

October 26, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Staples

Colgate-Palmolive (India)

Relaunch & Activations to support growth

Colgate-Palmolive (India) Ltd. (CLGT) delivered decent performance in 2QFY23 as its margin delivery fully offset slightly miss on topline. Even while volume growth seems to be lower than our estimate as we were expecting benefit from category growth recovery as highlighted in recent analyst meet, it seems to be in-line with consensus. As highlighted earlier by the management, gross margins are now seeing modest improvement compared to earlier quarters. CLGT has sharply picked-up advertising cost in 1HFY24 (+140bps YoY to 13.9%), but savings in other expenses have led to improvement in EBITDA margin profile. CLGT is now also making effort to drive consumption by highlighting importance of night time brushing through its recent ad. We believe, recent relaunch/restaging of key brands and above activations, should support growth in near term. Any improvement in market growth rates, especially in rural, should only further accelerate the volume growth momentum. We continue to assign ~41x and roll-forward our target price to Sept'2025E EPS (3yr/5yr avg fwd. multiple: ~39x), giving us a revised target price (TP) of Rs2,080 (Rs2,000 earlier). We thus continue to maintain our NEUTRAL rating. For further rerating in near term, rural recovery and market share improvement in core is much needed.

Result Highlights

- **2QFY24 headline performance:** Revenue (including OOI) grew by 6% YoY to Rs14.7bn (vs est. Rs15.1bn). EBITDA grew by 18.2% YoY to Rs4.8bn (vs est. Rs4.8bn). Adjusted PAT (APAT) was up ~22.3% YoY to Rs3.4bn (vs est. 3.4bn).
- **Domestic sales growth** stood at 6.6% YoY, with toothpaste segment witnessing high single-digit growth. We believe the volumes (calculated) would have grown lower than our estimate of 6% growth for the quarter.
- **Margins:** Gross margin came in at 68.8% (up ~500bps YoY and up 30bps QoQ; vs est. 68.5%). Higher advertising spends (up by 260bps YoY to 14%; +30.2% YoY on absolute basis) and staff cost (+40bps YoY) was partially offset by lower other expenses (-140bps YoY), which meant that EBITDA margin was up by ~340bps YoY to 32.8% (vs. our est. 32%), ahead of our as well as consensus expectations.
- **Other highlights:** (1) In this quarter, company doubled down on the Colgate Strong Teeth relaunch, expanding reach & availability. (2) This was supported by the excellent performance of *Colgate Max Fresh*, which has been relaunched. (3) Also restaged largest toothbrush franchise, Colgate Zig Zag. (4) EBITDA margin for the quarter was driven by pricing and efficiencies. (5) Released 'The Sweet Truth' ad, to highlight importance of night time brushing. (6) First Interim Dividend @ Rs. 22 per share.
- **1HFY24:** Revenue, EBITDA and APAT grew 8.1%, 22.7% and 27% YoY, respectively. Domestic net sales growth stood at 9.2% YoY. Gross/EBITDA margin up 370bps/380bps YoY to 68.6%/32.2%. Ad spends up 140bps YoY to 13.9% (+20.6% YoY on absolute basis).

View & Valuation

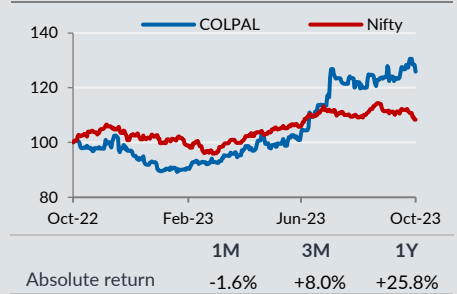
We are currently building 7.2% revenue CAGR over FY23-FY26E (higher than the ~4.5% CAGR delivered over the last five years) led by (a) Expectation of the better overall category growth especially from rural markets, (b) Relaunch of the flagship brand *Colgate Strong Teeth* & *Colgate Max Fresh*, (c) Support from innovations and activations, (d) Focus on science-backed and technologically advanced products to drive premiumization. We now estimate 9.6% EBITDA CAGR over FY23-FY26E (~200bps EBITDA margin expansion as we expect gross margin to expand by 310bps over FY23-FY26E led by easing input cost and premiumization). The flow through to EBITDA margin will be restricted due to aggressive advertising spends to support the core as well as innovations, partially offset by cost savings. CLGT is currently trading at ~45x/42x/39x on FY24E/FY25E/FY26E EPS as we build in ~10.7% EPS CAGR over FY23-26E. There is no major change to our FY24E/FY25E EPS and we introduce FY26 estimates. We continue to assign ~41x and roll-forward our target price to Sept'2025E EPS (3yr/5yr avg fwd. multiple: ~39x), giving us a revised TP of Rs2,080 (Rs2,000 earlier). We thus continue to maintain our NEUTRAL rating. Aggressive innovations to premiumize are well appreciated. For further rerating in near term, rural recovery and market share improvement in core is much needed.

