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Q4FY21 result review  
and TP revision

## Consumer Staples & Discretionary

Target price Rs1,750

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.1	↑ 0.1
EBITDA	↑ 1.7	↑ 1.4
PAT	↑ 2.2	↑ 1.9

### Target price revision

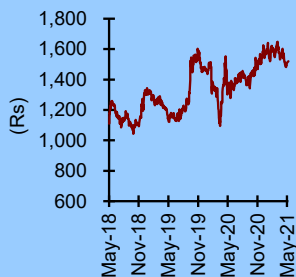
Rs1,750 from Rs1,700

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	51.0	51.0	51.0
Institutional investors	26.5	26.7	26.9
MFs and others	4.0	2.6	2.8
Banks, FI's, Insurance co	6.6	7.2	7.0
FII's	15.9	16.9	17.1
Others	22.5	22.3	22.1

Source: BSE

### Price chart



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# Colgate Palmolive (India)

ADD

Maintain

Rs1,597

## More of the same

Domestic revenue growth of 20% (2-year CAGR of 5%) was inline. Volume growth was ~16% (our estimate). Focus towards the naturals category (gained market shares), increasing brand visibility and step-up in innovations are positives. We believe Colgate is continuing to benefit from (1) a largely 'essential' portfolio, (2) presence across the price-benefit pyramid – helps capture any impact of downtrading, (3) strong distribution reach and (4) premiumisation driven by differentiated products with focus on MT and E-com. That said, weak macros are likely to impact premiumisation and delay the likely business plan to diversify in other home and personal care categories. Further, consumers switching to functional (ingredient-based) toothpaste remains a concern. ADD; TP Rs1,750.

- Growth momentum continued:** Revenue / EBITDA / PAT grew 20% / 60% / 54% respectively driven by double-digit growth across categories. Domestic revenues also grew by 20% with volume growth of 16% (our estimate). We also note that this strong performance is being driven by urban witnessing strong recovery with sustained growth momentum in rural and new product launches – Colgate Vedshakti franchisee extended to new categories like Mouth spray and Oil pulling, World's first toothpaste for Diabetics, expansion of Naturals toothbrush portfolio with Super Flexi Salt and Zig Zag Turmeric, Colgate Magik toothbrush for kids. Brand wise Colgate Strong Teeth and Colgate MaxFresh witnessed accelerated double-digit growth.
- Significant margin expansion:** Gross margins expanded 300bps driven by pricing and favourable mix (higher salience of bigger packs and premium products, higher toothpaste shares versus toothbrush). EBITDA margin expansion was higher at 830bps to 32.9% primarily due to cost saving initiatives (other opex down 120bps) and operating leverage - ad-spends (down 290bps YoY; -4% on an absolute basis) and staff costs (down 130bps). We expect Colgate to be able to manage any near-term input cost inflation by price increases (5% growth in realisation), rationalisation of ad-spends and cost savings.
- Other highlights:** 1) OCF and FCF grew by 49% / 53% respectively to Rs13.3bn / Rs12.7bn (adjusted for dividend considered as financial assets in cash flow), 2) Net working capital days improved by 8 days (to -23 days) largely due to higher creditor days, 3) Gained market shares in new age channels – E-commerce (+1400bps) and Modern Trade (+170bps).
- Valuations and risks:** We increase our earnings estimates by ~2%; modelling revenue / EBITDA / PAT CAGR of 9 / 7 / 7 (%) over FY21-23E. Maintain ADD with DCF-based revised target price of Rs 1,750 (earlier Rs1,700). Key downside risk is lower-than-expected market share gains.

Market Cap	Rs434bn/US\$5.9bn	Year to March	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	COLG.BO/CLGT IN	Net Revenue (Rs mn)	45,251	48,412	51,924	57,300
Shares Outstanding (mn)	272.0	Net Profit (Rs mn)	7,855	10,354	10,414	11,804
52-week Range (Rs)	1648/1278	Dil. EPS (Rs)	28.9	38.1	38.3	43.4
Free Float (%)	49.0	% Chg YoY	8.7	31.8	0.6	13.3
FII (%)	17.1	P/E (x)	55.3	41.9	41.7	36.8
Daily Volume (US\$'000)	14,262	CEPS (Rs)	36.2	44.8	45.4	50.9
Absolute Return 3m (%)	1.4	EV/EBITDA (x)	35.8	28.5	27.8	24.8
Absolute Return 12m (%)	22.4	Dividend Yield (%)	1.8	2.4	2.3	2.6
Sensex Return 3m (%)	(4.0)	RoCE (%)	60.3	87.4	103.1	111.0
Sensex Return 12m (%)	61.2	RoE (%)	51.7	75.0	87.5	94.1

