

# Initiating Coverage Colgate-Palmolive (India) Ltd.

December 13, 2021





# Colgate-Palmolive (India) Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs. 1439	Buy in Rs 1432-1446 band and add more on dips to Rs 1275	Rs. 1604	Rs. 1736	2 quarters

HDFC Scrip Code	COLPAL
BSE Code	500830
NSE Code	COLPAL
Bloomberg	CLGT:IN
CMP (Dec 10, 2021)	1439
Equity Capital (Rs Cr)	27
Face Value (Rs)	1
Equity Share O/S (Cr)	27
Market Cap (Rs Cr)	39,139
Book Value (Rs)	42.6
Avg. 52 Wk Volumes	585293
52 Week High	1823
52 Week Low	1413

Share holding Pattern % (Sept, 2021)	
Promoters	51.00
Institutions	26.56
Non Institutions	22.44
Total	100.0



HDFCsec Retail research  
stock rating meter

for details about the ratings, refer at the end of the report

\* Refer at the end for explanation on Risk Ratings

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## Our Take:

Colgate-Palmolive (India) Ltd. (CPIL) has dominated the oral hygiene market in such way that the brand has become synonymous with toothpaste. Introduced in 1937 in India, it is single-handedly responsible for getting Indians to abandon neem twigs for toothbrushes. The strong relationship and the trust of generations of consumers, trade and the dental profession has been built over decades of operations in India. The brand has faced bursts of competition from time to time and has fought back effectively to regain market share. In recent past Patanjali challenged status quo of Colgate with its ayurveda based offerings, Colgate responded by introducing 'Vedshakti' portfolio of herbal and ayurvedic variants which has been witnessing increased traction in recent quarters.

While it enjoys a near monopolistic status in its core segment, in recent past, it has been increasingly focused on developing various sub-segments including herbal based products, products for diabetics, mouth sprays, oil pulling, instant teeth whitening, etc. Even the toothbrush portfolio has seen some additions including the 'gentle' and 'natural' brushes. Looking at the opportunities under each sub-segment, exciting product launches and the demographic size, we are optimistic about the company's growth.

## Valuation & Recommendation:

CPIL's performance over last decade is a story of contrast. While its revenues grew at staggering 15% CAGR over FY10-15, it could barely manage ~3% CAGR growth over FY15-20 affected by tepid macroeconomic environment (demonetisation, GST, low rural demand) and heightening competition (particularly from Patanjali). It saw its market share eroding from the peak of 57% in FY15 to 48% being caught off guard with unprecedented rise in demand for 'natural' products. However, the market share now seems to have stabilised.

Mr. Ram Raghavan, the MD of CPIL appointed in July 2019 had developed a formulaic approach to recoup the market share loss which seems to be proving fairly successful. The company today is not just focused on launching new products in existing categories, it is rather redefining oral health by developing new categories. Some of the recent launches like Colgate toothpaste for diabetics, Colgate Vedshakti mouth spray, and Colgate Vedshakti Oil Pulling are expanding the market for the company. The company recently launched Colgate Magik toothbrush, the first augmented reality toothbrush (for kids). The company was earlier concentrating on gaining share in naturals/ayurvedic toothpaste where competition is very tough. But renewed focus on innovative launches, which are potentially sizable categories, continues to inspire us.



# Colgate-Palmolive (India) Ltd.

While toothpaste is highly penetrated, the growth opportunity in oral care is still attractive driven rising per capita consumption, premiumisation and category expansion. We are confident of CPIL regaining most of the lost market share given its track record of beating competition, best-in class product portfolio, unparalleled reach and unwavering focus on oral care. If CPIL's performances in recent quarters are anything to go by, it has seen market share gain though gradual. We have built in a modest revenue growth of ~8% CAGR over FY21-24E with new launches (2-3% as of now) expected to drive the growth. Any positive surprise on volume growth front and resulting market share gains could lead to re-rating of stock. **We feel investors can buy the stock in Rs. 1432-1446 band (32x Sept'FY23E EPS) and add more on dips to Rs 1275 (29x Sept'FY23E EPS) for the base case value of Rs.1604 (36.5x Sept'FY23E EPS) and bull case fair value of Rs.1736 (39.5x Sept'FY23E EPS).**

### Financial Summary

Particulars (Rs cr)	Q2FY22	Q2FY21	YoY-%	Q1FY22	QoQ-%	FY20	FY21	FY22E	FY23E	FY24E
Net Revenues	1352	1286	5.2	1166	16.0	4525	4841	5245	5660	6110
EBITDA	401	409	(2.1)	355	12.8	1202	1510	1578	1714	1858
APAT	269	274	(1.8)	233	15.4	816	1035	1057	1148	1244
Diluted EPS (Rs)	9.90	10.10	(2.0)	8.60	15.1	30.0	38.0	38.8	42.2	45.7
P/E (x)						48.0	37.8	37.1	34.1	31.5
EV/EBITDA						32.2	25.4	24.5	22.5	20.7
RoCE-%						64.9	118.4	182.2	161.5	192.2

(Source: Company, HDFC sec)

### Q2FY22 Result Update

In Q2FY22, CPIL's net revenue grew by 5% YoY (+5% in Q2FY21 and +12% in Q1FY22) with volume growth of ~2% (+3% in Q2FY21, +8% in Q1FY22). Its go-to-market approach continues to see adoption of new business models and approaches as it expands its brands across different platforms. The freshness and base segments saw good growth trajectory. While the premium launches are performing well, the company sees this segment growing in the long run but does not expect benefits to be visible in the short to medium term. Overall penetration trends remain strong and are favourable quarter on quarter. Gross margin contracted by 130/232bps YoY/QoQ to 67%, after expanding for the past four quarters. While the company took price hikes at the end of the quarter, their impact was not visible. A&P grew by 13/16% YoY/QoQ in Q2FY21, while employee/other expenses were up 8/4%. EBITDA margin contracted by 221bps YoY to 29.6% (+541bps in Q2FY21, +87bps in Q1FY22).

