

Volume pressure continues to dampen performance

- Colgate's Q3FY23 revenues came in line but EBITDA and APAT were below of our estimate. We believe that the company has reported mid- single digit volume de-growth during the quarter – sixth consecutive quarter of muted volume performance.
- GM contracted by 70bps due to high inflation, but improved 210bps sequentially. Apart from lower price pass on, decline in volume suggests signs of weakening of brand strength.
- Company's focus on driving growth via increasing oral care pie in India through innovation across is core and developing new segments are key growth drivers over the medium to long term. However, increase in competition and better product offerings by competitors like Dabur and Patanjali remains a key challenge for Colgate.
- We have downward revised our FY23/24/25E EPS estimates to Rs 37.5/41.3/45.2. Slowdown in the oral care industry and increased competition for Colgate remain key challenges for the stock performance. We value the stock at 33x FY25E EPS to arrive at a TP of Rs 1,492. Considering recent fall in stock price, we have upward revised from Sell to Reduce.

Revenues in line; EBITDA and APAT was a miss

Net revenues increased 0.9% YoY to Rs 12.9bn – came 3.0% below with our estimate. GM stood at 65.9% - contracted by 70bps YoY. The negative impact of GM contraction and 140bps increase in A&P spends was partially offset by 20/20bps decline in employee cost/other expenses. Consequently, EBITDA margin contracted by 170bps YoY to 28%. EBITDA declined by 5.0% YoY to Rs 3.6bn – came 8.7% below our estimates. APAT declined 3.6% YoY to Rs 2.4bn – was 9.2% below our estimate.

During the quarter, Colgate launched India's first exclusive e-commerce platform for dentists. The platform will allow dentists to access to specialty products which will be delivered to their clinics. Consequently, strengthening Colgate's relationship with dentists in India. Further, the company has partnered with AP government for educating children on oral health practices, through awareness program 'Bright Smiles Bright Future'.

Q3FY23 Result (Rs Mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)
Revenue	12,913	12,801	0.9	13,875	(6.9)
Total Expense	9,298	8,996	3.4	9,795	(5.1)
EBITDA	3,615	3,806	(5.0)	4,080	(11.4)
Depreciation	437	439	(0.6)	439	(0.4)
EBIT	3,178	3,366	(5.6)	3,641	(12.7)
Other Income	104	57	83.3	113	(7.7)
Interest	13	15	(16.6)	13	(0.8)
EBT	3,269	3,408	(4.1)	3,741	(12.6)
Tax	837	885	(5.4)	961	(12.9)
RPAT	2,432	2,523	(3.6)	2,780	(12.5)
APAT	2,432	2,523	(3.6)	2,780	(12.5)
			(bps)		(bps)
Gross Margin (%)	65.9	66.6	(73)	63.8	212
EBITDA Margin (%)	28.0	29.7	(174)	29.4	(141)
NPM (%)	18.8	19.7	(87)	20.0	(120)
Tax Rate (%)	25.6	26.0	(36)	25.7	(9)
EBIT Margin (%)	24.6	26.3	(169)	26.2	(163)

CMP	Rs 1,458
Target / Upside	Rs 1,492 / 2%
NIFTY	18,119

Scrip Details

Equity / FV	Rs 272mn / Rs 1		
Market Cap	Rs 397bn		
	USD 4.9bn		
52-week High/Low	Rs 1,696/ 1,376		
Avg. Volume (no)	344,762		
Bloom Code	CLGT IN		
Price Performance	1M	3M	12M
Absolute (%)	(7)	(8)	4
Rel to NIFTY (%)	(9)	(11)	(2)

Shareholding Pattern

	Jun'22	Sep'22	Dec'22
Promoters	51.0	51.0	51.0
MF/Banks/FIs	8.5	9.1	7.8
FIs	18.6	18.7	21.1
Public / Others	21.9	21.2	21.2

Valuation (x)

	FY23E	FY24E	FY25E
P/E	38.9	35.3	32.2
EV/EBITDA	25.2	22.9	20.8
ROE (%)	57.0	58.8	60.3
RoACE (%)	55.5	57.4	58.9

Estimates (Rs bn)

	FY23E	FY24E	FY25E
Revenue	52.5	56.6	61.3
EBITDA	15.2	16.7	18.2
PAT	10.2	11.2	12.3
EPS (Rs.)	37.5	41.3	45.2

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Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	12,913	12,801	(3.0)	
EBITDA	3,615	3,958	(8.7)	A&P was higher compared to estimate
EBITDA margin (%)	28.0	29.7	(170)	
APAT	2,432	2,680	(9.2)	Cascading effect of low EBITDA

