

July 29, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	REDUCE		REDUCE	
Target Price	1,344		1,277	
Sales (Rs. m)	51,902	56,413	50,755	55,173
% Chng.	2.3	2.2		
EBITDA (Rs. m)	14,699	15,742	14,017	15,121
% Chng.	4.9	4.1		
EPS (Rs.)	35.0	37.5	33.1	35.8
% Chng.	5.7	4.8		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	45,251	47,755	51,902	56,413
EBITDA (Rs. m)	12,017	13,404	14,699	15,742
Margin (%)	26.6	28.1	28.3	27.9
PAT (Rs. m)	8,165	8,740	9,512	10,205
EPS (Rs.)	30.0	32.1	35.0	37.5
Gr. (%)	9.6	7.0	8.8	7.3
DPS (Rs.)	28.0	28.0	29.0	30.0
Yield (%)	1.9	1.9	2.0	2.1
RoE (%)	53.7	55.9	58.9	56.7
RoCE (%)	64.4	70.3	72.2	70.6
EV/Sales (x)	8.6	8.2	7.5	6.8
EV/EBITDA (x)	32.4	29.1	26.4	24.5
PE (x)	48.2	45.1	41.4	38.6
P/BV (x)	24.7	25.7	23.2	20.7

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1.643 / Rs.1.065
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.394bn / \$ 5,265m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.2956.51m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	15.27
Domestic Institution	11.50
Public & Others	22.23
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	4.2	(2.4)	24.5
Relative	(4.3)	5.6	23.2

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Customer Retention key to share gains

Quick Pointers:

- Toothpaste volumes declined 6%, overall volumes declined 8%. Toothbrush sales impacted due to discretionary nature, hand wash sales up 60%.
- Production largely back to Pre-Covid levels, Trade inventory building up
- Colgate has higher on shelf availability in comparison to competitors

We are increasing FY21,22,23 EPS estimates of CLGT by 8.2%, 5.7% and 4.8% led by 1) lower volume decline of 6% in toothpaste, and largely normal production now 2) Trade inventory buildup in June which continues in 2Q as well 3) superior on shelf availability relative to Patanjali, Vicco and other herbal brands 4) 300bps cut in 1Q adspends, only gradual restoration in 2Q and 5) improved realizations on lower discounts. CLGT is upping the ante to regain lost share by 1) increasing adspends 2) sustained innovations (Bamboo Toothbrush, Charcoal Toothpaste etc.) and 3) distribution clout. We believe retaining new customers would be a challenge given new launches by Dabur (Ayurvedic Paste) and Vicco (Saunf) in fast growing herbal segment.

We remain highly skeptical of sustained growth in non- oral care portfolio (despite 60% growth in hand wash in 1Q21) like Handwash, Sanitizers, Body wash, Bath Soaps and Shampoos given lack of in-house manufacturing, limited media push and visibility. We estimate 7.7% PAT CAGR over FY20-23 and value the stock at 37xSept22EPS (20% discount to HUVR target PE) and arrive at a target price of Rs 1344 (Rs1277@37xSept22EPS) Retain Reduce.

- **Sales declined 4.1%, Volumes declined 8%:** Net sales down by 4.1% to Rs 10.4bn (Est 9.04bn). Volumes declined 8%. Colgate has increased outsourcing by 40% (Rs238mn) despite poor sales of Toothbrush and inventory has gone down by Rs278mn. We believe outsourcing of Sanitizer and other product and ability to put distribution in place ahead of competition helped the company. Gross margins up marginally 20bps at 66.1% (Est 66%) EBIDTA up 2.7% to Rs 3.08bn (Est Rs 2.17bn), EBIDTA margins at 29.6% (Est 23.8%) expanded 200bps mainly due to 300bps lower adspend (24.7% decline) PBT up 1.6% to Rs 2.7bn (Est Rs 1.78bn). However, Adj. PAT rose 17.2% to Rs 1.98bn (Est. 1.33bn) due to lower tax at 25.7% vs 35.7% YoY
- **Toothpaste volumes decline 6%, Handwash sales up >60%:** Toothpaste volumes declined 6% due to production disruption in 2/3 weeks in April. Difficulty in moving Toothbrush during lockdown and discretionary postponement impacted sales. Current trends are positive with sales picked up in June, trade inventory stocking and largely normalized production. CLGT maintained better shelf availability than competitors and curtailed discounts. Launched Palmolive hand sanitizer and Colgate Gentle range of toothbrush during the quarter. Hand wash and sanitizer segment grew by >60-70s%.

