

Colgate-Palmolive (India) Ltd

ADD

CMP Rs1,596

Target Rs1,782

Upside 11.6%

Growth still elusive but margins keep racing ahead

Result Highlights

- ✓ **Financial summary** – 20% revenue growth on a base of 8% decline indicating volume growth ~14%, gross margins up 310bps due to price hikes and better SKU and segment mix, EBITDA margins up 840bps to cost controls and lower adspends, PAT growth of 54%.
- ✓ **Quarter highlights** - Continued growth momentum with double-digit growth witnessed in key segments including toothbrush, rural growth sustained while urban growth recovered, strong share gains in MT and ecom channels.
- ✓ **Margin improvement drivers** – Price hikes through the year including in 4Q, lower exports, toothpaste growing faster than toothbrush, better SKU mix in favor of bigger size packs and premium SKUs, controlled media spends while retaining brand recall shares, cost efficiency measures.
- ✓ **Vedshakti performance** – Strong momentum continued with 60bps market share gains, brand loyalty up to 50%; created new category with launch of Vedshakti mouth spray (30% repeat purchases), available in 100k stores, reached 1% market share.

Valuation and view - Colgate's 4Q performance was a strong beat on the margin front with both gross and EBITDA margins making new all-time highs while underlying volume growth still remains soft with growth driven by premiumization and a better mix. While the company has turned more aggressive on new launches and entry into new oral care segments, more traction in these segments or entry into new categories would be required to pull up the growth trajectory from mid to high single digits. Market shares seem to have bottomed out and should gradually start improving with traction in rural markets, distribution efforts across channels and strong momentum in Vedshakti portfolio. Personal care under Palmolive brand and toothbrushes should also recover post a muted FY21 while a few of the new launched have high scalability potential.

We build in 8.3%/8.2% revenue/PAT CAGR for the company over FY21-23E expecting an improvement in growth trajectory from the 4.6% seen from FY16-21 with margins setting slightly below current levels. The increased dividend payouts have also led to a sharp improvement in return ratios and should act also support valuations. We assume coverage on CLGT with an ADD rating with a PT of Rs 1,782 based on 40x FY23E earnings, in-line with its 5-yr average multiple. Market share getting back above 50% and strong scale-up in new launches should be the key positive triggers for the stock. Key risks would be further loss of market share in oral care to Dabur or HUL and failure to move up the overall growth trajectory via scale-up of new launches.

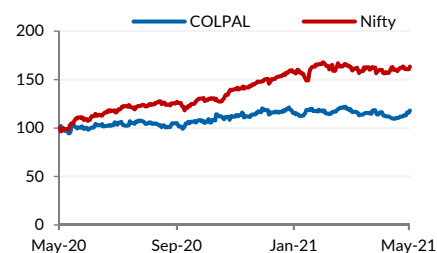
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	12,832	10,713	19.8%	12,319	4.2%
Operating profit	4,218	2,629	60.4%	3,706	13.8%
OPM (%)	32.9%	24.5%		30.1%	
Depreciation	455	462	-1.6%	456	-0.2%
Interest	16	20	-21.2%	19	-17.5%
Other income	66	196	-66.3%	99	-33.0%
PBT	3,814	2,344	62.7%	3,330	14.5%
Tax	667	302	120.8%	847	-21.2%
Effective tax rate (%)	17.5	12.5		25.4	
Reported PAT	3,147	2,042	54.1%	2,484	26.7%
PATM (%)	24.5%	19.1%		20.2%	
EPS (Rs)	11.6	7.5		9.1	

Stock data (as on May 17, 2021)

Nifty:	14,923
52 Week h/l (Rs)	1676 / 1257
Market cap (Rs/USD mn)	434252 / 5931
Outstanding Shares	272
6m Avg t/o (Rs mn):	998
Div yield (%):	2.4
Bloomberg code:	CLGT IN
NSE code:	COLPAL

Stock performance



	1M	3M	1Y
Absolute return	1.6%	1.4%	22.4%

Shareholding pattern (As of Mar'21 end)

