

# Colgate Palmolive (India) Ltd.



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Sequential gross margin pressure mitigated by lower opex

CMP INR 1,607	Target INR 1,753	Potential Upside 9.1%	Market Cap (INR Mn) INR 4,37,081	Recommendation <b>ACCUMULATE</b>	Sector Consumer Goods
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## Result Highlights of Q2FY23

- In Q2FY23, CLGT reported revenue of INR 13,875 mn (+2.6% YoY/ +15.9% QoQ). For H1FY23, revenue was at INR 25,843 mn (+2.6% YoY).
- EBITDA for Q2FY23 was INR 4,080 mn (+1.8% YoY/ +25.3% QoQ). EBITDA margin for the quarter was at 29.4%, which was a contraction of 23 bps YoY but an improvement of 219 bps QoQ, despite the pressure on gross margins. EBITDA margin for H1FY23 contracted by 163 bps YoY to 28.4%.
- Adj. Net Profit for Q2FY23 was at INR 2,780 mn (+3.3% YoY/ +26.9% QoQ). Adj. Net profit for H1FY23 declined by 1.1% YoY to INR 4,970 mn.

## MARKET DATA

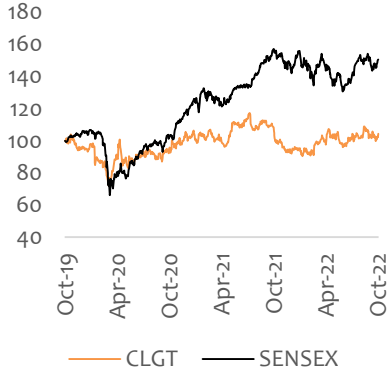
Shares outs (Mn)	272
Mkt Cap (INR mn)	4,37,081
52 Wk H/L (INR)	1,696/ 1,376
Volume Avg (3m K)	302
Face Value (INR)	1
Bloomberg Code	CLGT IN

## KEY FINANCIALS

INR Millions	FY20	FY21	FY22	FY23E	FY24E
Revenue	45,251	48,412	50,998	53,705	58,493
EBITDA	12,017	15,096	15,659	15,842	18,085
PAT	8,165	10,354	10,783	10,844	12,488
Adj PAT	8,165	10,354	10,783	10,937	12,488
EPS (INR)	30.0	38.1	39.6	39.9	45.9
Adj. EPS (INR)	30.0	38.1	39.6	40.2	45.9
EBITDA Margin (%)	26.6%	31.2%	30.7%	29.5%	30.9%
NPM (%)	18.0%	21.4%	21.1%	20.2%	21.3%

Source: Company, KRChoksey Research

## SHARE PRICE PERFORMANCE



## Revenue growth continues to be in the low single digits

CLGT's revenues improved by 2.6% YoY and 15.9% QoQ in Q2FY23, which is a seasonally strong quarter for the company. The YoY growth remained near the levels seen in Q1FY23 of 2.5% YoY.

## Sequential EBITDA margin improvement is seen despite gross margin pressure

In Q2FY23, gross margins declined by 308 bps YoY and 257 bps QoQ. The pressure on gross margins was mitigated by lower operating costs. Employee costs, advertising costs, and other expenses combined as a % of sales declined by 285 bps YoY and 476 bps QoQ. The cost savings led to EBITDA margins improving sequentially by 219 bps to 29.4% in the quarter. On a YoY basis, the EBITDA margin still remained under pressure, with a contraction of 23 bps.

## Change in management

Prabha Narsimhan joined as Managing Director and CEO effective September 1, 2022. She brings with her nearly 25 years of experience across Customer Development, Consumer Marketing and Innovation across geographies and multiple categories.

## Interim dividend declared

CLGT's Board of directors declared a first Interim Dividend of INR 18 per share of face value INR 1 each for FY23.