### Long Term Triggers

#### Indian Oral Hygiene Market: Scope of higher per capita consumption and premiumisation

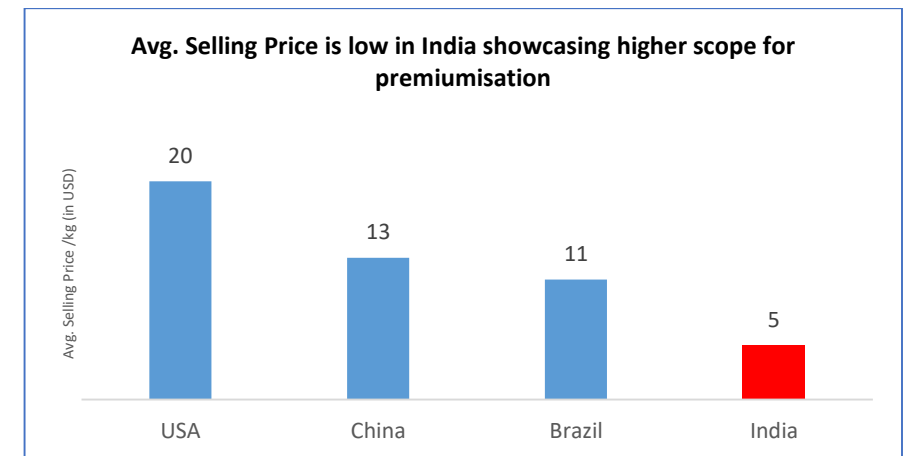
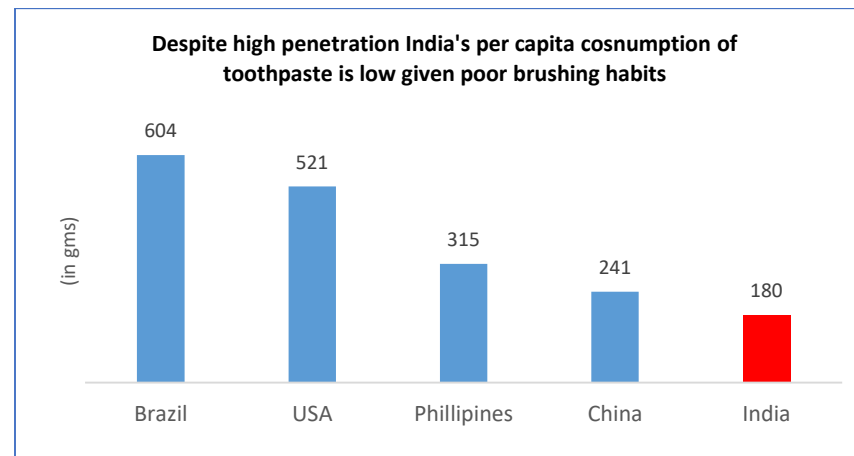
Oral hygiene, which primarily comprises toothpastes, toothbrushes, mouthwashes, etc. is one of the categories with the highest reach in the personal care sector. Toothpaste constitutes ~70% of the total oral health market and is estimated to be Rs 10,000- Rs 12,000 Cr segment

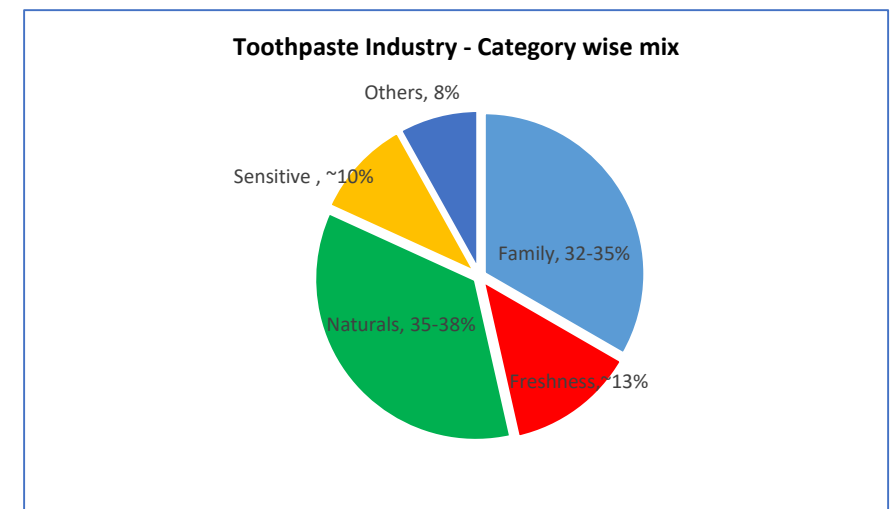
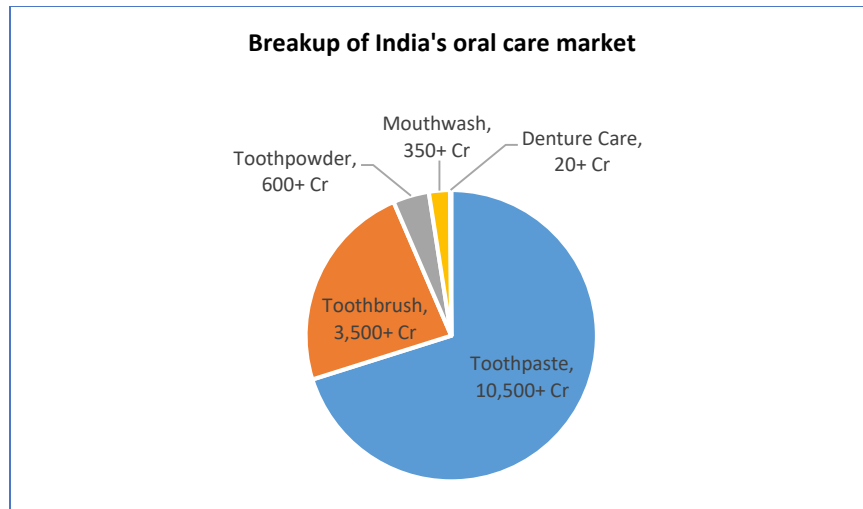
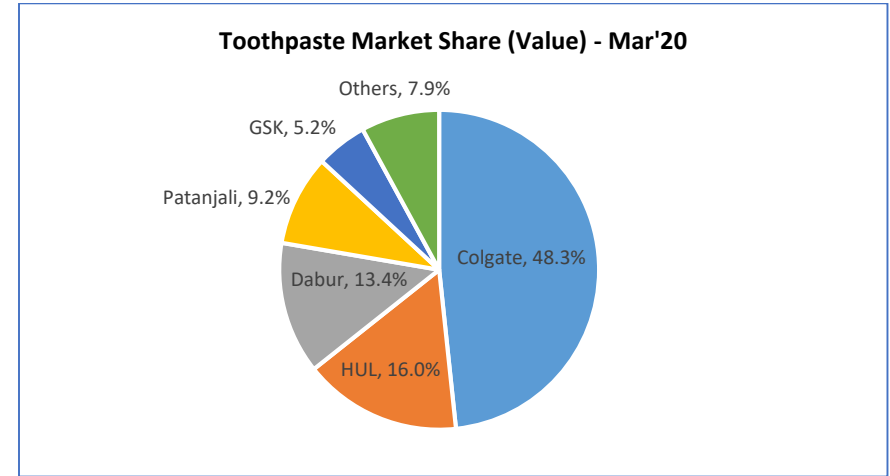
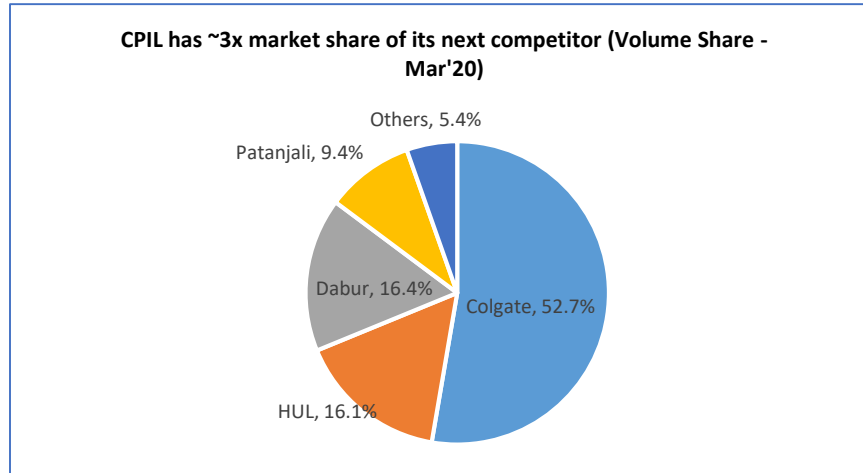


currently. While the industry witnessed a double-digit growth in first half of the last decade driven by increased penetration, the growth rate in later half dropped to single digits. About 1/3rd of the total population still does not have access to oral care despite the penetration of oral care products. Consumers in India on average brush only up to five times a week (rural households brush only 2-3 times in a week). Less than 15% of the population brushes twice a day. India's per capita consumption of toothpaste is <200 gm/person (ranking among the bottom 3-4 countries) while per capita consumption of emerging markets (EM) like Brazil stands at 700gm. If India manages to achieve China's current levels over the next decade, its oral care market size will quadruple from current levels, translating to potential 9-12% CAGR category growth for the next decade.

