

India

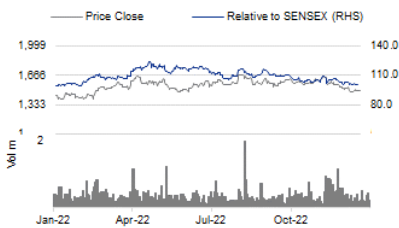
HOLD (no change)

Consensus ratings*: Buy 8 Hold 16 Sell 10

Current price:	Rs1,491
Target price:	Rs1,520
Previous target:	Rs1,645
Up/downside:	1.9%
InCred Research / Consensus:	-6.5%
Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$4,982m
	Rs405,449m
Average daily turnover:	US\$6.6m
	Rs541.1m
Current shares o/s:	272.0m
Free float:	49.0%
*Source: Bloomberg	

Key changes in this note

- Lower TP to Rs1,520 from Rs1,645 earlier.
- Reduce FY24F/25F EPS by 5.3%/6.5%.

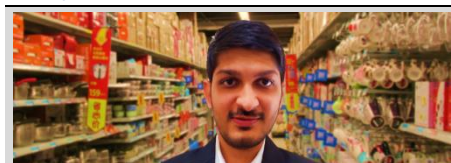


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.9)	(6.1)	3.2
Relative (%)	(6.6)	(7.8)	(2.7)

Major shareholders	% held
Promoter	51.0
LIC	5.1
Blackrock Inc	2.0

Analyst(s)



Harsh SHAH

T (91) 22 4161 1568
E harsh.shah@incredcapital.com

Rohan KALLE

T (91) 22 4161 1561
E rohan.kalle@incredcapital.com

Colgate Palmolive India

Weak 3QFY23 performance

- Colgate's 3QFY23 net sales grew 0.9% yoy (3-year CAGR at 4%). Management is cautiously optimistic of a recovery in demand.
- Margins are expected to remain under pressure in the near term owing to higher marketing expenses on category development and brand building.
- Front-ended investments will limit profit growth in the near term. Retain HOLD rating with a lower target price of Rs1,520 (35x Mar 2025F EPS).

Sluggish sales growth

Colgate's standalone net sales in 3QFY23 at Rs12.9bn were up 0.9% yoy (3-year CAGR at 4%). Domestic sales grew 2.3% yoy. Demand was hit by rural slowdown and inflationary pressure. Management is cautiously optimistic that the trend will improve sequentially going ahead.

Agenda to drive sales growth

Colgate's current agenda to drive sales growth include: 1) category development in rural markets, focusing on driving conversions from neem twig users (datun) to toothpaste and toothbrushes and driving awareness for brushing twice a day to drive consumption, 2) premiumization through its heightened focus on whitening as a play in the 'oral beauty' space, 3) expansion of the Palmolive brand into face care (launched as a pilot in 2022) and expansion into electric devices in the oral care segment under Colgate, and 4) leveraging data analytics through tools like 'Amazing', which is used by merchandizing teams for faster reporting, led by predictive analytics.

Margins to remain range-bound

Gross margin contracted 73bp yoy to 65.9%. EBITDA at Rs3.6bn was down 5% yoy. Other expenses were flat yoy (17.1% of sales) while employee costs fell 1.7% yoy to 7.7% of sales (down 20bp yoy). Higher advertisement spending, up 12.6% yoy (13.2% of sales, up 1373bp yoy), due to category development initiatives led to EBITDA margin contraction of 174bp yoy to 28%. We expect the margins to remain range-bound in the near term.

