

October 20, 2022

## Q2FY23 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
<b>Rating</b>	<b>ACCUMULATE</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>1,639</b>		<b>1,702</b>	
Sales (Rs. m)	56,892	61,783	59,212	64,301
% Chng.	(3.9)	(3.9)		
EBITDA (Rs. m)	16,702	18,505	18,079	19,889
% Chng.	(7.6)	(7.0)		
EPS (Rs.)	42.2	46.4	46.0	50.2
% Chng.	(8.3)	(7.6)		

### Key Financials - Standalone

Y/e Mar	FY22	FY23E	FY24E	FY25E
Sales (Rs. m)	50,998	52,874	56,892	61,783
EBITDA (Rs. m)	15,659	15,179	16,702	18,505
Margin (%)	30.7	28.7	29.4	30.0
PAT (Rs. m)	10,783	10,330	11,470	12,609
EPS (Rs.)	39.6	38.0	42.2	46.4
Gr. (%)	4.1	(4.2)	11.0	9.9
DPS (Rs.)	40.0	36.0	38.0	42.0
Yield (%)	2.5	2.2	2.4	2.6
RoE (%)	74.4	58.6	62.2	64.4
RoCE (%)	95.8	75.8	79.9	83.7
EV/Sales (x)	8.4	8.1	7.5	6.9
EV/EBITDA (x)	27.4	28.2	25.5	22.9
PE (x)	40.5	42.3	38.1	34.6
P/BV (x)	25.2	24.4	23.0	21.7

### Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.1,696 / Rs.1,376
Sensex / Nifty	59,203 / 17,564
Market Cap	Rs.437bn / \$ 5,275m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.503.3m

### Shareholding Pattern (%)

Promoter's	51.00
Foreign	19.46
Domestic Institution	9.27
Public & Others	20.27
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	0.7	5.2	(0.5)
Relative	1.6	1.3	2.9

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# Colgate Palmolive (CLGT IN)

Rating: ACCUMULATE | CMP: Rs1,605 | TP: Rs1,639

## Tepid performance, valuations cap downside

### Quick Pointers:

- Volume decline by ~3%, demand under more pressure in rural than Urban India
- Core brands, festive demand and new launches – Max Fresh Charcoal Toothpaste are triggers for future growth

**CLGT reported tepid numbers with ~3% decline in volumes and input cost pressures and sustained competitive activity in core category of oral care. 14.6% decline in absolute adspends have enabled CLGT to curtail margin compression and post 3.3% PAT growth. Core brands like Colgate Strong Teeth, Max fresh and Active salt continue to drive growth for the company.**

**CLGT is focusing on accelerating growth led by 1) Ramping up innovations (Max Fresh Charcoal, Palmolive facewash and Electric Toothbrushes 2) Increasing promotion intensity 3) sustained investments to increase presence in personal care segment (foams, scrubs and masques under Palmolive brand). We estimate 8.1% Sales and 10.3% PAT CAGR over FY23-25 assuming 4.3% decline in FY23 EPS. Revival in rural demand and success in personal care hold key to improving valuations. Although CLGT's growth is unexciting, favorable financial parameters (36x Sep'24 EPS, 2.2% Dividend yield, 90%+ payout and ~80% ROCE) limit downside. We value CLGT at 37x Sep'24 EPS and assign a Target of Rs 1639 (earlier Rs 1701 on 37x FY24 EPS). Retain Accumulate.**

- Sales grew 2.6%, Gross Margins contracted by 308 bps:** Revenues grew by 2.6% YoY to Rs13.9bn (PLe: Rs14bn). Gross margins contracted by 308bps YoY to 63.8% (PLe: 65.0%). EBITDA grew by 1.8% YoY to Rs4.1bn (PLe:Rs4.0bn); Margins contracted by 23bps YoY to 29.4% (PLe:28.5%). A&P spends contracted by 230bps YoY to 11.4%. Adj. PAT grew by 3.3% YoY to Rs2.8bn (PLe:Rs2.7bn).

