

Estimate change



TP change



Rating change



Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	689.8 / 8.3
52-Week Range (INR)	2550 / 1435
1, 6, 12 Rel. Per (%)	5/30/49
12M Avg Val (INR M)	824

Financials & Valuations (INR b)

Y/E March	2024E	2025E	2026E
Sales	56.5	61.0	65.8
Sales Gr. (%)	8.1	8.0	7.8
EBITDA	18.7	19.5	21.0
EBITDA Margin (%)	33.1	31.9	31.9
Adj. PAT	13.2	13.7	14.8
Adj. EPS (INR)	48.5	50.2	54.4
EPS Gr. (%)	24.7	3.5	8.2
BV/Sh.(INR)	70.9	80.2	92.5

Ratios

RoE (%)	72.4	66.5	63.0
RoCE (%)	70.6	65.0	61.7
Payout (%)	83.6	81.6	77.3

Valuation

P/E (x)	52.3	50.5	46.6
P/BV (x)	35.8	31.6	27.4
EV/EBITDA (x)	36.4	34.8	32.1
Div. Yield (%)	1.6	1.6	1.7

Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	51.0	51.0	51.0
DII	5.9	5.9	7.8
FII	24.6	24.1	21.1
Others	18.5	19.4	20.1

FII Includes depository receipts

CMP: INR2,536

TP: INR2,400 (-5%)

Neutral

Unchanged volume trend; margins at all-time high

- Colgate (CLGT) delivered a healthy price-led 8% YoY revenue growth (est. 6%). However, overall volumes experienced a marginal decline (est. +2%). The value growth of toothpaste was in double-digits, while toothbrushes posted YoY decline (weak volume, unfavorable mix). Volume growth for toothpaste was flat to positive. Despite numerous product innovations and marketing efforts, the rebound in volume remains uninspiring.
- The divergence between naturals and traditional oral care products was negligible industry-wide. Despite oral care being less price-sensitive compared to other categories, CLGT implemented a price hike, particularly in the premium segment, by the end of 2QFY24 (mainly in premium) in this market environment.
- Benefiting from softening raw material costs and a revenue growth driven by higher prices, CLGT achieved a record gross margin, reaching 72.2% (up 630bp YoY). In line with the industry trend, the A&P spend was high at 20% YoY. Despite this, CLGT experienced a sharp 550bp YoY expansion in the EBITDA margin, reaching 33.5%. EBITDA grew 30% YoY (-5% was the base).
- We anticipate challenges in FY25, considering our belief that the company may struggle to maintain the current elevated margins. Moreover, the volume pickup in the oral care products will also be slower than the other categories and this is attributed to limited opportunities for penetration and lower frequency of product usage in the oral care segment.
- The recent rally captures the near-term triggers and valuation at 50.5x and 46.6x of P/E on FY25/FY26 does not offer room for valuation play. We maintain our NEUTRAL rating on the stock.

In-line sales; all-time high gross margin

- Colgate (CLGT) sales grew 8.1% YoY to INR13.9b (est. INR13.7b).
- Domestic revenue was up 8.8% YoY; volume was flat to negative (est +2%).
- While some FMCG companies have initiated price cuts to pass on RM benefits (home care, skin cleansing, etc.), Colgate is retaining the benefits and implemented price increases for some products (at premium end).
- However, the pricing strategy is similar within the oral care peers. Thereby, compared to other FMCG companies (seeing price cuts), Colgate's revenue performance stands on the higher side.
- Gross margins increased 630bp YoY and 340bp QoQ to 72.2% (est. 68.4%), reaching an all-time high margin.
- Employee, A&P and other expenses were up 11%, 20%, and 2% YoY.
- As percentage of sales, other expenses stood at 16.1% (down 90bp YoY), advertising expenses at 14.6% (up 150bp YoY), and staff cost at 7.9% (up 20bp YoY).
- EBITDA margin expanded ~550bp YoY to 33.6%.
- EBITDA grew 29.6% YoY to INR4.7b (est. INR4.2b).
- PBT grew 35.6% YoY to INR4.4b (est. INR3.9b).

