

Colgate-Palmolive (India) Ltd.



Colgate-Palmolive (India) Ltd.

Record gross margin boosts operating performance

CMP INR 2,438	Target INR 2,548	Potential Upside 4.5%	Market Cap (INR Mn) 6,81,854	Recommendation HOLD	Sector Consumer
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Result highlights

- For Q3FY24, CLGT reported revenue of INR 13,957 Mn, a growth of 8.1% YoY but a decline of 5.1% QoQ. The revenue was 2.1% higher than our estimate, driven by strong growth in core brands. The toothpaste segment achieved double-digit growth and positive volume growth. For 9MFY24, revenue grew by 8.1% YoY to INR 41,904 Mn.
- Gross margin for the quarter saw a strong improvement of 631 bps YoY/ 341 bps QoQ to 72.2%. The gross margin improvement was led by soft RM costs and premiumization. The gross margin for 9MFY24 improved by 454 bps YoY to 69.8%.
- EBITDA for the quarter improved by 29.6% YoY to INR 4,684 Mn, while it was lower by 2.8% QoQ. EBITDA was higher than estimated by 7.3% due to strong gross margin performance. EBITDA margin expanded by 557 bps YoY/ 79 bps QoQ to 33.6%.
- For 9MFY24, EBITDA grew by 25.0% YoY to INR 13,686 Mn while EBITDA margin expanded by 440 bps YoY to 32.7%.
- PAT for the quarter was at INR 3,301 Mn, a growth of 35.7% YoY but a decline of 2.9% QoQ. PAT was higher than estimated by 11.8% due to stronger operating performance, lower depreciation expense and higher-than-expected other income. For 9MFY24, PAT grew by 29.1% YoY to INR 9,438 Mn. Adj. PAT for the YTD period grew by 30.1% YoY to INR 9,633 Mn.

MARKET DATA

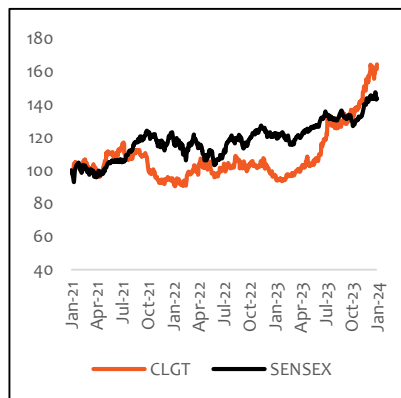
Shares O/S (Mn)	272
Mkt Cap (INR Mn)	6,81,854
52 Wk H/L (INR)	2,553/ 1,435
Volume Avg (3m K)	399
Face Value (INR)	1
Bloomberg Code	CLGT IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Sales	48,412	50,998	52,262	56,555	61,080	65,966
EBITDA	15,096	15,659	15,470	18,541	20,237	22,120
PAT	10,354	10,783	10,471	12,883	14,109	15,399
Adj. PAT	10,354	10,783	10,584	13,078	14,109	15,399
EPS	38.1	39.6	38.5	47.4	51.9	56.6
Adj. EPS	38.1	39.6	38.9	48.1	51.9	56.6
EBITDA Margin (%)	31.2%	30.7%	29.6%	32.8%	33.1%	33.5%
Adj. PAT Margin (%)	21.4%	21.1%	20.3%	23.1%	23.1%	23.3%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	70,371
NIFTY	21,239

Revenue traction continues with growth in mid to high single-digits

For Q3FY24, CLGT reported revenue of INR 13,957 Mn, a growth of 8.1% YoY but a decline of 5.1% QoQ. The toothpaste segment achieved double-digit growth and positive volume growth. Domestic growth was 8.8% YoY. The performance was supported by strong growth in core equities. For 9MFY24, revenue grew by 8.1% YoY to INR 41,904 Mn. The YoY growth rate has been maintained from what was seen in H1FY24.

Gross margins and EBITDA margins strengthened further; higher ad spending continued

Gross margin for the quarter saw a strong improvement of 631 bps YoY/ 341 bps QoQ to 72.2%. CLGT has not seen its gross margin reach these levels at least in the last 10 years. With the strengthened gross margins, CLGT has continued to spend on brand building and advertising. Ad spending grew by 20.2% YoY but was marginally negative QoQ (-0.8%). On a % of sales basis, Ad spending expanded by 148 bps YoY/ 63 bps QoQ. The intensity of Ad spending has remained high in the year so far and these grew by 20.4% YoY in 9MFY24. EBITDA for the quarter improved by 29.6% YoY to INR 4,684 Mn, while it was lower by 2.8% QoQ. EBITDA was higher than estimated by 7.3% due to strong gross margin performance. EBITDA margin expanded by 557 bps YoY/ 79 bps QoQ to 33.6%. PAT for the quarter was at INR 3,301 Mn, a growth of 35.7% YoY but a decline of 2.9% QoQ. On a 9MFY24 basis, the gross margin improved by 454 bps YoY to 69.8%. EBITDA grew by 25.0% YoY to INR 13,686 Mn while EBITDA margin expanded by 440 bps YoY to 32.7%. PAT grew by 29.1% YoY to INR 9,438 Mn. Adj. PAT for the YTD period grew by 30.1% YoY to INR 9,633 Mn.

