



TM

## 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         |

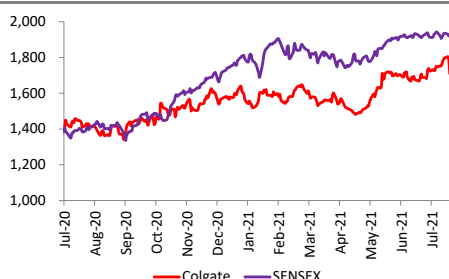
## Financial Snapshot (Rs mn)

| 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)



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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 1<sup>st</sup> 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 (4<sup>th</sup> 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.

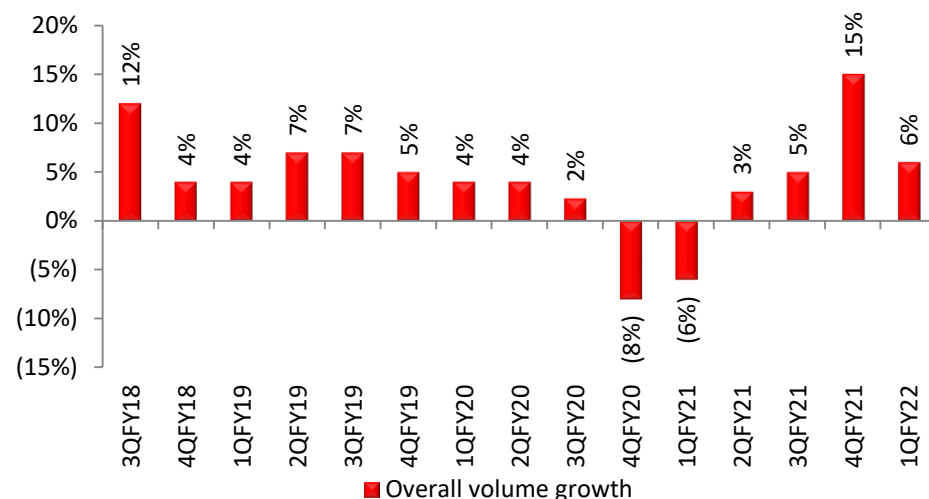
**Market share recovery key to re-rating:** We maintain our revenue CAGR estimate of 8.3% over FY21-23E led by the toothpaste category (8.5% revenue CAGR). The contribution of personal care (*Palmolive* - ~5% of FY21 sales) to sales should improve marginally by FY23E though it is unlikely to move the 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 CLGT 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

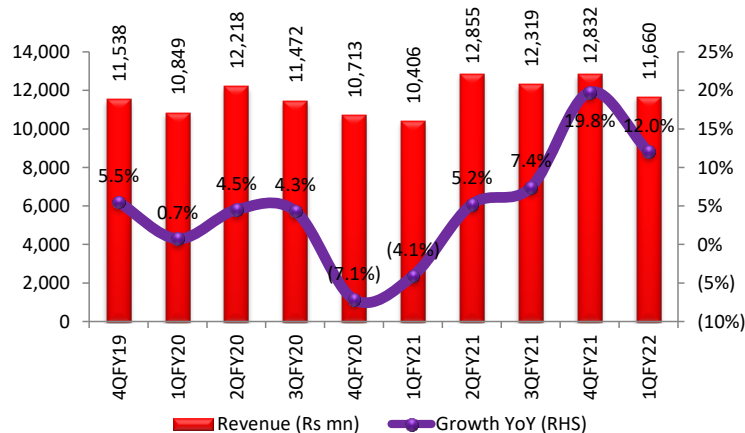
| YE March (Rs mn)           | 1QFY22        | 1QFY21        | 4QFY21        | YoY (%)     | QoQ (%)       |
|----------------------------|---------------|---------------|---------------|-------------|---------------|
| <b>Net Revenues</b>        | <b>11,660</b> | <b>10,406</b> | <b>12,832</b> | <b>12.0</b> | <b>(9.1)</b>  |
| 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           |             |               |
| <b>Gross margin</b>        | <b>8,062</b>  | <b>6,883</b>  | <b>8,683</b>  | <b>17.1</b> | <b>(7.2)</b>  |
| <b>Gross margin (%)</b>    | <b>69.1</b>   | <b>66.1</b>   | <b>67.7</b>   |             |               |
| 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          |             |               |
| <b>EBITDA</b>              | <b>3,552</b>  | <b>3,080</b>  | <b>4,218</b>  | <b>15.3</b> | <b>(15.8)</b> |
| <b>EBITDA margin (%)</b>   | <b>30.5</b>   | <b>29.6</b>   | <b>32.9</b>   |             |               |
| Other income               | 52            | 63            | 66            | (17.0)      | (21.3)        |
| <b>PBIDT</b>               | <b>3,604</b>  | <b>3,143</b>  | <b>4,284</b>  | <b>14.7</b> | <b>(15.9)</b> |
| Depreciation               | 447           | 454           | 455           | (1.5)       | (1.7)         |
| Interest                   | 15            | 20            | 16            | (22.6)      | (1.3)         |
| <b>PBT</b>                 | <b>3,142</b>  | <b>2,669</b>  | <b>3,814</b>  | <b>17.7</b> | <b>(17.6)</b> |
| Tax                        | 851           | 743           | 691           | 14.5        | 23.1          |
| ETR (%)                    | 27.1          | 27.9          | 18.1          |             |               |
| Deferred tax               | (42)          | (56)          | (24)          | (26.0)      | 71.9          |
| <b>Adjusted PAT</b>        | <b>2,332</b>  | <b>1,982</b>  | <b>3,147</b>  | <b>17.7</b> | <b>(25.9)</b> |
| PATAMI margin              | 20.0          | 19.0          | 24.5          |             |               |
| Exceptional item           |               |               |               |             |               |
| <b>Reported PAT</b>        | <b>2,332</b>  | <b>1,982</b>  | <b>3,147</b>  | <b>17.7</b> | <b>(25.9)</b> |
| No. of shares (mn)         | 272.0         | 272.0         | 272.0         |             |               |
| <b>Adj EPS (Rs)</b>        | <b>8.6</b>    | <b>7.3</b>    | <b>11.6</b>   |             |               |

