

SELL Colgate-Palmolive**In-line operations; muted volume growth a concern**Consumer Goods ▶ Result Update ▶ **October 26, 2023****TARGET PRICE (Rs): 1,800**

Our negative stance on Colgate is on account of the missing structural narrative. After the mid-single-digit volume growth jubilation in Q1FY24 (on a low base and buoyed by planned product relaunches), the company is likely to have seen flat volume growth for Q2FY24E (4Y CAGR of only 1%). In Q2FY24, Colgate India reported in-line EBITDA, with ~18% growth YoY, wherein the revenue miss was offset by a surprise on margin. Revenue growth at 6% missed our estimate by 3%, mainly due to likely flat volume growth (vs expectations of 3% volume growth, on -3% growth in Q2FY23). EBITDA margin expanded by 335bps YoY and 120bps QoQ to 32.8%. Earnings growth at 22% came in 3% better than our estimate, driven by higher other income. We maintain SELL on the stock with Sep-24E TP of Rs1,800/share (on 35x P/E).

Colgate-Palmolive: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	50,998	52,262	57,112	60,949	65,294
EBITDA	15,659	15,470	18,268	19,383	20,836
Adj. PAT	10,783	10,584	12,634	13,450	14,552
Adj. EPS (Rs)	39.6	38.9	46.4	49.4	53.5
EBITDA margin (%)	30.7	29.6	32.0	31.8	31.9
EBITDA growth (%)	3.7	(1.2)	18.1	6.1	7.5
Adj. EPS growth (%)	4.1	(1.9)	19.4	6.5	8.2
RoE (%)	74.4	61.3	70.6	69.4	69.7
RoIC (%)	187.2	125.9	195.6	275.9	428.4
P/E (x)	51.3	52.3	43.8	41.1	38.0
EV/EBITDA (x)	34.9	35.2	29.6	27.8	25.7
P/B (x)	31.9	32.2	29.7	27.5	25.6
FCFF yield (%)	3.0	2.1	2.6	2.7	3.0

Source: Company, Emkay Research

Volume (flat YoY) weakness remains our key concern; topline misses by 3%

Colgate India reported 6.1% YoY revenue growth in Q2FY24, with 6.6% domestic growth. Domestic toothpaste revenue growth stood in a high single digit. Growth has been priced, wherein the company has been effecting price hikes across the portfolio. In Q2, it saw price hikes in the premium and kids portfolios. Volume growth is expected to be flat YoY in Q2FY24 (only ~1% volume CAGR in the last four years), despite a low base of 3% volume decline. Notably in Q1FY24, the company saw a mid-single-digit growth when it relaunched *Colgate Strong Teeth*. In Q2FY24, the company re-launched *Colgate Max Fresh* toothpaste and *Colgate Zig Zag* toothbrushes.

Price hikes in a deflationary setting help to quickly recoup gross margin

Colgate India has been effecting price hikes across portfolios (~6% YoY), despite easing in raw material prices (absolute COGS down ~9% YoY in Q2FY24). This resulted in a 500bps YoY gross-margin expansion to 69% in Q2FY24. EBITDA margin expanded by 335bps YoY and 120bps QoQ to 32.8%, standing 90bps better than our expectations. A&P spends increased by 260bps YoY to 14% of sales, with a 30% increase in absolute spends. Overall, EBITDA grew 18% YoY, in line with our estimate. Better than expected, other income (+86% YoY) aided earnings growth at 22%, almost 3% above our estimate.

