

July 27, 2022

Q1FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY23E	FY24E	FY23E	FY24E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,701		1,708	
Sales (Rs. m)	55,031	59,212	55,827	60,650
% Chng.	(1.4)	(2.4)		
EBITDA (Rs. m)	16,176	18,079	16,124	18,191
% Chng.	0.3	(0.6)		
EPS (Rs.)	40.8	46.0	40.6	46.2
% Chng.	0.4	(0.4)		

Key Financials - Standalone

Y/e Mar	FY21	FY22	FY23E	FY24E
Sales (Rs. m)	48,412	50,998	55,031	59,212
EBITDA (Rs. m)	15,096	15,659	16,176	18,079
Margin (%)	31.2	30.7	29.4	30.5
PAT (Rs. m)	10,354	10,783	11,084	12,507
EPS (Rs.)	38.1	39.6	40.8	46.0
Gr. (%)	26.8	4.1	2.8	12.8
DPS (Rs.)	38.0	40.0	40.0	42.0
Yield (%)	2.4	2.6	2.6	2.7
RoE (%)	75.0	74.4	63.5	69.1
RoCE (%)	96.2	95.8	82.2	89.1
EV/Sales (x)	8.6	8.2	7.6	7.0
EV/EBITDA (x)	27.6	26.7	25.7	22.9
PE (x)	41.1	39.4	38.4	34.0
P/BV (x)	36.5	24.5	24.2	22.8

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,814 / Rs.1,376
Sensex / Nifty	55,816 / 16,642
Market Cap	Rs.425bn/ \$ 5,324m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.502.01m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	18.70
Domestic Institution	8.83
Public & Others	21.48
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	3.5	12.2	(13.0)
Relative	(1.4)	15.1	(18.0)

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Colgate Palmolive (CLGT IN)

Rating: ACCUMULATE | CMP: Rs1,564 | TP: Rs1,701

Volumes disappoint, valuations limit downside

Quick Pointers:

- Volume decline by ~3%, rural demand under more pressure than Urban India
- Toothpaste segment and innovations across Oral care, Body wash and Face cleansing hold key to higher growth

CLGT reported tepid numbers with ~3% decline in volumes on poor demand, more so in rural India. CLGT continues to suffer on account of poor volumes, input cost inflation and high competitive intensity in core segments of oral care. Premium segments are doing well even as innovations like electric tooth brushes and face care launches are doing well.

CLGT is focusing on accelerating growth led by 1) Ramping up innovations (Colgate Gum Expert, Colgate Visible White 2) 2) Increasing promotion intensity 3) Entry into premium face cleansing category (foams, scrubs and masques under Palmolive brand). We estimate 7.8% Sales and 7.7% PAT CAGR over FY22-24. Although CLGT's growth is unexciting, favorable financial parameters (34x FY24PE, 2.6% Dividend yield, 90%+ payout and 80% ROCE) limit downside. We value CLGT at 37x FY24 EPS and assign a Target of Rs 1701 (earlier Rs 1708 on 37x FY24 EPS). Retain Accumulate.

- Sales grew 2.6%, Gross Margins contracted by 282bps:** Revenues grew by 2.6% YoY to Rs12bn (PLe: Rs11.9bn). Gross margins contracted by 282bps YoY to 66.3% (PLe: 66.0%). EBITDA declined by 8.3% YoY to Rs3.3bn (PLe: Rs3.5bn); Margins contracted by 325bps YoY to 27.2% (PLe: 29.5%). A&P spends contracted by 12bps YoY to 13.6%. Adj. PAT declined by 6.1% YoY to Rs2.2bn (PLe: Rs2.4bn).

