

Q2FY24 Results above expectations; Continue to Accumulate;

Q2FY24 Result Update | Sector: FMCG | October 27, 2023

ACCUMULATE

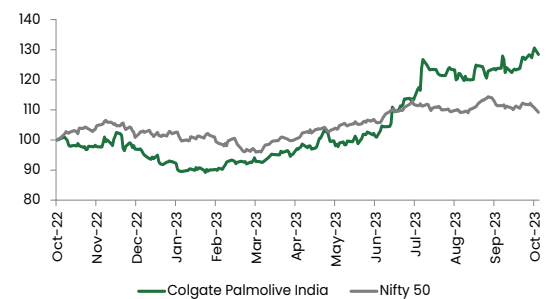
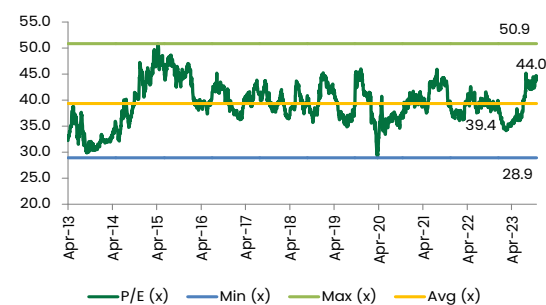
CMP (Rs)	2,034
Target Price (Rs)	2,289
Potential Upside	12.6%
Sensex	63,148
Nifty	18,857

Key Stock data

BSE Code	500830
NSE Code	COLPAL
Bloomberg	CLGT IN
Shares o/s, Cr (FV 1)	27.2
Market Cap (Rs Cr)	55,332
3M Avg Volume	531894
52 week H/L	2,129/1,435

Shareholding Pattern

(%)	Mar-23	Jun-23	Sep-23
Promoter	51.0	51.0	51.0
FII	21.5	21.8	24.1
DII	7.6	7.8	5.9
Others	19.9	19.4	19.0

1 Year relative price performance

1 year P/E Forward (x)

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Revenue growth tad better than expectation: Colgate Palmolive India reported single digit sales growth of 6.1% YoY led by domestic sales growth of 6.6% YoY while sequentially the company's revenue grew by 11.1%. The growth was led by its toothpaste segment which witnessed higher single-digit growth.

Robust improvement on margin: Colgate's Q2FY24 gross profit grew by 14.4% YoY and 11.7% QoQ to Rs 1,011.7cr with improvement in margin by 502bps YoY and 34bps QoQ to 68.8% led by moderation of raw material prices. Despite significant increase in advertising expense by 30.2% YoY and 13.6% QoQ, EBITDA too saw healthy growth of 18.2% YoY and 15.3% QoQ to Rs 482.1cr with margin at 32.8%, which improved by 337bps YoY and 119bps QoQ. Further, the robust improvement was because of operating efficiency measures taken by the company as well as decline in other expenses. Further, PAT grew by 22.3% YoY and 24.3% QoQ to Rs 340.1cr with increase in margins by 308bps YoY and 244bps to 23.1%.

Strong 1HFY24 performance: In 1HFY24, its revenue grew by 8.1% YoY to Rs 2,794.8cr led by growth in toothpaste category. On profit & margins, Gross profit grew by 14.2% YoY with improvement of 367bps on gross margin which came in at 68.6% as raw material expense declined by 3.2% YoY in 1HFY24. Further, Its EBITDA grew by 22.7% YoY with margin at 32.3%, an increase of 382bps YoY because of operating efficiency and overall expense just increased by 2% YoY. Moreover, in 1HFY24, PAT & PAT margin grew by 25.8% and 309bps as compared to 1HFY23.

Key highlights: 1) The company has relaunched Colgate strong teeth toothpaste and is focused on expanding reach and availability. 2) Also, in toothpaste it relaunched Colgate Max fresh with proprietary freshness technology. 3) In the toothbrush category, they have restaged Colgate Zig Zag with focus on its core purpose of deep and interdental cleaning. 4) The Board has declared a First Interim Dividend of Rs.22/equity share of face value of Re. 1/each.

