

15 May 2024

India | Equity Research | Q4FY24 results review

Colgate Palmolive India

Consumer Staples & Discretionary

Market shares (gains) bottomed out

While Colgate's revenue and profit growth beat peers (price/mix +8%, volumes +2%, albeit on a low base), it's still underwhelming. At ~70% gross margin and >35% adj. EBITDA margin, it is over-earning, though the basic product (white toothpaste with the highest salience in its portfolio) is a functional product. Bringing focus back on brushing twice may drive per capita consumption though it has failed in the past to do so. Relaunches of products with superior quality, launch of access packs and expected launch of global toothpaste variants are steps in right direction. However, market share losses to naturals segment (with continuous price hikes) is a key risk. Focusing & growing core plus diversification is a tough ask. At 48x P/E FY26E, downgrade to **HOLD** (ADD earlier).

Price/mix led revenue growth

Colgate's Q4FY24 revenue / EBITDA / recurring PAT growth (YoY) were 10 / 18 / 19 (%). Domestic revenue grew 11% YoY with overall volume growth at ~2% YoY (on a low base) and strong performance in toothpaste (double-digit growth in FY24). Though volume growth was not exciting, price/mix growth ~8% does imply healthy improvement in mix. Rural grew ahead of urban markets while strong performance continued in organised trade. Outperformance in FY24 was delivered with bottoming out of market share losses with increased focus on driving growth on core portfolio (Colgate CDC, Maxfresh, Active Salt), premiumisation through Colgate Visible White. Further, it is again focusing back on brushing twice (new campaign launch during IPL with focus on brushing at night and school oral health programme). It relaunched Colgate Active Salt and launched Colgate Total accessible pack (80gm) and expects more variants from global portfolio to follow. In bodywash, it launched new variants of Palmolive.

Margin driven by better mix with increased ad-spends

Gross margin expanded 240bps YoY to 69.3% driven by stable input cost and better mix (premiumisation and toothpaste has outperformed other segments). Similarly, EBITDA margin expanded 225bps YoY. Investment towards ad-spends have increased 18% YoY (+75bps YoY) to INR 1.7bn which was largely funded through cost savings (other opex is down 60bps YoY).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	52,262	56,804	61,215	66,288
EBITDA	15,470	19,008	20,484	22,218
EBITDA Margin (%)	29.6	33.5	33.5	33.5
Net Profit	10,584	13,432	14,603	15,908
EPS (Rs)	38.9	49.4	53.7	58.5
EPS % Chg YoY	(1.9)	26.9	8.7	8.9
P/E (x)	72.5	57.1	52.5	48.2
EV/EBITDA (x)	49.0	39.6	36.7	33.8
RoCE (%)	76.3	93.8	98.6	106.4
RoE (%)	61.3	74.8	78.2	84.5

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Market Data

Market Cap (INR)	767bn
Market Cap (USD)	9,190mn
Bloomberg Code	CLGT IN
Reuters Code	COLG.BO
52-week Range (INR)	2,961 / 1,568
Free Float (%)	49.0
ADTV-3M (mn) (USD)	11.6

Price Performance (%)	3m	6m	12m
Absolute	8.7	32.5	73.2
Relative to Sensex	7.2	21.2	56.0

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.1)	(2.0)
EBITDA	(0.3)	(1.7)
EPS	0.6	(0.6)

Previous Reports

23-01-20204: [Q3FY24 results review](#)

26-10-20203: [Q2FY24 results review](#)

