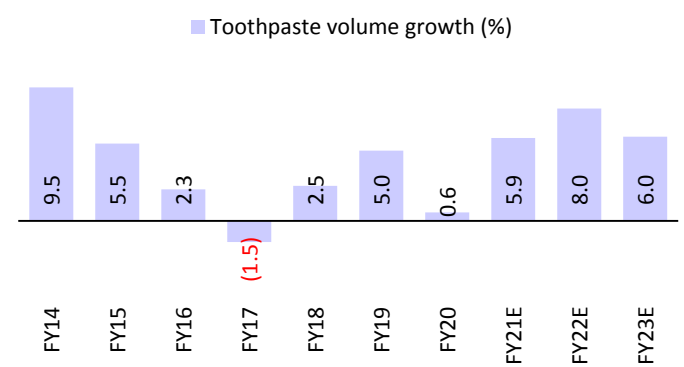
Sustainability

- The company has installed solar and wind energy installations across its manufacturing plants.
- It also records substantial water savings in each of its plants.

Valuation and view

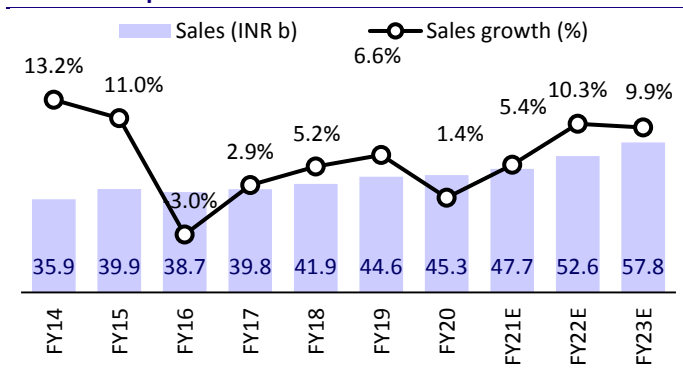
- While progress in terms of new launches is encouraging, most of the launches appear niche. CLGT's right to win in the broader Naturals space still appears unclear.
- While market share gains in recent quarters have been encouraging, this needs to sustain.
- Valuations at 42.6x FY22 and 36.4x FY23 are not particularly expensive for a business that could potentially grow earnings in the double digits and has the best-of-breed ROCE.
- Moreover, with ~40% of its sales coming from rural, the outlook on volume growth is good for the next few quarters.
- The company is gaining entry into new categories by capitalizing on a) its distribution strength of over 6m outlets and b) the longer term benefits of the 'brushing twice a day' strategy that it is formulating. Progress on these is a key monitorable.
- Maintain **Buy**, with TP of INR1,860 (44x Dec'22 EPS).

Exhibit 8: Toothpaste volume growth expected in mid- to high-single digits



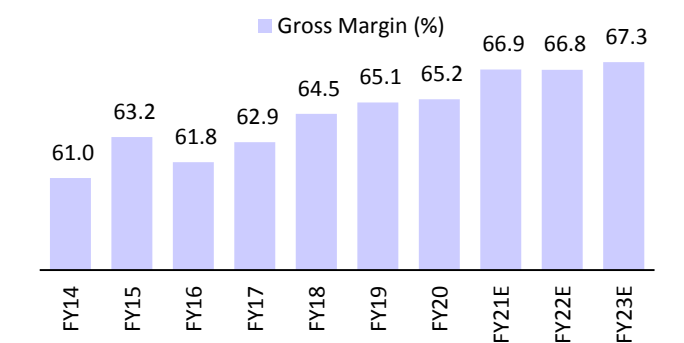
Source: Company, MOFSL

Exhibit 9: Expect 8.5% sales CAGR over FY20–23E



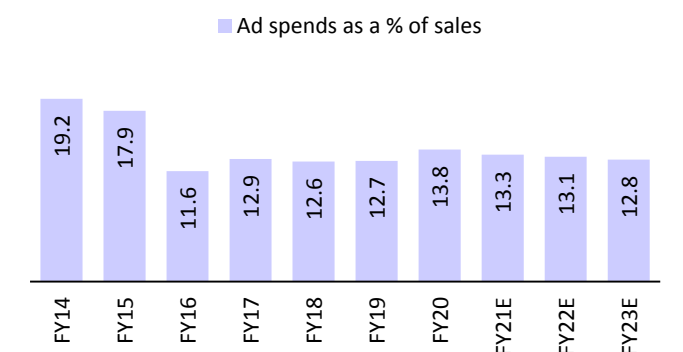
Source: Company, MOFSL

Exhibit 10: Expect gross margins to improve...