Outlook & Valuation: We believe Colgate would continue to lead the oral care segment despite tough competition and growth will be driven by strengthening their brand portfolio, invest in launching and relaunching products and focus on expanding reach to both rural & urban consumers. In addition, strong parent support, usage of advanced technology for innovating products as well as increasing brand recall value by spending on advertisements bodes well for its growth. Financially, we have estimated its Revenue/EBITDA/PAT to grow at a 8%/14.2%/15% CAGR over FY23-25E and maintain our **Accumulate** rating but have revised the target price upwards to **Rs 2,289**.

Financial Summary - standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	5,099.8	5,226.2	5,644.3	6,095.8
EBITDA	1,566.0	1,547.0	1,796.3	2,019.2
EBITDAM (%)	30.7	29.6	31.8	33.1
APAT	1,078.3	1,047.2	1,225.6	1,383.9
APATM (%)	21.1	20.0	21.7	22.7
EPS (Rs)	39.6	38.5	45.1	50.9
PE (x)	51.3	52.8	45.1	40.0
RoE (%)	62.2	61.0	66.1	64.4

Source : RBL Research

Revenue grew by 6% YoY led by domestic growth of 6.6% YoY

Margin improved driven by pricing and efficiencies

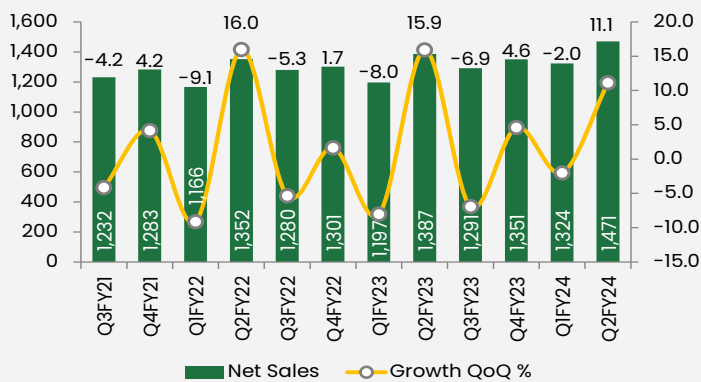
P&L Account Quarterly - standalone

Particulars, Rs cr	Q2FY24	Q2FY23	Y-o-Y (%)	Q1FY24	Q-o-Q (%)
Net Sales	1,471.1	1,387.5	6.0	1,323.7	11.1
Cost of Raw Materials	369.9	406.2	(8.9)	365.6	1.2
Purchase of Finished Goods	70.4	85.4	(17.6)	58.8	19.7
(Increase) / Decrease In Stocks	19.1	11.3	69.4	(6.5)	(396.6)
Total Raw material cost	459.4	502.9	(8.6)	417.9	9.9
Gross Profit	1,011.7	884.6	14.4	905.8	11.7
Gross Margins %	68.8	63.8	502bps	68.4	34bps
Employee Cost	106.2	94.5	12.4	95.8	10.9
Advertisement exp.	206.0	158.2	30.2	181.3	13.6
Other Expense	217.3	223.8	(2.9)	210.6	3.2
Total Expenditure	529.5	476.6	11.1	487.7	8.6
EBITDA	482.1	408.0	18.2	418.1	15.3
EBITDA Margins (%)	32.8	29.4	337bps	31.6	119bps
Depreciation	44.3	43.9	1.0	43.8	1.2
EBIT	437.9	364.1	20.2	374.4	17.0
Other Income	21.0	11.3	86.3	15.0	40.3
Interest	1.1	1.3	(17.3)	1.1	(1.9)
PBT	457.8	374.1	22.4	388.3	17.9
Exceptional	-	-	-	(19.5)	-
PBT	457.8	374.1	22.4	368.8	24.1
Tax	117.8	96.1	22.5	95.1	23.9
PAT	340.1	278.0	22.3	273.7	24.3
PAT Margin (%)	23.1	20.0	308bps	20.7	244bps
EPS (Rs)	12.5	10.2	22.3	10.1	24.3

