

Estimate change	↔
TP change	↔
Rating change	↔

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Bloomberg	CLGT IN
Equity Shares (m)	272
M.Cap.(INRb)/(USDb)	512.2 / 6.2
52-Week Range (INR)	1907 / 1435
1, 6, 12 Rel. Per (%)	7/19/3
12M Avg Val (INR M)	559

#### Financials & Valuations (INR b)

Y/E March	2023	2024E	2025E
Sales	52.3	56.4	61.2
Sales Gr. (%)	2.5	7.9	8.5
EBITDA	15.5	17.4	19.1
EBITDA Margin (%)	29.6	30.9	31.3
Adj. PAT	10.6	12.0	13.2
Adj. EPS (INR)	38.9	44.1	48.4
EPS Gr. (%)	1.1	13.2	9.9
BV/Sh.(INR)	63.1	63.1	63.1
<b>Ratios</b>			
RoE (%)	61.3	69.8	76.7
RoCE (%)	62.4	71.2	78.2
Payout (%)	100.2	100.0	100.0
<b>Valuation</b>			
P/E (x)	48.4	42.7	38.9
P/BV (x)	29.8	29.8	29.8
EV/EBITDA (x)	32.5	28.8	26.2
Div. Yield (%)	2.1	2.3	2.6

#### Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	51.0	51.0	51.0
DII	7.8	7.6	9.1
FII	21.8	21.5	18.7
Others	19.4	19.9	21.2

FII Includes depository receipts

**CMP: INR1,883 TP: INR1,830 (-3%) Neutral**

### Rural market shows recovery

- CLGT reported better-than-expected operating performance, driven by early signs of recovery in rural markets. It reported double-digit sale growth (up 10.6% YoY).
- GP margin exceeded expectations, reaching 68.4% (est. 66.8%), driven by the growth of the oral care category. Furthermore, a decrease in staff costs and other expenses led to 440bpYoY improvement in EBITDA margin.
- The company will continue to focus on innovation, productivity, and premiumization to revive growth. With a cautious near-term outlook on demand, we reiterate our Neutral rating on the stock.

### Margin better than expectation

- CLGT sales grew 10.6% YoY to INR13.2b (est. INR12.8b).
- We believe that domestic volume grew 5% YoY.
- EBITDA grew 28.4% YoY to INR4.2b (est. INR3.8b).
- PBT grew 33.1% YoY to INR3.9b (est. INR3.5b).
- Adj. PAT grew 33.9% YoY to INR2.9b (est. INR2.6b).
- Gross margins increased 210bp YoY to 68.4% (est. 66.8%).
- As a percentage of sales, lower staff costs at 7.2% (down 60bp YoY), lower 'other expenses' at 15.9% (down 180bp YoY), and stable ad-spends at 13.7% (up 10bp YoY) **meant EBITDA margin expanded by ~440bp YoY to 31.6%**.
- CLGT recorded an **exceptional item** of ~INR195m related to severance and associated expenses due to certain organizational restructuring.

### Key highlights from press release

- Toothpaste reported high double-digit growth.
- The company sees early signs of recovery in rural markets, and thereby, continues to remain optimistic.
- Re-launched Colgate Strong Teeth with an improved formula and new communication.
- Launched Colgate India's first ever Whitening pen with their dentist partners.

### Valuation and view

- We increase our EPS estimates for FY24E/FY25E by 1.5-2.0%.
- The sales/EBITDA/PAT CAGR for the 10-year period ending FY23 stood at 5.1%/8.8%/7.7%. Despite this, the overall growth seems stagnant. The management's focus on volume-led sales growth will limit margin expansion in the short term. 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.
- Given the likelihood of continued weak topline and earnings growth in the future, it is improbable that the stock will experience a re-rating. The valuation will arrive at a **TP of INR1,830** (target multiple of 38x FY25E EPS, close to five-year average). Therefore, we reiterate our **Neutral** rating on the stock.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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## Quarterly Performance

(INR m)