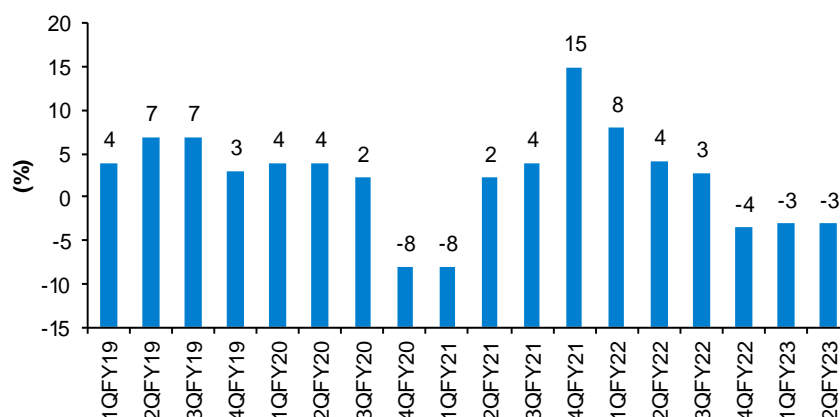
### Key Highlights:

- Gross margins declined 250bps QoQ to 63.5% in Q2FY23 on input costs pressures, expect margins to remain under pressure for next 1-2 quarters.
- Volumes remain under pressure, however modern trade and e-commerce is performing better and company is cautiously optimistic on rural demand
- Ad-spends cut by 14.6% from Rs1.8bn in Q2FY22 to Rs1.6bn in Q2FY23
- Innovation pipeline remains strong with launch of Max Fresh Charcoal in Q2FY23 while earlier launches of Visible White O2, Palmolive Facewash and Electric toothbrushes continue to perform good
- Calibrated price increase of ~5-6% have been taken by the company in past couple of quarters

**Exhibit 1: 2QFY23: Net sales up 2.6%, GPMs/EBITDA margins declined by 310/20bps**

Particulars	2QFY23	2QFY22	YoY gr. (%)	1QFY23	1HFY23	1HFY22	YoY gr. (%)
<b>Net Sales</b>	<b>13,875</b>	<b>13,524</b>	<b>2.6</b>	<b>11,968</b>	<b>25,843</b>	<b>25,184</b>	<b>2.6</b>
Gross Profit	8,846	9,038	(2.1)	7,938	16,783	17,101	(1.9)
<i>Margin %</i>	<i>63.8</i>	<i>66.8</i>	<i>(3.1)</i>	<i>66.3</i>	<i>64.9</i>	<i>67.9</i>	<i>(3.0)</i>
Other Exp	4766	5031	(5.3)	4681	9447	9541	(1.0)
<i>% of Net sales</i>	<i>34.3</i>	<i>37.2</i>		<i>39.1</i>	<i>36.6</i>	<i>37.9</i>	
<b>EBITDA</b>	<b>4,080</b>	<b>4,008</b>	<b>1.8</b>	<b>3,257</b>	<b>7,337</b>	<b>7,560</b>	<b>(3.0)</b>
<i>Margin %</i>	<i>29.4</i>	<i>29.6</i>	<i>(0.2)</i>	<i>27.2</i>	<i>28.4</i>	<i>30.0</i>	<i>(1.6)</i>
Depreciation	439	449	(2.3)	442	880	896	(1.8)
Interest	13	15		13	26	30	
<b>PBT from operations</b>	<b>3629</b>	<b>3544</b>	<b>2.4</b>	<b>2802</b>	<b>6431</b>	<b>6634</b>	<b>(3.1)</b>
Other Income	113	65	73.3	115	228	117	94.7
<b>PBT</b>	<b>3,741</b>	<b>3,609</b>	<b>3.7</b>	<b>2,918</b>	<b>6,659</b>	<b>6,751</b>	<b>(1.4)</b>
Tax	961	917	4.8	727	1689	1727	(2.2)
<i>Tax rate %</i>	<i>25.7</i>	<i>25.4</i>		<i>24.9</i>	<i>25.4</i>	<i>25.6</i>	
<b>Adj. PAT</b>	<b>2,780</b>	<b>2,692</b>	<b>3.3</b>	<b>2,190</b>	<b>4,970</b>	<b>5,024</b>	<b>(1.1)</b>

