

Colgate Palmolive

Healthy domestic recovery; robust margin show

Colgate reported a healthy 2QFY21 with 5% net revenue growth (HSIE 4.5%) and 7% domestic growth. Volume and price have equally contributed to the revenue growth. Toothpaste recovery was healthy (no sequential divergences) while toothbrush exit recovery was encouraging. Dental cream and Max fresh posted encouraging recovery. Naturals toothpaste continue to outperform (even as an industry) although the growth gap has gone down. Market share was stable during the quarter. GM expanded sharply (339bps YoY) owing to (1) price hike, (2) soft raw material and (3) favourable mix (lower revenue share of toothbrush and exports and higher share of larger pack size). We expect gradual growth recovery with healthy margin expansion in 2HFY21 and increase our estimates for FY21/22 by 6/1%. We value Colgate at 40x P/E on Sep-22E EPS and derive a target price of Rs 1,529. Maintain ADD.

- **Domestic revenue up 7%:** Revenue grew by 5% YoY (+5% in 2QFY20 and -4% in 1QFY21), in line with our expectation. Improved penetration for most categories, along with several innovative launches by the company, led growth. Exports remained weak during the quarter, with a gradual recovery. Recovery in personal care was strong, and Toothbrush growth at exit indicated a quick revival in 2HFY21. Colgate is not expecting incremental downtrading, as mass and mid segments are growing well.
- **Robust >500bps EBITDA margin expansion:** GM saw a sharp expansion of 339bps YoY (-2bps in 2QFY20 and +28bps in 1QFY21) vs. the expectation of +26bps YoY expansion. Employee expenses grew by 18% YoY while cost control initiatives led to ASP/Other expenses declining by 7/2% YoY. EBITDA margin was robust and saw an expansion of 540bps YoY to 31.8% (-178bps in 2QFY20 and +196bps in 1QFY21). EBITDA grew by 27% YoY (HSIE 12%). We expect margin expansion to continue in the near term, considering price hike and benign RM prices. PBT clocked 32% YoY growth while PAT grew by 12% YoY due to lower tax rate in the base quarter.

Quarterly/Annual Financial summary

YE Mar (Rs mn)	2Q		YoY (%)	1Q		QoQ (%)	FY20	FY21E	FY22E	FY23E
	FY21	FY20		FY21	FY20					
Net Sales	12,855	12,218	5.2	10,406	23.5	45,251	47,600	51,732	55,715	
EBITDA	4,093	3,230	26.7	3,080	32.9	12,017	13,797	14,827	15,950	
APAT	2,742	2,441	12.3	1,982	38.4	8,165	9,098	9,906	10,901	
Diluted EPS (Rs)	10.1	9.0	12.3	7.3	38.4	30.0	33.4	36.4	40.0	
P/E (x)						47.5	42.7	39.2	35.6	
EV / EBITDA (x)						31.9	27.7	25.5	23.4	
RoCE (%)						64.9	73.0	86.1	97.7	

Source: Company, HSIE Research

Change in Estimates

(Rs mn)	NEW			OLD			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net Sales	47,600	51,732	55,715	47,172	51,270	55,221	0.9%	0.9%	0.9%
EBITDA	13,797	14,827	15,950	13,071	14,650	15,849	5.6%	1.2%	0.6%
PAT	9,098	9,906	10,901	8,588	9,799	10,871	5.9%	1.1%	0.3%
EPS	33.4	36.4	40.0	31.6	36.0	39.9	5.9%	1.1%	0.3%

Source: HSIE Research

ADD

CMP (as on 21 Oct 2020)	Rs 1,427
Target Price	Rs 1,529
NIFTY	11,938

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	Rs 1,491	Rs 1,529
EPS %	FY21E 6%	FY22E 1%

KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (Rs bn) / (\$ mn)	388/5,247
6m avg traded value (Rs mn)	1,335
52 Week high / low	Rs 1,643/1,065

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	0.9	1.6	(7.4)
Relative (%)	(6.4)	(31.2)	(11.0)

SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	51.00	51.00
FIs & Local MFs	11.22	10.82
FPIs	15.27	15.67
Public & Others	22.51	22.51
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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