

Colgate-Palmolive (India)

29 July 2021

Topline growth fails to excite; margin delivery remains strong

RESULT UPDATE

Sector: FMCG	Rating: HOLD
CMP: Rs 1,709	Target Price: Rs 1,700

Stock Info

Sensex/Nifty	52,653/ 15,778
Bloomberg	CLGT IN
Equity shares (mn)	272
52-wk High/Low	Rs 1,823/1,322
Face value	Rs 1
M-Cap	Rs 465bn/USD 6.2bn
3-m Avg volume	USD 13.5mn

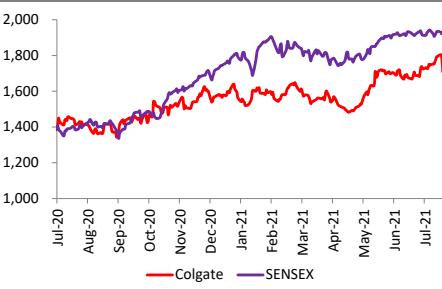
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Sales	48,412	52,664	56,795
PAT	10,354	10,749	11,590
EPS (Rs)	38.1	39.5	42.6
PE (x)	44.9	43.2	40.1
EV/EBITDA (x)	30.2	28.6	26.5
P/BV (x)	39.9	38.1	34.8
EV/Sales	9.4	8.7	8.1
RoE (%)	75.0	90.1	90.7
RoCE (%)	87.3	107.2	108.3
NWC (days)	-23	-19	-19
Net gearing (x)	(0.7)	(0.4)	(0.5)

Shareholding pattern (%)

	Jun 21	Mar 21	Dec 20
Promoter	51.0	51.0	51.0
-Pledged	-	-	-
FII	18.6	16.9	16.6
DII	8.2	10.0	10.1
Others	22.2	22.1	22.3

Stock Performance (1-year)



Premal Kamdar
premalkamdar@systematixgroup.in
+91 22 6704 8090

Ashutosh Joytiraditya
ashutoshj@systematixgroup.in
+91 22 6704 8068

Colgate-Palmolive (CLGT)'s 1QFY22 results were largely in-line with our estimates. Revenues grew 12% YoY on a low base of -4.1% YoY and declined sequentially by 9.1%. On a 2-year CQGR basis as well, revenue growth remained muted at 3.7%. We estimate toothpaste volume growth of ~6-7% YoY in 1QFY22. EBITDA margin was 50bps above our estimate led by a strong 300bps YoY expansion in gross margin. EBITDA/adjusted PAT grew 15.3%/17.7% YoY.

CLGT's strategy of 1) winning with brands (though increased investment in advertisements/promotions across distribution channels), 2) leading innovation by building platforms (extended *Vedshakti* to oil pulling and mouth spray), technological superiority and new launches (introduced world's 1st diabetic toothpaste, *Gentle* series toothbrush range across price points with new variants, *Colgate Magik* toothbrush, lower-priced SKUs of *Palmolive* products) and 3) strengthening GTM (go-to-market) across e-commerce, modern trade and wholesale channels is an effort in the right direction. However, muted topline growth indicates that this strategy is yet to deliver meaningful results in terms of market share gains in the toothpaste category, which remains a key trigger for share price appreciation. Therefore, we maintain our HOLD rating with a target price of Rs 1,700 based on a target P/E of 40x FY23E EPS.

Market share improvement still sometime away: CLGT's market share loss in the toothpaste category to Dabur and Patanjali has been a major concern for investors; its volume market share slipped from 52.4% in 2018 (a high of 57.2% in 2015) to ~49% in 4QFY21 as per media reports. Toothpaste volume growth of ~6-7% YoY in 1QFY22 on a favourable base does not provide enough confidence that CLGT is gaining market share. While the management's new strategic framework has helped maintain market share, it is yet to reclaim the lost share. We believe market share recovery in toothpaste will be a key trigger for the stock.

Margin outperformance continues: CLGT reported overall revenue growth of 12% YoY (on a base of -4.1%; 2-year CQGR of 3.7%; 9.1% decline sequentially) aided by toothpaste volume growth of ~6-7% YoY along with pricing growth. Gross margin expanded 300bps YoY (4th consecutive quarter of 300bps+ expansion) to 69.1% led by price hikes and a better product mix while EBITDA margin expanded 87bps YoY to 30.5%. A&P spends grew 40.6% (on a low base; 13.7% of 1QFY22 sales). Employee costs increased 4.7% YoY (down 57bps YoY to 8.1% of 1Q sales) while other expenses grew 11.5% YoY (down 8bps YoY to 16.8% of 1Q sales). EBITDA/Adjusted PAT grew 15.3%/17.7% YoY.