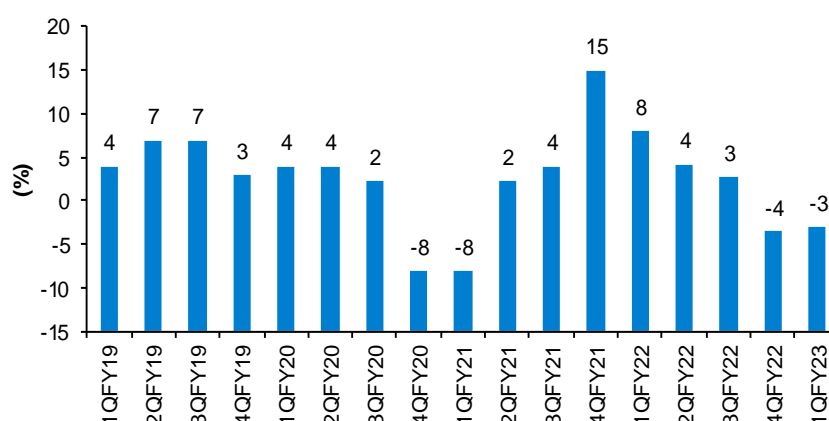
Key Highlights:

- Rural slowdown and inflationary pressures continue to impact volumes. Demand is under pressure in both urban and rural India, although impact is more in rural India.
- Input costs remain elevated and CLGT is unlikely to see Gross margins reverting to earlier levels for next 1-2 quarters.
- Competition and advertising intensity remains at elevated levels.
- Launch of Visible White O2 & relaunch of Colgate Strong Teeth and Colgate Vedshakti toothpaste gained good traction among consumers in 1Q23
- New category - Palmolive Face care range and extensions in the oral care segment with Advanced Electric Toothbrushes and Water Flossers launched have recorded encouraging response.
- Calibrated price increase of ~4-5% have been taken by the company.

Exhibit 1: 1QFY23: Net sales up 2.6%, GPMs/EBITDA margins declined by 282/325bps

Particulars	1QFY23	1QFY22	YoY gr. (%)	4QFY22	FY22	FY21	YoY gr. (%)
Net Sales	11,968	11,660	2.6	13,013	50,998	48,412	5.3
Gross Profit	7,938	8,062	(1.5)	8,696	34,323	32,919	4.3
<i>Margin %</i>	<i>66.3</i>	<i>69.1</i>	<i>(2.8)</i>	<i>66.8</i>	<i>67.3</i>	<i>68.0</i>	<i>(0.7)</i>
Other Exp	4681	4510	3.8	4402	18663	17822	4.7
<i>% of Net sales</i>	<i>39.1</i>	<i>38.7</i>		<i>33.8</i>	<i>36.6</i>	<i>36.8</i>	
EBITDA	3,257	3,552	(8.3)	4,294	15,660	15,096	3.7
<i>Margin %</i>	<i>27.2</i>	<i>30.5</i>	<i>(3.3)</i>	<i>33.0</i>	<i>30.7</i>	<i>31.2</i>	<i>(0.5)</i>
Depreciation	442	447	(1.2)	438	1773	1825	(2.8)
Interest	13	15		14	59	73	
PBT from operations	2802	3090	(9.3)	3843	13827	13199	4.8
Other Income	115	52	121.5	89	263	304	(13.5)
PBT	2,918	3,142	(7.1)	3,931	14,090	13,502	4.4
Tax	727	810	(10.2)	1015	3627	3463	4.7
<i>Tax rate %</i>	<i>24.9</i>	<i>25.8</i>		<i>25.8</i>	<i>25.7</i>	<i>25.6</i>	
Adj. PAT	2,190	2,332	(6.1)	2,916	10,463	10,039	4.2