Valuation ignores structural stress

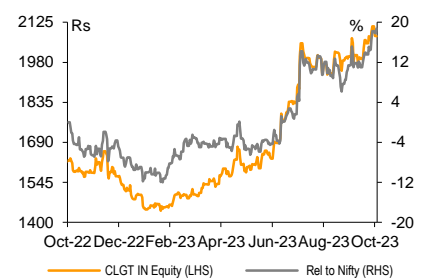
Our detailed update ([link](#)) highlights price actions across portfolios in the last decade; we see pricing as a tool for healthy earnings growth for FY24. Under the guidance of the new CEO, Company has reverted its focus to the core and heightened thrust on science-backed and technologically-superior products. Its strategy so far has aided in premiumizing portfolios, but lacks structural growth. We note that current valuations ignore the stress ahead, given that FY25 will have a high margin base and earnings delivery will be reliant on topline growth. Steady price actions will invite competition, which will have a bearing on market share and structural growth; we retain SELL.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(11.5)
CMP (26-Oct-23) (Rs)	2,034.4

Stock Data	Ticker
52-week High (Rs)	2,129
52-week Low (Rs)	1,435
Shares outstanding (mn)	272.0
Market-cap (Rs bn)	553
Market-cap (USD mn)	6,648
Net-debt, FY24E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,213.8
ADTV-3M (USD mn)	14.6
Free float (%)	49.0
Nifty-50	18,857
INR/USD	83.2
Shareholding, Sep-23	
Promoters (%)	51.0
FPIs/MFs (%)	24.1/5.9

Price Performance

(%)	1M	3M	12M
Absolute	(1.6)	8.0	25.8
Rel. to Nifty	2.6	13.3	17.8

1-Year share price trend (Rs)**Nitin Gupta**nitin.gupta@emkayglobal.com
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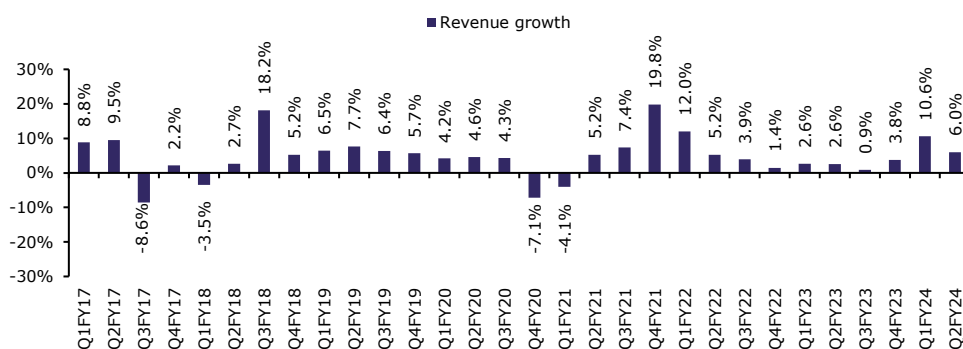
Quarterly performance

Exhibit 1: Assessment of the Colgate's Q2FY24 performance

(Rs mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Total income	13,875	13,237	14,711	6.0	11.1
Cost of goods	5,029	4,179	4,594	(8.6)	9.9
Employee expenses	945	958	1,062	12.4	10.9
A&P spends	1,582	1,813	2,060	30.2	13.6
Other expenses	2,238	2,106	2,173	(2.9)	3.2
EBITDA	4,080	4,181	4,821	18.2	15.3
EBITDA Margin (%)	29.4	31.6	32.8	340bps	120bps
Depreciation	439	438	443	1.0	1.2
EBIT	3,641	3,744	4,379	20.2	17.0
EBIT margin (%)	26.2	28.3	29.8	350bps	150bps
Interest cost	13	11	11	(17.3)	(1.9)
Other income	113	150	210	86.3	40.3
PBT	3,741	3,883	4,578	22.4	17.9
Tax	961	951	1,178	22.5	23.9
Tax rate (%)	25.7	24.5	25.7	0bps	120bps
Non-recurring items	0	-195	0		
PAT	2,780	2,737	3,401	22.3	24.3
Adj Profit	2,780	2,932	3,401	22.3	16.0
NPM (%)	20.0	22.1	23.1	310bps	100bps
EPS (Rs)	10.2	10.8	12.5		

