

January 22, 2024

RESULT REPORT Q3 FY24 | Sector: Consumer Staples

Colgate-Palmolive (India)

Margin surprises; Valuations out of comfort

Colgate-Palmolive (India) Ltd. (CLGT) delivered highest ever Gross & EBITDA margin (GM & EM) in 3QFY24 while topline was in-line with our estimate. Operating beat seems to be driven by better mix+pricing as GM saw a 340bps QoQ improvement, coming as a surprise especially post the Analyst Meet commentary in August'23 guiding modest improvement from 1QFY24 levels. Toothpaste volume have seen expansion in 3QFY24, but growth looks lower than our estimate of 5% because of the assumed sharp mix+pricing improvement. Recent relaunch/restaging of key brands and activations through campaigns, should continue to support near-term growth. Any improvement in market growth rates, especially in rural, should only further accelerate the volume momentum. There has been ~24% upward movement in stock price post 2QFY24 result. We downgrade the stock to REDUCE rating with a revised target price (TP) of Rs2,350 (Rs2,080 earlier), as we assign target multiple of ~43x on Sept'2025E EPS. For further rerating, market share improvement in core & update on inorganic opportunities being explored in personal care will be vital.

Result Highlights

- 3QFY24 headline performance: Revenue (including OOI) grew by 8.1% YoY to Rs14bn (vs est. Rs14bn). EBITDA grew by 29.6% YoY to Rs4.7bn (vs est. Rs4.4bn). Adjusted PAT (APAT) was up 35.7% YoY to Rs3.3bn (vs est. 3.1bn).
- Domestic growth stood at 8.8% YoY, with toothpaste segment witnessing double-digit growth and positive volume expansion.
- Margins: Gross margin saw a strong beat coming at highest ever level of 72.2% (up ~630bps YoY and 340bps QoQ; vs est. 69%). Increase in Advertising spends were up by 150bps YoY to 14.6% (+20.2% YoY on absolute basis) and Staff cost up 20bps YoY was partially offset by lower other expenses (-90bps YoY), meant that EBITDA margin was up by ~560bps YoY to 33.6% (vs. our est. 31.5%), way ahead of our as well as consensus expectations.
- 9MFY24: Revenue, EBITDA and APAT grew 8.1%, 25% and 29.8% YoY, respectively. Gross/EBITDA margin up 450bps/440bps YoY to 69.8%/32.7% with Ad spends up 140bps YoY to 14.1% (+20.4% YoY on absolute basis).
- Other highlights: (1) Colgate MaxFresh underwent a relaunch with new Campaign "#NeendBhagaoTaazgiJagao". (2) 'The Sweet Truth - Brush at Night' campaign, reached over 300mn people in urban India.

View & Valuation

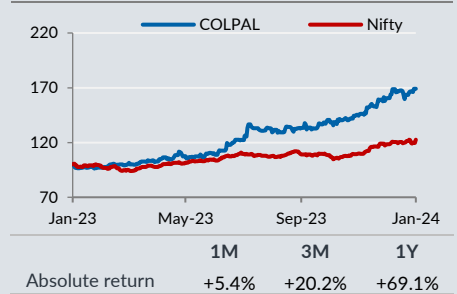
We are currently building ~8% revenue CAGR over FY23-FY26E (higher than the ~4.5% CAGR delivered over the last five years) led by (a) Expectation of the better overall category growth especially from rural markets, (b) Relaunch of the flagship brand Colgate Strong Teeth & Colgate Max Fresh, (c) Support from innovations and activations, (d) Focus on science-backed and technologically advanced products to drive premiumization. Post the strong margin beat in 3QFY24, there is 7%/9%/9% upward revision in our FY24E/FY25E/FY26E EPS as we now estimate 12.4% EBITDA CAGR over FY23-FY26E (~390bps EBITDA margin expansion as we expect gross margin to expand by 510bps over FY23-FY26E led by easing input cost and better mix). The flow through to EBITDA margin will be restricted due to aggressive advertising spends to support the core as well as innovations, partially offset by cost savings. There has been ~24% upward movement in stock price post 2QFY24 result and CLGT is currently trading at ~52x/42x/39x on FY24E/FY25E/FY26E EPS as we build in ~14% EPS CAGR over FY23-26E. We downgrade the stock to REDUCE rating with a revised TP of Rs2,350 (Rs2,080 earlier), as we assign target multiple of ~43x on Sept'2025E EPS (3yr/5yr avg fwd. multiple: ~39x). For further rerating, market share improvement in core & update on inorganic opportunities being explored in personal care will be vital.

