

Volume growth still missing; cautious outlook...

About the stock: Colgate-Palmolive (India) (CPIL) is the largest oral care company in India. The company has more than 50% market share in the toothpaste category. Major brands include Colgate Dental Cream, Colgate Total, Colgate Max-Fresh. With changing consumer preference for naturals products, the company is focusing on growing the Colgate Vedshakti brand. Recently, it launched toothpaste for diabetics, Colgate Visible White O2 and Palmolive range in the face cleansing category.

- Colgate has distribution reach of 6.5 million outlets. The company commands one of the highest gross margins in the industry and spends ~13% of sales on marketing to support existing brands and new launches

Q2FY23 Results: Colgate reported subdued results with 2.6% sales growth

- Sales were up 2.6% YoY led by pricing growth; volumes saw de-growth
- EBITDA was at ₹ 408 crore, up 1.8% YoY, with margins at 29.4%
- Consequently, adjusted PAT was at ₹ 278 crore (up 3.3% YoY)

What should investors do? Colgate's share price has underperformed FMCG index in the last five years with 52% return.

- With softening commodity prices, gross margin is likely to recover in H2FY23. However, CPIL needs more lever for long term sustainable growth
- We maintain our **HOLD** rating on the stock

Target Price and Valuation: We value the stock at ₹ 1610, valuing the business at 38x FY24 earnings.

Key triggers for future price performance:

- Innovation in whitening, naturals, Ayurveda & therapeutic toothpaste category could help sustain volumes. However, it needs to expand addressable market by foraying in other personal care categories
- Gross margin is likely to expand with a sharp dip in commodity inflation but higher margin is expected to be utilised through sustained ad-spends and trade promotion activity
- In natural & Ayurveda toothpaste space, competition has taken pole position and CPIL is required to increase its presence in natural space given accelerated pace of consumption shift from white to natural toothpaste

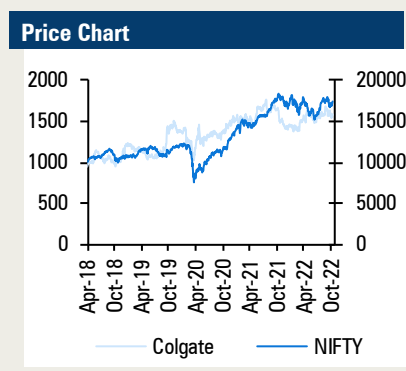
Alternate Stock Idea: Besides CPIL, we like Tata Consumer in our FMCG coverage.

- Strong innovation & premiumisation strategy in salt, tea, Sampaan & Soulful in the Indian market is expected to drive sales and margins
- We value the stock at ₹ 950 with a BUY rating



Particulars	
Particulars (₹ crore)	Amount
Market Capitalization	43,606.2
Total Debt (FY22)	69.0
Cash and Investments (FY22)	754.7
EV	42,920.5
52 week H/L (₹)	1695 / 1375
Equity capital	27.2
Face value (₹)	1.0

Shareholding pattern				
(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	51.0	51.0	51.0	51.0
FII	19.1	18.0	18.6	18.7
DII	7.7	8.2	8.1	8.8
Others	22.2	22.8	22.3	21.5



- Recent event & key risks**
- The company launched 'Colgate MaxFresh Charcoal' during the quarter
 - Key Risk:** (i) Better than expected traction in natural brands (ii) Volatility in RM prices may continue to pressurise margins

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Key Financial Summary							
Key Financials	FY20	FY21	FY22	5 Year CAGR (FY17-FY22)	FY23E	FY24E	CAGR (FY22-24E)
Total Operating Income	4525.1	4841.2	5099.8	2.4%	5372.6	5815.4	6.8%
EBITDA	1201.7	1509.6	1565.9	10.7%	1564.5	1705.0	4.3%
EBITDA Margin %	26.8	31.4	30.9		29.3	29.5	
Net Profit	816.5	1035.4	1078.3	13.3%	1050.6	1149.6	3.3%
EPS (₹)	30.0	38.1	39.6	0.1	38.6	42.3	3.3%
P/E	53.4	42.1	40.4		41.5	37.9	
RoNW %	51.2	88.8	62.2		62.9	70.8	
RoCE (%)	60.7	106.4	77.8		82.6	92.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter