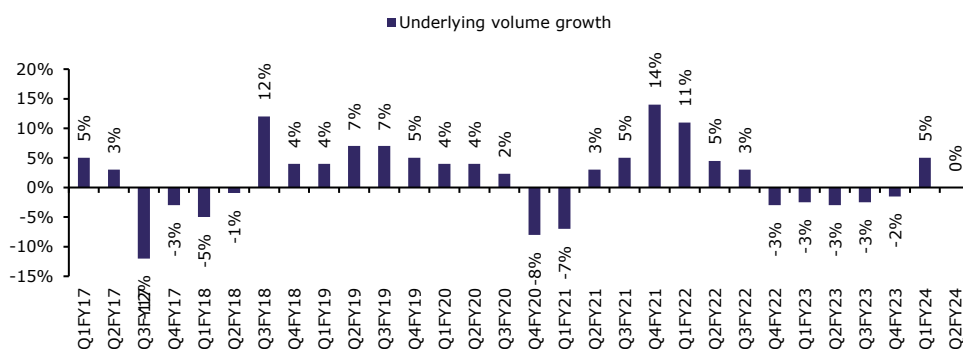
Source: Company, Emkay Research

Exhibit 2: Quarterly revenue growth trends



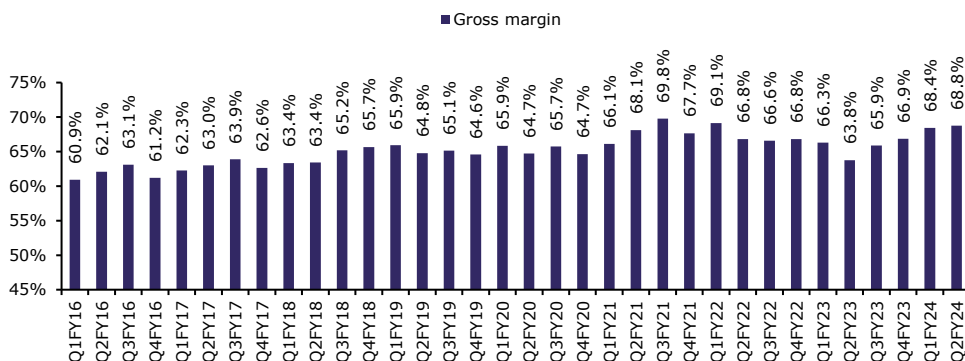
Source: Company, Emkay Research

Exhibit 3: Quarterly volume growth trends



Source: Company, Emkay Research

Exhibit 4: Quarterly gross-margin trend



Source: Company, Emkay Research

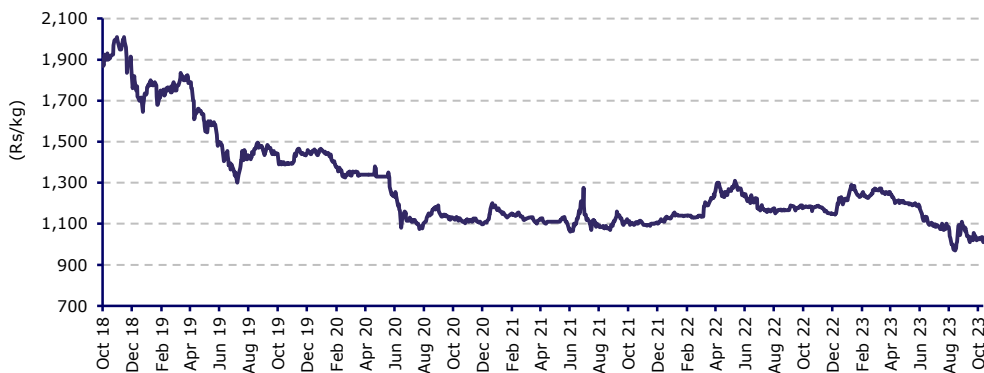
Exhibit 5: Maize price trend



Maize and menthe oil prices are down 13-14% in the last 12 months

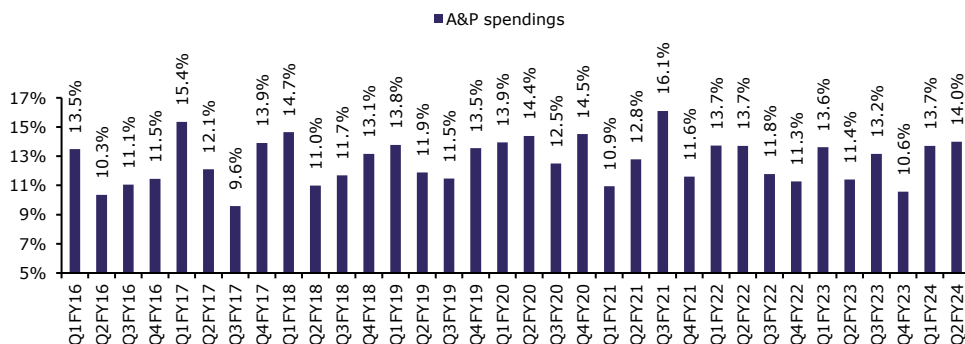
Source: NCDEX, Emkay Research

Exhibit 6: Menthe oil price trend



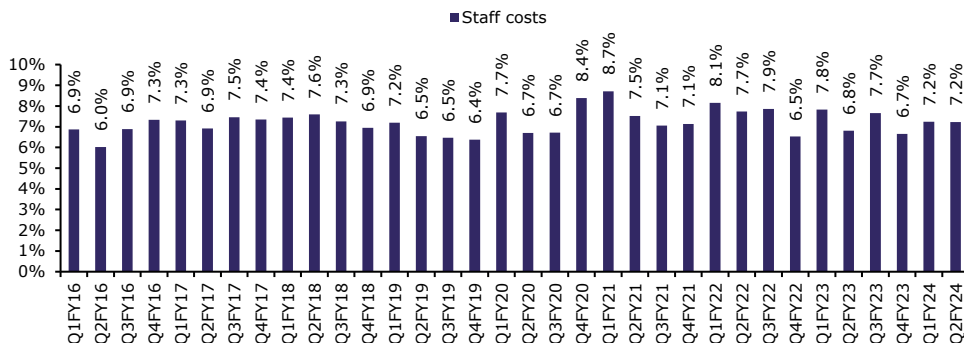
Source: Bloomberg, Emkay Research