Source: Company, PL

**Exhibit 2: Toothpaste volumes decline 3%**


Source:

**Exhibit 3: Colgate Launches Max Fresh Charcoal**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Net Revenues</b>	<b>50,998</b>	<b>52,874</b>	<b>56,892</b>	<b>61,783</b>
YoY gr. (%)	5.3	3.7	7.6	8.6
Cost of Goods Sold	16,675	18,594	19,332	20,692
Gross Profit	34,323	34,280	37,560	41,091
Margin (%)	67.3	64.8	66.0	66.5
Employee Cost	3,851	3,834	4,240	4,544
Other Expenses	4,146	4,284	4,610	5,008
<b>EBITDA</b>	<b>15,659</b>	<b>15,179</b>	<b>16,702</b>	<b>18,505</b>
YoY gr. (%)	3.7	(3.1)	10.0	10.8
Margin (%)	30.7	28.7	29.4	30.0
Depreciation and Amortization	1,773	1,827	1,959	2,101
<b>EBIT</b>	<b>13,886</b>	<b>13,352</b>	<b>14,744</b>	<b>16,404</b>
Margin (%)	27.2	25.3	25.9	26.6
Net Interest	59	77	74	70
Other Income	263	353	461	523
<b>Profit Before Tax</b>	<b>14,090</b>	<b>13,628</b>	<b>15,131</b>	<b>16,857</b>
Margin (%)	27.6	25.8	26.6	27.3
Total Tax	3,307	3,298	3,662	4,248
Effective tax rate (%)	23.5	24.2	24.2	25.2
<b>Profit after tax</b>	<b>10,783</b>	<b>10,330</b>	<b>11,470</b>	<b>12,609</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>10,783</b>	<b>10,330</b>	<b>11,470</b>	<b>12,609</b>
YoY gr. (%)	4.1	(4.2)	11.0	9.9
Margin (%)	21.1	19.5	20.2	20.4
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>10,783</b>	<b>10,330</b>	<b>11,470</b>	<b>12,609</b>
YoY gr. (%)	4.1	(4.2)	11.0	9.9
Margin (%)	21.1	19.5	20.2	20.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,783	10,330	11,470	12,609
<b>Equity Shares O/s (m)</b>	<b>272</b>	<b>272</b>	<b>272</b>	<b>272</b>
<b>EPS (Rs)</b>	<b>39.6</b>	<b>38.0</b>	<b>42.2</b>	<b>46.4</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>18,177</b>	<b>18,177</b>	<b>19,545</b>	<b>20,995</b>
Tangibles	18,177	18,177	19,545	20,995
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>10,159</b>	<b>11,740</b>	<b>13,441</b>	<b>15,267</b>
Tangibles	10,159	11,740	13,441	15,267
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>8,018</b>	<b>6,436</b>	<b>6,104</b>	<b>5,728</b>
Tangibles	8,018	6,436	6,104	5,728
Intangibles	-	-	-	-
Capital Work In Progress	1,218	1,100	1,150	1,200
Goodwill	-	-	-	-
Non-Current Investments	184	193	202	211
Net Deferred tax assets	173	-	-	-
Other Non-Current Assets	4,597	4,561	4,529	4,499
<b>Current Assets</b>				
Investments	7,082	7,879	9,044	9,824
Inventories	3,572	4,161	4,260	4,486
Trade receivables	2,247	2,302	2,478	2,692
Cash & Bank Balance	466	1,293	1,834	2,803
Other Current Assets	319	525	565	614
<b>Total Assets</b>	<b>29,018</b>	<b>29,657</b>	<b>31,432</b>	<b>33,386</b>
<b>Equity</b>				
Equity Share Capital	272	272	272	272
Other Equity	17,075	17,613	18,747	19,887
<b>Total Network</b>	<b>17,347</b>	<b>17,885</b>	<b>19,019</b>	<b>20,159</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	140	192	212	227
Other non current liabilities	695	514	348	199
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,714	7,915	8,518	9,252
Other current liabilities	3,111	3,138	3,322	3,534
<b>Total Equity &amp; Liabilities</b>	<b>29,018</b>	<b>29,657</b>	<b>31,432</b>	<b>33,386</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY22	FY23E	FY24E	FY25E
PBT	14,090	13,628	15,131	16,857
Add. Depreciation	1,773	1,827	1,959	2,101
Add. Interest	59	77	74	70
Less Financial Other Income	263	353	461	523
Add. Other	-	-	-	-
Op. profit before WC changes	15,922	15,531	17,163	19,028
Net Changes-WC	(12,473)	(1,481)	(946)	(571)
Direct tax	(3,307)	(3,298)	(3,662)	(4,293)
<b>Net cash from Op. activities</b>	<b>142</b>	<b>10,752</b>	<b>12,556</b>	<b>14,164</b>
Capital expenditures	(526)	(56)	(1,606)	(1,702)
Interest / Dividend Income	-	-	-	-
Others	186	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(339)</b>	<b>(56)</b>	<b>(1,606)</b>	<b>(1,702)</b>
Issue of share cap. / premium	73	-	-	-
Debt changes	-	-	-	-
Dividend paid	(5,168)	(9,791)	(10,335)	(11,423)
Interest paid	(59)	(77)	(74)	(70)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(5,154)</b>	<b>(9,869)</b>	<b>(10,409)</b>	<b>(11,493)</b>
<b>Net change in cash</b>	<b>(5,351)</b>	<b>828</b>	<b>541</b>	<b>969</b>
Free Cash Flow	(383)	10,696	10,950	12,463