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- Adj. PAT grew 35.7% YoY to INR3.3b (est. INR2.9b).
- In 9MFY24 Net sales/EBITDA/adj. PAT growth stood at 8.3%/25.0%/29.1% YoY.

Other takeaways

- Overall volume growth declined marginally; the toothpaste segment saw flat to marginal positive volume growth.
- The price hike was implemented at the end of 2QFY24; full benefits were visible in 3QFY24.
- Toothpaste clocked double-digit revenue growth, whereas toothbrush sales experienced a decline.
- The toothbrush mix was unfavorable, registering a decline in volume growth.
- Volume trajectory is gradually seeing progression, but there is still a degree of caution regarding the recovery in rural markets.
- In categories such as oral care, changes in price and volume are relatively less sensitive compared to home care. Therefore, implementing price cuts may not significantly contribute to the recovery of volumes.
- Natural segment (industry-wide) has witnessed a similar trend with no divergence between natural products and others.
- Gross margin achieved in 9MFY24 (68-69%) are more sustainable than those achieved in 3QFY24 (72%).
- The company remained focused on volume recovery instead of further expanding its operating margin.

Valuation and view

- With a beat on EBITDA margin, we raise our FY24 and FY25 estimates by 5-3% EPS.
- The sales/EBITDA/PAT CAGR for the 10-year period ending FY23 stood at 5%/9%/8%. Despite this, the overall growth seems stagnant, anticipated muted volume growth in the future. Additionally, due to high oral care penetration and competition from herbal players, CLGT has struggled to achieve volume growth for several years. Moreover, premiumization in general trade and traction in personal care have been slow.
- FY25 will be a testing period to check margin trajectory. It seems both gross margin and EBITDA margin have elevated to unsustainable levels. The ongoing debate between prioritizing growth vs. maintaining margins will persist, and to accelerating the growth, margins mat at risk.
- Given the likelihood of continued weak topline and earnings growth in the future, it is unlikely that the stock will undergo a re-rating. We reiterate our Neutral rating on the stock with a **TP of INR2,400** (target multiple of 45x Dec'25E EPS, close to a five-year average).

Quarterly Performance

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	FY24	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	
Volume Gr %	-4.0	-2.5	-2.5	-4.5	3.0	-1.0	-1.0	0.0	-3.4	0.3	2.0	
Net Sales (inclgd. OOI)	11,968	13,875	12,913	13,506	13,237	14,711	13,957	14,574	52,262	56,471	13,744	1.5%
YoY change (%)	-2.9	8.1	10.7	-0.1	10.6	6.0	8.1	7.9	3.8	8.1	6.4	
COGS	4,031	5,029	4,407	4,475	4,179	4,594	3,883	4,287	17,942	16,983	4,345	
Gross Profit	7,938	8,846	8,506	9,031	9,058	10,117	10,073	10,288	34,320	39,488	9,400	7.2%
Gross margin (%)	66.3	63.8	65.9	66.9	68.4	68.8	72.2	70.6	65.7	69.9	68.4	
Other operating Expenses	4,681	4,766	4,891	4,512	4,877	5,295	5,389	5,279	18,850	20,794	5,170	
% to sales	39.1	34.3	37.9	33.4	36.8	36.0	38.6	36.2	36.1	36.8	37.6	
EBITDA	3,257	4,080	3,615	4,519	4,181	4,821	4,684	5,008	15,470	18,694	4,230	10.7%
Margins (%)	27.2	29.4	28.0	33.5	31.6	32.8	33.6	34.4	29.6	33.1	30.8	
YoY growth (%)	-12.1	-3.3	1.8	12.8	28.4	18.2	29.6	10.8	-0.1	20.8	17.0	
Depreciation	442	439	437	431	438	443	414	474	1,748	1,768	482	
Interest	13	13	13	11	11	11	15	14	49	50	14	
Financial other Income	115	113	104	204	150	210	179	162	536	701	135	
PBT	2,918	3,741	3,269	4,281	3,883	4,578	4,434	4,682	14,209	17,577	3,869	14.6%
Tax	727	961	837	1,100	951	1,178	1,133	1,119	3,724	4,375	987	
Rate (%)	24.9	25.7	25.6	25.7	24.5	25.7	25.6	23.9	26.2	24.9	25.5	
Adj PAT	2,167	2,780	2,432	3,175	2,883	3,401	3,301	3,563	10,584	13,202	2,882	14.5%
YoY change (%)	-12.8	-11.6	4.3	18.0	33.1	22.3	35.7	12.2	-0.7	24.7	18.5	

