

India

**HOLD** (no change)

Consensus ratings\*: Buy 7 Hold 16 Sell 10

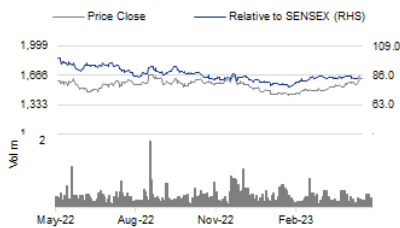
Current price: Rs1,628  
 Target price: ▲ Rs1,645  
 Previous target: Rs1,520  
 Up/downside: 1.0%  
 InCred Research / Consensus: 3.6%

Reuters:  
 Bloomberg: CLGT IN  
 Market cap: US\$6,097m  
 Rs442,711m  
 Average daily turnover: US\$6.7m  
 Rs486.7m  
 Current shares o/s: 272.0m  
 Free float: 49.0%

\*Source: Bloomberg

**Key changes in this note**

- Increase target price to Rs1,645.
- Raise FY24F/25F EPS by 8%.

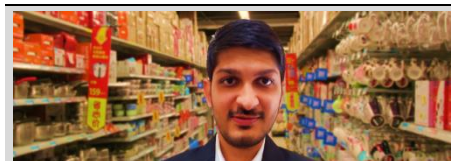


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.1	11.6	1.6
Relative (%)	2.3	10.2	(13.5)

Major shareholders	% held
Promoter	51.0
LIC	3.5
Vanguard Group	1.9

**Analyst(s)**



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# Colgate Palmolive India

## Deferred ad spends aid 4Q EBITDA growth

- CLGT posted pricing-led 4Q domestic sales growth of 5.4% yoy. Rural demand was weak. Hopes about Strong Teeth (CDC) relaunch to drive volume growth.
- Deferral of advertising spends to 1QFY24F (down 2.7% yoy in 4QFY23) led to EBITDA growth of 5.2% yoy. EBITDA margin expanded 46bp yoy to 33.5%.
- Pricing (in the core portfolio) and volume recovery (on a low base) should aid FY24F sales growth while margins remain rangebound. Retain HOLD rating.

### Pricing-led growth; hopes on CDC relaunch to drive volume growth

Colgate-Palmolive India or CLGT's standalone net sales in 4QFY23 at Rs13.5bn were up 3.8% yoy. Domestic sales grew 5.4% yoy. The toothpaste segment saw pricing-led high single-digit growth as volume remained sluggish, hit by rural market slowdown and inflation pressure. For FY23, CLGT's volume decline was lower than the fall in the industry's volume. Management indicated that the naturals segment, which plateaued and then started to decline post Covid-19 pandemic, has now reached the same levels (salience) i.e., pre-Covid levels. CLGT has relaunched its flagship brand Strong Teeth toothpaste with a better value proposition (Arginie technology), but at a higher price (10% price hike taken over the last 6-8 months). Instead of focusing on improving affordability/accessibility (via sharper pricing), CLGT has focused on offering better value (management strongly believes that consumers seek benefits) backed by sampling. Pricing (in the core portfolio) and volume recovery (on a low base) should aid FY24F sales growth, in our view.

### Premiumization remains at the core to drive growth

CLGT's current agenda to drive sales growth includes: 1) offering a better value proposition in its core portfolio - relaunch of Strong Teeth toothpaste with new formulation, 2) premiumization through its heightened focus on whitening as a play in the 'oral beauty' space and entering niche categories like therapeutics (launched PerioGard) & diabetics, and 3) focus on nascent categories like body wash in the personal care segment.

### Margins to remain range-bound

The gross margin was flat yoy at 66.9%. EBITDA at Rs4.5bn was up 5% yoy driven by lower advertising spending, down 2.7% yoy (10.6% of sales, down 70bp yoy). Other expenses/employee costs were up 4.8%/5.8% yoy, respectively. EBITDA margin expanded by 46bp yoy to 33.5%. Management has given guidance of a qoq recovery in gross margin with stepped-up ad spends, which will limit EBITDA margin expansion.

