

Retail Equity Research

Colgate Palmolive (India) Limited

FMCG

BSE CODE: 500830

NSE CODE: COLPAL

Bloomberg CODE: CLGT:IN

SENSEX: 49,903

BUY

12 Months Investment period Rating as per Large Cap
CMP Rs. 1,606 TARGET Rs. 1,910 RETURN 19% ↑
(Closing: 19-05-21)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Solid Q4; Outlook optimistic

Colgate-Palmolive (India) Ltd. manufactures consumer products in the oral care and body care area. The company's products include soaps, cosmetics, toilet preparations, toothpaste, toothbrushes, shaving brushes and glycerin.

- Q4FY21 standalone revenue rose 4.1% QoQ (+20.0% YoY) with core portfolio "Colgate Dental Crème" & "Colgate Max-Fresh" posting strong double-digit growth. Discretionary category saw a moderate revival.
- EBITDA grew 13.8% QoQ as margin expanded 280bps QoQ to 33.1% on improved product mix and A&P cost savings. Also, lower taxes and tax reversals from prior period aided PAT growth of 26.7% QoQ.
- Given resilient performance despite pandemic, aggressive volume growth, breakthrough innovations and sustained market share gains, we reiterate BUY rating on the stock with a rolled forward target price of Rs. 1,910 based on 42x FY23E adj. EPS.

Topline grows with successful new launches

Standalone revenue rose 4.1% QoQ to Rs. 1,275cr (+20.0% YoY) led by strong volumes across product categories. The toothpaste segment showed double digit growth with robust demand, while toothbrush and other discretionary segments witnessed a turnaround from the recent fall. Although rural market (expanded ~3x with Muskaan) continues to outshine urban, the latter registered some resurgence. New products like "Toothpaste for Diabetics" (#1 SKU on e-pharma, ~20% repeat rate), Vedshakti Spray & Oil are gaining strong traction, especially in modern trade and e-commerce channels (+1,400bps vs. FY19), besides improved market share. With high customer loyalty, magnified digital reach and strategic partnerships (Online - 1mg, Offline - Apollo), Colgate remains #1 penetrated brand (88%) across categories.

Improved margins with optimized price mix

Gross margins improved with premiumization, price mix and investment towards brand building. EBITDA grew 13.8% QoQ to Rs. 422cr (+60.4% YoY) with an expansion in EBITDA margin by 280bps QoQ to 33.1% (+840bps YoY) upon large scale saving in ad spends (-24.9% QoQ, -4.3% YoY to Rs. 149cr) and other overheads. While material costs (+2.2% QoQ, +1.0% YoY) and employee expenses (+5.3% QoQ, +1.8% YoY) saw a mild uptick to Rs. 324cr and Rs. 91cr, respectively. Lower taxes and prior period reversals resulted in PAT spiraling 26.7% QoQ to Rs. 315cr (+54.1% YoY).

Key concall highlights

- Company amplified its product portfolio with launches like "Recyclable Tube", India's first Augmented Reality toothbrush - "Colgate Magik" for kids in Q4FY21.
- Vedshakti's mouth spray saw ~30% repeat purchases despite a new category.
- High market share gains in E-commerce and MT channels - ~39% accounts for Naturals, Ayurveda & Ingredient based toothpaste; ~30-33% for Family toothpaste.

Valuation

With company's primary focus to drive conversions through enduring increase in traffic and rising market share, we expect Colgate to continue delivering strong performance in the near-term. Given its entry into new product categories, expansion of existing brands, high customer loyalty and brand image, outlook remains promising. Hence, we reiterate our BUY rating on the stock with a rolled forward target price of Rs. 1,910 based on 42x FY23E adj. EPS.

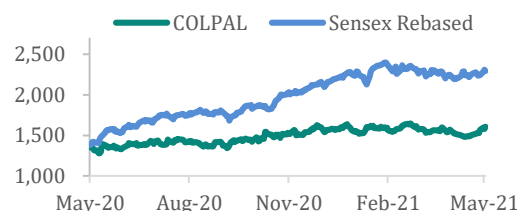
Company Data

Market Cap (cr)	Rs. 43,674
Enterprise Value (cr)	Rs. 42,825
Outstanding Shares (cr)	27.2
Free Float	49.0%
Dividend Yield	2.4%
52 week high	Rs. 1,676
52 week low	Rs. 1,257
6m average volume	31,251
Beta	0.7
Face value	Rs. 1

