

October 26, 2023

Q2FY24 Result Update

■ Change in Estimates | Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	HOLD		HOLD	
Target Price	1,948		1,869	
Sales (Rs.m)	56,649	60,748	56,649	60,748
% Chng.	-	-	-	-
EBITDA (Rs.m)	17,716	19,024	17,716	19,024
% Chng.	-	-	-	-
EPS (Rs.)	45.5	49.3	45.5	49.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	52,262	56,649	60,748	65,751
EBITDA (Rs. m)	15,470	17,716	19,024	20,498
Margin (%)	29.6	31.3	31.3	31.2
PAT (Rs. m)	10,584	12,379	13,421	14,487
EPS (Rs.)	38.9	45.5	49.3	53.3
Gr. (%)	(1.9)	17.0	8.4	7.9
DPS (Rs.)	39.0	40.0	43.0	47.0
Yield (%)	1.9	2.0	2.1	2.3
RoE (%)	61.3	69.0	68.4	67.8
RoCE (%)	79.5	88.9	87.8	87.1
EV/Sales (x)	10.4	9.5	8.9	8.1
EV/EBITDA (x)	35.2	30.5	28.3	26.1
PE (x)	52.3	44.7	41.2	38.2
P/BV (x)	32.2	29.5	27.0	24.9

Key Data

COLG.BO | CLGT IN

52-W High / Low	Rs.2,129 / Rs.1,435
Sensex / Nifty	63,148 / 18,857
Market Cap	Rs.553bn/ \$ 6,648m
Shares Outstanding	272m
3M Avg. Daily Value	Rs.1213.81m

Shareholding Pattern (%)

Promoter's	51.00
Foreign	24.08
Domestic Institution	5.88
Public & Others	19.04
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(1.6)	29.2	25.8
Relative	2.7	23.4	18.7

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Growth sustainability key to further re-rating

Quick Pointers:

- Domestic demand remains strong with toothpaste category showing higher single-digit growth
- Premium segment doing well, re-launch of Colgate strong teeth positive

CLGT's 2Q results are in line with 3% volume growth, 18% EBIDTA growth and 22.3% PAT growth led by 500bps higher gross margins partly neutralized by 260bps higher ad-spends. Our estimates indicate that 2Q indexed volumes are up by just 6.5% over FY20-24 and current volume growth is driven by low base of 5 consecutive negative volume quarters before 1Q24.

CLGT continues to focus on 1) driving toothpaste category penetration and usage 2) premiumisation through science-based innovations with Total and Colgate strong teeth and 3) build personal care portfolio in body/hand wash. While CLGT is launching premium products (Total Sensitive Toothpaste, CLGT water flosser, Visible white O2 TP & Whitening Pen and Colgate Periogard Toothpaste), their contribution will remain limited in medium term.

While resilient urban demand, low base and benign inputs will enable strong growth in FY24, sustaining double digit PAT growth beyond FY24 looks challenging but for significant pick up in rural demand. We estimate 8.0% sales and 11% PAT CAGR over FY23-26. We value CLGT at 38x Sep'25 EPS and assign a target of Rs1948 (Rs1869 earlier). Re-rating potential seems capped post recent run up in stock price. Retain Hold.

Sales grew 6%, EBITDA Margins expand by 337bps YoY: Revenues grew by 6% YoY to Rs14.7bn (PLe: Rs12.5bn). Gross margins expanded by 502bps YoY to 68.8% (PLe: 66.3%) EBITDA grew by 18.2% YoY to Rs4.8bn (PLe:Rs3.5bn); Margins expanded by 337bps YoY to 32.8% (PLe:28.2%) A&P spends expanded by 260bps YoY to 13.7% Adj. PAT grew by 22.3% YoY to Rs3.4bn (PLe:Rs2.4bn).