Maintain HOLD rating with a lower target price of Rs1,520

With Prabha Narasimhan taking over as MD & CEO, category development (increasing the usage frequency) has taken centrestage which, in our view, will lead to front-ended investments and limit profit growth in the short term. We expect a PAT CAGR of 3.2% over FY22-FY25F. We retain HOLD rating on the stock with a lower target price of Rs1,520 (35x Mar 2025F EPS, 2SD below five-year average P/E). Key upside risk is higher-than-expected sales growth while the downside risk is lower-than-estimated EBITDA margin.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	48,412	50,998	52,195	55,300	58,731
Operating EBITDA (Rsm)	15,096	15,659	14,991	15,959	17,044
Net Profit (Rsm)	10,354	10,783	10,351	11,058	11,836
Core EPS (Rs)	38.1	39.6	38.1	40.7	43.5
Core EPS Growth	26.8%	4.1%	(4.0%)	6.8%	7.0%
FD Core P/E (x)	39.16	37.60	39.17	36.67	34.26
DPS (Rs)	38.0	40.0	36.2	38.6	41.3
Dividend Yield	2.27%	2.61%	2.43%	2.59%	2.77%
EV/EBITDA (x)	26.33	25.46	26.70	25.03	23.39
P/FCFE (x)	21.12	99.10	48.41	36.18	33.71
Net Gearing	(68.2%)	(38.7%)	(29.4%)	(32.4%)	(35.5%)
P/BV (x)	34.78	23.37	22.70	22.02	21.33
ROE	75.0%	74.4%	58.8%	61.0%	63.3%
% Change In Core EPS Estimates			(3.53%)	(5.29%)	(6.50%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak 3QFY23 performance

Figure 1: Quarterly results summary - standalone

Y/E, Mar (Rs M)	3QFY22	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY22	9MFY23	Gr (%)
Revenue	12,801	13,875	12,913	0.9	-6.9	37,966	38,756	2.1
Expenditure	8,996	9,795	9,298	3.4	-5.1	26,620	27,805	4.5
Cost of goods sold	4,275	5,029	4,407	3.1	-12.4	12,359	13,467	9.0
as % of sales	33.4	36.2	34.1	0.0	0.0	32.6	34.7	
Employee cost	1,006	945	989	-1.7	4.6	3,002	2,872	-4.4
as % of sales	7.9	6.8	7.7	0.0	0.0	7.9	7.4	
Other expenditure	2,206	2,238	2,203	-0.1	-1.6	6,295	6,554	4.1
as % of sales	17.2	16.1	17.1	0.0	0.0	16.6	16.9	
EBITDA	3,806	4,080	3,615	-5.0	-11.4	11,346	10,951	-3.5
Depreciation	439	439	437	-0.6	-0.4	1,335	1,317	-1.4
EBIT	3,366	3,641	3,178	-5.6	-12.7	10,011	9,634	-3.8
Other Income	57	113	104	83.3	-7.7	194	332	71.7
Interest	15	13	13			46	38	
PBT	3,408	3,741	3,269	-4.1	-12.6	10,159	9,928	-2.3
Total Tax	885	961	837	-5.4	-12.9	2,611	2,526	-3.3
Net Profit (before extraordinary items)	2,523	2,780	2,432	-3.6	-12.5	7,547	7,403	-1.9
Extra ordinary items	0	0	0	NA	NA	0	-24	NA
Reported Net Profit	2,523	2,780	2,432	-3.6	-12.5	7,547	7,379	-2.2
Adjusted EPS	9.3	10.2	8.9	-3.6	-12.5	27.7	27.2	-1.9
Margins (%)				(bp)	(bp)			(bp)
Gross Margin	66.6	63.8	65.9	-73	212	67.4	65.3	-220
EBIDTA	29.7	29.4	28.0	-174	-141	29.9	28.3	-163
EBIT	26.3	26.2	24.6	-169	-163	26.4	24.9	-151
EBT	26.6	27.0	25.3	-130	-165	26.8	25.6	-114
Net Profit	19.7	20.0	18.8	-87	-120	19.9	19.1	-78
Effective tax rate	26.0	25.7	25.6	-36	-9	25.7	25.4	-27