Source: Company, PL

Exhibit 2: Overall volume decline estimated at 3%


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Net Revenues	48,412	50,998	55,031	59,212
YoY gr. (%)	7.0	5.3	7.9	7.6
Cost of Goods Sold	15,494	16,675	18,510	18,978
Gross Profit	32,918	34,323	36,521	40,234
Margin (%)	68.0	67.3	66.4	67.9
Employee Cost	3,656	3,851	4,101	4,414
Other Expenses	3,921	4,146	4,515	4,858
EBITDA	15,096	15,659	16,176	18,079
YoY gr. (%)	25.6	3.7	3.3	11.8
Margin (%)	31.2	30.7	29.4	30.5
Depreciation and Amortization	1,825	1,773	1,827	1,959
EBIT	13,271	13,886	14,350	16,120
Margin (%)	27.4	27.2	26.1	27.2
Net Interest	73	59	77	74
Other Income	304	263	349	454
Profit Before Tax	13,502	14,090	14,622	16,501
Margin (%)	27.9	27.6	26.6	27.9
Total Tax	3,148	3,307	3,539	3,993
Effective tax rate (%)	23.3	23.5	24.2	24.2
Profit after tax	10,354	10,783	11,084	12,507
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,354	10,783	11,084	12,507
YoY gr. (%)	26.8	4.1	2.8	12.8
Margin (%)	21.4	21.1	20.1	21.1
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	10,354	10,783	11,084	12,507
YoY gr. (%)	26.8	4.1	2.8	12.8
Margin (%)	21.4	21.1	20.1	21.1
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,354	10,783	11,084	12,507
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	38.1	39.6	40.8	46.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
Non-Current Assets				
Gross Block	17,589	18,177	18,177	19,545
Tangibles	17,589	18,177	18,177	19,545
Intangibles	-	-	-	-
Acc: Dep / Amortization	8,698	10,159	11,740	13,441
Tangibles	8,698	10,159	11,740	13,441
Intangibles	-	-	-	-
Net fixed assets	8,892	8,018	6,436	6,104
Tangibles	8,892	8,018	6,436	6,104
Intangibles	-	-	-	-
Capital Work In Progress	1,448	1,218	1,100	1,150
Goodwill	-	-	-	-
Non-Current Investments	386	184	193	202
Net Deferred tax assets	48	173	144	111
Other Non-Current Assets	4,440	4,597	4,567	4,538
Current Assets				
Investments	2,860	7,082	3,281	4,119
Inventories	3,358	3,572	4,172	4,222
Trade receivables	1,171	2,247	2,397	2,580
Cash & Bank Balance	5,817	466	5,664	6,582
Other Current Assets	400	319	547	588
Total Assets	28,940	29,018	29,563	31,352
Equity				
Equity Share Capital	272	272	272	272
Other Equity	11,387	17,075	17,279	18,363
Total Network	11,659	17,347	17,551	18,635
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	311	140	205	221
Other non current liabilities	778	695	514	348
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,604	7,714	8,240	8,867
Other current liabilities	8,575	3,111	3,184	3,378
Total Equity & Liabilities	28,940	29,018	29,563	31,352

Source: Company Data, PL Research



Cash Flow (Rs m)

Y/e Mar	FY21	FY22	FY23E	FY24E
PBT	13,502	14,090	14,622	16,501
Add. Depreciation	1,825	1,773	1,827	1,959
Add. Interest	73	59	77	74
Less Financial Other Income	304	263	349	454
Add. Other	-	-	-	-
Op. profit before WC changes	15,400	15,922	16,526	18,533
Net Changes-WC	8,450	(12,473)	3,224	(518)
Direct tax	(3,148)	(3,307)	(3,539)	(3,993)
Net cash from Op. activities	20,701	142	16,211	14,021
Capital expenditures	(792)	(526)	(56)	(1,606)
Interest / Dividend Income	-	-	-	-
Others	0	186	-	-
Net Cash from Invt. activities	(792)	(339)	(56)	(1,606)
Issue of share cap. / premium	50	73	-	-
Debt changes	-	-	-	-
Dividend paid	(14,687)	(5,168)	(10,879)	(11,423)
Interest paid	(73)	(59)	(77)	(74)
Others	-	-	-	-
Net cash from Fin. activities	(14,709)	(5,154)	(10,957)	(11,497)
Net change in cash	5,200	(5,351)	5,198	918
Free Cash Flow	19,909	(383)	16,155	12,415

