

Sustained elevated margins despite high ad spends...

Colgate reported strong results with 19.8% revenue growth largely led by volumes. Though a low base quarter resulted in strong growth in Q4, we believe continued healthy traction in rural regions also contributed to strong numbers. New products like Colgate toothpaste for diabetics, Vedshakti Spray & Oil are witnessing strong growth, specifically in chemist & e-commerce channels. Toothpaste category remained insulated from pandemic but toothbrush category growth was adversely impacted given discretionary nature of the product. Gross margins expanded 301 bps mainly due to benign prices of calcium carbonate & Sorbitol. The company saved 126 bps in employee spends, 291 bps in marketing spends & 114 bps in other overhead in Q4. Operating profit grew 60.4% to ₹ 421.8 crore. Operating margins expanded 833 bps to 32.9%. Led by higher operating profit, PAT grew 54.1% to ₹ 314.7 crore.

Naturals, Ayurveda & Ingredient sizable part of category

In the last five years, the oral care industry has moved from family toothpaste to naturals, Ayurveda & ingredient based toothpaste with 39% of the total category contribution. Though core brand for the company remains Colgate Dental Cream, it is also focusing on naturals & ingredient based product with Colgate Vedshakti & Colgate Salt. The company is driving premiumisation trend with Colgate Total & Colgate Visible White. Further, with the launch of toothpaste for Diabetics, the company is trying to capture certain niches. Moreover, Vedshakti mouth protect spray has seen a successful launch with availability improving to 1 lakh stores and 30% repeat purchase. We believe focus on naturals, ingredient based toothpaste & new products has helped the company to curb the market share fall. We estimate 7.9% CAGR sales growth for the company in FY21-23E.

Margin to sustain at elevated levels

The decline in prices of Sorbitol & Calcium Carbonate helped Colgate to improve operating margins in FY21. Colgate has sustained its advertisement volumes even in a pandemic year but got some benefit from lower ad-rates. With the prominence of digital channels for advertisement, the company would be able to maintain the current advertisement spends. We estimate advertisement spends at 12-13% of sales. With judicious price hikes, premiumisation & sustainable low overhead costs, the company would be able to maintain elevated operating margins at ~31%.

Valuation & Outlook

With the focus on naturals and introduction of new product, the company has been able to sustain growth & market share in the last few years. Moreover, Colgate has been able to scale up its gross margins & operating margins despite high marketing spends depicts the its brand's pricing power. With sustained growth and margins, we believe the stock should command high valuation multiples. We maintain **BUY** rating with a revised target price of ₹ 1900/share (earlier ₹ 1860).

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Total Operating Income	4462.4	4525.1	4841.2	5207.1	5634.7	7.9%
EBITDA	1236.1	1201.7	1509.6	1598.7	1745.2	7.5%
EBITDA Margin %	27.7	26.6	31.2	30.7	31.0	
Net Profit	775.6	816.5	1035.4	1062.2	1161.6	5.9%
EPS (₹)	28.52	30.02	38.07	39.05	42.71	5.9%
P/E	55.3	52.5	41.4	40.4	36.9	
RoNW %	52.2	51.2	88.8	85.1	86.1	
RoCE (%)	70.7	60.7	106.4	110.4	111.7	

Source: Company, ICICI Direct Research



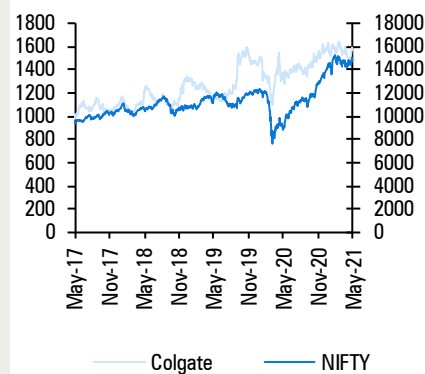
Particulars

Particulars (₹ crore)	Amount
Market Capitalization	42,892.2
Total Debt (FY21)	77.4
Cash and Investments (FY21)	867.6
EV	42,101.9
52 week H/L (₹)	1675.8 / 1257.2
Equity capital	27.2
Face value (₹)	1.0

Key Risk

- Any sudden & sharp increase in raw material prices could impact gross margins & operating margins accordingly
- Lack of innovation & new product launches would adversely impact volume growth