Source: Company, Systematix Institutional Research

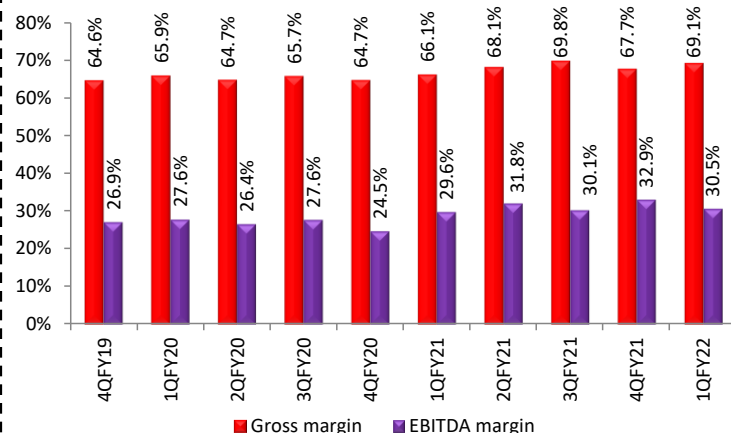
## Exhibit 2: Domestic volume growth of ~6-7% YoY on a low base of -6% YoY



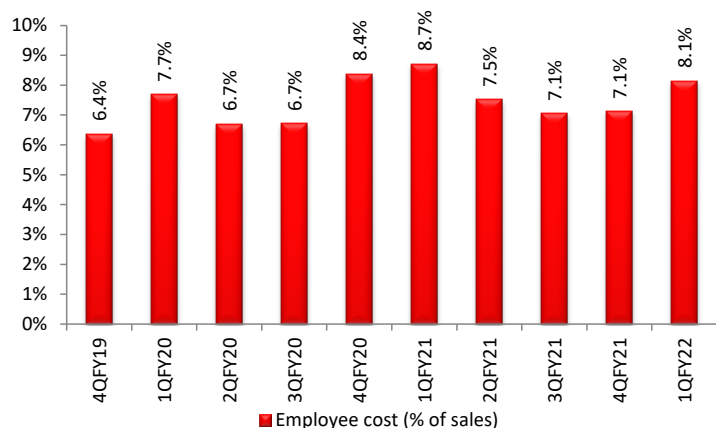
Source: Company, Systematix Institutional Research

