

May 26, 2022

Q4FY22 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,708		1,664	
Sales (Rs. m)	55,827	60,650	55,559	60,358
% Chng.	0.5	0.5		
EBITDA (Rs. m)	16,124	18,191	16,048	18,105
% Chng.	0.5	0.5		
EPS (Rs.)	40.6	46.2	39.6	45.0
% Chng.	2.5	2.6		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	48,412	50,998	55,827	60,650
EBITDA (Rs. m)	15,096	15,659	16,124	18,191
Margin (%)	31.2	30.7	28.9	30.0
PAT (Rs. m)	10,354	10,783	11,039	12,553
EPS (Rs.)	38.1	39.6	40.6	46.2
Gr. (%)	26.8	4.1	2.4	13.7
DPS (Rs.)	38.0	40.0	40.0	42.0
Yield (%)	2.4	2.5	2.5	2.6
RoE (%)	75.0	74.4	75.7	101.4
RoCE (%)	96.2	95.8	98.1	131.0
EV/Sales (x)	8.9	8.4	7.7	7.0
EV/EBITDA (x)	28.4	27.5	26.6	23.5
PE (x)	42.3	40.6	39.6	34.9
P/BV (x)	37.5	25.2	37.1	33.8

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,823 / Rs.1,376
Sensex / Nifty	54,253 / 16,170
Market Cap	Rs.438bn/ \$ 5,641m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.598.22m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	18.64
Domestic Institution	8.07
Public & Others	22.29
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.0)	10.3	(4.2)
Relative	4.7	16.1	(9.9)

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Market share gains hold key to re-rating

Quick Pointers:

- Volume decline estimated at 4%
- Relative bounce back in family toothpaste segment and innovations across Oral care, Body wash and Face cleansing hold key to growth

We are increasing EPS estimates by 2.5%/2.6% for FY23/FY24 due to strong margin strength in 4Q in inflationary environment and stable market share. CLGT has increased focus sustaining growth in the core segments (CDC and Toothbrushes) and incremental growth from innovations in Oral care, Body wash and Face cleansing products. Bounce back in family toothpaste segment and slight moderation in growth rates of Naturals segment augurs well for sustaining share in highly penetrated Toothpaste category. We expect rural demand to recover given favorable monsoons, higher crop prices, revival in housing and Govt capex which would boost demand.

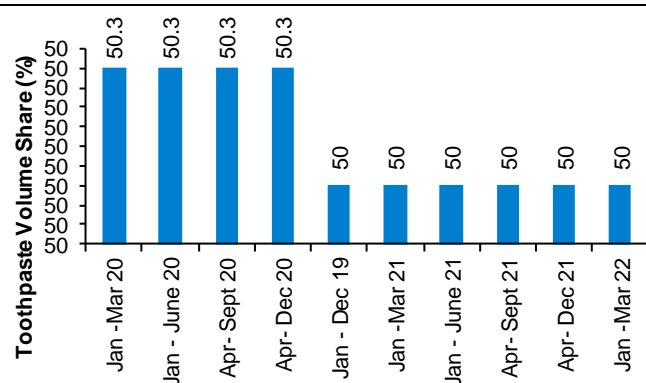
CLGT is focusing on accelerating growth led by 1) Ramping up innovations (Colgate Gum Expert, Colgate Visible White) 2) Increasing promotion intensity 3) Entry into premium face cleansing category (foams, scrubs and masques under Palmolive brand). We estimate 9.1% Sales and 7.9% PAT CAGR over FY22-24. Although CLGT's growth is unexciting, favorable financial parameters (35x FY24PE, 2.6% Dividend yield, 90%+ payout and 100% ROE) limit downside. We value CLGT at 37x FY24 EPS and assign a Target of Rs 1708 (earlier Rs 1664 on 37x FY24 EPS). Retain Accumulate.