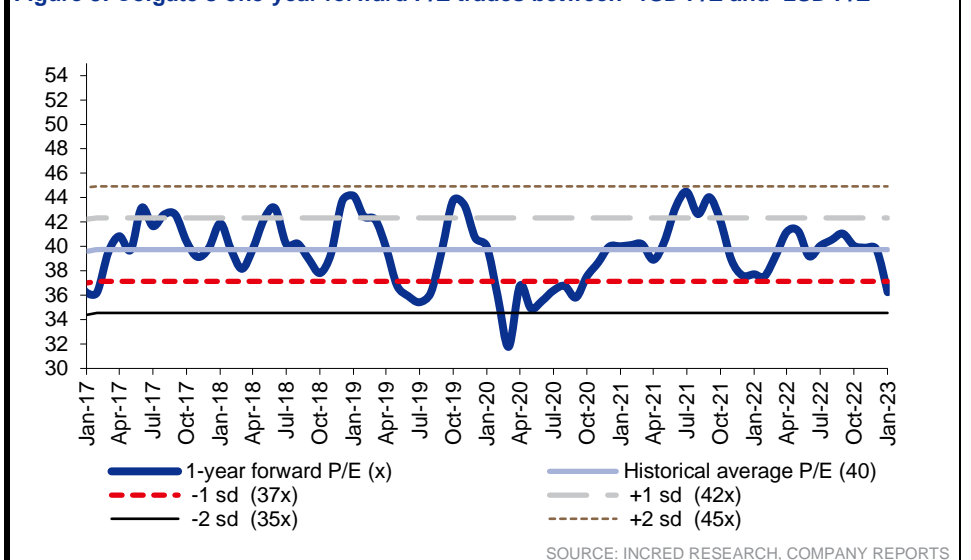
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E, Mar (Rs. m)	FY23F			FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	52,707	52,195	(1.0)	56,075	55,300	(1.4)	59,994	58,731	(2.1)
EBITDA	15,590	14,991	(3.8)	16,845	15,959	(5.3)	18,205	17,044	(6.4)
EBITDA Margin (%)	29.6	28.7	-90 bp	30.0	28.9	-120 bp	30.3	29.0	-130 bp
Net Profit	10,730	10,351	(3.5)	11,675	11,058	(5.3)	12,659	11,836	(6.5)
EPS	39.4	38.1	(3.5)	42.9	40.7	(5.3)	46.5	43.5	(6.5)

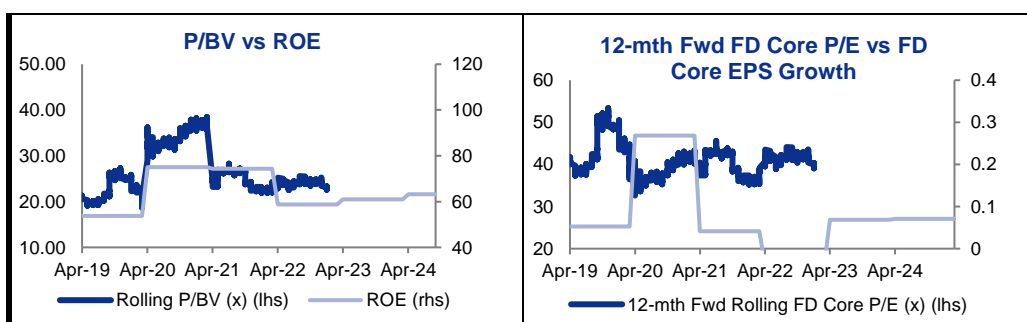
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Colgate's one-year forward P/E trades between -1SD P/E and -2SD P/E



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenue	48,412	50,998	52,195	55,300	58,731
Gross Profit	32,919	34,323	34,084	36,498	38,939
Operating EBITDA	15,096	15,659	14,991	15,959	17,044
Depreciation And Amortisation	(1,825)	(1,773)	(1,758)	(1,811)	(1,871)
Operating EBIT	13,271	13,886	13,232	14,148	15,173
Financial Income/(Expense)	155	179	308	336	372
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	76	25	26	27	29
Profit Before Tax (pre-EI)	13,502	14,090	13,566	14,511	15,574
Exceptional Items					
Pre-tax Profit	13,502	14,090	13,566	14,511	15,574
Taxation	(3,148)	(3,307)	(3,215)	(3,454)	(3,738)
Exceptional Income - post-tax					
Profit After Tax	10,354	10,783	10,351	11,058	11,836
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,354	10,783	10,351	11,058	11,836
Recurring Net Profit	10,354	10,783	10,351	11,058	11,836
Fully Diluted Recurring Net Profit	10,354	10,783	10,351	11,058	11,836