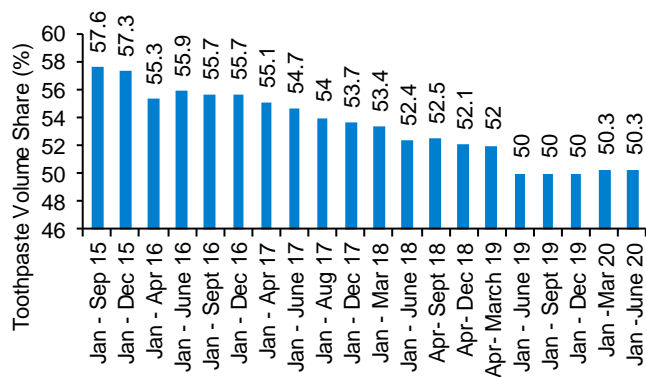


Exhibit 1: Q1FY21: Net Sales down 4.1% Margins expand 200bps due to lower ad spends

Y/e March	Q1FY21	Q1FY20	YoY gr. (%)	Q4FY20	FY20	FY19	YoY gr. (%)
Net Sales	10,406	10,849	(4.1)	10,713	45,251	44,624	1.4
Gross Profit	6,883	7,145	(3.7)	6,926	29,522	29,039	1.7
<i>Margin %</i>	<i>66.1</i>	<i>65.9</i>	<i>0.3</i>	<i>64.7</i>	<i>65.2</i>	<i>65.1</i>	<i>0.2</i>
Other Exp	3803	4147	(8.3)	4298	17505	16678	5.0
<i>% of Net sales</i>	<i>36.5</i>	<i>38.2</i>		<i>40.1</i>	<i>38.7</i>	<i>37.4</i>	
EBITDA	3,080	2,998	2.7	2,629	12,017	12,361	(2.8)
<i>Margin %</i>	<i>29.6</i>	<i>27.6</i>	<i>2.0</i>	<i>24.5</i>	<i>26.6</i>	<i>27.7</i>	<i>(1.1)</i>
Depreciation	454	499	(9.0)	462	1979	1592	24.4
Interest	20	23		20	96	25	
PBT from operations	2606	2476	5.2	2147	9941	10744	(7.5)
Other Income	63	152	(58.6)	196	492	377	30.7
PBT	2,669	2,628	1.6	2,344	10,434	11,121	(6.2)
Tax	687	937	(26.7)	612	2579	3956	(34.8)
<i>Tax rate %</i>	<i>25.7</i>	<i>35.7</i>		<i>26.1</i>	<i>24.7</i>	<i>35.6</i>	
Adj. PAT	1,982	1,691	17.2	1,732	7,855	7,164	9.6