Q1FY23 Results: Margins to recover in H2FY23; long term growth depends on natural toothpaste & personal care category growth

- Revenue grew a muted 2.6% to ₹ 1387.5 crore, largely driven by pricing growth. We estimate volumes would have de-grown during the quarter given most FMCG companies were holding high cost raw material inventory & price cuts have not been initiated yet. The correction in commodity inflation would be reflected in price cuts & grammage increase from Q3FY23 onwards
- Colgate's core brand 'Colgate Strong Teeth', 'Colgate MaxFresh', 'Colgate Active Salt' continue to witness stable sales. New launch last quarter 'Colgate Visible White O2' saw strong traction
- The company launched 'Colgate MaxFresh Charcoal' during the quarter. It is also focusing on growing 'Palmolive face wash' & 'Electric Toothbrushes' in personal care & toothbrush segments
- Gross margins contracted 308 bps considering the company was holding high cost inventory of crude based packaging material during the quarter. The company has reduced its advertisement spends by 230 bps (percentage to sales) to safeguard a dip in operating margin. Employee spend was also down 93 bps (percentage of sales) during the quarter. Operating profit grew 1.8% to ₹ 408 crore and operating margins contracted 23 bps to 29.4%
- Led by stable operating profit, net profit grew 3.3% to ₹ 278 crore. The company declared a first interim dividend of ₹ 18/share
- Prabha Narasimhan has joined Colgate-Palmolive (India) as Managing Director and CEO effective September 1, 2022. We believe leadership change would bring a fresh strategy for growth
- With a sharp correction in crude based packaging costs, we believe gross margins would see an uptick in the next few quarters. However, the company is expected to perk up A&P spends to bring back volume growth
- Oral care category penetration in India is 95%. However, only 20% people brush twice a day. Though the opportunity in oral care is large considering potential of increasing consumption through brushing twice a day, a habit change is very difficult and would take a generation to increase twice brushing population. We believe the oral care category would grow in mid-single digits in the long term. The company is expected to leverage the Palmolive brand in other personal care category to propel growth

Exhibit 1: Peer Comparison

Sector / Company	CMP	TP	M Cap	Sales growth (%)			EBITDA Margins (%)			P/E(x)			RoE (%)			RoCE (%)		
	(₹)	(₹) Rating		(₹ Cr)	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E
Colgate (COLPAL)	1603	1610 Hold	43606	5.3	5.4	8.2	30.9	29.3	29.5	40.4	41.5	37.9	62.2	62.9	70.8	77.8	82.6	92.7
Dabur India (DABIND)	536	700 Buy	101458	13.9	11.6	11.2	20.7	19.9	20.8	54.4	47.9	41.7	20.8	21.9	22.7	24.9	25.2	26.7
ITC Limited (ITC)	350	360 Buy	425310	23.1	17.5	7.0	32.0	32.3	35.3	28.2	24.6	21.4	24.5	27.0	29.4	31.4	35.2	38.3

Source: Company, ICICI Direct Research

The oral care category is saturated with more than 90% of penetration in both rural & urban regions. Moreover, the scope for increasing consumption is limited given the change of habit of brushing twice a day takes almost a generation to percolate into larger per capita consumption. It is important to know that only ~20% of Indians brush twice a day. The oral care category has also started to be dominated by a host of Ayurveda & Natural brands where Dabur as well as Patanjali Ayurveda have taken a lead in the last decade. Though the company is increasing its presence in naturals space through 'Colgate Ved-Shakti', it is yet to reflect in market share gains. We also believe CPIL is required to increase its addressable market by expanding its presence in personal care categories. Though the company commands strong gross as well as operating margins, we remain cautious on growth prospects. We remain cautious on future growth in the oral care category. We maintain our HOLD rating on the stock with a revised target price of ₹ 1610/share (₹ 1690 / earlier).