### Maintain HOLD rating with a higher target price of Rs1,645

While focus remains on premiumization, gaining volume market share at the bottom of the pyramid (core portfolio) remains critical. We expect a PAT CAGR of 5.9% over FY22-FY25F. We retain HOLD rating with a higher target price of Rs1,645 (35x Mar 2025F EPS, 2SD below 5-year avg. P/E) from Rs1,520 earlier. The 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-23A	Mar-24F	Mar-25F
Revenue (Rsm)	48,412	50,998	52,262	56,460	60,210
Operating EBITDA (Rsm)	15,096	15,659	15,470	16,900	18,133
Net Profit (Rsm)	10,354	10,783	10,584	11,910	12,806
Core EPS (Rs)	38.1	39.6	38.9	43.8	47.1
Core EPS Growth	26.8%	4.1%	(1.9%)	12.5%	7.5%
FD Core P/E (x)	42.76	41.06	41.83	37.17	34.57
DPS (Rs)	38.0	40.0	37.0	41.6	44.7
Dividend Yield	2.08%	2.39%	2.39%	2.56%	2.75%
EV/EBITDA (x)	28.80	27.84	28.07	25.88	24.08
P/FCFE (x)	23.06	108.21	35.24	54.93	34.19
Net Gearing	(68.2%)	(38.7%)	(49.8%)	(29.8%)	(33.0%)
P/BV (x)	37.97	25.52	25.79	24.93	24.06
ROE	75.0%	74.4%	61.3%	68.2%	70.8%
% Change In Core EPS Estimates				7.71%	8.20%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

# Deferred ad spends aid 4Q EBITDA growth

## Key takeaways from the analyst meet

### Highlights >

- **Leadership team changes:** Mr. Gunjit Jain took over as the marketing head with effect from Feb 2023. Mrs. Sarala Menon is now overlooking the entire supply chain.
- **Toothpaste market opportunity:** Per capita consumption of toothpastes in India is 50% of the per capita consumption in the Philippines. There is a large headroom to grow. The focus will be on driving brushing frequency (55% of rural households do not brush daily) in rural areas and educating urban consumers to brush twice a day (20% urban households brush twice a day).
- **Toothbrush market opportunity:** From a toothbrush lens, two-thirds of the market (63%) rests on a brush handle under Rs30 and the average price per handle is closer to Rs20. This segment has witnessed flat growth. 22% of the market is at a Rs30-Rs40 price point, which has declined by 3%. The balance 16% market (Rs40+) has grown 15%, which provides an opportunity to premiumize.

### Strategy >

#### Core portfolio

- **Relaunches Colgate Strong Teeth** (volume and value leader in India) to drive core portfolio. The brand is 1.2x higher penetrated than the next brand in rural markets. The focus on relaunch is to reframe the category from 'cleaning' to 'nourishing' teeth. **The new campaign goes live on 14 May 2023 and will be driven by sampling (35m planned) to drive rural growth.**
- **MaxFresh:** It had a good run in the last few years. In the last one year, it added 21m consumer homes, penetration gains of 580bp, growing 5x faster than the market. A new charcoal variant has been added.
- **The naturals segment plateaued and started to decline post Covid-19 pandemic.** Now, it is at a level like three years ago. Management commented that consumers buy benefits, and the naturals segment does not offer the benefits that consumers perceived.
- **Active Salt:** Launched 10 years ago, leads in the salt segment.

#### Premiumization

- **Whitening:** Launched Visible White O2 last year - one of the most successful launches. Led to a 30% faster growth vs. market (whitening) through widening penetration by 1.5% (urban + rural markets). The focus is on driving the shift from whitening to oral beauty. Also launched a whitening pen to further drive growth of the category.
- **Therapeutics:** The focus is on an underserved segment. Launched PerioGard toothpaste and toothbrush aimed at gum health. ASP Index at 450. Now in 4k-plus pharmacies.
- **Toothbrushes:** The average price is Rs21. The gentle brush portfolio grew 4x faster than the category, leading to doubling of market share since 2020.

#### Palmolive

- 70% brand awareness in India. The plan is to convert the underserved equity to sales.
- The focus will be on driving the core business (body wash & handwash) by growing assortment and distribution.
- Low single-digit sales contribution to the overall business.