Reco	: NEUTRAL
CMP	: Rs 2,034
Target Price	: Rs 2,080
Potential Return	: +2.2%

Stock data (as on October 26, 2023)

Nifty	19,122
52 Week h/l (Rs)	2129 / 1435
Market cap (Rs/USD mn)	564207 / 6787
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	758
Div yield (%):	1.9
Bloomberg code:	CLGT IN
NSE code:	COLPAL

Stock performance



Shareholding pattern (As of Sep'23 end)

Promoter	51.0%
FII+DII	30.0%
Others	19.0%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	2,080	2,000

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	45.2	48.9	52.6
EPS (Old)	45.0	48.9	NA
% change	+0.5	0.0	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	56,479	60,419	64,367
YoY Growth (%)	8.1	7.0	6.5
EBIDTA	17,644	19,001	20,356
Margins (%)	31.2	31.4	31.6
APAT	12,306	13,299	14,316
EPS	45.2	48.9	52.6
YoY Growth (%)	16.6	8.1	7.6
ROCE (%)	94.6	101.5	109.2
ROE (%)	71.7	77.5	83.4
P/E (x)	45.0	41.6	38.7
EV/EBITDA (x)	30.8	28.5	26.6

VISHAL PUNMIYA

Lead Analyst

vishal.punmiya@ysil.in

+91 22 6885 0521



Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	14,711	15,129	14,909	(2.8)	(1.3)
EBITDA	4,821	4,837	4,764	(0.3)	1.2
EBITDA Margin (%)	32.8	32.0	32.0	0.8	0.8
Adjusted PAT	3,401	3,367	3,290	1.0	3.3

