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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## Colgate-Palmolive (India)

26 October 2023

## Another quarter of margin-led beat but volumes still soft

## RESULT UPDATE

Sector: FMCG Rating: HOLD  
CMP: Rs 2,032 Target Price: Rs 2,020

## Stock Info

Sensex/Nifty	63,148/ 18,857
Bloomberg	CLGT IN
Equity shares (mn)	272
52-wk High/Low	Rs 2,129/1,434
Face value	Rs 1
M-Cap	Rs 552bn/US\$ 6.7 bn
3-m Avg volume	US\$ 7.5 mn

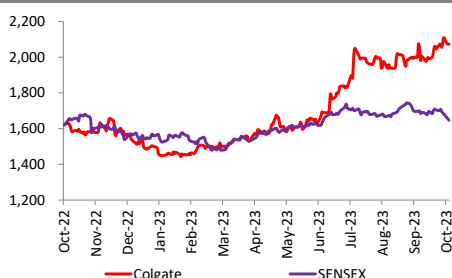
## Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	52,262	56,538	61,678
PAT	10,584	12,372	13,733
EPS (Rs)	38.9	45.5	50.5
PE (x)	52.2	44.7	40.2
EV/EBITDA (x)	35.1	30.6	27.6
P/BV (x)	32.2	30.1	27.1
EV/Sales	10.4	9.5	8.7
RoE (%)	61.3	69.6	70.8
RoCE (%)	82.6	92.3	93.9
NWC (days)	-19	-14	-14
Net gearing (x)	-	-	-

## Shareholding pattern (%)

	Sep 23	Jun 23	Mar 23
Promoter	51.0	51.0	51.0
-Pledged	-	-	-
FII	24.1	21.8	21.5
DII	5.6	7.5	7.6
Others	19.3	19.7	19.9

## Stock Performance (1-year)



Colgate-Palmolive (CLGT) delivered another earnings beat in 2Q, with in-line revenue growth of 6% (higher domestic growth of 6.6%) but better than expected margins driving 18%/22% growth in EBITDA/PAT. Led by pricing actions, cost efficiencies and high single-digit growth in the high margin toothpaste segment, margins improved 340bps YoY to 32.8%. Category growth initiatives are showing some positive signs in addition to a recovery in rural markets and a good response to new innovations and renovations. The company seems to have had some volume share gains driven by good execution. A 6% YoY revenue growth resulted in a 3-year CAGR of 4.6%. We estimate about 3% volume growth on a base of 3% decline YoY. EBITDA margin expansion was lower than the 502bps uptick in gross margin given sharp increase in advertisement expenses (up 260bps to 14%) partially offset by cut in other expenses (down 130bps to 14.8%). With RM prices stabilizing and recent price hikes, we believe gross margins should stabilize, which would support CLGT's product innovation and category expansion initiatives.

While early signs of success are visible on new launches and relaunches, CLGT would need continued traction in these segments to pull up its growth trajectory towards high single digit. We expect market share to gradually improve, with aggressive marketing spends, recovery in rural markets, plateauing of naturals category and distribution efforts across channels. Personal care under the Palmolive brand and toothbrushes segment may take some more time to scale up. We build in a slightly better margin outlook and now build in 8.6%/13.9% revenue/PAT CAGR over FY23-25E maintain our HOLD rating with an increased target price of Rs 2,020 (Rs 1,980 earlier), based on a target P/E of 40x FY25E EPS, in line with the 5-year average average valuation multiple. We expect a further re-rating once we see a sustained recovery in market share driving higher volumes.