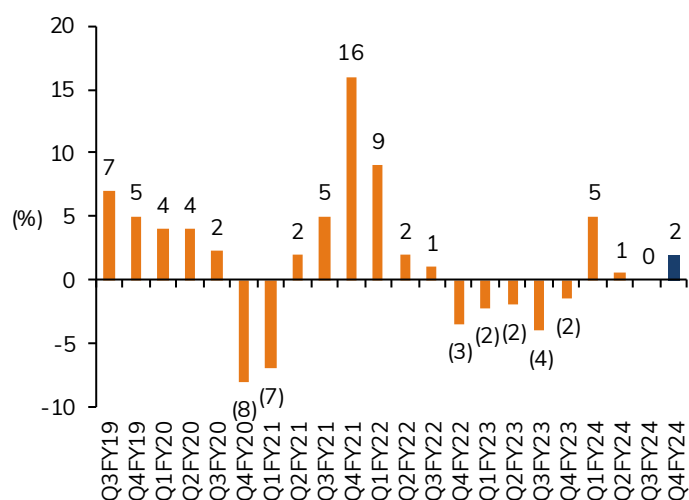
Valuations and risks

Our earnings estimates are unchanged, modelling in revenue / EBITDA / PAT CAGR of 8 / 8 / 9 (%) over FY24-26E. At 48x P/E FY26E, downgrade to HOLD (from ADD) with an unchanged DCF-based target price of INR 2,900. Key downside risks: Increased competitive intensity and lower than expected market share gains. Key upside risks: Higher-than-expected market share gains.

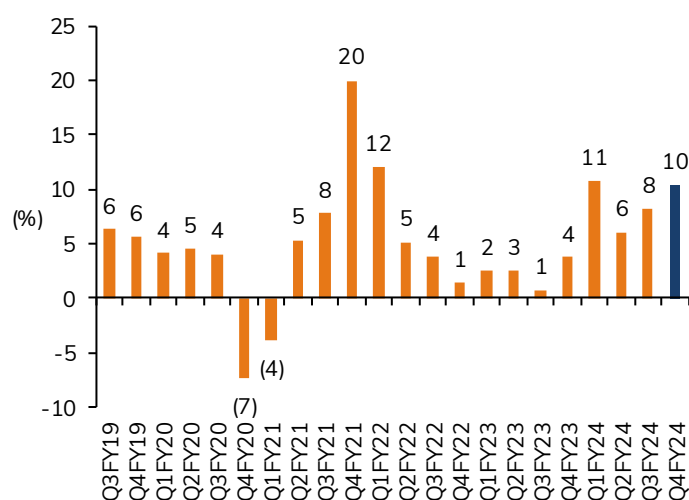
Exhibit 1: Q4FY24 result review

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Net Revenue	14,900	13,506	10	13,957	7	56,804	52,262	9
COGS	(4,573)	(4,475)	2	(3,883)	18	(17,230)	(17,942)	(4)
Gross profit	10,327	9,031	14	10,073	3	39,574	34,320	15
Staff cost	(999)	(898)	11	(1,098)	(9)	(4,117)	(3,770)	9
A&SP	(1,689)	(1,429)	18	(2,043)	(17)	(7,604)	(6,341)	20
Other opex	(2,317)	(2,185)	6	(2,248)	3	(8,845)	(8,740)	1
Total opex	(5,005)	(4,512)	11	(5,389)	(7)	(20,566)	(18,850)	9
EBITDA	5,322	4,519	18	4,684	14	19,008	15,470	23
Other income	227	204	11	179	27	765	536	43
Finance cost	(14)	(11)		(15)	(10)	(50)	(49)	
D&A	(421)	(431)	(2)	(414)	2	(1,715)	(1,748)	(2)
PBT	5,114	4,281	19	4,434	15	18,008	14,209	27
Tax	(1,315)	(1,100)	20	(1,133)	16	(4,577)	(3,625)	26
Recurring PAT	3,798	3,181	19	3,301	15	13,432	10,584	27
Extraordinary items	-	(19)		-		(195)	(112)	
Net profit (reported)	3,798	3,162	20	3,301	15	13,237	10,472	26
EPS	14.0	11.7	19	12.1	15	49.4	38.9	27
Costs as a % of sales								
COGS	30.7	33.1	-244 bps	27.8	286 bps	30.3	34.3	-400 bps
Gross margin (%)	69.3	66.9	243 bps	72.2	-287 bps	69.7	65.7	399 bps
Staff cost	6.7	6.7	5 bps	7.9	-117 bps	7.2	7.2	3 bps
A&SP	11.3	10.6	75 bps	14.6	-331 bps	13.4	12.1	125 bps
Other opex	15.6	16.2	-63 bps	16.1	-56 bps	15.6	16.7	-116 bps
EBITDA margin (%)	35.7	33.5	225 bps	33.6	215 bps	33.5	29.6	386 bps
Income tax rate (%)	25.7	25.7	3 bps	25.6	17 bps	25.4	25.5	-10 bps