Reco	: REDUCE
CMP	: Rs 2,536
Target Price	: Rs 2,350
Potential Return	: -7.3%

Stock data (as on January 22, 2024)

Nifty	22,097
52 Week h/l (Rs)	2550 / 1435
Market cap (Rs/USD mn)	677353 / 8179
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	933
Div yield (%):	1.6
Bloomberg code:	CLGT IN
NSE code:	COLPAL

Stock performance



Shareholding pattern (As of Sep'23 end)

Promoter	51.0%
FII+DII	30.0%
Others	19.0%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	2,350	2,080

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	48.4	53.2	57.4
EPS (Old)	45.2	48.9	52.6
% change	+7.0	8.9%	+9.1%

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	56,619	61,337	65,703
YoY Growth (%)	8.3	8.3	7.1
EBIDTA	18,754	20,429	21,991
Margins (%)	33.1	33.3	33.5
APAT	13,166	14,477	15,622
EPS	48.4	53.2	57.4
YoY Growth (%)	24.7	10.0	7.9
ROCE (%)	101.2	110.4	119.1
ROE (%)	76.7	84.3	91.0
P/E (x)	52.4	47.6	44.2
EV/EBITDA (x)	36.3	33.2	30.8

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Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	13,957	13,953	13,775	0.0	1.3
EBITDA	4,684	4,391	4,296	6.7	9.0
EBITDA Margin (%)	33.6	31.5	31.2	2.1	2.4
Adjusted PAT	3,301	3,068	2,972	7.6	11.1

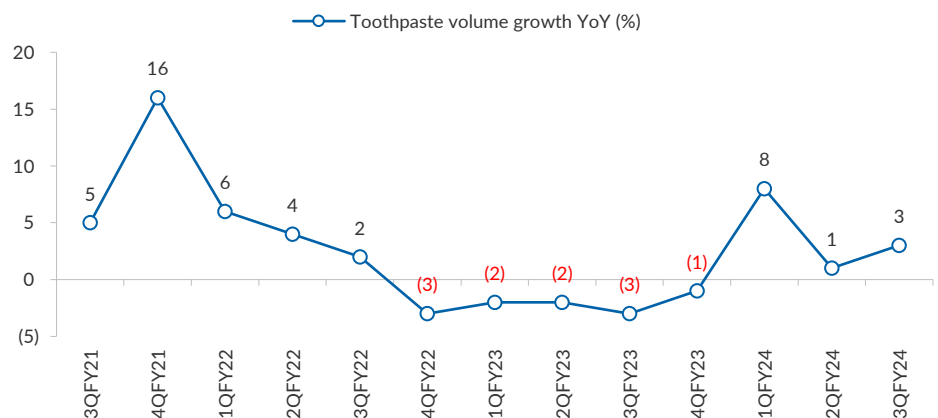
Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	YoY (%)
Revenue	12,913	14,711	13,957	8.1	-5.1	38,756	41,904	8.1
COGS	4,407	4,594	3,883	-11.9	-15.5	13,467	12,657	-6.0
Gross margin %	65.9	68.8	72.2	6.3	3.4	65.3	69.8	4.5
Employee costs	989	1,062	1,098	11.0	3.4	2,872	3,118	8.6
% of sales	7.7	7.2	7.9	0.2	0.6	7.4	7.4	0.0
Advertising costs	1,699	2,060	2,043	20.2	-0.8	4,912	5,916	20.4
% of sales	13.2	14.0	14.6	1.5	0.6	12.7	14.1	1.4
Other expenses	2,203	2,173	2,248	2.1	3.5	6,554	6,527	-0.4
% of sales	17.1	14.8	16.1	-0.9	1.3	16.9	15.6	-1.3
EBITDA	3,615	4,821	4,684	29.6	-2.8	10,951	13,686	25.0
EBITDA margin %	28.0	32.8	33.6	5.6	0.8	28.3	32.7	4.4
Depreciation	437	443	414	-5.3	-6.6	1,317	1,294	-1.7
EBIT	3,178	4,379	4,270	34.4	-2.5	9,634	12,392	28.6
Interest expense	13	11	15	2.5	4.6	38	36	-5.2
Other income	104	210	179	71.9	-14.9	332	539	62.1
PBT	3,269	4,578	4,434	35.6	-3.1	9,857	12,749	29.3
Tax	837	1,178	1,133	35.4	-3.8	2,547	3,311	30.0
Effective tax rate %	25.6	25.7	25.6	0.0	-0.2	25.8	26.0	0.1
PAT	2,432	3,401	3,301	35.7	-2.9	7,381	9,584	29.8
PAT margin %	18.8	23.1	23.7	4.8	0.5	19.0	22.9	3.8
EPS	8.9	12.5	12.1	35.7	-2.9	27.1	35.2	29.8