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY22	FY23E	FY24E	FY25E
<b>Per Share(Rs)</b>				
EPS	39.6	38.0	42.2	46.4
CEPS	46.2	44.7	49.4	54.1
BVPS	63.8	65.8	69.9	74.1
FCF	(1.4)	39.3	40.3	45.8
DPS	40.0	36.0	38.0	42.0
<b>Return Ratio(%)</b>				
RoCE	95.8	75.8	79.9	83.7
ROIC	152.8	119.9	147.6	176.2
RoE	74.4	58.6	62.2	64.4
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	(14)	(10)	(11)	(12)
<b>Valuation(x)</b>				
PER	40.5	42.3	38.1	34.6
P/B	25.2	24.4	23.0	21.7
P/CEPS	34.8	35.9	32.5	29.7
EV/EBITDA	27.4	28.2	25.5	22.9
EV/Sales	8.4	8.1	7.5	6.9
Dividend Yield (%)	2.5	2.2	2.4	2.6

Source: Company Data, PL Research

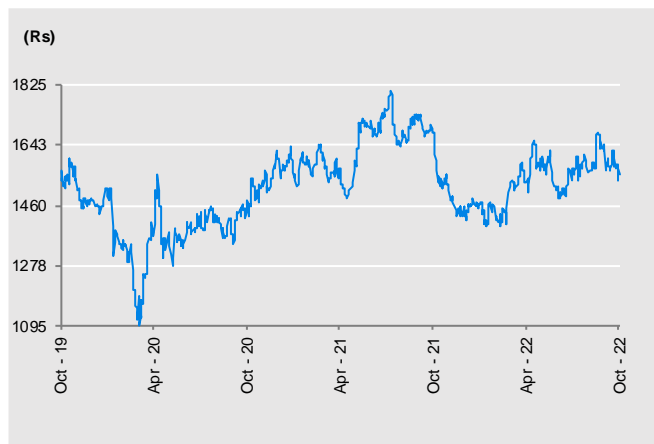
## Quarterly Financials (Rs m)