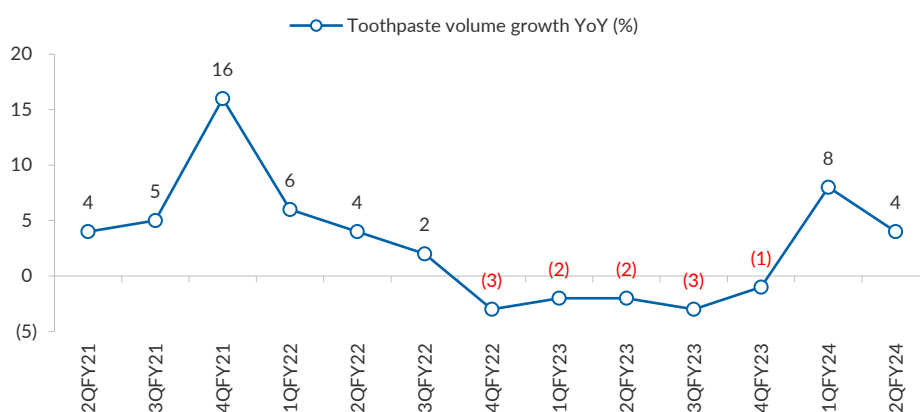
Source: Bloomberg, YES Sec

Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Revenue	13,875	13,237	14,711	6.0	11.1	25,843	27,948	8.1
COGS	5,029	4,179	4,594	-8.6	9.9	9,060	8,773	-3.2
Gross margin %	63.8	68.4	68.8	5.0	0.3	64.9	68.6	3.7
Employee costs	945	958	1,062	12.4	10.9	1,882	2,020	7.3
% of sales	6.8	7.2	7.2	0.4	0.0	7.3	7.2	-0.1
Advertising costs	1,582	1,813	2,060	30.2	13.6	3,212	3,873	20.6
% of sales	11.4	13.7	14.0	2.6	0.3	12.4	13.9	1.4
Other expenses	2,238	2,106	2,173	-2.9	3.2	4,352	4,279	-1.7
% of sales	16.1	15.9	14.8	-1.4	-1.1	16.8	15.3	-1.5
EBITDA	4,080	4,181	4,821	18.2	15.3	7,337	9,003	22.7
EBITDA margin %	29.4	31.6	32.8	3.4	1.2	28.4	32.2	3.8
Depreciation	439	438	443	1.0	1.2	880	880	0.0
EBIT	3,641	3,744	4,379	20.2	17.0	6,456	8,122	25.8
Interest expense	13	11	11	-2.2	-0.2	26	21	-17.5
Other income	113	150	210	86.3	40.3	228	360	57.7
PBT	3,741	3,737	4,578	22.4	22.5	6,587	8,315	26.2
Tax	961	1,001	1,178	22.5	17.7	1,711	2,178	27.3
Effective tax rate %	25.7	26.8	25.7	0.0	-1.0	26.0	26.2	0.2
PAT	2,780	2,882	3,401	22.3	18.0	4,948	6,283	27.0
PAT margin %	20.0	21.8	23.1	3.1	1.3	19.1	22.5	3.3
EPS	10.2	10.6	12.5	22.3	18.0	18.2	23.1	27.0

Source: Company, YES Sec

Exhibit 3: We believe volumes to have grown by 3-4% in 2QFY24



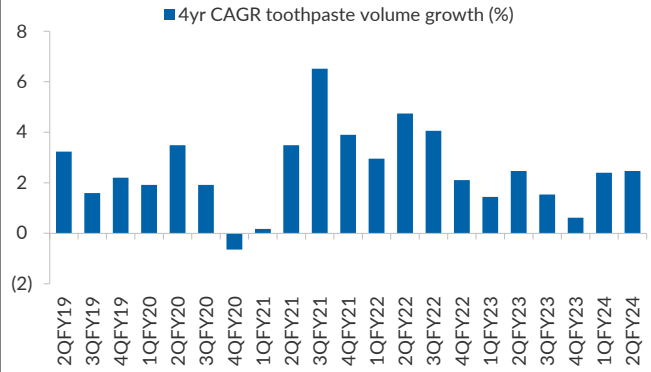
Source: Company, YES Sec

Exhibit 4: While long term trend does not indicate any major reversal; 2Q continues to be a better quarter compared to other three quarters