Price Performance



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Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	1,283.2	1,230.3	1,071.3	19.8	1,231.9	4.2	The strong revenue growth was led by low base quarter & strong traction in rural sales
Operating Income	8.2	9.3	8.9	-8.2	7.7	6.0	
Raw Material Expenses	414.9	377.0	378.6	9.6	372.5	11.4	Gross margin expansion of 300 bps largely due to softening of Sorbitol & calcium carbonate prices
Employee Expenses	91.5	96.8	89.9	1.8	86.9	5.3	
SG&A Expenses	148.9	189.3	155.5	-4.3	198.3	-24.9	
Other operating Expenses	206.2	200.0	184.4	11.8	203.6	1.3	
EBITDA	421.8	367.2	262.9	60.4	370.6	13.8	
EBITDA Margin (%)	32.9	29.8	24.5	833 bps	30.1	278 bps	Large scale saving in marketing, overheads & employee spends led to operating margin expansion
Depreciation	45.5	69.3	46.2	-1.6	45.6	-0.2	
Interest	1.6	0.0	2.0	NA	1.9	NA	
Other Income	6.6	10.7	19.6	-66.3	9.9	-33.0	
PBT before exceptional	381.4	314.4	234.4	62.7	333.0	14.5	
Exceptional Items	0.0	0.0	0.0	NA	0.0	NA	
Tax Outgo	66.7	75.2	30.2	120.8	84.7	-21.2	
PAT	314.7	239.1	204.2	54.1	248.4	26.7	Net profit growth was led by strong operating profit growth
Adjusted PAT	314.7	239.1	234.2	34.4	248.4	26.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	5,227.3	5,207.1	-0.4	5,574.0	5,634.7	1.1	We tweak our volume growth estimates
EBITDA	1601.6	1598.7	-0.2	1713.4	1745.2	1.9	
EBITDA Margin (%)	30.6	30.7	6 bps	30.7	31.0	23 bps	
PAT	1063.8	1062.2	-0.2	1137.3	1161.6	2.1	We tweak our gross margins & marketing spends estimates
EPS (₹)	39.1	39.1	-0.2	41.8	42.7	2.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier			Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY22E	FY23E	
Toothpaste Vol. Growth(%)	6.0	6.0	1.0	6.5	6.0	7.0	4.0	We change our volume growth estimates
Toothpaste Value Growth(%)	0.1	7.1	1.0	8.6	8.1	9.1	6.1	
Toothbrush Vol. Growth(%)	6.0	6.0	-4.0	7.0	6.0	7.0	5.0	
Toothbrush Value Growth(%)	17.9	4.0	-4.0	9.1	8.1	9.1	8.2	
Raw Material/Sales %	34.9	34.8	32.0	32.0	32.3	31.9	32.2	We tweak some our raw material & marketing spends estimates
Marketing Exp./Sales %	12.7	13.8	12.9	12.5	12.1	12.4	12.3	