The growth in India's oral hygiene industry is mostly influenced by changing consumer behaviour, companies' business strategies, govt. policies and the increasing entry of various leading international brands in the Indian market. With rising disposable income and changing tastes and lifestyle, consumers are trading-up for expensive premium products. The mass product market has also expanded on account of increasing population with the emergence of middle class. Image consciousness and oral health awareness has led to increased demand for advance oral care products.

To reap the benefits of increased consumer demands, companies are strategizing their actions accordingly. They are focusing on innovation and launch of new products, targeting untapped rural market through production of natural herbal oral care products, premiumisation is playing a lead role, investing huge amounts in advertisements through digital platform as well as through campaign and marking their strong presence in the primary and advanced oral care product market such as toothpaste & mouthwash to tap the potential opportunities.





(Source: Industry, HDFC sec)

**The broad segments of toothpaste are:**

**Family/Regular:** CPIL gets its major share from this segment. It has higher prevalence in rural India while urban India experiments with newer categories. CPIL through its flagship 'Colgate Strong Teeth' (India's #1 toothpaste) brand enjoys an absolute dominant position (>60% market share) in this category.



**Natural/Herbal:** All thanks to 'Patanjali' who singlehandedly disrupted India's toothpaste market shaking up offerings on multinational brands and flooding markets with 'herbal' products which increased the contribution of 'naturals' from <10% in FY15 to 35% currently. At its peak, this segment was growing above 30% CAGR p.a. though it is still growing in high-teens currently. While Patanjali grabbed the biggest pie of the growth, Dabur was silent beneficiary and now both together have ~75% market share in this space. CPIL had responded by launching Cibaca Vedshakti and Swarna Vedshakti. It has upped its ante by launching plethora of products under Vedshakti umbrella across categories.

**Freshness/Gel based:** Launched in early 1990s, HUL's gel based Close Up was the first product in this segment which helped HUL gained footing in India's oral care market. CPIL responded with Colgate Max Fresh which gradually regained the market share but still significantly trails Close Up. This segment is seeing significant traction of late.

**Sensitive:** GSK's Sensodyne is #1 player in Rs. 1100 Cr 'sensitive' category which has been growing at 17-20% CAGR over last decade. GSK's Sensodyne has a slight lead. CPIL's Colgate Sensitive trails Sensodyne in this category. It is estimated that 33% of Indians have sensitivity issues, but only 1/5th of them take the required action, suggesting a huge potential for the segment.

**Whitening:** This segment of late has seen renewed emphasis from CPIL with Colgate Visible White which largely targets urban youth. Recently, it has been relaunched as Colgate Visible White Instant, toothpaste which promises an instant teeth whitening benefit to consumers.

### **Moats that make Colgate 'the undisputed king' of Oral Hygiene Market**

There are few brands which dominate the product category in a way that the brand itself becomes synonymous with an entire category. For instance, Xerox for photocopiers, Bisleri for mineral water, Thermos for vacuum flask, etc. Colgate has dominated the oral hygiene market in such a way that they became synonymous with toothpaste. Key reasons, we believe, which has helped CPIL to hold on to its pole position for so long include:

### **Colgate's competitive prowess over decades**

In the 1960s and 1970s, Forhan's was the challenger brand but it is completely forgotten today. Binaca, which later became Cibaca and was taken over by Colgate in 1994, was another challenger.

In 1990s, when HUL launched gel-based Close Up toothpaste in the 1990s, Colgate countered by introducing Colgate Max Fresh, which is now neck-to-neck with the former in many key states.



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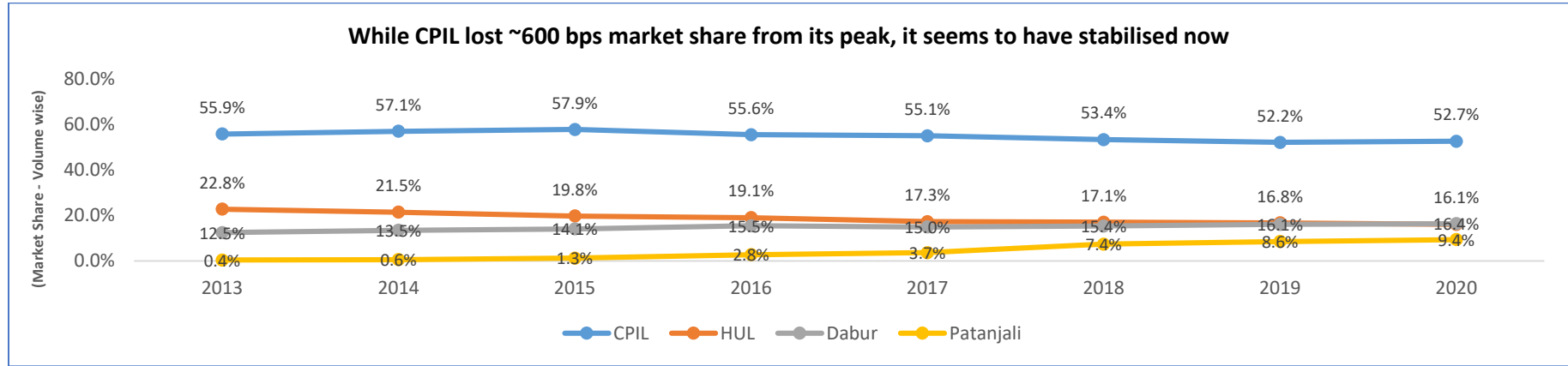
With CPIL's operating leverage at player, no competitor one can afford a price war. HUL's price war in 2000 (HUL launched the toothpaste brand Aim, priced 40% below CPIL's low-end offering) and the price war with Anchor and Ajanta (2003) in the economy segment. Both players eventually couldn't withstand CPIL's commitment to defend its position, with HUL discontinuing Aim brand within 2 years and local players Anchor and Ajanta constantly losing average market share since then.

In 2012-13, lot of hype was created when Proctor & Gamble (P&G) planned its entry in toothpaste segment in India. P&G's launch of Oral B toothpaste in 2013 was seen as key threat and an overhang for CPIL. Taking advantage of the situation even HUL ramped up its ad-spends on Pepsodent to catch Colgate off guard. Responding to the events, CPIL too upped its ad-spends and made sure there was no shelf space available for Oral B. This led to Oral-B dropping its toothpaste business in India while even Pepsodent lost its market share to Colgate.

It is clear that no major FMCG players is very keen to take CPIL head-on in its main product line. Hence, they have started carving smaller segments for themselves and, with a focused strategy. In the premium sensitive segment, GSK has gained leadership through Sensodyne and Parodontax. However, it is closely followed by CPIL through its Colgate Sensitive Brands with much wider portfolio.