Source: Company, DART

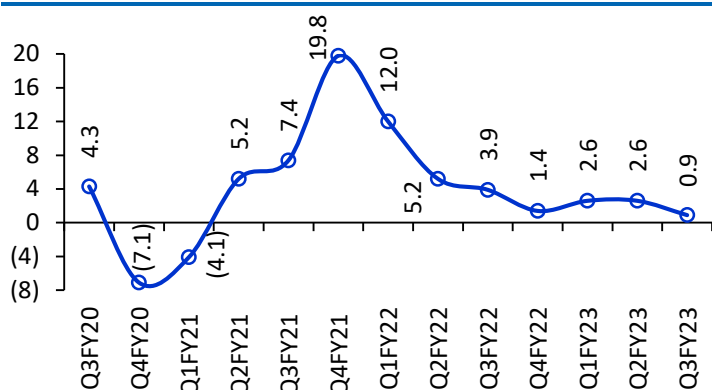
Exhibit 2: Change in estimates

Particulars (Rs mn)	FY23E			FY24E			FY25E		
	New	Old	Chg (%)	New	Old	Chg (%)	New	Old	Chg (%)
Revenue	52,488	53,543	(2.0)	56,554	57,691	(2.0)	61,305	62,538	(2.0)
EBITDA	15,232	15,646	(2.6)	16,681	16,959	(1.6)	18,228	18,531	(1.6)
EBITDA margin (%)	29.0	29.2	(20bps)	29.5	29.4	10bps	29.7	29.6	10bps
PAT	10,208	10,799	(5.5)	11,230	11,746	(4.4)	12,299	12,862	(4.4)
EPS (Rs)	37.5	39.7	(5.5)	41.3	43.2	(4.4)	45.2	47.3	(4.4)

Source: Company DART

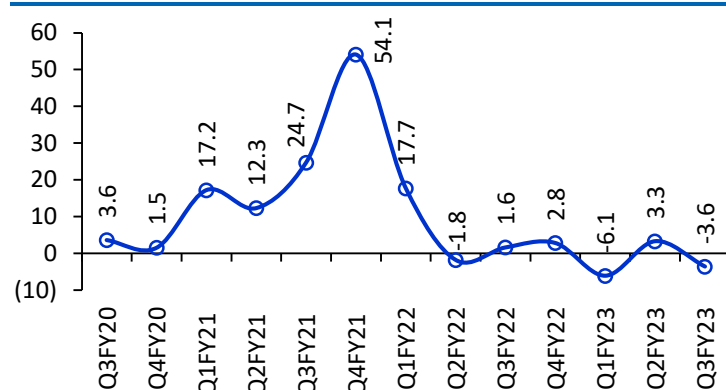
We have downward revised our FY23/24/25E revenue estimates to factor in sluggish volume performance in Q3. Further, we have reduced our EBITDA estimates in line with the reduction in revenues. We have broadly maintained our margin estimates as we believe that the GM would improve here on with softening in commodity prices. In line, we have revised our APAT estimates.

Exhibit 3: Sales Growth (%)



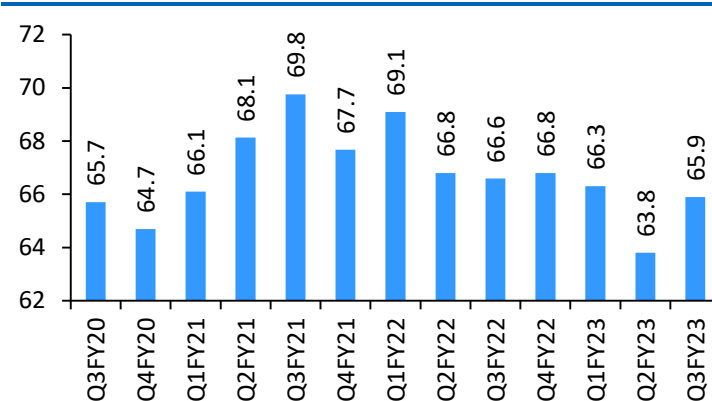
Source: DART, Company

Exhibit 4: Net Profit Growth (%)