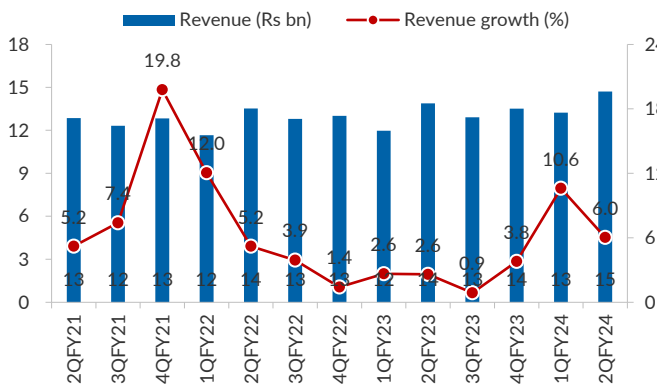
Source: Company, YES Sec

Exhibit 5: 4-year CAGR volume trend is showing no change from previous quarter



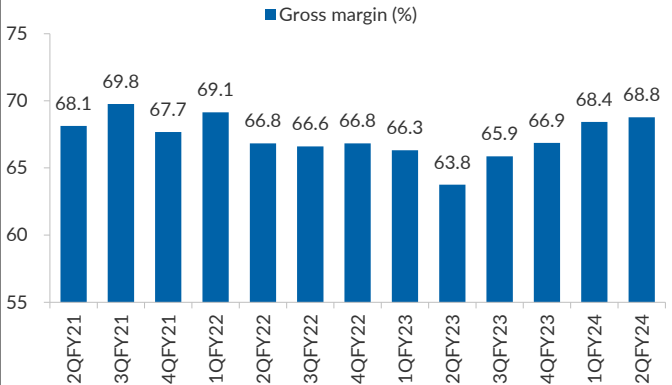
Source: Company, YES Sec

Exhibit 6: Overall revenues grew by 6% YoY in 2QFY24



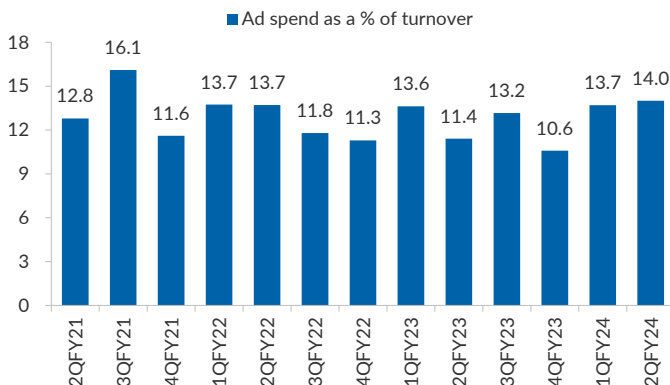
Source: Company, YES Sec

Exhibit 7: Gross margin improves further QoQ (but modestly) to 68.8%



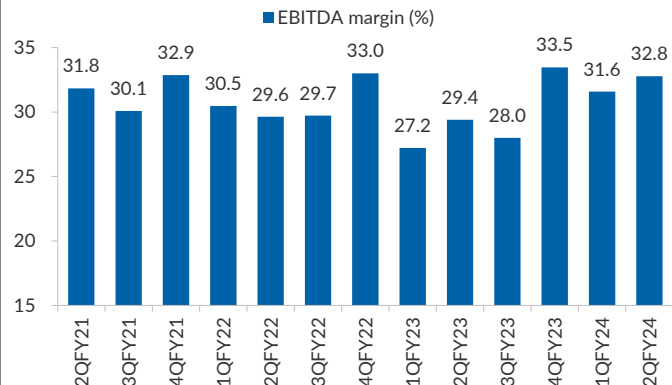
Source: Company, YES Sec

Exhibit 8: Advertisement spends up 260bps YoY to 14%



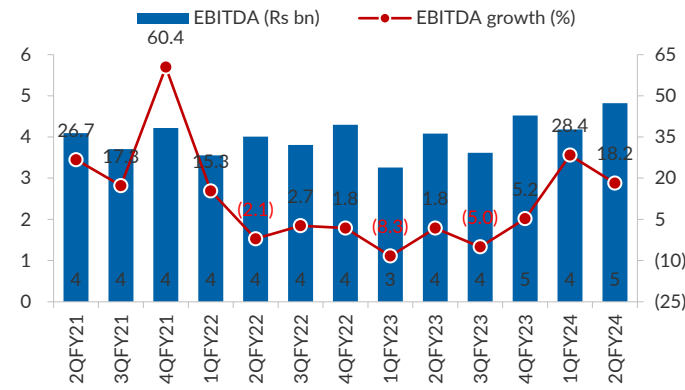
Source: Company, YES Sec

Exhibit 9: EBITDA margin was up 340bps YoY to 32.8%



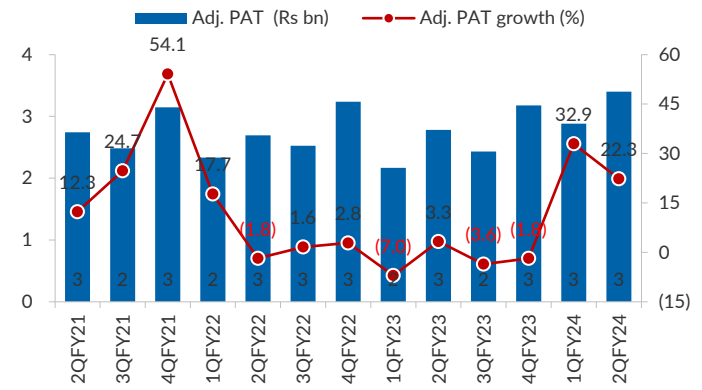
Source: Company, YES Sec

Exhibit 10: EBITDA thus grew 18.2% YoY



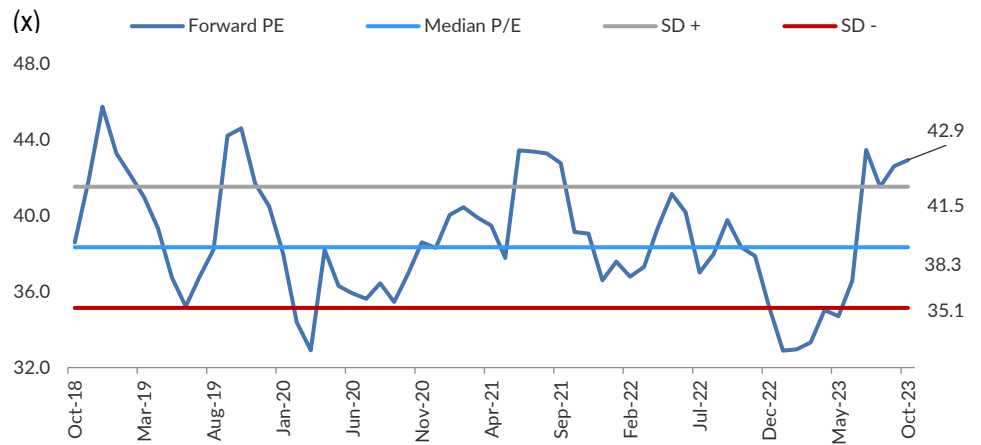
Source: Company, YES Sec

Exhibit 11: APAT was up 22.3% YoY



Source: Company, YES Sec

Exhibit 12: Currently trading at ~43x 1-yr forward earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 13: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves	17,075	16,892	16,892	16,892	16,892
Net worth	17,347	17,164	17,164	17,164	17,164
Total debt	0	0	0	0	0
Others	831	690	690	690	690
Total liabilities	18,177	17,853	17,853	17,853	17,853
Gross block	20,504	21,214	22,014	22,814	23,614
Depreciation	10,874	12,596	14,390	16,251	18,178
Capital work-in-progress	1,218	1,141	1,141	1,141	1,141
Investments	0	0	0	0	0
Inventories	3,572	3,354	3,479	3,675	3,892