Y/E March	FY23				FY24				FY23	FY24	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			1Q	(%)
<b>Toothpaste Volume Gr %</b>	<b>-1.0</b>	<b>0.0</b>	<b>-2.0</b>	<b>0.0</b>	<b>5.0</b>	<b>4.0</b>	<b>6.0</b>	<b>5.0</b>	<b>-0.8</b>	<b>5.0</b>	<b>4.0</b>	
<b>Net Sales (inclg. OOI)</b>	<b>11,968</b>	<b>13,875</b>	<b>12,913</b>	<b>13,506</b>	<b>13,237</b>	<b>14,878</b>	<b>13,936</b>	<b>14,341</b>	<b>52,262</b>	<b>56,392</b>	<b>12,817</b>	3.3%
YoY change (%)	2.6	2.6	0.9	3.8	10.6	7.2	7.9	6.2	2.5	7.9	7.1	
COGS	4,031	5,029	4,407	4,475	4,179	4,950	4,696	4,868	17,942	18,693	4,253	
<b>Gross Profit</b>	<b>7,938</b>	<b>8,846</b>	<b>8,506</b>	<b>9,031</b>	<b>9,058</b>	<b>9,928</b>	<b>9,241</b>	<b>9,472</b>	<b>34,320</b>	<b>37,699</b>	<b>8,563</b>	5.8%
Gross margin (%)	66.3	63.8	65.9	66.9	68.4	66.7	66.3	66.1	65.7	66.9	66.8	
<b>EBITDA</b>	<b>3,257</b>	<b>4,080</b>	<b>3,615</b>	<b>4,519</b>	<b>4,181</b>	<b>4,553</b>	<b>4,221</b>	<b>4,479</b>	<b>15,470</b>	<b>17,434</b>	<b>3,804</b>	9.9%
Margins (%)	27.2	29.4	28.0	33.5	31.6	30.6	30.3	31.2	29.6	30.9	29.7	
YoY growth (%)	-8.3	1.8	-5.0	5.2	28.4	11.6	16.8	-0.9	-1.2	12.7	16.8	
Depreciation	442	439	437	431	438	491	512	472	1,748	1,913	467	
Interest	13	13	13	11	11	14	13	13	49	51	12	
Financial other Income	115	113	104	204	150	130	135	137	536	552	128	
<b>PBT</b>	<b>2,918</b>	<b>3,741</b>	<b>3,269</b>	<b>4,281</b>	<b>3,883</b>	<b>4,178</b>	<b>3,831</b>	<b>4,130</b>	<b>14,209</b>	<b>16,022</b>	<b>3,453</b>	12.4%
Tax	727	961	837	1,100	951	1,053	977	1,057	3,724	4,037	887	
Rate (%)	24.9	25.7	25.6	25.7	24.5	25.2	25.5	25.6	26.2	25.2	25.7	
<b>Adj PAT</b>	<b>2,190</b>	<b>2,780</b>	<b>2,432</b>	<b>3,181</b>	<b>2,932</b>	<b>3,125</b>	<b>2,854</b>	<b>3,073</b>	<b>10,583</b>	<b>11,984</b>	<b>2,566</b>	14.3%
YoY change (%)	-6.1	3.3	-3.6	9.1	33.9	12.4	17.3	-3.4	1.2	13.2	17.2	