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Total Operating Income	1,387.5	1,427.9	1,352.4	2.6	1,196.8	15.9	Colgate continues to report muted numbers with 2.6% revenue growth led by pricing. We believe volume would have de-grown during the quarter
Operating Income	9.1	8.8	8.5	7.7	10.2	-10.9	
Raw Material Expenses	502.9	497.5	448.6	12.1	403.1	24.8	Gross margins contracted by 308 bps, mainly on account of high cost inventory of crude based packaging costs
Employee Expenses	94.5	99.6	104.7	-9.7	93.7	0.9	
SG&A Expenses	158.2	192.8	185.3	-14.6	163.0	-2.9	The company reduced its ad spends to safeguard operating margins
Other operating Expenses	223.8	226.7	213.1	5.0	211.4	5.9	
EBITDA	408.0	411.4	400.8	1.8	325.7	25.3	Operating profit grew 1.8%
EBITDA Margin (%)	29.4	28.8	29.6	-23 bps	27.2	219 bps	Operating margins were slightly down by 23 bps
Depreciation	43.9	45.2	44.9	-2.3	44.2	-0.7	
Interest	1.3	1.6	1.5	-15.3	1.3	-2.3	
Other Income	11.3	6.8	6.5	73.3	11.5	-2.3	Other income increased 73.3% due to higher cash & investments
PBT before exceptional	374.1	371.4	360.9	3.7	291.8	28.2	
Exceptional Items	0.0	0.0	0.0	NA	9.3	NA	
Tax Outgo	96.1	93.6	91.7	4.8	72.7	32.1	
PAT	278.0	277.8	269.2	3.3	209.7	32.6	Net profit grew 3.3% in line with revenue & operating profit growth
Adjusted PAT	278.0	277.8	269.2	3.3	216.6	28.4	

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Total Operating Inc.	5,493.3	5,372.6	-2.2	5,945.9	5,815.4	-2.2	Considering dismal volumes in the last few quarters, we cut our volume growth estimates for FY23 & FY24
EBITDA	1636.0	1564.5	-4.4	1782.7	1705.0	-4.4	
EBITDA Margin (%)	29.8	29.1	-66 bps	30.0	29.3	-66 bps	We cut our operating margins estimate by 66 bps given the company would need to increase its spends on advertisement to drive volumes
PAT	1104.0	1050.6	-4.8	1207.8	1149.6	-4.8	
EPS (₹)	40.6	38.6	-4.8	44.4	42.3	-4.8	

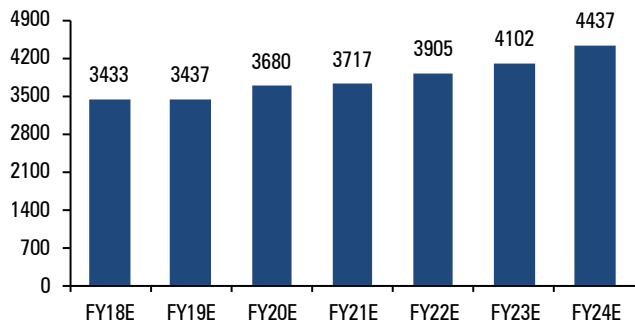
Source: ICICI Direct Research

Exhibit 4: Assumptions

	Current					Earlier			Comments
	FY19	FY20E	FY21E	FY22E	FY23E	FY24E	FY23E	FY24E	
Toothpaste Vol. Growth(%)	6.0	6.0	1.0	2.5	2.0	5.0	5.0	5.0	We cut our volume growth estimate for FY23 from 5% to 2%
Toothpaste Value Growth(%)	0.1	7.1	1.0	5.1	5.1	8.2	8.1	8.1	
Toothbrush Vol. Growth(%)	6.0	6.0	-4.0	7.0	6.0	6.0	6.0	6.0	
Toothbrush Value Growth(%)	17.9	4.0	-4.0	9.1	8.1	8.1	8.1	8.1	
Raw Material/Sales %	34.9	34.8	32.0	32.7	34.2	34.5	33.5	33.8	We increase our gross margins estimate given correction in commodity prices would reflect in margins from Q3FY23 onwards
Marketing Exp./Sales %	12.7	13.8	12.9	12.6	12.6	12.6	12.6	12.6	Most of the other costs remain same or higher