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

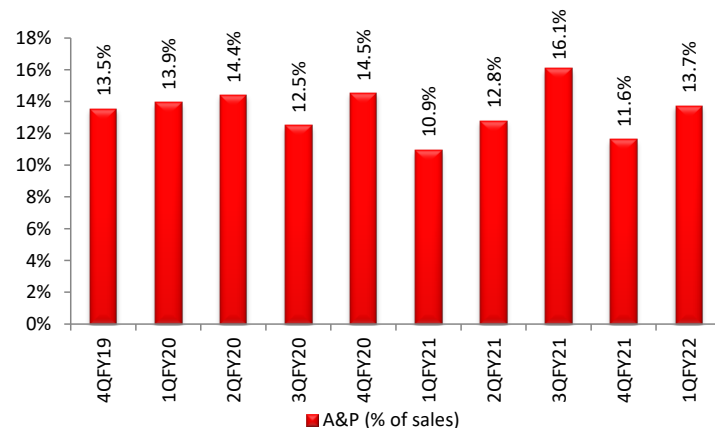
Source: Company, Systematix Institutional Research

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

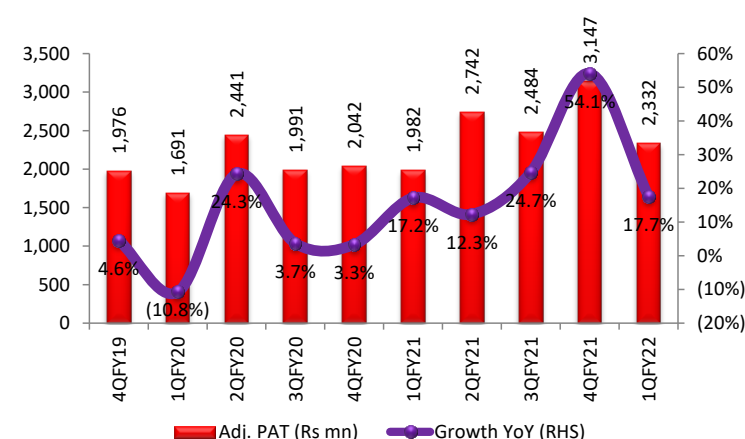
Source: Company, Systematix Institutional Research

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

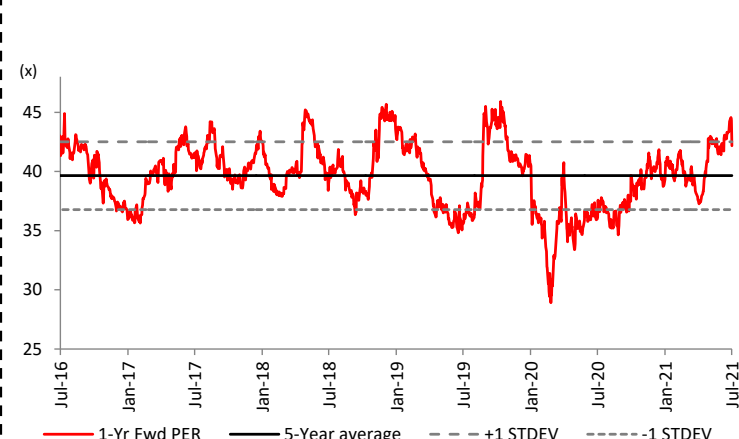
Source: Company, Systematix Institutional Research

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

Source: Company, Systematix Institutional Research

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

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         |
|---------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Net Sales</b>                | <b>44,624</b> | <b>45,251</b> | <b>48,412</b> | <b>52,664</b> | <b>56,795</b> |
| 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         |
| <b>Gross Profits</b>            | <b>29,039</b> | <b>29,522</b> | <b>32,919</b> | <b>35,811</b> | <b>38,459</b> |
| 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         |
| <b>Total Expenses</b>           | <b>32,264</b> | <b>33,234</b> | <b>33,316</b> | <b>36,589</b> | <b>39,522</b> |
| <b>EBITDA</b>                   | <b>12,361</b> | <b>12,017</b> | <b>15,096</b> | <b>16,075</b> | <b>17,273</b> |
| Depreciation                    | 1,592         | 1,979         | 1,825         | 1,962         | 2,098         |
| Other income                    | 377           | 492           | 304           | 334           | 401           |
| <b>EBIT</b>                     | <b>11,145</b> | <b>10,530</b> | <b>13,575</b> | <b>14,447</b> | <b>15,575</b> |
| Interest cost                   | 25            | 96            | 73            | 76            | 80            |
| <b>PBT</b>                      | <b>11,120</b> | <b>10,434</b> | <b>13,502</b> | <b>14,371</b> | <b>15,495</b> |
| Taxes                           | 3,670         | 2,269         | 3,148         | 3,621         | 3,905         |
| <b>Adj. PAT</b>                 | <b>7,451</b>  | <b>8,165</b>  | <b>10,354</b> | <b>10,749</b> | <b>11,590</b> |
| Extraordinaries/<br>Excepcional | (305)         | -             | -             | -             | -             |
| <b>Reported PAT</b>             | <b>7,146</b>  | <b>8,165</b>  | <b>10,354</b> | <b>10,749</b> | <b>11,590</b> |
| No. of shares (mn)              | 272           | 272           | 272           | 272           | 272           |
| <b>Adj. EPS</b>                 | <b>27.4</b>   | <b>30.0</b>   | <b>38.1</b>   | <b>39.5</b>   | <b>42.6</b>   |

