Colgate-Palmolive (India)

Accumulate

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

Result Update

Revenues in line but margin miss; Maintain Accumulate

- Colgate's Q1FY22 revenues were in line, but EBITDA and APAT were below our expectation. Despite challenging business conditions, all categories sustained growth momentum. On a 2 yr CAGR basis, revenue growth was 3.7%, marginally lower compared to our estimate.
- Continuous expansion in gross margin was a key positive. With better product mix, and calibrated price increases, we expect gross margins to remain healthy.
- Going ahead, government efforts to increase farmer's wages and focus on rural infrastructure should boost oral care category. However, increase in competition and better product offerings by competitors like Dabur remains a key challenge for Colgate.
- Though profitability was below our estimate, we believe that the calibrated price hikes and operating leverage would help Colgate to expand margins. Hence we have maintained FY22/23E EPS estimates at Rs 39.7/42.4 respectively. We value the stock at 43x FY23E EPS to arrive at a TP of Rs 1,822. Maintain Accumulate.

Profitability was below estimate

Net revenues increased 12.0% YoY to Rs 11.7bn. We believe that favourable base and strong innovation focus aided sales growth. EBITDA grew by 15.3% YoY to Rs 5.5bn. EBITDA margin expanded 90bps to 30.5% in Q1FY22. A 300/60/10bps decline in RM/Employee cost/Other expense respectively was partially restricted by 280bps increase in A&SP spends. APAT increased 17.7% YoY to Rs 2.3bn.

Innovations drive incremental revenue growth

Colgate continued to strengthen focus on innovations with launch of Colgate Toothpaste for Diabetics, Colgate Vedshakti Mouthspray and Oil Pulling, Colgate Magik, first augmented reality toothbrush for Kids. These products received encouraging response. A&SP spends increased 280bps to 13.7% in Q1. With new launches and marketing campaigns, we expect A&SP spends to remain elevated which will help drive volume growth and market share gains. Colgate is also optimistic on growing its presence in chemist channels through focused innovations, strategic partnership and professional recommendation. This should help tackle competition and drive MS gains.

Q1FY22 Result (Rs Mn)

Particulars	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Revenue	11,660	10,406	12.0	12,832	(9.1)
Total Expense	8,108	7,326	10.7	8,614	(5.9)
EBITDA	3,552	3,080	15.3	4,218	(15.8)
Depreciation	447	454	(1.5)	455	(1.7)
EBIT	3,105	2,626	18.2	3,763	(17.5)
Other Income	52	63	(17.0)	66	(21.3)
Interest	15	20	(22.6)	16	(1.3)
EBT	3,142	2,669	17.7	3,814	(17.6)
Tax	810	687	17.8	667	21.4
RPAT	2,332	1,982	17.7	3,147	(25.9)
APAT	2,332	1,982	17.7	3,147	(25.9)
			(bps)		(bps)
Gross Margin (%)	69.1	66.1	301	67.7	148
EBITDA Margin (%)	30.5	29.6	87	32.9	(240)
NPM (%)	20.0	19.0	96	24.5	(452)
Tax Rate (%)	25.8	25.7	2	17.5	828
EBIT Margin (%)	26.6	25.2	140	29.3	(269)

CMP	Rs 1,709
Target / Upside	Rs 1,822 / 7%
NIFTY	15,709

Scrip Details

Equity / FV	Rs 272mn / Rs 1
Market Cap	Rs 465bn
	USD 6bn
52-week High/Low	Rs 1,823/ 1,322
Avg. Volume (no)	568,968
Bloom Code	CLGT IN

Price Performance	1M	3M	12M
Absolute (%)	2	15	18
Rel to NIFTY (%)	3	10	(20)

Shareholding Pattern

	Dec'20	Mar'21	Jun'21
Promoters	51.0	51.0	51.0
MF/Banks/FIs	10.4	10.3	10.3
FIIs	16.6	16.9	16.9
Public / Others	22.0	21.8	21.8

Valuation (x)

	FY21A	FY22E	FY23E
P/E	44.9	43.1	40.3
EV/EBITDA	30.3	29.4	27.3
ROE (%)	75.0	88.1	85.4
RoACE (%)	70.6	83.1	81.0

Estimates (Rs mn)