The biggest challenge, however, the company faced was from Patanjali whose entry took not just toothpaste but whole FMCG sector by storm. Colgate was left befuddled by frenzied growth of herbal and ayurvedic products (currently ~30% of toothpaste segment) and was late to react, resulting in ~530 Bps market share loss over FY15-17. However, FY18 onwards the market share seems to have stabilised. Under its Vedshakti portfolio, the company has come up with innovative launches backed by increased marketing aggression across toothpaste, mouth wash and mouth spray categories to counter the competition and ride on the growth of naturals.

While Colgate enjoys near monopolistic status in its core category, it has got catching up to do in niches such as sensitive and herbals. Though, the development of these niches has hurt CPIL in recent past, it has an overall positive impact on the market by the way of increased consumption and premiumisation which will benefit the market leader Colgate going ahead which by virtue of higher brand equity, wider portfolio and unparalleled reach.



(Source: Industry, HDFC sec)

### Monumental category development efforts

CPIL’s efforts in category development are unmatched, not just in the oral care but also across FMCG segments. To cite an example, its Bright Smiles Bright Future, its flagship initiative created with an aim to spread awareness among children about the correct oral health habits, basic hygiene and diet and reduce the prevalence of dental caries since inception in 1976 has reached 178 mn so far, in FY20 alone, the BSBF program reached 7.34 mn children across the country. In 2019, CPIL under the aegis of Keep India Smiling Mission launched the Keep India Smiling Foundational Scholarship program providing financial support to meritorious students and has so far selected 662 scholars in 2 years. Its “Oral Health Month’ initiative offers free dental consultation and check-ups to people across the country, and has benefited over 40 million people so far with tens of thousands of dentists across India participating every year.

No other company in any Indian FMCG category has category development efforts on schools and villages anywhere close to this scale. These programs reinforce CPIL’s position as synonymous for category and enable CPIL to gain incremental customers even across the most remote parts of the country which can be then served through its highly penetrated distribution network.

### CPIL has one of the widest distribution reach

CPIL stands at highest penetrated brand in India with ~88% penetration with strengthening brand metrics – top of mind (highest in last 5 years) and attitudinal equity. Even globally, specifically in emerging markets, Colgate-Palmolive’s success is far superior to its competitors, P&G and Unilever. According to Kantar, it is world’s second largest distributed product after Coca Cola while in terms of penetration levels it even outranks Coca Cola (~43% vs 60% for Colgate).





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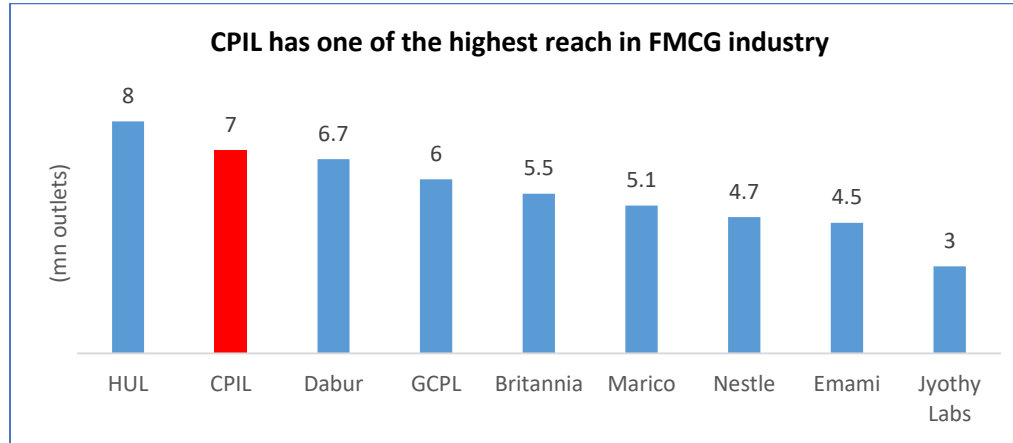
Colgate has the highest penetration at ~60% globally vs. Coca Cola at 43%

2020 Rank	Rank Movement	Brand	CRP (M)	CRP Performance	Rev 2021	Rev 2020	Frequency 2019	Frequency 2020
1	=	Coca-Cola	6509	-4	42.2	43.0	12.4	12.3
2	=	Colgate	4511	-2	59.8	58.5	6.1	6.0
3	↑2	Lifbuoy	3014	15	25.5	27.7	5.6	5.9
4	↓1	Maggi	3004	-4	52.0	55.9	6.1	7.2
5	↓1	Lay's	2768	4	30.4	31.2	7.3	7.2
6	=	Peppi	2554	6	22.7	25.5	6.1	6.2
7	=	Indomie	2221	0	6.0	6.1	30.9	29.5
8	↑1	Dove	2053	1	57.0	57.1	4.5	4.5
9	↓1	Sunsilk   Sedal   Seda	1943	-4	23.5	23.4	7.3	6.8
10	=	Nestle	1814	-3	22.7	23.2	6.9	6.4

(Source: Kantar, HDFC sec)

CPII's distribution reach at ~7 mn outlets is among the best in India while its rural reach is second to none. The company is focused on strengthening its Go To Market (GTM) strategy. Its share in e-commerce has increased by 1400 bps between YTD'19 and YTD'21 while in absolute terms it has grown over 23X since FY16 through initiatives including a) traffic building to drive conversion, b) partnering with all leading e-commerce firms and c) digitization and superior analytics. On modern trade channel, the company focused more on improving shelf presence, which aided in gaining market share by 170 bps YTD in 2021. It has introduced Muskan programme a year back to improve its partnership with wholesalers by creating loyalty programme for them. This aided distribution through wholesale channels to grow by 3x.

The company is under indexed in chemist channels by virtue of it not being a pharmaceutical company and not have specific portfolio. However, with recent innovations (solution based specific bundles) and leveraging its association with doctors (leading to product recommendation) it continues to make inroads into the channel.



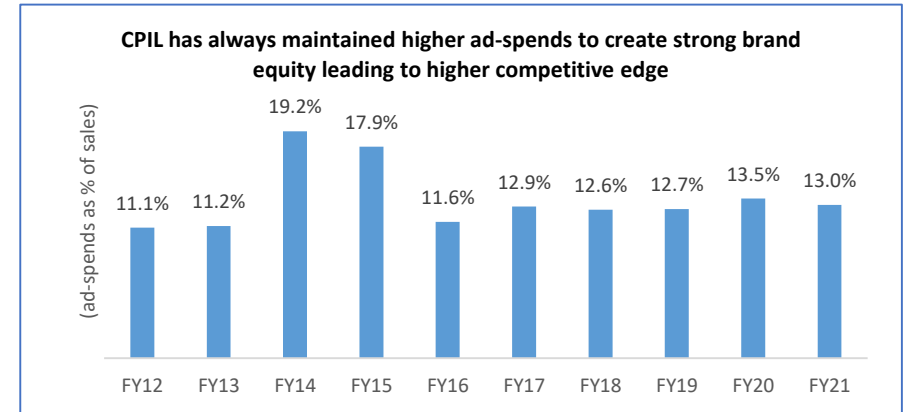
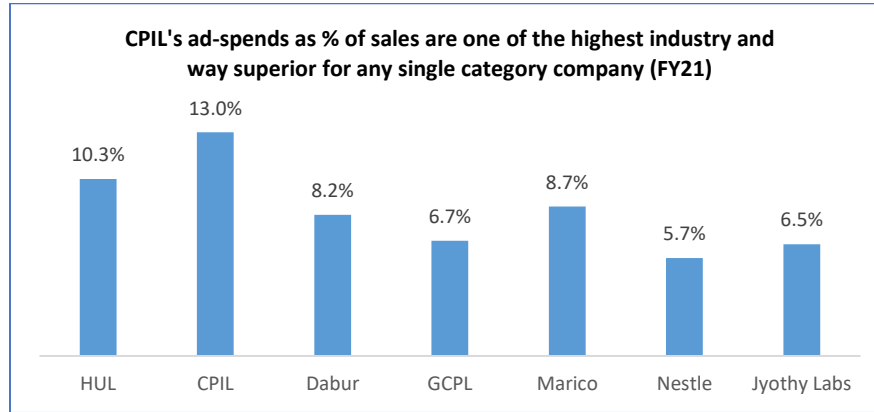
(Source: Company, HDFC sec)