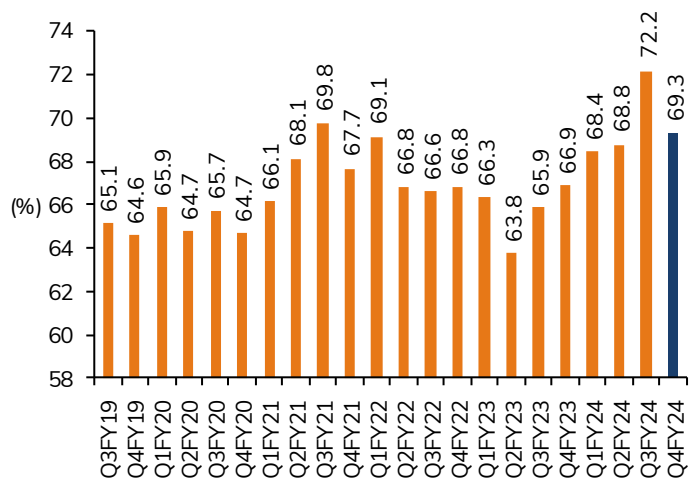
Source: Company data, I-Sec research

Exhibit 2: Volume growth – Toothpaste

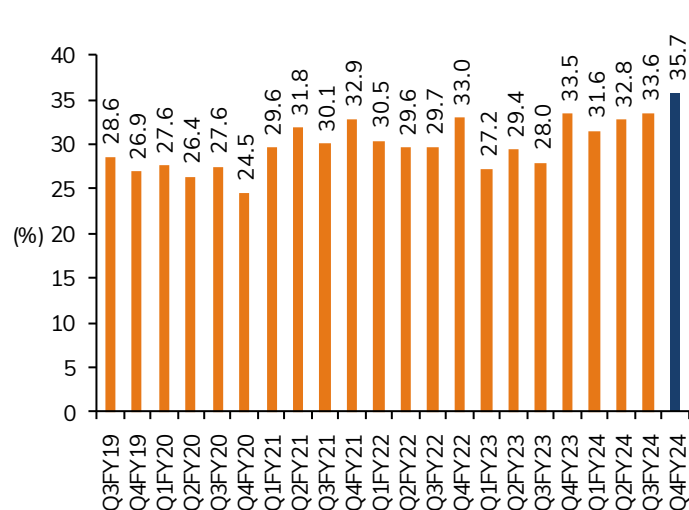
Source: Company data, I-Sec research

Exhibit 3: Revenue growth

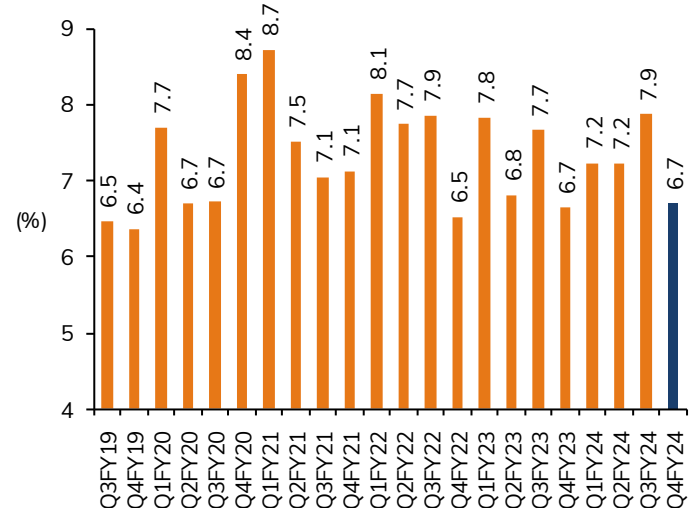
Source: Company data, I-Sec research

Exhibit 4: Gross margin

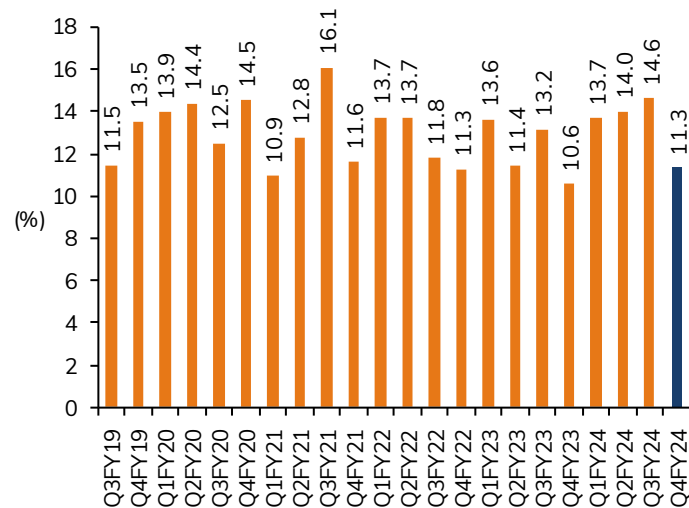
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin

Source: Company data, I-Sec research

Exhibit 6: Staff cost as a % of sales

Source: Company data, I-Sec research

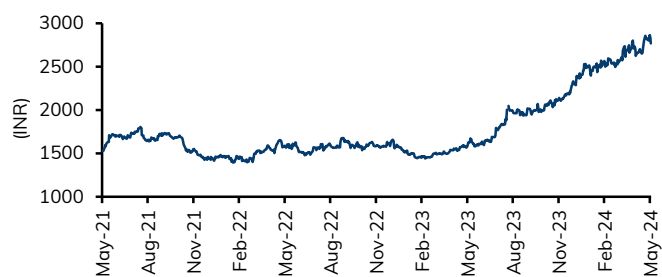
Exhibit 7: A&SP as a % of sales

Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	51.0	51.0	51.0
Institutional investors	30.0	30.4	30.6
MFs and others	2.4	2.8	3.1
FIs/Banks, Insurance	3.5	3.0	2.9
FIIIs	24.1	24.6	24.6
Others	19.0	18.6	18.4

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	52,262	56,804	61,215	66,288
Operating Expenses	36,792	37,796	40,731	44,070
EBITDA	15,470	19,008	20,484	22,218
EBITDA Margin (%)	29.6	33.5	33.5	33.5
Depreciation & Amortization	1,748	1,715	1,774	1,838
EBIT	13,722	17,293	18,710	20,380
Interest expenditure	49	50	53	55
Other Non-operating Income	536	765	948	1,033
Recurring PBT	14,209	18,008	19,606	21,357
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	3,625	4,577	5,002	5,449
PAT	10,584	13,432	14,603	15,908
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	(112)	(195)	-	-
Net Income (Reported)	10,471	13,237	14,603	15,908
Net Income (Adjusted)	10,584	13,432	14,603	15,908

