

Colgate Palmolive (CLGT IN)

Rating: ACCUMULATE | CMP: Rs1,710 | TP: Rs1,846

July 29, 2021

Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,846		1,794	
Sales (Rs. m)	53,498	58,340	53,090	57,895
% Chng.	0.8	0.8		
EBITDA (Rs. m)	16,580	18,259	16,183	17,788
% Chng.	2.5	2.7		
EPS (Rs.)	42.0	46.2	40.9	44.8
% Chng.	2.7	2.9		

Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	45,251	48,413	53,498	58,340
EBITDA (Rs. m)	12,017	15,097	16,580	18,259
Margin (%)	26.6	31.2	31.0	31.3
PAT (Rs. m)	8,165	10,354	11,430	12,554
EPS (Rs.)	30.0	38.1	42.0	46.2
Gr. (%)	9.6	26.8	10.4	9.8
DPS (Rs.)	36.0	38.0	37.0	40.0
Yield (%)	2.1	2.2	2.2	2.3
RoE (%)	53.7	75.0	82.2	74.3
RoCE (%)	64.4	96.2	105.5	95.6
EV/Sales (x)	10.2	9.4	8.5	7.8
EV/EBITDA (x)	38.3	30.2	27.5	24.9
PE (x)	56.9	44.9	40.7	37.0
P/BV (x)	29.2	39.9	28.8	26.4

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,823 / Rs.1,322
Sensex / Nifty	52,653 / 15,778
Market Cap	Rs.465bn / \$ 6,259m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.1941.73m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	18.61
Domestic Institution	8.21
Public & Others	22.18
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.4	6.6	18.1
Relative	2.2	(6.3)	(14.6)

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Premiumisation saves the day, Accumulate

Quick Pointers:

- Estimated volume growth at 8%.
- 2-3% price increase taken from April 21.
- Gross margins expand 300bps due premiumisation in toothpaste and lower sales of toothbrush.

We are increasing EPS estimates by 2.7%/2.9% for FY22/FY23 on the back of
1) Superior gross margins due to increased premiumisation and lower sales of toothbrush
2) higher Category growth and salience for large packs
3) increased Ad spends (up 280bps YoY) and ramp up in innovations and
4) aggression in new segments which offer growth opportunity. 1Q nos were a mixed bag with disappointing volume growth of ~8% on a low base (-8%), whereas gross margin expansion led by superior mix was positive.

CLGT has intensified focus on accelerating growth led by
1) Ramping up innovations (launched Colgate Visible White Instant and Colgate Vedshakti Mouth spray & Oil pulling, Toothpaste for Diabetics)
2) mapping out SKU's to ensure better shelf availability
3) Normalizing Ad spends to improve brand recall
4) Undertaking initiatives to improve chemist channel distribution as the same remains under indexed and
5) Increased focus on Ecom and MT helping improve premium product mix. We estimate 9.8% Sales CAGR and 10.1% PAT CAGR over FY21-23. We value CLGT at 40x FY23EPS and assign a Target of Rs 1846 (Rs 1794 earlier). we believe acceleration in growth can improve valuations from 37x FY23 EPS given 85-90% payout and ROE and ROCE of 74% and 99%. Retain Accumulate.

- Sales grew 12%, GRM's up 300bps%:** Net sales grew 12% to Rs 11.66bn (Est 12.17bn). Estimated volume growth at 8%. Gross margins up 300bps YoY and 147bps QoQ at 68.9% (Est 67.5%). EBITDA up 15.3% to Rs 3.55bn (Est Rs 3.87bn), EBITDA margins at 30.5% (Est 32%) expanded 90bps as 300bps GRM expansion was offset by 280bps increase in Ad spends. Ad-spend higher by 40.6% at Rs 1.6bn, remains 20bps lower than 1QFY20 levels. Adj. PAT rose 17.7% to Rs 2.33bn (Est. Rs 2.58bn).