E: MOFSL Estimates

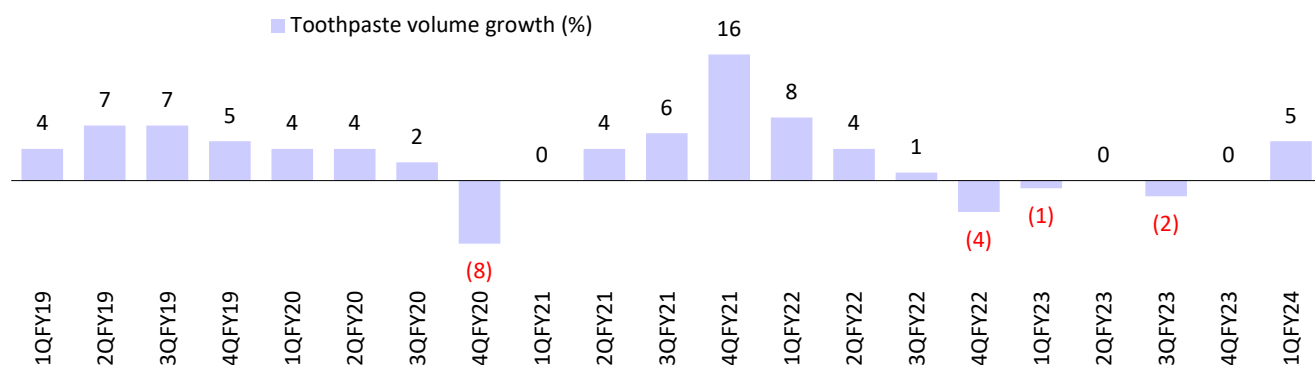
## Key Performance Indicators

Y/E March	FY23				FY24
	1Q	2Q	3Q	4Q	1Q
<b>Realization Gr %</b>	<b>3.6</b>	<b>2.6</b>	<b>2.9</b>	<b>3.8</b>	<b>5.6</b>
<b>2Y average growth %</b>					
Volumes	3.5	2.0	-0.5	-2.0	2.0
Sales	7.3	3.9	2.4	2.6	6.6
EBITDA	3.5	-0.1	-1.2	3.5	10.0
PAT	5.8	0.7	-1.0	6.0	13.9
<b>% sales</b>					
COGS	33.7	36.2	34.1	33.1	31.6
Others	39.1	34.3	37.9	33.4	36.8
Depreciation	3.7	3.2	3.4	3.2	3.3
<b>YoY change %</b>					
COGS	12.0	12.1	3.1	3.7	3.7
Other income	121.5	73.3	83.3	129.7	29.7
EBIT	-9.3	2.3	-5.6	6.0	33.0