Exhibit 7: Quarterly advertising and promotion spending as a % of sales



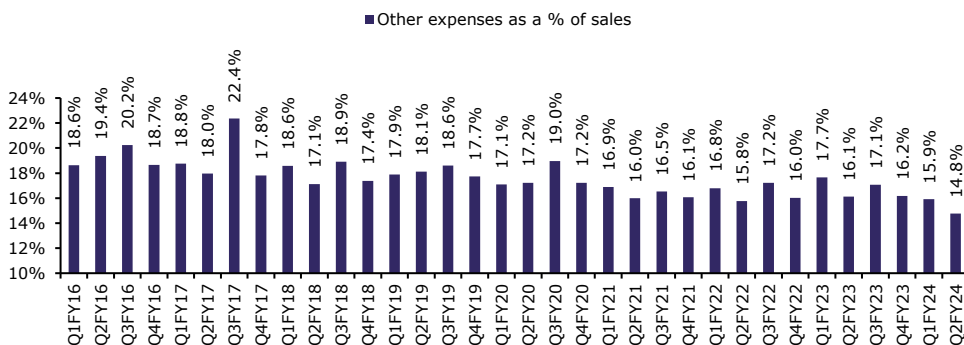
Source: Company, Emkay Research

Exhibit 8: Quarterly staff cost as a % of sales



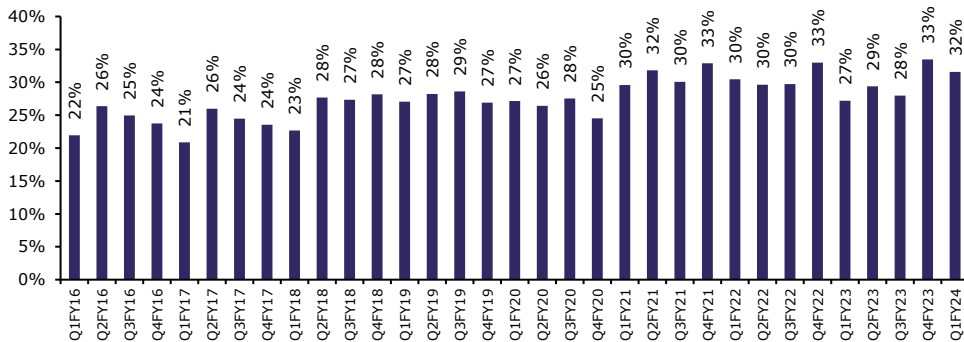
Source: Company, Emkay Research

Exhibit 9: Quarterly other expenses as a % of sales



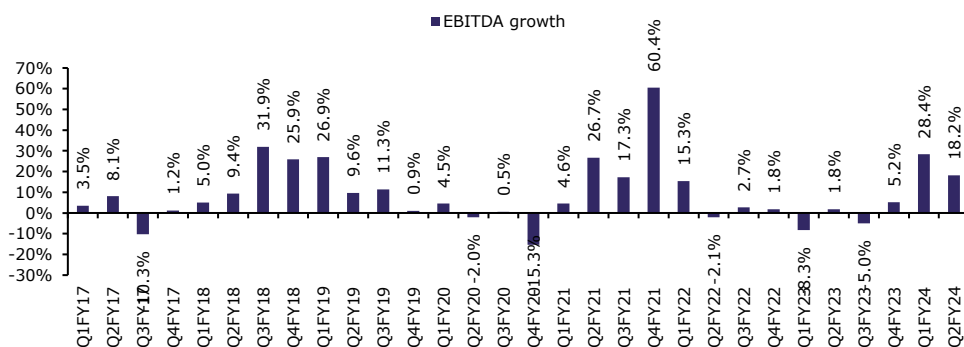
Source: Company, Emkay Research

Exhibit 10: Quarterly EBITDA margin trends



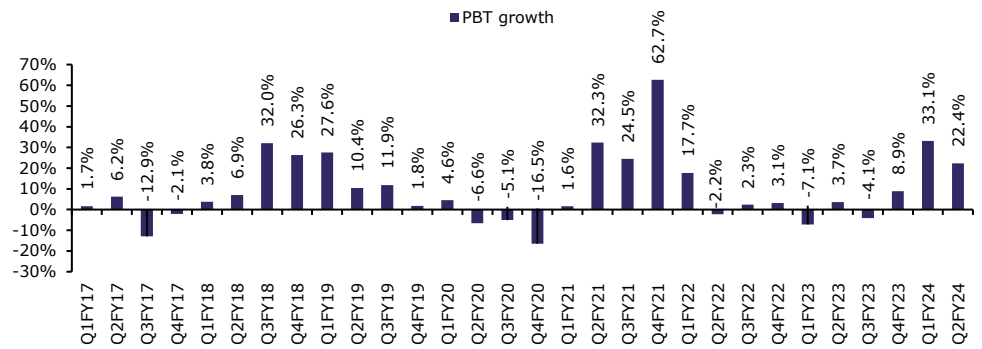
Source: Company, Emkay Research

Exhibit 11: Quarterly EBITDA growth trends



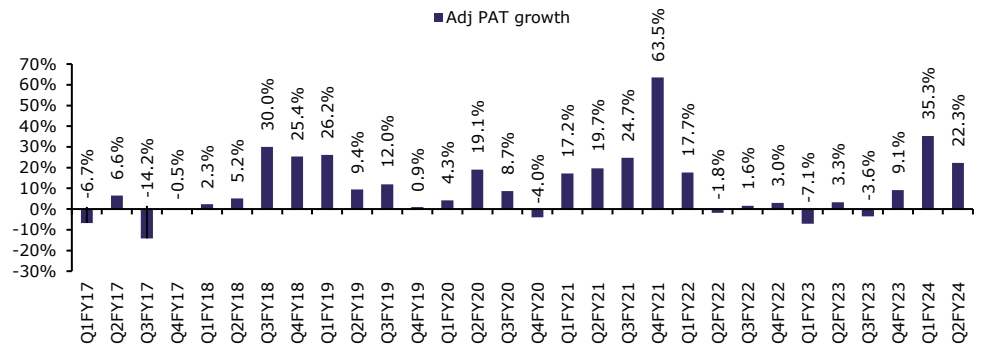
Source: Company, Emkay Research