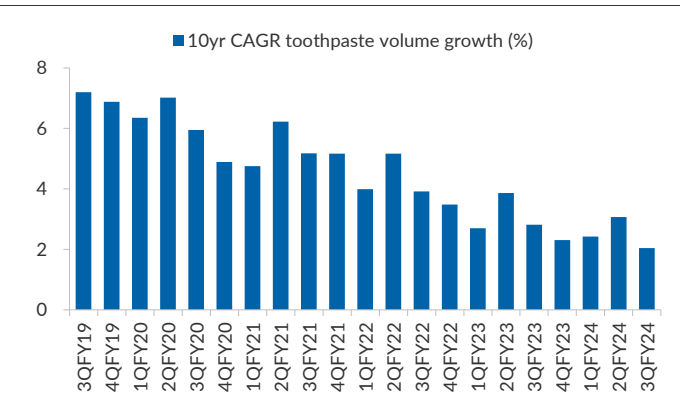
Source: Company, YES Sec

Exhibit 3: We believe toothpaste volumes to have grown by 3-4% in 3QFY24



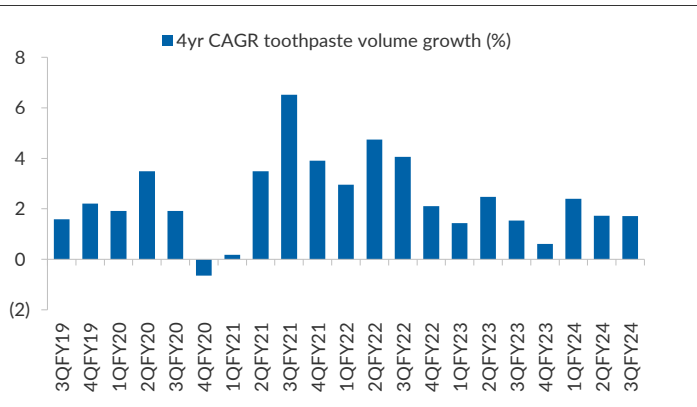
Source: Company, YES Sec

Exhibit 4: Long term trend still does not indicate any major reversal



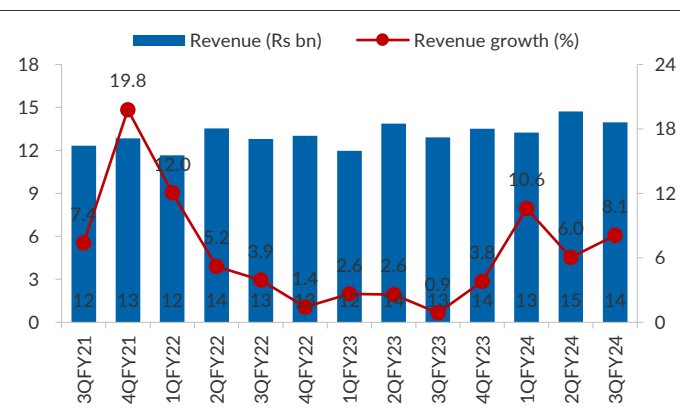
Source: Company, YES Sec

Exhibit 5: 4-year CAGR volume trend is showing no change from previous quarter



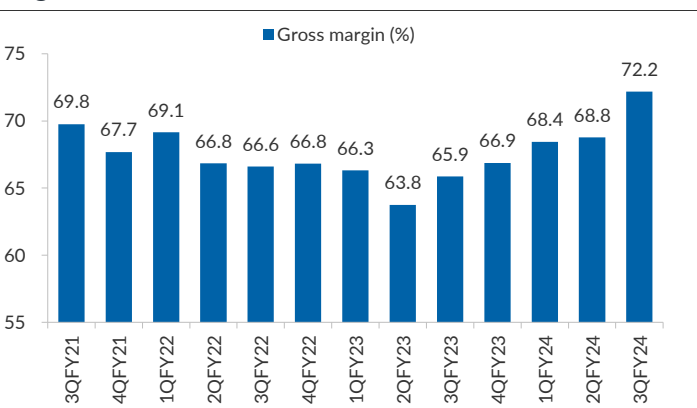
Source: Company, YES Sec

Exhibit 6: Overall revenues grew by 8.1% YoY in 3QFY24



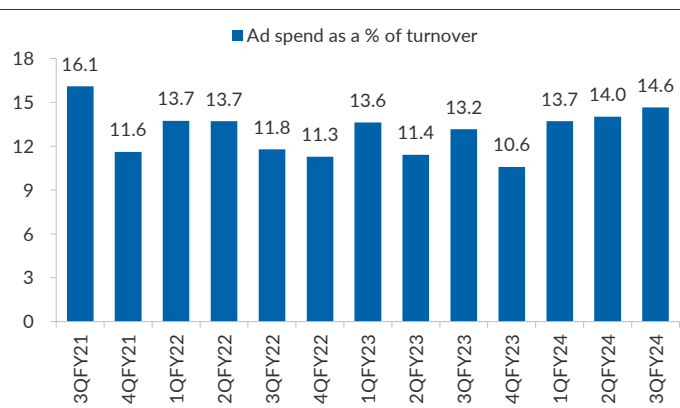
Source: Company, YES Sec

Exhibit 7: Gross margin improves further QoQ to highest ever level of 72.2%



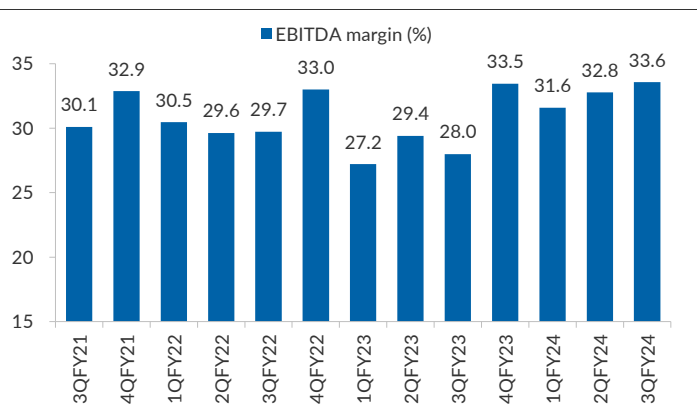