Management Commentary

- 'The Sweet Truth - Brush at Night' campaign reached over 300 Mn people in urban India.
- CLGT relaunched Colgate MaxFresh and introduced a new-to-world proprietary formula infused with unique cooling crystals to deliver a superior freshness experience.
- CLGT's current performance underscores the effectiveness of the Company's strategy, focus on technology, securing the right talent, and efforts in governance and cost management.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23	Sep-23	Jun-23
Promoters	51.0	51.0	51.0
FIIIs	24.6	24.1	21.8
DIIIs	5.9	5.9	7.8
Others	18.5	19.0	19.4
Total	100.0	100.0	100.0

8.1%

Revenue CAGR between FY23 and FY26E

13.3%

Adj. PAT CAGR between FY23 and FY26E

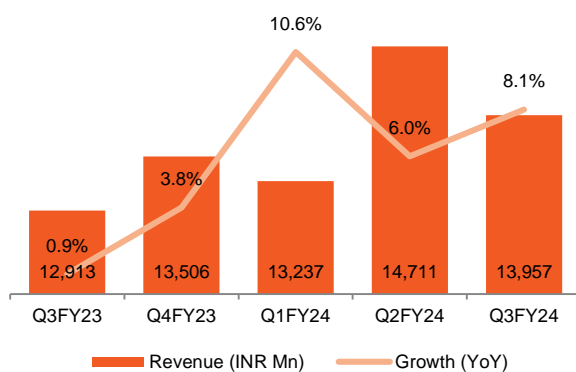
Colgate-Palmolive (India) Ltd.

Valuation and view

CLGT had a strong quarter in terms of profitability aided by record gross margins, which were boosted by soft raw material costs and premiumization. Topline growth in high single digits was also a positive. However, on a 4-year CAGR basis, growth has remained in the mid-single digits at 5.0% in 9MFY24. The management under the new MD and CEO is focusing on increasing penetration through awareness and habit-building. Rural recovery will be a further tailwind for the topline growth. Accordingly, we have factored in a topline CAGR of 8.1% over FY23- FY26E. Additionally, soft raw material costs along with premiumization are leading to strong gross margins, which are helping to ramp up investments in brand building. We have increased our FY24E/ FY25E EBITDA margin estimate by 82 bps/ 112 bps, respectively to factor in stronger margin performance. **We revise our FY24E/ FY25E Adj. EPS by +2.8%/ +2.6%, respectively to factor in the strong margin performance. We have introduced our FY26E estimates and we expect CLGT's Revenue/ EBITDA/ Adj. PAT to grow at a CAGR of 8.1%/ 12.7%/ 13.3% over FY23-FY26E.**

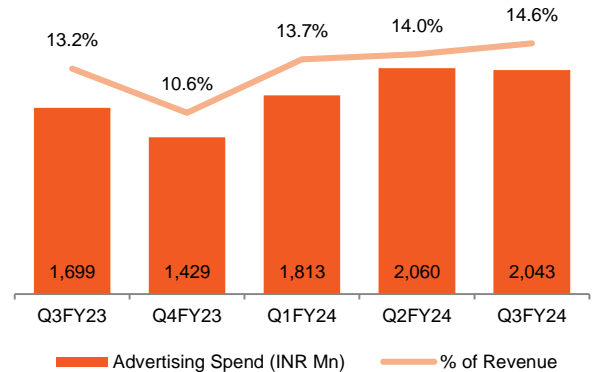
Since our last report, the share price has increased by 17.2%. CLGT's share price is currently trading at 50.7x/ 47.0x/ 43.1x it's FY24E/ FY25E/ FY26E Adj. EPS. CLGT's shares are trading at a 1-year fwd P/E multiple of 48.9x, which is at higher levels vs. a 5-year average of 38.1x. We roll over our valuation to FY26E and assign a P/E multiple of 45.0x (from 42.0x on FY25E Adj. EPS earlier) on FY26E Adj. EPS of INR 56.6 and arrive at a target price of INR 2,548 per share (INR 2,124 earlier), implying a potential upside of 4.5% from CMP. Accordingly, we maintain a "Hold" rating on the shares of Colgate Palmolive India.

