

Consumer Staples | Q3FY24 Result Update

Margins remain elevated; rich valuation; Downgrade to SELL

- Colgate's Q3FY24 results were ahead of our estimate. Domestic business posted revenue growth of 8.8% YoY. We believe that the volume growth was flattish on a base of 5% de-growth.
- GM expanded by 630bps YoY due to deflation in key RM prices. However, increase in A&P spends restricted EBITDA margins expansion at 560bps.
- Company's focus on driving growth via increasing oral care pie in India through innovation across core categories and developing new segments would remain key growth drivers over the long term. However, increase in competition and better product offerings by competitors like Dabur and Patanjali remains a key challenge. Further, rural slowdown remains challenge for domestic oral care industry.
- As Colgate's Q3 results were a beat, we have upward revised our FY24E EPS by 1.6% at Rs 46.3. However, we have broadly maintained our FY25/26E EPS at Rs 50.3/54.7. We value the stock at 42x FY26E EPS (15% disc to HUL) to arrive at TP of Rs 2,297. Rich valuations, Downgrade to SELL.

Results ahead of our estimate

Net revenues increased by 8.1% YoY to Rs 13.9bn. Our analysis suggests that volume growth was flattish on a base of 5% de-growth. GM expanded by 630bps to 72.2%. A 630/90bps decline in RM/other expenses was partially offset by 20/150bps increase in employee cost/A&P spends respectively. Consequently, EBITDA margin expanded by 560bps YoY to 33.6%. EBITDA increased by 29.6% YoY to Rs 4.7bn. APAT increased 35.7% YoY to Rs 3.3bn.

Focused on transforming India's oral care habits

During the quarter, Colgate MaxFresh was relaunched with a new campaign "NeendBhagaoTaazgiJagao", the campaign presented a new proprietary formula infused with unique cooling crystals to deliver a superior freshness experience, which is outperforming direct competition. Furthermore, the company has continued to endorse its commitment towards improving oral health in India through "The Sweet Truth - Brush at Night" campaign which educates the audience regarding importance of the night time brushing. The advertisement has already reached over 300mn people in urban India.

Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	13,957	12,913	8.1	14,711	(5.1)
Total Expense	9,273	9,298	(0.3)	9,890	(6.2)
EBITDA	4,684	3,615	29.6	4,821	(2.8)
Depreciation	414	437	(5.3)	443	(6.6)
EBIT	4,270	3,178	34.4	4,379	(2.5)
Other Income	179	104	71.9	210	(14.9)
Interest	15	13	19.8	11	43.8
EBT	4,434	3,269	35.6	4,578	(3.1)
Tax	1,133	837	35.4	1,178	(3.8)
RPAT	3,301	2,432	35.7	3,401	(2.9)
APAT	3,301	2,432	35.7	3,401	(2.9)
			(bps)		(bps)
Gross Margin (%)	72.2	65.9	631	68.8	341
EBITDA Margin (%)	33.6	28.0	557	32.8	79
NPM (%)	23.7	18.8	482	23.1	54
Tax Rate (%)	25.6	25.6	(5)	25.7	(17)
EBIT Margin (%)	30.6	24.6	599	29.8	83

CMP	Rs 2,536
Target / Downside	Rs 2,297 / 9%
NIFTY	21,572

Scrip Details

Equity / FV	Rs 272mn / Rs 1
Market Cap	Rs 690bn
	USD 8.3bn
52-week High/Low	Rs 2,550/ 1,435
Avg. Volume (no)	405,430
Bloom Code	CLGT IN

Price Performance	1M	3M	12M
Absolute (%)	5	20	69
Rel to NIFTY (%)	5	11	51

Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	51.0	51.0	51.0
MF/Banks/FIs	7.8	5.9	5.9
FIs	21.8	24.1	24.6
Public / Others	19.4	19.4	19.4

Valuation (x)

	FY24E	FY25E	FY26E
P/E	54.8	50.4	46.4
EV/EBITDA	37.0	34.0	31.1
ROE (%)	70.5	70.8	71.2
RoACE (%)	69.5	69.9	70.3

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	56.6	60.7	65.3
EBITDA	18.3	19.8	21.5
PAT	12.6	13.7	14.9
EPS (Rs.)	46.3	50.3	54.7

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Exhibit 1: Actual V/s DART Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	13,957	13,429	3.9	Price growth was higher than estimate
EBITDA	4,684	4,390	6.7	GM expansion was higher than estimate
EBITDA margin (%)	33.6	32.7	90bps	
APAT	3,301	3,089	6.9	Cascading effect of higher EBITDA