Debtors	2,247	1,574	1,690	1,807	1,925
Cash	7,547	9,230	10,248	11,289	12,406
Loans & advances	1,710	1,646	1,823	2,005	2,206
Other current assets	2,921	2,979	2,651	2,651	2,651
Total current assets	17,997	18,783	19,890	21,428	23,081
Creditors	7,714	7,611	7,685	8,118	8,598
Other current liabilities & provisions	3,127	3,365	3,406	3,449	3,495
Total current liabilities	10,841	10,976	11,090	11,567	12,094
Net current assets	7,156	7,806	8,800	9,861	10,987
Deferred tax asset	173	288	288	288	288
Total assets	18,177	17,854	17,853	17,853	17,853

Source: Company, YES Sec

Note: Through this note we introduce FY26 estimates.

Exhibit 14: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenue	50,998	52,262	56,479	60,419	64,367
Revenue growth	5.3%	2.5%	8.1%	7.0%	6.5%
COGS	16,668	17,942	17,928	19,005	20,132
Staff costs	3,851	3,770	4,037	4,498	4,791
Advertising costs	6,431	6,341	7,541	7,976	8,529
Other expenses	8,381	8,739	9,330	9,939	10,560
Total expenses	35,331	36,792	38,835	41,418	44,011
EBITDA	15,667	15,470	17,644	19,001	20,356
EBITDA growth	3.8%	-1.3%	14.1%	7.7%	7.1%
EBITDA margin	30.7%	29.6%	31.2%	31.4%	31.6%
Other income	263	536	762	681	752
Interest costs	59	49	50	50	50
Depreciation	1,773	1,748	1,794	1,860	1,927
Profit before tax (before exceptional)	14,097	14,209	16,562	17,772	19,131
Exceptional items	0	(85)	(145)	0	0
Tax	3,307	3,652	4,256	4,473	4,815
PAT	10,790	10,557	12,306	13,299	14,316
PAT margin	21.2%	20.2%	21.8%	22.0%	22.2%
PAT growth	4.2%	-2.2%	16.6%	8.1%	7.6%