Exhibit 12: Quarterly profit-before-tax growth trend



Source: Company, Emkay Research

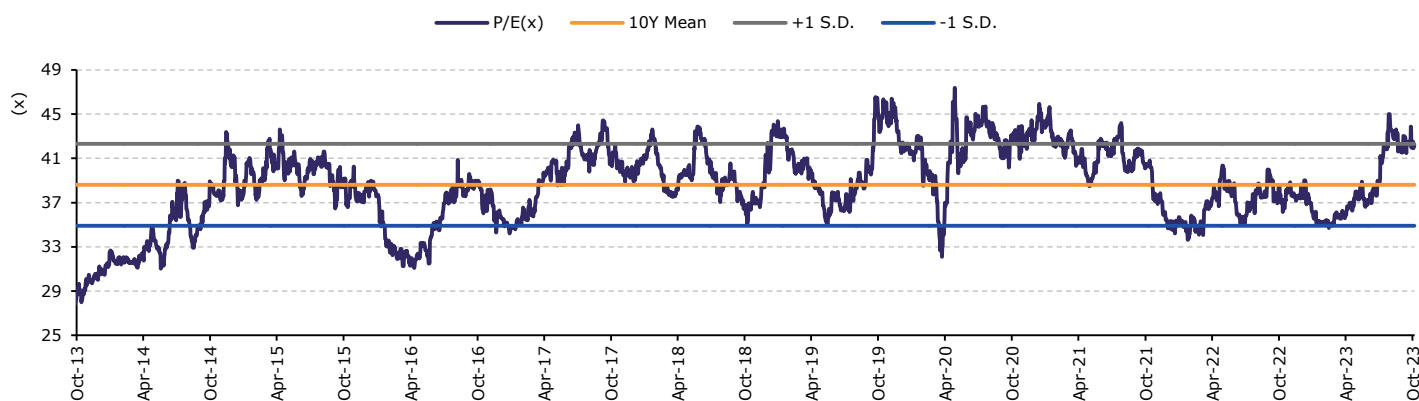
Exhibit 13: Quarterly adjusted PAT growth trend



Source: Company, Emkay Research

Valuations: Sustenance of growth crucial

Exhibit 14: Colgate India's one-year forward P/E



Source: Bloomberg, Emkay Research

Exhibit 15: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales growth	6.6%	1.4%	7.0%	5.3%	2.5%	9.3%	6.7%	7.1%
Toothpaste volume growth	5.8%	1.0%	4.0%	3.5%	-2.5%	4.0%	3.0%	3.0%
Gross margin	65.1%	65.2%	68.0%	67.3%	65.7%	68.5%	68.5%	68.5%
A&P spends as a % of sales	12.7%	13.8%	12.9%	12.6%	12.1%	12.9%	13.2%	13.2%