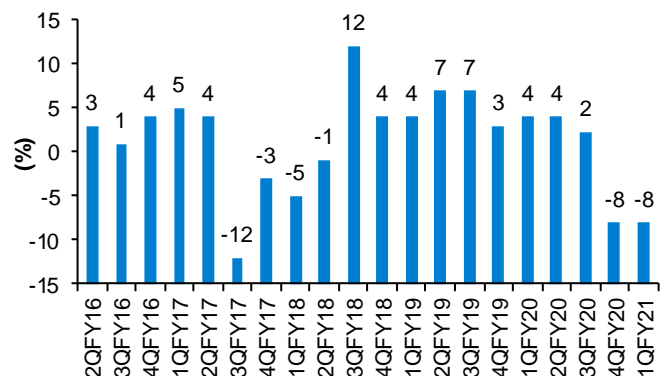
Source: Company, PL

Exhibit 2: Market Share remained flat



Source: Company, PL

Exhibit 3: Overall volumes declined by 8%



Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	45,251	47,755	51,902	56,413
YoY gr. (%)	1.4	5.5	8.7	8.7
Cost of Goods Sold	15,729	16,280	17,770	19,583
Gross Profit	29,522	31,474	34,132	36,830
Margin (%)	65.2	65.9	65.8	65.3
Employee Cost	3,323	3,510	3,738	3,980
Other Expenses	3,739	4,105	4,282	4,600
EBITDA	12,017	13,404	14,699	15,742
YoY gr. (%)	(2.8)	11.5	9.7	7.1
Margin (%)	26.6	28.1	28.3	27.9
Depreciation and Amortization	1,979	2,024	2,363	2,575
EBIT	10,038	11,380	12,336	13,167
Margin (%)	22.2	23.8	23.8	23.3
Net Interest	96	101	106	111
Other Income	492	432	550	655
Profit Before Tax	10,434	11,711	12,780	13,710
Margin (%)	23.1	24.5	24.6	24.3
Total Tax	2,269	2,971	3,268	3,506
Effective tax rate (%)	21.7	25.4	25.6	25.6
Profit after tax	8,165	8,740	9,512	10,205
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	8,165	8,740	9,512	10,205
YoY gr. (%)	9.6	7.0	8.8	7.3
Margin (%)	18.0	18.3	18.3	18.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	8,165	8,740	9,512	10,205
YoY gr. (%)	5.3	7.0	8.8	7.3
Margin (%)	18.0	18.3	18.3	18.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	8,165	8,740	9,512	10,205
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	30.0	32.1	35.0	37.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	23,304	26,204	28,705	31,205
Tangibles	22,397	25,297	27,797	30,297
Intangibles	907	907	908	908
Acc: Dep / Amortization	12,075	14,099	16,463	19,038
Tangibles	11,168	13,192	15,555	18,130
Intangibles	907	907	908	908
Net fixed assets	11,229	12,105	12,242	12,167
Tangibles	11,229	12,105	12,242	12,167
Intangibles	-	-	-	-
Capital Work In Progress	1,900	1,500	1,500	1,500
Goodwill	-	-	-	-
Non-Current Investments	384	497	506	515
Net Deferred tax assets	(50)	(74)	(124)	(179)
Other Non-Current Assets	2,407	2,603	2,683	2,769
Current Assets				
Investments	3,285	3,083	4,125	5,605
Inventories	2,969	2,743	2,983	3,273
Trade receivables	1,326	2,274	2,543	2,764
Cash & Bank Balance	927	1,350	1,742	2,287
Other Current Assets	405	569	619	673
Total Assets	26,040	28,059	30,344	33,025
Equity				
Equity Share Capital	272	272	272	272
Other Equity	15,670	15,068	16,706	18,765
Total Networkth	15,942	15,340	16,978	19,037
Non-Current Liabilities				
Long Term borrowings	-	1,085	785	485
Provisions	488	221	235	251
Other non current liabilities	845	5	5	5
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	6,125	6,627	7,063	7,525
Other current liabilities	2,578	4,696	5,141	5,530
Total Equity & Liabilities	26,040	28,059	30,344	33,025

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	10,434	11,711	12,780	13,710
Add. Depreciation	1,979	2,024	2,363	2,575
Add. Interest	96	101	106	111
Less Financial Other Income	492	432	550	655
Add. Other	-	-	-	-
Op. profit before WC changes	12,509	13,836	15,249	16,397
Net Changes-WC	(1,490)	542	(809)	(1,289)
Direct tax	(2,269)	(2,971)	(3,268)	(3,506)
Net cash from Op. activities	8,751	11,407	11,172	11,602
Capital expenditures	(1,213)	(2,500)	(2,500)	(2,500)
Interest / Dividend Income	-	-	-	-
Others	125	(125)	-	-
Net Cash from Inv. activities	(1,087)	(2,625)	(2,500)	(2,500)
Issue of share cap. / premium	1,596	(1,727)	13	14
Debt changes	(777)	1,085	(300)	(300)
Dividend paid	(8,287)	(7,616)	(7,888)	(8,160)
Interest paid	(96)	(101)	(106)	(111)
Others	-	-	-	-
Net cash from Fin. activities	(7,564)	(8,359)	(8,280)	(8,557)
Net change in cash	99	423	392	545
Free Cash Flow	7,538	8,907	8,672	9,102

