

October 25, 2021

Q2FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,852		1,846	
Sales (Rs. m)	56,634	61,526	57,177	62,115
% Chng.	(1.0)	(0.9)		
EBITDA (Rs. m)	17,575	19,280	18,083	19,923
% Chng.	(2.8)	(3.2)		
EPS (Rs.)	43.9	48.4	45.3	50.2
% Chng.	(3.1)	(3.6)		

Key Financials - Standalone

Y/e Mar (Rs bn)	FY21	FY22E	FY23E	FY24E
Sales (Rs. m)	48,412	52,016	56,634	61,526
EBITDA (Rs. m)	15,096	15,630	17,575	19,279
Margin (%)	31.2	30.0	31.0	31.3
PAT (Rs. m)	10,354	10,620	11,945	13,171
EPS (Rs.)	38.1	39.0	43.9	48.4
Gr. (%)	26.8	2.6	12.5	10.3
DPS (Rs.)	38.0	36.0	40.0	45.0
Yield (%)	2.5	2.3	2.6	2.9
RoE (%)	75.0	87.9	91.6	93.7
RoCE (%)	96.2	114.1	119.6	122.0
EV/Sales (x)	8.4	7.8	7.2	6.6
EV/EBITDA (x)	27.0	26.1	23.1	21.0
PE (x)	40.3	39.2	34.9	31.6
P/BV (x)	35.7	33.3	30.7	28.7

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,823 / Rs.1,434
Sensex / Nifty	60,967 / 18,125
Market Cap	Rs.417bn/ \$ 5,551m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.1735.37m

Shareholding Pattern (%)

Promoter's	52.00
Foreign	19.60
Domestic Institution	7.22
Public & Others	21.18
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(9.4)	1.2	4.6
Relative	(10.7)	(20.5)	(30.2)

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Growth unexciting, valuations offer comfort

Quick Pointers:

- Estimated volume growth at ~4.2%
- Increased promotion intensity drove volumes with lower realisations
- No pressure witnessed on Rural Demand

We are cutting EPS estimates by 6.4%/3.1%/3.5% for FY22/FY23/FY24 on the back of 1) Increased Input cost inflation and 2) Low volume growth expected in 2H22 given large base in 4Q21 and 3) Flattish EBIDTA margins over FY21-24 post sharp 460bps gains in FY21. Increased promotions during the Quarter resulted in ~4.2% volume growth but with pressure on realisations. CLGT is cautiously optimistic given no pressure on rural demand and benefits of its promotions, innovations and GTM initiatives.

CLGT is focusing on accelerating growth led by 1) Ramping up innovations (launched Colgate Visible White Instant and Colgate Vedshakti Mouth spray & Oil pulling, Toothpaste for Diabetics) 2) Increasing promotion intensity to drive volumes 3) Normalizing Ad spends to improve brand recall and 5) Increasing focus on Ecom and MT helping improve product mix. We estimate 8.3% Sales CAGR and 8.4% PAT CAGR over FY22-24. We value CLGT at 40x Sep23EPS and assign a Target of Rs 1852 (Rs 1846 earlier). Although growth is unexciting, cheaper valuations of 34.9x/31.1x FY23/FY24EPS vs peers, Dividend yield of 2.3% in FY22 given 92.2% payout and ROE and ROCE of 87.9% and 116.6% limit any downside. Retain Accumulate.

- Sales grew 5.2%, Margins down 220bps:** Net sales grew 5.2% YoY to Rs 13.44bn (Est 13.74bn). Volume growth came at ~4%. Gross margins contracted 200bps YoY to 66.6% (Est 68.6%). EBITDA down 2.1% YoY to Rs 4.0bn (Est Rs 4.46bn), EBITDA margins at 29.6% (Est 32.3%) declined by 220bps YoY. Ad-spend came at Rs 1.85bn up 90 bps YoY. Adj. PAT decreased by 1.8% YoY to Rs 2.69bn (Est. Rs 3.02bn)

