

# COLGATE-PALMOLIVE (INDIA)



## Large Rhino

Swiftest Performers  
Among Heavy Weights

BSE Code : **500830**

Time Duration : **18 months**

CMP : **₹1,298.35 (as on 28 May 2020)**

Target Price : **₹1,570**

Large Rhino for the month of May 2020 is Colgate-Palmolive, a leading multi-national consumer products company, focussed on the production and distribution of oral care as well as personal care products. The company enjoys a leadership position in Indian toothpaste market with a dominating share of nearly 50 per cent. The product range of the company can be broadly classified into:

**Oral care:** Under this segment, the company offers products like toothpaste, toothbrush, tooth powder & tooth whitening products. The oral care segment contributes over 90 per cent of the company's sales. The company is also involved in the personal care segment, where it offers product in skin care, hair care, body wash and shaving creams.

**Household care:** It has launched a brand with the name-AXIOM, which is a dish washing paste.

**For dentists:** Under this, the company provides products like Gingivitis treatment, Colgate sensitive treatment, tooth whitening, Fluoride therapy, mouth ulcer treatment and speciality cleaning.

## Increasing distribution reach to aid revenue

Colgate has been focussing on four different channels of distribution, such as modern trade, e-commerce, direct reach and Kirana stores. It has a different strategy for each channel. Meanwhile, the company's household penetration improved by 300 bps in Q1CY20. In the modern trade, the company's key area of focus is to supply products as per consumer needs (especially urban) and generate demand in stores with the help of promotions and activations. Colgate's share in the modern trade has increased by 160 bps in Q1CY20. Notably, this modern trade channel has grown almost two times over the last five years.

In terms of e-commerce channel, Colgate has a separate dedicated team handling its e-commerce sales, which has witnessed robust growth in the recent period. It has a distinctive product portfolio for e-commerce partners. Colgate's share in the e-commerce channel has increased by nearly 200 bps in Q1CY20, as against Q1CY19. This online channel has grown by seven-fold from 2016 to 2019.

## New launches witnessing traction

The company's management has been aggressively focussing on the new launches in the recent period. To capitalise the opportunity arising from an increasing preference for Ayurvedic products, the company has been focussing on its Ayurvedic variants namely, Cibaca Vedshakti and Swarna Vedshakti in North India and South India, respectively. The recently-launched products have been witnessing a strong traction in the market. Colgate Charcoal Clean has gained nearly one per cent market share within three months, led by an aggressive push in the modern trade and digital push. Colgate Vedshakti has been performing well riding on Ayurveda trend, as the naturals segment is growing faster than the core toothpaste segment. The company has also launched various other products such as Colgate 'zero per cent artificial' kids' toothpaste. Along with, natural toothbrushes with Neem and Charcoal brushes as well as launching Colgate Bamboo toothbrush with zero plastic packaging. Palmolive portfolio is also gaining traction. The company has launched Palmolive Luminous oils liquid handwash and Palmolive hand sanitisers, which are witnessing good demand due to the pandemic situation.

## Focus on new sub-segments

Colgate is creating sub-categories by introducing campaigns for kids such as 'making brushing fun'. Under the campaign, it leveraged kids' cartoon characters to attract young children to the product. The company ran exciting promotions and employed innovative ideas such as glow-in-the dark tubes to make an impression on kids. Colgate Strong Teeth – India's no.1 brand was relaunched with new Amino Shakti, making its best ever formulation to give unbeatable strength to teeth. In the cooling freshness space, the company continued its innovation sprint and relaunched Colgate Max Fresh with long lasting freshness in the domestic market. Further, nearly 30 per cent of Indian children brush twice and only 20 per cent in urban areas are doing the same, which gives further headroom for

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Colgate to grow in this segment.

### Financial performance

Net Sales for the year ended March 31, 2020 was recorded at Rs 4,487.6 crore with a marginal increase of 1.2 per cent from its corresponding period of the previous year. Net profit for the year was at Rs 816.5 crore as against Rs 775.6 crore for the previous year. In the recently concluded quarter (Q4FY20), the company's sales were down by 7.4 per cent YoY to Rs 1,062.35 crore, owing to the nationwide lockdown. EBITDA during the period dipped by 15.3 per cent YoY to Rs 262.87 crore. PAT for the quarter came in at Rs 204.15 crore, with YoY increase of 3.3 per cent. This was due to a nearly 64 per cent YoY increase in other income and a lower effective tax rate in Q4FY20. In terms of return ratios, the company's ROCE and ROE stands strong at 66 per cent and 51.22 per cent, respectively.

### Valuation and outlook

The company has been regaining its market share across its portfolio and in the recent quarter, its market share was up by almost 80 bps YoY. Notably, the company holds strong cash & equivalents of Rs 480 crore. Also, the company has been paying consistent dividends to shareholders and at the current price, it gives a dividend yield of almost 2.2 per cent. Oral care being an essential category is likely to recover quickly and the revenue loss caused due to the channel disruption will be minimal. The company has been focussing on new launches, which are expected to continue this momentum in the coming years also. With a strong distribution reach, Colgate is expected to maintain its leadership position in the domestic toothpaste market. The penetration of toothpaste in India stands at 80 per cent, which gives decent headroom for expansion. The company has strong return ratios with ROCE and ROE standing strong at 66 per cent and 51.22 per cent, respectively. The stock is currently available at 43x P/E, which is close to its ten-year median P/E of 40.8x. Considering all these factors, we recommend a BUY on the stock with a potential target of Rs 1,570 thereby, representing a potential upside of almost 21 per cent.

#### Inc/Exp Statement (Standalone)

Description	202003	201903	201803	201703	201603
Net Sales	4487.57	4462.43	4187.98	3981.82	3868.19
Total Income	4574.33	4500.09	4225.45	4022.94	3907.70
Total Expenditure	3323.40	3226.37	3074.26	3038.27	2929.67
PBIDT	1250.93	1273.71	1151.19	984.67	978.04
PAT	816.47	775.57	673.37	577.43	581.17
Dividend %	2800.00	2300.00	2400.00	1000.00	1000.00
Adj. EPS(Rs)	30.02	28.52	24.76	21.23	21.37

#### Quarter On Quarter (Standalone)

Particulars	202003	201912	Q on Q Var %	201903	Y on Y Var %
Net Sales	1062.35	1136.02	-6.48	1146.63	-7.35
Total Expenditure	808.39	831.12	-2.73	843.31	-4.14
PBIDT (Excl OI)	262.87	316.05	-16.83	310.44	-15.32
PAT	204.15	199.10	2.54	197.59	3.32
PBIDTM% (Excl OI)	24.54	27.55	-10.93	26.91	-8.81
PBIDTM%	26.37	28.06	-6.02	27.94	-5.62
PATM%	19.06	17.36	9.79	17.13	11.27
Adj. EPS(Rs)	7.51	7.32	2.60	7.26	3.44

## Stock vs. Index



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