**Partnerships with dentists:** CLGT has the highest reach with dentists in India (75k dentists). Recently, it partnered with the Indian Dental Association or IDA for its flagship event in Delhi. The focus on this channel will continue. The newly launched portal has seen 20k-plus registrations.

### On 4QFY23 performance ➤

- Domestic sales grew 5.4% yoy. Toothpaste grew in high single digits. Volume pressure continues.
- Toothbrush volume continues to be stressed. As a major portion of the sales occur around the Rs20/brush price point, premiumization remains challenging.
- Rural demand continues to remain challenging.
- A&P spending stood at 10.7% of sales in 4QFY23 (12.2% of sales in FY23). The relaunch of Strong Teeth toothpaste is expected to keep A&P spending high.

### On digitization ➤

- Amazing (in-house app) allows sales representatives to take the images of stores and suggest proper placement of products to drive visibility.
- Used localization to produce mouthwash products at Baddi facility.
- Reduced warehousing costs by 15% without reducing the servicing to distributors.
- Data warehouse collects data from the entire network and provides actionable insights across teams. Working on an artificial intelligence or AI-led demand forecasting system.

### Outlook ➤

- **Margins:** Expects moderate EBITDA margin expansion. From 1QFY24F, the relaunch of Strong Teeth toothpaste is likely to drive higher A&P spending, which will impact EBITDA. Gross margin is expected to inch up gradually.
- **Price hikes:** Management does not believe price hikes in Strong Teeth toothpaste (from Rs63 to Rs69/100ml over seven months) will cause a dent on demand.

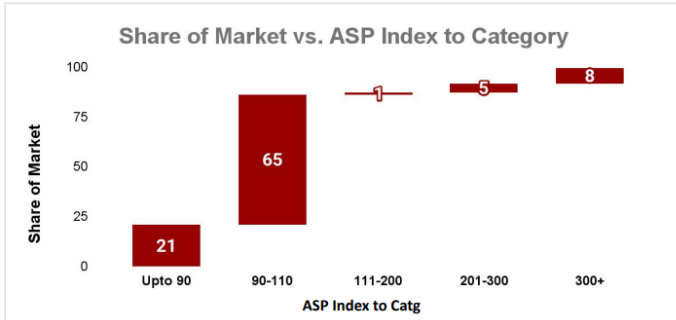
**Figure 1: Quarterly summary - standalone**