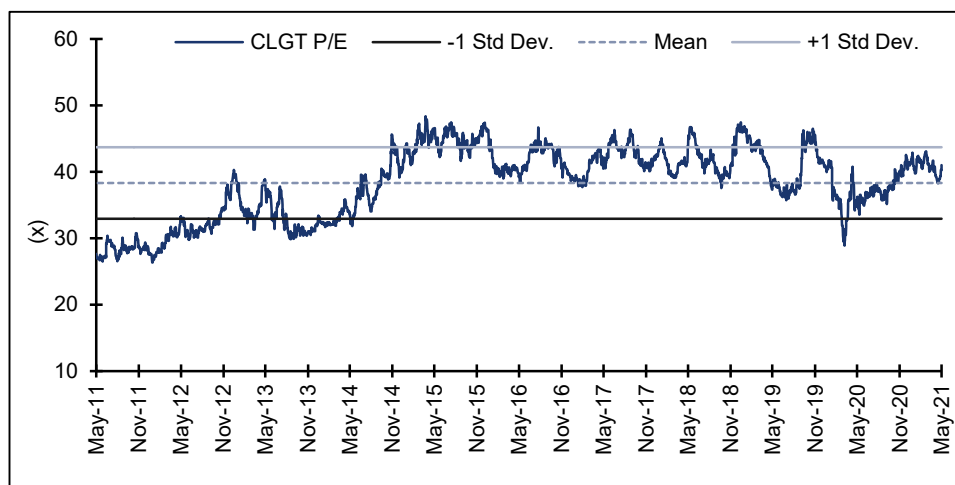
Table 1: Q4FY21 results review

(Rs mn)

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Volume growth (%)</b>	<b>17</b>	<b>(8)</b>	<b>2500 bps</b>	<b>5</b>	<b>1200 bps</b>	<b>4</b>	<b>1</b>	<b>367 bps</b>
<b>Net Revenue</b>	<b>12,832</b>	<b>10,713</b>	<b>20</b>	<b>12,319</b>	<b>4</b>	<b>48,412</b>	<b>45,251</b>	<b>7</b>
COGS	(4,149)	(3,786)	10	(3,725)	11	(15,494)	(15,729)	(1)
<b>Gross profit</b>	<b>8,683</b>	<b>6,926</b>	<b>25</b>	<b>8,594</b>	<b>1</b>	<b>32,919</b>	<b>29,522</b>	<b>12</b>
Staff cost	(915)	(899)	2	(869)	5	(3,656)	(3,323)	10
A&SP	(1,489)	(1,555)	(4)	(1,983)	(25)	(6,255)	(6,260)	(0)
Other opex	(2,062)	(1,844)	12	(2,036)	1	(7,911)	(7,922)	(0)
<b>Total opex</b>	<b>(4,466)</b>	<b>(4,298)</b>	<b>4</b>	<b>(4,888)</b>	<b>(9)</b>	<b>(17,822)</b>	<b>(17,505)</b>	<b>2</b>
<b>EBITDA</b>	<b>4,218</b>	<b>2,629</b>	<b>60</b>	<b>3,706</b>	<b>14</b>	<b>15,096</b>	<b>12,017</b>	<b>26</b>
Other income	66	196	(66)	99	(33)	304	492	(38)
Finance cost	(16)	(20)		(19)	(17)	(73)	(96)	
D&A	(455)	(462)	(2)	(456)	(0)	(1,825)	(1,979)	(8)
<b>PBT</b>	<b>3,814</b>	<b>2,344</b>	<b>63</b>	<b>3,330</b>	<b>15</b>	<b>13,502</b>	<b>10,434</b>	<b>29</b>
Tax	(667)	(612)	9	(847)	(21)	(3,148)	(2,579)	22
<b>Recurring PAT</b>	<b>3,147</b>	<b>1,732</b>	<b>82</b>	<b>2,484</b>	<b>27</b>	<b>10,354</b>	<b>7,855</b>	<b>32</b>
Extraordinary items	-	310		-		-	310	
<b>Net profit (reported)</b>	<b>3,147</b>	<b>2,042</b>	<b>54</b>	<b>2,484</b>	<b>27</b>	<b>10,354</b>	<b>8,165</b>	<b>27</b>
<b>EPS</b>	<b>11.6</b>	<b>6.4</b>	<b>82</b>	<b>9.1</b>	<b>27</b>	<b>38.1</b>	<b>28.9</b>	<b>32</b>
<b>Costs as a % of sales</b>								
COGS	32.3	35.3	-302 bps	30.2	209 bps	32.0	34.8	-276 bps
<b>Gross margin (%)</b>	<b>67.7</b>	<b>64.7</b>	<b>301 bps</b>	<b>69.8</b>	<b>-210 bps</b>	<b>68.0</b>	<b>65.2</b>	<b>275 bps</b>
Staff cost	7.1	8.4	-127 bps	7.1	7 bps	7.6	7.3	20 bps
A&SP	11.6	14.5	-292 bps	16.1	-450 bps	12.9	13.8	-92 bps
Other opex	16.1	17.2	-115 bps	16.5	-46 bps	16.3	17.5	-117 bps
<b>EBITDA margin (%)</b>	<b>32.9</b>	<b>24.5</b>	<b>832 bps</b>	<b>30.1</b>	<b>278 bps</b>	<b>31.2</b>	<b>26.6</b>	<b>462 bps</b>
Income tax rate (%)	17.5	26.1	-863 bps	25.4	-794 bps	23.3	24.7	-141 bps

