

May 15, 2024

RESULT REPORT Q4 FY24 | Sector: Consumer Staples

Colgate-Palmolive (India)

Healthy 4Q; Margins make new peak

Colgate-Palmolive (India) Ltd. (CLGT) delivered strong operating performance in 4QFY24. Domestic growth stood at 10.7% on the back of robust performance in Toothpaste segment taking the full year growth to 9.5%. The company surprised us positively yet again by delivering highest ever EBITDA margin (EM) in 4QFY24, supported by cost saving initiatives even while it continued to make investments. Recent relaunch/restaging of key brands and activations through campaigns, along with premiumization should continue to support near-term growth with now a much-needed support from rural market recovery. At peak levels, there is limited upside on margin improvement, but we have been surprised earlier as well in FY24. Roll-forward of valuation to March'26E EPS and higher target multiple of ~46x now have led to a revised target price (TP) of Rs2,700. This along with recent price correction leads to change in our RECO a notch to NEUTRAL from REDUCE earlier. Disclosure on volume growth improvement, market share gains in core & update on diversification being explored in personal care will aid further rerating.

Result Highlights

- **4QFY24 headline performance:** Revenue (including OOI) grew by 10.3% YoY to Rs14.9bn (vs est. Rs14.6bn). EBITDA grew by 17.8% YoY to Rs5.3bn (vs est. Rs4.9bn). Adjusted PAT (APAT) was up 19.6% YoY to Rs3.8bn (vs est. 3.5bn).
- **Margins:** Gross margin came at 69.3% (up ~240bps YoY but down 290bps QoQ; vs est. 72%). Advertising spends were up just 80bps YoY to 11.3% (+18.2% YoY on absolute basis) and staff cost was up 10bps YoY. This was partially offset by lower other expenses (-60bps YoY), which meant that EBITDA margin was up by ~230bps YoY to 35.7% (vs. our est. 34.1%), ahead of expectations.
- **FY24:** Revenue, EBITDA and APAT grew 8.7%, 22.9% and 26.8% YoY, respectively. Gross/EBITDA margin up 400bps/390bps YoY to 69.7%/33.5% with ad spends up 130bps YoY to 13.4% (+19.9% YoY on absolute basis).

Key highlights from earnings conference call

- **FY25 Outlook:** Rural is outpacing urban growth by 200bps and CLGT believes rural market recovery is sustainable. CLGT does not anticipate similar pricing growth in FY25 as last year. The management is confident of continuing strong growth in its premium portfolio. It expects the margins to remain at around current levels.

View & Valuation

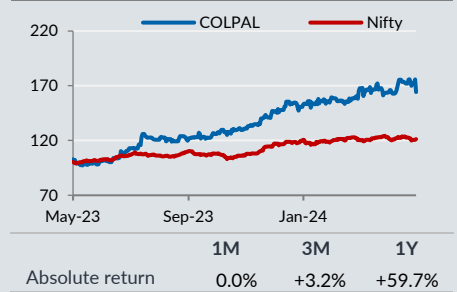
We are currently building 8.3% revenue CAGR over FY24-FY26E (higher than the ~4.9% CAGR delivered over the last five years) led by (a) Expectation of the better overall category growth especially from rural markets, (b) Support from relaunches, innovations and activations, (c) Premiumization. Post the 2nd consecutive quarter of margin beat, now there is ~3%/4% upward revision in our FY25E/FY26E EPS as we now estimate 9.5% EBITDA CAGR over FY24-FY26E (~70bps EBITDA margin expansion as we expect gross margin to expand by 110bps over FY24-FY26E). The flow through to EBITDA margin will be partial due to continued media spends to support the core as well as innovations. CLGT is currently trading at ~49x/45x on our FY25E/FY26E EPS. Improved margin profile & working capital, better cash generation, enhanced return ratios and potential inorganic opportunity in personal care space merits better target multiple even while we build just 10.3% EPS CAGR over FY24-26E. Roll-forward of valuation to March'26E EPS, earnings upgrade and higher target multiple of ~46x now have led to a revised TP of Rs2,700 (Rs2,350 earlier). This along with recent price correction leads to change in our RECO a notch to NEUTRAL from REDUCE earlier. Disclosure on volume growth improvement, market share gains in core & update on diversification being explored in personal care will aid further rerating.