	FY21A	FY22E	FY23E
Revenue	48,412	52,202	56,246
EBITDA	15,096	15,591	16,672
PAT	10,354	10,795	11,523
EPS (Rs.)	38.1	39.7	42.4

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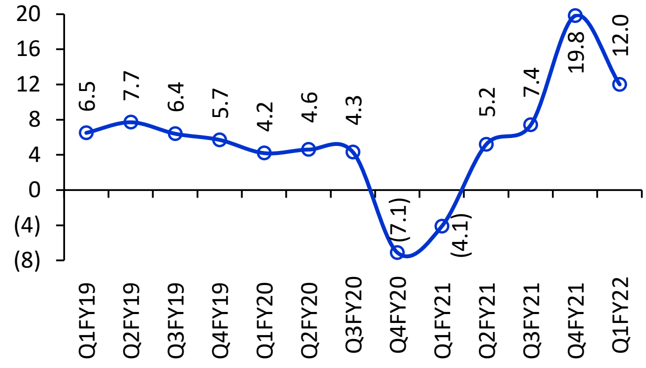
Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	11,660	11,967	(2.6)	
EBITDA	3,552	3,761	(5.5)	
EBITDA margin %	30.5	31.4	(100)	Variation as A&SP and other expenses were higher than our estimates
APAT	2,332	2,533	(7.9)	Cascading effect of lower EBITDA

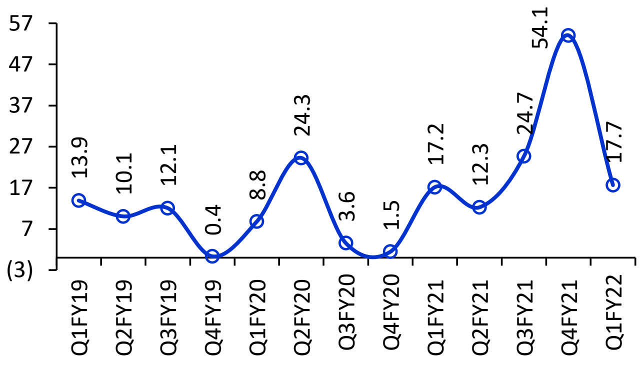
Source: Company, DART

Exhibit 2: Sales Growth (%)



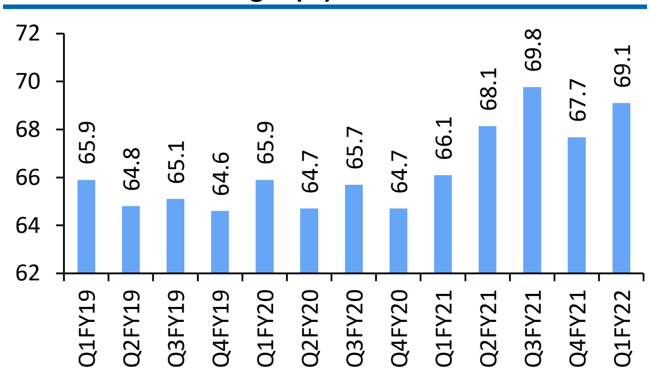
Source: Company, DART

Exhibit 3: Net Profit Growth (%)