Employee costs	6.6%	7.3%	7.6%	7.6%	7.2%	6.9%	6.8%	6.8%
EBITDA margin	27.7%	26.6%	31.2%	30.7%	29.6%	32.0%	31.8%	31.9%
EBITDA growth	11.1%	-2.8%	25.6%	3.7%	-1.2%	18.1%	6.1%	7.5%
EBIT growth	12.7%	-6.8%	32.2%	4.6%	-1.2%	19.7%	6.3%	7.9%
PBT growth	11.8%	-6.2%	29.4%	4.4%	0.8%	19.4%	6.5%	8.2%
Effective tax rate	35.4%	21.7%	23.3%	23.5%	25.5%	25.5%	25.5%	25.5%
Adjusted PAT growth	10.4%	13.7%	26.8%	4.1%	-1.9%	19.4%	6.5%	8.2%
EPS (Rs)	26.4	30.0	38.1	39.6	38.9	46.4	49.4	53.5
DPS (Rs)	23.0	29.0	38.0	40.0	39.0	42.0	46.0	50.0
Dividend payout	87%	97%	100%	101%	100%	90%	93%	93%
Avg ROE	48%	54%	75%	74%	61%	71%	69%	70%
Avg ROCE	71%	62%	90%	90%	76%	88%	87%	87%