Source: Company, Systematix Institutional Research

### Cash Flow

| YE: Mar (Rs mn)           | FY19           | FY20           | FY21           | FY22E          | FY23E           |
|---------------------------|----------------|----------------|----------------|----------------|-----------------|
| <b>PBT</b>                | <b>11,120</b>  | <b>10,434</b>  | <b>13,502</b>  | <b>14,371</b>  | <b>15,495</b>   |
| 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             |
| <b>Total OCF</b>          | <b>9,830</b>   | <b>9,296</b>   | <b>7,839</b>   | <b>7,522</b>   | <b>13,865</b>   |
| 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 reced.  | -              | -              | -              | -              | -               |
| <b>Total ICF</b>          | <b>(957)</b>   | <b>(187)</b>   | <b>714</b>     | <b>(1,500)</b> | <b>(1,500)</b>  |
| 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)          | -              | -               |
| <b>Total FCF</b>          | <b>(8,147)</b> | <b>(8,911)</b> | <b>(9,565)</b> | <b>(9,954)</b> | <b>(10,111)</b> |
| <b>Net change in cash</b> | <b>726</b>     | <b>198</b>     | <b>(1,013)</b> | <b>(3,933)</b> | <b>2,254</b>    |
| 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

### 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         |
| <b>Net worth</b>           | <b>14,468</b>  | <b>15,942</b>  | <b>11,659</b>  | <b>12,196</b>  | <b>13,355</b>  |
| Minority interest          | -              | -              | -              | -              | -              |
| <b>Financial lease</b>     | <b>777</b>     | <b>1,015</b>   | <b>912</b>     | <b>912</b>     | <b>912</b>     |
| Other LT liabilities       | 509            | 555            | 328            | 328            | 328            |
| <b>Total sources</b>       | <b>15,754</b>  | <b>17,512</b>  | <b>12,899</b>  | <b>13,436</b>  | <b>14,595</b>  |
| 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            |
| <b>Cash</b>                | <b>3,994</b>   | <b>4,213</b>   | <b>8,676</b>   | <b>4,744</b>   | <b>6,997</b>   |
| 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          |
| <b>Current Assets</b>      | <b>11,096</b>  | <b>11,859</b>  | <b>15,801</b>  | <b>13,331</b>  | <b>15,972</b>  |
| Creditors                  | 6,132          | 6,125          | 7,604          | 7,647          | 8,247          |
| Other CL                   | 3,871          | 1,894          | 7,929          | 4,418          | 4,701          |
| <b>Current Liabilities</b> | <b>10,003</b>  | <b>8,020</b>   | <b>15,533</b>  | <b>12,065</b>  | <b>12,948</b>  |
| <b>Net Working Capital</b> | <b>(1,548)</b> | <b>(1,830)</b> | <b>(3,075)</b> | <b>(2,720)</b> | <b>(2,934)</b> |
| <b>Total Uses</b>          | <b>15,754</b>  | <b>17,512</b>  | <b>12,899</b>  | <b>13,436</b>  | <b>14,595</b>  |

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)  |
| <b>Per share numbers (Rs)</b> |       |       |       |       |       |
| 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  |
| <b>Valuations (x)</b>         |       |       |       |       |       |
| 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

|                               |  |                         |                                  |
|-------------------------------|--|-------------------------|----------------------------------|
| <b>Nikhil Khandelwal</b>      | <b>Managing Director</b>                   | <b>+91-22-6704 8001</b> | <b>nikhil@systematixgroup.in</b> |
| <b>Navin Roy Vallabhaneni</b> | <b>President &amp; Head – IE &amp; ECM</b> | <b>+91-22-6704 8065</b> | <b>navin@systematixgroup.in</b>  |

### Equity Research

| Analysts              | Industry Sectors                                 | Desk-Phone       | E-mail                               |
|-----------------------|--|------------------|--------------------------------------|
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| 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       |
| Shubhramshu Mishra    | NBFCs & Diversified Financials                   | +91-22-6704 8024 | shubhramshumishra@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      |
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