## Outlook

The management has seen improved momentum driven by the focused deployment of initiatives during the festive season. The management remains cautiously optimistic about the overall growth trend, especially in rural. The growth in modern trade and e-commerce businesses has been encouraging. As the macroeconomic environment stabilizes, CLGT is expected to focus on delivering sustainable gross margins. CLGT plans to continue to invest in the core while driving premiumization and category expansion into personal care.

## MARKET INFO

SENSEX	59,203
NIFTY	17,564

## SHARE HOLDING PATTERN (%)

Particulars	Sep-22	Jun-22	Mar-22
Promoters	51.0	51.0	51.0
FIIIs	19.5	18.7	18.6
DIIIs	9.3	8.8	8.3
Others	20.3	21.5	22.1
Total	100.0	100	100

7.1%

Revenue CAGR between FY22 and FY24E

7.6%

PAT CAGR between FY22 and FY24E

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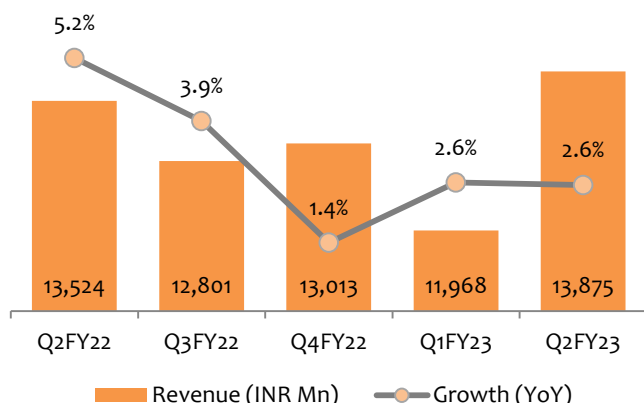
## Valuation & view:

CLGT's core brands like Colgate Strong Teeth, Colgate MaxFresh and Colgate Active Salt continued to report healthy growth. Visible White O2 has delivered a very strong performance across quarters since its launch. CLGT launched MaxFresh Charcoal in the quarter and has a further pipeline of innovative products. Also, there is continued impetus on Palmolive Face wash and Electric toothbrushes.

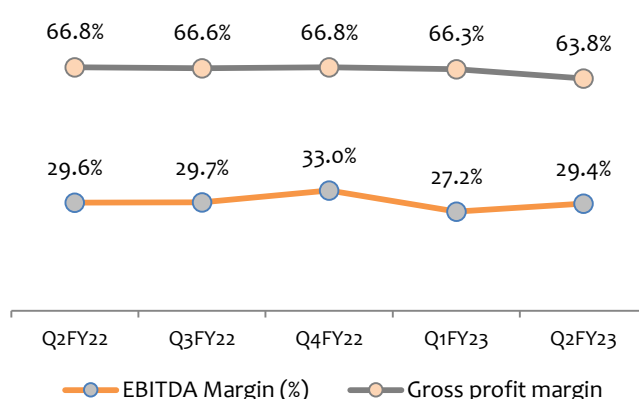
CLGT has reported low single-digit YoY growth in each quarter since Q3FY22. The trend has continued in Q2FY23. As the benefit of commodity costs softening comes through, we expect some revival in demand in the coming quarters. CLGT has managed to optimize their operating costs in Q2FY23, but we think some operating expenses like ad spends can come back. As gross margins improve, we should see improvement in the EBITDA margins despite some increase in ad spends of other opex. We estimate CLGT's Revenue/EBITDA/PAT to grow at a CAGR of 7.1% / 7.5% / 7.6% over FY22-FY24E.

We apply P/E multiple of 38.2x on FY24E EPS of INR 45.9 and arrive at a target price of INR 1,753 per share (unchanged), having an upside potential of 9.1% from CMP. Accordingly, we maintain our rating at "Accumulate" on the shares of Colgate Palmolive India.