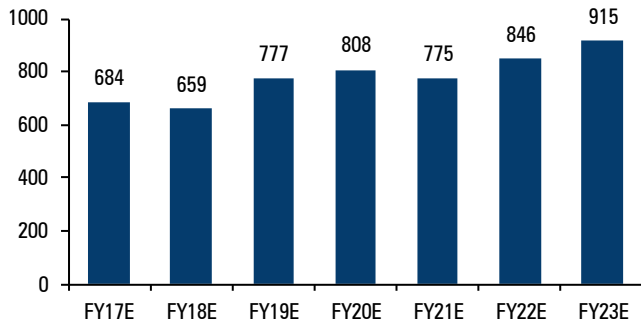
Source: Company, ICICI Direct Research

Conference Call Highlights

- Colgate witnessed strong 19.8% revenue growth led by strong volumes on the back of healthy traction in rural regions. Urban regions also saw a sharp recovery during the quarter. The naturals & new products launched in last one year aided the growth. Colgate remains the most penetrated brand at 88%
- The company is witnessing double digit growth across categories. Toothbrushes, which were adversely impacted in H1FY21 due to some bit of discretionary nature of consumer spends, have started witnessing strong double digit growth
- The core portfolio for the company is 'Colgate Dental Crème' & 'Colgate Max-Fresh'. Both core brands witnessed strong double digit growth. Colgate's brand continued to be most distributed brands with three out of five SKUs present with the trade channel
- In premium toothpaste sub-category, Colgate Visible White gained market share of 80 bps in modern trade & 120 bps in e-commerce channel. The company is pushing the brand through e-commerce platforms due to high concentration for urban markets. Premium portfolio is contributing one-third on some platforms
- In the new innovation, the company has extended Vedshakti brand in Mouth Spray & Oil Pulling. Vedshakti Toothpaste gained market share by 60 bps while the brand holds 50% level of loyalty. In Vedshakti Mouth spray 30% of consumers repeat purchase. The product is available in 1 lakh retail outlets now. The brand sales are only equivalent to 1% of toothpaste sales. Hence, the opportunity size remains very high
- Colgate Diabetics has been targeted to distribute through chemist channel & specific chemist e-commerce platform. The product is also promoted through dentists & other pharma professionals. The brand is available in 25% urban pharmacies while the company sees 20% repeat sales. Other new launches include Gentle Enamel, Slimsoft (Himalayan Salt, Turmeric) in toothbrush category
- The company is gaining significant market share in e-commerce & modern trade channels. Naturals, Ayurveda & Ingredient based toothpaste account for ~39% in the category. Family toothpaste accounts for ~30-33% of the category. Freshness sub-category is growing faster than other recently
- In rural, it would be largely driving family segment with increase in the frequency of brushing. In metro, it would be driving white & freshness toothpaste. Within premium, therapeutics is currently a very small part of the segment but these sub-categories can be much bigger
- The margin expansion is mainly due to product mix & SKU mix given toothpaste has grown faster than toothbrushes in FY21. Further, within SKUs larger packs (high margins) have grown faster than small ₹ 10, ₹ 20 SKUs
- Advertisement & promotion on brushing twice has been on hold due to pandemic given availability of products was more important last year. The program will continue when things normalise
- The company has not compromised on volumes for margins. It remains highly competitive on pricing
- The company announced a dividend of ₹ 20/share

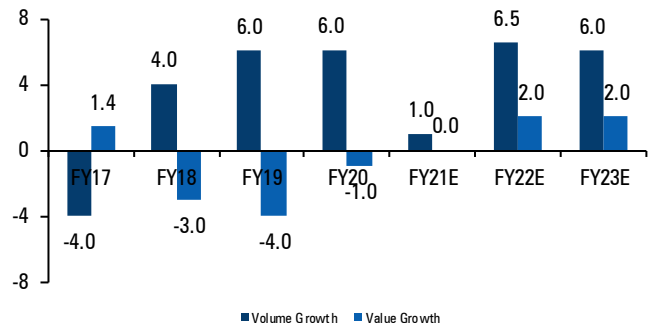
Key Metrics

Exhibit 4: Toothbrush revenue trend (idirect estimate)



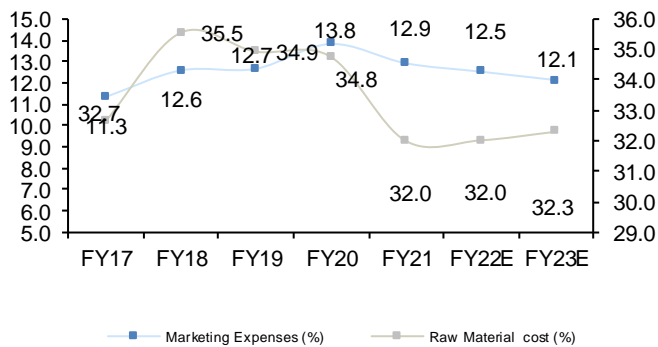
Source: Company, ICICI Direct Research

Exhibit 5: Toothpaste volume growth trend (l-direct estimate)