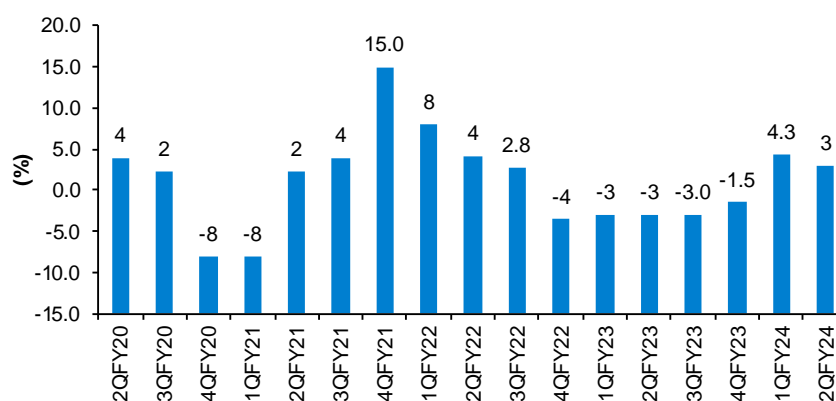
Key Highlights:

- 3% volume growth with balance accounted for by pricing and mix change.
- Focus on Colgate strong teeth relaunch with expanding reach and availability.
- Domestic growth remains strong with toothpaste segment witnessing higher single-digit growth, overall growth at 6.6%.
- Premium segments continue to do well with both Total and Colgate max fresh growing ahead of the market.
- Restaged its largest toothbrush franchise Colgate Zig Zag with superior mix focusing on deep and interdental cleaning
- CLGT witnessing upgradation with focus on premium category.

**Exhibit 1: 1QFY24: Net sales up 6%, EBITDA margins expand by 337bps YoY to 32.8%**

Particulars	2Q FY24	2Q FY23	YoY gr. (%)	1Q FY24	1HFY24	1HFY23	YoY gr. (%)
Net Sales	14,711	13,875	6.0	13,237	27,948	25,843	8.1
Gross Profit	10,117	8,846	14.4	9,058	19,174	16,783	14.2
<i>Margin %</i>	<i>68.8</i>	<i>63.8</i>	<i>5.0</i>	<i>68.4</i>	<i>68.6</i>	<i>64.9</i>	<i>3.7</i>
Other Exp	5295	4766	11.1	4877	10172	9447	7.7
<i>% of Net sales</i>	<i>36.0</i>	<i>34.3</i>		<i>36.8</i>	<i>36.4</i>	<i>36.6</i>	
EBITDA	4,821	4,080	18.2	4,181	9,003	7,337	22.7
<i>Margin %</i>	<i>32.8</i>	<i>29.4</i>	<i>3.4</i>	<i>31.6</i>	<i>32.2</i>	<i>28.4</i>	<i>3.8</i>
Depreciation	443	439	1.0	438	880	880	0.0
Interest	11	13		11	21	26	
PBT from operations	4368	3629	20.4	3733	8101	6431	26.0
Other Income	210	113	86.3	150	360	228	57.7
PBT	4,578	3,741	22.4	3,883	8,461	6,659	27.1
Tax	1178	961	22.5	951	2128	1689	26.0
<i>Tax rate %</i>	<i>25.7</i>	<i>25.7</i>		<i>24.5</i>	<i>25.2</i>	<i>25.4</i>	
Adj. PAT	3,401	2,780	22.3	2,932	6,332	4,970	27.4