Source: Company, Emkay Research

Colgate-Palmolive: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	50,998	52,262	57,112	60,949	65,294
Revenue growth (%)	5.3	2.5	9.3	6.7	7.1
EBITDA	15,659	15,470	18,268	19,383	20,836
EBITDA growth (%)	3.7	(1.2)	18.1	6.1	7.5
Depreciation & Amortization	1,773	1,748	1,842	1,916	1,996
EBIT	13,886	13,722	16,426	17,467	18,839
EBIT growth (%)	4.6	(1.2)	19.7	6.3	7.9
Other operating income	289	320	336	360	385
Other income	263	536	582	639	746
Financial expense	59	49	50	51	52
PBT	14,090	14,209	16,958	18,054	19,533
Extraordinary items	0	0	0	0	0
Taxes	3,307	3,625	4,324	4,604	4,981
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,783	10,471	12,634	13,450	14,552
PAT growth (%)	4.1	(2.9)	20.7	6.5	8.2
Adjusted PAT	10,783	10,584	12,634	13,450	14,552
Diluted EPS (Rs)	39.6	38.9	46.4	49.4	53.5
Diluted EPS growth (%)	4.1	(1.9)	19.4	6.5	8.2
DPS (Rs)	39.0	39.0	41.0	44.0	48.0
Dividend payout (%)	98.4	101.3	88.3	89.0	89.7
EBITDA margin (%)	30.7	29.6	32.0	31.8	31.9
EBIT margin (%)	27.2	26.3	28.8	28.7	28.9
Effective tax rate (%)	23.5	25.5	25.5	25.5	25.5
NOPLAT (pre-IndAS)	10,627	10,221	12,238	13,013	14,035
Shares outstanding (mn)	272.0	272.0	272.0	272.0	272.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	14,090	14,209	16,958	18,054	19,533
Others (non-cash items)	103	65	0	0	0
Taxes paid	(3,699)	(3,809)	(4,324)	(4,604)	(4,981)
Change in NWC	4,151	(89)	761	358	534
Operating cash flow	16,257	11,763	14,704	15,137	16,389
Capital expenditure	(495)	(695)	(852)	(909)	(974)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,018	1,014	1,252	1,355	1,414
Investing cash flow	(1,076)	(75)	(270)	(270)	(228)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(225)	(191)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(109)	(102)	(50)	(51)	(52)
Dividend paid (incl tax)	(10,572)	(10,575)	(11,152)	(11,968)	(13,056)
Others	0	0	0	0	0
Financing cash flow	(10,906)	(10,867)	(11,202)	(12,019)	(13,108)
Net chg in Cash	4,275	820	3,233	2,848	3,052
OCF	16,257	11,763	14,704	15,137	16,389
Adj. OCF (w/o NWC chg.)	12,107	11,852	14,794	14,779	15,855
FCFF	15,762	11,068	13,853	14,228	15,415
FCFE	16,721	12,033	15,055	15,533	16,776
OCF/EBITDA (%)	103.8	76.0	80.5	78.1	78.7
FCFE/PAT (%)	155.1	113.7	119.2	115.5	115.3
FCFF/NOPLAT (%)	148.3	108.3	113.2	109.3	109.8

