

Colgate-Palmolive (India)

21 December 2020

Reuters: COLG.BO; Bloomberg: CLGT IN

Building platforms for the long term

We attended the analyst meet hosted by Colgate-Palmolive India Ltd. (CLGT) recently where the management (Managing Director - Mr. Ram Raghavan and Chief Financial Officer - Mr. M S Jacob) shed light on the company's strategic framework - (i) Winning with brands (ii) Leading innovation (iii) Strengthening go-to-market (GTM) (iv) Caring for communities and (v) Excelling in financial metrics. Below are the key highlights of the analyst meet:-

Driving innovations through platform model: CLGT has moved from a category-based approach to a platform-based model to drive innovation. The company believes in coming up with products that deliver key benefits through technological superiority besides growing the pie (given its category leadership). CLGT has lined up a bunch of innovations which will be rolled out in the markets within the coming weeks, including: (i) *Vedshakti Oil Pulling* (200ml SKU at Rs350) (ii) *Toothpaste for Diabetics* (iii) *Super Flexi Salt* toothbrush (iv) *Zig Zag Turmeric* toothbrush. In toothpaste, as per the management, 'Whitening' remains the top priority of consumers and the company's new portfolio of *Visible White* (including the variants *Sparkling Mint* and the recently launched *Instant*) address this need. The recently launched *Gentle* range of toothbrushes, which comprise SKUs ranging from Rs30 to Rs130, ensure provision of best solutions for gentle yet thorough cleansing across price points.

Focus on increasing per capita consumption in the core portfolio: CLGT's topline grew in double digits during FY08-FY15, primarily led by radical improvement in household penetration (i.e. from ~60s to ~90s). Thereafter, in FY16/FY17, the company's progress was affected by a new competitive entry. As per the management, the second phase of growth will be driven by an increase in per capita consumption. India's per capita consumption of toothpaste is ~200-220gm/person (ranking among the bottom 3-4 countries) while per capita consumption of emerging markets (EM) like Brazil stands at 700gm. Market share still remains around the 50%+ range and the management believes that the company will continue to gain market share in the years to come. The company is in the process of rolling out a powerful narrative to make behavioural changes for increasing brushing in the country. In case of toothbrushes, wherein consumers won't change it till it is damaged/broken, brushing twice and consequently triggering a change in toothbrush frequently are the only two growth drivers.

Go-To-Market (GTM) strategy: The company has been taking various measures to grow in the E-commerce (E-comm) channel, including (i) building traffic to drive conversion (ii) partnering with all leading platforms across the country (iii) amplifying digitization & analytics journey and (iv) ensuring product availability. As a result of these initiatives, CLGT's share in E-comm has increased by +1,300bps between YTD'19 & YTD'20. The brand continues to have a strong shelf presence in modern trade (MT) and despite Covid-19, it has managed to increase market share by +170bps between YTD'19 & YTD'20. As a result, the company's share in MT channel is now higher than its all-India share. It has also strengthened its wholesale channel with its *Muskaan* program, which significantly increased growth of the covered wholesalers. For its *Toothpaste for Diabetics* range, CLGT would adopt a very different GTM strategy, which would include education & awareness-building, strong presence across online & offline pharma channels, personalization at scale and leveraging credible partnerships with associations (likes of Indian Periodontal Association and Indian Diabetic Association).

Financial strategy largely remains unchanged: Volume growth will remain a key focus area and the company will look at maintaining a balance between volume and pricing. CLGT's margins improved during 1HFY21 on account of pricing (price hikes were taken at the start of the year), judicious promotions, better mix and overall cost control. The management is calibrating its ad spends as recovery is taking place. It believes that gross margins are likely to expand further, which will be used for investments in innovations (in recent launches and new categories) and to support channel growth. Cash management has been another focus area for the company and as on 1HFY21, cash balance stood at record level of Rs7.3bn (dividend @Rs18/share amounting to Rs4.9bn was paid in Nov'20).