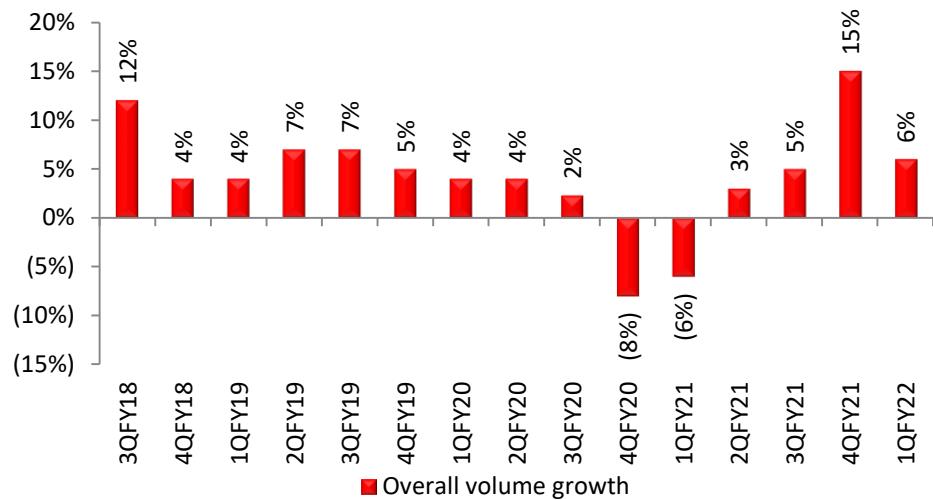
Market share recovery key to re-rating: We maintain our revenue CAGR estimate of 8.3% over FY21-23E led by the toothpaste category (8.5% revenue CAGR). The contribution of personal care (*Palmolive* - ~5% of FY21 sales) to sales should improve marginally by FY23E though it is unlikely to move the needle significantly for the company. Given the management's strong focus on margins, we have built in only a marginal moderation of 80bps over FY21-23E largely due to an increase in A&P spends. We estimate a PAT CAGR of 5.8% (on a high base of 26.8% in FY21) over FY21-23E. We maintain our HOLD rating on CGLT with a target price of Rs 1,700. Key downside risk would be heightened competitive intensity resulting in market share loss and lower than estimated margins; a sharp recovery in market share would be an upside risk.

Exhibit 1: Quarterly performance

YE March (Rs mn)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
Net Revenues	11,660	10,406	12,832	12.0	(9.1)
Cost of materials	2,786	2,697	3,426	3.3	(18.7)
(% of sales)	24.1	26.1	26.9		
Purchase of stock in trade	811	827	723	(1.8)	12.3
(% of sales)	7.0	7.9	5.6		
Gross margin	8,062	6,883	8,683	17.1	(7.2)
Gross margin (%)	69.1	66.1	67.7		
Employee cost	950	907	915	4.7	3.8
(% of sales)	8.1	8.7	7.1		
Advertisement	1,602	1,139	1,489	40.6	7.6
(% of sales)	13.7	10.9	11.6		
Others	1,959	1,757	2,062	11.5	(5.0)
(% of sales)	16.8	16.9	16.1		
EBITDA	3,552	3,080	4,218	15.3	(15.8)
EBITDA margin (%)	30.5	29.6	32.9		
Other income	52	63	66	(17.0)	(21.3)
PBIT	3,604	3,143	4,284	14.7	(15.9)
Depreciation	447	454	455	(1.5)	(1.7)
Interest	15	20	16	(22.6)	(1.3)
PBT	3,142	2,669	3,814	17.7	(17.6)
Tax	851	743	691	14.5	23.1
ETR (%)	27.1	27.9	18.1		
Deferred tax	(42)	(56)	(24)	(26.0)	71.9
Adjusted PAT	2,332	1,982	3,147	17.7	(25.9)
PATAMI margin	20.0	19.0	24.5		
Exceptional item					
Reported PAT	2,332	1,982	3,147	17.7	(25.9)
No. of shares (mn)	272.0	272.0	272.0		
Adj EPS (Rs)	8.6	7.3	11.6		