Reco	: NEUTRAL
CMP	: Rs 2,673
Target Price	: Rs 2,700
Potential Return	: +1.0%

Stock data (as on May 15, 2024)

Nifty	22,201
52 Week h/l (Rs)	2961 / 1568
Market cap (Rs/USD mn)	766986 / 9188
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	952
Div yield (%):	1.4
Bloomberg code:	CLGT IN
NSE code:	COLPAL

Stock performance



Shareholding pattern (As of Mar'24 end)

Promoter	51.0%
FII+DII	30.6%
Others	18.4%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	REDUCE
Target Price	2,700	2,350

Δ in earnings estimates

	FY25e	FY26e
EPS (New)	54.9	59.8
EPS (Old)	53.2	57.4
% change	+3.2%	+4.1%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	56,804	62,112	66,637
YoY Growth (%)	8.7	9.3	7.3
EBIDTA	19,008	21,130	22,797
Margins (%)	33.5	34.0	34.2
APAT	13,382	14,942	16,268
EPS	49.2	54.9	59.8
YoY Growth (%)	26.8	11.7	8.9
ROCE (%)	99.3	107.2	115.8
ROE (%)	74.5	79.7	86.8
P/E (x)	54.3	48.7	44.7
EV/EBITDA (x)	37.5	33.9	31.3

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Lead Analyst

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	14,900	14,585	14,680	2.2	1.5
EBITDA	5,322	4,969	5,040	7.1	5.6
EBITDA Margin (%)	35.7	34.1	34.3	1.6	1.4
Adjusted PAT	3,798	3,509	3,600	8.2	5.5

Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	13,506	13,957	14,900	10.3	6.8	52,262	56,804	8.7
COGS	4,475	3,883	4,573	2.2	17.8	17,942	17,230	-4.0
Gross margin %	66.9	72.2	69.3	2.4	-2.9	65.7	69.7	4.0
Employee costs	898	1,098	999	11.2	-9.0	3,770	4,117	9.2
% of sales	6.7	7.9	6.7	0.1	-1.2	7.2	7.2	0.0
Advertising costs	1,429	2,043	1,689	18.2	-17.3	6,341	7,604	19.9
% of sales	10.6	14.6	11.3	0.8	-3.3	12.1	13.4	1.3
Other expenses	2,185	2,248	2,317	6.0	3.1	8,740	8,845	1.2
% of sales	16.2	16.1	15.6	-0.6	-0.6	16.7	15.6	-1.2
EBITDA	4,519	4,684	5,322	17.8	13.6	15,470	19,008	22.9
EBITDA margin %	33.5	33.6	35.7	2.3	2.2	29.6	33.5	3.9
Depreciation	431	414	421	-2.3	1.8	1,748	1,715	-1.9
EBIT	4,088	4,270	4,901	19.9	14.8	13,722	17,293	26.0
Interest expense	11	15	14	2.8	-1.5	49	50	1.6
Other income	204	179	227	11.3	26.6	536	765	42.8
PBT	4,267	4,434	5,114	19.8	15.3	14,123	17,863	26.5
Tax	1,104	1,133	1,315	19.1	16.1	3,652	4,626	26.7
Effective tax rate %	25.9	25.6	25.7	-0.2	0.2	25.9	25.9	0.0
PAT	3,176	3,301	3,798	19.6	15.1	10,557	13,382	26.8
PAT margin %	23.5	23.7	25.5	2.0	1.8	20.2	23.6	3.4
EPS	11.7	12.1	14.0	19.6	15.1	38.8	49.2	26.8