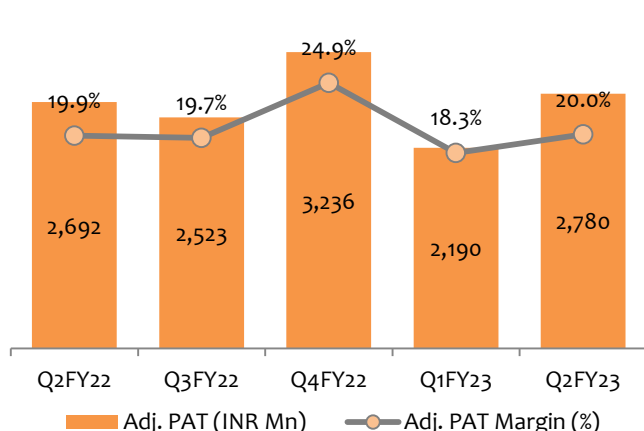
YoY revenue growth continued to be in low single-digits



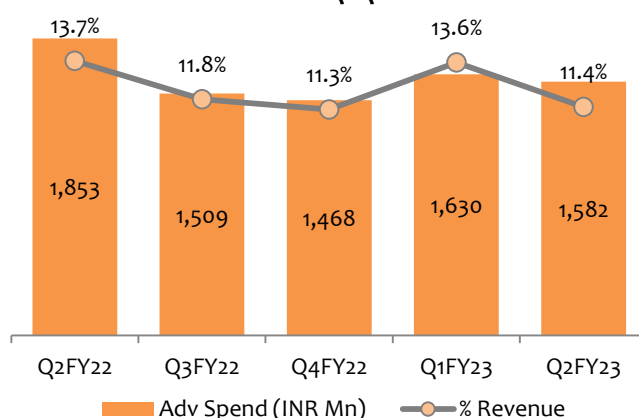
EBITDA margin improved QoQ despite gross margin pressure



NPM improved QoQ



Advertisement spend as a % of revenue declined YoY and QoQ



Source: Company, KRChoksey Research

# Colgate Palmolive (India) Ltd.

## KEY FINANCIALS

Quarterly Income Statement (INR Mn)	Q2FY23	Q1FY23	Q2FY22	QoQ	YoY	H1FY23	H1FY22	YoY
Revenue	13,875	11,968	13,524	15.9%	2.6%	25,843	25,184	2.6%
Total Expenditure	9,795	8,711	9,517	12.4%	2.9%	18,506	17,624	5.0%
Cost of Raw Materials	4,062	3,559	3,529	14.2%	15.1%	7,621	6,637	14.8%
Purchase of Stock	854	662	665	29.1%	28.5%	1,516	1,476	2.7%
Changes in Inv	113	-190	292	-159.5%	-61.3%	-77	-29	162.1%
Employee Cost	945	937	1,047	0.9%	-9.7%	1,882	1,997	-5.7%
Other Expenses	3,820	3,744	3,984	2.0%	-4.1%	7,564	7,544	0.3%
EBITDA	4,080	3,257	4,008	25.3%	1.8%	7,337	7,560	-3.0%
EBITDA Margin (%)	29.4%	27.2%	29.6%	219 bps	-23 bps	28.4%	30.0%	-163 bps
Depreciation	439	442	449	-0.7%	-2.3%	880	896	-1.8%
EBIT	3,641	2,815	3,559	29.3%	2.3%	6,456	6,664	-3.1%
Other Income	113	115	65	-2.3%	73.3%	228	117	94.7%
Interest Expense	13	13	15	-2.3%	-15.3%	26	30	-15.5%
Exceptional items	13,875	11,968	13,524	15.9%	2.6%	25,843	25,184	2.6%
PBT	3,741	2,824	3,609	32.5%	3.7%	6,566	6,751	-2.7%
Tax	961	727	917	32.1%	4.8%	1,689	1,727	-2.2%
PAT	2,780	2,097	2,692	32.6%	3.3%	4,877	5,024	-2.9%
PAT Margin	20.0%	17.5%	19.9%	252 bps	13 bps	18.9%	19.9%	-108 bps
Adj. PAT	2,780	2,190	2,692	26.9%	3.3%	4,970	5,024	-1.1%
Adj. PAT Margin	20.0%	18.3%	19.9%	174 bps	13 bps	19.2%	19.9%	-72 bps
EPS	10.2	7.7	9.9	32.6%	3.2%	17.9	18.5	-2.9%
Adj. EPS	10.2	8.1	9.9	26.9%	3.3%	18.3	18.5	-1.1%