Promoter	51.00%
FII+DII	26.49%
Others	22.21%

Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	48,412	52,604	56,819
YoY Growth	7.0	8.7	8.0
EBIDTA	15,096	16,123	17,671
Margins (%)	31.2	30.7	31.1
PAT	10,354	10,981	12,114
YoY Growth	21.4	20.9	21.3
ROE	75.0	89.9	90.7
ROCE	98.4	120.9	121.9
EPS	38.1	40.4	44.5
P/E	41.6	39.2	35.5
EV/EBITDA	27.9	25.9	23.5

HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 99209 15754



ANKIT MAHAJAN, Associate

ankit.mahajan@ysil.in

AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

CONCALL TAKEAWAYS

- ✓ **4Q summary** – Continued growth momentum, witnessing double-digit growth in key categories including toothbrush, rural growth sustained while urban growth recovered; 20% revenue growth, GMs up 310bps and EBITDA margins up 840bps driving PAT growth of 54%, 88% brand penetration, highest ever top of mind recall despite lower ad spends, category leading innovation.
- ✓ **Strong performance from core brands** – Colgate Strong Teeth and Maxfresh saw accelerated double digit growth in FY21 – both among India’s top 3 and 5 distributed SKUs.
- ✓ **New brand campaigns** – New campaign for Strong Teeth focusing on nutrition, Max Fresh focusing on young audience and trolling, relaunch of Visible White focusing on whitening (market share gains of 80bps in MT and 120bps in eCom).
- ✓ **Vedshakti performance** – Strong momentum continued with 60bps market share gains, brand loyalty up to 50%; created new category with launch of Vedshakti mouth spray (30% repeat purchases), available in 100k stores, reached 1% market share.
- ✓ **Other innovation** – Launched Colgate Diabetics in partnerships with dentists/IDA and distribution partners like 1mg, Pharmeasy and Apollo, 20% repeat purchases, available in 25% urban pharmacies and direct dentist reach; doing well on new gentle line of toothbrushes, now extending into naturals range, also launched India 1st augmented reality based toothbrush with Colgate Magik.
- ✓ **Distribution initiatives** – Separate e-com team created to drive share gains across platforms with right portfolio and innovations; 1400bps share gains in e-com channel vs FY19, MT share also up by 170bps; further strengthening rural presence via Muskaan program, Muskaan wholesalers witnessing 3x growth.
- ✓ **Volume/value/segment mix** – Revenue growth led by volume growth which exceeded pricing growth; Naturals segment including salts is about 38% of industry revenue, family is about 30-32%, freshness seeing strong pick up; premium portfolio about one-third of business now; will keep driving family segment in rural markets, drive freshness/whitening portfolio in youth and metro markets.
- ✓ **Margin improvement drivers** – Price hikes through the year including in 4Q, lower exports, toothpaste growing faster than toothbrush, better SKU mix in favor of bigger size packs and premium SKUs, controlled media spends while retaining brand recall shares, cost efficiency measures.
- ✓ **Twice a day brushing campaign** – Product availability and access was prioritized during pandemic period, will bring back that awareness communication going forward.
- ✓ **Market share** – Overall market share remains robust in the 40s, specifically gaining share strongly in the MT and eCom channels.
- ✓ **Segmental movement in toothpaste** - Expect all segments to co-exist to compete with naturals segment as basic benefit profile remains same, flavor will always remain relevant, premiumization also bound to increase with growth in MT and eCom.
- ✓ **Volume vs margin balance** – Strong margins give multiple investment opportunities to spend on innovation and A&P; remain very competitive on pricing to protect volume growth, dynamically assessing pricing and promotion strategies; keep working on cost efficiencies.
- ✓ **In-school activations** – Moved children focused campaigns to digital medium which saved costs and also saw engagement of parents which increased the target audience.