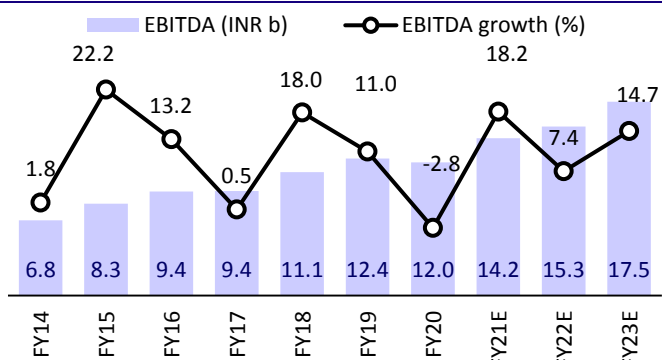


Source: Company, MOFSL

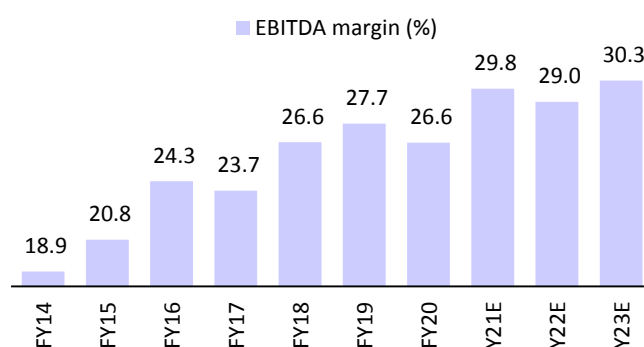
Exhibit 11: ...and ad spends in-line



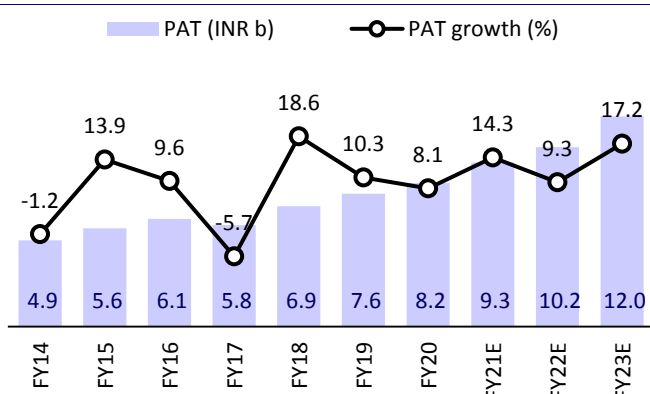
Source: Company, MOFSL

Exhibit 12: Expect EBITDA to register 13.3% CAGR and...