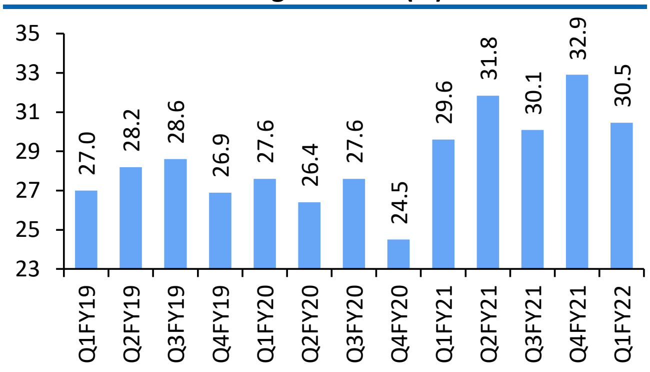
Source: Company, DART

Exhibit 4: Gross Margin (%) Trend



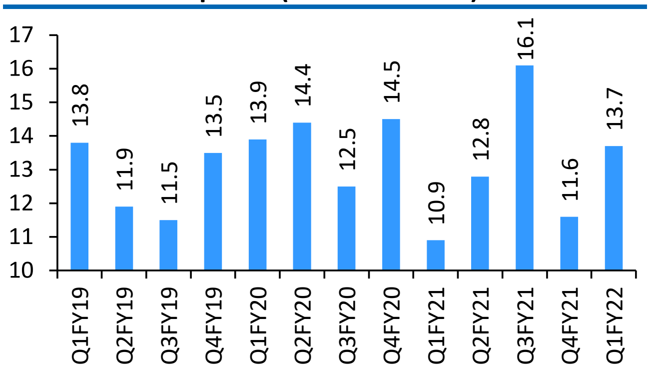
Source: Company, DART

Exhibit 5: EBITDA Margins Trend (%)



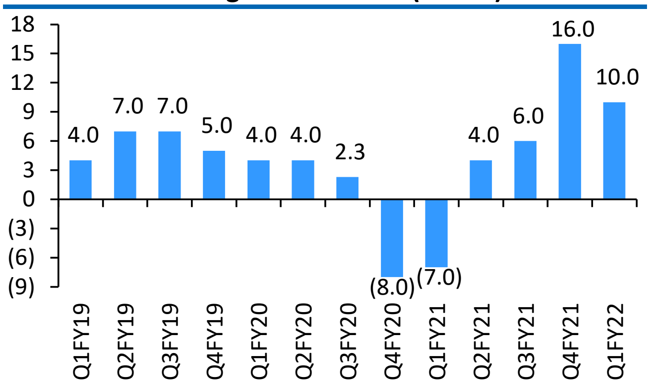
Source: Company, DART

Exhibit 6: A&P Spends (% Of Revenues)



Source: Company, DART

Exhibit 7: Volume growth overall (% YoY)



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Revenue	**45,251**	**48,412**	**52,202**	**56,246**
Total Expense	**33,234**	**33,316**	**36,611**	**39,573**
COGS	15,729	15,494	16,863	18,282
Employees Cost	3,323	3,656	3,838	4,023
Other expenses	14,182	14,166	15,909	17,268
EBIDTA	**12,017**	**15,096**	**15,591**	**16,672**
Depreciation	1,979	1,825	1,929	2,048
EBIT	**10,037**	**13,271**	**13,662**	**14,625**
Interest	96	73	100	100
Other Income	492	304	515	502
Exc. / E.O. items	0	0	0	0
EBT	**10,434**	**13,502**	**14,077**	**15,027**
Tax	2,269	3,148	3,282	3,504
RPAT	8,165	10,354	10,795	11,523
Minority Interest	0	0	0	0
Profit/Loss share of associates	**0**	**0**	**0**	**0**
APAT	**8,165**	**10,354**	**10,795**	**11,523**

Balance Sheet

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	15,670	11,387	12,579	13,852
Net Worth	**15,942**	**11,659**	**12,851**	**14,124**
Total Debt	1,015	911	911	911
Net Deferred Tax Liability	50	(48)	(48)	(48)
Total Capital Employed	**17,007**	**12,522**	**13,715**	**14,988**
Applications of Funds				
Net Block	**11,239**	**10,647**	**9,718**	**9,170**
CWIP	1,900	1,449	1,449	1,449
Investments	186	186	186	186
Current Assets, Loans & Advances	**12,668**	**16,571**	**16,180**	**19,028**
Inventories	2,960	3,358	3,406	3,670
Receivables	1,326	1,171	1,346	1,450
Cash and Bank Balances	4,200	8,670	7,417	9,808
Loans and Advances	4,182	3,372	4,011	4,100
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	**8,986**	**16,331**	**13,818**	**14,845**
Payables	6,110	7,600	8,195	8,830
Other Current Liabilities	2,876	8,731	5,623	6,015
sub total				
Net Current Assets	3,682	240	2,362	4,183
Total Assets	**17,007**	**12,522**	**13,715**	**14,988**