Source: Company data, I-Sec research

Chart 1: Mean P/E and standard deviations

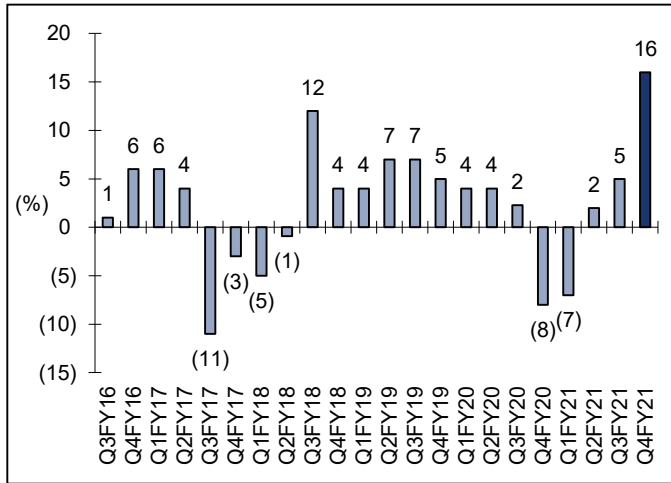


Source: Company data, I-Sec research

## Conference call takeaways

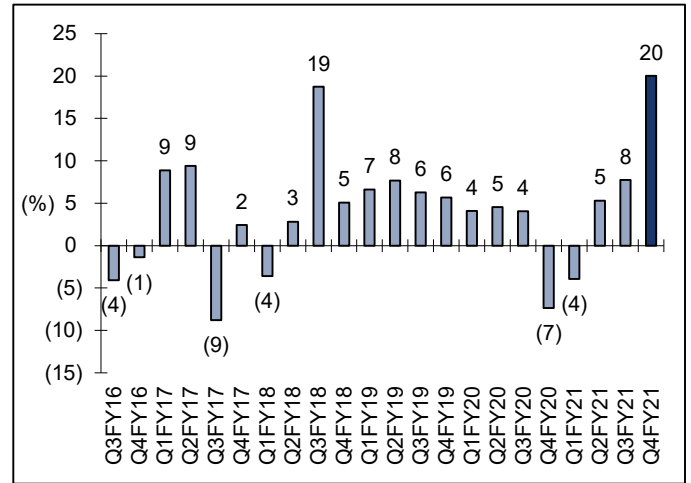
- **Colgate continues to be #1 penetrated (~88%) brand across categories** with strengthening brand metrics – top of mind (highest in last 5 years) and attitudinal equity.
- **Management plans to drive growth by focusing on** 1) family segment driving frequency of brushing in rural, 2) freshness (launching new campaign) and whitening segment (relaunch of *Colgate Visible White*) and 3) premium therapeutic toothpaste in specific channels (launched World's first toothpaste for Diabetics, focusing on chemist channel and professional recommendation). Further, it plans to continue to redefine oral care with innovations and drive growth in second leg of the business i.e. *Palmolive*.
- **Category wise** Naturals (including ingredient based) is holding around ~38-39% of the category over past few quarters. Family segment is ~30-33% of the segment. Freshness segment is witnessing some pick-up in demand. Management believes that various consumer sub-segments would continue to co-exist in the category. Further, it believes there would be amplification of different propositions and consumers will try out different sub-segments. Company plans to focus on amplifying oral, overall health proposition and relevance of flavour.
- Management has currently (in short-term) **shifted communication around product relevance as against twice brushing**. It plans to bring it back once things normalise.
- **Premiumisation** is certainly going to go up according to management, however, overall retail environment growth will determine the pace of this growth. Colgate witnessed substantial gains in premium portfolio (MT and E-com) in tier I, tier II and even smaller cities. Management believes that lack of LUPs in premium portfolio currently limit the premiumisation (compared to some other categories like soaps and detergents) of tier I and tier II cities and plans to bring in affordability to bring premiumisation across its portfolio.
- **Volume vs margins:** Management stated that they have not compromised with volume growth while focusing on margins and continue to be competitive in pricing. Margins according to management amplifies the ammunition power in terms of investment behind brands.
- **Recent innovations:** 1) *Colgate Vedshakti* - +60bps market share, sustained increase in loyalty (~50%; similar to brands which have been there for decades), 2) *Colgate Vedshakti Mouth Spray* – strong consumer repeats (~30%), available in 100k stores and is currently equivalent to ~1% of toothpaste market share driven by amplified digital initiatives, 3) *Colgate special toothpaste for Diabetics* - #1 SKU in e-pharma, 20% repeat rate, available in 25% urban pharmacies and direct dentist reach driven by strategic partnership with pharmacies and dentists and 4) *Colgate Visible White* (re-launch) - +80bps and +120bps in MT and E-com market shares driven by digital strategy.
- **SKU rationalisation** is a continuous process according to management. Colgate has categorised retail outlets according to the kind of SKUs it sells and continues to optimise the SKUs. It believes that it is very important for the channel partner as this allows Colgate inventory (right SKU) to be similar to fluid cash to them as it sells faster and does not block investment and pipeline.
- **Under indexation in chemist channels** has largely been due to 1) lack of portfolio and 2) not being a pharma company. However, with recent innovations the company has specific bundles (solution based) for chemist channel and along with it strategic partnerships and benefit of professional recommendation is currently making some inroads into the channel.
- **Continues to focus on rural presence with its Muskaan program** where it partners with channel partners to enhance its reach and has grown ~3x in recent times.
- **E-commerce** gained 1400bps market shares driven by exclusive team, right portfolio (premium) & partners and interventions at right touch points by building more traffic and convert into loyalty.