Y/E, Mar (Rs m)	4QFY22	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY22	FY23	Gr (%)
<b>Revenue</b>	<b>13,013</b>	<b>12,913</b>	<b>13,506</b>	<b>3.8</b>	<b>4.6</b>	<b>50,978</b>	<b>52,262</b>	<b>2.5</b>
<b>Expenditure</b>	<b>8,719</b>	<b>9,298</b>	<b>8,987</b>	<b>3.1</b>	<b>-3.3</b>	<b>35,338</b>	<b>36,792</b>	<b>4.1</b>
Cost of goods sold	4,317	4,407	4,475	3.7	1.5	16,675	17,942	7.6
as % of sales	33.2	34.1	33.1			32.7	34.3	
Employee cost	849	989	898	5.8	-9.2	3,851	3,770	-2.1
as % of sales	6.5	7.7	6.7			7.6	7.2	
Ad spends	1,468	1,699	1,429	-2.7	-15.9	6,431	6,341	-1.4
as % of sales	11.3	13.2	10.6			12.6	12.1	
Other expenditure	2,085	2,203	2,185	4.8	-0.8	8,381	8,740	4.3
as % of sales	16.0	17.1	16.2			16.4	16.7	
<b>EBITDA</b>	<b>4,294</b>	<b>3,615</b>	<b>4,519</b>	<b>5.2</b>	<b>25.0</b>	<b>15,640</b>	<b>15,470</b>	<b>-1.1</b>
Depreciation	438	437	431	-1.6	-1.3	1,773	1,748	-1.4
<b>EBIT</b>	<b>3,856</b>	<b>3,178</b>	<b>4,088</b>	<b>6.0</b>	<b>28.6</b>	<b>13,867</b>	<b>13,722</b>	<b>-1.0</b>
Other Income	89	104	204	129.7	95.5	282	536	89.9
Interest	14	13	11			59	49	
<b>PBT</b>	<b>3,931</b>	<b>3,269</b>	<b>4,281</b>	<b>8.9</b>	<b>30.9</b>	<b>14,090</b>	<b>14,209</b>	<b>0.8</b>
Total Tax	696	837	1,100	58.1	31.4	3,307	3,625	9.6
<b>Net Profit (before extraordinary items)</b>	<b>3,236</b>	<b>2,432</b>	<b>3,181</b>	<b>-1.7</b>	<b>30.8</b>	<b>10,783</b>	<b>10,584</b>	<b>-1.8</b>
Extraordinary items	0	0	-19	NA	NA	0	-43	NA
<b>Reported Net Profit</b>	<b>3,236</b>	<b>2,432</b>	<b>3,162</b>	<b>-2.3</b>	<b>30.0</b>	<b>10,783</b>	<b>10,541</b>	<b>-2.2</b>
<b>Adjusted EPS</b>	<b>11.9</b>	<b>8.9</b>	<b>11.7</b>	<b>-1.7</b>	<b>30.8</b>	<b>39.6</b>	<b>38.9</b>	<b>-1.8</b>
<b>Margins (%)</b>				<b>(bp)</b>	<b>(bp)</b>			<b>(bp)</b>
Gross Margin	66.8	65.9	66.9	4	100	67.3	65.7	-162
EBIDTA	33.0	28.0	33.5	46	547	30.7	29.6	-108
EBIT	29.6	24.6	30.3	63	566	27.2	26.3	-94
EBT	30.2	25.3	31.7	148	637	27.6	27.2	-45
Net Profit	24.9	18.8	23.6	-131	471	21.2	20.3	-90
Effective tax rate	17.7	25.6	25.7	800	9	23.5	25.5	204

SOURCE: INCRED RESEARCH, COMPANY REPORTS

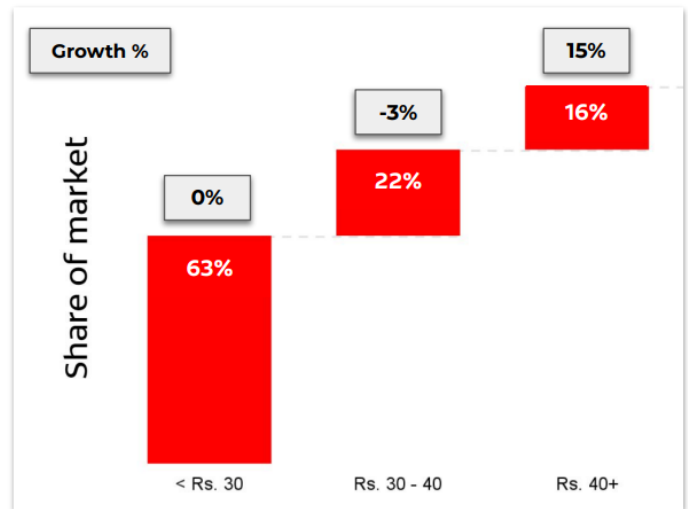
Figure 2: Opportunity for premiumization in the toothpaste segment

Indexed Spends/HH by SEC	SEC DE	SEC C	SEC A
Toothpaste	X	1.4X	1.4X → 2X
Toilet Soaps	1.7X	2.6X	1.7X → 4.4X



SOURCES: INCRED RESEARCH, COMPANY REPORTS

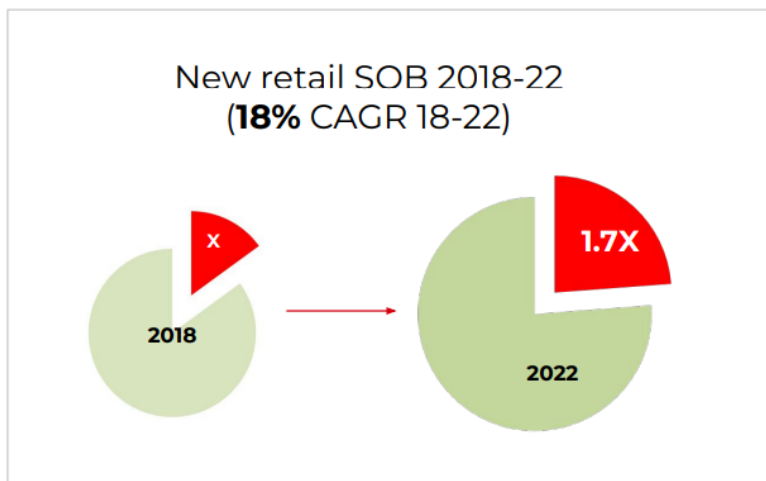
Figure 3: Opportunity for premiumization in the toothbrush segment