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves & Surplus	17,075	16,892	18,374	19,856	21,352
Net worth	17,347	17,164	18,646	20,128	21,624
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(173)	(288)	(288)	(288)	(288)
Total debt	987	942	976	1,013	1,051
Total liabilities & equity	18,161	17,817	19,334	20,852	22,386
Net tangible fixed assets	9,630	8,618	7,628	6,620	5,598
Net intangible assets	0	0	0	0	0
Net ROU assets	0	0	0	0	0
Capital WIP	1,218	1,141	1,141	1,141	1,141
Goodwill	0	0	0	0	0
Investments [JV/Associates]	281	325	341	357	375
Cash & equivalents	7,547	9,230	12,463	15,310	18,363
Current assets (ex-cash)	10,169	9,228	9,585	9,985	10,295
Current Liab. & Prov.	10,684	10,724	11,824	12,562	13,384
NWC (ex-cash)	(515)	(1,496)	(2,238)	(2,577)	(3,090)
Total assets	18,161	17,817	19,334	20,852	22,386
Net debt	(7,530)	(9,214)	(12,446)	(15,294)	(18,347)
Capital employed	17,191	16,892	18,374	19,856	21,352
Invested capital	9,114	7,122	5,390	4,044	2,508
BVPS (Rs)	63.8	63.1	68.6	74.0	79.5
Net Debt/Equity (x)	(0.4)	(0.5)	(0.7)	(0.8)	(0.8)
Net Debt/EBITDA (x)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	98.2	83.7	96.5	94.7	95.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	51.3	52.3	43.8	41.1	38.0
P/CE(x)	42.8	43.6	37.1	35.0	32.5
P/B (x)	31.9	32.2	29.7	27.5	25.6
EV/Sales (x)	10.8	10.5	9.5	8.9	8.2
EV/EBITDA (x)	34.9	35.2	29.6	27.8	25.7
EV/EBIT(x)	38.2	38.5	32.0	29.9	27.5
EV/IC (x)	58.1	74.2	97.4	129.1	206.9
FCFF yield (%)	3.0	2.1	2.6	2.7	3.0
FCFE yield (%)	3.1	2.2	2.8	2.9	3.1
Dividend yield (%)	1.9	1.9	2.0	2.2	2.4
DuPont-RoE split					
Net profit margin (%)	21.1	20.3	22.1	22.1	22.3
Total asset turnover (x)	3.5	3.1	3.2	3.2	3.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	74.4	61.3	70.6	69.4	69.7
DuPont-RoIC					
NOPLAT margin (%)	20.8	19.6	21.4	21.4	21.5
IC turnover (x)	9.0	6.4	9.1	12.9	19.9
RoIC (%)	187.2	125.9	195.6	275.9	428.4
Operating metrics					
Core NWC days	(71.2)	(49.9)	(49.8)	(50.8)	(50.5)
Total NWC days	(3.7)	(10.5)	(14.3)	(15.4)	(17.3)
Fixed asset turnover	2.5	2.5	2.6	2.7	2.8
Opex-to-revenue (%)	36.6	36.1	36.5	36.7	36.6

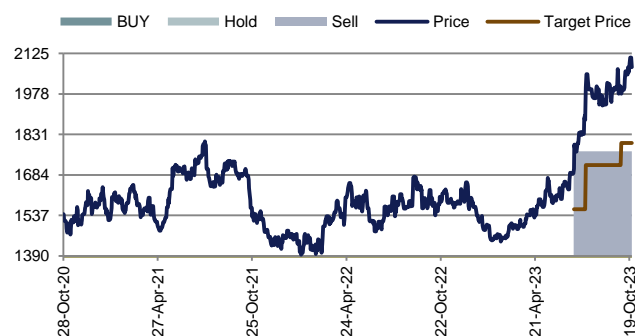
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
24-Oct-23	2,076	1,800	Sell	Nitin Gupta
20-Oct-23	2,111	1,800	Sell	Nitin Gupta
03-Oct-23	1,978	1,800	Sell	Nitin Gupta
28-Aug-23	1,936	1,720	Sell	Nitin Gupta
22-Aug-23	1,940	1,720	Sell	Nitin Gupta
15-Aug-23	1,963	1,720	Sell	Nitin Gupta
27-Jul-23	2,002	1,720	Sell	Nitin Gupta
04-Jul-23	1,705	1,560	Sell	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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