Outlook and valuation: In the near term, sales momentum is picking up. Increase in per capita consumption remains a big opportunity in the toothpaste category but it is only increasing gradually. It will require some big initiatives from the market leader to make behavioral changes in consumer to make them increase the frequency of brushing teeth. The company's strategy to take its *Bright Smiles Bright Future* (BSBF) campaign to urban areas too can increase urban consumption in future. Higher rural salience compared to other peers also remains an important driver for CLGT in the near term. The company's re-launch of *Colgate Dental Cream Strong Teeth* has seen decent traction. We believe that the company should ultimately be able to see market share gain in toothpastes with its strong distribution set-up, focus on innovations and higher ad spends & promotions. Along with innovations, it is also building platforms which can become meaningful contributors in the long term. Currently, the stock trades at 46.2x/42.9x/39.6x FY21E/FY22E/FY23E EPS. We value the company at ~41x Sept'22 EPS (at par to its three-year average), giving us a target price (TP) of Rs1,610 (Rs1,520 earlier). We maintain our Accumulate rating and would become more constructive once we see signs of sustainable improvement in market share in the toothpaste portfolio on a full year basis.

ACCUMULATE

Sector: FMCG

CMP: Rs1,600

Target Price: Rs1,610

Upside: 1%

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Key Data

Current Shares O/S (mn)	272.0
Mkt Cap (Rsbn/US\$bn)	435.2/5.9
52 Wk H / L (Rs)	1,630/1,065
Daily Vol. (3M NSE Avg.)	890,837

Price Performance (%)

	1 M	6 M	1 Yr
Colgate-Palmolive (India)	4.3	17.9	8.5
Nifty Index	7.0	34.3	12.1

Source: Bloomberg

[FY20 Annual Report](#)
[Analyst Presentation](#)

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Net sales	44,624	45,251	48,139	53,263	56,959
YoY growth (%)	6.6	1.4	6.4	10.6	6.9
EBITDA	12,361	12,017	14,303	15,320	16,512
EBITDA margin(%)	27.7	26.6	29.7	28.8	29.0
Reported PAT	7,756	8,165	9,426	10,153	10,995
Adjusted PAT	7,451	8,165	9,426	10,153	10,995
EPS	27.4	30.0	34.7	37.3	40.4
YoY change (%)	8.8	9.6	15.4	7.7	8.3
ROCE (%)	47.9	50.9	56.4	61.6	70.1
ROE (%)	50.1	53.7	59.1	64.7	73.9
ROIC (%)	78.4	79.4	91.3	107.7	122.0
P/E (x)	58.4	53.3	46.2	42.9	39.6
P/B (x)	30.1	27.3	27.3	28.2	30.4
EV/EBITDA (x)	34.9	35.9	30.1	28.1	26.1

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Change in our estimates

Y/E March (Rsmn)	Earlier estimates			New estimates			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net sales	48,139	53,188	56,776	48,139	53,263	56,959	0.0	0.1	0.3
EBITDA	14,303	15,238	16,318	14,303	15,320	16,512	0.0	0.5	1.2
EBITDA margin (%)	29.7	28.7	28.7	29.7	28.8	29.0	0.0	0.1	0.2
Adj. PAT	9,425	10,093	10,853	9,426	10,153	10,995	0.0	0.6	1.3

