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Q2FY21 result review
and earnings revision

Consumer Staples & Discretionary

Target price Rs1,500

Earnings revision

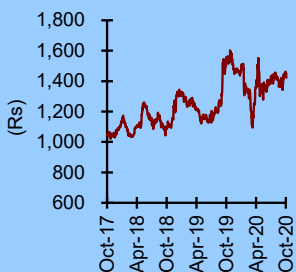
(%)	FY21E	FY22E
Sales	↑ 1.0	↑ 0.1
EBITDA	↑ 2.6	↑ 1.0
PAT	↑ 2.4	↑ 0.3

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	51.0	51.0	51.0
Institutional investors	26.1	26.5	26.5
MFs and others	3.9	5.1	4.0
Banks, FI's, Insurance co	5.8	5.9	6.6
FII's	16.5	15.5	15.9
Others	22.9	22.5	22.5

Source: BSE

Price chart



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Colgate Palmolive (India)

HOLD
Maintained

Outperformance driven by essentials portfolio

Rs1,427

2QFY21 domestic revenue growth of 7% was ahead of consensus estimates. Internals were also positive – toothpaste had ‘accelerated sales growth’ – a likely case of market share gains (inline with our thesis). We believe Colgate benefited from (1) a largely ‘essential’ portfolio, (2) presence across the price-benefit pyramid – help capture any impact of downtrading and (3) strong distribution reach, especially in rural India which was relatively less impacted. Focus towards the naturals category and increasing brand visibility inspires confidence. That said, weak macros are likely to impact premiumisation and delay the likely business plan to diversify in other home and personal care categories. **HOLD**.

- ▶ **Accelerated revenue growth in toothpaste:** Revenue / EBITDA / PAT grew 5% / 27% / 32% respectively (excluding the impact of lower tax rate in Q2FY20) driven by accelerated growth in toothpaste and growth in all categories. Domestic revenues grew by 7% in 2Q – a significant outperformance, in our view. We believe that, Colgate gained market shares in the quarter, helped by strong execution and making the products available to the consumer. Colgate has increased innovation intensity and launched products - *Colgate White Visible Instant*, *Colgate Gentle* line of toothbrushes across price points, and *Colgate Vedshaskti Mouth Spray*.
- ▶ **Significant margin expansion driven by deflation in input cost, ad-spends rationalisation and cost savings:** Gross margin improved 340bps YoY to 68.1% due to deflation in input cost and (likely) higher realisation (a rarity). EBITDA margin also expanded 540bps to 31.8% (highest quarterly profit) primarily driven by rationalisation in ad-spends (down 160bps YoY; -6% YoY on absolute basis) and cost savings (down 120bps) offsetting increase in staff costs (up 80bps, +18% YoY).
- ▶ **Balance sheet and cash flows:** Cash generation in 1H has increased significantly despite weak performance in 1Q driven by significant decline in capex intensity and working capital – OCF / FCF grew 39% / 44% to Rs7.4bn / Rs7.3bn. Working capital days improved by 14 days to (-29 days) driven higher payables (+18 days).
- ▶ **Outlook:** Given largely essential product portfolio for Colgate, we expect the impact to be the least among HPC companies. Management continues to focus on driving growth through (1) building brands and increasing household penetration, (2) innovation, (3) winning in emerging channels and (4) strengthening its go-to-markets.
- ▶ **Valuations and risks:** We increase our earnings estimates by 2%; modelling revenue / EBITDA / PAT CAGR of 6 / 11 / 12 (%) over FY20-22E. Maintain HOLD rating with DCF-based unchanged target price of Rs 1,500. Key upside risk to our thesis is faster-than-anticipated recovery in macro driving premiumisation and key downside risk is lower-than-expected market share gains.