**Initial signs of rural recovery and share gains:** CLGT reported overall revenue growth of 6% YoY with better domestic growth of 6.6% (on a base of 2.6%; 4-year CAGR of 4.8%; up 11% QoQ). Volume and pricing are equally strong growth drivers, which were both around low-single digits, in our view. Toothpaste business saw single-digit growth in 2QFY24 indicating some market share recovery for the company led by better execution and marketing and innovation initiatives. Pricing contribution also remains strong at 3-4%, given new launches and relaunches coming in at higher price points. Moderation in share of naturals category where the company is weak, premiumization, pick up in marketing spends and distribution efforts are finally showing some positive results for the last couple of quarters. Sustained market share recovery in the toothpaste segment remains a key trigger for CLGT. The company continues on its agenda of continually improving its core offerings, driving penetration of premium and therapeutic launches, focusing on alternate channels and stepping up innovation and marketing to grow ahead of the market. The company relaunched its flagship product Colgate Strong Teeth with a superior formulation and communication and also launched India's first whitening pen, in its endeavor to grow the oral care category.

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Investors are advised to refer disclosures made at the end of the research report.

**RM softness and savings in other expenses helped EBITDA margin despite sharp A&P push:** Gross margin improved 502bps YoY to 68.8% given a combination of premiumization, price hikes and RM moderation. Higher contribution from the domestic business and higher contribution from the toothpaste segment within that also helped drive up margins. EBITDA margin increased 337bps YoY to 32.8% which was a lower expansion compared to gross margin given the sharp 260bps increase in A&P spends to 14% partially offset by a cut in other expenses (down 136bps YoY to 14.8% of sales). EBITDA grew 18.2% while Adjusted PAT grew 22.3% yoy.

**Long term potential remains but more work required on execution and changing consumer behaviour:** With significant room for acquiring new consumers in rural markets and increasing usage to twice a day for urban consumers, significant potential continues to exist in the long term. There is a significant premiumisation opportunity in the toothbrush category as well. The company's efforts towards premiumisation, innovation, share gains in alternate channels and new launches in Palmolive and the toothbrush segment are all in the right direction, but results have not come so far on the growth front, albeit last two quarters have seen a sharp margin improvement. We would need to see a few quarters of better volume performance to get more confidence on the growth trajectory.

**HOLD rating maintained despite earnings uptick given recent up move:** We expect margins to settle in the 31-32% band, with a possible GM recovery offset by aggressive spends on innovation, distribution and marketing. We estimate revenue CAGR of 8.6% with a volume CAGR of 5% over FY23-25E, led by the toothpaste category. We estimate net profit CAGR of 13.9% over FY23-25E. **Key risks:** Heightened competitive intensity could result in market share losses, posing a downside risk while a sharp recovery in market share would be an upside risk.