**Chart 2: Volume growth - Toothpaste**



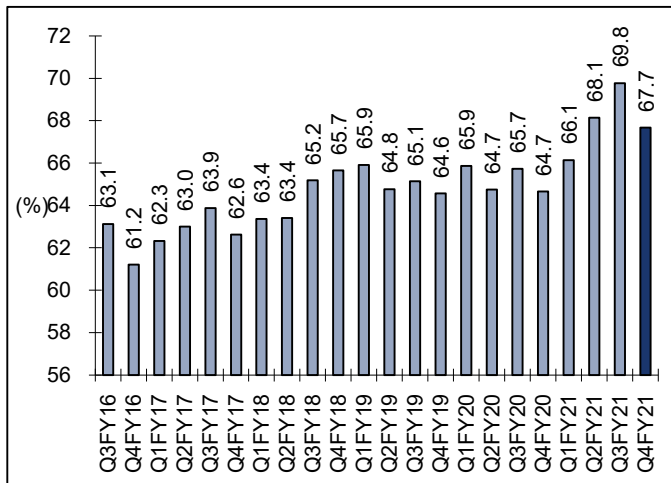
Source: Company data, I-Sec research

**Chart 3: Revenue growth**



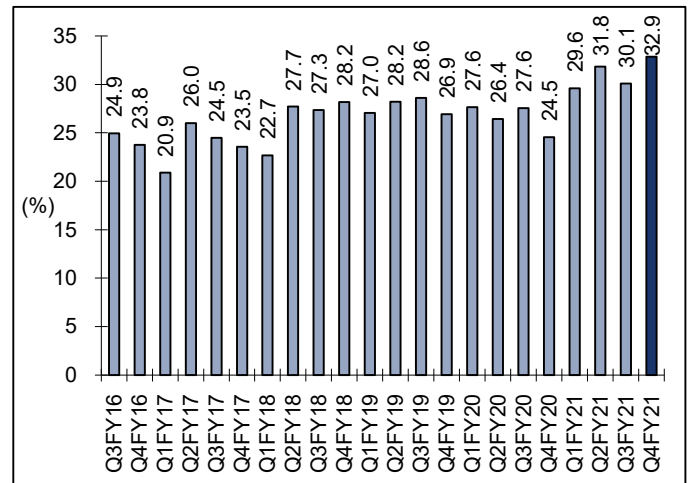
Source: Company data, I-Sec research

**Chart 4: Gross margin**



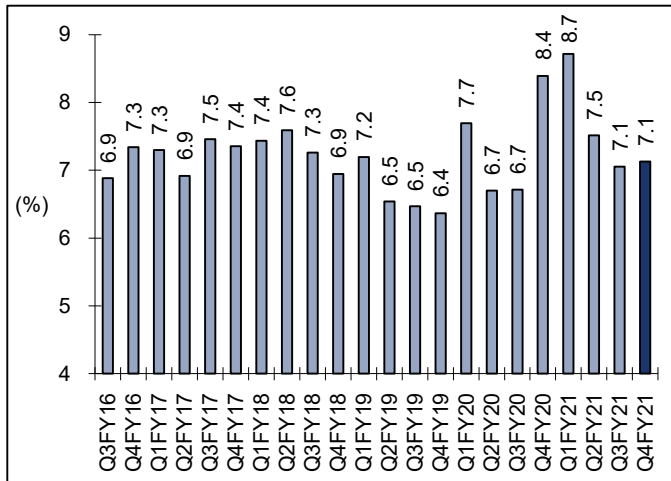
Source: Company data, I-Sec research

**Chart 5: EBITDA margin**



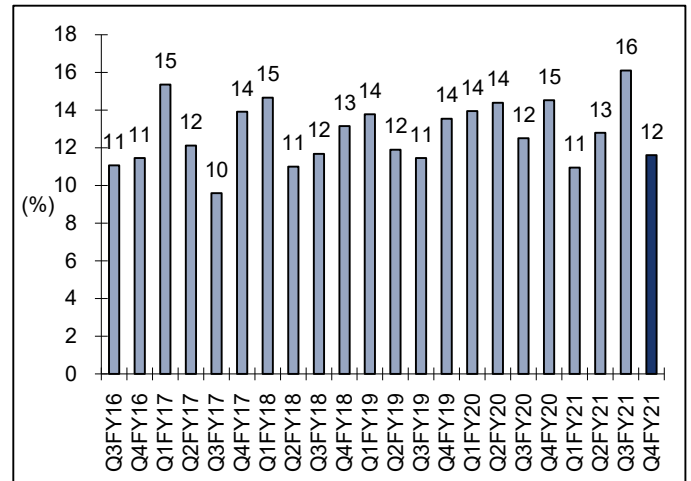
Source: Company data, I-Sec research

**Chart 6: Staff cost as a % of Sales**



Source: Company data, I-Sec research

**Chart 7: A&SP as a % of Sales**



Source: Company data, I-Sec research

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Net Sales</b>	<b>45,251</b>	<b>48,412</b>	<b>51,924</b>	<b>57,300</b>
<b>Operating Expenses</b>	<b>33,234</b>	<b>33,316</b>	<b>36,487</b>	<b>39,964</b>
<b>EBITDA</b>	<b>12,017</b>	<b>15,096</b>	<b>15,437</b>	<b>17,336</b>
% margins	26.6	31.2	29.7	30.3
Depreciation & Amortisation	1,979	1,825	1,923	2,054
Gross Interest	96	73	76	80
Other Income	492	304	480	572
<b>Recurring PBT</b>	<b>10,434</b>	<b>13,502</b>	<b>13,917</b>	<b>15,774</b>
Less: Taxes	2,579	3,148	3,503	3,970
