

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USD\$)	436.1 / 5.3
52-Week Range (INR)	1695 / 1376
1, 6, 12 Rel. Per (%)	1/1/3
12M Avg Val (INR M)	588

Financials & Valuations (INR b)

Y/E March	2022	2023E	2024E
Sales	51.0	54.1	57.6
Sales Gr. (%)	5.3	6.0	6.4
EBITDA	15.7	15.9	17.5
EBITDA Mrg. (%)	30.7	29.4	30.5
Adj. PAT	10.5	10.9	12.0
Adj. EPS (INR)	38.5	40.0	44.1
EPS Gr. (%)	4.2	4.1	10.3
BV/Sh.(INR)	63.8	63.8	63.8

Ratios

RoE (%)	72.1	62.8	69.2
RoCE (%)	73.0	63.7	70.2
Payout (%)	104.0	100.0	100.0

Valuation

P/E (x)	41.7	40.0	36.3
P/BV (x)	25.1	25.1	25.1
EV/EBITDA (x)	27.4	26.9	24.3
Div. Yield (%)	2.5	2.5	2.8

Shareholding pattern (%)

As On	Jun-22	Mar-22	Jun-21
Promoter	51.0	51.0	51.0
DII	9.1	8.4	8.5
FII	18.7	18.6	18.6
Others	21.2	22.0	21.9

FII Includes depository receipts

CMP: INR1,603 TP: INR1,620 (+1%) Neutral

Sales revival remains elusive

- CLGT's 2QFY23 sales were in line with our estimates. Gross margin contracted higher than expected; however, lower advertisement costs led to in-line EBITDA.
- The management highlighted that 2QFY23 saw healthy sales momentum on the back of focused positioning of festive season initiatives. It remains cautiously optimistic of improving its overall growth trends, including in rural India.
- While we await the response of re-launches/launches and the strategy under the new CEO, the core issue of lack of sales growth (caused by high category penetration, especially when CLGT has not shown any signs of regaining lost market share) will continue to delay re-rating of the stock, given the little signs of a slight deviation from its dependence on Oral Care. **We reiterate our Neutral rating on the stock.**

In-line performance with our estimates

- CLGT reported net sales growth of 2.6% YoY to INR13.9b (in-line). 1HFY23 was up 2.6% YoY at INR25.8b.
- We believe that domestic volume was likely flat YoY during the quarter.
- EBITDA came flat YoY to INR4.1b (in-line). 1HFY23 EBITDA declined 3% YoY to INR7.3b.
- PBT grew 3.7% YoY to INR3.7b (in-line). 1HFY23 PBT remained flat at INR6.7b.
- Adj. PAT grew 3.3% YoY to INR2.8b (in-line). 1HFY23 Adj. PAT remained flat at INR5b.
- Gross margins contracted 300bp YoY to 63.8% (v/s est. of 66.5%)
- As a percentage of sales, lower staff costs at 6.8% (-90bp YoY), ad-spends at 11.4% (-230bp), and higher other expenses at 16.1% (+40bp YoY) **led to flat EBITDA margin (-20bp YoY).**
- Absolute ad spends decreased 14.6%/2.9% YoY/QoQ to INR1.6b.
- The company has declared a dividend of INR18/share.

Key highlights from the press release

- The management said that demand momentum has improved compared to previous quarters.
- Core brands, i.e., Colgate Strong Teeth, Colgate MaxFresh, and Colgate Active Salt continue to report healthy growth.
- Visible White O2 delivered very strong performance.
- Going forward, the company plans to continue investing in its core brand, along with premiumization and category expansion in personal care.

Valuation and view

- There is no material change to our EPS forecasts. EPS CAGR of ~5.5% over the next two years implies a tepid outlook.
- With weak revenue and earnings growth likely to sustain going forward, there is unlikely to be any re-rating of the stock. We retain our target multiple of 35x Sep'24 EPS to arrive at our TP of INR1,620. We reiterate our **Neutral** rating on the stock.