Source: Company, Nirmal Bang Institutional Equities Research

Other highlights:-

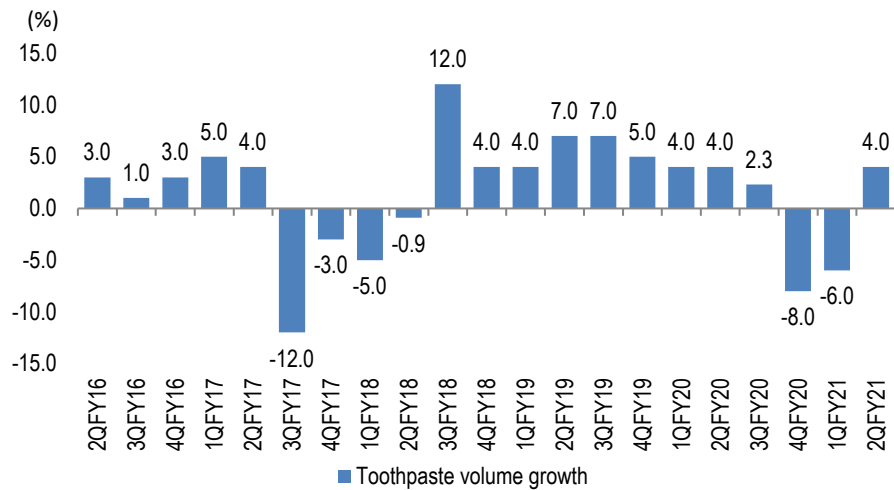
- Winning with brands
 - Strength of the brand has come to light during the pandemic.
 - Colgate is India's No. 1 penetrated brand with a household penetration of 88.2%.
- Caring for communities
 - The 'Keep India Smiling Foundation' has received more than 78,000 applications and has granted over 340 scholarships.
 - Digitization of the company's flagship programme BSBF has received an encouraging response.
 - The company continues to focus on reduction of water usage across plants.
- CLGT is building its Naturals portfolio through a philosophical approach, using an ingredient-based model and in a sustainable manner.
- Palmolive portfolio continues to do well. The management wants to ensure that the brand is built first and that there is sustainable demand –only then it wants to expand its reach & portfolio.

Exhibit 3: New launches likely to be rolled out in the coming 4-6 weeks



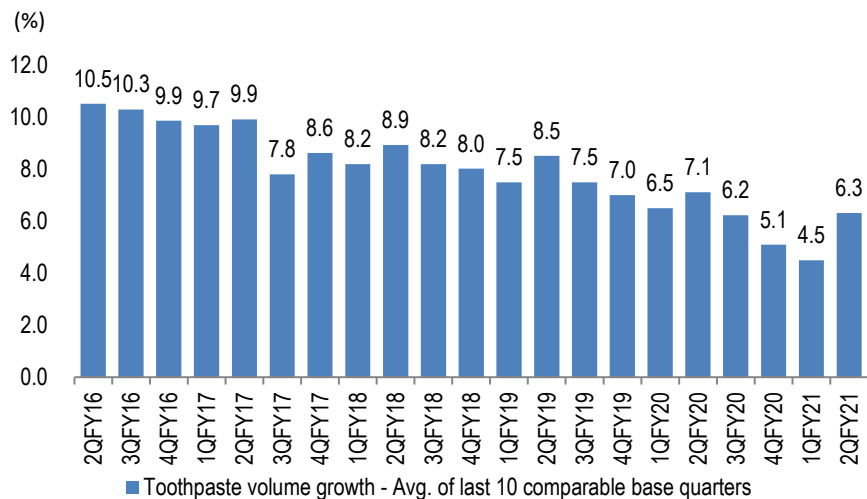
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: CLGT's toothpaste volume growth over the quarters



Source: Company, Nirmal Bang Institutional Equities Research

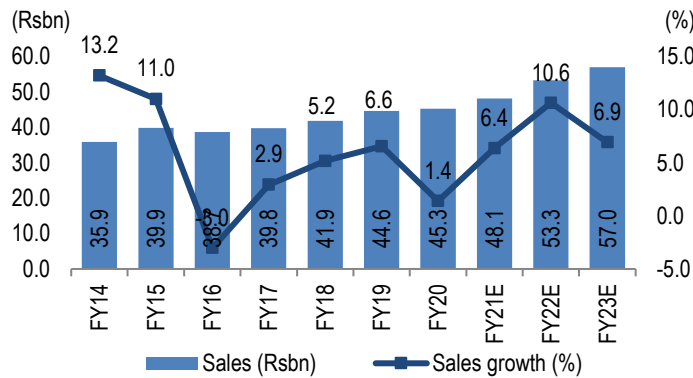
Exhibit 5: CLGT's toothpaste volume growth - Average of last 10 comparable base quarters