Revenue growth sees QoQ uptick



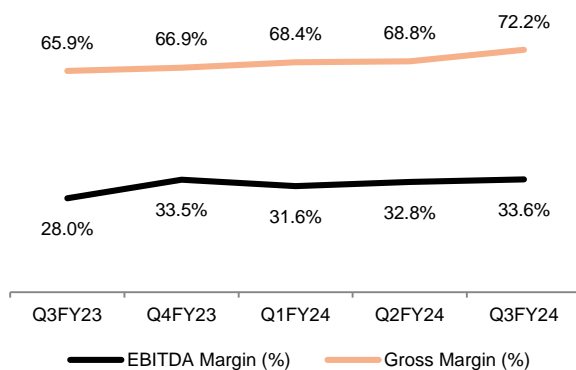
Source: Company, KRChoksey Research

Ad spends as % of sales increase further



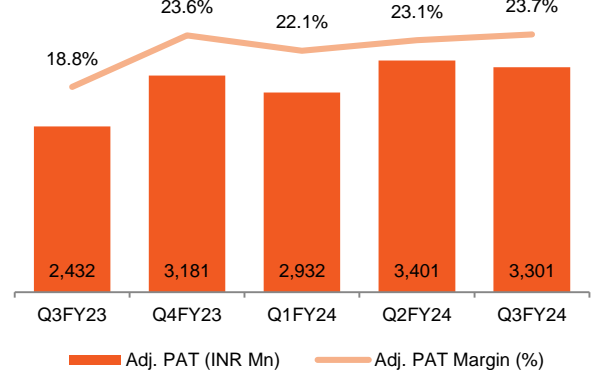
Source: Company, KRChoksey Research

Margins strengthen further



Source: Company, KRChoksey Research

NPM strengthens



Source: Company, KRChoksey Research

Colgate-Palmolive (India) Ltd.

KEY FINANCIALS

Particulars (INR Mn)	Q3FY24	Q2FY24	Q3FY23	QoQ	YoY	9MFY24	9MFY23	YoY
Revenue from Operations	13,957	14,711	12,913	-5.1%	8.1%	41,904	38,756	8.1%
Total Expenditure	9,273	9,890	9,298	-6.2%	-0.3%	28,218	27,805	1.5%
Cost of Raw Materials	3,344	3,699	3,694	-9.6%	-9.5%	10,699	11,315	-5.4%
Purchase of Stock	635	704	758	-9.7%	-16.2%	1,926	2,273	-15.3%
Changes in Inventories	-95	191	-44	-149.9%	-116.3%	31	-121	126.0%
Employee Cost	1,098	1,062	989	3.4%	11.0%	3,118	2,872	8.6%
Other Expenses	4,291	4,233	3,902	1.4%	10.0%	12,443	11,466	8.5%
EBITDA	4,684	4,821	3,615	-2.8%	29.6%	13,686	10,951	25.0%
EBITDA Margin (%)	33.6%	32.8%	28.0%	79 bps	557 bps	32.7%	28.3%	440 bps
Depreciation	414	443	437	-6.6%	-5.3%	1,294	1,317	-1.7%
EBIT	4,270	4,379	3,178	-2.5%	34.4%	12,392	9,634	28.6%
Interest Expense	15	11	13	43.8%	19.8%	36	38	-5.2%
Other Income	179	210	104	-14.9%	71.9%	539	332	62.1%
PBT	4,434	4,578	3,269	-3.1%	35.6%	12,895	9,928	29.9%
Exceptional items	0	0	0	NA	NA	195	93	108.8%
Tax	1,133	1,178	837	-3.8%	35.4%	3,261	2,526	29.1%
Share of Associates/ minorities	0	0	0	NA	NA	0	0	NA
PAT	3,301	3,401	2,432	-2.9%	35.7%	9,438	7,309	29.1%
PAT Margin	23.7%	23.1%	18.8%	54 bps	482 bps	22.5%	18.9%	366 bps
Adj. PAT	3,301	3,401	2,432	-2.9%	35.7%	9,633	7,403	30.1%
Adj. PAT Margin	23.7%	23.1%	18.8%	54 bps	482 bps	23.0%	19.1%	389 bps
EPS	12.1	12.5	8.9	-2.9%	35.8%	34.7	26.9	29.1%
Adj. EPS	12.1	12.5	8.9	-2.9%	35.7%	35.4	27.2	30.1%