Quarterly Performance

(INR m)

Y/E March	FY22				FY23				FY22	FY23E	FY23 2QE	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Toothpaste Volume Gr %	8.0	4.0	1.0	-4.0	-1.0	0.0	3.0	4.0			3.0	
Net Sales (inclgd. OOI)	11,660	13,524	12,801	13,013	11,968	13,875	13,697	14,538	50,998	54,078	14,336	-3.2%
<i>YoY change (%)</i>	12.0	5.2	3.9	1.4	2.6	2.6	7.0	11.7	5.3	6.0	6.0	
Gross Profit	8,062	9,038	8,526	8,696	7,938	8,846	8,958	9,750	34,323	35,491	9,533	-7.2%
<i>Gross margin (%)</i>	69.1	66.8	66.6	66.8	66.3	63.8	65.4	67.1	67.3	65.6	66.5	
EBITDA	3,552	4,008	3,806	4,294	3,257	4,080	4,082	4,499	15,660	15,918	4,157	-1.9%
<i>Margins (%)</i>	30.5	29.6	29.7	33.0	27.2	29.4	29.8	30.9	30.7	29.4	29.0	
<i>YoY growth (%)</i>	15.3	-2.1	2.7	1.8	-8.3	1.8	7.3	4.8	3.7	1.6	3.7	
Depreciation	447	449	439	438	442	439	448	464	1,773	1,792	467	
Interest	15	15	15	14	13	13	15	18	59	59	17	
Financial other Income	52	65	57	89	115	113	119	145	263	493	75	
PBT	3,142	3,609	3,408	3,931	2,918	3,741	3,738	4,163	14,090	14,559	3,749	-0.2%
Tax	810	917	885	1,015	727	961	942	1,037	3,627	3,668	945	
<i>Rate (%)</i>	25.8	25.4	26.0	25.8	24.9	25.7	25.2	24.9	25.7	25.2	25.2	
Adj PAT	2,332	2,692	2,523	2,916	2,190	2,780	2,796	3,125	10,463	10,890	2,804	-0.9%
<i>YoY change (%)</i>	17.7	-1.8	1.6	3.0	-6.1	3.3	10.8	7.2	4.2	4.1	4.2	