E: MOFSL Estimates

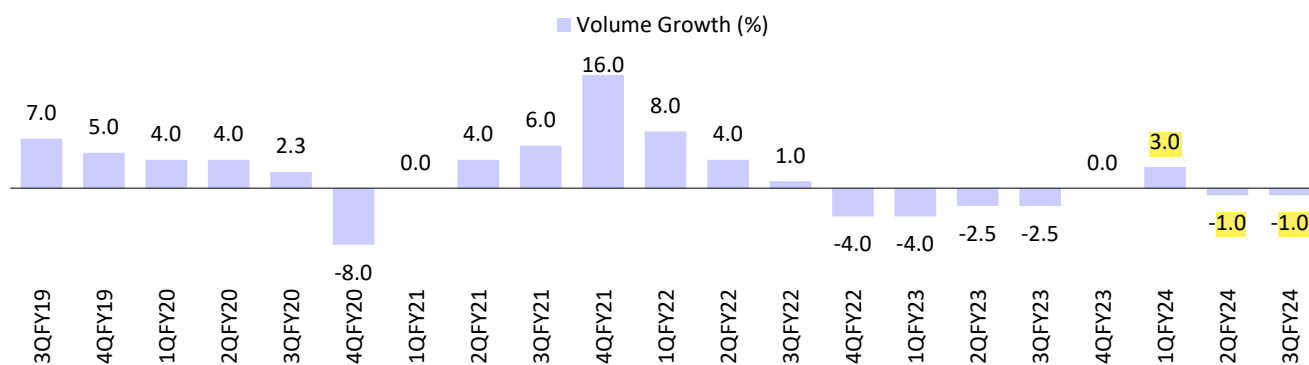
Key Performance Indicators

Y/E March	FY23				FY24			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE
Realization Gr %	1.1	10.6	13.2	4.4	7.6	7.0	9.1	7.9
2Y average growth %								
Volumes	2.0	0.8	-0.8	-4.3	-0.5	-1.8	-1.8	-2.3
Sales	7.8	4.0	2.7	2.6	3.9	7.1	9.4	3.9
EBITDA	4.1	-0.1	-1.2	3.9	8.1	7.5	15.7	11.8
PAT	6.3	1.6	-0.9	1.8	10.2	5.3	20.0	15.1
% sales								
COGS	33.7	36.2	34.1	33.1	31.6	31.2	27.8	29.4
Others	39.1	34.3	37.9	33.4	36.8	36.0	38.6	36.2
Depreciation	3.7	3.2	3.4	3.2	3.3	3.0	3.0	3.3
YoY change %								
COGS	8.2	21.2	22.5	-0.2	3.7	-8.6	-11.9	-4.2
Other income	16.8	70.4	99.8	212.6	29.7	86.3	71.9	-20.5
EBIT	-13.4	-3.2	2.3	14.9	33.0	20.2	34.4	10.9