Source: Company, DART

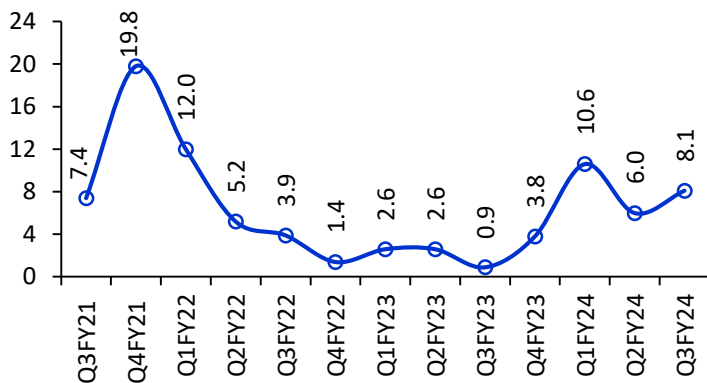
Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	New	Old	Chg. (%)	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	56,604	57,283	(1.2)	60,719	62,099	(2.2)	65,349	66,816	(2.2)
EBIDTA	18,294	18,027	1.5	19,811	19,806	0.0	21,545	21,539	0.0
EBIDTA margin (%)	32.3	31.5	80bps	32.6	31.9	70bps	33.0	32.2	70bps
PAT	12,598	12,401	1.6	13,678	13,676	0.0	14,874	14,872	0.0
EPS (Rs)	46.3	45.6	1.6	50.3	50.3	0.0	54.7	54.7	0.0

Source: Company DART

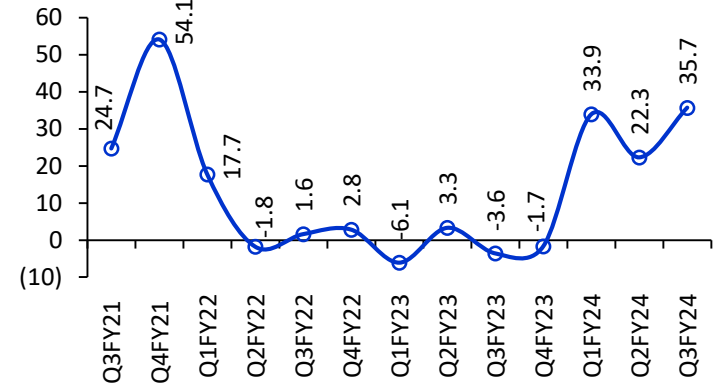
We have downward revised our revenue estimates for FY24/25/26E as the volume growth continues to remain muted. However, we have increased our margin estimates for FY24/25/26E to factor in recent price hikes and sharp increase in GM. In line, we have revised our APAT and EPS estimates.

Exhibit 3: Sales Growth (%)



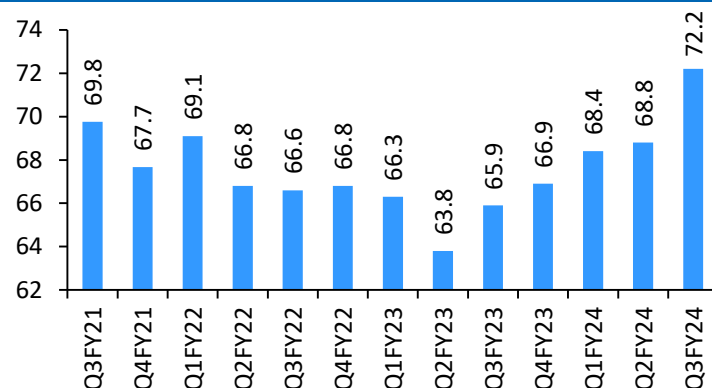
Source: Company, DART

Exhibit 4: Net Profit Growth (%)