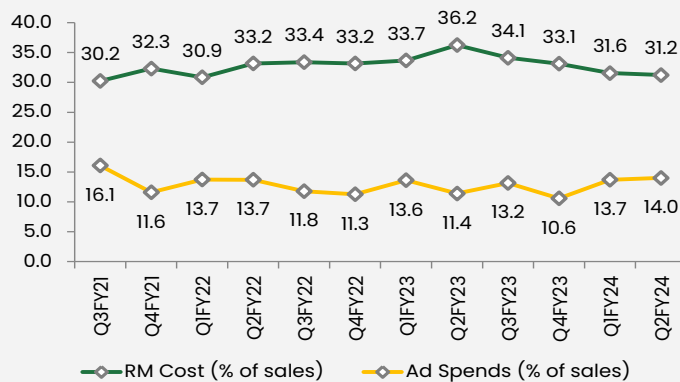
Source : RBL Research

Story in charts

Net Sales (Rs cr) grew by 6% YoY and 11% QoQ

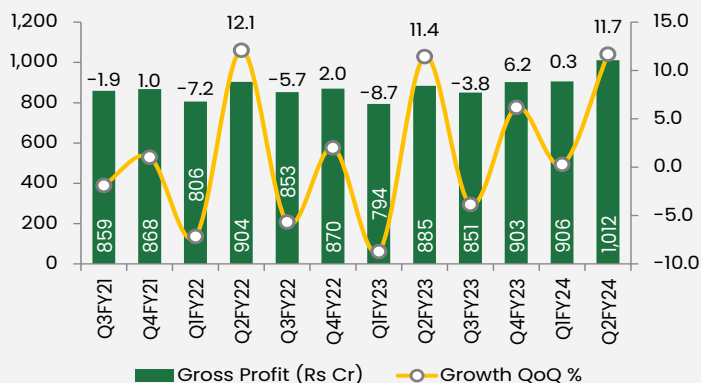


RM cost declined to 31.2% QoQ but Advertisements increased to 14% QoQ

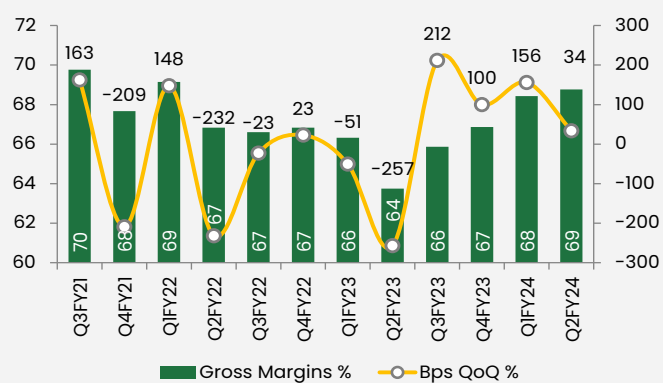


Source : RBL Research

Gross profit grew by 14.4% YoY and 11.7% QoQ

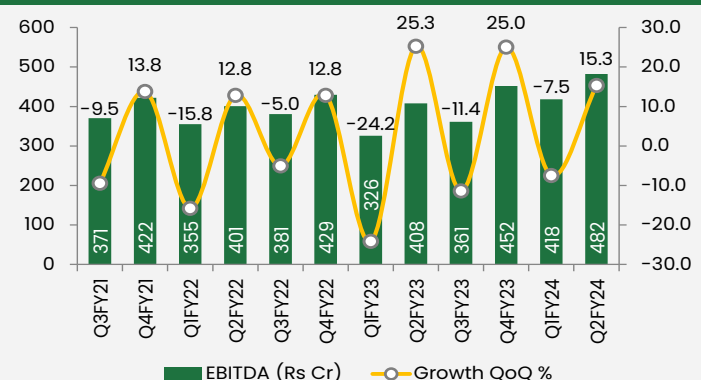


Gross margins improved by 502bps YoY and 34bps QoQ

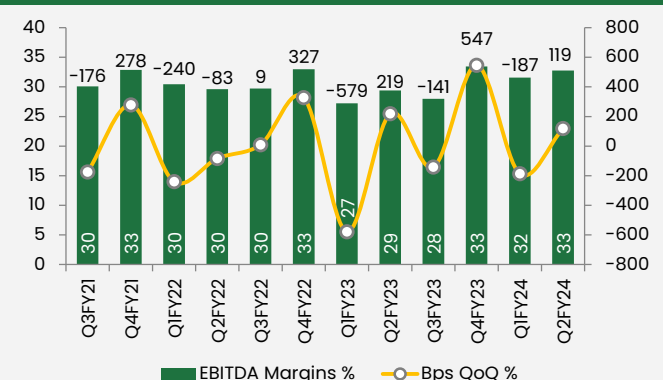


Source : RBL Research

EBITDA improved by 18.2% YoY and 15.3% QoQ

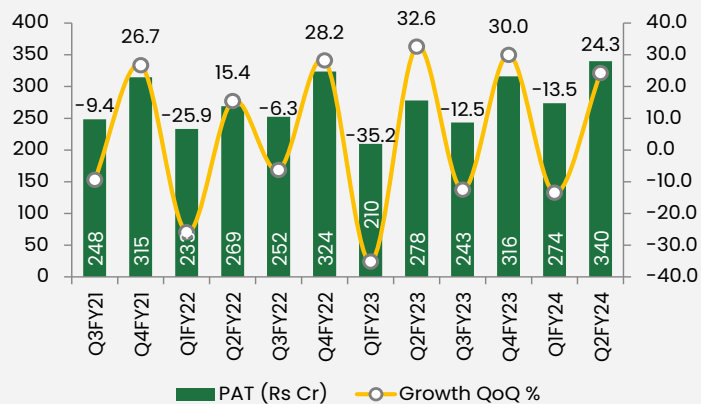


EBITDA margins up by 337bps YoY and 119bps QoQ

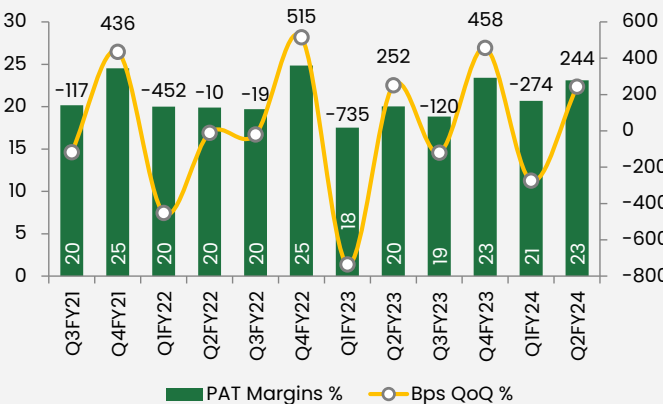


Source : RBL Research

Reported PAT up by 32.3% YoY and 24.3% QoQ



PAT margins up by 308bps YoY and 244bps QoQ



Source : RBL Research

P&L Account – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net sales	5,099.8	5,226.2	5,644.3	6,095.8