E: MOFSL Estimates

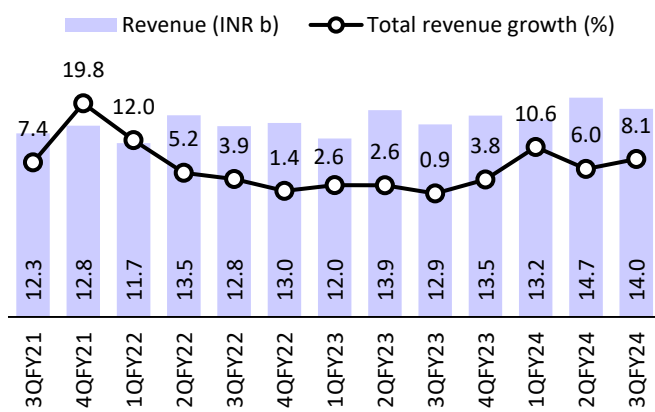
Key exhibits

Exhibit 1: Overall volume growth marginally declined 1% YoY in 3QFY24



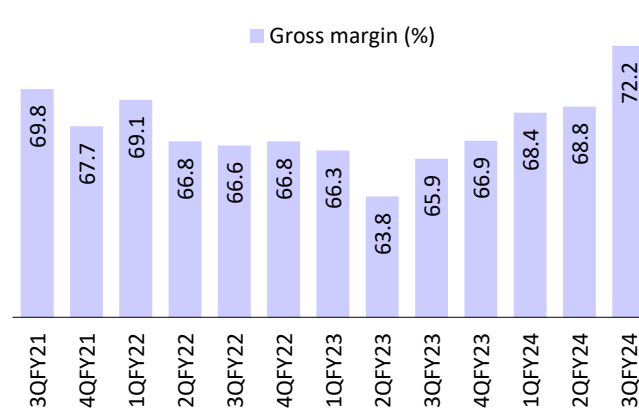
Source: MOFSL

Exhibit 2: Revenue grew 8% YoY to INR14b in 3QFY24



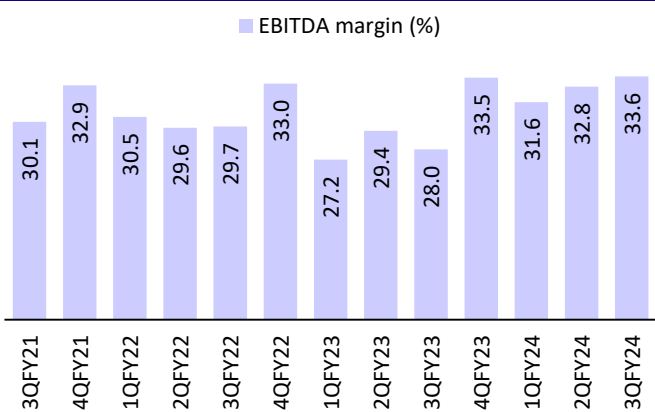
Sources: Company reports, MOFSL

Exhibit 3: Gross margin expanded 630bp YoY to 72.2%



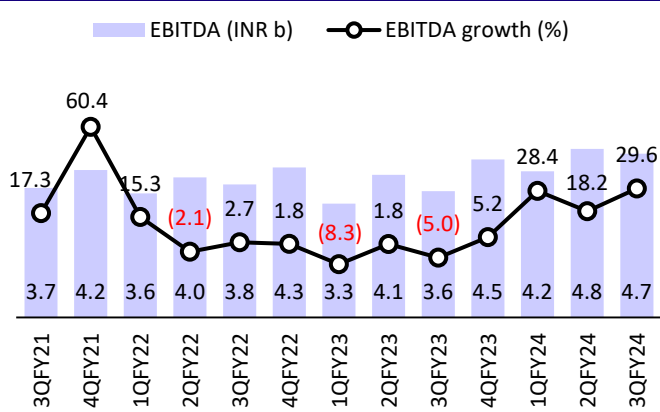
Sources: Company reports, MOFSL

Exhibit 4: EBITDA margin up 550bp YoY to 33.6% in 3QFY24



Sources: Company reports, MOFSL

Exhibit 5: EBITDA increased 29.6% YoY to INR4.7b in 3QFY24



Sources: Company reports, MOFSL

Valuation and view

What happened in the past decade?