### Singular focus has helped to gain competitive advantage

~95% of CPIL's revenues comes from Oral Care segment vs ~6% for HUL, ~17% for Dabur and <2% for P&G. While Colgate-Palmolive is the largest oral care player in the world, this segment contributes only 44% to global sales and so the scope for new products has always been immense but the company deliberately chose to focus on oral care in India in view of the huge growth opportunity in this segment, its inherent strengths in the segment and better utilization of its tremendous cash flow. We believe that only when CPIL feels that it is impregnable in the oral care market in India would it look at launching other products from the parent's stable. Until then, it will be pumping in more of its tremendous cash flows into the oral care segment to protect and increase its market share.

### Strategic brand investments has created unmatched brand equity

CPIL's as-spends is the highest in any single category in the entire FMCG space. This has created strong attitudinal equity and generated huge entry barriers as no player would be able to match its investments on the lack of equivalent cash flows and category focus. Colgate is the only FMCG brand to be rated among the top three brands by The Economic Times' Brand Equity every year since the inception of its survey. It has also strategically increased its ad-spend post FY15 to keep the competition at bay. The management has guided that ad spend range will continue to be between 12-14% with spikes in few quarters to support new launches.



(Source: Company, HDFC sec)

### New product development to drive the growth

CPIL had appointed a new MD, Mr Ram Raghavan in July 2019 who prioritised regaining lost market share (lost ~600 Bps market share over FY16-18) and driving revenue growth on the back of innovative launches. Over past couple of years the company has come up with dozens of launches across categories which have been gaining increasing traction. While this certainly has led to market share loss to ebb, if performance in recent quarters are any indication, market share gains would be gradual.

### Focus on 'naturals' segment

CPIL always believed naturals had prospects in the oral space, hence, it had a presence through Active Salt (Neem and Lemon) few years prior to Patanjali's entry. However, they underestimated the scope of naturals and hence weren't too gung-ho about it. With Patanjali's entry, the naturals space in the oral market blew up from <10% to 40% share. Now with channelized focus on booming 'naturals' segment, it had first launched Cibaca Vedshakti (largely North- India focussed) and subsequently launched premium toothpaste under brand Swarna Vedshakti (South-India focussed). The company launched Colgate Charcoal Black Toothpaste to differentiate its offerings and garnered 1% share in modern trade within 3 months of launch.

### Redefining Oral Health

CPIL is not just focused on launching new products in existing categories but has taken the lead to develop new categories to drive the growth. Under its Vedshakti umbrella, it launched oil pulling and mouth spray. While oil pulling helps detoxify the mouth of overnight impurities, mouth spray is a pocket-sized solution that offers instant germ kill. Given that teeth whitening is a huge consumer need in India, it also launched Colgate Visible White Instant that starts whitening from the first brushing itself. For kids, it has come up with natural fruit flavoured toothpaste with cartoon characters having a larger appeal with children.

Targeting the diabetics, it has come up with 'Colgate Special Toothpaste for Diabetics'. With an estimated 77 million people with diabetes, India is one of the most affected nations. Given the people with diabetes are more prone to gum issues, it has come up with special toothpaste. Such premium therapeutic toothpastes will help company increase its sailence in chemist channel (on the back of professional recommendation) where it is currently under indexed.

All recent launches have witnessed a healthy traction; a) Colgate Vedshakti (+60 bps market share, ~50% repeat sales comparable to other brands), b) Colgate Vedshakti Mouth Spray (~30% repeat sales) and already 1% market share, c) Colgate Special Toothpaste for Diabetics (20-25% repeat sales) is no.1 SKU in e-pharmacy, available in 25% urban pharmacies and direct dentist reach driven by strategic partnership with pharmacies and dentists, d) Colgate Visible White (+80 bps in modern trade and +120 bps in e-commerce market share gains).

**'Vedshakti' portfolio was expanded with launch of oil pulling and mouth spray to ride the growth of naturals**



**Colgate launched world's first toothpaste for diabetics**



(Source: Company, HDFC sec)

**CPII has been aggressive with launches/relaunches to increase the lead over competition**

Year of Launch	Category	Products	Remarks
FY21	Toothpaste	Colgate Vedshakti Mouth Protect Spray	New Category
		Colgate Vedshakti Oil Pulling	New Category
		Toothpaste for Diabetics	New Category
	Toothbrush	Colgate Visible White Instant	
		Colgate Zig Zag Anti-Bacterial	
		Colgate Gentle Range	
		Colgate Super Flexi Salt	
		Colgate Zig Zag Turmeric	
		Colgate Magik	New Category



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	Personal Care	Palmolive Hand Sanitizer	
		Palmolive Hand wash Doy Packs	Relaunch
		Palmolive Charcoal and Mint Bodywash	
		Palmolive Luminous Oil Enriching Bodywash	
FY20	Toothpaste	Colgate Strong Teeth (with Amino Shakti)	Relaunch
		Colgate Kids ZERO Toothpaste	New Category
		Colgate Charcoal Clean	
	Toothbrush	Colgate Zigzag Neem	
		Colgate Super Flexi Virat Pack	
		Premium Powered Toothbrushes with B150	New Category
		Colgate Super Flexi Charcoal	
	Personal Care	Palmolive Luminous Oils Shower Gel	
Palmolive Luminous Oils Shampoo			
FY19	Toothpaste	Colgate Total	New Category
		Colgate Strong Teeth	
	Toothbrush	Colgate Super Flexi Sensitive	
		Colgate Pro Clinical 150	
	Personal Care	Palmolive Facial Bars	New Category