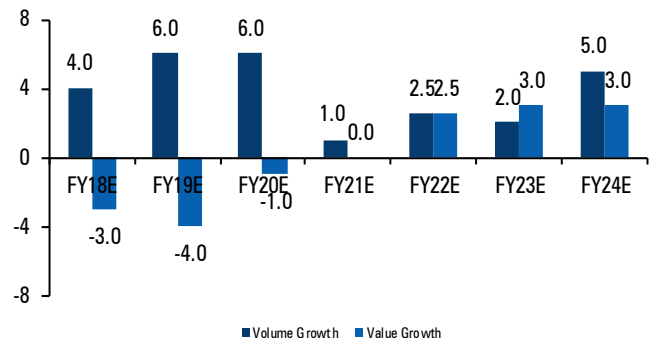
Source: ICICI Direct Research

Exhibit 5: Toothpaste revenue trend (I-direct estimate)



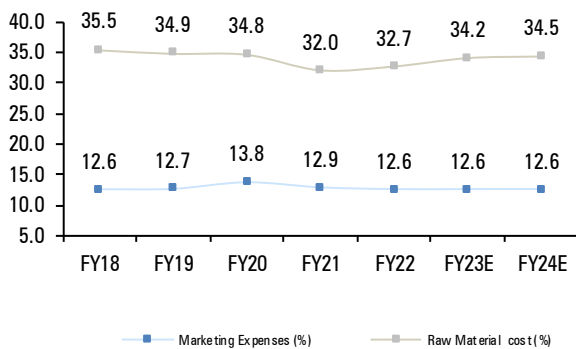
Source: ICICI Direct Research, Company

Exhibit 6: Toothpaste volume growth trend (I-direct estimate)



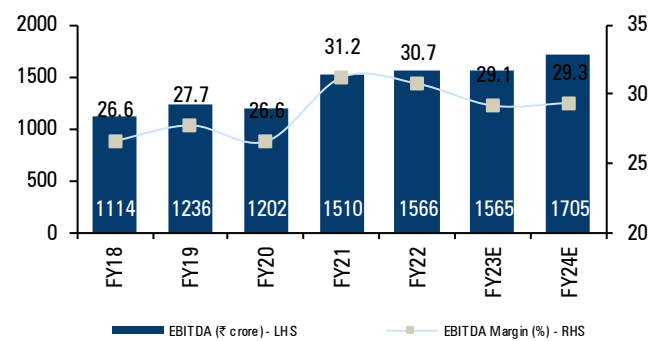
Source: ICICI Direct Research, Company

Exhibit 7: A&P & RM cost trend



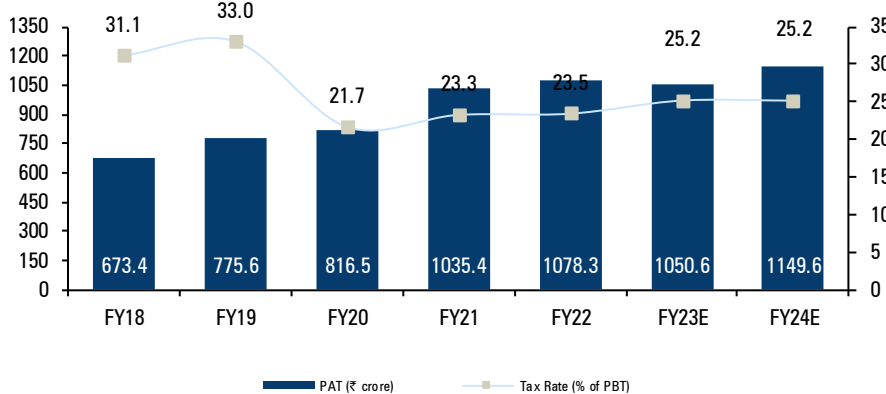
Source: ICICI Direct Research, Company

Exhibit 8: EBITDA margin trend (%)