Source: Company, PL

Exhibit 2: Toothpaste volumes grow 3% in 2Q

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	52,262	56,649	60,748	65,751
YoY gr. (%)	2.5	8.4	7.2	8.2
Cost of Goods Sold	17,942	18,101	19,626	21,345
Gross Profit	34,320	38,548	41,123	44,407
Margin (%)	65.7	68.0	67.7	67.5
Employee Cost	3,770	4,219	4,464	4,801
Other Expenses	4,096	4,493	4,849	5,250
EBITDA	15,470	17,716	19,024	20,498
YoY gr. (%)	(1.2)	14.5	7.4	7.7
Margin (%)	29.6	31.3	31.3	31.2
Depreciation and Amortization	1,748	1,761	1,805	1,889
EBIT	13,722	15,955	17,218	18,609
Margin (%)	26.3	28.2	28.3	28.3
Net Interest	49	62	54	52
Other Income	536	656	777	811
Profit Before Tax	14,209	16,549	17,942	19,368
Margin (%)	27.2	29.2	29.5	29.5
Total Tax	3,625	4,170	4,521	4,881
Effective tax rate (%)	25.5	25.2	25.2	25.2
Profit after tax	10,584	12,379	13,421	14,487
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	10,584	12,379	13,421	14,487
YoY gr. (%)	(1.9)	17.0	8.4	7.9
Margin (%)	20.3	21.9	22.1	22.0
Extra Ord. Income / (Exp)	(112)	-	-	-
Reported PAT	10,471	12,379	13,421	14,487
YoY gr. (%)	(2.9)	18.2	8.4	7.9
Margin (%)	20.0	21.9	22.1	22.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	10,471	12,379	13,421	14,487
Equity Shares O/s (m)	272	272	272	272
EPS (Rs)	38.9	45.5	49.3	53.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	18,885	18,885	19,547	20,719
Tangibles	18,885	18,885	19,547	20,719
Intangibles	-	-	-	-
Acc: Dep / Amortization	11,679	13,228	14,811	16,468
Tangibles	11,679	13,228	14,811	16,468
Intangibles	-	-	-	-
Net fixed assets	7,205	5,657	4,736	4,250
Tangibles	7,205	5,657	4,736	4,250
Intangibles	-	-	-	-
Capital Work In Progress	1,141	1,250	1,300	1,400
Goodwill	-	-	-	-
Non-Current Investments	195	204	214	224
Net Deferred tax assets	288	-	-	-
Other Non-Current Assets	4,522	4,499	4,509	4,528
Current Assets				
Investments	7,964	9,000	9,653	10,450
Inventories	3,354	3,914	4,171	4,531
Trade receivables	1,574	1,849	1,983	2,147
Cash & Bank Balance	1,266	3,450	5,680	7,270
Other Current Assets	381	422	452	490
Total Assets	28,830	31,235	33,738	36,383
Equity				
Equity Share Capital	272	272	272	272
Other Equity	16,892	18,467	20,228	21,968
Total Networkth	17,164	18,739	20,500	22,240
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	236	253	268	288
Other non current liabilities	571	454	362	297
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	7,611	8,476	9,091	9,842
Other current liabilities	3,235	3,300	3,504	3,702
Total Equity & Liabilities	28,830	31,235	33,738	36,383

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	14,209	16,549	17,942	19,368
Add. Depreciation	1,748	1,761	1,805	1,889
Add. Interest	49	62	54	52
Less Financial Other Income	536	656	777	811
Add. Other	(112)	-	-	-
Op. profit before WC changes	15,894	18,372	19,801	21,309
Net Changes-WC	(106)	(870)	(435)	(565)
Direct tax	(3,625)	(4,170)	(4,566)	(4,929)
Net cash from Op. activities	12,163	13,332	14,800	15,816
Capital expenditures	(659)	(284)	(900)	(1,474)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(659)	(284)	(900)	(1,474)
Issue of share cap. / premium	(47)	76	80	84
Debt changes	-	-	-	-
Dividend paid	(10,607)	(10,879)	(11,695)	(12,783)
Interest paid	(49)	(62)	(54)	(52)
Others	-	-	-	-
Net cash from Fin. activities	(10,704)	(10,865)	(11,669)	(12,752)
Net change in cash	801	2,183	2,230	1,590
Free Cash Flow	11,504	13,048	13,899	14,342