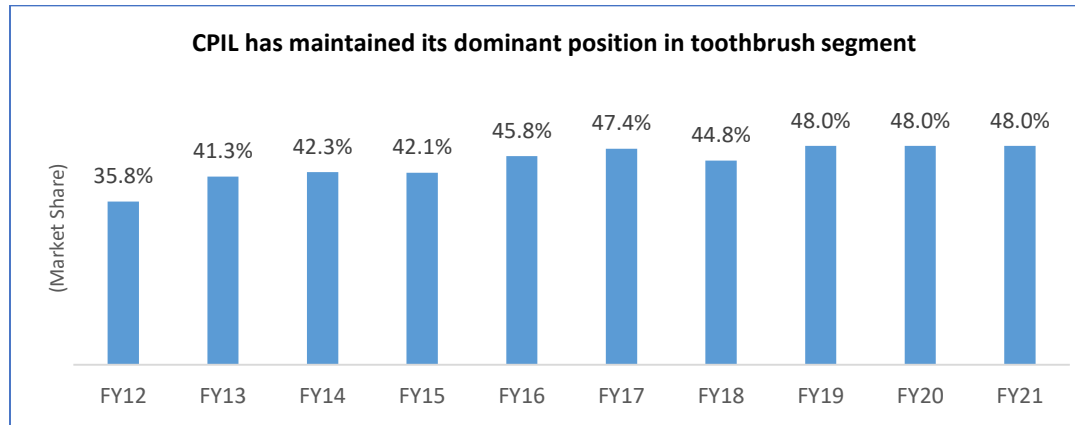
(Source: Company, HDFC sec)

### **Toothbrush segment has remained stable**

The second largest component of oral care market after toothpaste is toothbrush (~23%). Like toothpaste, Colgate is also market leader in toothbrush segment, in manual and automatic toothbrushes, in India and globally. CPIL's market share here has been fairly stable over the years and stands at 48% currently. P&G and Ajay (South region) are the other major players with 25% and 10% market share respectively. The brush business is a price game and hence commands lower gross margins vs. toothpaste. However, toothbrush requires lower marketing spend and hence EBITDA margins are at par with toothpaste. Interestingly, retail margins for toothbrush are exorbitant at 25-30%. While toothbrush is a discretionary product which had seen a tepid growth in H1FY21, the recovery has been sharp over last couple of quarters.

### Same growth formula for toothbrush segment: Innovation + Premiumisation

Building on the momentum of ‘naturals’, CPIL extended its naturals toothbrush portfolio with the launch of a series of brushes like Super Flexi with Salt, Zig Zag Turmeric, Slim Soft Himalayan Salt and Slim Soft Turmeric in addition to bamboo made neem/charcoal based toothbrushes. Its “Colgate Gentle’ range of toothbrushes which are endorsed by IDA gained 100 bps share within 3 months of launch and have become best sellers on e-commerce platforms. Its Colgate Magik, an augmented reality toothbrush is like gamification of toothbrush world. With improving brushing habits and rising preference for premium products, we expect CPIL to gain market share at faster rate.



#### Launched ‘Gentle’ line of toothbrushes



#### Introduced ‘Natural’ toothbrushes



#### India’s first AR based toothbrush for Kids



(Source: Company, HDFC sec)



### Building second leg of growth: Palmolive portfolio

While the personal care category contributes around 19% to Colgate-Palmolive’s global business, it’s not even 5% of India’s business. In India, under Palmolive brand, CPIL offers products across personal wash segments (like ....) though it never significantly backed these products through above the line/ below the line (ATL/BTL) spend. However, taking advantage of the boost in demand for health & hygiene related products post outbreak of Covid-19 pandemic, it has been aggressive with new launches and ad-spends to back them.

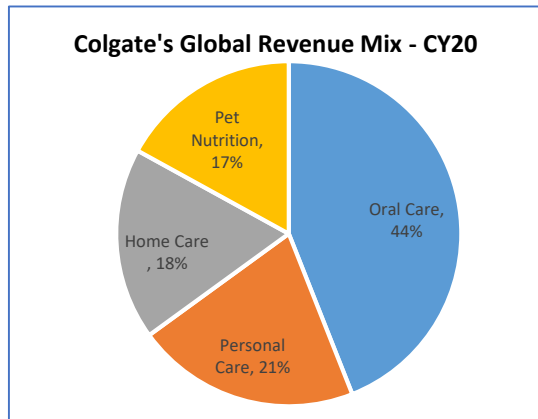
CPIL offers mid to premium range of products under Palmolive portfolio and most of them are sold through modern trade channels or exclusively through e-commerce. These products are already available in South East Asian markets and the company plans to initially import them until it attains size and economies of scale to make it viable to manufacture in India. Since, there is a Free Trade Agreement between India and ASEAN market, there will not be significant import duties and hence will not distort overall costing and hence the pricing.

While the overall personal care industry is expected to grow in high single-digit in medium term, the premium segment is expected to post double digit growth aided by rising disposable incomes and consumers seeking better choices.

### Scope of entering new categories

Interestingly, CPIL’s parent company derives only 44% of its total revenues from Oral care. Its other categories like Personal care/Home care/ Pet nutrition derive 21/18/17%, respectively. In India Colgate derives ~95% of their revenues from oral care. Most of their global categories according to the management are futuristic like body wash, liquid dish wash, fabric conditioners etc.

When modern trade hit India, CPIL believed the time was right for these categories. However, except for hand wash none of the other categories like body wash grew as expected. Mouth wash for Colgate did well in the first two years of launch but after attaining a certain size it stopped growing at a healthy pace. This certainly has changed over course of last 4-5 quarters owing to the momentum created by Covid-19. CPIL also did not venture into liquid dish wash in spite of HUL and Jyothy labs doing well as they didn’t see healthy margins in that category. In the past, the management had stated they are constantly on the look-out to enter new categories but are cautious in terms of the scope of the category and attaining company level margins.



Oral Care		Personal Care		Home Care		Pet Care	
Brands	Segment	Brands	Segment	Brands	Segment	Brands	Segment
Colgate	All of Oral Care	Palmolive	Body wash	Suavitel	Fabric Conditioners	Hill’s Science Diet	Cat and Dog food
Sorriso	Toothpaste	Protex	Body wash	Murphy Soap	Oil Wood cleaner	Hill’s Prescription Diet	Cat and Dog food



Tom's of Maine	Toothpaste	Sanex	Deodorants and Body wash	Palmolive Dish Soap	Dish Wash		
elmex	'Sensitive' toothpaste and mouthwashes	Soft-soap	Hand and Body wash	Softlan	Fabric softener		
hello	'Natural' toothpaste and mouthwashes	Speed Stick	Antiperspirants and Deodorants	Ajax	Dish Liquid and home cleaning agent		
		Lady Speed Stick	Antiperspirants and Deodorants	Fleecy	Fabric softener		
		Irish Spring	Body Wash	Pinho Sol	Disinfectant		
		Tom's of Maine	Deodorants, Baby Care and Body & Lip care	Axion	Dish wash		
		PCA Skin	Skincare	Sta-soft	Fabric Conditioners		
		Filogra	anti-aging skin care brand	Fabuloso	Fabric Conditioners		
		EltaMD Skin Care	medical grade skincare	Soupline	Fabric Conditioners		
				for the future NOW	'Natural' dishwasher detergent		
				Danklorix	Cleaners, Detergents, Toileteries		

(Source: Company, HDFC sec)

### Financial Triggers

#### Gross margin expansion to sustain, EBITDAM to stabilise

CPIL's performance in FY16-20 had been lacklustre due to number of factors as discussed above, however, performance in Covid-19 affected FY21 and last few quarters specifically have been encouraging with market share gains though small. The new leadership under Mr. Ram Raghavan looks promising and we like his strategy of 1) increasing frequency of consumption in rural areas (rural households brush only 2/3 times in a week) 2) prioritizing volumes over profit across sub-segments via innovation, launch of access packs and higher A&P spends to





regain lost market share and 3) intensifying focus on naturals portfolio (which forms 35-40% of the oral care market and has been growing 16-18% per annum), which has been the weakest link for the company.