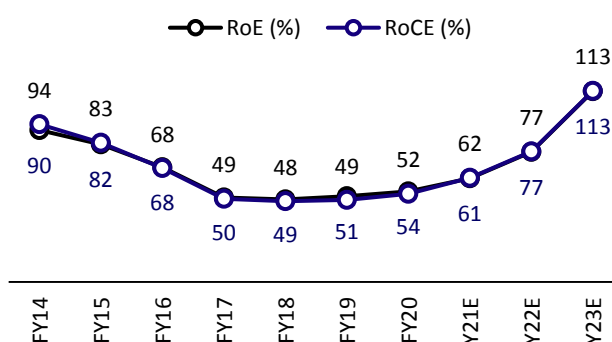
Source: Company, MOFSL

Exhibit 13: ...margin expansion of 370bp over FY20–23E

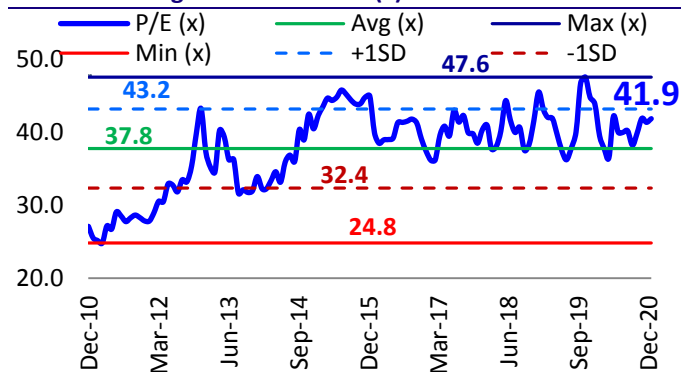
Source: Company, MOFSL

Exhibit 14: Expect PAT CAGR of 13.6% over FY20–23E

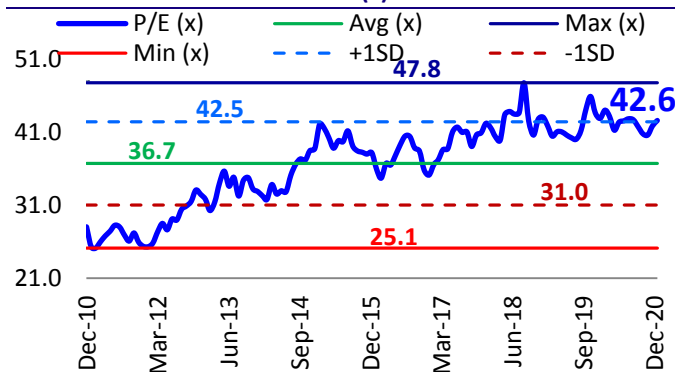
Source: Company, MOFSL

Exhibit 15: Return ratios to improve going ahead

Source: Company, MOFSL

Exhibit 16: Colgate Palmolive PE (x)

Source: Company, MOFSL

Exhibit 17: Consumer sector PE (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	47,689	52,613	57,816
Change (%)	-3.0	2.9	5.2	6.6	1.4	5.4	10.3	9.9
COGS	14,763	14,763	14,887	15,586	15,729	15,806	17,446	18,931
Gross Profit	23,919	25,055	26,992	29,039	29,522	31,883	35,166	38,885
Gross Margin (%)	61.8	62.9	64.5	65.1	65.2	66.9	66.8	67.3
Operating expenses	14,534	15,619	15,855	16,678	17,505	17,682	19,912	21,390
EBITDA	9,385	9,435	11,137	12,361	12,017	14,201	15,255	17,494
Change (%)	13.2	0.5	18.0	11.0	-2.8	18.2	7.4	14.7
Margin (%)	24.3	23.7	26.6	27.7	26.6	29.8	29.0	30.3
Depreciation	1,114	1,332	1,565	1,592	1,979	2,019	2,013	1,975
Int. and Fin. Charges	0	0	0	25	96	96	100	100
Financial Other Income	395	411	375	377	492	395	501	563
Profit before Taxes	8,666	8,514	9,947	11,120	10,434	12,481	13,643	15,983
Change (%)	11.1	-1.8	16.8	11.8	-6.2	19.6	9.3	17.2
Margin (%)	22.4	21.4	23.8	24.9	23.1	26.2	25.9	27.6
Tax	2,541	2,740	3,022	3,566	2,475	3,144	3,437	4,027
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	9,336	10,205	11,955
Change (%)	9.6	-5.7	18.6	10.3	8.1	14.3	9.3	17.2
Margin (%)	15.8	14.5	16.4	16.9	18.0	19.6	19.4	20.7
Non-rec. (Exp)/Income	-313	0	-117	201	0	0	0	0
Reported PAT	5,812	5,774	6,734	7,756	8,165	9,336	10,205	11,955