Y/e Mar	Q3FY22	Q4FY22	Q1FY23	Q2FY23
<b>Net Revenue</b>	<b>12,801</b>	<b>13,013</b>	<b>11,968</b>	<b>13,875</b>
YoY gr. (%)	3.9	1.4	2.6	2.6
Raw Material Expenses	4,275	4,317	4,031	5,029
Gross Profit	8,526	8,696	7,938	8,846
Margin (%)	66.6	66.8	66.3	63.8
<b>EBITDA</b>	<b>3,806</b>	<b>4,294</b>	<b>3,257</b>	<b>4,080</b>
YoY gr. (%)	2.7	1.8	(8.3)	1.8
Margin (%)	29.7	33.0	27.2	29.4
Depreciation / Depletion	439	438	442	439
<b>EBIT</b>	<b>3,366</b>	<b>3,856</b>	<b>2,815</b>	<b>3,641</b>
Margin (%)	26.3	29.6	23.5	26.2
Net Interest	15	14	13	13
Other Income	57	89	115	113
<b>Profit before Tax</b>	<b>3,408</b>	<b>3,931</b>	<b>2,918</b>	<b>3,741</b>
Margin (%)	26.6	30.2	24.4	27.0
Total Tax	885	1,015	727	961
Effective tax rate (%)	26.0	25.8	24.9	25.7
<b>Profit after Tax</b>	<b>2,523</b>	<b>2,916</b>	<b>2,190</b>	<b>2,780</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>2,523</b>	<b>2,916</b>	<b>2,190</b>	<b>2,780</b>
YoY gr. (%)	1.6	3.0	(6.1)	3.3
Margin (%)	19.7	22.4	18.3	20.0
Extra Ord. Income / (Exp)	-	320	(93)	-
<b>Reported PAT</b>	<b>2,523</b>	<b>3,236</b>	<b>2,097</b>	<b>2,780</b>
YoY gr. (%)	1.6	2.8	(10.1)	3.3
Margin (%)	19.7	24.9	17.5	20.0
Other Comprehensive Income	-	47	-	-
<b>Total Comprehensive Income</b>	<b>2,523</b>	<b>3,282</b>	<b>2,097</b>	<b>2,780</b>
Avg. Shares O/s (m)	272	272	272	272
<b>EPS (Rs)</b>	<b>9.3</b>	<b>10.7</b>	<b>8.1</b>	<b>10.2</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	04-Oct-22	Accumulate	1,702	1,579
2	27-Jul-22	Accumulate	1,701	1,564
3	07-Jul-22	Accumulate	1,708	1,570
4	26-May-22	Accumulate	1,708	1,609
5	08-Apr-22	Accumulate	1,664	1,565
6	27-Jan-22	Accumulate	1,733	1,394
7	06-Jan-22	Accumulate	1,852	1,466
8	25-Oct-21	Accumulate	1,852	1,532

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,446	3,303
2	Avenue Supermarts	BUY	5,121	4,306
3	Britannia Industries	Hold	4,026	3,769
4	Colgate Palmolive	Accumulate	1,702	1,579
5	Dabur India	Accumulate	604	557
6	Emami	Accumulate	574	499
7	Hindustan Unilever	Accumulate	2,827	2,623
8	ITC	Accumulate	340	324
9	Jubilant FoodWorks	BUY	688	615
10	Kansai Nerolac Paints	Accumulate	558	495
11	Marico	Hold	523	527
12	Mold-tek Packaging	Accumulate	898	858
13	Nestle India	Accumulate	20,178	18,966
14	Pidilite Industries	Hold	2,691	2,656
15	Restaurant Brands Asia	Accumulate	156	132
16	Titan Company	Accumulate	2,608	2,433
17	Westlife Development	BUY	847	719

## PL's Recommendation Nomenclature (Absolute Performance)

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

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