

Colgate Palmolive

Healthy recovery, innovation to drive growth

Colgate reported a healthy 3QFY21 with 8% YoY net revenue growth (HSIE 7%) and 10% domestic business growth. Toothpaste saw 10% growth with volume growth of 5%. Market share was maintained (slightly up) despite rising competition. Toothbrush saw recovery, posting low single digit growth. Personal care growth remained robust, led by new launches and accelerating demand. The company saw strong performance across channels, especially in MT and e-comm. GM expansion was healthy, aided by price hike and product mix. Entry into new categories and expansion of existing brands will continue to drive growth for Colgate. Revenue contribution from new launches should increase in the coming years (as of now 2-3%) as most of the new launches are scalable and not seeing cannibalisation. We slightly increase our EPS estimates for FY22/FY23. We value Colgate at 42x P/E on Mar-23E EPS and derive a target price of Rs 1,772. Maintain ADD.

- Steady revenue growth, innovation to drive FY22:** Revenue grew by 8% YoY (+4% in 3QFY20 and +5% in 2QFY21), slightly ahead of our expectation of 7% YoY growth. Domestic net sales grew by 10% YoY. Toothbrush saw low single digit growth, but it was compensated by higher growth in personal care. Toothpaste grew at 10% YoY, with 5% volume growth. The company continued its aggression within new launches with the launch of Colgate Magik- a first-of-its-kind augmented reality toothbrush for kids. During 9MFY21, Colgate Vedshakti franchise was broadened into mouth spray and oil pulling. The company also made several other new launches and relaunches in toothpaste and toothbrush during this period.
- Strong margin expansion:** Gross margin was healthy with an expansion of 403bps YoY to 69.8% (+60bps in 3QFY20 and +339bps in 2QFY21), beating our estimate of 147bps YoY expansion. Employee/A&P expenses grew by 13/38% YoY while other expenses declined by 6% YoY. EBITDA margin expanded by 253bps YoY to 30.1% (-105bps in 3QFY20 and +541bps in 2QFY21), ahead of our expectation of 167bps YoY expansion. EBITDA grew by 17% YoY (HSIE 13%). PBT grew by 24% YoY while PAT grew by 25% YoY.
- Management call takeaways:** (1) Sustained commodity inflation can lead to price hikes in FY22; (2) the company does not believe it has lost any market share; (3) new launches have a revenue mix of ~3%; (4) e-comm revenue mix stands at ~2.5% with potential to reach ~5-6%; (5) A&P is expected to remain slightly more than 13% of revenue.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	3QFY21	3QFY20	YoY (%)	2QFY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
Net Sales	12,319	11,472	7.4	12,855	(4.2)	45,251	48,183	52,567	56,750
EBITDA	3,706	3,161	17.3	4,093	(9.5)	12,017	14,415	15,456	16,812
APAT	2,484	1,991	24.7	2,742	(9.4)	8,165	9,621	10,397	11,487
Diluted EPS (Rs)	9.1	7.3	24.7	10.1	(9.4)	30.0	35.3	38.2	42.2
P/E (x)						52.1	44.2	40.9	37.0
EV / EBITDA (x)						35.0	29.1	26.8	24.4
RoCE (%)						64.9	76.8	89.1	98.8

Source: Company, HSIE Research

ADD

CMP (as on 28 Jan 2021)	Rs 1,563
Target Price	Rs 1,772
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,723	Rs 1,772
	FY22E	FY23E
EPS %	3%	3%

KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / (\$ mn)	425/5,824
6m avg traded value (Rs mn)	1,169
52 Week high / low	Rs 1,676/1,065

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	1.5	12.4	5.5
Relative (%)	(15.9)	(9.4)	(8.9)

SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	51.00	51.00
FIs & Local MFs	10.82	10.11
FPIs	15.67	16.59
Public & Others	22.51	22.30
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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