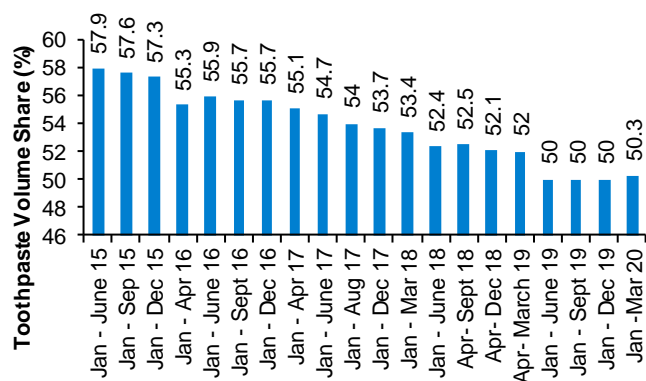
Key Highlights:

- Increased intensity in promotions have driven volumes, we estimate volume growth at ~4.2%.
- No pressure witnessed on Rural demand.
- Growth momentum across brands / categories has shown a consistent trajectory with volume growth trends QoQ.
- Penetration trends remain strong and are seeing favorable trends QoQ.
- Brands strengthening on the back of recent innovations like Colgate Toothpaste for Diabetics, Vedshakti Mouth spray and Gentle range of toothbrushes.
- Innovations gaining traction with consumers across platforms.

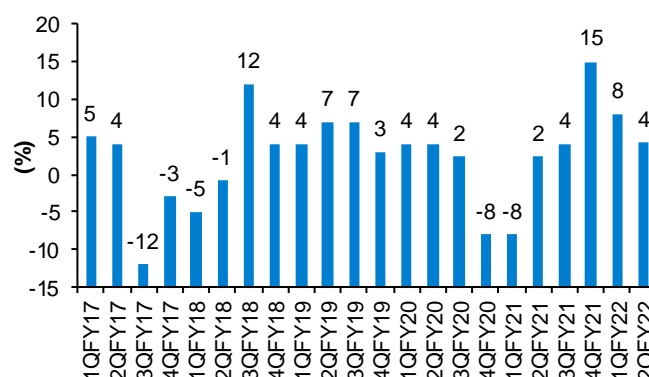
Exhibit 1: Q2FY22: Net sales up 5.2%, GRMs/EBITDA margins contract 130bps/220bps

Particulars	Q2FY22	Q2FY21	YoY gr. (%)	Q1FY22	1HFY22	1HFY21	YoY gr. (%)
Net Sales	13,524	12,855	5.2	11,660	25,184	23,261	8.3
Gross Profit	9,038	8,759	3.2	8,062	17,101	15,641	9.3
Margin %	66.8	68.1	(1.3)	69.1	67.9	67.2	0.7
Other Exp	5031	4666	7.8	4510	9541	8468	12.7
% of Net sales	37.2	36.3		38.7	37.9	36.4	
EBITDA	4,008	4,093	(2.1)	3,552	7,560	7,173	5.4
Margin %	29.6	31.8	(2.2)	30.5	30.0	30.8	(0.8)
Depreciation	449	461	(2.6)	447	896	915	(2.1)
Interest	15	18		15	30	38	
PBT from operations	3544	3614	(1.9)	3090	6634	6220	6.7
Other Income	65	76	(14.0)	52	117	139	(15.4)
PBT	3,609	3,689	(2.2)	3,142	6,751	6,358	6.2
Tax	917	947	(3.2)	810	1727	1635	5.6
Tax rate %	25.4	25.7		25.8	25.6	25.7	
Adj. PAT	2,692	2,742	(1.8)	2,332	5,024	4,724	6.4