E: MOFSL Estimates

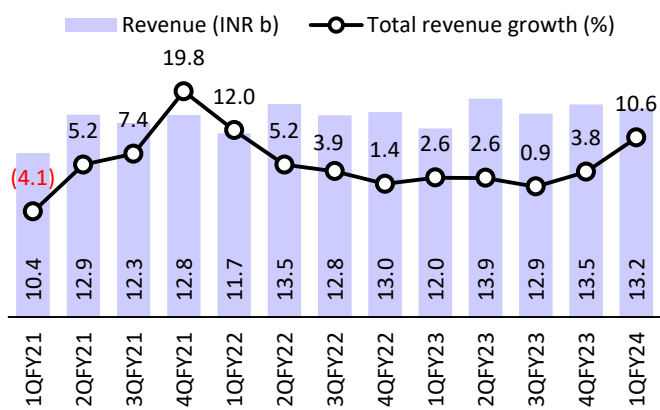
## Key exhibits

Exhibit 1: Toothpaste volumes likely up 5% YoY in 1QFY24



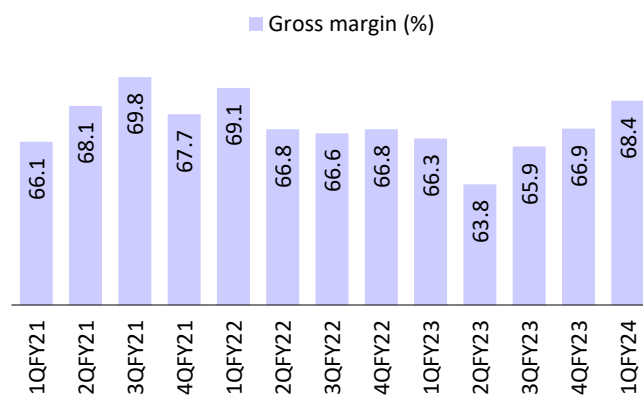
Source: MOFSL

Exhibit 2: Revenue grew 10.6% YoY to INR13.2b in 1QFY24



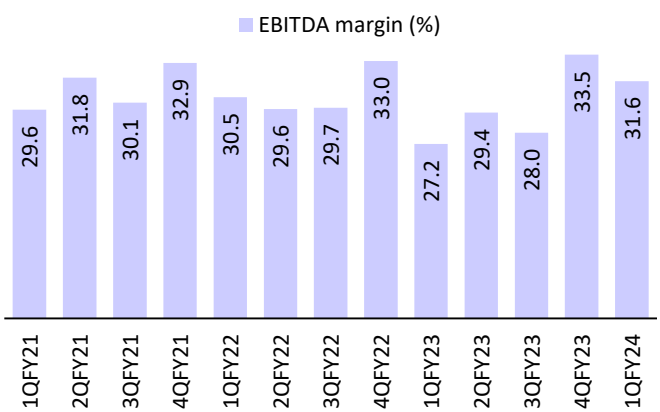
Sources: Company reports, MOFSL

Exhibit 3: Gross margin expanded 210bp YoY to 68.4%



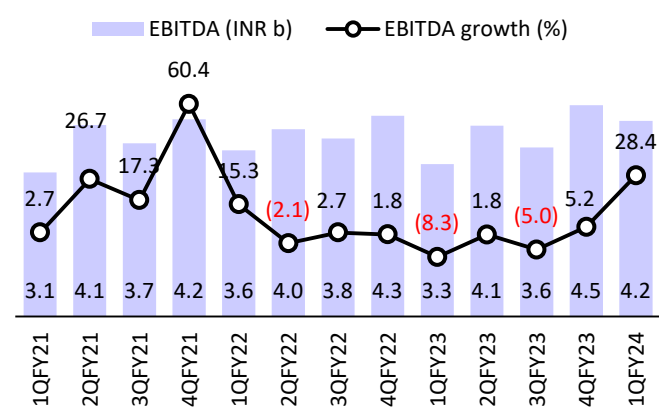
Sources: Company reports, MOFSL

Exhibit 4: EBITDA margin up 440bp YoY to 31.6% in 1QFY24



Sources: Company reports, MOFSL

Exhibit 5: EBITDA increased 28.4% YoY to INR4.2b in 1QFY24



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 INR1,830

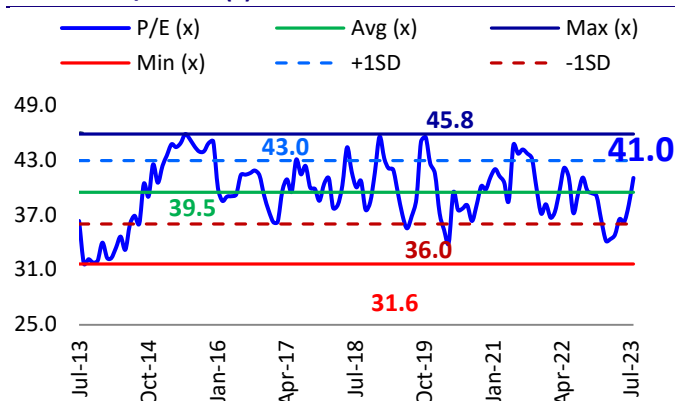
- We increase our EPS estimates for FY24E/FY25E by 1.5-2.0%.
- The sales/EBITDA/PAT CAGR for the 10-year period ending in FY23 stood at 5.1%/8.8%/7.7%. Despite this, the overall growth seems stagnant. The management's focus on volume-led sales growth will limit margin expansion in the short term. Additionally, 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.
- Given the likelihood of continued weak topline and earnings growth in the future, it is improbable that the stock will experience a re-rating. The valuation will arrive at a TP of INR1,830 (target multiple of 38x FY25E EPS, close to five-year average). Therefore, we reiterate our **Neutral** rating on the stock.