Source: Company, YES Sec

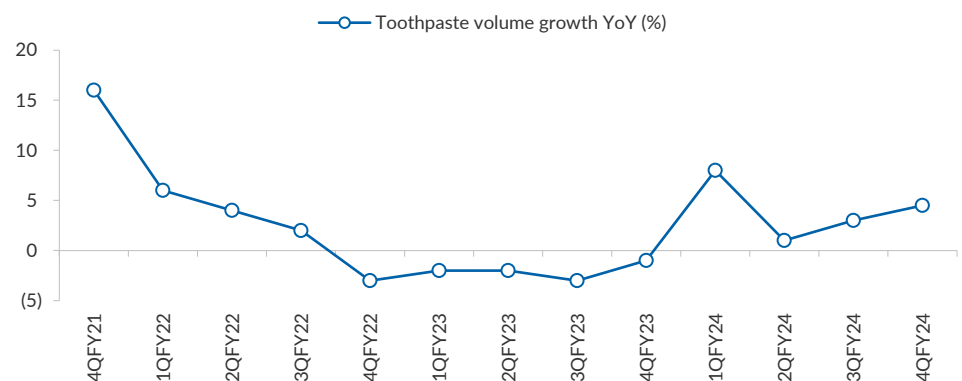
COLGATE-PALMOLIVE (INDIA) LTD (CLGT) 4QFY24 CONFERENCE CALL HIGHLIGHTS

- **Rural:** Rural is outpacing urban growth by 200bps led by doubling down on execution and communication of Colgate Strong teeth.
- **FY25 Outlook:** CLGT believes rural growth improvement trend is sustainable. It does not anticipate similar pricing growth in FY25 as last year. The management is confident of continuing strong growth in its premium portfolio. The company expects the margins to remain at around current levels.
- **Growth:** CLGT is looking at balanced growth in terms of volume, price and mix going forward. Personal care is growing faster than Oral and believes this trend to continue. The overall growth will come from both rural and urban.
- **Premiumization:** The company has seen significant ASP growth in toothpaste category owing to premiumization. The management is confident to grow its premium toothpaste portfolio since only 12% of the category sits above the Rs140 price index. CLGT's target is to grow premium portfolio at 2.5-3x vs the base portfolio.

Colgate-Palmolive (India)

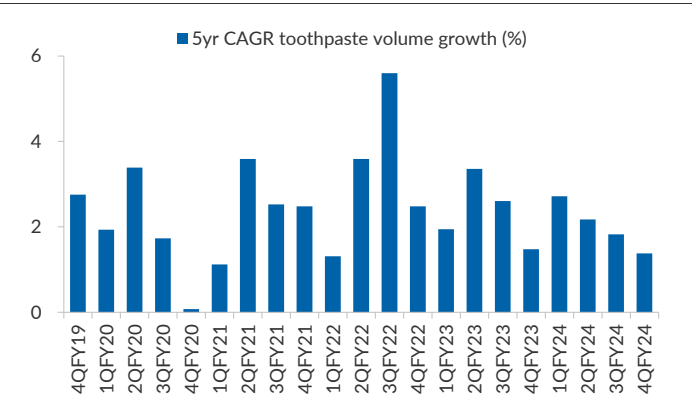
- **Palmolive:** Th brand is a play on cleansing (body and hand wash). Body wash category penetration is just 3% but growing strongly at 30-40%. The company has global superior products in its arsenal. The focus will be on all channels and seeing decent tractions since the launch.
- **Oral care:** CLGT is targeting to moving up the 20% urban households brushing twice a day. It has done aggressive ad campaign during the IPL season.
- **New Launches:** Colgate Max fresh launched with brand new packaging at a Rs20 price point. Relaunched Colgate Active Salt with superior technology. Also, it launched 3 new variants of Palmolive body wash.
- **Toothbrush:** CLGT has gained back lost market share in UP as it had initiated necessary actions. Frequency of replacement (currently at 9 months versus dentist recommendation of 3 months) and premiumization of toothbrush is huge opportunity for the company.
- **Diversification** remains a large opportunity through additions from wide global portfolio and via inorganic opportunities.
- **Share:** In the toothpaste category CLGT is 3x the no. 2 player and in toothbrush category it is 1.4x times the no. 2 player.
- **Channel:** E-commerce channel is growth as well as margin accretive than General and Modern trade. ~3X growth of eCommerce business vs overall in 2023 with higher premium contribution. Due to planogramming (done pilot with Reliance), CLGT has seen significant increase in premiumization.
- **Colgate Total:** The product had double digit growth in MT and significant salience few years ago. The company expects to reach back to those levels. Currently MT salience is in low single digit and E-commerce salience is the highest in this portfolio.
- **Bright Smiles, Bright Futures (BSBF):** CLGT added 5.2mn children in FY24 through BSBF and is committed to add 10mn more. The aim is to expand the program to 10-12 states.
- **Savings through 'Funding the Growth':** Global supply synergies, packaging savings, optimised plant allocation, automation initiatives, favourable product mix and import substitution. Some of these savings were invested back in product superiority, packaging innovation, ESG – recyclable material, enhanced brand experience. Management believes that while new opportunities will help them remove further non-value adding costs, they don't think it will be their effort to massively expand margins going forward. Gross savings of 4-5% of net sales is something they can continue to do in foreseeable future.
- **ESG:** Currently CLGT has 83% recyclable packaging (primary & secondary) and targets 100% in 2025.