Source: Company, Nirmal Bang Institutional Equities Research

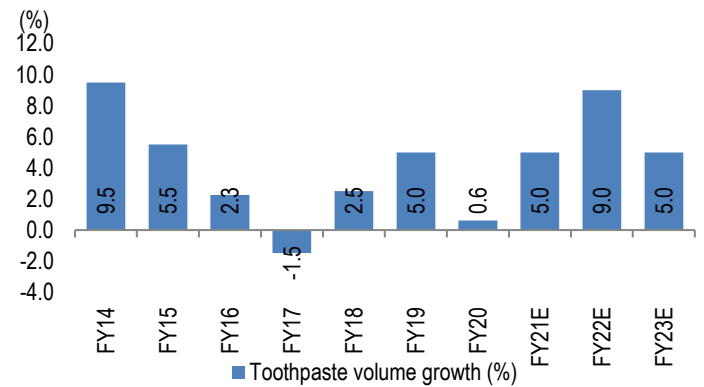
FINANCIAL STORY IN CHARTS

Exhibit 6: We expect topline (incl. OOI) to increase at a 3-year CAGR of 8.0%...



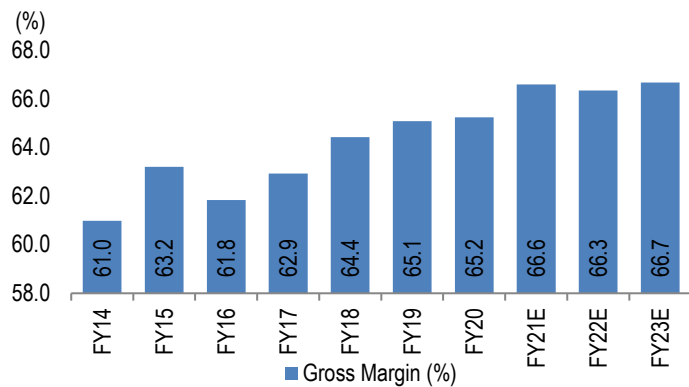
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: ...led by volume growth



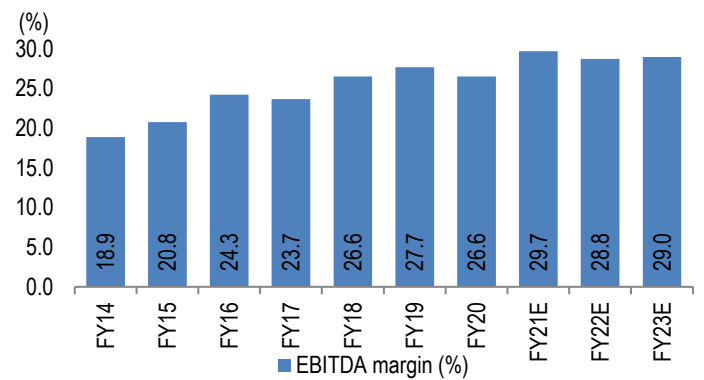
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Gross margin is likely to expand ~140bps over FY20-23E...



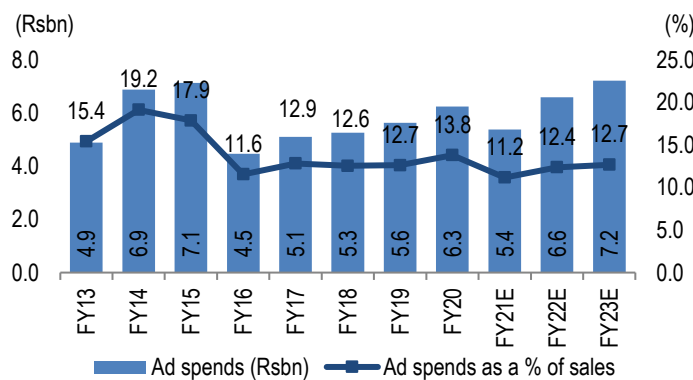
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: ...and will aid EBITDA margin expansion of ~240bps