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>8,165</b>	<b>10,354</b>	<b>10,414</b>	<b>11,804</b>
Extraordinaries (Net)	310	-	-	-
<b>Recurring Net Income</b>	<b>7,855</b>	<b>10,354</b>	<b>10,414</b>	<b>11,804</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	10,120	13,726	15,883	18,266
of which cash & cash eqv.	4,213	8,676	10,511	12,384
Total Current Liabilities & Provisions	8,528	16,041	17,237	19,061
<b>Net Current Assets</b>	<b>1,593</b>	<b>-2,316</b>	<b>-1,354</b>	<b>-795</b>
Investments	2,791	3,071	3,280	3,600
Net Fixed Assets	11,229	10,647	9,987	9,931
Capital Work-in-Progress	1,900	1,449	1,449	1,449
<b>Total Assets</b>	<b>17,512</b>	<b>12,851</b>	<b>13,361</b>	<b>14,185</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>2,535</b>	<b>2,152</b>	<b>2,176</b>	<b>2,212</b>
<b>Deferred Tax Liability</b>	<b>50</b>	<b>-48</b>	<b>-48</b>	<b>-48</b>
Minority Interest	-	-	-	-
Equity Share Capital	272	272	272	272
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	15,670	11,387	11,873	12,660
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>15,942</b>	<b>11,659</b>	<b>12,145</b>	<b>12,932</b>
<b>Total Liabilities</b>	<b>17,512</b>	<b>12,851</b>	<b>13,361</b>	<b>14,185</b>