Entry into new categories and expansion of existing brands will continue to drive the growth for Colgate. Revenue contributions from new launches would increase in the coming years (as of now 2-3%) as most of them are scalable and not seeing cannibalisation. We have built a modest revenue growth of 8% CAGR over FY21-24E on the back 7% volume growth.

CPIL reported highest gross margin since FY10 to 69.1% in Q1FY22 driven by improved sales mix (premiumisation) and price hikes. Colgate had taken a price hike of 3-4% just before the start of the pandemic (in Feb'20/Mar'20), after which it took a similar hike in Mar'21. While the current inflationary trend in raw materials may impact GM margins in next couple of quarters, we believe the company to sustain current GM levels in medium to long term with improved product & SKU mix (faster growth in large packs vs LUPs) and premiumisation. Premium portfolio contributes 5-7% to CPIL's overall toothpaste portfolio and hence there is scope for premiumization-driven margin expansion. Higher gross margins will support brand investments as company seeks to develop markets for its recent launches and, to support channel growth. Thus, we expect EBITDA margin to stabilise going ahead.

### **Ballooning Free Cash Flows, return ratios continue expansion**

CPIL's cash balance stood at record level of Rs 876 Cr in FY21. The free cash flow continue to be higher (Rs. 730 Cr in FY21) aiding higher dividend payouts. CPIL had created significant capacity between FY14-17 before the onslaught of herbal players, which delayed capacity utilization pick-up. Therefore, we believe it doesn't need any material capex in near term. Benign capex requirements along with highly efficient working capital management will continue to drive higher cash flows and subsequently high dividend payouts. RoCE will continue to remain at elevated levels.

### **Key Risks**

**High competitive intensity:** CPIL has faced stiff competition particularly from Patanjali and Dabur who have a strong presence in fast-growing 'naturals' segment. This has led to the company losing market share in the past. While it has recouped some of the lost share in past few quarters, incremental gains in market share might be difficult to achieve in the future if competition intensifies in the oral care category.

**Cost inflation:** In Q1FY22, CPIL posted record gross margins driven by low-priced input inventories, price hikes and favourable SKU mix. Currently, we are witnessing scenario of rising input costs largely led by crude oil. This may reduce margins going ahead.



**Changing economic scenario:** While toothbrush is a discretionary product, the demand for toothpaste is fairly inelastic in nature. However, significant downturn in economy could lead to consumers resort to down trading which may negatively affect company's margins.

**Product concentration risk:** >95% of revenue for CPIL comes from oral care, showing the vulnerability of the company to the category not growing as it is highly penetrated. It has also been slow in introducing and continuing with new products from Palmolive stable.

### Company Background

Colgate-Palmolive (India) Ltd. [CPIL] is the Indian subsidiary of 200-year old American multinational consumer products company, Colgate-Palmolive Company which has presence in over 200 countries and territories. Colgate had 39.8% and 31.1% global market share in toothpaste and manual toothbrushes respectively in 2020 making it the world's no.1 oral company. In India it has 52.7% and 48% market share in toothpaste and toothbrushes respectively. In India, from a modest start in 1937, when handcarts were used to distribute Colgate Dental Cream Toothpaste, CPIL today has one of the widest distribution networks in India - a logistical marvel that makes Colgate available in almost ~7 million retail outlets across the country. Since 1976, Colgate has worked in close partnership with the Indian Dental Association (IDA) to spread the message of oral hygiene to children across the country under its 'Bright Smiles, Bright Futures' Schools Dental Education Program which has led to high brand recall. The strong relationship and the trust of generations of consumers, trade and the dental profession built over decades of operations in India has made Colgate a trusted household name. Colgate has been ranked as India's #1 Most Trusted Oral Care Brand for nine consecutive years from 2011-2019 by Nielsen.

### CPIL has ubiquitous presence across categories and price points (toothpastes)

Product	Price (Rs)/100gm*	Product	Price (Rs)/100gm*
<b>Family/Regular</b>		<b>Sensitive</b>	
Colgate Cibaca	33	Colgate Sensitive Original	144
Colgate Strong Teeth	39	Colgate Sensitive Clove	150
<b>Naturals</b>		Colgate Sensitive Everyday Protection	160
Colgate Cibaca	32	Colgate Sensitive Plus	171
Colgate Active Salt	40	<b>Multi-Benefits</b>	
Cibaca Vedshakti	40	Colgate Total Whole Mouth Health	63
Swarna Vedshakti	49	Colgate Total Advanced Health	65
Colgate Active Salt Neem	52	Colgate Total Charcoal Deep Clean	69
Colgate Herbal	54	<b>Kids</b>	



# Colgate-Palmolive (India) Ltd.

Colgate Active Salt Lemon	58	Colgate Anticavity Toothpaste For Kids	90
Colgate Charcoal Clean	60	Colgate Kids Anticavity Toothpaste (3-5 Years)	150
<b>Freshness</b>		<b>Whitening</b>	
Colgate Spicy Fresh	44	Colgate Visible White	84
Colgate Max Fresh	45	<b>Speciality Products</b>	
Colgate MaxFresh Peppermint Ice	53	Special for Diabetics	193
Colgate Toothpaste Maxfresh with Cooling Crystals	57	Colgate Sensitive Maximum Strength Whitening	681
Colgate Charcoal Clean Gel	70		

### Other Key Products:

Products	Price	SKU
Colgate Toothpowder	43	100g
Colgate Plax Mouthwash	38	100ml
Colgate Vedshakti Mouth Protect Spray	84	10ml
Colgate Vedshakti Oil Pulling	298	200ml
Colgate PainOut (Pain Relief Gel)	60	10ml

(Source: amazon.com, HDFC sec)

### Peer Comparison

Company	Mcap (Rs. Cr)	Sales				EBITDA Margin				APAT			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
<b>CPIL</b>	39139	4841	5245	5660	6110	31.2%	30.1%	30.3%	30.4%	1035	1057	1148	1244
<b>HUL</b>	548136	47028	51593	55871	60432	24.7%	25.6%	26.2%	26.5%	8187	9284	10445	11326
<b>Dabur</b>	102182	9562	10843	11923	13232	20.9%	21.4%	22.0%	22.4%	1693	1919	2152	2443

Company	ROCE (%)				P/E (x)			
	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
<b>CPIL</b>	118.4	182.2	161.5	192.2	37.9	37.1	34.1	31.5
<b>HUL</b>	27.5	18.5	20.0	21.4	67.0	59.0	53.1	48.4
<b>Dabur</b>	44.3	51.3	55.2	61.9	60.2	53.0	47.4	41.9

(Source: Company, HDFC sec)