Source: Company, KRChoksey Research

# Colgate Palmolive (India) Ltd.

Income Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
<b>Revenues</b>	<b>45,251</b>	<b>48,412</b>	<b>50,998</b>	<b>53,705</b>	<b>58,493</b>
COGS	15,729	15,494	16,675	18,458	18,998
<b>Gross profit</b>	<b>29,522</b>	<b>32,919</b>	<b>34,323</b>	<b>35,248</b>	<b>39,495</b>
Employee cost	3,323	3,656	3,851	3,804	4,272
Other expenses	14,182	14,166	14,812	15,601	17,138
<b>EBITDA</b>	<b>12,017</b>	<b>15,096</b>	<b>15,659</b>	<b>15,842</b>	<b>18,085</b>
<b>EBITDA Margin</b>	<b>26.6%</b>	<b>31.2%</b>	<b>30.7%</b>	<b>29.5%</b>	<b>30.9%</b>
Depreciation & amortization	1,979	1,825	1,773	1,866	2,043
<b>EBIT</b>	<b>10,038</b>	<b>13,271</b>	<b>13,886</b>	<b>13,976</b>	<b>16,042</b>
Interest expense	96	73	59	53	48
Other income	492	304	263	331	336
<b>PBT</b>	<b>10,434</b>	<b>13,502</b>	<b>14,090</b>	<b>14,161</b>	<b>16,330</b>
Tax	2,269	3,148	3,307	3,318	3,842
<b>PAT</b>	<b>8,165</b>	<b>10,354</b>	<b>10,783</b>	<b>10,844</b>	<b>12,488</b>
<b>Adj. PAT</b>	<b>8,165</b>	<b>10,354</b>	<b>10,783</b>	<b>10,937</b>	<b>12,488</b>
<b>EPS (INR)</b>	<b>30.0</b>	<b>38.1</b>	<b>39.6</b>	<b>39.9</b>	<b>45.9</b>
<b>Adj. EPS</b>	<b>30.0</b>	<b>38.1</b>	<b>39.6</b>	<b>40.2</b>	<b>45.9</b>

Cash Flow Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	8,899	7,839	16,257	12,766	14,238
Net Cash Flow from/(used in) Investing Activities	(187)	714	(1,077)	(1,252)	(2,361)
Net Cash Flow from Financing Activities	(8,514)	(9,565)	(10,906)	(10,640)	(10,904)
Net Inc/Dec in cash equivalents	198	(1,013)	4,275	875	974
Opening Balance	3,780	3,978	2,966	7,240	8,115
Closing Balance Cash and Cash Equivalents	3,978	2,966	7,240	8,115	9,089

Key Ratio	FY20	FY21	FY22	FY23E	FY24E
EBITDA Margin (%)	26.6%	31.2%	30.7%	29.5%	30.9%
Tax rate (%)	21.7%	23.3%	23.5%	23.4%	23.5%
Net Profit Margin (%)	18.0%	21.4%	21.1%	20.2%	21.3%
RoE (%)	51.2%	88.8%	62.2%	61.7%	65.1%
RoCE (%)	66.1%	116.3%	81.5%	81.3%	85.3%
EPS (INR)	30.0	38.1	39.6	39.9	45.9
PE	53.5x	42.2x	40.5x	40.3x	35.0x