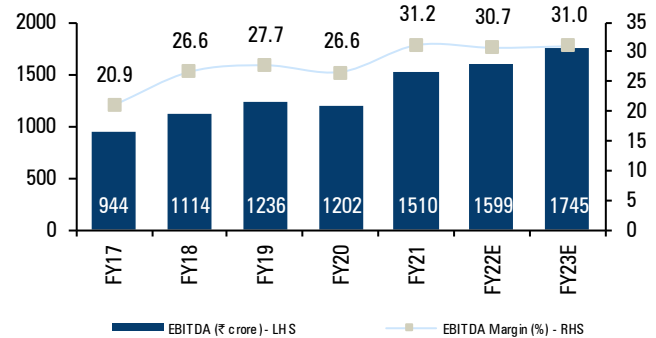
Source: Company, ICICI Direct Research

Exhibit 6: A&P spend to remain high, RM cost to remain low



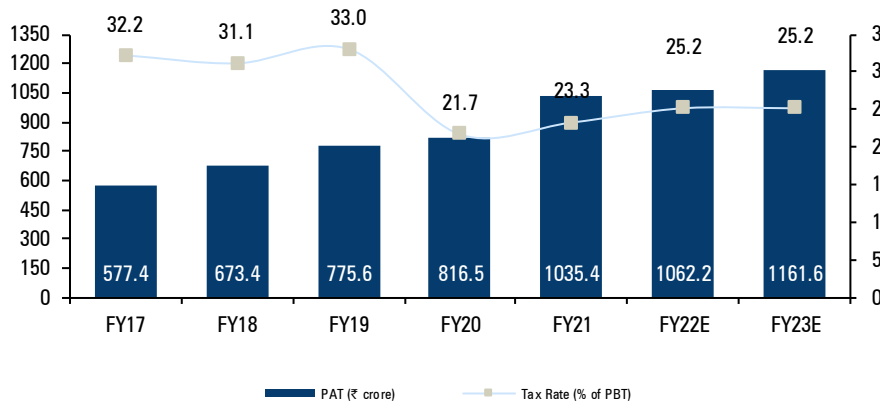
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA margin trend (%)



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: Valuations

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	4487.6	1.2	30.0	5.3	52.5	35.2	51.2	60.7
FY21	4810.5	7.2	38.1	26.8	41.4	27.7	88.8	106.4
FY22E	5174.5	7.6	39.1	2.6	40.4	26.5	85.1	110.4
FY23E	5600.2	8.2	42.7	9.4	36.9	24.1	86.1	111.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total Operating Income	4,525.1	4,841.2	5,207.1	5,634.7
Growth (%)	1.4	7.0	7.6	8.2
Raw Material Expenses	1,572.9	1,549.4	1,667.1	1,819.9
Employee Expenses	332.3	365.6	399.3	413.7
Marketing Expenses	626.0	625.5	652.0	683.0
Administrative Expenses	241.8	0.0	155.2	170.8
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	550.4	791.1	734.8	802.1
Total Operating Expenditure	3,323.4	3,331.6	3,608.4	3,889.5
EBITDA	1,201.7	1,509.6	1,598.7	1,745.2
Growth (%)	-2.8	25.6	5.9	9.2
Depreciation	197.9	182.5	210.2	225.2
Interest	9.6	7.3	0.0	0.0
Other Income	49.2	30.4	31.6	32.8
PBT	1,043.4	1,350.2	1,420.1	1,552.9
Exceptional items	0.0	0.0	-3.6	30.5
Total Tax	226.9	314.8	357.9	391.3
PAT	816.5	1,035.4	1,062.2	1,161.6
Growth (%)	5.3	26.8	2.6	9.4
EPS (₹)	30.0	38.1	39.1	42.7

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit/Loss after Tax	722.1	991.9	1,062.2	1,161.6
Add: Depreciation	197.9	184.1	210.2	225.2
Add: Interest	9.6	7.3	0.0	0.0
(Inc)/dec in Current Assets	25.0	-422.1	-238.9	-61.2
Inc/(dec) in Current Liabilities	-28.4	39.6	-561.8	86.9
CF from operating activities	889.9	783.9	471.8	1,412.4
(Inc)/dec in Investments	0.0	0.0	0.0	0.0
(Inc)/dec in Fixed Assets	-60.4	-57.8	-105.2	-70.0
Others	41.7	129.1	-16.7	-1.7
CF from investing activities	-18.7	71.4	-121.8	-71.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	-77.4	0.0
Dividend paid & dividend tap	-731.5	-921.1	-979.1	-1,060.7
Inc/(dec) in Sec. premium	-119.9	-35.3	0.0	0.0
Others	0.0	0.0	0.0	0.0
CF from financing activities	-851.4	-956.5	-1,056.5	-1,060.7
Net Cash flow	19.8	-101.3	-706.6	280.0
Opening Cash	378.0	397.8	296.6	-410.0
Cash with bank	23.5	571.1	571.1	571.1
Closing Cash	421.3	867.6	161.0	441.1