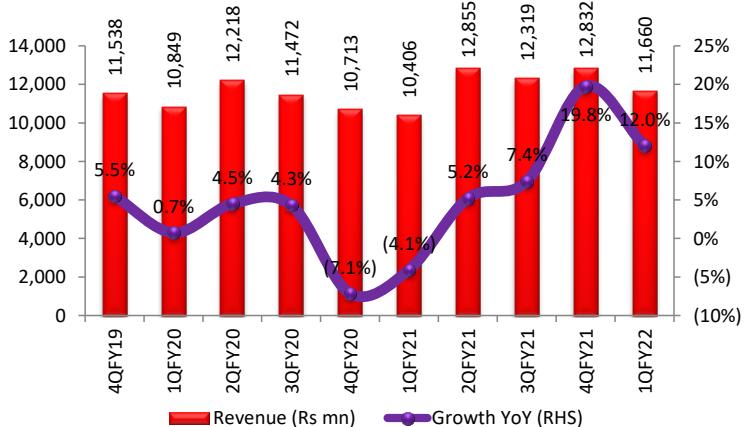
Source: Company, Systematix Institutional Research

Exhibit 2: Domestic volume growth of ~6-7% YoY on a low base of -6% YoY



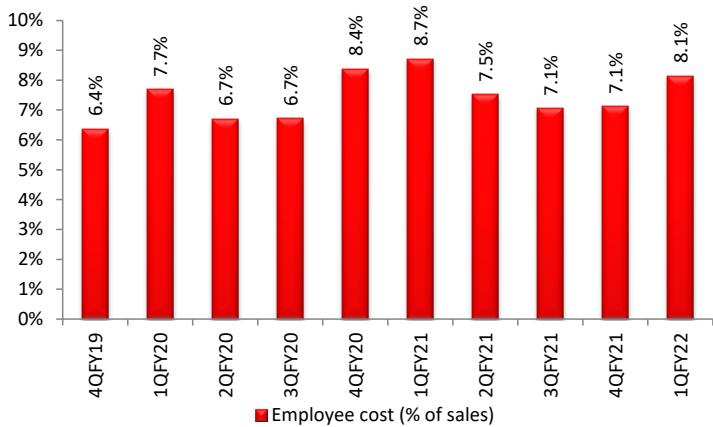
Source: Company, Systematix Institutional Research

Exhibit 3: Topline growth of 12% YoY (2-yr CQGR of 3.7% in 4QFY21)



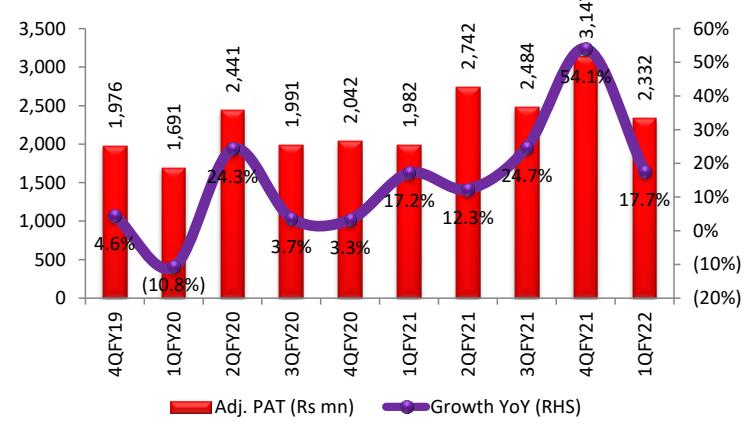
Source: Company, Systematix Institutional Research

Exhibit 5: Employee costs down 57bps YoY to 8.1% of 1Q sales



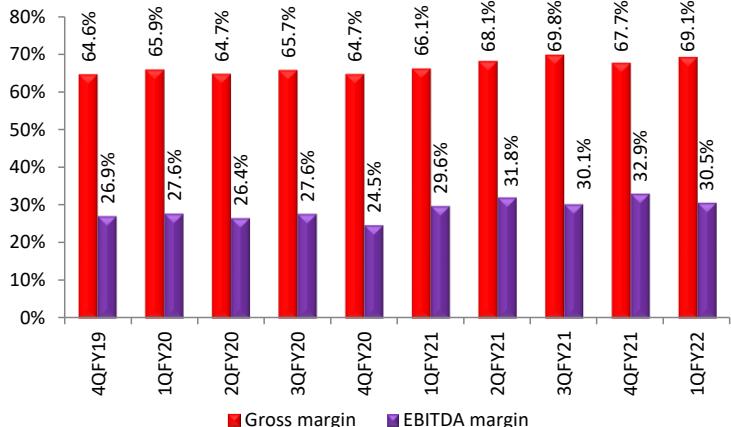
Source: Company, Systematix Institutional Research