**Exhibit 1: Quarterly performance**

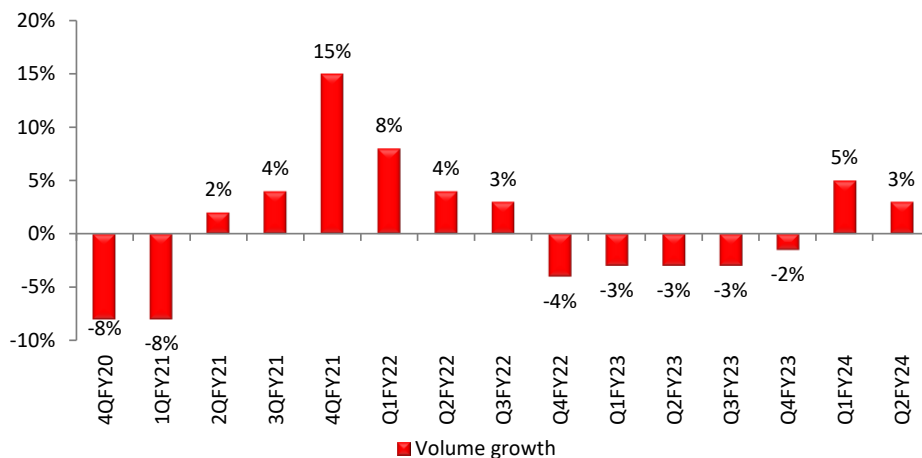
YE March (Rs mn)	Q2FY24	Q2FY23	Q1FY24	YoY (%)	QoQ (%)
<b>Net Revenues</b>	<b>14,711</b>	<b>13,875</b>	<b>13,237</b>	<b>6.0</b>	<b>11.1</b>
Cost of materials	3,891	4,175	3,591	(6.8)	8.3
(% of sales)	26.4	30.1	27.1		
Purchase of stock in trade	704	854	588	(17.6)	19.7
(% of sales)	4.8	6.2	4.4		
<b>Gross Profit</b>	<b>10,117</b>	<b>8,846</b>	<b>9,058</b>	<b>14.4</b>	<b>11.7</b>
<b>Gross margin (%)</b>	<b>68.8%</b>	<b>63.8%</b>	<b>68.4%</b>	<b>501.64</b>	
Employee cost	1,062	945	958	12.4	10.9
(% of sales)	7.2	6.8	7.2		
Selling & admin	2,060	1,582	1,813	30.2	13.6
(% of sales)	14.0	11.4	13.7		
Others	2,173	2,238	2,106	(2.9)	3.2
(% of sales)	14.8	16.1	15.9		
<b>EBITDA</b>	<b>4,821</b>	<b>4,080</b>	<b>4,181</b>	<b>18.2</b>	<b>15.3</b>
<b>EBITDA margin (%)</b>	<b>32.8</b>	<b>29.4</b>	<b>31.6</b>	<b>3.37</b>	
Other income	210	113	150	86.3	40.3
<b>PBIDT</b>	<b>5,031</b>	<b>4,193</b>	<b>4,331</b>	<b>20.0</b>	<b>16.2</b>
Depreciation	443	439	438	1.0	1.2
Finance cost	11	13	11	(17.3)	(1.9)
<b>PBT</b>	<b>4,578</b>	<b>3,741</b>	<b>3,882</b>	<b>22.4</b>	<b>17.9</b>
Tax	1,178	961	951	22.5	23.9
ETR (%)	25.7	25.7	24.5		
<b>Adjusted PAT</b>	<b>3,401</b>	<b>2,780</b>	<b>2,932</b>	<b>22.3</b>	<b>16.0</b>
PATAMI margin	23.1	20.0	22.1		
Exceptional item	0	0	195		
<b>Reported PAT</b>	<b>3,401</b>	<b>2,780</b>	<b>3,127</b>	<b>22.3</b>	<b>8.8</b>
No. of shares (mn)	272.0	272.0	272.0		
<b>Adj EPS (Rs)</b>	<b>12.5</b>	<b>10.2</b>	<b>10.8</b>		

Source: Company, Systematix Institutional Research

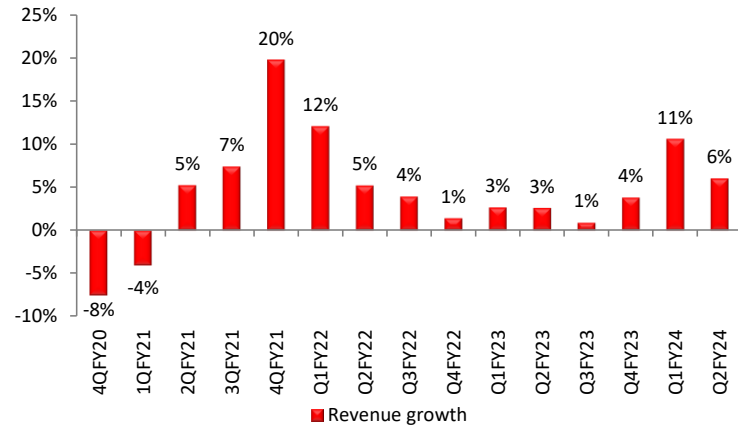
**Exhibit 2: Change in estimates**

(Rs mn)	New estimates		Old estimates		Variance	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	56,538	61,678	56,538	61,678	0%	0%
EBITDA	17,640	19,429	17,357	19,120	2%	2%
Margins	31.2%	31.5%	30.7%	31.0%		
EPS	45.5	50.5	44.7	49.5	2%	2%