Exhibit 3: We believe toothpaste volumes is seeing an improvement on YoY basis



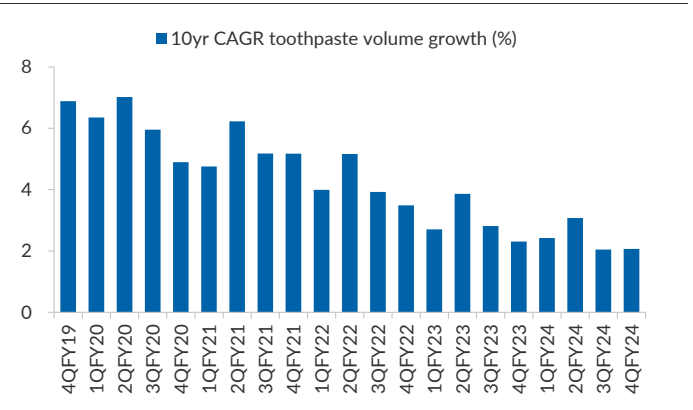
Source: Company, YES Sec; Note: Volume growth not disclosed by the company

Exhibit 4: 5-year CAGR trend continues to be subdued based on our volume estimates



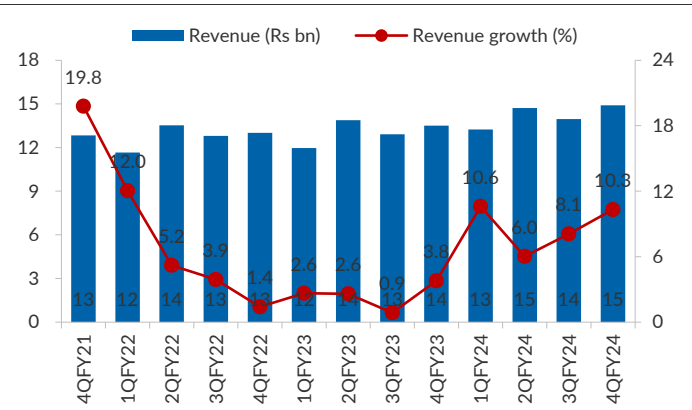
Source: Company, YES Sec

Exhibit 5: Long term (10yr CAGR) trend still does not indicate any major reversal