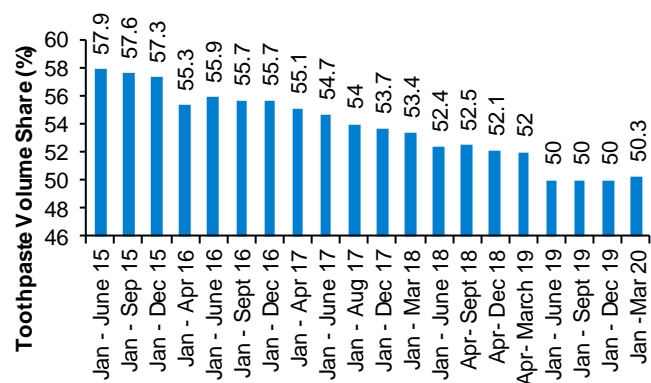
Key Highlights:

- Sales remained strong during the first two weeks of April'21 but were later impacted due to localized lockdown at a lower rate than first wave.
- Factories remained operational for majority of the second wave barring shutdown for 1-2 days.
- Category growth has picked up with Rural Outpacing Urban growth.
- Large packs sales increased during the quarter and mix has improved due to increased premiumization in toothpaste and lower sales of toothbrush which have helped expand gross margins.

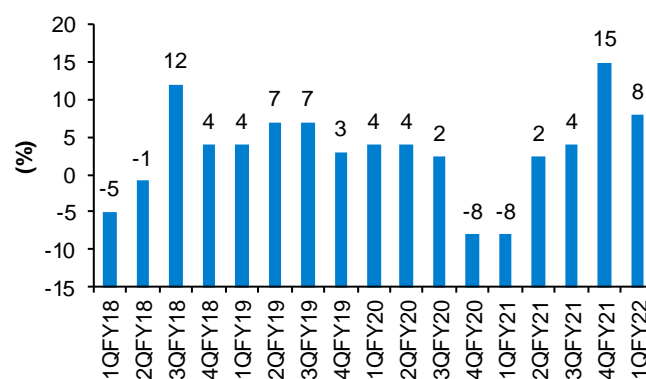
Exhibit 1: Q1FY22: Net sales up 12%, GRMs/EBITDA margins expand 300bps/90bps

Particulars	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
Net Sales	11,660	10,406	12.0	12,832	48,412	45,251	7.0
Gross Profit	8,062	6,883	17.1	8,683	32,919	29,522	11.5
Margin %	69.1	66.1	3.0	67.7	68.0	65.2	2.8
Other Exp	4510	3803	18.6	4466	17822	17505	1.8
% of Net sales	38.7	36.5		34.8	36.8	38.7	
EBITDA	3,552	3,080	15.3	4,218	15,096	12,017	25.6
Margin %	30.5	29.6	0.9	32.9	31.2	26.6	4.6
Depreciation	447	454	(1.5)	455	1825	1979	(7.8)
Interest	15	20		16	73	96	
PBT from operations	3090	2606	18.6	3747	13199	9941	32.8
Other Income	52	63	(17.0)	66	304	492	(38.4)
PBT	3,142	2,669	17.7	3,814	13,502	10,434	29.4
Tax	810	687	17.8	982	3463	2579	34.3
Tax rate %	25.8	25.7		25.7	25.6	24.7	
Adj. PAT	2,332	1,982	17.7	2,832	10,039	7,855	27.8