Source: Company, KRChoksey Research

# Colgate Palmolive (India) Ltd.

Balance Sheet (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Property, plant and equipment	11,229	10,647	9,630	8,838	8,842
Capital work-in-progress	1,900	1,449	1,218	1,218	1,218
Investments	186	186	0	0	0
Loans	20	14	13	14	15
Other financial assets	177	186	170	179	195
Current tax assets (Net)	2,247	2,583	2,888	3,041	3,312
Other non-current assets	160	102	97	102	112
<b>Total non-current assets</b>	<b>15,919</b>	<b>15,214</b>	<b>14,190</b>	<b>13,575</b>	<b>13,893</b>
<b>Current assets</b>					
Inventories	2,969	3,358	3,572	3,762	4,097
Financial assets					
Trade receivables	1,326	1,171	2,247	2,366	2,577
Cash and cash equivalents	3,978	2,966	7,241	8,115	9,089
Bank balances other than (iii) above	235	5,711	307	307	307
Loans	1,135	69	1,073	1,073	1,073
Other financial assets	73	51	70	83	90
Other current assets	405	400	320	987	1,075
<b>Total current assets</b>	<b>10,120</b>	<b>13,726</b>	<b>14,829</b>	<b>16,693</b>	<b>18,308</b>
<b>TOTAL ASSETS</b>	<b>26,040</b>	<b>28,940</b>	<b>29,018</b>	<b>30,268</b>	<b>32,201</b>
<b>EQUITY AND LIABILITIES</b>					
Equity share capital	272	272	272	272	272
Other equity	15,670	11,387	17,075	17,310	18,918
Equity attributable to the equity shareholders	15,942	11,659	17,347	17,582	19,190
Non-controlling interests	0	0	0	0	0
<b>Total equity</b>	<b>15,942</b>	<b>11,659</b>	<b>17,347</b>	<b>17,582</b>	<b>19,190</b>
<b>Non-current liabilities</b>					
Borrowings	0	12	12	12	12
Lease liabilities	840	774	690	690	690
Provisions	488	311	140	161	185
Deferred tax liabilities (Net)	50	0	0	0	0
Other non-current liabilities	17	5	5	5	5
<b>Total non-current liabilities</b>	<b>1,395</b>	<b>1,102</b>	<b>847</b>	<b>868</b>	<b>892</b>
<b>Current liabilities</b>					
Lease liabilities	175	138	140	140	140
Trade payables	6,125	7,604	7,714	8,539	8,789
Other financial liabilities	255	5,811	352	390	401
Other current liabilities	1,034	1,307	1,227	1,358	1,398
Provisions	605	811	840	840	840
Current tax liabilities (Net)	508	508	552	552	552
<b>Total current liabilities</b>	<b>8,703</b>	<b>16,180</b>	<b>10,825</b>	<b>11,818</b>	<b>12,119</b>
<b>Total liabilities</b>	<b>10,098</b>	<b>17,282</b>	<b>11,672</b>	<b>12,686</b>	<b>13,011</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>26,040</b>	<b>28,940</b>	<b>29,018</b>	<b>30,268</b>	<b>32,201</b>

Source: Company, KRChoksey Research



# Colgate Palmolive (India) Ltd.

Colgate Palmolive (India) Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
21-10-22	1,607	1,753	ACCUMULATE	Buy	More than 15%
29-07-22	1,549	1,753	ACCUMULATE		
27-05-22	1,592	1,802	ACCUMULATE		
29-01-22	1,400	1,802	BUY	Accumulate	5% – 15%
01-11-21	1,542	1,850	BUY		
03-08-21	1,674	1,850	ACCUMULATE	Hold	0 – 5%
30-06-21	1,670	1,721	HOLD		
20-05-21	1,606	1,721	ACCUMULATE	Reduce	-5% – 0
17-03-21	1,613	1,721	ACCUMULATE		
15-12-20	1,574	1,622	HOLD	Sell	Less than – 5%
23-10-20	1,465	1,622	ACCUMULATE		

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