Exhibit 6: We increase our EPS estimates for FY24/FY25 by 1.5-2.0%

	Old		New		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Sales	56,284	60,940	56,392	61,163	0.2	0.4
EBITDA	17,219	18,893	17,434	19,141	1.2	1.3
PAT	11,775	12,962	11,984	13,165	1.8	1.6

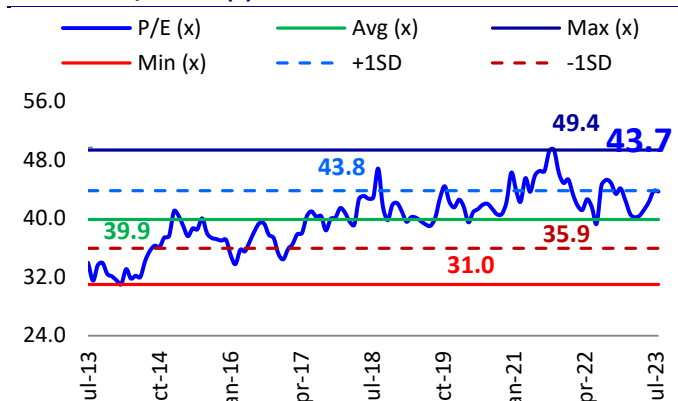
Source: MOFSL

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	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Net Sales</b>	<b>41,880</b>	<b>44,624</b>	<b>45,251</b>	<b>48,412</b>	<b>50,998</b>	<b>52,262</b>	<b>56,392</b>	<b>61,163</b>
Change (%)	5.2	6.6	1.4	7.0	5.3	2.5	7.9	8.5
<b>Gross Profit</b>	<b>26,992</b>	<b>29,039</b>	<b>29,522</b>	<b>32,918</b>	<b>34,323</b>	<b>34,320</b>	<b>37,699</b>	<b>41,165</b>
Gross Margin (%)	64.5	65.1	65.2	68.0	67.3	65.7	66.9	67.3
Operating expenses	15,855	16,678	17,505	17,822	18,663	18,850	20,265	22,024
<b>EBITDA</b>	<b>11,137</b>	<b>12,361</b>	<b>12,017</b>	<b>15,096</b>	<b>15,659</b>	<b>15,470</b>	<b>17,434</b>	<b>19,141</b>
Change (%)	18.0	11.0	-2.8	25.6	3.7	-1.2	12.7	9.8
Margin (%)	26.6	27.7	26.6	31.2	30.7	29.6	30.9	31.3
Depreciation	1,565	1,592	1,979	1,825	1,773	1,748	1,913	2,001
Int. and Fin. Charges	0	25	96	73	59	49	51	52
Financial Other Income	375	377	492	304	263	536	552	560
<b>Profit before Taxes</b>	<b>9,947</b>	<b>11,120</b>	<b>10,434</b>	<b>13,502</b>	<b>14,090</b>	<b>14,209</b>	<b>16,022</b>	<b>17,648</b>
Change (%)	16.8	11.8	-6.2	29.4	4.4	0.8	12.8	10.2
Margin (%)	23.8	24.9	23.1	27.9	27.6	27.2	28.4	28.9
Tax	3,097	3,566	2,475	3,572	3,768	3,724	4,036	4,482
Tax Rate (%)	31.9	32.1	21.7	25.6	25.7	25.5	25.2	25.4
<b>Adjusted PAT</b>	<b>6,776</b>	<b>7,555</b>	<b>8,165</b>	<b>10,039</b>	<b>10,463</b>	<b>10,583</b>	<b>11,984</b>	<b>13,165</b>
Change (%)	17.3	11.5	8.1	23.0	4.2	1.1	13.2	9.9
Margin (%)	16.2	16.9	18.0	20.7	20.5	20.3	21.3	21.5
Non-rec. (Exp)/Income	-117	201	0	315	320	-112	-195	0
<b>Reported PAT</b>	<b>6,659</b>	<b>7,756</b>	<b>8,165</b>	<b>10,354</b>	<b>10,783</b>	<b>10,471</b>	<b>11,789</b>	<b>13,165</b>