Source: Company, PL

Exhibit 2: Market Share remained flat


Source: Company, PL

Exhibit 3: Overall volume growth estimated at 8%


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Net Revenues	45,251	48,413	53,498	58,340
YoY gr. (%)	1.4	7.0	10.5	9.1
Cost of Goods Sold	15,729	15,494	16,976	18,448
Gross Profit	29,522	32,919	36,521	39,891
Margin (%)	65.2	68.0	68.3	68.4
Employee Cost	3,323	3,656	3,985	4,347
Other Expenses	3,689	3,934	4,425	4,769
EBITDA	12,017	15,097	16,580	18,259
YoY gr. (%)	(2.8)	25.6	9.8	10.1
Margin (%)	26.6	31.2	31.0	31.3
Depreciation and Amortization	1,979	1,825	1,911	2,111
EBIT	10,037	13,272	14,669	16,148
Margin (%)	22.2	27.4	27.4	27.7
Net Interest	96	73	81	74
Other Income	492	304	492	509
Profit Before Tax	10,434	13,503	15,079	16,583
Margin (%)	23.1	27.9	28.2	28.4
Total Tax	2,269	3,148	3,649	4,030
Effective tax rate (%)	21.7	23.3	24.2	24.3
Profit after tax	8,165	10,354	11,430	12,554
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,165	10,354	11,430	12,554
YoY gr. (%)	9.6	26.8	10.4	9.8
Margin (%)	18.0	21.4	21.4	21.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,165	10,354	11,430	12,554
YoY gr. (%)	5.3	26.8	10.4	9.8
Margin (%)	18.0	21.4	21.4	21.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,165	10,354	11,430	12,554
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	30.0	38.1	42.0	46.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
Non-Current Assets				
Gross Block	20,987	22,014	24,464	26,964
Tangibles	20,080	21,107	23,556	26,056
Intangibles	907	907	908	908
Acc: Dep / Amortization	11,655	13,135	14,667	16,361
Tangibles	10,749	12,228	13,759	15,453
Intangibles	907	907	908	908
Net fixed assets	9,332	8,879	9,797	10,603
Tangibles	9,332	8,879	9,797	10,603
Intangibles	-	-	-	-
Capital Work In Progress	1,900	1,449	1,500	1,500
Goodwill	-	-	-	-
Non-Current Investments	383	386	396	406
Net Deferred tax assets	(50)	48	18	(16)
Other Non-Current Assets	4,304	4,453	4,505	4,407
Current Assets				
Investments	3,596	2,545	2,657	3,188
Inventories	2,969	3,358	3,015	3,280
Trade receivables	1,326	1,171	1,892	2,223
Cash & Bank Balance	617	6,131	6,703	6,649
Other Current Assets	405	400	531	580
Total Assets	26,040	28,940	32,423	34,314
Equity				
Equity Share Capital	272	272	272	272
Other Equity	15,670	11,387	15,879	17,363
Total Network	15,942	11,659	16,151	17,635
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	488	311	339	283
Other non current liabilities	845	779	745	688
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,125	7,604	7,279	7,781
Other current liabilities	2,578	8,575	7,896	7,899
Total Equity & Liabilities	26,040	28,940	32,423	34,314

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	10,434	13,503	15,079	16,583
Add. Depreciation	1,979	1,825	1,911	2,111
Add. Interest	96	73	81	74
Less Financial Other Income	492	304	492	509
Add. Other	-	-	-	-
Op. profit before WC changes	12,509	15,400	17,071	18,768
Net Changes-WC	(1,800)	8,764	(3,093)	(888)
Direct tax	(2,269)	(3,148)	(3,649)	(4,030)
Net cash from Op. activities	8,440	21,016	10,329	13,851
Capital expenditures	(1,213)	(792)	(2,738)	(2,762)
Interest / Dividend Income	-	-	-	-
Others	125	-	-	-
Net Cash from Inv. activities	(1,087)	(792)	(2,738)	(2,762)
Issue of share cap. / premium	(133)	(5,390)	5,574	82
Debt changes	(777)	-	-	-
Dividend paid	(6,558)	(9,248)	(12,511)	(11,151)
Interest paid	(96)	(73)	(81)	(74)
Others	-	-	-	-
Net cash from Fin. activities	(7,564)	(14,710)	(7,019)	(11,143)
Net change in cash	(212)	5,515	572	(55)
Free Cash Flow	7,227	20,224	7,591	11,089