Source: Company Data, PL Research

Key Financial Metrics

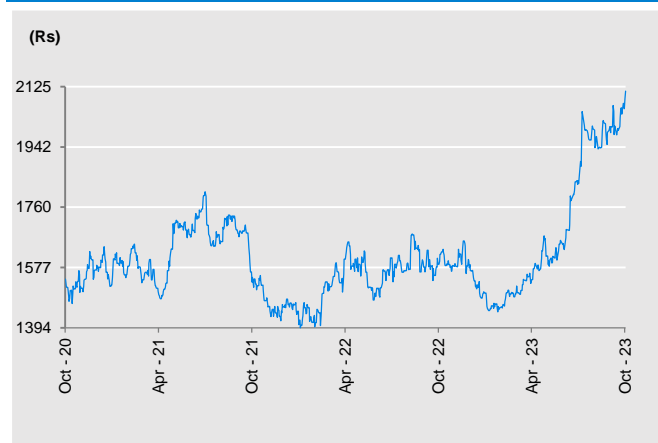
Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
EPS	38.9	45.5	49.3	53.3
CEPS	45.3	52.0	56.0	60.2
BVPS	63.1	68.9	75.4	81.8
FCF	42.3	48.0	51.1	52.7
DPS	39.0	40.0	43.0	47.0
Return Ratio(%)				
RoCE	79.5	88.9	87.8	87.1
ROIC	127.4	216.9	300.4	381.4
RoE	61.3	69.0	68.4	67.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.7)	(0.7)	(0.8)
Net Working Capital (Days)	(19)	(17)	(18)	(18)
Valuation(x)				
PER	52.3	44.7	41.2	38.2
P/B	32.2	29.5	27.0	24.9
P/CEPS	44.9	39.1	36.3	33.8
EV/EBITDA	35.2	30.5	28.3	26.1
EV/Sales	10.4	9.5	8.9	8.1
Dividend Yield (%)	1.9	2.0	2.1	2.3

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Revenue	12,913	13,506	13,237	14,711
YoY gr. (%)	0.9	3.8	10.6	6.0
Raw Material Expenses	4,407	4,475	4,179	4,594
Gross Profit	8,506	9,031	9,058	10,117
Margin (%)	65.9	66.9	68.4	68.8
EBITDA	3,615	4,519	4,181	4,821
YoY gr. (%)	(5.0)	5.2	28.4	18.2
Margin (%)	28.0	33.5	31.6	32.8
Depreciation / Depletion	437	431	438	443
EBIT	3,178	4,088	3,744	4,379
Margin (%)	24.6	30.3	28.3	29.8
Net Interest	13	11	11	11
Other Income	104	204	150	210
Profit before Tax	3,269	4,281	3,883	4,578
Margin (%)	25.3	31.7	29.3	31.1
Total Tax	837	1,100	951	1,178
Effective tax rate (%)	25.6	25.7	24.5	25.7
Profit after Tax	2,432	3,181	2,932	3,401
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,432	3,181	2,932	3,401
YoY gr. (%)	(3.6)	9.1	33.9	22.3
Margin (%)	18.8	23.6	22.1	23.1
Extra Ord. Income / (Exp)	-	(19)	(195)	-
Reported PAT	2,432	3,162	2,737	3,401
YoY gr. (%)	(3.6)	(2.3)	30.5	22.3
Margin (%)	18.8	23.4	20.7	23.1
Other Comprehensive Income	-	(49)	-	-
Total Comprehensive Income	2,432	3,113	2,737	3,401
Avg. Shares O/s (m)	272	272	272	272
EPS (Rs)	8.9	11.7	10.8	12.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Oct-23	Hold	1,869	1,993
2	22-Aug-23	Hold	1,869	1,940
3	26-Jul-23	Hold	1,869	1,898
4	06-Jul-23	Hold	1,636	1,780
5	12-May-23	Hold	1,636	1,628
6	11-Apr-23	Hold	1,565	1,537
7	24-Jan-23	Hold	1,578	1,459
8	06-Jan-23	Hold	1,639	1,517
9	14-Dec-22	Hold	1,639	1,639

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	Accumulate	3,571	3,196
2	Avenue Supermarts	BUY	4,724	3,920
3	Britannia Industries	Hold	4,612	4,538
4	Colgate Palmolive	Hold	1,869	1,993
5	Dabur India	Accumulate	597	547
6	Emami	Accumulate	524	527
7	Hindustan Unilever	Hold	2,786	2,548
8	ITC	Accumulate	492	450
9	Jubilant FoodWorks	Hold	505	529
10	Kansai Nerolac Paints	Accumulate	351	324
11	Marico	Hold	581	537
12	Metro Brands	Accumulate	1,231	1,208
13	Mold-tek Packaging	Hold	956	892
14	Nestle India	Accumulate	25,471	24,245
15	Pidilite Industries	Hold	2,610	2,454
16	Restaurant Brands Asia	Accumulate	142	125
17	Titan Company	Accumulate	3,312	3,310
18	Westlife Foodworld	Hold	958	955

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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