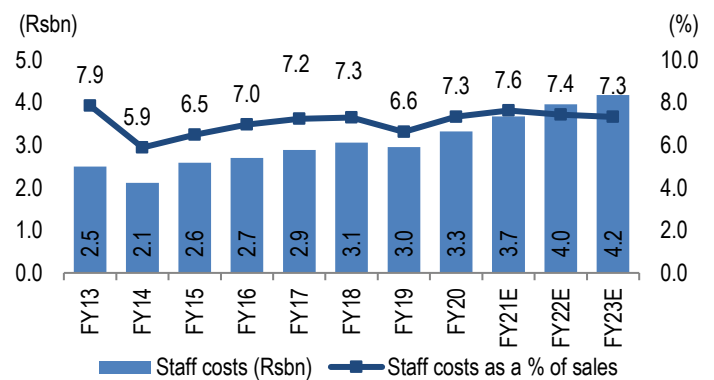
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: We expect ad spends (as a % of sales) to increase FY22E onwards



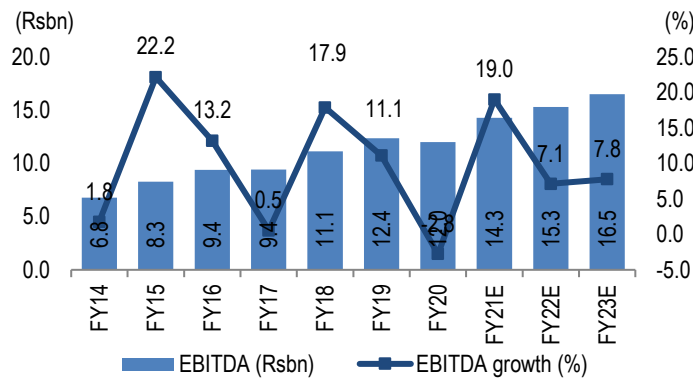
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Staff cost (as a % of sales) to hover in range of 7.3%-7.6%



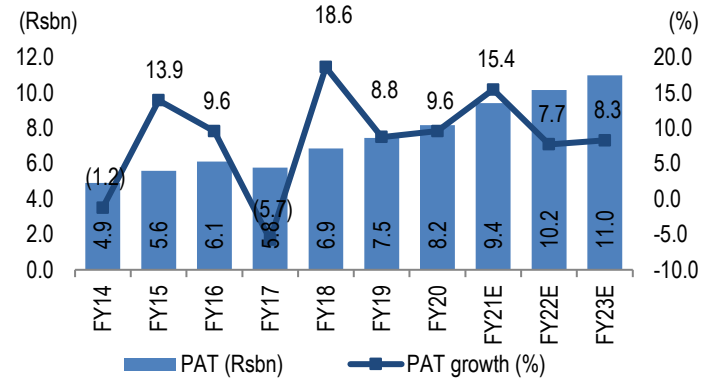
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: We expect EBITDA to grow 11.2% over FY20-23E...



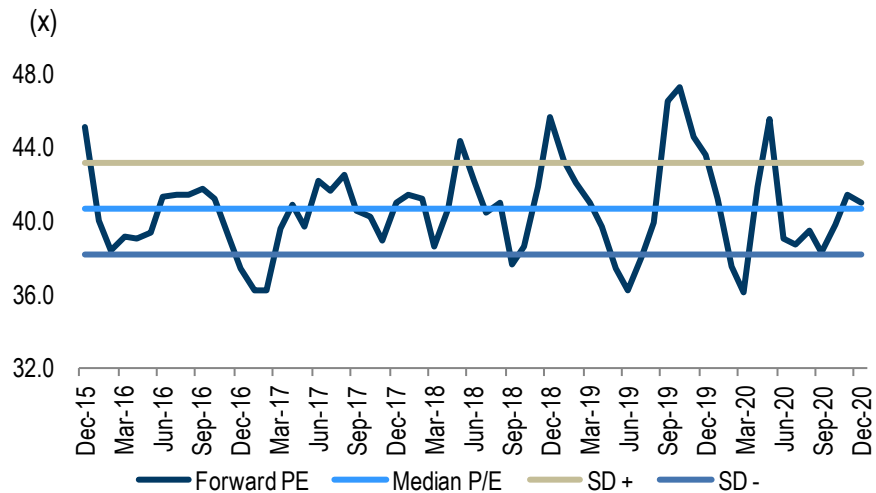
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: ...and adj. PAT to grow at 10.4% CAGR



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: One year Forward P/E chart