Market Cap	Rs388bn/US\$5.3bn	Year to March	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	COLG.BO/CLGT IN	Net Revenue (Rs mn)	44,624	45,251	47,626	51,081
Shares Outstanding (mn)	272.0	Net Profit (Rs mn)	7,225	7,855	9,001	9,828
52-week Range (Rs)	1601/1095	Dil. EPS (Rs)	26.6	28.9	33.1	36.1
Free Float (%)	49.0	% Chg YoY	11.7	8.7	14.6	9.2
FII (%)	15.9	P/E (x)	53.7	49.4	43.1	39.5
Daily Volume (US\$'000)	18,177	CEPS (Rs)	32.4	36.2	40.7	44.1
Absolute Return 3m (%)	0.9	EV/EBITDA (x)	31.0	31.9	27.7	25.7
Absolute Return 12m (%)	(5.6)	Dividend Yield (%)	1.7	2.0	2.1	2.4
Sensex Return 3m (%)	7.5	RoCE (%)	68.2	60.3	65.6	67.8
Sensex Return 12m (%)	4.8	RoE (%)	48.6	51.7	55.1	57.3

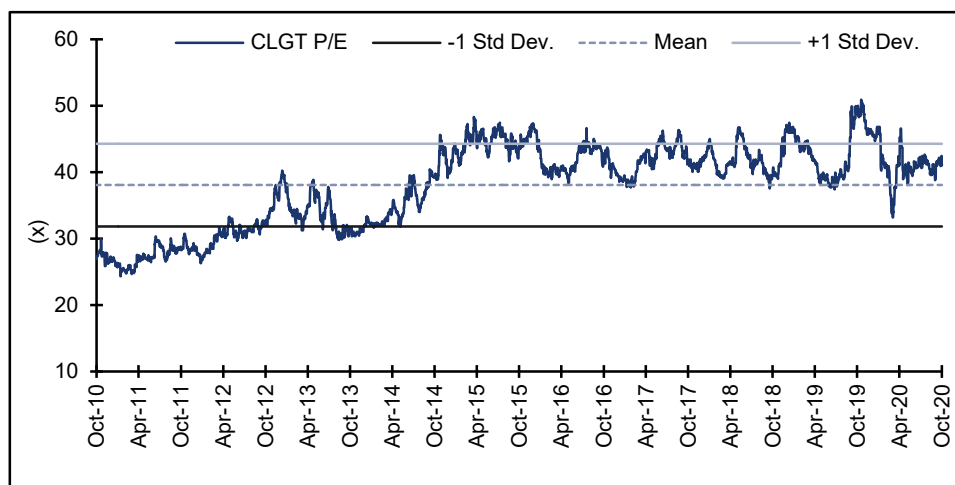
Table 1: Q2FY21 results review

(Rs mn)

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volume growth (%)	2	4	-200 bps	(7)	900 bps	(3)	4	-650 bps
Net Revenue	12,855	12,218	5	10,406	24	23,261	23,067	1
COGS	(4,096)	(4,308)	(5)	(3,524)	16	(7,620)	(8,011)	(5)
Gross profit	8,759	7,910	11	6,883	27	15,641	15,055	4
Staff cost	(966)	(819)	18	(907)	7	(1,873)	(1,654)	13
A&SP	(1,644)	(1,758)	(6)	(1,139)	44	(2,783)	(3,271)	(15)
Other opex	(2,056)	(2,104)	(2)	(1,757)	17	(3,812)	(3,903)	(2)
Total opex	(4,666)	(4,681)	(0)	(3,803)	23	(8,468)	(8,828)	(4)
EBITDA	4,093	3,230	27	3,080	33	7,173	6,228	15
Other income	76	86	(12)	63	21	139	238	(42)
Finance cost	(18)	(24)	(9)	(20)	(9)	(38)	(47)	(9)
D&A	(461)	(504)	(9)	(454)	2	(915)	(1,003)	(9)
PBT	3,689	2,788	32	2,669	38	6,358	5,416	17
Tax	(947)	(347)	173	(687)	38	(1,635)	(1,284)	27
Recurring PAT	2,742	2,441	12	1,982	38	4,724	4,132	14
Extraordinary items	-	-	-	-	-	-	-	-
Net profit (reported)	2,742	2,441	12	1,982	38	4,724	4,132	14
EPS	10.1	9.0	12	7.3	38	17.4	15.2	14
Costs as a % of sales								
COGS	31.9	35.3	-340 bps	33.9	-200 bps	32.8	34.7	-198 bps
Gross margin (%)	68.1	64.7	339 bps	66.1	199 bps	67.2	65.3	197 bps
Staff cost	7.5	6.7	81 bps	8.7	-120 bps	8.1	7.2	88 bps
A&SP	12.8	14.4	-161 bps	10.9	184 bps	12.0	14.2	-222 bps
Other opex	16.0	17.2	-123 bps	16.9	-90 bps	16.4	16.9	-54 bps
EBITDA margin (%)	31.8	26.4	540 bps	29.6	224 bps	30.8	27.0	383 bps
Income tax rate (%)	25.7	12.4	1324 bps	25.7	-7 bps	25.7	23.7	200 bps