# Colgate-Palmolive (India) Ltd.

## Financials

### Income Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Net Revenues</b>	4462	4525	4841	5245	5660	6110
Growth (%)	6.6	1.4	7.0	8.3	7.9	7.9
Operating Expenses	3226	3323	3332	3667	3946	4252
<b>EBITDA</b>	<b>1236</b>	<b>1202</b>	<b>1510</b>	<b>1578</b>	<b>1714</b>	<b>1858</b>
Growth (%)	11.1	-2.8	25.6	4.5	8.6	8.4
<b>EBITDA Margin (%)</b>	<b>27.7</b>	<b>26.6</b>	<b>31.2</b>	<b>30.1</b>	<b>30.3</b>	<b>30.4</b>
Depreciation	159	198	183	199	216	233
<b>EBIT</b>	<b>1077</b>	<b>1004</b>	<b>1327</b>	<b>1379</b>	<b>1498</b>	<b>1625</b>
Other Income	68	49	30	40	40	40
Interest expenses	0	3	10	7	5	3
PBT	1143	1043	1350	1413	1535	1662
Tax	367	227	315	356	386	418
<b>APAT</b>	<b>750</b>	<b>816</b>	<b>1035</b>	<b>1057</b>	<b>1148</b>	<b>1244</b>
Growth (%)	10.1	8.8	26.8	2.1	8.6	8.3
<b>EPS</b>	<b>27.6</b>	<b>30.0</b>	<b>38.0</b>	<b>38.8</b>	<b>42.2</b>	<b>45.7</b>

### Balance Sheet

As at March	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCE OF FUNDS</b>						
Share Capital	27	27	27	27	27	27
Reserves	1420	1567	1133	1156	1188	1234
<b>Shareholders' Funds</b>	<b>1447</b>	<b>1594</b>	<b>1160</b>	<b>1183</b>	<b>1215</b>	<b>1261</b>
Long Term Debt	78	0	0	0	0	0
Short Term Debt	777	0	0	0	0	0
Net Deferred Taxes	31	5	-5	-5	-5	-5
Other Non-current Liabilities	20	152	110	110	110	110
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Total Source of Funds</b>	<b>1575</b>	<b>1751</b>	<b>1265</b>	<b>1288</b>	<b>1321</b>	<b>1367</b>
<b>APPLICATION OF FUNDS</b>						
Net Block	1191	1123	1065	1065	1049	1016
CWIP	199	190	145	145	145	145
Other Non-Current Assets	230	299	332	360	390	422
<b>Total Non-Current Assets</b>	<b>1619</b>	<b>1612</b>	<b>1541</b>	<b>1570</b>	<b>1584</b>	<b>1583</b>
Inventories	249	297	336	364	394	426
Trade Receivables	210	133	117	127	137	148
Cash & Equivalents	431	440	857	573	657	775
Other Current Assets	118	123	18	20	22	24
<b>Total Current Assets</b>	<b>1007</b>	<b>992</b>	<b>1328</b>	<b>1084</b>	<b>1209</b>	<b>1372</b>
Trade Payables	613	613	760	837	901	971
Other Current Liab & Provisions	438	240	844	529	572	618
<b>Total Current Liabilities</b>	<b>1051</b>	<b>853</b>	<b>1604</b>	<b>1366</b>	<b>1472</b>	<b>1589</b>
Net Current Assets	-44	139	-276	-282	-263	-216
<b>Total Application of Funds</b>	<b>1575</b>	<b>1751</b>	<b>1265</b>	<b>1288</b>	<b>1321</b>	<b>1367</b>



# Colgate-Palmolive (India) Ltd.

## Cash Flow Statement

(Rs Cr)	FY19	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	1112.0	1043.4	1350.3	1413.1	1534.7	1662.0
Non-operating & EO items	4.0	-10.8	0.0	0.0	0.0	0.0
Interest Expenses	-27.2	-15.8	7.3	5.3	3.5	3.1
Depreciation	159.2	197.9	182.5	199.3	216.1	232.9
Working Capital Change	149.4	-3.5	828.8	-282.3	60.0	66.3
Tax Paid	-414.4	-321.3	-325.7	-355.7	-386.3	-418.3
<b>OPERATING CASH FLOW ( a )</b>	<b>983.0</b>	<b>889.9</b>	<b>2043.1</b>	<b>979.7</b>	<b>1428.0</b>	<b>1546.0</b>
Capex	-104.2	-60.4	-79.2	-200.0	-200.0	-200.0
Free Cash Flow	878.8	829.5	1963.9	779.7	1228.0	1346.0
Investments	0.0	0.7	0.0	0.0	0.0	0.0
Non-operating income	8.5	41.0	-28.7	-23.9	-24.7	-26.7
<b>INVESTING CASH FLOW ( b )</b>	<b>-95.7</b>	<b>-18.7</b>	<b>-107.9</b>	<b>-223.9</b>	<b>-224.7</b>	<b>-226.7</b>
Debt Issuance / (Repaid)	0.0	0.0	0.0	0.0	0.0	0.0
Interest Expenses	0.0	0.0	-7.3	-5.3	-3.5	-3.1
FCFE	887.3	871.2	1935.3	755.8	1203.3	1319.3
Share Capital Issuance	0.0	0.0	0.0	0.0	0.0	0.0
Dividend	-791.6	-843.3	-1469.9	-1034.4	-1116.0	-1197.7
Others	-23.1	-8.1	-7.6	-5.6	-3.8	-3.5
<b>FINANCING CASH FLOW ( c )</b>	<b>-814.7</b>	<b>-851.4</b>	<b>-1477.5</b>	<b>-1040.0</b>	<b>-1119.8</b>	<b>-1201.2</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>72.6</b>	<b>19.8</b>	<b>457.8</b>	<b>-284.2</b>	<b>83.5</b>	<b>118.2</b>

## Key Ratios

Particulars	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Profitability Ratios (%)</b>						
EBITDA Margin	27.7	26.6	31.2	30.1	30.3	30.4
EBIT Margin	24.1	22.2	27.4	26.3	26.5	26.6
APAT Margin	16.8	18.0	21.4	20.2	20.3	20.4
RoE	50.5	53.7	75.2	90.3	95.8	100.4
RoCE	67.3	64.9	118.4	182.2	161.5	192.2
<b>Solvency Ratio (X)</b>						
Net Debt/EBITDA	(0.3)	(0.4)	(0.6)	(0.4)	(0.4)	(0.4)
Net D/E	(0.2)	(0.3)	(0.7)	(0.5)	(0.5)	(0.6)
<b>Per Share Data (in Rs.)</b>						
EPS	27.6	30.0	38.0	38.8	42.2	45.7
CEPS	33.4	37.3	44.7	46.2	50.1	54.2
BV	53.2	58.6	42.6	43.5	44.6	46.3
Dividend	16.0	28.0	38.0	38.0	41.0	44.0
<b>Turnover (Days)</b>						
Debtor days	17.2	10.7	8.8	8.8	8.8	8.8
Inventory days	20.3	24.0	25.3	25.4	25.4	25.4
Creditors days	50.2	49.4	57.3	58.2	58.1	58.0
Cash Conversion (days)	(38.8)	(24.2)	(85.4)	(59.5)	(59.3)	(59.2)
<b>Valuation</b>						
P/E	52.2	48.0	37.8	37.1	34.1	31.5
P/BV	27.1	24.6	33.8	33.1	32.2	31.1
EV/EBITDA	31.4	32.2	25.4	24.5	22.5	20.7
EV / Revenues	8.7	8.6	7.9	7.4	6.8	6.3
Dividend Yield (%)	1.1	1.9	2.6	2.6	2.8	3.1



# Colgate-Palmolive (India) Ltd.

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This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

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This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

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This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical nature of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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