Source: Company, Nirmal Bang Institutional Equities Research

Financials
Exhibit 15: Income statement

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Gross sales	44,324	44,876	47,745	52,830	56,482
Less: excise duty	0	0	0	0	0
Net Sales (incl. OOI)	44,624	45,251	48,139	53,263	56,959
% Growth	6.6%	1.4%	6.4%	10.6%	6.9%
COGS	15,586	15,729	16,083	17,928	18,989
Staff costs	2,959	3,323	3,676	3,962	4,180
Advertising costs	5,647	6,260	5,395	6,604	7,230
Other expenses	8,072	7,922	8,682	9,449	10,049
Total expenses	32,264	33,234	33,836	37,943	40,447
EBITDA	12,361	12,017	14,303	15,320	16,512
% growth	11.1%	-2.8%	19.0%	7.1%	7.8%
EBITDA margin (%)	27.7%	26.6%	29.7%	28.8%	29.0%
Other income	377	492	328	419	464
Interest costs	25	96	82	82	82
Depreciation	1,592	1,979	1,953	2,090	2,201
Profit before tax (before exceptional items)	11,120	10,434	12,596	13,568	14,693
Exceptional items	305	0	0	0	0
Tax	3,670	2,269	3,170	3,415	3,698
PAT	7,451	8,165	9,426	10,153	10,995
PAT margin (%)	16.6%	17.8%	19.4%	18.9%	19.1%
% Growth	8.8%	9.6%	15.4%	7.7%	8.3%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Balance sheet

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
Share capital	272	272	272	272	272
Reserves	14,196	15,670	15,670	15,162	14,062
Net worth	14,468	15,942	15,942	15,434	14,334
Total debt	777	840	840	840	840
Total liabilities	15,245	16,781	16,781	16,274	15,174
Gross block	21,077	22,182	22,982	23,982	25,482
Depreciation	9,169	10,953	12,906	14,996	17,197
Net block	11,909	11,229	10,075	8,985	8,284
Capital work-in-progress	1987	1900	1900	1900	1900
Investments	312	186	279	419	628
Inventories	2,486	2,969	2,684	2,964	3,134
Debtors	2,098	1,326	2,093	2,316	2,476
Cash	3,994	4,213	4,940	5,330	3,810
Loans & advances	1937	1832	2267	2807	3929
Other current assets	1544	2385	2389	2394	2400
Total current assets	12,058	12,725	14,374	15,811	15,750
Creditors	6,132	6,125	6,585	7,445	7,849
Other current liabilities & provisions	12,058	12,725	14,374	15,811	15,750
Total current liabilities	10,712	9,208	9,797	10,792	11,338
Net current assets	1,346	3,517	4,577	5,019	4,412
Deferred tax asset	-309	-50	-50	-50	-50
Total assets	15,245	16,781	16,781	16,274	15,174

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Cash flow

Y/E March (Rsmn)	FY19	FY20	FY21E	FY22E	FY23E
PAT	6,977	7,221	9,427	10,154	10,996
Depreciation	1,592	1,979	1,953	2,090	2,201
Other income	-233	-266	-246	-338	-382
(Inc./dec. in working capital)	1,494	-35	-333	-53	-912
Cash flow from operations	9,830	8,899	10,800	11,853	11,903
Capital expenditure (-)	-2,543	-559	-883	-1,000	-1,500
Net cash after capex	7,287	8,340	9,917	10,853	10,403
Inc./dec. in investing	0	133	-93	-140	-209
Others	-1,209	305	245	336	381
Cash from investments activities	-3,752	-121	-731	-804	-1,329
Dividends paid (-)	-7,916	-8,433	-9,426	-10,660	-12,094
Others	-231	-81	1	1	1
Cash from financial activities	-8,147	-8,514	-9,425	-10,660	-12,094
Opening cash balance	4,562	3,993	4,213	4,940	5,330
Closing cash balance	3,994	4,213	4,940	5,330	3,810
Change in cash balance	-568	219	727	390	-1,519