E: MOFSL Estimates

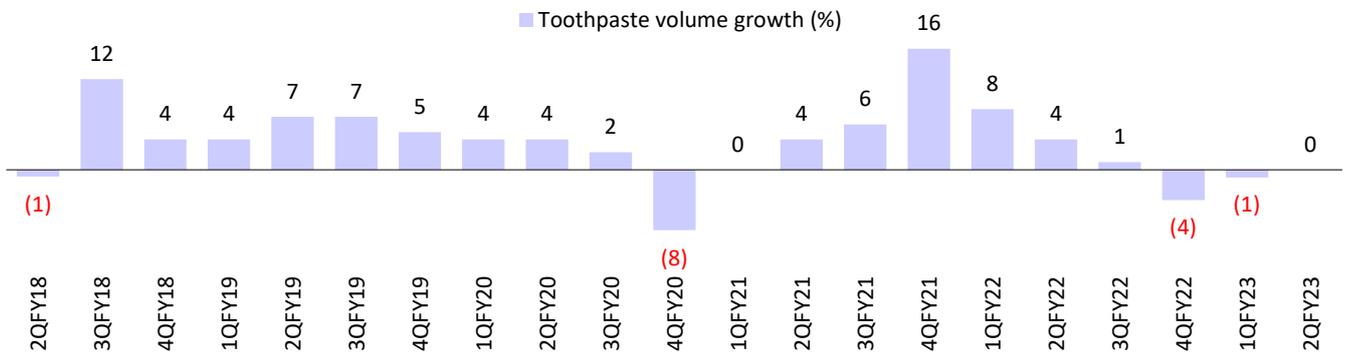
Key Performance Indicators

Y/E March	FY22				FY23			
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE
Realization Gr %	4.0	1.2	2.9	5.4	3.6	2.6	4.0	7.7
2Y average growth %								
Volumes	4.0	4.0	3.5	6.0	3.5	2.0	2.0	0.0
Sales	4.0	5.2	5.7	10.6	7.3	3.9	5.5	6.6
EBITDA	9.0	12.3	10.0	31.1	3.5	-0.1	5.0	3.3
PAT	17.4	5.2	13.2	20.8	5.8	0.7	6.2	5.1
% sales								
COGS	30.9	33.2	33.4	33.2	33.7	36.2	34.6	32.9
Others	38.7	37.2	36.9	33.8	39.1	34.3	35.6	36.1
Depriciation	3.8	3.3	3.4	3.4	3.7	3.2	3.3	3.2
YoY change %								
COGS	2.1	9.5	14.8	4.0	12.0	12.1	10.8	10.9
Other income	-17.0	-14.0	-42.5	33.8	121.5	73.3	110.0	63.9
EBIT	18.2	-2.0	3.6	2.5	-9.3	2.3	7.9	4.6