- A sharp decline in the market share in the recent years, coupled with increased penetration in the same category, has resulted in single-digit revenue growth over the last 10 years. In recent years, premiumization has declined, adversely affecting realization growth.
- For a company with a modest base of INR31.7b in sales in FY13, a sales/EBITDA/PAT CAGR of 5%/8.8%/7.9% over the last 10 years is indicative of its weak performance.
- Due to a market share decline in the recent years, the sales CAGR has dropped to ~5% over the last five years.

Reiterate Neutral with TP of INR2,400

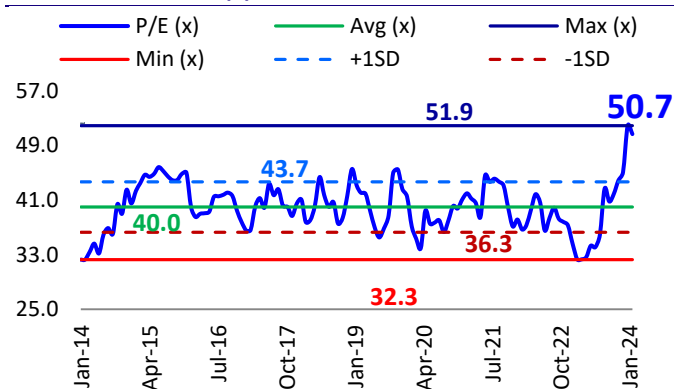
- With a beat on EBITDA margin, we raise our FY24 and FY25 estimates by 5-3% EPS.
- The sales/EBITDA/PAT CAGR for the 10-year period ending FY23 stood at 5%/9%/8%. Despite this, the overall growth seems stagnant, anticipated muted volume growth in the future. Additionally, due to high oral care penetration and competition from herbal players, CLGT has struggled to achieve volume growth for several years. Moreover, premiumization in general trade and traction in personal care have been slow.
- FY25 will be a testing period to check margin trajectory. It seems both gross margin and EBITDA margin have elevated to unsustainable levels. The ongoing debate between prioritizing growth vs. maintaining margins will persist, and to accelerating the growth, margins mat at risk.
- Given the likelihood of continued weak topline and earnings growth in the future, it is unlikely that the stock will undergo a re-rating. We reiterate our Neutral rating on the stock with a **TP of INR2,400** (target multiple of 45x Dec'25E EPS, close to a five-year average).

Exhibit 6: We increase our EPS estimates for FY24 and FY25 by 5-3%.

	Old		New		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	56,165	60,900	56,471	60,991	0.5	0.1
EBITDA	17,920	19,109	18,694	19,457	4.3	1.8
PAT	12,495	13,245	13,202	13,664	5.7	3.2