Source: Company, PL

Exhibit 2: Market Share remained flat


Source: Company, PL

Exhibit 3: Overall volume growth estimated at 4.2%


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Net Revenues	48,412	52,016	56,634	61,526
YoY gr. (%)	7.0	7.4	8.9	8.6
Cost of Goods Sold	15,494	16,898	18,094	19,447
Gross Profit	32,918	35,118	38,540	42,079
Margin (%)	68.0	67.5	68.1	68.4
Employee Cost	3,656	3,978	4,276	4,647
Other Expenses	3,921	4,399	4,678	5,083
EBITDA	15,096	15,630	17,575	19,279
YoY gr. (%)	25.6	3.5	12.4	9.7
Margin (%)	31.2	30.0	31.0	31.3
Depreciation and Amortization	1,825	1,843	1,968	2,123
EBIT	13,271	13,787	15,607	17,157
Margin (%)	27.4	26.5	27.6	27.9
Net Interest	73	73	69	63
Other Income	304	296	241	306
Profit Before Tax	13,502	14,010	15,779	17,399
Margin (%)	27.9	26.9	27.9	28.3
Total Tax	3,148	3,390	3,834	4,228
Effective tax rate (%)	23.3	24.2	24.3	24.3
Profit after tax	10,354	10,620	11,945	13,171
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,354	10,620	11,945	13,171
YoY gr. (%)	26.8	2.6	12.5	10.3
Margin (%)	21.4	20.4	21.1	21.4
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,354	10,620	11,945	13,171
YoY gr. (%)	26.8	2.6	12.5	10.3
Margin (%)	21.4	20.4	21.1	21.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,354	10,620	11,945	13,171
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	38.1	39.0	43.9	48.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
Non-Current Assets				
Gross Block	18,696	18,696	19,895	21,395
Tangibles	17,789	17,789	18,988	20,488
Intangibles	907	907	907	907
Acc: Dep / Amortization	9,604	11,205	12,914	14,758
Tangibles	8,698	10,299	12,008	13,851
Intangibles	907	907	907	907
Net fixed assets	9,092	7,491	6,980	6,637
Tangibles	9,092	7,491	6,980	6,637
Intangibles	-	-	-	-
Capital Work In Progress	1,448	1,250	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	386	395	405	416
Net Deferred tax assets	48	20	(12)	(47)
Other Non-Current Assets	4,240	4,336	4,296	4,253
Current Assets				
Investments	2,545	2,583	3,376	4,280
Inventories	3,358	3,338	3,448	3,636
Trade receivables	1,171	1,416	1,696	2,010
Cash & Bank Balance	6,131	6,603	7,466	7,647
Other Current Assets	400	517	563	611
Total Assets	28,940	28,083	29,371	30,637
Equity				
Equity Share Capital	272	272	272	272
Other Equity	11,387	12,232	13,314	14,264
Total Network	11,659	12,504	13,586	14,536
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	311	338	278	302
Other non current liabilities	778	448	250	48
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,604	7,078	7,554	8,041
Other current liabilities	8,575	7,703	7,679	7,650
Total Equity & Liabilities	28,940	28,083	29,371	30,637

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22E	FY23E	FY24E
PBT	13,502	14,010	15,779	17,399
Add. Depreciation	1,825	1,843	1,968	2,123
Add. Interest	73	73	69	63
Less Financial Other Income	304	296	241	306
Add. Other	-	-	-	-
Op. profit before WC changes	15,400	15,926	17,816	19,586
Net Changes-WC	8,764	(2,261)	(1,074)	(1,216)
Direct tax	(3,148)	(3,390)	(3,834)	(4,228)
Net cash from Op. activities	21,016	10,275	12,907	14,142
Capital expenditures	(792)	45	(1,113)	(1,677)
Interest / Dividend Income	-	-	-	-
Others	0	-	-	-
Net Cash from Invst. activities	(792)	45	(1,113)	(1,677)
Issue of share cap. / premium	50	17	17	18
Debt changes	-	-	-	-
Dividend paid	(14,687)	(9,791)	(10,879)	(12,239)
Interest paid	(73)	(73)	(69)	(63)
Others	-	-	-	-
Net cash from Fin. activities	(14,709)	(9,848)	(10,931)	(12,285)
Net change in cash	5,514	472	863	180
Free Cash Flow	20,224	10,320	11,794	12,465

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22E	FY23E	FY24E
Per Share(Rs)				
EPS	38.1	39.0	43.9	48.4
CEPS	44.8	45.8	51.2	56.2
BVPS	42.9	46.0	50.0	53.4
FCF	74.4	37.9	43.4	45.8
DPS	38.0	36.0	40.0	45.0
Return Ratio(%)				
RoCE	96.2	114.1	119.6	122.0
ROIC	198.6	361.0	536.5	608.5
RoE	75.0	87.9	91.6	93.7
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.7)	(0.8)	(0.8)
Net Working Capital (Days)	(23)	(16)	(16)	(14)
Valuation(x)				
PER	40.3	39.2	34.9	31.6
P/B	35.7	33.3	30.7	28.7
P/CEPS	34.2	33.4	30.0	27.3
EV/EBITDA	27.0	26.1	23.1	21.0
EV/Sales	8.4	7.8	7.2	6.6
Dividend Yield (%)	2.5	2.3	2.6	2.9