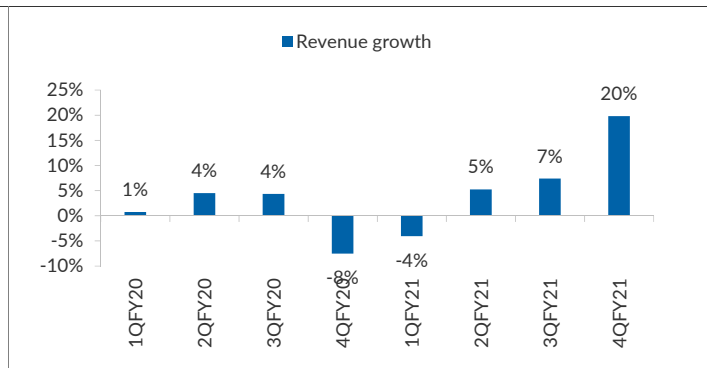
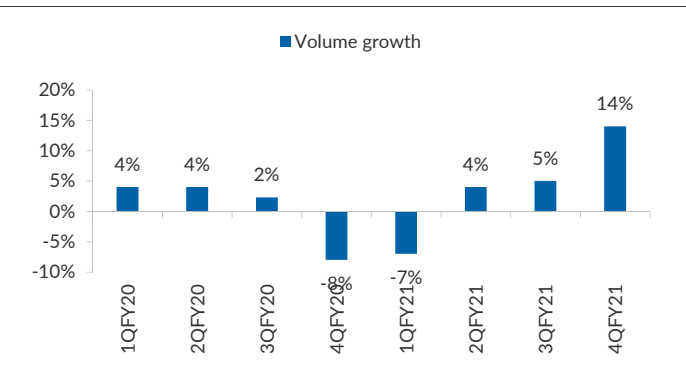
Colgate-Palmolive (India) Ltd

- ✓ **SKU rationalization and shelf space** – Keep culling out slow moving SKUs on a continuous basis to ensure strong turnover, undertake detailed retail outlet segmentation to decide optimum SKU mix.
- ✓ **Premiumization update** – Seen strong gains in premium portfolio especially in MT and eCom channels e.g. Charcoal, Visible White; premiumization significantly lagging in smaller cities and rural markets given prevalence of LUPs.
- ✓ **Underlying growth and A&P outlook** – Growth will be driven by Palmolive portfolio, premiumization in toothpaste and entry into new segments in oral care; will keep investing behind brands in a calibrated manner

CHARTS

Exhibit 2: Volume growth trajectory has improved gradually

Exhibit 3: Similar trajectory in revenue growth

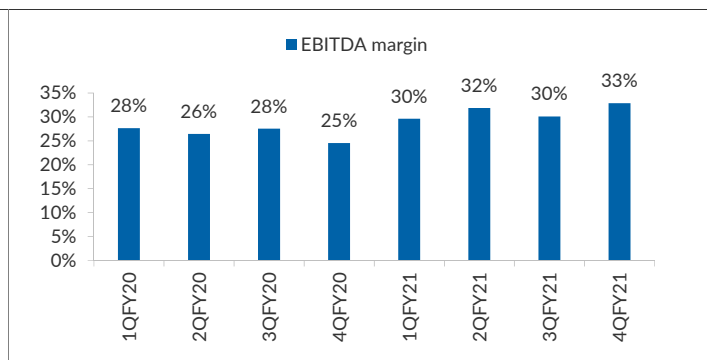
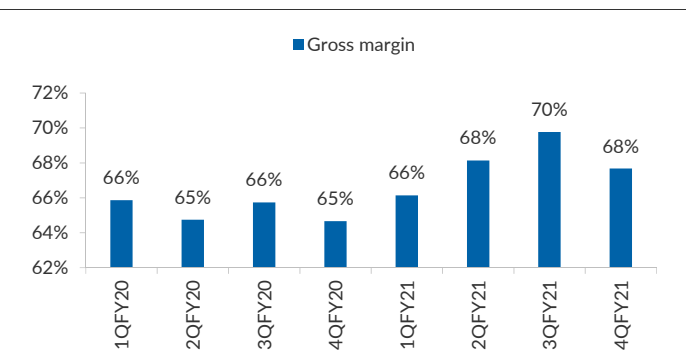


Source: Company, YES Sec – Research

Source: Company, YES Sec – Research

Exhibit 4: Gross margin improved driven by price hikes, product mix shift towards toothpaste and premium SKUs