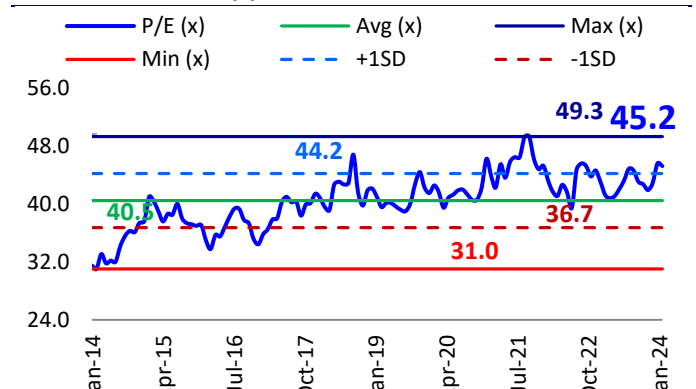
Source: MOFSL

Exhibit 7: P/E ratio (x) for CLGT



Sources: Company reports, MOFSL

Exhibit 8: P/E ratio (x) for the Consumer sector



Sources: Company reports, MOFSL

Financials and valuations

Income Statement						(INR m)		
Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Net Sales	44,624	45,251	48,412	50,998	52,262	56,471	60,991	65,761
Change (%)	6.6	1.4	7.0	5.3	2.5	8.1	8.0	7.8
Gross Profit	29,039	29,522	32,919	34,323	34,320	39,488	41,739	45,007
Gross Margin (%)	65.1	65.2	68.0	67.3	65.7	69.9	68.4	68.4
EBITDA	12,361	12,017	15,096	15,660	15,470	18,694	19,457	20,978
Change (%)	11.1	-2.8	25.6	3.7	-1.2	20.8	4.1	7.8
Margin (%)	27.7	26.6	31.2	30.7	29.6	33.1	31.9	31.9
Depreciation	1,592	1,979	1,825	1,773	1,748	1,768	1,914	2,059
Int. and Fin. Charges	25	96	73	59	49	50	50	50
Financial Other Income	377	492	304	263	536	701	767	892
Profit before Taxes	11,121	10,434	13,502	14,090	14,209	17,577	18,261	19,761
Change (%)	11.8	-6.2	29.4	4.4	0.8	23.7	3.9	8.2
Margin (%)	24.9	23.1	27.9	27.6	27.2	31.1	29.9	30.1
Tax	3,670	2,269	3,257	3,448	3,724	4,375	4,596	4,974
Deferred Tax	0	-31	-109	-141	-99	0	0	0
Tax Rate (%)	33.0	21.5	23.3	23.5	25.5	24.9	25.2	25.2
Adjusted PAT	7,451	8,196	10,354	10,783	10,584	13,202	13,664	14,787
Change (%)	8.8	10.0	26.3	4.1	-1.8	24.7	3.5	8.2
Margin (%)	16.7	18.1	21.4	21.1	20.3	23.4	22.4	22.5
Non-rec. (Exp)/Income	305	0	0	0	-112	-195	0	0
Reported PAT	7,756	8,196	10,354	10,783	10,472	13,007	13,664	14,787

Balance Sheet						(INR m)	(INR m)	(INR m)
Y/E March	2019	2020	2021	2022	2023	2023	2023	2023
Share Capital	272	272	272	272	272	272	272	272
Reserves	14,196	15,670	11,387	17,075	16,892	19,019	21,531	24,894
Net Worth	14,468	15,942	11,659	17,347	17,164	19,291	21,803	25,166
Loans	978	1,520	1,102	847	820	820	820	820
Deferred Liability	309	50	-48	-173	-288	-288	-288	-288
Capital Employed	15,754	17,512	12,713	18,021	17,695	19,822	22,334	25,698
Gross Block	21,077	22,182	19,831	20,504	21,240	22,990	24,740	26,490
Less: Accum. Depn.	-9,169	-10,953	-9,184	-10,874	-12,622	-14,390	-16,304	-18,362
Net Fixed Assets	11,909	11,229	10,647	9,630	8,618	8,600	8,436	8,127
Capital WIP	1,987	1,900	1,449	1,218	1,141	1,141	1,141	1,141
Investments	312	186	186	0	0	0	0	0
Curr. Assets, L&A	12,058	12,725	16,611	17,997	18,783	21,312	25,106	29,778
Inventory	2,486	2,969	3,358	3,572	3,355	3,629	3,925	4,239
Account Receivables	2,098	1,326	1,171	2,247	1,574	1,700	1,837	1,980
Cash & Bank	3,994	4,213	8,676	7,547	9,230	10,959	13,890	17,643
Others	3,481	4,217	3,405	4,631	4,625	5,023	5,454	5,916
Curr. Liab. and Prov.	10,511	8,528	16,179	10,825	10,846	11,231	12,348	13,348
Account Payables	6,132	6,125	7,604	7,714	7,611	7,815	8,592	9,264
Other Liabilities	3,740	1,798	7,765	2,271	1,953	2,005	2,204	2,377
Provisions	639	605	810	840	1,282	1,411	1,552	1,707
Net Current Assets	1,547	4,197	431	7,173	7,936	10,081	12,757	16,429
Application of Funds	15,754	17,512	12,713	18,021	17,695	19,822	22,334	25,698