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Net Revenue	12,855	12,319	12,832	11,660
YoY gr. (%)	5.2	7.4	19.8	12.0
Raw Material Expenses	4,096	3,725	4,149	3,597
Gross Profit	8,759	8,594	8,683	8,062
Margin (%)	68.1	69.8	67.7	69.1
EBITDA	4,093	3,706	4,218	3,552
YoY gr. (%)	26.7	17.3	60.4	15.3
Margin (%)	31.8	30.1	32.9	30.5
Depreciation / Depletion	461	456	455	447
EBIT	3,632	3,251	3,763	3,105
Margin (%)	28.3	26.4	29.3	26.6
Net Interest	18	19	16	15
Other Income	76	99	66	52
Profit before Tax	3,689	3,330	3,814	3,142
Margin (%)	28.7	27.0	29.7	26.9
Total Tax	947	847	982	810
Effective tax rate (%)	25.7	25.4	25.7	25.8
Profit after Tax	2,742	2,484	2,832	2,332
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,742	2,484	2,832	2,332
YoY gr. (%)	12.3	24.7	63.5	17.7
Margin (%)	21.3	20.2	22.1	20.0
Extra Ord. Income / (Exp)	-	-	315	-
Reported PAT	2,742	2,484	3,147	2,332
YoY gr. (%)	12.3	24.7	54.1	17.7
Margin (%)	21.3	20.2	24.5	20.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,742	2,484	3,147	2,332
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	10.1	9.1	10.4	8.6

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Per Share(Rs)				
EPS	30.0	38.1	42.0	46.2
CEPS	37.3	44.8	49.1	53.9
BVPS	58.6	42.9	59.4	64.8
FCF	26.6	74.4	27.9	40.8
DPS	36.0	38.0	37.0	40.0
Return Ratio(%)				
RoCE	64.4	96.2	105.5	95.6
ROIC	69.0	198.6	244.6	173.2
RoE	53.7	75.0	82.2	74.3
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.7)	(0.6)	(0.6)
Net Working Capital (Days)	(15)	(23)	(16)	(14)
Valuation(x)				
PER	56.9	44.9	40.7	37.0
P/B	29.2	39.9	28.8	26.4
P/CEPS	45.8	38.2	34.9	31.7
EV/EBITDA	38.3	30.2	27.5	24.9
EV/Sales	10.2	9.4	8.5	7.8
Dividend Yield (%)	2.1	2.2	2.2	2.3

Source: Company Data, PL Research

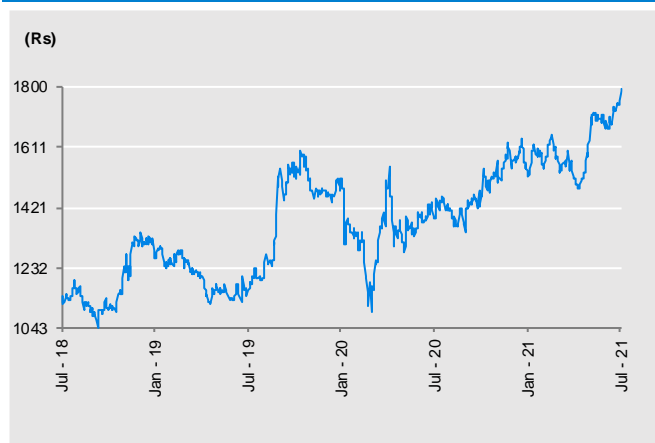
Key Operating Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
Volume Growth %	0.6	3.0	7.0	6.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	05-Jul-21	Accumulate	1,794	1,690
2	17-May-21	Accumulate	1,794	1,597
3	07-Apr-21	Hold	1,685	1,551
4	28-Jan-21	Hold	1,651	1,564
5	07-Jan-21	Hold	1,570	1,598
6	18-Dec-20	Hold	1,600	1,570
7	21-Oct-20	Hold	1,445	1,427
8	08-Oct-20	Reduce	1,350	1,452

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,755	3,545
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,794	1,690
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	UR	-	590
9	Emami	BUY	579	564
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	620	587
15	Marico	UR	-	520
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,869	1,763
20	Voltas	Hold	955	1,015
21	Westlife Development	BUY	572	496

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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