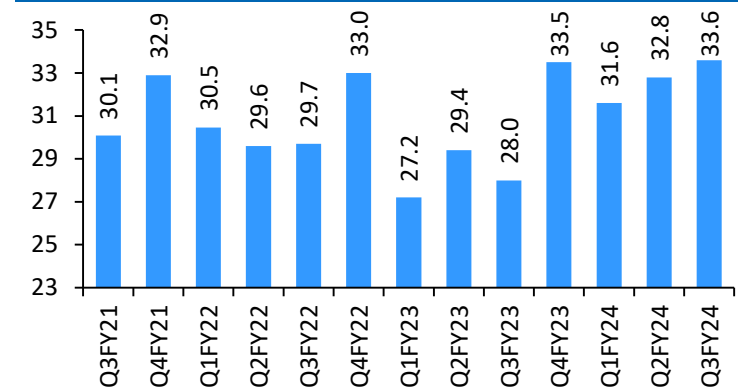
Source: Company, DART

Exhibit 5: Gross Margin (%) Trend

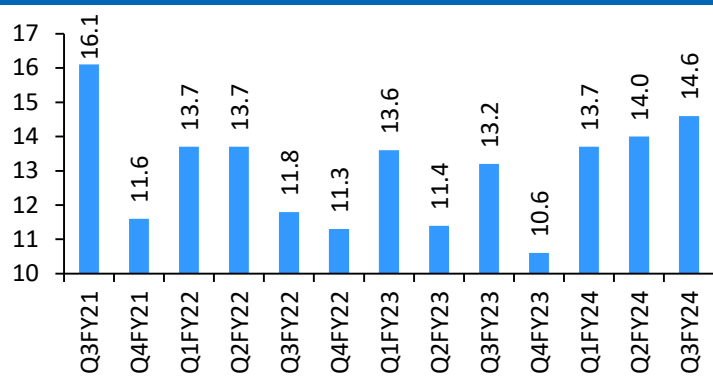


Source: Company, DART

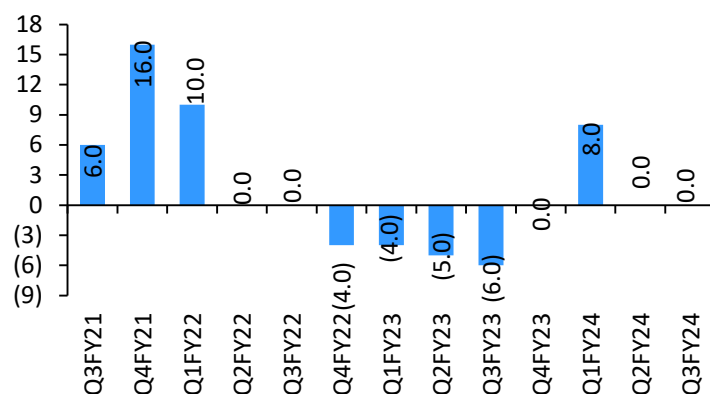
Exhibit 6: EBITDA Margins Trend (%)



Source: Company, DART

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


Source: Company, DART

Exhibit 8: Volume growth overall (% YoY)


Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	52,262	56,604	60,719	65,349
Total Expense	36,792	38,310	40,908	43,803
COGS	17,942	17,564	18,731	20,040
Employees Cost	3,770	3,970	4,137	4,322
Other expenses	15,080	16,776	18,040	19,442
EBIDTA	15,470	18,294	19,811	21,545
Depreciation	1,748	1,841	1,966	2,092
EBIT	13,722	16,453	17,845	19,453
Interest	49	100	100	100
Other Income	536	720	817	860
Exc. / E.O. items	(112)	0	0	0
EBT	14,097	17,074	18,562	20,213
Tax	3,625	4,476	4,884	5,339
RPAT	10,472	12,598	13,678	14,874
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	10,584	12,598	13,678	14,874

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	272	272	272	272
Minority Interest	0	0	0	0
Reserves & Surplus	16,892	18,282	19,792	21,434
Net Worth	17,164	18,554	20,064	21,706
Total Debt	690	690	690	690
Net Deferred Tax Liability	(288)	(288)	(288)	(288)
Total Capital Employed	17,565	18,956	20,465	22,107

Applications of Funds

Net Block	8,618	8,277	7,811	7,219
CWIP	1,141	1,141	1,141	1,141
Investments	0	0	0	0
Current Assets, Loans & Advances	18,783	23,993	26,871	30,109
Inventories	3,355	3,694	3,962	4,264
Receivables	1,574	1,460	1,566	1,685
Cash and Bank Balances	9,230	14,283	16,695	19,410
Loans and Advances	4,625	4,556	4,647	4,750
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	10,976	14,455	15,357	16,362
Payables	7,611	8,244	8,843	9,517
Other Current Liabilities	3,365	6,212	6,514	6,845
<i>sub total</i>				
Net Current Assets	7,806	9,537	11,513	13,747
Total Assets	17,565	18,956	20,465	22,107