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2026E
Basic (INR)								
EPS	27.4	30.1	38.1	39.6	38.9	48.5	50.2	54.4
Cash EPS	33.2	37.4	44.8	46.2	45.3	55.0	57.3	61.9
BV/Share	53.2	58.6	42.9	63.8	63.1	70.9	80.2	92.5
DPS	16.0	28.0	38.0	40.0	39.0	40.0	41.0	42.0
Payout %	58.1	93.3	99.8	100.9	101.3	83.6	81.6	77.3

Valuation (x)

P/E	90.7	82.4	65.2	62.6	63.8	51.1	49.4	45.7
Cash P/E	74.7	66.4	55.4	53.8	54.7	45.1	43.3	40.1
EV/Sales	15.1	14.9	13.8	13.1	12.8	11.8	10.9	10.0
EV/EBITDA	54.4	56.0	44.2	42.7	43.1	35.6	34.0	31.4
P/BV	46.7	42.4	57.9	38.9	39.3	35.0	31.0	26.8
Dividend Yield (%)	0.6	1.1	1.5	1.6	1.6	1.6	1.7	1.7

Return Ratios (%)

RoE	50.1	53.9	75.0	74.4	61.3	72.4	66.5	63.0
RoCE	47.3	49.7	68.9	70.5	59.5	70.6	65.0	61.7

Working Capital Ratios

Debtor (Days)	17	11	9	16	11	16	16	16
Asset Turnover (x)	3.3	2.9	4.4	3.0	3.2	3.0	2.9	2.7

Leverage Ratio

Debt/Equity (x)	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
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Cash Flow Statement

(INR m)

Y/E March	2019	2020	2021	2022	2023	2024E	2025E	2025E
OP/(loss) before Tax	11,120	10,434	13,502	14,090	14,209	17,382	18,261	19,761
Depreciation	1,592	1,979	1,825	1,773	1,748	1,768	1,914	2,059
Int./Div. Received	53	-96	35	105	68	0	0	0
Interest Paid	-273	-158	-131	-158	-364	50	50	50
Direct Taxes Paid	-4,144	-3,213	-3,584	-3,699	-3,809	-4,375	-4,596	-4,974
(Incr)/Decr in WC	1,494	-35	-3,826	4,151	-89	-149	540	383
CF from Operations	9,842	8,911	7,823	16,261	11,763	14,675	16,168	17,279
(Incr)/Decr in FA	-1,042	-604	-573	-495	-695	-1,750	-1,750	-1,750
Free Cash Flow	8,800	8,307	7,249	15,766	11,068	12,925	14,418	15,529
(Pur)/Sale of Investments	0	7	1,060	-812	221	0	0	0
Others	-1,221	419	5,954	-5,178	1,262	-313	-332	-348
CF from Invest.	-2,263	-177	6,440	-6,485	788	-2,063	-2,082	-2,098
Change in Equity	0	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	0	0	0	0	0	0	0
Dividend Paid	-7,916	-8,433	-9,211	-10,572	-10,575	-10,880	-11,152	-11,424
Others	-231	-81	-353	-334	-293	-4	-4	-4
CF from Fin. Activity	-8,147	-8,514	-9,565	-10,906	-10,867	-10,884	-11,156	-11,428
Incr/Decr of Cash	-568	219	4,698	-1,129	1,683	1,729	2,931	3,753
Add: Opening Balance	4,562	3,994	3,978	8,676	7,547	9,230	10,959	13,890
Closing Balance	3,994	4,213	8,676	7,547	9,230	10,959	13,890	17,643

E: MOFSL Estimates

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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