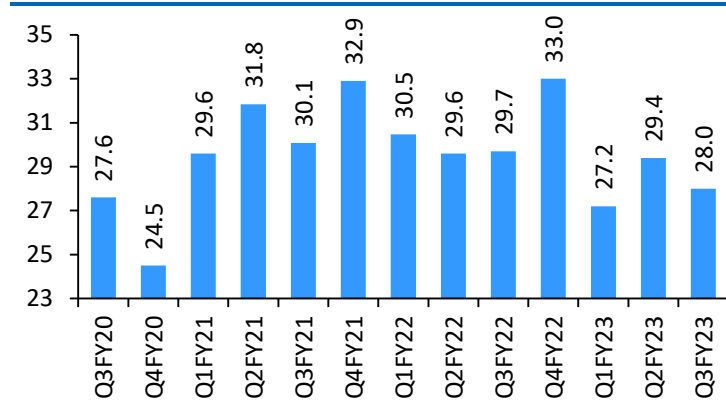
Source: DART, Company

Exhibit 5: Gross Margin (%) Trend

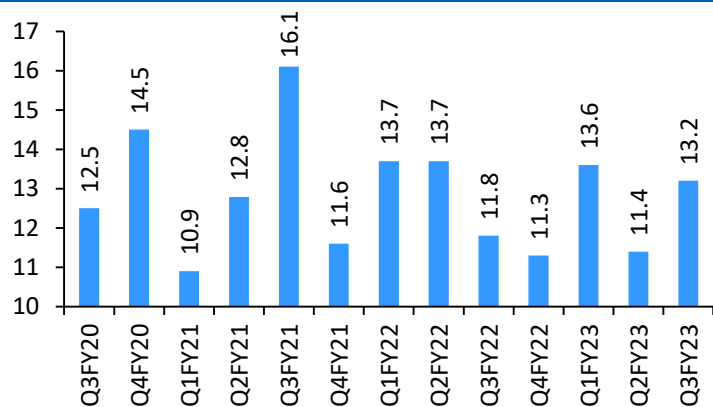


Source: DART, Company

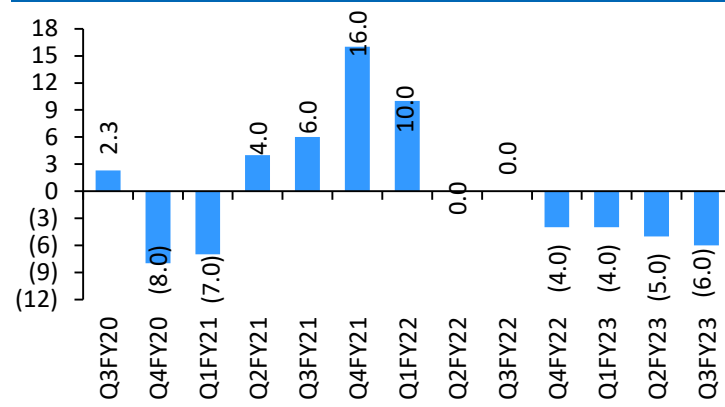
Exhibit 6: EBITDA Margins Trend (%)



Source: DART, Company

Exhibit 7: A&P Sponds (% Of Revenues)


Source: DART, Company

Exhibit 8: Volume growth overall (% YoY)


Source: DART, Company

Financial Performance

Profit and Loss Account

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Revenue	50,998	52,488	56,554	61,305
Total Expense	35,338	37,256	39,873	43,077
COGS	16,675	17,792	18,888	20,352
Employees Cost	3,851	3,859	4,045	4,262
Other expenses	14,812	15,605	16,940	18,463
EBIDTA	15,659	15,232	16,681	18,228
Depreciation	1,773	1,872	2,004	2,135
EBIT	13,886	13,360	14,678	16,093
Interest	59	100	100	100
Other Income	263	436	491	509
Exc. / E.O. items	0	0	0	0
EBT	14,090	13,696	15,068	16,502
Tax	3,307	3,488	3,838	4,203
RPAT	10,783	10,208	11,230	12,299
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	10,783	10,208	11,230	12,299

Balance Sheet

(Rs Mn)	FY22A	FY23E	FY24E	FY25E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	17,075	18,203	19,443	20,802
Net Worth	17,347	18,475	19,715	21,074
Total Debt	831	831	831	831
Net Deferred Tax Liability	(173)	(173)	(173)	(173)
Total Capital Employed	18,004	19,132	20,373	21,732

Applications of Funds

Net Block	9,630	9,258	8,754	8,119
CWIP	1,218	1,218	1,218	1,218
Investments	0	0	0	0
Current Assets, Loans & Advances	18,014	22,556	25,208	28,313
Inventories	3,572	3,425	3,690	4,000
Receivables	2,247	1,353	1,458	1,581
Cash and Bank Balances	7,547	13,448	15,640	18,208
Loans and Advances	4,648	4,330	4,420	4,525
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	10,858	13,901	14,808	15,919
Payables	7,714	7,939	8,554	9,273
Other Current Liabilities	3,144	5,961	6,254	6,646
<i>sub total</i>				
Net Current Assets	7,156	8,656	10,400	12,394
Total Assets	18,004	19,132	20,373	21,732