- Sales grew 1.4%, Gross Margins down 80bps:** Revenues grew by 1.4% YoY to Rs13bn (PLe: Rs12.7bn); Est vol decline of 4%. Gross margins contracted by 84bps YoY to 66.8% (PLe: 66.2%). EBITDA grew by 1.8% YoY to Rs4.3bn (PLe: Rs3.9bn); Margins expanded by 13bps YoY to 33% (PLe:30.7%). A&P spends contracted by 32bps YoY to 11.3%. Adj. PAT grew by 3% YoY to Rs2.9bn (PLe: Rs2.7bn) excl tax writeback of Rs31.9.9mn. BOD declared a second interim dividend of Rs21/share. Total dividend for FY22 is at Rs 40/share.
- Concall Highlights:** 1) Demand environment remains unfavorable due to high inflation and low growth. 2) Penetration levels remain in the high 90's in India. 3) Definite impact of inflationary trends being seen in rural vs urban. 4) Mid-single digit price hike taken during the quarter. 5) Internal program – 'Funding The Growth' to help take costs out of the system. 6) Market share has been sustained at previously held levels. 7) Natural sales have begun to flatten/decline post COVID fueled growth. 8) Colgate Active Salt - Neem & Lemon variants are now available across all channels. 9) Palmolive TAM to increase from 1x in body washes to 13x post entry into face cleansing products 10) CLGT to continue growing the category through penetration & consumption building activities. 11) Management to focus on core & premium products and go more granular with product offerings.

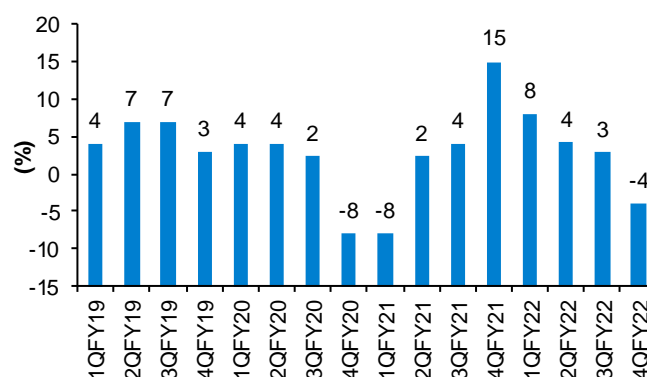
**Exhibit 1: 4QFY22: Net sales up 1.4%, GPMs/EBITDA margins improve -80bps/+10bps**

Particulars	4QFY22	4QFY21	YoY gr. (%)	3QFY22	FY22	FY21	YoY gr. (%)
Net Sales	13,013	12,832	1.4	12,801	50,998	48,412	5.3
Gross Profit	8,696	8,683	0.1	8,526	34,323	32,919	4.3
<i>Margin %</i>	66.8	67.7	(0.8)	66.6	67.3	68.0	(0.7)
Other Exp	4402	4466	(1.4)	4720	18663	17822	4.7
<i>% of Net sales</i>	33.8	34.8		36.9	36.6	36.8	
EBITDA	4,294	4,218	1.8	3,806	15,660	15,096	3.7
<i>Margin %</i>	33.0	32.9	0.1	29.7	30.7	31.2	(0.5)
Depreciation	438	455	(3.6)	439	1773	1825	(2.8)
Interest	14	16		15	59	73	
PBT from operations	3843	3747	2.5	3351	13827	13199	4.8
Other Income	89	66	33.8	57	263	304	(13.5)
PBT	3,931	3,814	3.1	3,408	14,090	13,502	4.4
Tax	1015	982	3.4	885	3627	3463	4.7
<i>Tax rate %</i>	25.8	25.7		26.0	25.7	25.6	
Adj. PAT	2,916	2,832	3.0	2,523	10,463	10,039	4.2