Source: Company, YES Sec

Exhibit 15: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	10,391	10,400	12,307	13,300	14,317
Depreciation	1,773	1,748	1,794	1,860	1,927
Other income	(58)	(296)	(712)	(631)	(702)
(Inc.)/dec. in working capital	4,151	(89)	24	(19)	(9)
Cash flow from operations	16,257	11,763	13,413	14,510	15,533
Capital expenditure (-)	(496)	(695)	(800)	(800)	(800)
Net cash after capex	15,762	11,068	12,613	13,710	14,733
Inc./(dec.) in investments	(812)	221	0	0	0
Others	(5,173)	1,262	763	682	753
Cash from investing activities	(6,481)	787	(37)	(118)	(47)
Dividends paid (-)	(10,572)	(10,575)	(12,306)	(13,299)	(14,316)
Others	(334)	(293)	(52)	(52)	(52)
Cash from financial activities	(10,906)	(10,867)	(12,358)	(13,351)	(14,368)
Opening cash balance	8,676	7,547	9,230	10,248	11,289
Closing cash balance	7,547	9,230	10,248	11,289	12,406
Change in cash balance	(1,129)	1,683	1,018	1,041	1,117

Exhibit 16: Ratios

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	39.7	38.8	45.2	48.9	52.6
Book value	63.8	63.1	63.1	63.1	63.1
DPS	40.0	39.0	45.2	48.9	52.6
Valuation (x)					
EV/sales	10.7	10.4	9.6	9.0	8.4
EV/EBITDA	34.8	35.2	30.8	28.5	26.6
P/E	51.3	52.4	45.0	41.6	38.7
P/BV	31.9	32.2	32.2	32.2	32.2
Return ratios (%)					
RoCE *	92.7	80.2	94.6	101.5	109.2
RoE	74.4	61.2	71.7	77.5	83.4
Profitability ratios (%)					
Gross margin	67.3	65.7	68.3	68.5	68.7
EBITDA margin	30.7	29.6	31.2	31.4	31.6
EBIT margin	27.2	26.3	28.1	28.4	28.6
PAT margin	21.2	20.2	21.8	22.0	22.2
Liquidity ratios (%)					
Current ratio	1.7	1.7	1.8	1.9	1.9
Quick ratio	1.3	1.4	1.5	1.5	1.6
Solvency ratio (%)					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
Turnover ratios					
Total asset turnover ratio (x)	3.0	3.2	3.4	3.7	3.9
Fixed asset turnover ratio (x)	5.3	6.1	7.4	9.2	11.8
Debtor days	12	13	11	11	11
Inventory days	76	70	70	69	69
Creditor days	168	156	156	152	152

Source: Company, YES Sec; * Pre-tax

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YES Securities (India) Limited

Registered Address: 2nd Floor, North Side, YES BANK House,
Off Western Express Highway, Santacruz East,
Mumbai - 400 055, Maharashtra, India.

Correspondence Address: 4th Floor, AFL House,
Lok Bharti Complex, Marol Maroshi Road, Andheri East,
Mumbai - 400059, Maharashtra, India.

☎ +91 22 68850521 | ✉ research@ysil.in
Website: www.yesinvest.in

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RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a Securities and Exchange Board of India (SEBI) registered Stock broker holding membership of National Stock Exchange (NSE), Bombay Stock Exchange (BSE), Multi Commodity Exchange (MCX) & National Commodity & Derivatives Exchange (NCDEX). YSL is also a SEBI-registered Category I Merchant Banker, Investment Adviser and Research Analyst. YSL is also a Sponsor and Investment Manager of Alternate Investment Fund - Category III (YSL Alternates) and AMFI registered Mutual Fund Distributor. The Company is also a registered Depository Participant with CDSL and NSDL. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.