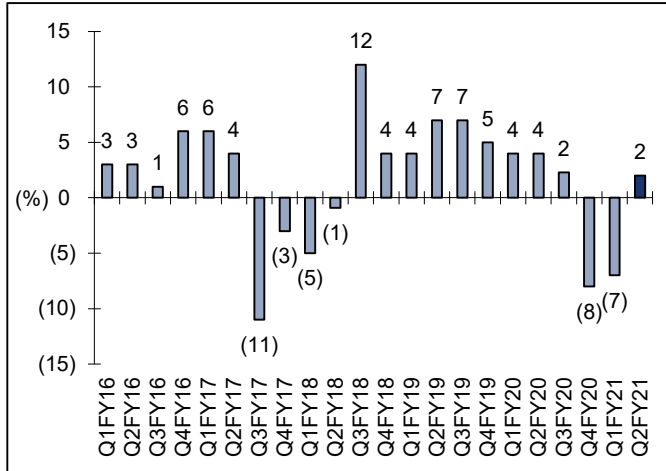
Source: Company data, I-Sec research

Chart 1: Mean P/E and standard deviations



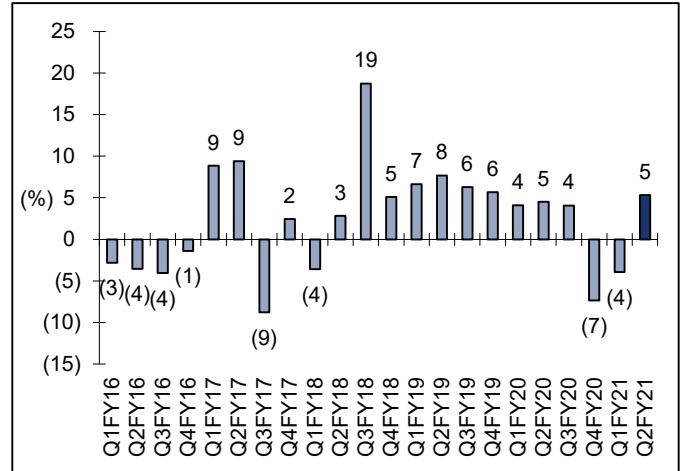
Source: Company data, I-Sec research

Chart 2: Volume growth - Toothpaste



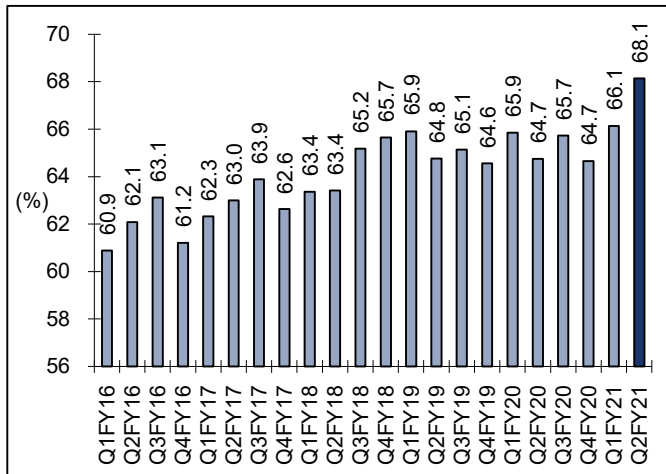
Source: Company data, I-Sec research

Chart 3: Revenue growth



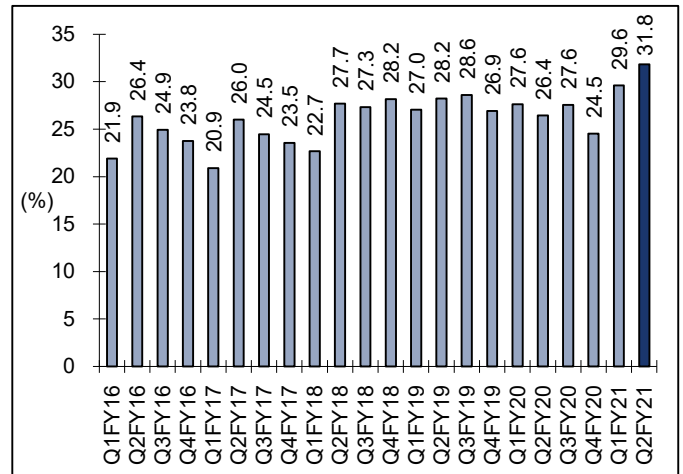
Source: Company data, I-Sec research

Chart 4: Gross margin



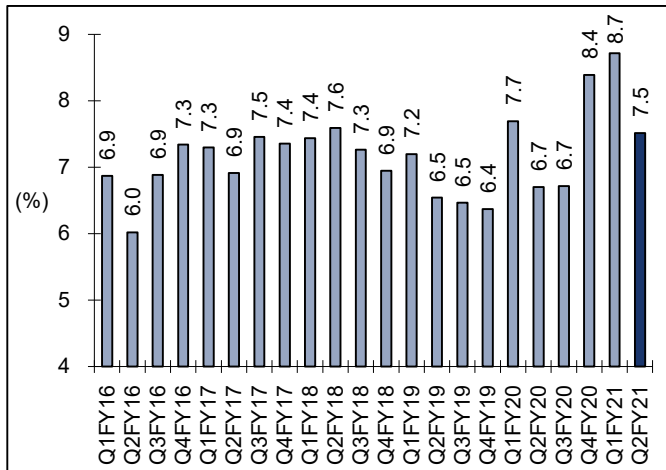
Source: Company data, I-Sec research

Chart 5: EBITDA margin



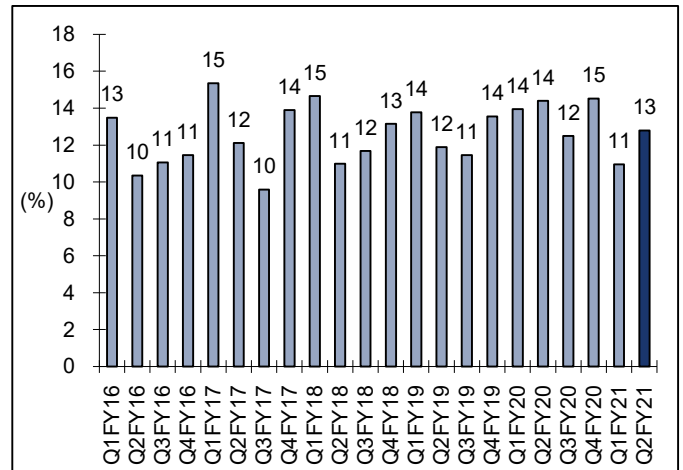
Source: Company data, I-Sec research

Chart 6: Staff cost as a % of Sales



Source: Company data, I-Sec research

Chart 7: A&SP as a % of Sales



Source: Company data, I-Sec research

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Sales	44,624	45,251	47,626	51,081
Operating Expenses	32,264	33,234	33,796	36,182
EBITDA	12,361	12,017	13,830	14,899
% margins	27.7	26.6	29.0	29.2
Depreciation & Amortisation	1,592	1,979	2,069	2,162
Gross Interest	25	96	101	106
Other Income	377	492	369	503
Recurring PBT	11,121	10,434	12,029	13,134
Less: Taxes	3,896	2,579	3,028	3,306
Less: Minority Interest	-	-	-	-
Net Income (Reported)	7,756	8,165	9,001	9,828
Extraordinaries (Net)	531	310	-	-
Recurring Net Income	7,225	7,855	9,001	9,828