Source: Company, PL

Exhibit 2: Market Share remains flat

Source: Company, PL

Exhibit 3: Overall volume decline estimated at 4%

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	48,412	50,998	55,827	60,650
YoY gr. (%)	7.0	5.3	9.5	8.6
Cost of Goods Sold	15,494	16,675	19,093	19,662
Gross Profit	32,918	34,323	36,734	40,988
Margin (%)	68.0	67.3	65.8	67.6
Employee Cost	3,656	3,851	4,215	4,580
Other Expenses	3,921	4,184	4,611	5,010
EBITDA	15,096	15,659	16,124	18,191
YoY gr. (%)	25.6	3.7	3.0	12.8
Margin (%)	31.2	30.7	28.9	30.0
Depreciation and Amortization	1,825	1,773	1,831	1,972
EBIT	13,271	13,886	14,293	16,219
Margin (%)	27.4	27.2	25.6	26.7
Net Interest	73	59	39	36
Other Income	304	263	310	378
Profit Before Tax	13,502	14,090	14,563	16,561
Margin (%)	27.9	27.6	26.1	27.3
Total Tax	3,148	3,307	3,524	4,008
Effective tax rate (%)	23.3	23.5	24.2	24.2
Profit after tax	10,354	10,783	11,039	12,553
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,354	10,783	11,039	12,553
YoY gr. (%)	26.8	4.1	2.4	13.7
Margin (%)	21.4	21.1	19.8	20.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,354	10,783	11,039	12,553
YoY gr. (%)	26.8	4.1	2.4	13.7
Margin (%)	21.4	21.1	19.8	20.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,354	10,783	11,039	12,553
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	38.1	39.6	40.6	46.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	18,696	19,937	19,937	21,405
Tangibles	17,789	19,030	19,030	20,498
Intangibles	907	907	907	907
Acc: Dep / Amortization	9,604	11,150	12,806	14,589
Tangibles	8,698	10,244	11,899	13,683
Intangibles	907	907	907	907
Net fixed assets	9,092	8,786	7,131	6,816
Tangibles	9,092	8,786	7,131	6,816
Intangibles	-	-	-	-
Capital Work In Progress	1,448	1,218	1,000	1,000
Goodwill	-	-	-	-
Non-Current Investments	386	184	218	229
Net Deferred tax assets	48	173	144	111
Other Non-Current Assets	4,240	3,828	3,978	3,972
Current Assets				
Investments	2,545	6,778	3,328	4,219
Inventories	3,358	3,572	3,599	3,666
Trade receivables	1,171	2,247	1,671	1,981
Cash & Bank Balance	6,131	769	5,320	5,892
Other Current Assets	400	320	555	603
Total Assets	28,940	29,018	26,941	28,525
Equity				
Equity Share Capital	272	272	272	272
Other Equity	11,387	17,075	11,530	12,679
Total Network	11,659	17,347	11,802	12,951
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	311	140	274	298
Other non current liabilities	778	695	368	263
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,604	7,714	7,446	7,926
Other current liabilities	8,575	3,111	7,182	7,185
Total Equity & Liabilities	28,940	29,018	26,941	28,525

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	13,502	14,090	14,563	16,561
Add. Depreciation	1,825	1,773	1,831	1,972
Add. Interest	73	59	39	36
Less Financial Other Income	304	263	310	378
Add. Other	-	-	-	-
Op. profit before WC changes	15,400	15,922	16,434	18,570
Net Changes-WC	8,764	(12,484)	8,162	(955)
Direct tax	(3,148)	(3,307)	(3,524)	(4,008)
Net cash from Op. activities	21,016	131	21,072	13,607
Capital expenditures	(792)	(525)	102	(1,594)
Interest / Dividend Income	-	-	-	-
Others	0	186	-	-
Net Cash from Inv. activities	(792)	(339)	102	(1,594)
Issue of share cap. / premium	50	5,785	(5,704)	18
Debt changes	-	-	-	-
Dividend paid	(14,687)	(10,880)	(10,879)	(11,423)
Interest paid	(73)	(59)	(39)	(36)
Others	-	-	-	-
Net cash from Fin. activities	(14,709)	(5,154)	(16,623)	(11,441)
Net change in cash	5,514	(5,362)	4,551	572
Free Cash Flow	20,224	(394)	21,174	12,013