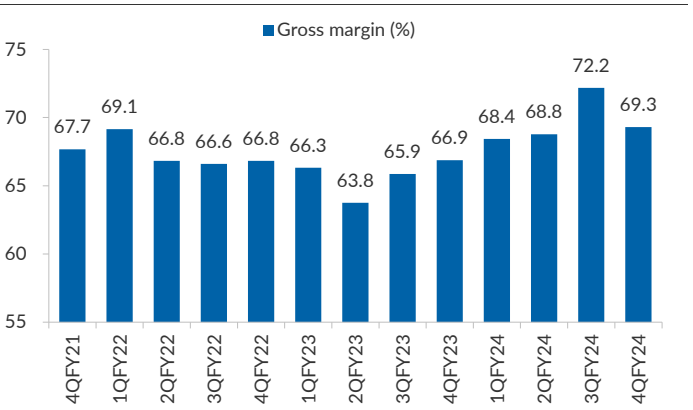
Source: Company, YES Sec

Exhibit 6: Overall revenues grew by 10.3% YoY in 4QFY24 supported by mix & pricing



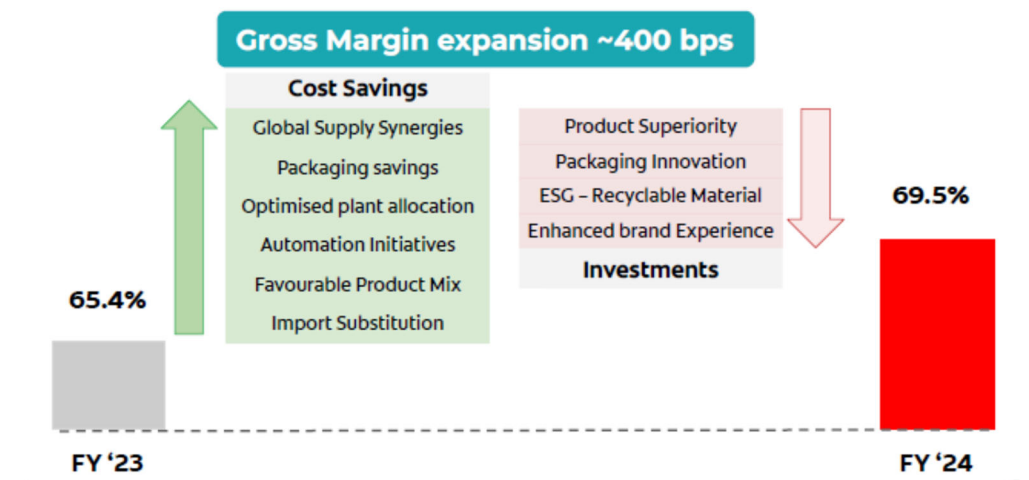
Source: Company, YES Sec

Exhibit 7: Gross margin up 240bps YoY but down 290bps



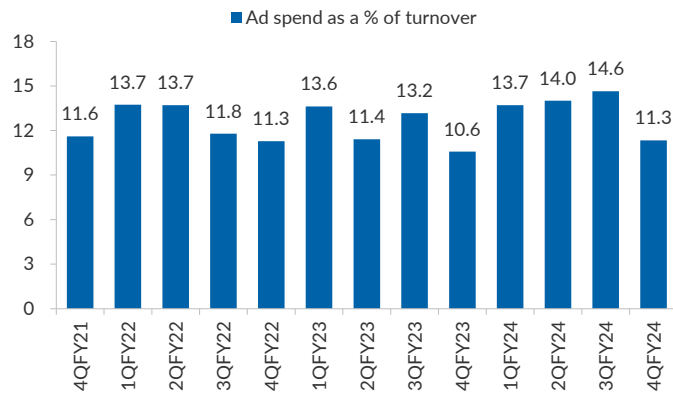
Source: Company, YES Sec

Exhibit 8: CLGT has generated robust savings from "Funding the Growth" program



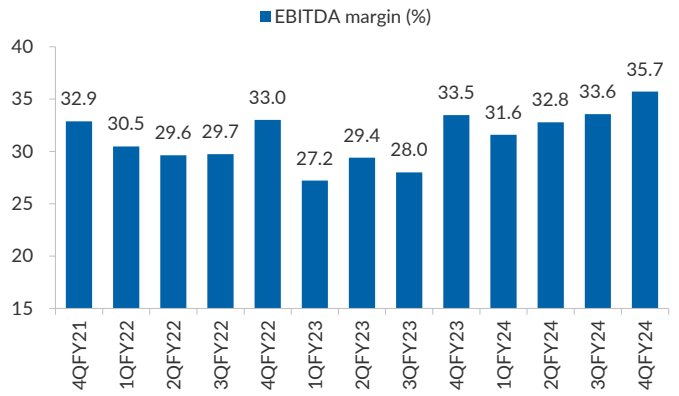
Source: Company, YES Sec

Exhibit 9: A&S spend up 80bps YoY to 11.3%



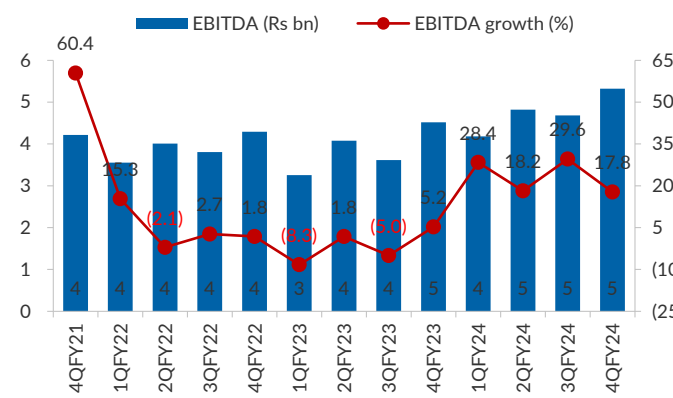
Source: Company, YES Sec

Exhibit 10: EBITDA margin was up 230bps YoY to 35.7%



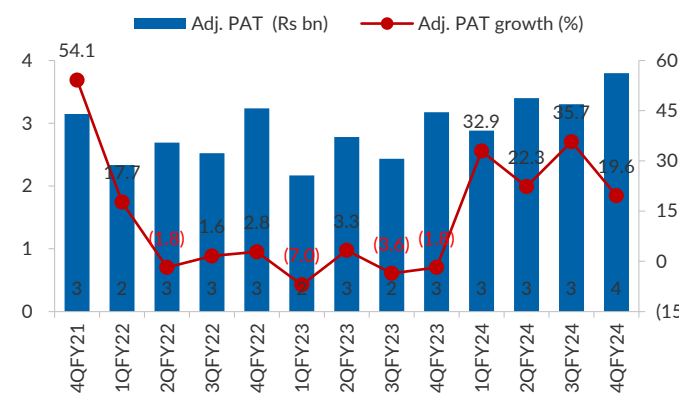
Source: Company, YES Sec

Exhibit 11: EBITDA thus grew 17.8% YoY



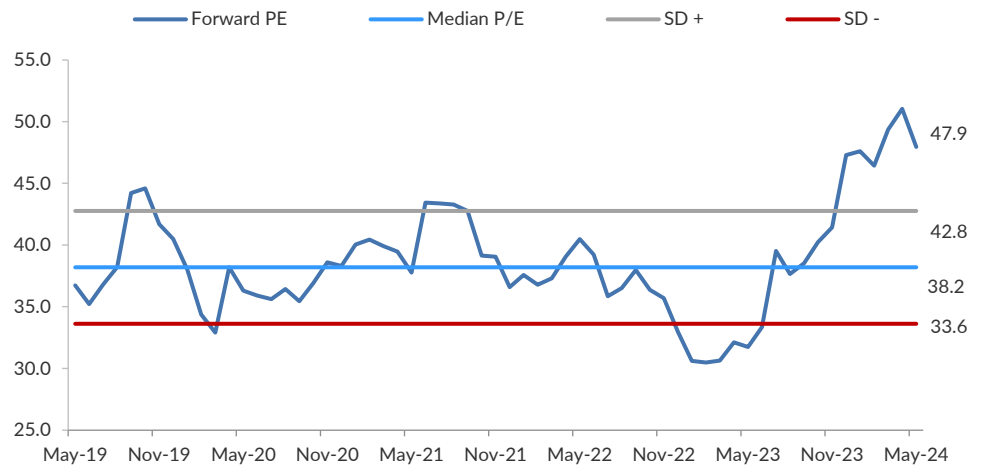
Source: Company, YES Sec

Exhibit 12: APAT was up 19.6% YoY



Source: Company, YES Sec

Exhibit 13: Currently trading at ~48x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves	17,075	16,892	18,472	18,472	18,472
Net worth	17,347	17,164	18,744	18,744	18,744
Total debt	0	0	0	0	0
Others	831	690	718	718	718
Total liabilities	18,177	17,853	19,461	19,461	19,461
Gross block	20,504	21,214	22,253	22,953	23,653
Depreciation	10,874	12,596	14,312	16,097	17,938