Balance Sheet							(INR m)	
Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
Share Capital	272	272	272	272	272	272	272	272
Reserves	14,974	14,196	15,670	11,387	17,075	16,892	16,892	16,892
<b>Net Worth</b>	<b>15,246</b>	<b>14,468</b>	<b>15,942</b>	<b>11,659</b>	<b>17,347</b>	<b>17,164</b>	<b>17,164</b>	<b>17,164</b>
Loans	0	777	0	0	0	0	0	0
Deferred Liability	355	309	50	-48	-173	-288	-288	-288
<b>Capital Employed</b>	<b>15,601</b>	<b>15,553</b>	<b>15,992</b>	<b>11,611</b>	<b>17,174</b>	<b>16,875</b>	<b>16,875</b>	<b>16,875</b>
Gross Block	19,077	21,077	22,182	19,831	20,504	21,214	22,214	23,214
Less: Accum. Depn.	-7,617	-9,169	-10,953	-9,184	-10,874	-12,596	-14,509	-16,511
<b>Net Fixed Assets</b>	<b>11,459</b>	<b>11,909</b>	<b>11,229</b>	<b>10,647</b>	<b>9,630</b>	<b>8,618</b>	<b>7,705</b>	<b>6,704</b>
Capital WIP	1,586	1,987	1,900	1,448	1,218	1,141	1,141	1,141
Investments	312	312	186	186	0	0	0	0
<b>Curr. Assets, L&amp;A</b>	<b>12,282</b>	<b>12,058</b>	<b>12,725</b>	<b>16,611</b>	<b>17,997</b>	<b>18,783</b>	<b>20,652</b>	<b>21,861</b>
Inventory	2,267	2,486	2,969	3,358	3,572	3,354	3,631	3,190
Account Receivables	2,010	2,098	1,326	1,171	2,247	1,574	2,453	2,661
Cash & Bank	4,562	3,994	4,213	8,676	7,547	9,230	9,908	11,317
Others	3,443	3,481	4,217	3,405	4,631	4,625	4,660	4,694
<b>Curr. Liab. and Prov.</b>	<b>10,037</b>	<b>10,712</b>	<b>10,048</b>	<b>17,282</b>	<b>11,672</b>	<b>11,666</b>	<b>12,623</b>	<b>12,830</b>
Account Payables	6,203	6,132	6,125	7,604	7,714	7,611	8,205	8,225
Other Liabilities	3,040	3,757	2,830	8,555	2,978	2,914	3,220	3,348
Provisions	794	823	1,093	1,122	980	1,141	1,198	1,258
<b>Net Current Assets</b>	<b>2,245</b>	<b>1,346</b>	<b>2,677</b>	<b>-671</b>	<b>6,326</b>	<b>7,117</b>	<b>8,030</b>	<b>9,031</b>
<b>Application of Funds</b>	<b>15,601</b>	<b>15,553</b>	<b>15,992</b>	<b>11,611</b>	<b>17,174</b>	<b>16,876</b>	<b>16,876</b>	<b>16,876</b>