E: MOFSL Estimates

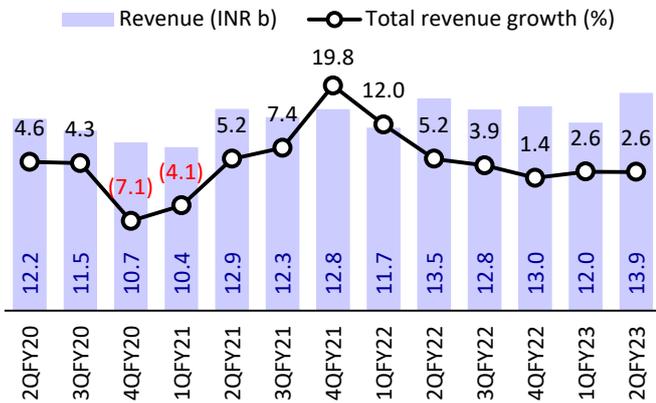
Key exhibits

Exhibit 1: Toothpaste volumes likely flat YoY in 2QFY23



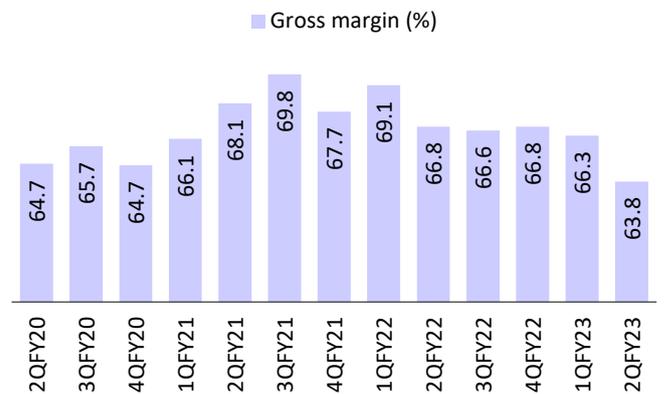
Source: MOFSL

Exhibit 2: Revenue rose 2.6% YoY to INR13.9b in 2QFY23



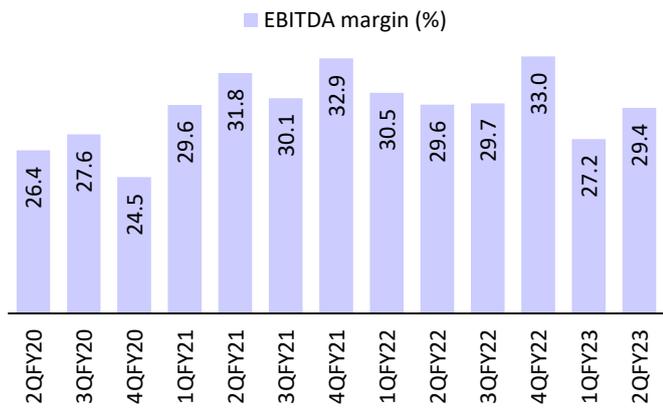
Sources: Company reports, MOFSL

Exhibit 3: Gross margin contracts 300bp YoY to 63.8% in 2QFY23



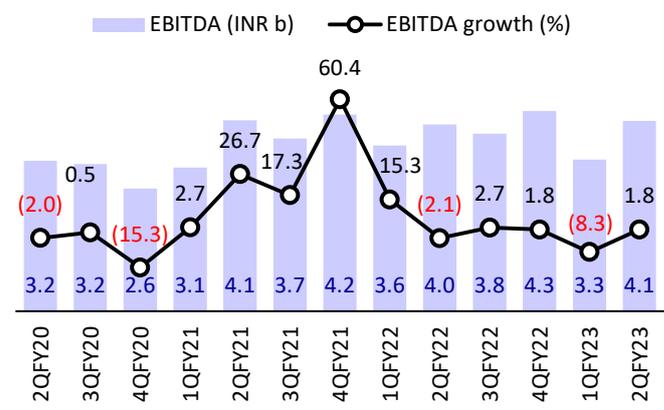
Sources: Company reports, MOFSL

Exhibit 4: EBITDA margin was flat YoY at 29.4%



Sources: Company reports, MOFSL

Exhibit 5: EBITDA was flat YoY at INR4.1b in 2QFY23



Sources: Company reports, MOFSL

Valuation and view

What happened in the past decade?

- A sharp decline in market share in the recent years coupled with increased penetration in the same category has resulted in single-digit revenue growth over the last 10 years. In recent years, premiumization has reduced, adversely affecting realization growth.
- For a company with a modest base of INR20.4b in sales in FY10, a sales/EBITDA/PBT CAGR of 8-10% over the last 10 years is a weak performance. PAT CAGR was lower at 7% as the company's tax rate stood at 16.7% in FY10.
- Due to a market share decline in the recent years, the sales/EBITDA/PAT CAGR has been lower by ~3%/~8%/~8% over the last five years.

Reiterate Neutral with TP of INR1,620

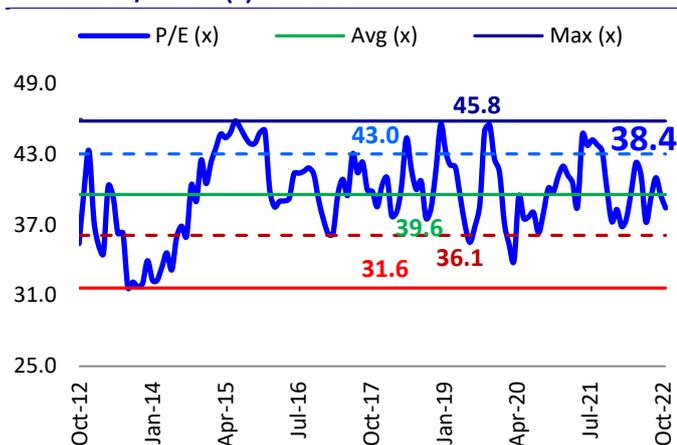
- There is no material change to our EPS forecasts. EPS CAGR of ~5.5% over the next two years implies a tepid outlook.
- With weak revenue and earnings growth likely to sustain going forward, there is unlikely to be any re-rating of the stock. We retain our target multiple of 35x Sep'24 EPS to arrive at our TP of INR1,620. We reiterate our **Neutral** rating on the stock.