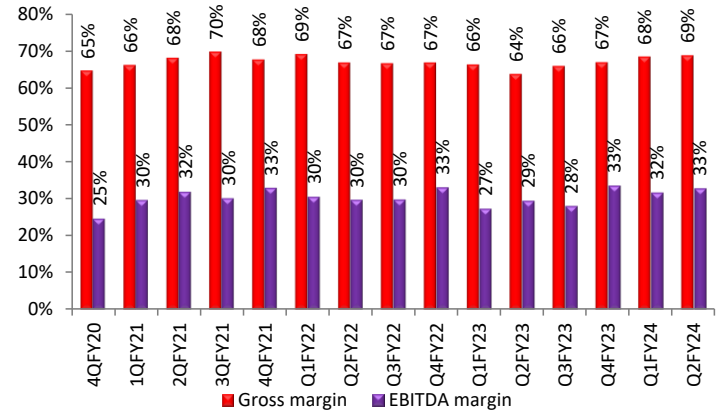
Source: Company, Systematix Institutional Research

**Exhibit 3: 3% volume growth- second quarter in the positive zone but on a low base**

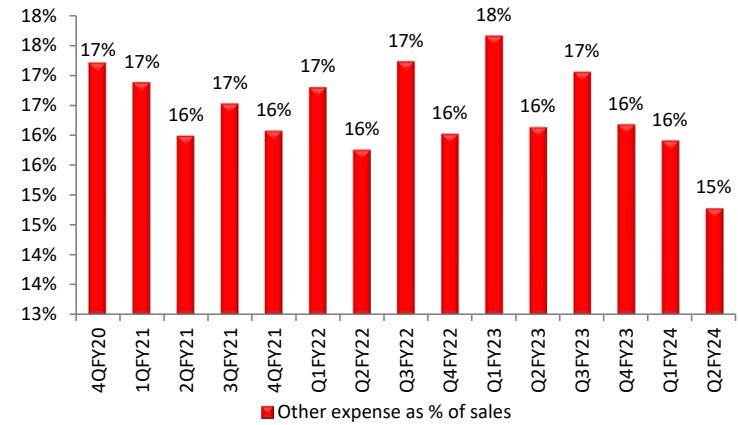
Source: Company, Systematix Institutional Research

**Exhibit 4: Topline growth at 6% YoY (domestic at 6.6%)**

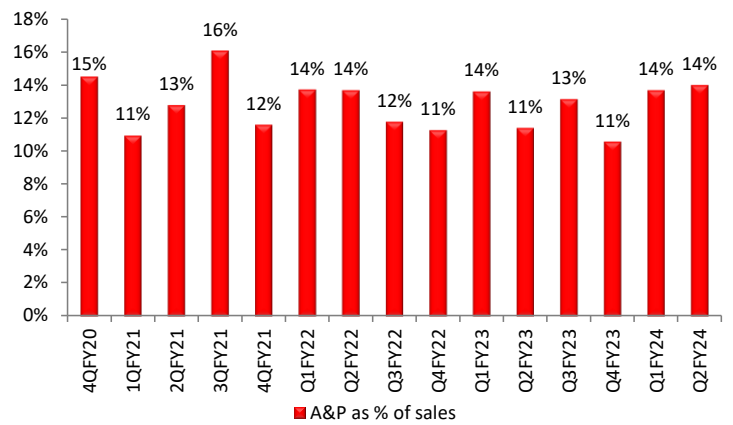
Source: Company, Systematix Institutional Research