Source: Company Data, PL Research

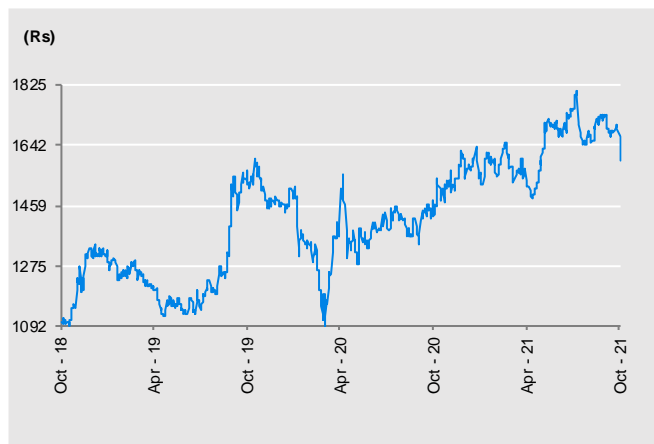
Quarterly Financials (Rs m)

Y/e Mar	Q3FY21	Q4FY21	Q1FY22	Q2FY22
Net Revenue	12,319	12,832	11,660	13,524
YoY gr. (%)	7.4	19.8	12.0	5.2
Raw Material Expenses	3,725	4,149	3,597	4,486
Gross Profit	8,594	8,683	8,062	9,038
Margin (%)	69.8	67.7	69.1	66.8
EBITDA	3,706	4,218	3,552	4,008
YoY gr. (%)	17.3	60.4	15.3	(2.1)
Margin (%)	30.1	32.9	30.5	29.6
Depreciation / Depletion	456	455	447	449
EBIT	3,251	3,763	3,105	3,559
Margin (%)	26.4	29.3	26.6	26.3
Net Interest	19	16	15	15
Other Income	99	66	52	65
Profit before Tax	3,330	3,814	3,142	3,609
Margin (%)	27.0	29.7	26.9	26.7
Total Tax	847	982	810	917
Effective tax rate (%)	25.4	25.7	25.8	25.4
Profit after Tax	2,484	2,832	2,332	2,692
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,484	2,832	2,332	2,692
YoY gr. (%)	24.7	63.5	17.7	(1.8)
Margin (%)	20.2	22.1	20.0	19.9
Extra Ord. Income / (Exp)	-	315	-	-
Reported PAT	2,484	3,147	2,332	2,692
YoY gr. (%)	24.7	54.1	17.7	(1.8)
Margin (%)	20.2	24.5	20.0	19.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,484	3,147	2,332	2,692
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	9.1	10.4	8.6	9.9

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Oct-21	Accumulate	1,846	1,680
2	29-Jul-21	Accumulate	1,846	1,710
3	05-Jul-21	Accumulate	1,794	1,690
4	17-May-21	Accumulate	1,794	1,597
5	07-Apr-21	Hold	1,685	1,551
6	28-Jan-21	Hold	1,651	1,564
7	07-Jan-21	Hold	1,570	1,598
8	18-Dec-20	Hold	1,600	1,570

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,675	3,002
2	Avenue Supermarts	Accumulate	5,359	5,324
3	Bajaj Electricals	Hold	1,246	1,284
4	Britannia Industries	Accumulate	4,260	3,939
5	Burger King India	BUY	251	159
6	Colgate Palmolive	Accumulate	1,846	1,680
7	Crompton Greaves Consumer Electricals	BUY	518	486
8	Dabur India	Hold	647	615
9	Emami	Accumulate	624	545
10	Havells India	Accumulate	1,400	1,286
11	Hindustan Unilever	Accumulate	2,930	2,547
12	ITC	BUY	271	231
13	Jubilant FoodWorks	Accumulate	4,111	3,965
14	Kansai Nerolac Paints	Accumulate	661	646
15	Marico	Hold	532	564
16	Mold-tek Packaging	BUY	669	666
17	Nestle India	Accumulate	19,501	19,368
18	Pidilite Industries	Reduce	2,221	2,416
19	Titan Company	BUY	2,554	2,148
20	Titan Company	BUY	2,554	2,148
21	Voltas	UR	-	1,250
22	Westlife Development	BUY	605	554

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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