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	30.0	32.1	35.0	37.5
CEPS	37.3	39.6	43.7	47.0
BVPS	58.6	56.4	62.4	70.0
FCF	27.7	32.7	31.9	33.5
DPS	28.0	28.0	29.0	30.0
Return Ratio(%)				
RoCE	64.4	70.3	72.2	70.6
ROIC	69.0	72.3	81.8	91.2
RoE	53.7	55.9	58.9	56.7
Balance Sheet				
Net Debt : Equity (x)	(0.3)	(0.2)	(0.3)	(0.4)
Net Working Capital (Days)	(15)	(12)	(11)	(10)
Valuation(x)				
PER	48.2	45.1	41.4	38.6
P/B	24.7	25.7	23.2	20.7
P/CEPS	38.8	36.6	33.2	30.8
EV/EBITDA	32.4	29.1	26.4	24.5
EV/Sales	8.6	8.2	7.5	6.8
Dividend Yield (%)	1.9	1.9	2.0	2.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	12,218	11,472	10,713	10,406
YoY gr. (%)	4.6	4.3	(7.1)	(4.1)
Raw Material Expenses	4,308	3,931	3,786	3,524
Gross Profit	7,910	7,541	6,926	6,883
Margin (%)	64.7	65.7	64.7	66.1
EBITDA	3,230	3,161	2,629	3,080
YoY gr. (%)	(2.0)	0.5	(15.3)	2.7
Margin (%)	26.4	27.6	24.5	29.6
Depreciation / Depletion	504	515	462	454
EBIT	2,726	2,646	2,167	2,626
Margin (%)	22.3	23.1	20.2	25.2
Net Interest	24	29	20	20
Other Income	86	58	196	63
Profit before Tax	2,788	2,674	2,344	2,669
Margin (%)	22.8	23.3	21.9	25.6
Total Tax	347	683	612	687
Effective tax rate (%)	12.4	25.6	26.1	25.7
Profit after Tax	2,441	1,991	1,732	1,982
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,441	1,991	1,732	1,982
YoY gr. (%)	24.3	8.7	(4.6)	17.2
Margin (%)	20.0	17.4	16.2	19.0
Extra Ord. Income / (Exp)	-	-	310	-
Reported PAT	2,441	1,991	2,042	1,982
YoY gr. (%)	24.3	3.6	3.3	17.2
Margin (%)	20.0	17.4	19.1	19.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,441	1,991	2,042	1,982
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	9.0	7.3	6.4	7.3

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Reduce	1,277	1,392
2	22-May-20	Reduce	1,224	1,313
3	15-Apr-20	Reduce	1,206	1,388
4	30-Jan-20	Reduce	1,270	1,391
5	03-Jan-20	Reduce	1,257	1,460
6	24-Oct-19	Reduce	1,267	1,564
7	03-Oct-19	Reduce	1,240	1,490
8	03-Sep-19	Reduce	1,159	1,275

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	1,829	1,717
2	Avenue Supermarts	Reduce	1,695	2,323
3	Bajaj Electricals	BUY	500	384
4	Britannia Industries	BUY	4,316	3,785
5	Colgate Palmolive	Reduce	1,277	1,392
6	Crompton Greaves Consumer Electricals	BUY	288	247
7	Dabur India	Hold	451	479
8	Emami	Hold	287	233
9	Future Retail	Under Review	-	332
10	GlaxoSmithKline Consumer Healthcare	Hold	9,377	9,247
11	Havells India	Reduce	524	595
12	Hindustan Unilever	Hold	2,304	2,249
13	ITC	BUY	262	200
14	Jubilant FoodWorks	UR	-	1,746
15	Kansai Nerolac Paints	BUY	529	444
16	Marico	Hold	355	350
17	Nestle India	Reduce	14,089	17,095
18	Pidilite Industries	Hold	1,418	1,399
19	Titan Company	Hold	1,025	1,016
20	Voltas	Accumulate	600	575

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly



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