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	50,998	52,262	56,555	61,080	65,966
COGS	16,675	17,942	17,033	18,243	19,703
Gross profit	34,323	34,320	39,523	42,837	46,264
Employee cost	3,851	3,770	4,144	4,398	4,684
Other expenses	14,812	15,080	16,838	18,202	19,460
EBITDA	15,659	15,470	18,541	20,237	22,120
EBITDA Margin	30.7%	29.6%	32.8%	33.1%	33.5%
Depreciation & amortization	1,773	1,748	1,790	1,936	2,095
EBIT	13,886	13,722	16,751	18,301	20,025
Interest expense	59	49	51	46	41
Other income	263	536	726	734	742
PBT	14,090	14,097	17,232	18,989	20,726
Tax	3,307	3,625	4,349	4,880	5,327
PAT	10,783	10,471	12,883	14,109	15,399
Adj. PAT	10,783	10,584	13,078	14,109	15,399
EPS (INR)	39.6	38.5	47.4	51.9	56.6
Adj. EPS	39.6	38.9	48.1	51.9	56.6

Particulars (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	16,257	11,763	13,167	16,199	17,731
Net Cash Flow from/(used in) Investing Activities	(1,076)	(75)	(1,426)	(2,143)	(2,315)
Net Cash Flow from Financing Activities	(10,906)	(10,867)	(10,895)	(10,885)	(10,874)
Net Inc/Dec in cash equivalents	4,275	820	845	3,171	4,542
Opening Balance	2,966	7,241	8,061	8,906	12,077
Closing Balance Cash and Cash Equivalents	7,241	8,061	8,906	12,077	16,618

Source: Company, KRChoksey Research

Colgate-Palmolive (India) Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24E	FY25E	FY26E
Property, plant and equipment	9,630	8,618	7,959	7,856	7,740
Capital work-in-progress	1,218	1,141	1,141	1,141	1,141
Loans	13	9	10	11	12
Other financial assets	170	185	201	217	234
Current tax assets (Net)	2,888	2,979	3,224	3,482	3,760
Other non-current assets	97	130	141	152	165
Total non-current assets	14,190	13,351	12,988	13,195	13,415
Inventories	3,572	3,355	3,630	3,920	4,234
Trade receivables	2,247	1,574	1,703	1,839	1,986
Cash and cash equivalents	7,241	8,061	8,906	12,077	16,618
Bank balances other than (iii) above	307	1,169	1,169	1,169	1,169
Loans	1,073	876	876	876	876
Other financial assets	70	64	87	94	102
Other current assets	320	381	1,039	1,122	1,212
Total current assets	14,829	15,479	17,411	21,099	26,198
TOTAL ASSETS	29,018	28,830	30,398	34,293	39,613
Equity share capital	272	272	272	272	272
Other equity	17,075	16,892	18,895	22,124	26,643
Total Equity	17,347	17,164	19,167	22,396	26,915
Borrowings	12	12	12	12	12
Lease liabilities	690	567	567	567	567
Provisions	140	236	271	312	359
Other non-current liabilities	5	4	4	4	4
Total non-current liabilities	847	820	855	896	943
Lease liabilities	140	122	122	122	122
Trade payables	7,714	7,611	7,225	7,739	8,358
Other financial liabilities	352	377	358	384	414
Other current liabilities	1,227	1,279	1,214	1,300	1,404
Provisions	840	905	905	905	905
Current tax liabilities (Net)	552	552	552	552	552
Total current liabilities	10,825	10,846	10,377	11,002	11,756
Total liabilities	11,672	11,666	11,232	11,898	12,698
TOTAL EQUITY AND LIABILITIES	29,018	28,830	30,398	34,293	39,613

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin (%)	30.7%	29.6%	32.8%	33.1%	33.5%
Tax rate (%)	23.5%	25.7%	25.2%	25.7%	25.7%
Net Profit Margin (%)	21.1%	20.0%	22.8%	23.1%	23.3%
RoE (%)	62.2%	61.0%	67.2%	63.0%	57.2%
RoCE (%)	81.5%	83.0%	91.1%	84.9%	77.1%
EPS (INR)	39.6	38.5	47.4	51.9	56.6
PE	61.5x	62.7x	50.7x	47.0x	43.1x

Source: Company, KRChoksey Research

Colgate-Palmolive (India) Ltd.

Colgate-Palmolive (India) Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
23-Jan-24	2,438	2,548	HOLD
30-Oct-23	2,081	2,124	HOLD
01-Aug-23	2,003	2,034	HOLD
15-May 23	1,670	1,702	HOLD
24-Jan 23	1,464	1,638	ACCUMULATE
21-Oct 22	1,607	1,753	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

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