Source: ICICI Direct Research, Company

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Valuations

	Net Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY21	4810.5	7.2	38.1	26.8	42.1	28.2	88.8	106.4
FY22	5066.5	5.3	39.6	4.1	40.4	27.2	62.2	77.8
FY23E	5337.3	5.3	38.6	-2.6	41.5	27.1	62.9	82.6
FY24E	5778.0	8.3	42.3	9.4	37.9	24.9	70.8	92.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total Operating Income	4,841.2	5,099.8	5,372.6	5,815.4
Growth (%)	7.0	5.3	5.4	8.2
Raw Material Expenses	1,549.4	1,667.5	1,836.6	2,004.2
Employee Expenses	365.6	385.1	405.6	444.9
Marketing Expenses	625.5	643.1	677.8	733.8
Administrative Expenses	0.0	0.0	160.1	167.6
Excise Duty	0.0	0.0	0.0	0.0
Other expenses	791.1	838.1	728.0	759.9
Total Operating Expenditure	3,331.6	3,533.8	3,808.1	4,110.4
EBITDA	1,509.6	1,565.9	1,564.5	1,705.0
Growth (%)	25.6	3.7	-0.1	9.0
Depreciation	182.5	177.3	180.8	189.3
Interest	7.3	5.9	6.5	7.1
Other Income	30.4	26.3	27.3	28.4
PBT	1,350.2	1,409.0	1,404.5	1,536.9
Exceptional items	0.0	-3.6	30.5	0.0
Total Tax	314.8	330.7	353.9	387.3
PAT	1,035.4	1,078.3	1,050.6	1,149.6
Growth (%)	26.8	4.1	-2.6	9.4
EPS (₹)	38.1	39.6	38.6	42.3

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit/Loss after Tax	991.9	1,039.1	1,050.6	1,149.6
Add: Depreciation	184.1	176.9	180.8	189.3
Add: Interest	7.3	5.9	6.5	7.1
(Inc)/dec in Current Assets	-422.1	431.1	-39.1	-63.3
Inc/(dec) in Current Liabilities	39.6	-16.0	6.9	89.9
CF from operating activities	783.9	1,625.7	1,205.8	1,372.7
(Inc)/dec in Investments	0.0	19.1	0.0	0.0
(Inc)/dec in Fixed Assets	-57.8	-49.6	1.8	-100.0
Others	129.1	-77.2	10.3	-1.7
CF from investing activities	71.4	-107.7	12.1	-101.7
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	-69.0	0.0
Dividend paid & dividend tap	-921.1	-1,057.2	-1,115.1	-1,196.7
Inc/(dec) in Sec. premium	-35.3	-33.4	-6.5	-7.1
Others	0.0	0.0	0.0	0.0
CF from financing activities	-956.5	-1,090.6	-1,190.6	-1,203.9
Net Cash flow	-101.3	427.5	27.3	67.1
Opening Cash	397.8	296.6	724.0	751.3
Cash with bank	571.1	30.7	30.7	30.7
Closing Cash	867.6	754.7	782.0	849.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	27.2	27.2	27.2	27.2
Reserve and Surplus	1,138.7	1,707.5	1,642.9	1,595.8
Total Shareholders funds	1,165.9	1,734.7	1,670.1	1,623.0
Total Debt	77.4	69.0	0.0	0.0
Long Term Provisions	31.1	14.0	37.4	40.4
Other Non-current Liabilities	1.7	1.7	1.7	1.7
Total Liabilities	1,276.1	1,819.4	1,709.2	1,665.1
Assets				
Gross Block	2,001.9	2,077.5	2,177.5	2,277.5
Less: Acc Depreciation	937.2	1,114.5	1,295.3	1,484.7
Net Block	1,064.7	963.0	882.1	792.8
Capital WIP	144.9	121.8	20.0	20.0
Deferred Tax Asset	0.0	0.0	0.0	0.0
Non Current Investments	18.6	0.0	0.0	0.0
LT Loans & Advances/Others	293.3	334.2	347.3	352.1
Current Assets				
Inventory	335.8	357.2	321.7	348.3
Debtors	117.1	224.7	248.6	269.1
Cash	867.6	754.7	782.0	849.0
Loans & Advances	6.9	107.3	138.4	149.9
Other Current Assets	45.1	39.0	58.5	63.3
Current Liabilities				
Creditors	774.3	785.4	701.9	759.8
Provisions	81.1	84.0	65.8	71.2
Other CL	762.6	213.0	321.7	348.3
Net Current Assets	-245.4	400.4	459.8	500.2
Total Assets	1,276.1	1,819.4	1,709.2	1,665.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	38.1	39.6	38.6	42.3
Cash EPS	44.8	46.2	45.3	49.2
BV	42.9	63.8	61.4	59.7
DPS	54.0	19.0	41.0	44.0
Cash Per Share	31.9	27.7	28.7	31.2
Operating Ratios (%)				
EBITDA Margin	31.2	30.7	29.1	29.3
PBT / Net Sales	28.1	27.8	26.3	26.6
PAT Margin	21.5	21.3	19.7	19.9
Inventory days	25.5	25.7	22.0	22.0
Debtor days	8.9	16.2	17.0	17.0
Creditor days	58.7	56.6	48.0	48.0
Return Ratios (%)				
RoE	88.8	62.2	62.9	70.8
RoCE	106.4	77.8	82.6	92.7
Valuation Ratios (x)				
P/E	42.1	40.4	41.5	37.9
EV / EBITDA	28.2	27.2	27.1	24.9
EV / Net Sales	8.8	8.4	8.0	7.3
Market Cap / Sales	9.1	8.6	8.2	7.5
Price to Book Value	37.4	25.1	26.1	26.9
Solvency Ratios				
Debt/EBITDA	0.1	0.0	0.0	0.0
Debt / Equity	0.1	0.0	0.0	0.0
Current Ratio	0.3	0.7	0.7	0.7
Quick Ratio	0.1	0.4	0.4	0.4