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	15,479	19,038	20,384	22,346
of which cash & cash eqv.	9,230	13,738	14,722	16,270
Total Current Liabilities & Provisions	10,724	12,272	13,264	14,407
Net Current Assets	4,755	6,767	7,119	7,939
Investments	-	-	-	-
Net Fixed Assets	8,618	7,941	7,203	6,587
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,141	1,103	1,103	1,103
Total Intangible Assets	-	-	-	-
Long Term Loans & Advances	3,304	3,236	3,487	3,775
Deferred Tax assets	-	-	-	-
Total Assets	17,817	19,046	18,912	19,404
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	(288)	(648)	(648)	(648)
Provisions	236	216	233	252
Other Liabilities	706	734	735	737
Equity Share Capital	272	272	272	272
Reserves & Surplus	16,892	18,472	18,319	18,791
Total Net Worth	17,164	18,744	18,591	19,063
Minority Interest	-	-	-	-
Total Liabilities	17,817	19,046	18,912	19,404

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	13,237	14,711	13,957	14,900
% growth (YOY)	10.8	6.1	8.2	10.4
EBITDA	4,181	4,821	4,684	5,322
Margin %	31.6	32.8	33.6	35.7
Other Income	150	210	179	227
Extraordinaries	(195)	-	-	-
Adjusted Net Profit	2,737	3,401	3,301	3,798

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	15,661	18,948	20,484	22,218
Working Capital Changes	(89)	(2,272)	399	461
Capital Commitments	(701)	(756)	(1,036)	(1,223)
Free Cashflow	11,062	11,234	14,845	16,006
Other investing cashflow	626	1,548	948	1,033
Cashflow from Investing Activities	(75)	792	(88)	(191)
Issue of Share Capital	-	-	-	-
Interest Cost	(102)	(93)	(53)	(55)
Inc (Dec) in Borrowings	(191)	(190)	-	-
Dividend paid	(10,575)	(11,670)	(14,756)	(15,436)
Others	-	-	-	-
Cash flow from Financing Activities	(10,867)	(11,953)	(14,809)	(15,491)
Chg. in Cash & Bank balance	820	829	985	1,548
Closing cash & balance	9,230	13,738	14,722	16,270

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	38.9	49.4	53.7	58.5
Adjusted EPS (Diluted)	38.9	49.4	53.7	58.5
Cash EPS	45.3	55.7	60.2	65.2
Dividend per share (DPS)	39.0	58.0	53.0	58.0
Book Value per share (BV)	63.1	68.9	68.3	70.1
Dividend Payout (%)	100.2	117.5	98.7	99.2
Growth (%)				
Net Sales	2.4	8.8	7.8	8.3
EBITDA	(1.2)	22.9	7.8	8.5
EPS (INR)	(1.9)	26.9	8.7	8.9
Valuation Ratios (x)				
P/E	72.5	57.1	52.5	48.2
P/CEPS	62.2	50.6	46.8	43.2
P/BV	44.7	40.9	41.3	40.2
EV / EBITDA	49.0	39.6	36.7	33.8
P / Sales	14.8	13.6	12.6	11.6
Dividend Yield (%)	1.4	2.1	1.9	2.1
Operating Ratios				
Gross Profit Margins (%)	65.7	69.7	69.7	69.7
EBITDA Margins (%)	29.6	33.5	33.5	33.5
Effective Tax Rate (%)	25.5	25.4	25.5	25.5
Net Profit Margins (%)	20.3	23.6	23.9	24.0
Net Debt / Equity (x)	(0.5)	(0.7)	(0.8)	(0.9)
Net Debt / EBITDA (x)	(0.6)	(0.7)	(0.7)	(0.7)
Fixed Asset Turnover (x)	2.5	2.6	2.7	2.8
Working Capital Days	(32)	(47)	(47)	(48)
Inventory Turnover Days	24	20	20	19
Receivables Days	11	11	11	11
Payables Days	54	59	59	59
Profitability Ratios				
RoCE (%)	76.3	93.8	98.6	106.4
RoE (%)	61.3	74.8	78.2	84.5
RoIC (%)	115.3	199.4	314.1	455.8

Source Company data, I-Sec research

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