Expenditure				
Cost of materials	1,368.0	1,492.5	1,490.1	1,584.9
Purchase of stock in trade	296.1	297.8	310.4	323.1
(Increase) / Decrease In Stocks	3.4	3.9	4.2	4.6
Total raw materials	1,667.5	1,794.2	1,804.8	1,912.6
Gross Profit	3,432.3	3,432.0	3,839.5	4,183.3
Employee cost	385.1	377.0	395.1	426.7
Advertisements cost	643.1	634.1	773.3	822.9
Other expenses	838.1	874.0	874.9	914.4
Total expenditure	1,866.3	1,885.0	2,043.2	2,164.0
EBITDA	1,566.0	1,547.0	1,796.3	2,019.2
EBITDAM (%)	30.7	29.6	31.8	33.1
Depreciation	177.3	174.8	188.8	203.9
EBIT	1,388.6	1,372.2	1,607.5	1,815.4
Other income	26.3	53.6	57.9	62.5
Interest expenses	5.9	4.9	4.9	4.9
PBT	1,409.0	1,420.9	1,660.5	1,872.9
Tax	330.7	362.5	423.6	477.9
Reported PAT	1,078.3	1,058.4	1,236.8	1,395.1
Exceptional Income / Expenses	0.0	-11.2	-11.2	-11.2
PAT (after Exceptional)	1,078.3	1,047.2	1,225.6	1,383.9
PAT Margin %	21.1	20.0	21.7	22.7
EPS (Rs)	39.6	38.5	45.1	50.9