Source: Company, YES Sec

Exhibit 8: A&SP spends up 150bps YoY to 14.6%



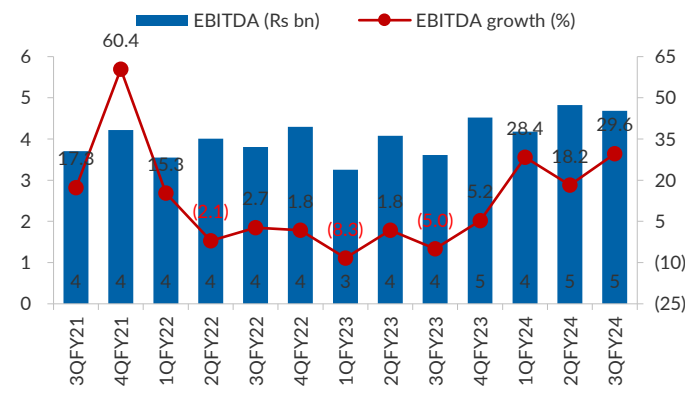
Source: Company, YES Sec

Exhibit 9: EBITDA margin was up 560bps YoY to 33.6%



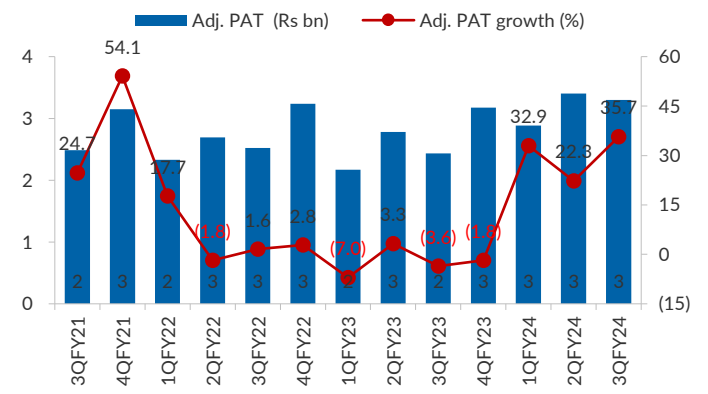
Source: Company, YES Sec

Exhibit 10: EBITDA thus grew 29.6% YoY



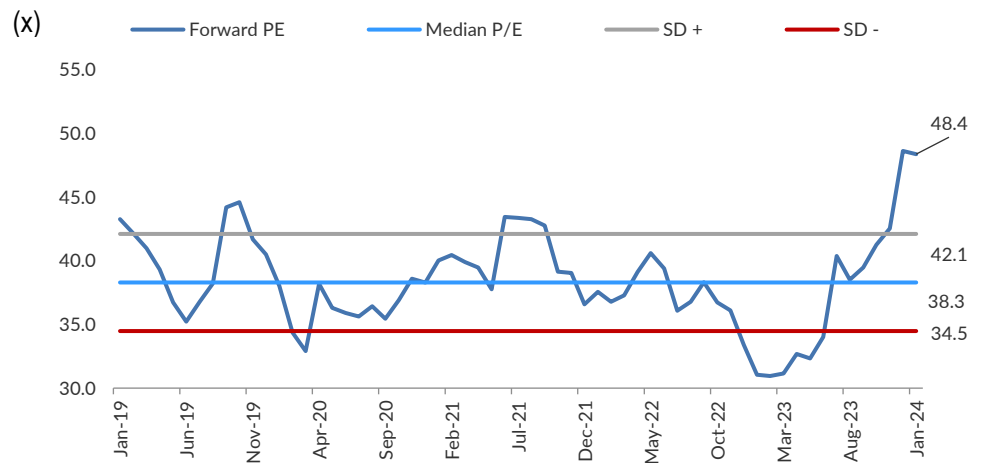
Source: Company, YES Sec

Exhibit 11: APAT was up 35.7% YoY



Source: Company, YES Sec

Exhibit 12: Currently trading at ~43x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves	17,075	16,892	16,892	16,892	16,892
Net worth	17,347	17,164	17,164	17,164	17,164
Total debt	0	0	0	0	0
Others	831	690	690	690	690
Total liabilities	18,177	17,853	17,853	17,853	17,853
Gross block	20,504	21,214	21,914	22,614	23,314
Depreciation	10,874	12,596	14,322	16,125	17,985
Capital work-in-progress	1,218	1,141	1,141	1,141	1,141
Investments	0	0	0	0	0
Inventories	3,572	3,354	3,251	3,505	3,720
Debtors	2,247	1,574	1,694	1,835	1,966
Cash	7,547	9,230	9,939	11,128	12,257
Loans & advances	1,710	1,646	1,823	2,005	2,206
Other current assets	2,921	2,979	2,651	2,651	2,651
Total current assets	17,997	18,783	19,358	21,124	22,800
Creditors	7,714	7,611	7,121	7,741	8,209
Other current liabilities & provisions	3,127	3,365	3,406	3,449	3,495
Total current liabilities	10,841	10,976	10,527	11,189	11,705
Net current assets	7,156	7,806	8,831	9,935	11,095
Deferred tax asset	173	288	288	288	288
Total assets	18,177	17,854	17,853	17,853	17,853