Exhibit 7: Adj. PAT up 17.7% YoY led by EBITDA growth



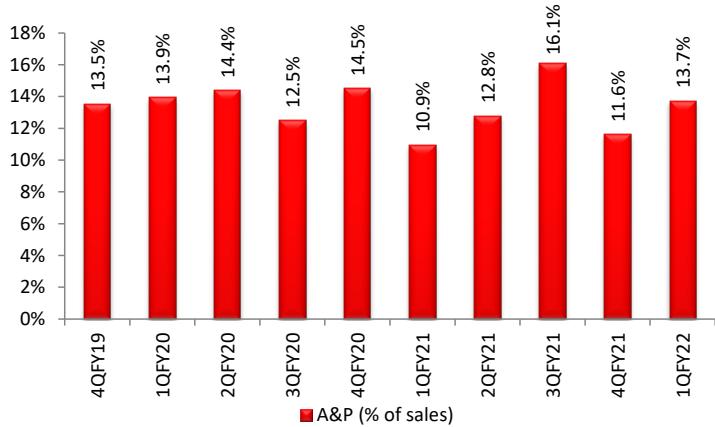
Source: Company, Systematix Institutional Research

Exhibit 4: Gross margin continued to aid EBITDA margin expansion despite an increase in A&P spends in 1QFY22



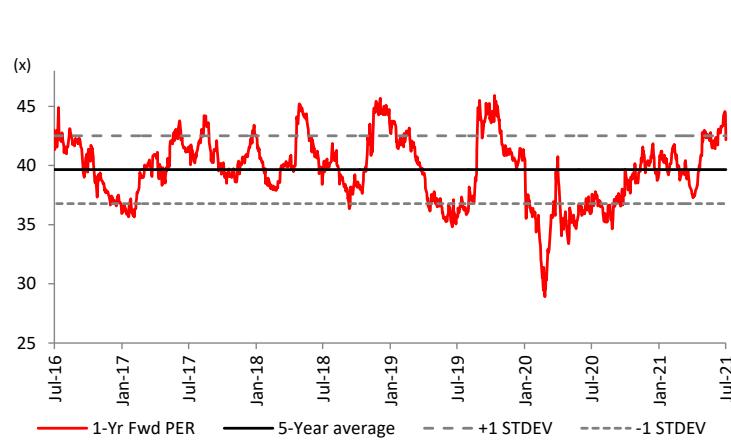
Source: Company, Systematix Institutional Research

Exhibit 6: A&P spends up 279bps YoY to 13.7% of 1Q sales



Source: Company, Systematix Institutional Research

Exhibit 8: CLGT trades at 42.2x one-year forward P/E



Source: Bloomberg, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net Sales	44,624	45,251	48,412	52,664	56,795
RM Cost	13,040	13,288	12,258	13,482	14,540
Purchase of trad. Goods	2,546	2,441	3,236	3,370	3,796
Gross Profits	29,039	29,522	32,919	35,811	38,459
Employee costs	2,959	3,323	3,656	4,022	4,344
Advertisement	5,647	6,260	6,255	7,057	7,611
Other expenses	8,072	7,922	7,911	8,657	9,232
Total Expenses	32,264	33,234	33,316	36,589	39,522
EBITDA	12,361	12,017	15,096	16,075	17,273
Depreciation	1,592	1,979	1,825	1,962	2,098
Other income	377	492	304	334	401
EBIT	11,145	10,530	13,575	14,447	15,575
Interest cost	25	96	73	76	80
PBT	11,120	10,434	13,502	14,371	15,495
Taxes	3,670	2,269	3,148	3,621	3,905
Adj. PAT	7,451	8,165	10,354	10,749	11,590
Extraordinaries/ Exceptional	(305)	-	-	-	-
Reported PAT	7,146	8,165	10,354	10,749	11,590
No. of shares (mn)	272	272	272	272	272
Adj. EPS	27.4	30.0	38.1	39.5	42.6