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	10,102	10,120	12,522	14,825
of which cash & cash eqv.	3,994	4,213	6,335	8,233
Total Current Liabilities & Provisions	10,511	8,528	9,019	9,706
Net Current Assets	(409)	1,593	3,503	5,119
Investments	2,268	2,791	2,930	3,129
Net Fixed Assets	11,909	11,229	9,999	9,075
Capital Work-in-Progress	1,987	1,900	1,900	1,900
Total Assets	15,754	17,512	18,333	19,223
Liabilities				
Borrowings	978	2,535	2,562	2,600
Deferred Tax Liability	309	50	50	50
Minority Interest	-	-	-	-
Equity Share Capital	272	272	272	272
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	14,196	15,670	16,463	17,315
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	14,468	15,942	16,735	17,587
Total Liabilities	15,754	17,512	18,333	19,223

Source: Company data, I-Sec research

Table 4: Quarterly trends

(Rs mn, year ending March 31)

	Dec 19	Mar 20	Jun 20	Sep 20
Net Revenues	11,472	10,713	10,406	12,855
% growth (YoY)	4.1	(7.4)	(3.9)	5.3
EBITDA	3,161	2,629	3,080	4,093
Margin (%)	27.6	24.5	29.6	31.8
Other income	58	196	63	76
Extraordinaries (Net)	-	310	-	-
Net profit	1,991	2,042	1,982	2,742

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	8,336	8,934	10,802	11,594
Working Capital Changes	1,494	(35)	99	121
Capital Commitments	(1,042)	(604)	(840)	(1,238)
Free Cashflow	8,788	8,295	10,062	10,477
Cashflow from Investing Activities	(957)	(187)	(470)	(735)
Issue of Share Capital	0	0	0	0
Inc (Dec) in Borrowings	(231)	(81)	(101)	(106)
Dividend paid	(7,916)	(8,433)	(8,208)	(8,976)
Change in Deferred Tax Liability	726	198	2,123	1,897
Chg. in Cash & Bank balance	3,994	4,213	6,335	8,233

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	26.6	28.9	33.1	36.1
Cash EPS	32.4	36.2	40.7	44.1
Dividend per share (DPS)	23.8	28.0	30.0	34.0
Book Value per share (BV)	57.9	64.4	67.4	70.7
Growth (%)				
Net Sales	6.6	1.4	5.2	7.3
EBITDA	11.1	(2.8)	15.1	7.7
PAT	15.2	5.3	10.2	9.2
Cash EPS	(1.0)	17.8	7.1	13.3
Valuation Ratios (x)				
P/E	53.7	49.4	43.1	39.5
P/CEPS	44.0	39.5	35.1	32.4
P/BV	24.6	22.2	21.2	20.2
EV / EBITDA	31.0	31.9	27.7	25.7
EV / Sales	8.7	8.5	8.1	7.6
Operating Ratios				
Raw Material / Sales (%)	34.9	34.8	33.6	33.4
Employee cost / Sales (%)	6.6	7.3	7.7	7.3
SG&A / Sales (%)	30.7	31.3	29.7	30.2
Other Income / PBT (%)	3.4	4.7	3.1	3.8
Effective Tax Rate (%)	35.0	24.7	25.2	25.2
Working Capital (days)	(21.8)	(4.2)	(4.8)	(5.3)
Inventory Turnover (days)	20.5	24.2	24.0	23.8
Receivables (days)	17.3	10.8	10.7	10.6
Payables (days)	50.5	49.8	50.1	50.3
Net D/E (x)	(0.2)	(0.3)	(0.4)	(0.5)
Profitability Ratios (%)				
Net Income Margins	16.2	17.4	18.9	19.2
RoACE	68.2	60.3	65.6	67.8
RoAE	48.6	51.7	55.1	57.3
Dividend Payout	102.1	102.3	90.7	94.1
Dividend Yield	1.7	2.0	2.1	2.4
EBITDA Margins	27.7	26.6	29.0	29.2

Source: Company data, I-Sec research

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