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q1FY22	Q2FY22	Q3FY22	Q4FY22
Net Revenue	11,660	13,524	12,801	13,013
YoY gr. (%)	12.0	5.2	3.9	1.4
Raw Material Expenses	3,597	4,486	4,275	4,317
Gross Profit	8,062	9,038	8,526	8,696
Margin (%)	69.1	66.8	66.6	66.8
EBITDA	3,552	4,008	3,806	4,294
YoY gr. (%)	15.3	(2.1)	2.7	1.8
Margin (%)	30.5	29.6	29.7	33.0
Depreciation / Depletion	447	449	439	438
EBIT	3,105	3,559	3,366	3,856
Margin (%)	26.6	26.3	26.3	29.6
Net Interest	15	15	15	14
Other Income	52	65	57	89
Profit before Tax	3,142	3,609	3,408	3,931
Margin (%)	26.9	26.7	26.6	30.2
Total Tax	810	917	885	1,015
Effective tax rate (%)	25.8	25.4	26.0	25.8
Profit after Tax	2,332	2,692	2,523	2,916
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,332	2,692	2,523	2,916
YoY gr. (%)	17.7	(1.8)	1.6	3.0
Margin (%)	20.0	19.9	19.7	22.4
Extra Ord. Income / (Exp)	-	-	-	320
Reported PAT	2,332	2,692	2,523	3,236
YoY gr. (%)	17.7	(1.8)	1.6	2.8
Margin (%)	20.0	19.9	19.7	24.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,332	2,692	2,523	3,236
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	8.6	9.9	9.3	10.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	38.1	39.6	40.6	46.2
CEPS	44.8	46.2	47.3	53.4
BVPS	42.9	63.8	43.4	47.6
FCF	74.4	(1.4)	77.8	44.2
DPS	38.0	40.0	40.0	42.0
Return Ratio(%)				
RoCE	96.2	95.8	98.1	131.0
ROIC	198.6	152.8	182.8	542.6
RoE	75.0	74.4	75.7	101.4
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.4)	(0.7)	(0.8)
Net Working Capital (Days)	(23)	(14)	(14)	(14)
Valuation(x)				
PER	42.3	40.6	39.6	34.9
P/B	37.5	25.2	37.1	33.8
P/CEPS	35.9	34.9	34.0	30.1
EV/EBITDA	28.4	27.5	26.6	23.5
EV/Sales	8.9	8.4	7.7	7.0
Dividend Yield (%)	2.4	2.5	2.5	2.6

Source: Company Data, PL Research

Key Operating Metrics

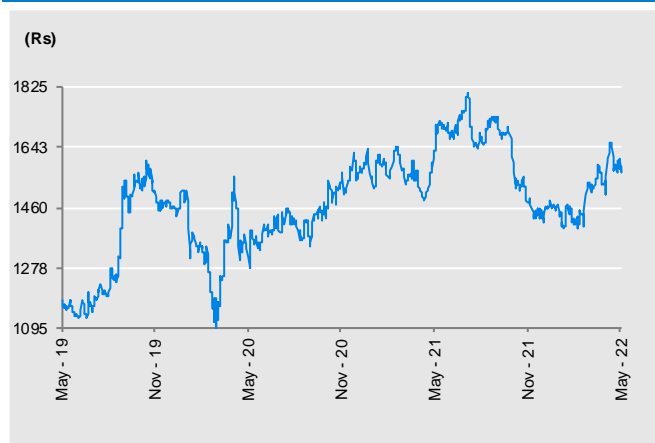
Y/e Mar	FY21	FY22	FY23E	FY24E
Volume Growth %	3.5	2.9	6.0	6.0

Source: Company Data, PL Research



Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Apr-22	Accumulate	1,664	1,565
2	27-Jan-22	Accumulate	1,733	1,394
3	06-Jan-22	Accumulate	1,852	1,466
4	25-Oct-21	Accumulate	1,852	1,532
5	06-Oct-21	Accumulate	1,846	1,680
6	29-Jul-21	Accumulate	1,846	1,710
7	05-Jul-21	Accumulate	1,794	1,690

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,086
2	Avenue Supermarts	BUY	4,651	3,231
3	Britannia Industries	BUY	3,770	3,385
4	Colgate Palmolive	Accumulate	1,664	1,565
5	Dabur India	Accumulate	603	529
6	Emami	Accumulate	611	428
7	Hindustan Unilever	BUY	2,384	2,145
8	ITC	BUY	305	267
9	Jubilant FoodWorks	Accumulate	3,230	2,792
10	Kansai Nerolac Paints	BUY	518	398
11	Marico	Accumulate	547	520
12	Mold-tek Packaging	BUY	781	705
13	Nestle India	Accumulate	19,426	18,203
14	Pidilite Industries	Hold	2,389	2,118
15	Restaurant Brands Asia	BUY	220	113
16	Titan Company	BUY	2,701	2,092
17	Westlife Development	BUY	653	454

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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