**Exhibit 5: Gross/EBITDA margins expanded 502/337 bps YoY**

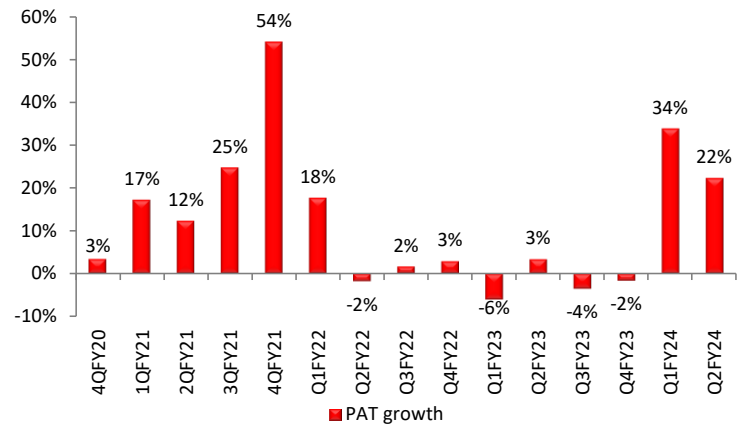
Source: Company, Systematix Institutional Research

**Exhibit 6: Other expenses contracted 136bps YoY to 14.8% of sales**

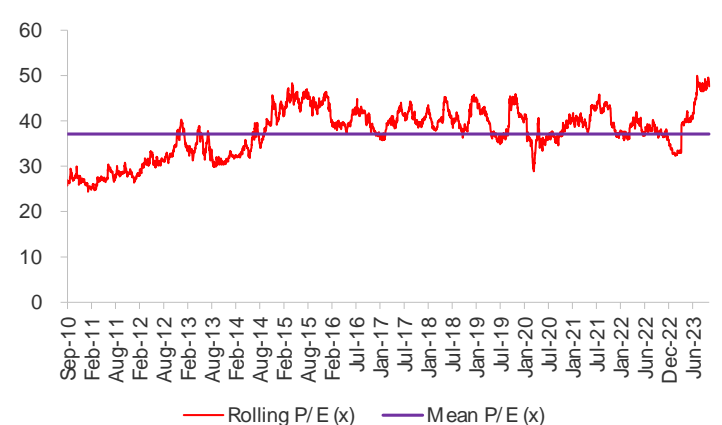
Source: Company, Systematix Institutional Research

**Exhibit 7: A&P spends expanded 260bps YoY to 14% of sales**

Source: Company, Systematix Institutional Research

**Exhibit 8: Adjusted PAT grew 22.3% YoY**

Source: Company, Systematix Institutional Research

**Exhibit 9: Trades at 47.6x 1-year forward P/E vs 5-year avg of 40x**

Source: Bloomberg, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>48,412</b>	<b>50,998</b>	<b>52,262</b>	<b>56,538</b>	<b>61,678</b>
Gross profit	32,919	34,323	34,320	38,163	41,941
GP margin (%)	68.0%	67.3%	65.7%	67.5%	68.0%
<b>Operating profit</b>	<b>15,096</b>	<b>15,659</b>	<b>15,470</b>	<b>17,640</b>	<b>19,429</b>
OP margin (%)	31.2%	30.7%	29.6%	31.2%	31.5%
Depreciation	1,825	1,773	1,748	1,833	1,903
Interest expense	73	59	49	49	49
Other income	304	263	536	605	702
Profit before tax	13,502	14,090	14,209	16,363	18,179
Taxes	3,148	3,307	3,625	3,992	4,446
Minorities	-	-	-	-	-
Tax rate (%)	23.3%	23.5%	25.5%	24.4%	24.5%
<b>Adj. PAT</b>	<b>10,354</b>	<b>10,783</b>	<b>10,584</b>	<b>12,372</b>	<b>13,733</b>
Exceptional loss	-	-	112	-	-
Net profit	10,354	10,783	10,471	12,372	13,733
<b>EPS</b>	<b>38.1</b>	<b>39.6</b>	<b>38.9</b>	<b>45.5</b>	<b>50.5</b>