Exhibit 6: There are no material changes to our EPS forecast

INR m	Old estimates		New estimates		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Sales	54,078	57,564	54,078	57,564	0.0	0.0
EBITDA	15,678	17,550	15,918	17,539	1.5	(0.1)
PAT	10,524	11,901	10,890	12,007	3.5	0.9

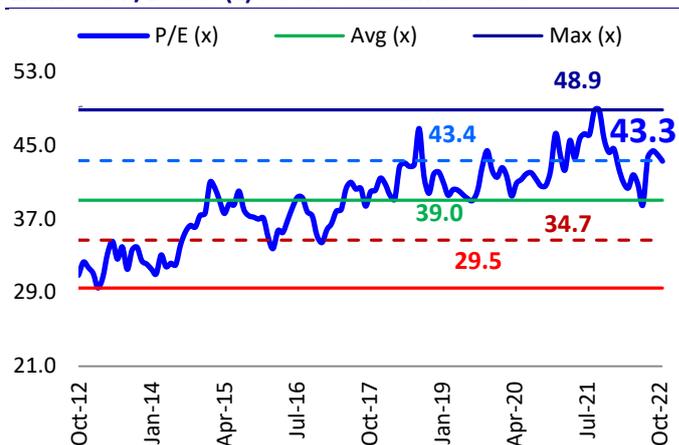
Source: MOFSL

Exhibit 7: P/E ratio (x) for CLGT



Sources: Company reports, MOFSL

Exhibit 8: P/E ratio (x) for the Consumer sector



Sources: Company reports, MOFSL

Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Sales	41,880	44,624	45,251	48,412	50,998	54,078	57,564
Change (%)	5.2	6.6	1.4	7.0	5.3	6.0	6.4
COGS	14,887	15,586	15,729	15,494	16,675	18,587	18,881
Gross Profit	26,992	29,039	29,522	32,918	34,323	35,491	38,683
Gross Margin (%)	64.5	65.1	65.2	68.0	67.3	65.6	67.2
Operating expenses	15,855	16,678	17,505	17,822	18,663	19,573	21,144
EBITDA	11,137	12,361	12,017	15,096	15,659	15,918	17,539
Change (%)	18.0	11.0	-2.8	25.6	3.7	1.6	10.2
Margin (%)	26.6	27.7	26.6	31.2	30.7	29.4	30.5
Depreciation	1,565	1,592	1,979	1,825	1,773	1,792	1,943
Int. and Fin. Charges	0	25	96	73	59	59	59
Financial Other Income	375	377	492	304	263	493	515
Profit before Taxes	9,947	11,120	10,434	13,502	14,090	14,559	16,052
Change (%)	16.8	11.8	-6.2	29.4	4.4	3.3	10.3
Margin (%)	23.8	24.9	23.1	27.9	27.6	26.9	27.9
Tax	3,022	3,566	2,475	3,572	3,768	3,668	4,044
Tax Rate (%)	31.1	32.1	21.7	25.6	25.7	25.2	25.2
Adjusted PAT	6,850	7,555	8,165	10,039	10,463	10,890	12,007
Change (%)	18.6	10.3	8.1	23.0	4.2	4.1	10.3
Margin (%)	16.4	16.9	18.0	20.7	20.5	20.1	20.9
Non-rec. (Exp)/Income	-117	201	0	315	320	0	0
Reported PAT	6,734	7,756	8,165	10,354	10,783	10,890	12,007

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Share Capital	272	272	272	272	272	272	272
Reserves	14,974	14,196	15,670	11,387	17,075	17,075	17,075
Net Worth	15,246	14,468	15,942	11,659	17,347	17,347	17,347
Loans	0	777	0	0	0	0	0
Deferred Liability	355	309	50	-48	-173	-173	-173
Capital Employed	15,601	15,553	15,992	11,611	17,174	17,174	17,174
Gross Block	19,077	21,077	22,182	19,831	20,587	21,087	22,087
Less: Accum. Deprn.	-7,617	-9,169	-10,953	-9,184	-10,957	-12,749	-14,692
Net Fixed Assets	11,459	11,909	11,229	10,647	9,630	8,338	7,395
Capital WIP	1,586	1,987	1,900	1,448	1,218	1,218	1,218
Investments	312	312	186	186	0	0	0
Curr. Assets, L&A	12,282	12,058	12,725	16,611	17,997	19,920	21,142
Inventory	2,267	2,486	2,969	3,358	3,572	3,607	3,678
Account Receivables	2,010	2,098	1,326	1,171	2,247	2,354	2,506
Cash & Bank	4,562	3,994	4,213	8,676	7,547	8,532	9,437
Others	3,443	3,481	4,217	3,405	4,631	5,427	5,521
Curr. Liab. and Prov.	10,037	10,712	10,048	17,282	11,672	12,303	12,582
Account Payables	6,203	6,132	6,125	7,604	7,714	8,177	8,280
Other Liabilities	3,040	3,757	2,830	8,555	2,978	3,096	3,221
Provisions	794	823	1,093	1,122	980	1,029	1,080
Net Current Assets	2,245	1,346	2,677	-671	6,326	7,618	8,561
Application of Funds	15,601	15,553	15,992	11,611	17,174	17,174	17,174