E: MOFSL Estimates

## Financials and valuations

### Ratios

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
<b>Basic (INR)</b>								
<b>EPS</b>	<b>24.9</b>	<b>27.8</b>	<b>30.0</b>	<b>36.9</b>	<b>38.5</b>	<b>38.9</b>	<b>44.1</b>	<b>48.4</b>
Cash EPS	30.7	33.6	37.3	43.6	45.0	45.3	51.1	55.8
BV/Share	56.1	53.2	58.6	42.9	63.8	63.1	63.1	63.1
DPS	24.0	23.0	28.0	38.0	40.0	39.0	44.1	48.4
Payout %	95.3	82.8	93.3	103.0	104.0	100.2	100.0	100.0
<b>Valuation (x)</b>								
P/E	75.6	67.8	62.7	51.0	49.0	48.4	42.7	38.9
Cash P/E	61.4	56.0	50.5	43.2	41.9	41.5	36.9	33.8
EV/Sales	12.1	11.4	11.2	10.4	9.9	9.6	8.9	8.2
EV/EBITDA	45.6	41.2	42.3	33.3	32.2	32.5	28.8	26.2
P/BV	33.6	35.4	32.1	43.9	29.5	29.8	29.8	29.8
Dividend Yield (%)	1.3	1.2	1.5	2.0	2.1	2.1	2.3	2.6
<b>Return Ratios (%)</b>								
RoE	48.4	50.9	53.7	72.7	72.1	61.3	69.8	76.7
RoCE	47.4	48.6	52.2	73.1	73.0	62.4	71.2	78.2
<b>Working Capital Ratios</b>								
Debtor (Days)	17	17	11	9	16	11	16	16
Asset Turnover (x)	3.1	3.4	3.3	4.9	3.2	3.3	3.6	3.9
<b>Leverage Ratio</b>								
Debt/Equity (x)	0.0	0.1	0.0	0.0	0.0	0.0	0.0	0.0

### Cash Flow Statement

(INR m)

Y/E March	2018	2019	2020	2021	2022	2023	2024E	2025E
OP/(loss) before Tax	9,947	11,121	10,434	13,502	14,090	14,209	16,022	17,648
Depreciation	1,565	1,592	1,979	1,825	1,773	1,748	1,913	2,001
Int./Div. Received	81	85	-95	58	150	103	-552	-560
Interest Paid	-290	-317	-171	-137	-208	-399	51	52
Direct Taxes Paid	-3,474	-4,144	-3,213	-3,584	-3,699	-3,809	-4,037	-4,483
(Incr)/Decr in WC	-889	1,494	-35	-3,826	4,151	-89	-235	408
<b>CF from Operations</b>	<b>6,940</b>	<b>9,830</b>	<b>8,899</b>	<b>7,839</b>	<b>16,257</b>	<b>11,762</b>	<b>13,162</b>	<b>15,066</b>
(Incr)/Decr in FA	-2,087	-1,042	-604	-573	-493	-695	-1,000	-1,000
<b>Free Cash Flow</b>	<b>4,853</b>	<b>8,788</b>	<b>8,295</b>	<b>7,265</b>	<b>15,765</b>	<b>11,067</b>	<b>12,162</b>	<b>14,066</b>
(Pur)/Sale of Investments	0	0	133	1,060	-1,003	221	0	0
Others	564	-1,209	305	5,703	-4,985	1,262	552	560
<b>CF from Invest.</b>	<b>-1,523</b>	<b>-2,251</b>	<b>-166</b>	<b>6,190</b>	<b>-6,481</b>	<b>788</b>	<b>-448</b>	<b>-440</b>
Change in Equity	0	0	0	0	0	0	0	0
(Incr)/Decr in Debt	0	-121	0	0	0	0	0	0
Dividend Paid	-2,986	-6,462	-7,315	-9,211	-10,572	-10,575	-11,984	-13,165
Others	-812	-1,564	-1,199	-353	-334	-293	-51	-52
<b>CF from Fin. Activity</b>	<b>-3,798</b>	<b>-8,147</b>	<b>-8,514</b>	<b>-9,565</b>	<b>-10,906</b>	<b>-10,867</b>	<b>-12,035</b>	<b>-13,217</b>
<b>Incr/Decr of Cash</b>	<b>1,619</b>	<b>-568</b>	<b>219</b>	<b>4,464</b>	<b>-1,129</b>	<b>1,683</b>	<b>678</b>	<b>1,409</b>
Add: Opening Balance	2,943	4,562	3,994	4,213	8,676	7,547	9,230	9,908
<b>Closing Balance</b>	<b>4,562</b>	<b>3,994</b>	<b>4,213</b>	<b>8,676</b>	<b>7,547</b>	<b>9,230</b>	<b>9,908</b>	<b>11,317</b>

E: MOFSL Estimates

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Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
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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

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