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	15,096	15,659	14,991	15,959	17,044
Cash Flow from Invt. & Assoc.					
Change In Working Capital	7,914	(8,044)	(2,733)	(160)	(181)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	304	263	389	423	461
Net Interest (Paid)/Received	(73)	(59)	(55)	(60)	(60)
Tax Paid	(3,148)	(3,307)	(3,215)	(3,454)	(3,738)
Cashflow From Operations	20,093	4,512	9,376	12,709	13,527
Capex	(792)	(525)	(1,000)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		186			
Other Investing Cashflow					
Cash Flow From Investing	(792)	(339)	(1,000)	(1,500)	(1,500)
Debt Raised/(repaid)	(103)	(81)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(9,211)	(10,572)	(9,833)	(10,505)	(11,244)
Preferred Dividends					
Other Financing Cashflow	(5,596)	5,292	(55)	(60)	(60)
Cash Flow From Financing	(14,911)	(5,361)	(9,888)	(10,565)	(11,304)
Total Cash Generated	4,391	(1,188)	(1,513)	644	722
Free Cashflow To Equity	19,199	4,091	8,376	11,209	12,027
Free Cashflow To Firm	19,374	4,232	8,431	11,269	12,087

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	8,862	7,547	6,090	6,793	7,576
Total Debtors	1,171	2,247	1,749	1,853	1,968
Inventories	3,358	3,572	3,546	3,757	3,991
Total Other Current Assets	3,405	4,631	6,973	7,387	7,846
Total Current Assets	16,797	17,997	18,358	19,791	21,380
Fixed Assets	12,096	10,848	10,090	9,779	9,408
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	48	173	173	173	173
Total Non-current Assets	12,143	11,021	10,263	9,952	9,581
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	15,248	9,861	9,159	9,685	10,262
Total Current Liabilities	15,248	9,861	9,159	9,685	10,262
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	912	831	831	831	831
Total Non-current Liabilities	912	831	831	831	831
Total Provisions	1,122	980	767	811	859
Total Liabilities	17,281	11,672	10,756	11,326	11,952
Shareholders' Equity	11,659	17,347	17,864	18,417	19,009
Minority Interests					
Total Equity	11,659	17,347	17,864	18,417	19,009

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	7.0%	5.3%	2.3%	5.9%	6.2%
Operating EBITDA Growth	25.6%	3.7%	(4.3%)	6.5%	6.8%
Operating EBITDA Margin	31.2%	30.7%	28.7%	28.9%	29.0%
Net Cash Per Share (Rs)	29.23	24.69	19.33	21.92	24.80
BVPS (Rs)	42.86	63.78	65.68	67.71	69.89
Gross Interest Cover	182.80	235.76	240.59	235.80	252.88
Effective Tax Rate	23.3%	23.5%	23.7%	23.8%	24.0%
Net Dividend Payout Ratio	89.0%	98.0%	95.0%	95.0%	95.0%
Accounts Receivables Days	9.41	12.23	13.97	11.89	11.87
Inventory Days	74.53	75.85	71.73	70.89	71.44
Accounts Payables Days					
ROIC (%)	274.8%	119.6%	99.0%	106.7%	115.6%
ROCE (%)	91.5%	91.7%	73.6%	76.6%	79.8%
Return On Average Assets	37.1%	36.6%	34.8%	36.7%	37.8%

Key Drivers					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Volume growth %	3.0%	4.0%	4.0%	5.0%	5.0%
EBITDA margins %	31.2%	30.7%	28.7%	28.9%	29.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000007793. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.