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Key ratios

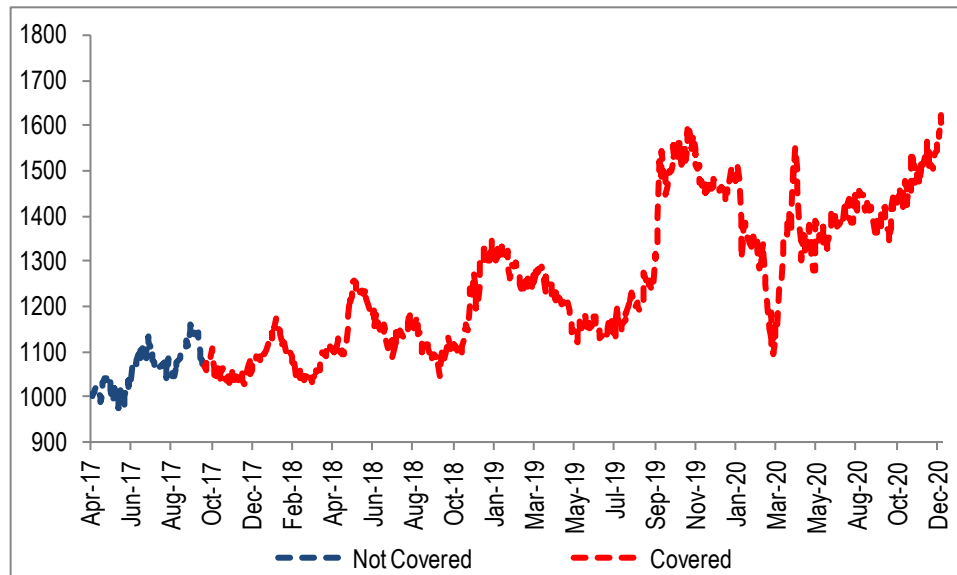
Y/E March	FY19	FY20	FY21E	FY22E	FY23E
Per share (Rs)					
EPS	27.4	30.0	34.7	37.3	40.4
Book value	53.2	58.6	58.6	56.7	52.7
DPS	23.8	26.9	34.7	39.2	44.5
Valuation (x)					
EV/sales	9.7	9.5	9.0	8.1	7.6
EV/EBITDA	34.9	35.9	30.1	28.1	26.1
P/E	58.4	53.3	46.2	42.9	39.6
P/BV	30.1	27.3	27.3	28.2	30.4
Return ratios (%)					
RoCE (Post-tax)	47.9	50.9	56.4	61.6	70.1
RoE	50.1	53.7	59.1	64.7	73.9
ROIC	78.4	79.4	91.3	107.7	122.0
Profitability ratios (%)					
Gross margin	65.1	65.2	66.6	66.3	66.7
EBITDA margin	27.7	26.6	29.7	28.8	29.0
EBIT margin	24.1	22.2	25.7	24.8	25.1
PAT margin	16.6	17.8	19.4	18.9	19.1
Liquidity ratios (%)					
Current ratio	1.1	1.4	1.5	1.5	1.4
Quick ratio	0.9	1.1	1.2	1.2	1.1
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	3.4	3.1	3.3	3.8	4.5
Fixed asset turnover ratio (x)	3.7	4.0	4.8	5.9	6.9
Debtor days	17	11	16	16	16
Inventory days	58	69	61	60	60
Creditor days	143	146	151	151	151

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Accumulate	1,055	1,100
17 October 2017	Accumulate	1,063	1,100
6 February 2018	Accumulate	1,121	1,200
22 May 2018	Accumulate	1,208	1,260
27 July 2018	Accumulate	1,085	1,200
30 October 2018	Accumulate	1,102	1,220
28 January 2019	Accumulate	1,287	1,300
9 April 2019	Accumulate	1,228	1,370
28 May 2019	Accumulate	1,180	1,320
19 July 2019	Accumulate	1,203	1,320
25 October 2019	Accumulate	1,564	1,500
31 January 2020	Accumulate	1,396	1,455
30 March 2020	Buy	1,160	1,470
22 May 2020	Accumulate	1,313	1,375
30 July 2020	Accumulate	1,448	1,460
23 September 2020	Accumulate	1,342	1,500
22 October 2020	Accumulate	1,427	1,520
21 December 2020	Accumulate	1,600	1,610

Rating chart



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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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