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	272	272	272	272	272
Reserves	11,387	17,075	16,892	18,111	20,149
Debt	-	-	-	-	-
Deferred tax liab (net)	-	-	-	-	-
Other non current liabilities	1,102	847	820	900	988
<b>Total liabilities</b>	<b>12,761</b>	<b>18,194</b>	<b>17,984</b>	<b>19,283</b>	<b>21,409</b>
Fixed Asset	12,096	10,848	10,023	9,190	8,287
Investments	186	-	-	-	-
Other Non-current Assets	349	454	613	288	288
<b>Inventories</b>	<b>3,358</b>	<b>3,572</b>	<b>3,355</b>	<b>4,027</b>	<b>4,394</b>
Sundry debtors	1,171	2,247	1,574	2,323	2,535
Loans and Advances	3,104	4,350	4,300	1,728	1,890
<b>Cash &amp; equivalents</b>	<b>8,676</b>	<b>7,547</b>	<b>8,966</b>	<b>13,565</b>	<b>16,939</b>
Sundry creditors	7,604	7,714	7,611	8,519	9,294
Other current liabilities	8,575	3,111	3,235	3,319	3,630
<b>Total Assets</b>	<b>12,761</b>	<b>18,194</b>	<b>17,984</b>	<b>19,283</b>	<b>21,409</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBIT	13,575	14,149	14,258	16,413	18,228
Depreciation	1,825	1,773	1,748	1,833	1,903
Tax paid	(3,148)	(3,307)	(3,625)	(3,992)	(4,446)
Working capital Δ	7,999	(7,891)	963	2,141	346
Other operating items	-	-	-	-	-
<b>Operating cashflow</b>	<b>20,250</b>	<b>4,724</b>	<b>13,343</b>	<b>16,394</b>	<b>16,032</b>
Capital expenditure	(792)	(525)	(922)	(1,000)	(1,000)
<b>Free cash flow</b>	<b>19,459</b>	<b>4,199</b>	<b>12,421</b>	<b>15,394</b>	<b>15,032</b>
Equity raised	(4,301)	5,784	(46)	0	-
Investments	0	186	-	-	-
Debt financing/disposal	-	-	-	-	-
Interest Paid	(73)	(59)	(49)	(49)	(49)
Dividends paid	(10,335)	(10,879)	(10,608)	(11,152)	(11,696)
Other items	(286)	(360)	(299)	405	88
<b>Net Δ in cash</b>	<b>4,464</b>	<b>(1,129)</b>	<b>1,419</b>	<b>4,598</b>	<b>3,375</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%)	7.0	5.3	2.5	8.2	9.1
Op profit growth (%)	25.6	3.7	-1.2	14.0	10.1
Net profit growth (%)	26.8	4.1	-1.9	16.9	11.0
OPM (%)	31.2	30.7	29.6	31.2	31.5
Net profit margin (%)	21.4	21.1	20.3	21.9	22.3
RoCE (%)	98.4	97.6	82.6	92.3	93.9
RoNW (%)	75.0	74.4	61.3	69.6	70.8
EPS (Rs)	38.1	39.6	38.9	45.5	50.5
DPS (Rs)	38.0	40.0	39.0	41.0	43.0
BVPS (Rs)	42.9	63.8	63.1	67.6	75.1
Debtor days	9	16	11	15	15
Inventory days	25	26	23	26	26
Creditor days	57	55	53	55	55
P/E (x)	53.4	51.3	52.2	44.7	40.2
P/B (x)	47.4	31.9	32.2	30.1	27.1
EV/EBITDA (x)	36.0	34.8	35.1	30.6	27.6

Source: Company, Systematix Institutional Research

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## DISCLOSURES/APPENDIX

## I. ANALYST CERTIFICATION

I, **Himanshu Nayyar, Rajesh Mudaliar**; hereby certify that (1) views expressed in this research report accurately reflect my/our personal views about any or all of the subject securities or issuers referred to in this research report, (2) no part of my/our compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report by **Systematix Shares and Stocks (India) Limited (SSSIL)** or its group/associate companies, (3) reasonable care is taken to achieve and maintain independence and objectivity in making any recommendations.

Disclosure of Interest Statement	Update
Analyst holding in the stock	No
Served as an officer, director or employee	No

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