Capital work-in-progress	1,218	1,141	1,103	1,103	1,103
Investments	0	0	0	0	0
Inventories	3,572	3,354	2,964	3,547	3,768
Debtors	2,247	1,574	1,674	1,860	1,995
Cash	7,547	9,230	13,738	11,377	12,582
Loans & advances	1,710	1,646	966	1,063	1,169
Other current assets	2,921	2,979	2,979	2,979	2,979
Total current assets	17,997	18,783	22,321	20,826	22,494
Creditors	7,714	7,611	8,819	7,780	8,323
Other current liabilities & provisions	3,127	3,365	3,733	2,191	2,175
Total current liabilities	10,841	10,976	12,552	9,971	10,497
Net current assets	7,156	7,806	9,769	10,855	11,996
Deferred tax asset	173	288	648	648	648
Total assets	18,177	17,854	19,461	19,461	19,461

Source: Company, YES Sec

Exhibit 15: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenue	50,998	52,262	56,804	62,112	66,637
Revenue growth	5.3%	2.5%	8.7%	9.3%	7.3%
COGS	16,668	17,942	17,230	18,312	19,479
Staff costs	3,851	3,770	4,117	4,567	4,900
Advertising costs	6,431	6,341	7,604	8,456	9,138
Other expenses	8,381	8,739	8,845	9,647	10,323
Total expenses	35,331	36,792	37,796	40,982	43,840
EBITDA	15,667	15,470	19,008	21,130	22,797
<i>EBITDA growth</i>	3.8%	-1.3%	22.9%	11.2%	7.9%
<i>EBITDA margin</i>	30.7%	29.6%	33.5%	34.0%	34.2%
Other income	263	536	765	816	833
Interest costs	59	49	50	50	50