Source: Company, YES Sec

Exhibit 14: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	50,998	52,262	56,619	61,337	65,703
Revenue growth	5.3%	2.5%	8.3%	8.3%	7.1%
COGS	16,668	17,942	16,723	18,081	19,215
Staff costs	3,851	3,770	4,131	4,567	4,891
Advertising costs	6,431	6,341	7,869	8,281	8,902
Other expenses	8,381	8,739	9,142	9,979	10,703
Total expenses	35,331	36,792	37,865	40,908	43,711
EBITDA	15,667	15,470	18,754	20,429	21,991
EBITDA growth	3.8%	-1.3%	21.2%	8.9%	7.6%
EBITDA margin	30.7%	29.6%	33.1%	33.3%	33.5%
Other income	263	536	741	771	796
Interest costs	59	49	50	50	50
Depreciation	1,773	1,748	1,725	1,803	1,860
Profit before tax (before exceptional)	14,097	14,209	17,719	19,347	20,877
Exceptional items	0	(85)	(145)	0	0
Tax	3,307	3,652	4,554	4,870	5,255
PAT	10,790	10,557	13,166	14,477	15,622
PAT margin	21.2%	20.2%	23.3%	23.6%	23.8%
PAT growth	4.2%	-2.2%	24.7%	10.0%	7.9%

Source: Company, YES Sec

Exhibit 15: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	10,391	10,400	13,167	14,478	15,623
Depreciation	1,773	1,748	1,725	1,803	1,860
Other income	(58)	(296)	(691)	(721)	(746)
(Inc.)/dec. in working capital	4,151	(89)	(316)	86	(31)
Cash flow from operations	16,257	11,763	13,885	15,646	16,707
Capital expenditure (-)	(496)	(695)	(700)	(700)	(700)
Net cash after capex	15,762	11,068	13,185	14,946	16,007
Inc./(dec.) in investments	(812)	221	0	0	0
Others	(5,173)	1,262	742	772	797
Cash from investing activities	(6,481)	787	42	72	97
Dividends paid (-)	(10,572)	(10,575)	(13,166)	(14,477)	(15,622)
Others	(334)	(293)	(52)	(52)	(52)
Cash from financial activities	(10,906)	(10,867)	(13,218)	(14,529)	(15,675)
Opening cash balance	8,676	7,547	9,230	9,939	11,128
Closing cash balance	7,547	9,230	9,939	11,128	12,257
Change in cash balance	(1,129)	1,683	709	1,189	1,129

Exhibit 16: Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	39.7	38.8	48.4	53.2	57.4
Book value	63.8	63.1	63.1	63.1	63.1
DPS	40.0	39.0	48.4	53.2	57.4
Valuation (x)					
EV/sales	13.4	13.0	12.0	11.1	10.3
EV/EBITDA	43.5	44.0	36.3	33.2	30.8
P/E	63.9	65.3	52.4	47.6	44.2
P/BV	39.8	40.2	40.2	40.2	40.2
Return ratios (%)					
RoCE *	92.7	80.2	101.2	110.4	119.1
RoE	74.4	61.2	76.7	84.3	91.0
Profitability ratios (%)					
Gross margin	67.3	65.7	70.5	70.5	70.8
EBITDA margin	30.7	29.6	33.1	33.3	33.5
EBIT margin	27.2	26.3	30.1	30.4	30.6
PAT margin	21.2	20.2	23.3	23.6	23.8
Liquidity ratios (%)					
Current ratio	1.7	1.7	1.8	1.9	1.9
Quick ratio	1.3	1.4	1.5	1.6	1.6
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	3.4	3.7	4.0
Fixed asset turnover ratio (x)	5.3	6.1	7.5	9.5	12.3
Debtor days	12	13	11	10	11
Inventory days	76	70	72	68	69
Creditor days	168	156	161	150	151

Source: Company, YES Sec; * Pre-tax

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Analyst Signature

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.