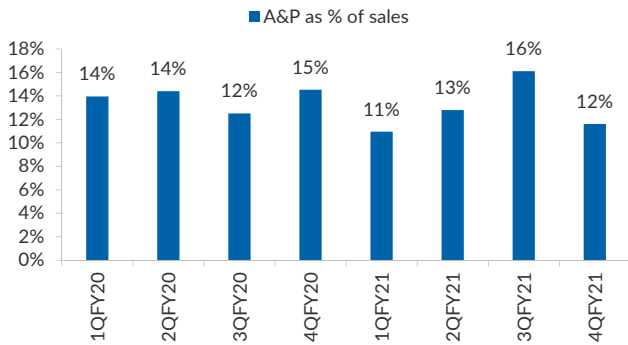
Exhibit 5: EBITDA margin further improved on the back of lower A&P spends and cost controls



Source: Company, YES Sec – Research

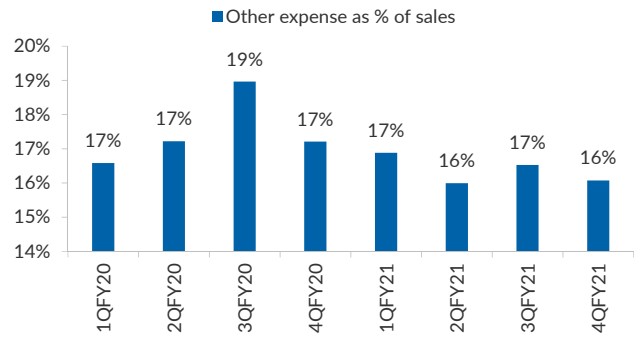
Source: Company, YES Sec – Research

Exhibit 6: A&P spends normalized during the quarter



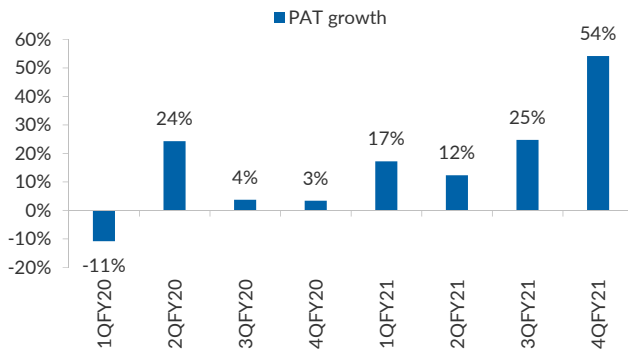
Source: Company, YES Sec - Research

Exhibit 7: ... While other expenses also inched down



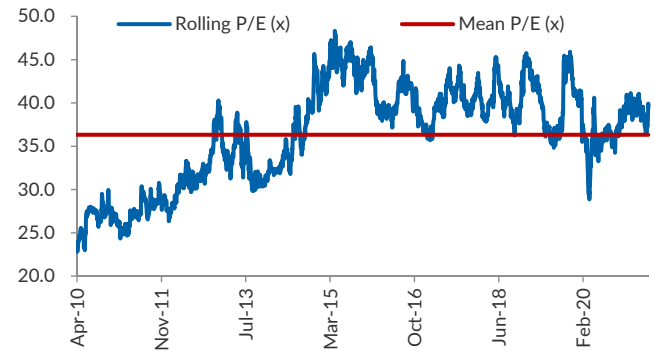
Source: Company, YES Sec - Research

Exhibit 8: Margin improvement drove earnings growth



Source: Company, YES Sec - Research

Exhibit 9: Currently trading at 39x one-yr fwd earnings



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 10: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	272	272	272	272	272
Reserves	14,196	15,670	11,387	12,485	13,696
Net worth	14,468	15,942	11,659	12,757	13,968
Debt	771	0	0	0	0
Deferred tax liab (net)	309	50	0	0	0
Other non current liabilities	200	1,345	1,102	1,210	1,330
Total liabilities	15,748	17,337	12,761	13,967	15,298
Fixed Asset	13,896	13,129	12,096	11,191	10,207
Investments	312	186	186	0	0
Other Non-current Assets	453	357	349	48	48
Net Working Capital	-2,899	-548	-8,547	-9,907	-10,709
Inventories	2,486	2,969	3,358	3,315	3,580
Sundry debtors	2,098	1,326	1,171	1,729	1,868
Loans and Advances	1,150	1,135	69	576	623
Sundry creditors	6,132	6,125	7,604	7,927	8,562
Other current liabilities	3,740	1,973	7,765	7,206	7,783
Cash & equivalents	3,987	4,213	8,676	12,636	15,752
Total Assets	15,748	17,337	12,761	13,967	15,298

Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	44,624	45,251	48,412	52,604	56,819
Operating profit	12,361	12,017	15,096	16,123	17,671
Depreciation	1,592	1,979	1,825	1,905	1,983
Interest expense	25	96	73	80	88
Other income	377	492	304	542	596
Profit before tax	11,121	10,434	13,502	14,680	16,196
Taxes	3,670	2,269	3,148	3,699	4,081
Minorities and other	-	-	-	-	-
Adj. profit	7,451	8,165	10,354	10,980	12,114
Exceptional items	(305)	-	-	-	-
Net profit	7,756	8,165	10,354	10,980	12,114

Exhibit 12: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBIT	11,146	10,530	13,575	14,760	16,283
Depreciation	1,592	1,979	1,825	1,905	1,983
Tax paid	(3,670)	(2,269)	(3,148)	(3,699)	(4,081)
Working capital Δ	139	(2,351)	7,999	1,360	802
Other operating items					
Operating cashflow	9,206	7,889	20,250	14,326	14,987
Capital expenditure	(2,442)	(1,213)	(792)	(1,000)	(1,000)
Free cash flow	6,764	6,676	19,459	13,326	13,987
Equity raised	(2,279)	925	(4,301)	(0)	-
Investments	-	125	0	186	-
Debt financing/disposal	771	(771)	-	-	-
Interest Paid	(25)	(96)	(73)	(80)	(88)
Dividends paid	(6,256)	(7,616)	(10,335)	(9,882)	(10,903)
Other items	450	982	(286)	410	119
Net Δ in cash	(574)	226	4,464	3,960	3,116

Exhibit 13: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.7	0.8	0.8	0.7	0.7
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.3	0.3	0.3
Asset turnover (x)	1.7	1.7	1.8	1.8	1.8
Financial leverage (x)	1.7	1.7	2.0	2.4	2.3
RoE (%)	50.2	53.7	75.0	89.9	90.7

Exhibit 14: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	6.6	1.4	7.0	8.7	8.0
Op profit growth	11	(3)	25.6	6.8	9.6
EBIT growth	12	(6)	28.9	8.7	10.3
Net profit growth	9	10	26.8	6.1	10.3
Profitability ratios (%)					
OPM	27.7	26.6	31.2	30.7	31.1
EBIT margin	25.0	23.3	28.0	28.1	28.7
Net profit margin	16.7	18.0	21.4	20.9	21.3
RoCE	73.1	67.5	98.4	120.9	121.9
RoNW	50.2	53.7	75.0	89.9	90.7
RoA	28.7	31.2	37.7	37.3	38.7
Per share ratios					
EPS	27.4	30.0	38.1	40.4	44.5
Dividend per share	23.0	28.0	38.0	36.3	40.1
Cash EPS	33.2	37.3	44.8	47.4	51.8
Book value per share	53.2	58.6	42.9	46.9	51.4
Valuation ratios					
P/E	57.7	52.7	41.6	39.2	35.5
P/CEPS	47.6	42.4	35.3	33.4	30.5
P/B	29.7	27.0	36.9	33.7	30.8
EV/EBIDTA	34.6	35.5	27.9	25.9	23.5

Colgate-Palmolive (India) Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Payout (%)					
Dividend payout	84	93	99.8	90.0	90.0
Tax payout	33	22	23.3	25.2	25.2
Liquidity ratios					
Debtor days	17	11	9	12	12
Inventory days	20	24	25	23	23
Creditor days	50	49	57	55	55

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Email: research@ysil.in | Website: www.yesinvest.in

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Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

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