Shareholding %	Q2FY21	Q3FY21	Q4FY21
Promoters	51.0	51.0	51.0
FII's	15.7	16.6	16.9
MFs/Insti	11.1	10.4	10.3
Public	18.9	18.7	18.6
Others	3.4	3.4	3.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	3.2%	5.9%	19.0%
Absolute Sensex	-1.9%	14.5%	65.3%
Relative Return*	5.2%	-8.6%	-46.3%

*over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY23E
Sales	4,810	5,239	5,747
Growth (%)	7.2	8.9	9.7
EBITDA	1,510	1,638	1,813
EBITDA Margin (%)	31.4	31.3	31.6
Adj. PAT	1,035	1,104	1,240
Growth (%)	26.8	6.6	12.3
Adj. EPS	38.1	40.6	45.6
Growth (%)	26.8	6.6	12.3
P/E	41.0	39.6	35.2
P/B	36.4	35.3	30.3
EV/EBITDA	27.5	26.1	23.5
ROE (%)	88.8	89.3	85.9
D/E	0.0	0.0	0.0

Quarterly Financials (Standalone)

Profit & Loss Account

	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
Revenue	1,275	1,062	20.0	1,224	4.1	4,810	4,488	7.2
EBITDA	422	263	60.4	371	13.8	1,510	1,202	25.6
EBITDA margins	33.1	24.7	840bps	30.3	280bps	31.4	26.8	460bps
Depreciation	45	46	(1.6)	46	(0.2)	183	198	(7.8)
EBIT	376	217	73.7	325	15.8	1,327	1,004	32.2
Interest	2	2	(21.2)	2	(17.5)	7	10	(24.5)
Other Income	7	20	(66.3)	10	(33.0)	30	49	(38.4)
Exceptional Items	-	-	-	-	-	-	-	-
PBT	381	234	62.7	333	14.5	1,350	1,043	29.4
Tax	67	30	120.8	85	(21.2)	315	227	38.8
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-	-	-
Reported PAT	315	204	54.1	248	26.7	1,035	816	26.8
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	315	204	54.1	248	26.7	1,035	816	26.8
No. of shares	27.2	27.2	0.0	27.2	(0.0)	27.2	27.2	0.0
Adj. EPS (Rs.)	11.6	7.5	54.1	9.1	26.7	38.1	30.0	26.8

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	5,136	-	5,239	5,747	2.0	-
EBITDA	1,467	-	1,638	1,813	11.6	-
Margins (%)	28.6	-	31.3	31.6	270bps	-
Adj. PAT	964	-	1,104	1,240	14.6	-
Adj. EPS	35.4	-	40.6	45.6	14.6	-

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	4,432	4,488	4,810	5,239	5,747
% change	6.6	1.2	7.2	8.9	9.7
EBITDA	1,236	1,202	1,510	1,638	1,813
% change	11.1	(2.8)	25.6	8.5	10.7
Depreciation	-	-	-	-	-
EBIT	1,077	1,004	1,327	1,445	1,623
Interest	3	10	7	15	15
Other Income	-	-	-	-	-
PBT	1,143	1,043	1,350	1,466	1,652
% change	16.2	(8.7)	29.4	8.6	12.7
Tax	367	227	315	362	412
Tax Rate (%)	32.1	21.7	23.3	24.7	24.9
Reported PAT	776	816	1,035	1,104	1,240
Adj*	(31)	-	-	-	-
Adj PAT	745	816	1,035	1,104	1,240
% change	8.8	9.6	26.8	6.6	12.3
No. of shares (cr)	27.2	27.2	27.2	27.2	27.2
Adj EPS (Rs.)	27.4	30.0	38.1	40.6	45.6
% change	8.7	9.6	26.8	6.6	12.3
DPS (Rs.)	23.0	28.0	38.0	38.0	38.0
CEPS (Rs.)	33.2	37.3	44.8	47.7	52.6

CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Net inc. + Depn.	935	1,014	1,218	1,298	1,430
Non-cash adj.	70	(36)	(395)	(173)	66
Changes in W.C	(22)	(48)	(39)	10	(37)
C.F. Operation	983	930	784	1,135	1,459
Capital exp.	(104)	(60)	(57)	(105)	(126)
Change in inv.	(23)	13	106	-	-
Other invest.CF	32	28	23	(15)	(16)
C.F - Investment	(96)	(19)	71	(120)	(142)
Issue of equity	(11)	(8)	(10)	-	-
Issue/repay debt	-	-	-	-	-
Dividends paid	(646)	(731)	(921)	(1,033)	(1,033)
Other finance.CF	(157)	(151)	(25)	-	-
C.F - Finance	(815)	(891)	(956)	(1,033)	(1,033)
Chg. in cash	73	20	(101)	(19)	284
Closing cash	399	421	868	849	1,133

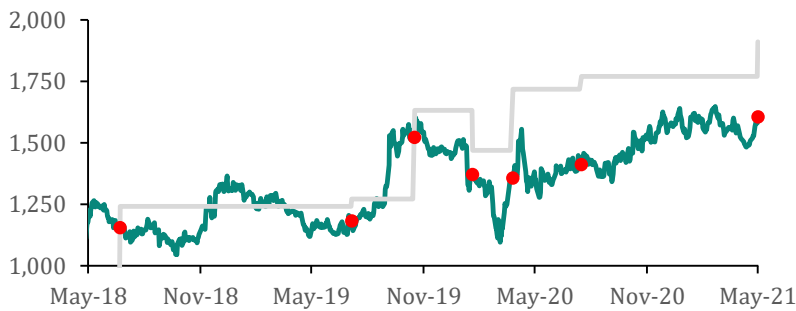
BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	399	421	868	849	1,133
Accounts Receivable	210	133	117	141	172
Inventories	249	297	336	326	362
Other Cur. Assets	152	161	52	213	230
Investments	31	19	19	20	23
Gross Fixed Assets	1,546	1,606	1,663	1,768	1,894
Net Fixed Assets	1,191	1,114	1,011	922	858
CWIP	199	199	199	199	199
Intangible Assets	-	-	-	-	-
Def. Tax (Net)	-	-	5	5	6
Other Assets	196	260	288	314	314
Total Assets	2,626	2,604	2,894	2,989	3,297
Current Liabilities	1,051	870	1,618	1,636	1,735
Provisions	18	49	31	34	35
Debt Funds	78	-	-	-	-
Other Liabilities	33	91	79	83	83
Equity Capital	27	27	27	27	27
Reserves & Surplus	1,420	1,567	1,139	1,209	1,416
Shareholder's Fund	1,447	1,594	1,166	1,237	1,443
Minority Interest	-	-	-	-	-
Total Liabilities	2,626	2,604	2,894	2,989	3,297
BVPS (Rs.)	53	59	43	45	53

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	27.9	26.8	31.4	31.3	31.6
EBIT margin (%)	24.3	22.4	27.6	27.6	28.2
Net profit mgn.(%)	17.5	18.2	21.5	21.1	21.6
ROE (%)	53.6	51.2	88.8	89.3	85.9
ROCE (%)	70.6	63.0	113.8	116.8	112.5
W.C & Liquidity					
Receivables (days)	17.3	10.8	8.9	9.9	11.0
Inventory (days)	57.3	68.0	77.9	69.4	70.3
Payables (days)	141.4	140.2	176.4	163.4	165.2
Current ratio (x)	1.0	1.2	0.8	0.9	1.1
Quick ratio (x)	0.6	0.6	0.6	0.6	0.8
Turnover & Leverage					
Gross asset T.O (x)	3.1	2.8	2.9	3.1	3.1
Total asset T.O (x)	1.7	1.7	1.7	1.8	1.8
Int. coverage ratio (x)	430.8	104.3	182.8	96.6	110.9
Adj. debt/equity (x)	0.1	-	-	-	-
Valuation					
EV/Sales (x)	7.6	7.7	8.6	8.2	7.4
EV/EBITDA (x)	27.1	28.9	27.5	26.1	23.5
P/E (x)	45.4	43.1	41.0	39.6	35.2
P/BV (x)	23.4	22.1	36.4	35.3	30.3

Recommendation Summary (Last 3 Years)



Dates	Rating	Target
10-Jul-18	HOLD	1,242
24-Jul-19	HOLD	1,272
4-Nov-19	HOLD	1,632
7-Feb-20	HOLD	1,470
13-Apr-20	BUY	1,718
3-Aug-20	BUY	1,770
20-May-21	BUY	1,910

Source: Bloomberg, Geojit research

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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