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Jun 20	Sep 20	Dec 20	Mar 21
<b>Net Revenues</b>	<b>10,406</b>	<b>12,855</b>	<b>12,319</b>	<b>12,832</b>
% growth (YoY)	(3.9)	5.3	7.8	20.0
<b>EBITDA</b>	<b>3,080</b>	<b>4,093</b>	<b>3,706</b>	<b>4,218</b>
Margin (%)	29.6	31.8	30.1	32.9
Other income	63	76	99	66
Extraordinaries (Net)	-	-	-	-
<b>Net profit</b>	<b>1,982</b>	<b>2,742</b>	<b>2,484</b>	<b>3,147</b>

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Operating Cashflow</b>	<b>8,934</b>	<b>11,664</b>	<b>11,934</b>	<b>13,365</b>
Working Capital Changes	-35	-4,076	688	1,031
Capital Commitments	-604	-578	-1,263	-1,999
<b>Free Cashflow</b>	<b>8,295</b>	<b>7,011</b>	<b>11,359</b>	<b>12,397</b>
<b>Cashflow from Investing Activities</b>	<b>-187</b>	<b>714</b>	<b>-783</b>	<b>-1,426</b>
Issue of Share Capital	0	0	0	0
Inc (Dec) in Borrowings	-81	-103	-76	-80
Dividend paid	-8,433	-9,211	-9,928	-11,016
<b>Change in Deferred Tax Liability</b>	<b>198</b>	<b>-1,013</b>	<b>1,834</b>	<b>1,874</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>4,213</b>	<b>8,676</b>	<b>10,511</b>	<b>12,384</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	28.9	38.1	38.3	43.4
Cash EPS	36.2	44.8	45.4	50.9
Dividend per share (DPS)	28.0	38.0	36.0	42.0
Book Value per share (BV)	64.4	47.2	49.1	52.2
<b>Growth (%)</b>				
Net Sales	1.4	7.0	7.3	10.4
EBITDA	(2.8)	25.6	2.3	12.3
PAT	5.3	26.8	0.6	13.3
Cash EPS	17.8	35.7	(5.3)	16.7
<b>Valuation Ratios (x)</b>				
P/E	55.3	41.9	41.7	36.8
P/CEPS	44.2	35.7	35.2	31.3
P/BV	24.8	33.8	32.5	30.6
EV / EBITDA	35.8	28.5	27.8	24.8
EV / Sales	9.6	8.9	8.3	7.5
<b>Operating Ratios</b>				
Raw Material / Sales (%)	34.8	32.0	33.0	32.8
Employee cost / Sales (%)	7.3	7.6	7.4	7.3
SG&A / Sales (%)	31.3	29.3	29.9	29.6
Other Income / PBT (%)	4.7	2.2	3.4	3.6
Effective Tax Rate (%)	24.7	23.3	25.2	25.2
Working Capital (days)	(4.2)	(64.0)	(64.6)	(65.1)
Inventory Turnover (days)	24.2	25.5	25.3	25.1
Receivables (days)	10.8	8.9	8.8	8.7
Payables (days)	49.8	57.7	57.9	58.2
Net D/E (x)	(0.3)	(0.7)	(0.9)	(1.0)
<b>Profitability Ratios (%)</b>				
Net Income Margins	17.4	21.4	20.1	20.6
RoACE	60.3	87.4	103.1	111.0
RoAE	51.7	75.0	87.5	94.1
Dividend Payout	102.3	99.8	94.0	96.8
Dividend Yield	1.8	2.4	2.3	2.6
EBITDA Margins	26.6	31.2	29.7	30.3

Source: Company data, I-Sec research

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