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹) Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Colgate (COLPAL)	1,603	1,610	Hold	43,606	39.6	38.6	42.3	40.4	41.5	37.9	8.6	8.2	7.5	77.8	82.6	92.7	62.2	62.9	70.8
Dabur India (DABIND)	536	700	Buy	1,01,458	9.9	11.2	12.8	54.4	47.9	41.7	9.3	8.3	7.5	24.9	25.2	26.7	20.8	21.9	22.7
Hindustan Unilever (HINLEV)	2,601	2,700	Hold	6,10,844	37.5	40.9	44.8	69.3	63.6	58.0	12.1	10.8	10.1	20.2	22.5	24.6	18.1	19.7	21.5
ITC Limited (ITC)	350	360	Buy	4,25,310	12.4	14.2	16.4	28.2	24.6	21.4	7.2	6.1	5.7	31.4	35.2	38.3	24.5	27.0	29.4
Jyothy Lab (JYOLAB)	201	145	Hold	6,077	4.3	5.6	6.4	47.3	36.0	31.6	2.8	2.5	2.3	18.7	24.2	27.7	16.6	21.2	23.8
Marico (MARLIM)	524	515	Hold	67,645	9.7	10.3	11.4	53.9	50.9	45.9	7.1	7.0	6.4	41.2	43.8	47.0	37.5	38.5	41.2
Nestle (NESIND)	20,061	22,400	Hold	1,90,912	222.4	255.8	301.1	90.2	78.4	66.6	13.0	11.4	10.3	58.7	57.1	63.0	111.3	103.6	110.3
Patanjali Foods (RUCSOY)	1,425	1,750	Buy	50,721	27.3	30.9	43.5	52.3	46.1	32.8	2.1	1.7	1.5	13.2	15.6	17.3	13.1	11.3	14.2
Tata Consumer Products (TAT)	771	950	Buy	71,261	11.0	14.5	17.4	70.0	53.2	44.4	5.7	5.1	4.6	8.4	9.8	11.2	7.0	8.5	9.8
Varun Beverage (VARBEV)	1,020	1,100	Buy	60,171	17.2	20.6	23.4	59.2	49.5	43.6	6.8	4.9	4.3	17.1	28.1	30.8	18.3	26.3	25.3
VST Industries (VSTIND)	3,522	3,425	Hold	4,937	207.4	229.3	252.9	17.0	15.4	13.9	4.2	3.8	3.5	39.2	44.6	50.6	30.0	33.4	37.8
Zydus Wellness (ZYDWEL)	1,737	2,100	Buy	10,254	48.5	57.5	71.0	35.8	30.2	24.5	5.1	4.5	4.1	6.1	7.1	8.4	6.4	7.3	8.7

Source: Bloomberg, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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