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Basic (INR)							
EPS	25.2	27.8	30.0	36.9	38.5	40.0	44.1
Cash EPS	30.9	33.6	37.3	43.6	45.0	46.6	51.3
BV/Share	56.1	53.2	58.6	42.9	63.8	63.8	63.8
DPS	24.0	23.0	28.0	38.0	40.0	40.0	44.1
Payout %	95.3	82.8	93.3	103.0	104.0	100.0	100.0
Valuation (x)							
P/E	63.7	57.7	53.4	43.4	41.7	40.0	36.3
Cash P/E	51.8	47.7	43.0	36.8	35.6	34.4	31.3
EV/Sales	10.3	9.7	9.5	8.8	8.4	7.9	7.4
EV/EBITDA	38.7	35.0	35.9	28.3	27.4	26.9	24.3
P/BV	28.6	30.1	27.4	37.4	25.1	25.1	25.1
Dividend Yield (%)	1.5	1.4	1.7	2.4	2.5	2.5	2.8
Return Ratios (%)							
RoE	49.0	50.9	53.7	72.7	72.1	62.8	69.2
RoCE	47.9	48.6	52.2	73.1	73.0	63.7	70.2
Working Capital Ratios							
Debtor (Days)	17	17	11	9	16	16	16
Asset Turnover (x)	3.1	3.4	3.3	4.9	3.2	3.4	3.6
Leverage Ratio							
Debt/Equity (x)	0.0	0.1	0.0	0.0	0.0	0.0	0.0

Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(loss) before Tax	9,947	11,121	10,434	13,502	14,090	14,559	16,052
Depreciation	1,565	1,592	1,979	1,825	1,773	1,792	1,943
Int./Div. Received	81	85	-95	58	150	-493	-515
Interest Paid	-290	-317	-171	-137	-208	59	59
Direct Taxes Paid	-3,474	-4,144	-3,213	-3,584	-3,699	-3,668	-4,044
(Incr)/Decr in WC	-889	1,494	-35	-3,826	4,151	-308	-37
CF from Operations	6,940	9,830	8,899	7,839	16,257	11,942	13,457
(Incr)/Decr in FA	-2,087	-1,042	-604	-573	-493	-500	-1,000
Free Cash Flow	4,853	8,788	8,295	7,265	15,765	11,442	12,457
(Pur)/Sale of Investments	0	0	133	1,060	-1,003	0	0
Others	564	-1,209	305	5,703	-4,985	708	730
CF from Invest.	-1,523	-2,251	-166	6,190	-6,481	208	-270
Change in Equity	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	-121	0	0	0	0	0
Dividend Paid	-2,986	-6,462	-7,315	-9,211	-10,572	-10,890	-12,007
Others	-812	-1,564	-1,199	-353	-334	-275	-275
CF from Fin. Activity	-3,798	-8,147	-8,514	-9,565	-10,906	-11,166	-12,282
Incr/Decr of Cash	1,619	-568	219	4,464	-1,129	984	905
Add: Opening Balance	2,943	4,562	3,994	4,213	8,676	7,547	8,532
Closing Balance	4,562	3,994	4,213	8,676	7,547	8,532	9,437

E: MOFSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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