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	272	272	272	272	272
Reserves and surplus	14,196	15,670	11,387	11,924	13,083
Net worth	14,468	15,942	11,659	12,196	13,355
Minority interest	-	-	-	-	-
Financial lease	777	1,015	912	912	912
Other LT liabilities	509	555	328	328	328
Total sources	15,754	17,512	12,899	13,436	14,595
Net Block	11,909	11,229	10,647	10,185	9,587
Intangibles	-	-	-	-	-
Net deferred tax	-	-	-	-	-
Other assets	453	357	349	349	349
CWIP	1,987	1,900	1,449	1,449	1,449
Investments	312	186	186	186	186
Cash	3,994	4,213	8,676	4,744	6,997
Inventories	2,486	2,969	3,358	3,653	3,940
Debtors	2,098	1,326	1,171	1,274	1,374
Other current assets	2,519	3,352	2,595	3,661	3,661
Current Assets	11,096	11,859	15,801	13,331	15,972
Creditors	6,132	6,125	7,604	7,647	8,247
Other CL	3,871	1,894	7,929	4,418	4,701
Current Liabilities	10,003	8,020	15,533	12,065	12,948
Net Working Capital	(1,548)	(1,830)	(3,075)	(2,720)	(2,934)
Total Uses	15,754	17,512	12,899	13,436	14,595

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBT	11,120	10,434	13,502	14,371	15,495
Add: Depreciation	1,592	1,979	1,825	1,962	2,098
Add: Interest	(352)	(396)	(231)	(258)	(321)
Less: taxes paid	(4,144)	(3,213)	(3,584)	(3,621)	(3,905)
Add: other adjustments	119	130	152	-	-
Less: WC changes	1,494	362	(3,826)	(4,932)	496
Total OCF	9,830	9,296	7,839	7,522	13,865
OCF w/o WC changes	8,336	8,934	11,664	12,454	13,368
Capital expenditure	(1,388)	(604)	(578)	(1,500)	(1,500)
Others	431	417	1,291	-	-
Interest/Dividend recd.					
Total ICF	(957)	(187)	714	(1,500)	(1,500)
Free Cash Flows	8,442	8,692	7,261	6,022	12,365
Share issuances	(111)	(81)	(103)	-	-
Change in borrowings	(121)	-	-	-	-
Dividends	(7,916)	(8,433)	(9,211)	(10,212)	(10,431)
Interest payment	-	-	-	258	321
Others	-	(397)	(250)	-	-
Total FCF	(8,147)	(8,911)	(9,565)	(9,954)	(10,111)
Net change in cash	726	198	(1,013)	(3,933)	2,254
Opening cash & CE	3,054	3,780	3,978	2,966	(967)
Closing cash & CE	3,780	3,978	2,966	(967)	1,287

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Yoy growth in Revenue	6.6	1.4	7.0	8.8	7.8
Yoy growth in EBITDA	11.0	(2.8)	25.6	6.5	7.5
Yoy growth in Net income	8.8	9.6	26.8	3.8	7.8
Effective tax rate	32.1	21.7	25.2	25.2	25.2
EBITDA margin	27.7	26.6	31.2	30.5	30.4
PAT margin	16.7	18.0	21.4	20.4	20.4
ROACE (pre-tax)	68.2	60.3	87.3	107.2	108.3
ROAE	52.2	53.7	75.0	90.1	90.7
Net debt to equity (x)	(0.3)	(0.3)	(0.7)	(0.4)	(0.5)
Inventory days	20	24	25	25	25
Debtors days	17	11	9	9	9
Payable days	50	49	57	53	53
NWC days	(13)	(15)	(23)	(19)	(19)
Per share numbers (Rs)					
Reported earnings	27.4	30.0	38.1	39.5	42.6
Dividend	26.0	28.0	38.0	37.5	38.4
Free cash	31.0	32.0	26.7	22.1	45.5
Book Value	53.2	58.6	42.9	44.8	49.1
Valuations (x)					
Price to diluted earnings	59.9	56.9	44.9	43.2	40.1
EV / EBITDA	37.3	38.3	30.2	28.6	26.5
Price to sales	10.4	10.3	9.6	8.8	8.2