Depreciation	1,773	1,748	1,715	1,786	1,841

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax (before exceptional)	14,097	14,209	18,008	20,111	21,739
Exceptional items	0	(85)	(145)	0	0
Tax	3,307	3,652	4,626	5,168	5,472
PAT	10,790	10,557	13,382	14,942	16,268
PAT margin	21.2%	20.2%	23.6%	24.1%	24.4%
PAT growth	4.2%	-2.2%	26.8%	11.7%	8.9%

Source: Company, YES Sec

Exhibit 16: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	10,391	10,400	13,022	14,943	16,269
Depreciation	1,773	1,748	1,715	1,786	1,841
Other income	(58)	(296)	(715)	(766)	(783)
(Inc.)/dec. in working capital	4,151	(89)	2,545	(3,447)	65
Cash flow from operations	16,257	11,763	16,567	12,516	17,391
Capital expenditure (-)	(496)	(695)	(1,000)	(700)	(700)
Net cash after capex	15,762	11,068	15,567	11,816	16,691
Inc./(dec.) in investments	(812)	221	0	0	0
Others	(5,173)	1,262	4,770	818	834
Cash from investing activities	(6,481)	787	3,770	118	134
Dividends paid (-)	(10,572)	(10,575)	(15,777)	(14,942)	(16,268)
Others	(334)	(293)	(52)	(52)	(52)
Cash from financial activities	(10,906)	(10,867)	(15,830)	(14,994)	(16,320)
Opening cash balance	8,676	7,547	9,230	13,738	11,377
Closing cash balance	7,547	9,230	13,738	11,377	12,582
Change in cash balance	(1,129)	1,683	4,508	(2,361)	1,205