E – Estimates

Important Ratios

Particulars	FY22A	FY23E	FY24E	FY25E
(A) Margins (%)				
Gross Profit Margin	67.3	66.1	66.6	66.8
EBIDTA Margin	30.7	29.0	29.5	29.7
EBIT Margin	27.2	25.5	26.0	26.3
Tax rate	23.5	25.5	25.5	25.5
Net Profit Margin	21.1	19.4	19.9	20.1
(B) As Percentage of Net Sales (%)				
COGS	32.7	33.9	33.4	33.2
Employee	7.6	7.4	7.2	7.0
Other	29.0	29.7	30.0	30.1
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	235.8	133.6	146.8	160.9
Inventory days	26	24	24	24
Debtors days	16	9	9	9
Average Cost of Debt	6.8	12.0	12.0	12.0
Payable days	55	55	55	55
Working Capital days	51	60	67	74
FA T/O	5.3	5.7	6.5	7.6
(D) Measures of Investment				
AEPS (Rs)	39.6	37.5	41.3	45.2
CEPS (Rs)	46.2	44.4	48.7	53.1
DPS (Rs)	38.9	33.4	36.7	40.2
Dividend Payout (%)	98.0	89.0	89.0	89.0
BVPS (Rs)	63.8	67.9	72.5	77.5
RoANW (%)	74.4	57.0	58.8	60.3
RoACE (%)	71.0	55.5	57.4	58.9
RoAIC (%)	194.1	165.5	281.8	389.8
(E) Valuation Ratios				
CMP (Rs)	1458	1458	1458	1458
P/E	36.8	38.9	35.3	32.2
Mcap (Rs Mn)	396,576	396,576	396,576	396,576
MCap/ Sales	7.8	7.6	7.0	6.5
EV	389,859	383,959	381,767	379,199
EV/Sales	7.6	7.3	6.8	6.2
EV/EBITDA	24.9	25.2	22.9	20.8
P/BV	22.9	21.5	20.1	18.8
Dividend Yield (%)	2.7	2.3	2.5	2.8
(F) Growth Rate (%)				
Revenue	5.3	2.9	7.7	8.4
EBITDA	3.7	(2.7)	9.5	9.3
EBIT	4.6	(3.8)	9.9	9.6
PBT	4.4	(2.8)	10.0	9.5
APAT	4.1	(5.3)	10.0	9.5
EPS	4.1	(5.3)	10.0	9.5

E – Estimates

Cash Flow

Particulars	FY22A	FY23E	FY24E	FY25E
Profit before tax	14,090	13,696	15,068	16,502
Depreciation & w.o.	1,773	1,872	2,004	2,135
Net Interest Exp	59	100	100	100
Direct taxes paid	(3,700)	(3,488)	(3,838)	(4,203)
Change in Working Capital	4,150	4,401	448	574
Non Cash	(89)	0	0	0
(A) CF from Operating Activities	16,283	16,580	13,782	15,108
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(500)	(1,500)	(1,500)	(1,500)
Free Cash Flow	15,783	15,080	12,282	13,608
(Inc.)/ Dec. in Investments	(810)	0	0	0
Other	(5,237)	0	0	0
(B) CF from Investing Activities	(6,547)	(1,500)	(1,500)	(1,500)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(230)	0	0	0
Interest exp net	(59)	(100)	(100)	(100)
Dividend Paid (Incl. Tax)	(10,570)	(9,080)	(9,990)	(10,940)
Other	0	0	0	0
(C) CF from Financing	(10,859)	(9,180)	(10,090)	(11,040)
Net Change in Cash	(1,123)	5,900	2,192	2,568
Opening Cash balances	8,670	7,547	13,448	15,640
Closing Cash balances	7,547	13,448	15,640	18,208

E – Estimates

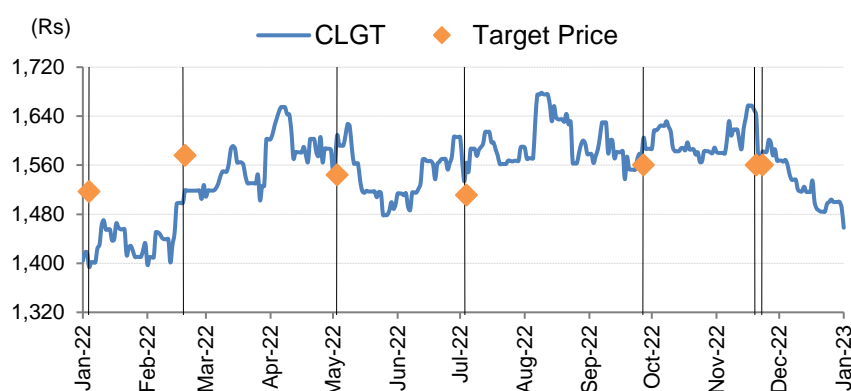
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-22	REDUCE	1,517	1,394
Mar-22	Reduce	1,576	1,519
May-22	SELL	1,544	1,609
Jul-22	SELL	1,511	1,564
Oct-22	SELL	1,560	1,605
Dec-22	SELL	1,560	1,642
Dec-22	SELL	1,560	1,582

*Price as on recommendation date

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