E – Estimates

Important Ratios

Particulars	FY20A	FY21A	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	65.2	68.0	67.7	67.5
EBIDTA Margin	26.6	31.2	29.9	29.6
EBIT Margin	22.2	27.4	26.2	26.0
Tax rate	21.7	23.3	23.3	23.3
Net Profit Margin	18.0	21.4	20.7	20.5
(B) As Percentage of Net Sales (%)				
COGS	34.8	32.0	32.3	32.5
Employee	7.3	7.6	7.4	7.2
Other	31.3	29.3	30.5	30.7
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	104.3	182.8	136.6	146.2
Inventory days	24	25	24	24
Debtors days	11	9	9	9
Average Cost of Debt	10.4	7.5	11.0	11.0
Payable days	49	57	57	57
Working Capital days	30	2	17	27
FA T/O	4.0	4.5	5.4	6.1
(D) Measures of Investment				
AEPS (Rs)	30.0	38.1	39.7	42.4
CEPS (Rs)	37.3	44.8	46.8	49.9
DPS (Rs)	31.0	33.9	35.3	37.7
Dividend Payout (%)	103.2	89.0	89.0	89.0
BVPS (Rs)	58.6	42.9	47.2	51.9
RoANW (%)	53.7	75.0	88.1	85.4
RoACE (%)	50.7	70.6	83.1	81.0
RoAIC (%)	82.2	159.3	269.2	254.8
(E) Valuation Ratios				
CMP (Rs)	1709	1709	1709	1709
P/E	56.9	44.9	43.1	40.3
Mcap (Rs Mn)	464,848	464,848	464,848	464,848
MCap/ Sales	10.3	9.6	8.9	8.3
EV	461,663	457,089	458,342	455,951
EV/Sales	10.2	9.4	8.8	8.1
EV/EBITDA	38.4	30.3	29.4	27.3
P/BV	29.2	39.9	36.2	32.9
Dividend Yield (%)	1.8	2.0	2.1	2.2
(F) Growth Rate (%)				
Revenue	1.4	7.0	7.8	7.7
EBITDA	(2.8)	25.6	3.3	6.9
EBIT	(6.8)	32.2	2.9	7.0
PBT	(8.7)	29.4	4.3	6.7
APAT	9.6	26.8	4.3	6.7
EPS	9.6	26.8	4.3	6.7

Cash Flow

(Rs Mn)	FY20A	FY21A	FY22E	FY23E
CFO	9,531	13,549	9,449	14,241
CFI	(475)	480	(1,000)	(1,500)
CFF	(8,850)	(9,559)	(9,702)	(10,350)
FCFF	8,931	12,969	8,449	12,741
Opening Cash	3,994	4,200	8,670	7,417
Closing Cash	4,200	8,670	7,417	9,808

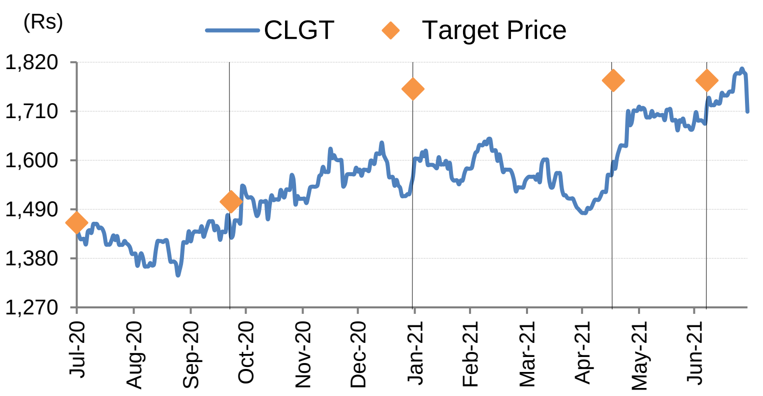
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-20	Reduce	1,460	1,448
Oct-20	Reduce	1,507	1,427
Jan-21	Accumulate	1,760	1,564
May-21	Accumulate	1,779	1,597
Jul-21	Accumulate	1,779	1,725

*Price as on recommendation date

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