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	65.7	69.0	69.2	69.3
EBIDTA Margin	29.6	32.3	32.6	33.0
EBIT Margin	26.3	29.1	29.4	29.8
Tax rate	25.7	26.2	26.3	26.4
Net Profit Margin	20.0	22.3	22.5	22.8
(B) As Percentage of Net Sales (%)				
COGS	34.3	31.0	30.8	30.7
Employee	7.2	7.0	6.8	6.6
Other	28.9	29.6	29.7	29.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	279.5	164.5	178.4	194.5
Inventory days	23	24	24	24
Debtors days	11	9	9	9
Average Cost of Debt	6.5	14.5	14.5	14.5
Payable days	53	53	53	53
Working Capital days	55	62	69	77
FA T/O	6.1	6.8	7.8	9.1
(D) Measures of Investment				
AEPS (Rs)	38.9	46.3	50.3	54.7
CEPS (Rs)	45.3	53.1	57.5	62.4
DPS (Rs)	38.9	41.2	44.7	48.6
Dividend Payout (%)	99.9	89.0	89.0	89.0
BVPS (Rs)	63.1	68.2	73.8	79.8
RoANW (%)	60.7	70.5	70.8	71.2
RoACE (%)	59.8	69.5	69.9	70.3
RoAIC (%)	146.0	253.0	422.7	601.6
(E) Valuation Ratios				
CMP (Rs)	2536	2536	2536	2536
P/E	65.2	54.8	50.4	46.4
Mcap (Rs Mn)	689,846	689,846	689,846	689,846
MCap/ Sales	13.2	12.2	11.4	10.6
EV	681,306	676,253	673,841	671,126
EV/Sales	13.0	11.9	11.1	10.3
EV/EBITDA	44.0	37.0	34.0	31.1
P/BV	40.2	37.2	34.4	31.8
Dividend Yield (%)	1.5	1.6	1.8	1.9
(F) Growth Rate (%)				
Revenue	2.5	8.3	7.3	7.6
EBITDA	(1.2)	18.3	8.3	8.8
EBIT	(1.2)	19.9	8.5	9.0
PBT	0.1	21.1	8.7	8.9
APAT	(1.8)	19.0	8.6	8.7
EPS	(1.8)	19.0	8.6	8.7

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	14,209	17,074	18,562	20,213
Depreciation & w.o.	1,748	1,841	1,966	2,092
Net Interest Exp	49	100	100	100
Direct taxes paid	(3,809)	(4,476)	(4,884)	(5,339)
Change in Working Capital	(89)	3,322	436	481
Non Cash	(851)	0	0	0
(A) CF from Operating Activities	11,257	17,861	16,180	17,547
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(642)	(1,500)	(1,500)	(1,500)
Free Cash Flow	10,616	16,361	14,680	16,047
(Inc.)/ Dec. in Investments	619	0	0	0
Other	1,262	0	0	0
(B) CF from Investing Activities	1,240	(1,500)	(1,500)	(1,500)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(191)	0	0	0
Interest exp net	(49)	(100)	(100)	(100)
Dividend Paid (Incl. Tax)	(10,575)	(11,208)	(12,168)	(13,232)
Other	0	0	0	0
(C) CF from Financing	(10,814)	(11,308)	(12,268)	(13,332)
Net Change in Cash	1,683	5,053	2,412	2,715
Opening Cash balances	7,547	9,230	14,283	16,695
Closing Cash balances	9,230	14,283	16,695	19,410

E – Estimates

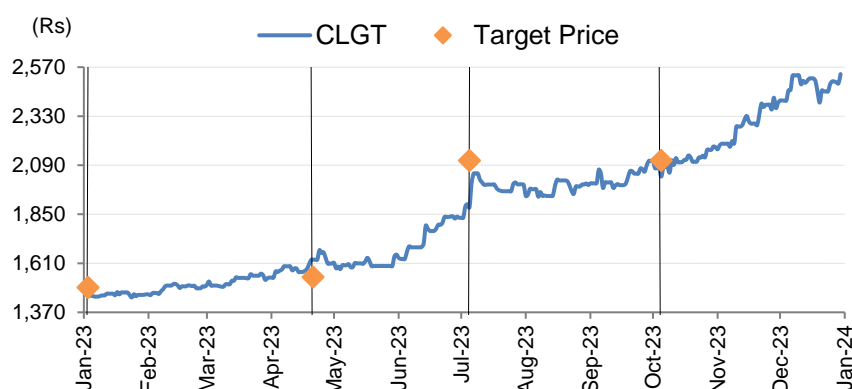
Notes

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-23	Reduce	1,492	1,459
May-23	SELL	1,543	1,628
Jul-23	Accumulate	2,113	1,884
Oct-23	Reduce	2,113	2,034

*Price as on recommendation date

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