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	14,181	11,732	8,863
Net Worth	10,310	12,738	15,246	14,468	15,942	14,453	12,004	9,135
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	14,504	12,055	9,185
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	-12,972	-14,985	-16,959
Net Fixed Assets	10,081	11,081	11,459	11,909	11,229	10,210	9,197	8,222
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	14,769	14,272	13,158
Inventory	2,915	2,926	2,267	2,486	2,969	2,546	2,560	3,034
Account Receivables	1,015	1,299	2,010	2,098	1,326	2,072	2,286	2,512
Cash & Bank	2,887	2,943	4,562	3,994	4,213	7,263	6,491	4,625
Others	2,035	2,880	3,443	3,481	4,217	2,887	2,935	2,987
Curr. Liab. and Prov.	9,622	10,094	10,037	10,712	10,048	12,561	13,501	14,281
Account Payables	5,519	5,975	6,203	6,132	6,125	6,470	7,233	7,828
Other Liabilities	3,438	3,356	3,040	3,757	2,830	4,943	5,063	5,188
Provisions	664	763	794	823	1,093	1,148	1,205	1,265
Net Current Assets	-770	-46	2,245	1,346	2,677	2,207	771	-1,124
Application of Funds	10,407	13,013	15,601	15,553	15,992	14,504	12,055	9,185

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	34.3	37.5	44.0
Cash EPS	26.6	26.1	30.9	33.6	37.3	41.7	44.9	51.2
BV/Share	37.9	46.8	56.1	53.2	58.6	53.1	44.1	33.6
DPS	11.0	11.0	24.0	23.0	28.0	32.1	37.5	44.0
Payout %	48.8	51.7	95.3	82.8	93.2	93.5	100.0	100.0

Valuation (x)

P/E	71.0	75.3	63.5	57.6	53.3	46.6	42.6	36.4
Cash P/E	60.1	61.2	51.7	47.6	42.9	38.3	35.6	31.2
EV/Sales	11.2	10.8	10.3	9.7	9.5	9.0	8.1	7.4
EV/EBITDA	46.0	45.8	38.6	34.9	35.8	30.1	28.1	24.6
P/BV	42.2	34.2	28.5	30.1	27.3	30.1	36.2	47.6
Dividend Yield (%)	0.7	0.7	1.5	1.4	1.7	2.0	2.3	2.7

Return Ratios (%)

RoE	68.0	50.1	49.0	50.9	53.7	61.4	77.1	113.1
RoCE	67.5	49.3	47.9	48.6	52.2	61.7	77.4	113.3
RoIC	119.0	75.7	76.5	79.5	82.9	122.7	229.5	390.1

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	3.8	5.3	8.1

Leverage Ratio

Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	0.0	0.0	0.0
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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	12,481	13,643	15,983
Depreciation	1,114	1,332	1,565	1,592	1,979	2,019	2,013	1,975
Int./Div. Received	-264	34	81	85	-95	-395	-501	-563
Interest Paid	-261	-297	-290	-317	-171	96	100	100
Direct Taxes Paid	-2,524	-3,014	-3,474	-4,144	-3,213	-3,144	-3,437	-4,027
(Incr)/Decr in WC	156	311	-889	1,494	-35	3,520	663	29
CF from Operations	6,887	6,880	6,940	9,830	8,899	14,577	12,481	13,496
(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	13,577	11,481	12,496
(Pur)/Sale of Investments	70	0	0	0	133	0	0	0
Others	12	-205	564	-1,209	305	1,401	1,499	1,562
CF from Invest.	-2,631	-3,418	-1,523	-2,251	-166	401	499	562
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	-10,824	-12,654	-14,825
Others	-928	-689	-812	-1,564	-1,199	-1,103	-1,099	-1,099
CF from Fin. Activity	-3,915	-3,406	-3,798	-8,147	-8,514	-11,927	-13,753	-15,924
Incr/Decr of Cash	342	56	1,619	-568	219	3,051	-773	-1,865
Add: Opening Balance	2,545	2,887	2,943	4,562	3,994	4,213	7,264	6,490
Closing Balance	2,887	2,943	4,562	3,994	4,213	7,264	6,490	4,625

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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