Source: Company, Systematix Institutional Research

Institutional Equities Team

Nikhil Khandelwal	Managing Director	+91-22-6704 8001	nikhil@systematixgroup.in
Navin Roy Vallabhaneni	President & Head – IE & ECM	+91-22-6704 8065	navin@systematixgroup.in
Equity Research			
Analysts	Industry Sectors	Desk-Phone	E-mail
Rahul Jain	Metals & Mining	+91-22-6704 8066	rahuljain@systematixgroup.in
Ronak Sarda	Auto, Auto Ancillaries	+91-22-6704 8059	ronaksarda@systematixgroup.in
Rakesh Kumar	Banking, Insurance	+91-22-6704 8041	rakeshkumar@systematixgroup.in
Praful Bohra	Pharmaceuticals and Healthcare	+91-22-6704 8064	prafulbohra@systematixgroup.in
Shubhranshu Mishra	NBFCs & Diversified Financials	+91-22-6704 8024	shubhranshumishra@systematixgroup.in
Sanjeev Kumar Singh	Cement, Building Materials, Paints	+91-22-6704 8017	sanjeevsingh@systematixgroup.in
Premal Kamdar	Consumer Staples	+91-22-6704 8090	premalkamdar@systematixgroup.in
Amar Kedia	Infra, Cap Goods, Logistics, Consumer Durables	+91-22-6704 8084	amarkedia@systematixgroup.in
Ashutosh Joytiraditya	Consumer, Retail	+91-22-6704 8068	ashutoshj@systematixgroup.in
Naushad Chaudhary	Chemicals, Textiles, Building Materials, Midcaps	+91-22-6704 8036	naushadchaudhary@systematixgroup.in
Harsh Mittal	Cement, Building Materials, Paints	+91-22-6704 8098	harshmittal@systematixgroup.in
Poorvi Banka	Auto, Auto Ancillaries	+91-22-6704 8063	poorvibanka@systematixgroup.in
Nikhil Shah	Banking, Insurance	+91-22-6704 8091	nikhilshah@systematixgroup.in
Tausif Shaikh	Pharmaceuticals and Healthcare	+91-22-6704 8046	tausifshaikh@systematixgroup.in
Shweta Dikshit	Metals & Mining	+91-22-6704 8042	shwetadikshit@systematixgroup.in
Shilpashree Venkatesh	Macro-Strategy	+91-22-6704 8078	shilpav@systematixgroup.in
Equity Sales & Trading			
Name		Desk-Phone	E-mail
Vipul Sanghvi	Director and Head - Sales	+91-22-6704 8062	vipulsanghvi@systematixgroup.in
Ashok Kumar Agarwal	Sales	+91-22-6704 8058	ashokagarwal@systematixgroup.in
Jigar Kamdar	Sales	+91-22-6704 8060	jigarkamdar@systematixgroup.in
Rahul Khandelwal	Sales	+91-22-6704 8033	rahul@systematixgroup.in
Pawan Sharma	Director and Head - Sales Trading	+91-22-6704 8067	pawansharma@systematixgroup.in
Mukesh Chaturvedi	Vice President and Co Head - Sales Trading	+91-22-6704 8074	mukeshchaturvedi@systematixgroup.in
Vinod Bhuwad	Sales Trading	+91-22-6704 8051	vinodbhuwad@systematixgroup.in
Rashmi Solanki	Sales Trading	+91-22-6704 8097	rashmisolanki@systematixgroup.in
Rahul Thakar	Sales Trading - Derivatives	+91-22-6704 8073	rahulthakar@systematixgroup.in
Vipul Chheda	Dealer	+91-22-6704 8050	vipulchheda@systematixgroup.in
Amit Sawant	Dealer	+91-22-6704 8054	amitsawant@systematixgroup.in
Paras Shah	Dealer	+91-22-6704 8047	parasshah@systematixgroup.in
Suketu Vyas	Dealer	+91-22-6704 8050	suketuvyas@systematixgroup.in
Corporate Access			
Audrey Leolyn Mendonca	Assistant Vice President	+91-22-6704 8088	audreymendonca@systematixgroup.in
Production			
Yukti Vidyarthi	Editor	+91-22-6704 8071	yukti@systematixgroup.in
Mrunali Pagdhare	Production	+91-22-6704 8057	mrunalip@systematixgroup.in
Vijayendra Achrekar	Production	+91-22-6704 8089	vijayendraachrekar@systematixgroup.in
Operations			
Sachin Malusare	Vice President	+91-22-6704 8055	sachinmalusare@systematixgroup.in
Sugandha Rane	Assistant Vice President	+91-22-6704 8056	sugandha@systematixgroup.in
Jignesh Mistry	Manager	+91-22-6704 8049	jigneshmistry@systematixgroup.in
Ravikiran Dasaka	Manager	+91-22-6704 8622	ravikiran@systematixgroup.in
Ravi Agarwal	Assistant Manager	+91-22-6704 8016	raviagarwal@systematixgroup.in

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Served as an officer, director or employee	No

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Systematix Shares and Stocks (India) Limited:

Registered and Corporate address: The Capital, A-wing, No. 603 – 606, 6th Floor, Plot No. C-70, G Block, Bandra Kurla Complex, Bandra (East), Mumbai – 400 051

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