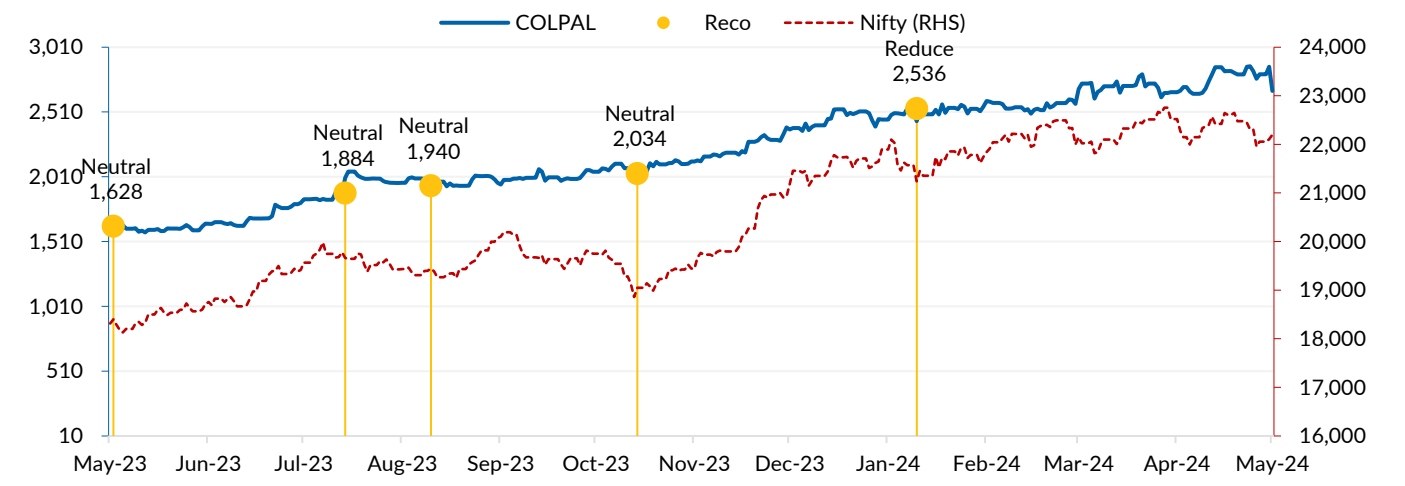
Exhibit 17: Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	39.7	38.8	49.2	54.9	59.8
Book value	63.8	63.1	68.9	68.9	68.9
DPS	40.0	39.0	58.0	54.9	59.8
Valuation (x)					
EV/sales	14.1	13.7	12.6	11.5	10.7
EV/EBITDA	45.9	46.4	37.5	33.9	31.3
P/E	67.4	68.9	54.3	48.7	44.7
P/BV	41.9	42.4	38.8	38.8	38.8
Return ratios (%)					
RoCE *	92.7	80.2	99.3	107.2	115.8
RoE	74.4	61.2	74.5	79.7	86.8
Profitability ratios (%)					

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Gross margin	67.3	65.7	69.7	70.5	70.8
EBITDA margin	30.7	29.6	33.5	34.0	34.2
EBIT margin	27.2	26.3	30.4	31.1	31.4
PAT margin	21.2	20.2	23.6	24.1	24.4
Liquidity ratios (%)					
Current ratio	1.7	1.7	1.8	2.1	2.1
Quick ratio	1.3	1.4	1.5	1.7	1.8
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	3.0	3.2	3.2	3.5	3.8
Fixed asset turnover ratio (x)	5.3	6.1	7.2	9.1	11.7
Debtor days	12	13	10	10	11
Inventory days	76	70	67	65	69
Creditor days	168	156	174	165	151

Source: Company, YES Sec; * Pre-tax

Recommendation Tracker



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