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	27.2	27.2	27.2	27.2
Reserves & Surplus	1,707.5	1,689.2	1,826.8	2,122.7
Total Shareholder's Fund	1,734.7	1,716.4	1,854.0	2,149.9
Long term provision	14.0	23.6	25.5	27.5
Other long term liabilities	70.7	58.4	63.1	68.1
Total	84.7	82.0	88.5	95.6
Current Liabilities				
Trade payables	771.4	761.1	822.0	887.8
Short term provisions	84.0	90.5	97.8	105.6
Other current liabilities	227.1	233.0	251.6	271.8
Total	1,082.5	1,084.6	1,171.4	1,265.1
Total liabilities	2,901.8	2,883.0	3,113.9	3,510.6
Application of Assets				
Net Block	963.0	861.8	887.7	914.3
Current work in process	121.8	114.1	114.1	114.1
Tax assets	17.3	28.8	31.1	33.6
Long term loans and advances	1.3	0.9	1.0	1.1
Other non-current assets	315.5	329.5	355.8	384.3
Total	1,419.0	1,335.1	1,389.7	1,447.4
Current Assets				
Inventories	357.2	335.5	362.3	391.3
Trade receivables	224.7	157.4	170.0	183.6
Cash balance	724.1	806.1	943.6	1,239.8
Bank balance	30.7	116.9	105.7	94.5
Short term loans and advances	107.3	87.6	94.6	102.2
Other current assets	39.0	44.5	48.0	51.9
Total	1,482.9	1,547.9	1,724.2	2,063.2
Total assets	2,901.8	2,883.0	3,113.9	3,510.6

Source : RBL Research

Cashflow – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Profit before tax	1,409.0	1,420.9	1,660.5	1,872.9
Add: Depreciation	177.3	174.8	188.8	203.9
Add: Interest cost	5.9	4.9	4.9	4.9
Less: Other Income /Interest Rec	(21.9)	(41.0)	(42.8)	(46.2)
Others	10.3	6.5	-	-
Operating profit before working capital changes	1,580.6	1,566.1	1,811.3	2,035.5
Changes in working capital	415.1	(8.9)	14.6	15.8
Cash from Operations	1,995.6	1,557.1	1,825.9	2,051.3
Less: Taxes	(369.9)	(380.9)	(423.6)	(477.9)
Cash flow from Operations	1,625.7	1,176.3	1,402.3	1,573.4
Net cash used in Investing				
Purchase of fixed assets	(49.6)	(70.1)	(214.6)	(230.5)
Sales of fixed assets	0.1	0.6	-	-
Dividend Income	20.6	37.4	42.8	46.2
Others	(78.7)	24.5	-	-
Cash flow from investing	(107.6)	(7.5)	(171.8)	(184.3)
Cash flow from Financing				
Dividend (Incl dividend tax)	(1,057.2)	(1,057.5)	(1,088.0)	(1,088.0)
Others	(33.4)	(29.3)	(4.9)	(4.9)
Cash flow from Financing	(1,090.6)	(1,086.7)	(1,092.9)	(1,092.9)
Net cash Inflow/Outflow	427.5	82.0	137.6	296.2
Opening cash	296.6	724.1	806.1	943.6
Closing Cash	724.1	806.1	943.6	1,239.8

Source : RBL Research

Key ratios – standalone

Particulars	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	39.6	38.5	45.1	50.9
Book value per share (Rs)	63.8	63.1	68.2	79.0
Dividend per share (Rs)	38.9	38.9	40.0	40.0
Dividend Payout %	98.0	101.0	88.8	78.6
Dividend Yield %	1.9	1.9	2.0	2.0
Profitability Ratios				
EBITDAM(%)	30.7	29.6	31.8	33.1
PBTM (%)	27.6	27.2	29.4	30.7
NPM (%)	21.1	20.0	21.7	22.7
RoE (%)	62.2	61.0	66.1	64.4
RoCE (%)	80.1	79.9	86.7	84.4
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	235.4	279.5	327.4	369.7
Fixed Asset Ratio	0.2	0.2	0.2	0.1
Debtors (Days)	16.1	11.0	11.0	11.0
Inventory (Days)	25.6	23.4	23.4	23.4
Payable (Days)	55.2	53.2	53.2	53.2
WC (Days)	-13.6	-18.7	-18.7	-18.7
Valuation				
P/E (x)	51.3	52.8	45.1	40.0
P/BV	31.9	32.2	29.8	25.7
EV/EBITDA	34.9	35.2	30.3	26.8
EV/Sales	10.7	10.4	9.6	8.9

Source : RBL Research

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Statements on ownership and material conflicts of interest, compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Yes	No
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) below, are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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