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY22	Q3FY22	Q4FY22	Q1FY23
Net Revenue	13,524	12,801	13,013	11,968
YoY gr. (%)	5.2	3.9	1.4	2.6
Raw Material Expenses	4,486	4,275	4,317	4,031
Gross Profit	9,038	8,526	8,696	7,938
Margin (%)	66.8	66.6	66.8	66.3
EBITDA	4,008	3,806	4,294	3,257
YoY gr. (%)	(2.1)	2.7	1.8	(8.3)
Margin (%)	29.6	29.7	33.0	27.2
Depreciation / Depletion	449	439	438	442
EBIT	3,559	3,366	3,856	2,815
Margin (%)	26.3	26.3	29.6	23.5
Net Interest	15	15	14	13
Other Income	65	57	89	115
Profit before Tax	3,609	3,408	3,931	2,918
Margin (%)	26.7	26.6	30.2	24.4
Total Tax	917	885	1,015	727
Effective tax rate (%)	25.4	26.0	25.8	24.9
Profit after Tax	2,692	2,523	2,916	2,190
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,692	2,523	2,916	2,190
YoY gr. (%)	(1.8)	1.6	3.0	(6.1)
Margin (%)	19.9	19.7	22.4	18.3
Extra Ord. Income / (Exp)	-	-	320	(93)
Reported PAT	2,692	2,523	3,236	2,097
YoY gr. (%)	(1.8)	1.6	2.8	(10.1)
Margin (%)	19.9	19.7	24.9	17.5
Other Comprehensive Income	-	-	47	-
Total Comprehensive Income	2,692	2,523	3,282	2,097
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	9.9	9.3	10.7	8.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Per Share(Rs)				
EPS	38.1	39.6	40.8	46.0
CEPS	44.8	46.2	47.5	53.2
BVPS	42.9	63.8	64.5	68.5
FCF	73.2	(1.4)	59.4	45.6
DPS	38.0	40.0	40.0	42.0
Return Ratio(%)				
RoCE	96.2	95.8	82.2	89.1
ROIC	198.6	152.8	127.9	165.3
RoE	75.0	74.4	63.5	69.1
Balance Sheet				
Net Debt : Equity (x)	(0.7)	(0.4)	(0.5)	(0.6)
Net Working Capital (Days)	(23)	(14)	(11)	(13)
Valuation(x)				
PER	41.1	39.4	38.4	34.0
P/B	36.5	24.5	24.2	22.8
P/CEPS	34.9	33.9	32.9	29.4
EV/EBITDA	27.6	26.7	25.7	22.9
EV/Sales	8.6	8.2	7.6	7.0
Dividend Yield (%)	2.4	2.6	2.6	2.7

Source: Company Data, PL Research

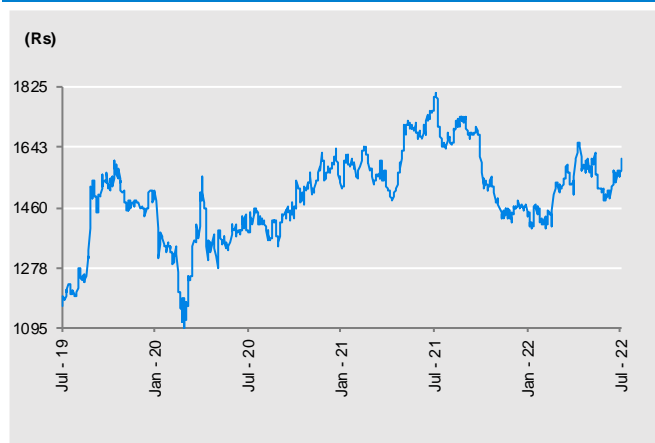
Key Operating Metrics

Y/e Mar	FY21	FY22	FY23E	FY24E
Volume Growth %	3.5	2.9	4.0	5.0

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-22	Accumulate	1,708	1,570
2	26-May-22	Accumulate	1,708	1,609
3	08-Apr-22	Accumulate	1,664	1,565
4	27-Jan-22	Accumulate	1,733	1,394
5	06-Jan-22	Accumulate	1,852	1,466
6	25-Oct-21	Accumulate	1,852	1,532
7	06-Oct-21	Accumulate	1,846	1,680
8	29-Jul-21	Accumulate	1,846	1,710

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,363	3,109
2	Avenue Supermarts	BUY	4,636	3,942
3	Britannia Industries	UR	-	3,810
4	Colgate Palmolive	Accumulate	1,708	1,570
5	Dabur India	Accumulate	603	544
6	Emami	Accumulate	611	470
7	Hindustan Unilever	Accumulate	2,699	2,568
8	ITC	BUY	305	292
9	Jubilant FoodWorks	Accumulate	710	571
10	Kansai Nerolac Paints	BUY	513	396
11	Marico	Accumulate	544	499
12	Mold-tek Packaging	BUY	781	752
13	Nestle India	Accumulate	19,426	18,205
14	Pidilite Industries	Hold	2,389	2,237
15	Restaurant Brands Asia	UR	-	111
16	Titan Company	BUY	2,520	2,014
17	Titan Company	BUY	2,520	2,128
18	Westlife Development	BUY	653	524

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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