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,567.0	1,138.7	1,221.7	1,322.5
Total Shareholders funds	1,594.2	1,165.9	1,248.9	1,349.7
Total Debt	84.0	77.4	0.0	0.0
Long Term Provisions	48.8	31.1	36.2	39.2
Other Non-current Liabilities	6.7	1.7	1.7	1.7
Total Liabilities	1,733.7	1,276.1	1,286.8	1,390.6
Assets				
Gross Block	1,877.5	2,001.9	2,201.9	2,301.9
Less: Acc Depreciation	754.7	937.2	1,147.4	1,372.6
Net Block	1,122.9	1,064.7	1,054.5	929.3
Capital WIP	190.0	144.9	50.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	18.6	18.6	18.6	18.6
LT Loans & Advances/Others	260.4	288.5	315.0	319.7
Current Assets				
Inventory	296.9	335.8	311.9	337.5
Debtors	132.6	117.1	241.0	260.8
Cash	421.3	867.6	161.0	441.1
Loans & Advances	113.5	6.9	134.2	145.2
Other Current Assets	47.8	45.1	56.7	61.4
Current Liabilities				
Creditors	630.0	774.3	680.5	736.5
Provisions	60.5	81.1	63.8	69.0
Other CL	179.8	762.6	311.9	337.5
Net Current Assets	141.7	-245.4	-151.3	103.0
Total Assets	1,733.7	1,271.3	1,286.8	1,390.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	30.0	38.1	39.1	42.7
Cash EPS	37.3	44.8	46.8	51.0
BV	58.6	42.9	45.9	49.6
DPS	20.0	54.0	36.0	39.0
Cash Per Share	15.5	31.9	5.9	16.2
Operating Ratios (%)				
EBITDA Margin	26.6	31.2	30.7	31.0
PBT / Net Sales	23.3	28.1	27.4	27.7
PAT Margin	18.2	21.5	20.5	20.7
Inventory days	24.2	25.5	22.0	22.0
Debtor days	10.8	8.9	17.0	17.0
Creditor days	51.2	58.7	48.0	48.0
Return Ratios (%)				
RoE	51.2	88.8	85.1	86.1
RoCE	60.7	106.4	110.4	111.7
Valuation Ratios (x)				
P/E	52.5	41.4	40.4	36.9
EV / EBITDA	35.2	27.7	26.5	24.1
EV / Net Sales	9.4	8.7	8.2	7.5
Market Cap / Sales	9.6	8.9	8.3	7.7
Price to Book Value	26.9	36.8	34.3	31.8
Solvency Ratios				
Debt/EBITDA	0.1	0.1	0.0	0.0
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	0.7	0.3	0.7	0.7
Quick Ratio	0.4	0.1	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,577	1,900	Buy	42,892	38.1	39.1	42.7	41.4	40.4	36.9	8.9	8.3	7.7	106.4	110.4	111.7	88.8	85.1	86.1
Dabur India (DABIND)	531	620	Buy	94,540	9.6	10.9	12.2	55.4	48.5	43.5	9.9	8.7	7.9	24.5	26.5	27.1	22.1	22.9	23.2
Hindustan Unilever (HINLEV)	2,381	2,715	Buy	554,458	33.9	40.5	45.0	70.3	58.8	52.9	12.2	10.6	9.8	18.9	25.6	27.7	17.1	20.0	21.6
ITC Limited (ITC)	210	245	Hold	267,970	10.7	12.8	14.1	19.6	16.5	14.9	5.8	5.1	4.7	26.3	31.0	33.1	20.1	23.7	25.3
Jyothy Lab (JYOLAB)	150	175	Hold	5,728	5.9	6.4	7.1	25.6	23.5	21.1	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	471	490	Buy	53,027	9.3	9.6	10.7	50.7	48.9	44.0	6.6	5.9	5.3	40.3	42.5	45.5	37.0	37.4	39.7
Nestle (NESIND)	17,144	19,300	Hold	164,840	216.0	254.8	283.8	79.4	67.3	60.4	12.4	11.2	10.2	54.6	62.7	69.1	103.1	124.2	142.1
Tata Consumer Products (TAT)	654	725	Buy	57,963	10.1	12.4	14.5	64.8	52.7	45.1	5.0	4.4	4.1	8.0	9.1	10.0	6.4	7.6	8.5
VST Industries (VSTIND)	3,241	3,600	Hold	5,090	201.3	218.8	234.9	16.1	14.8	13.8	4.6	4.2	3.9	43.4	45.6	48.2	33.0	33.9	36.1
Varun Beverage (VARBEV)	975	1,200	Buy	28,955	12.5	21.2	31.1	77.7	45.9	31.4	4.5	3.7	3.1	10.9	17.4	23.4	10.3	15.4	19.1
Zydus Wellness (ZYDWEL)	2,122	2,800	Buy	13,502	18.7	60.8	72.0	113.7	34.9	29.5	7.2	6.4	5.8	6.2	7.8	9.1	5.5	8.1	9.4

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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