~85% market at <INR 40 price point

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Alternate channels (modern trade and e-commerce), which carry a premium mix, have been growing at a faster pace



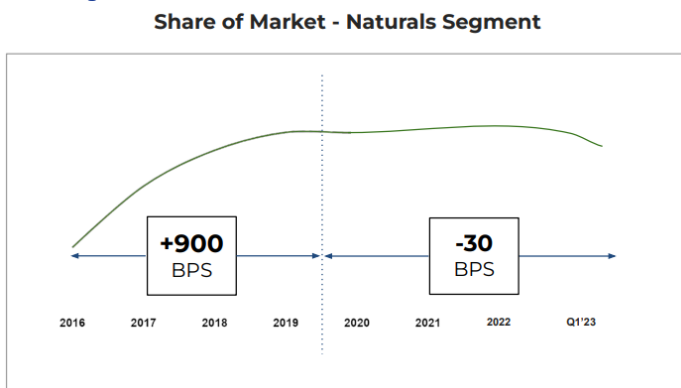
5X vs Traditional Trade  
(Premium Mix)



460 BPS increase  
Premium mix Vs 2021

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Naturals segment has plateaued, and it is now declining



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Premium launch in the niche therapeutics segment



Periogard Regimen  
ASP Index - 450

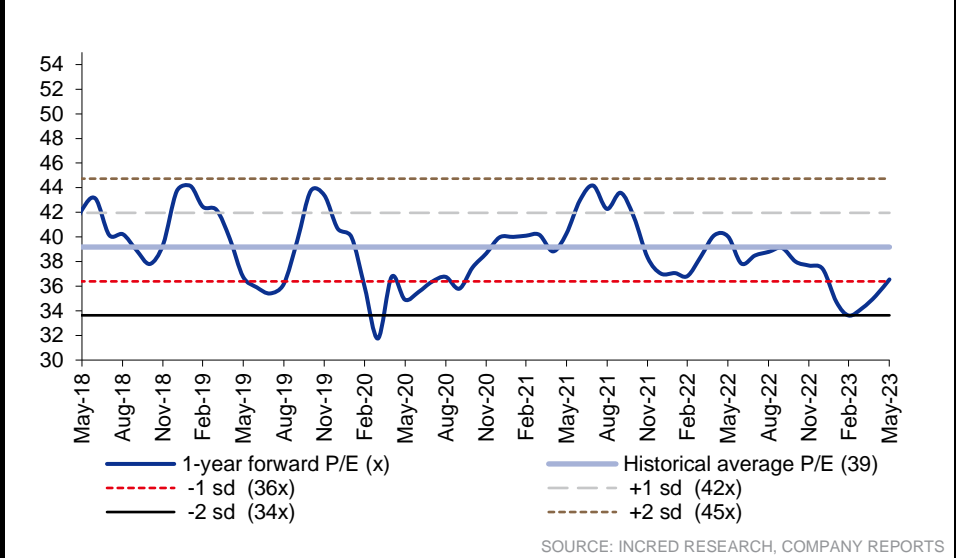
SOURCES: INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Revision in our earnings estimate**

Y/E, Mar (Rs. m)	FY24F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	55,300	56,460	2.1	58,731	60,210	2.5
EBITDA	15,959	16,900	5.9	17,044	18,133	6.4
EBITDA Margin (%)	28.9	29.9	100 bp	29.0	30.1	110 bp
Net Profit	11,058	11,910	7.7	11,836	12,806	8.2
EPS	40.7	43.8	7.7	43.5	47.1	8.2

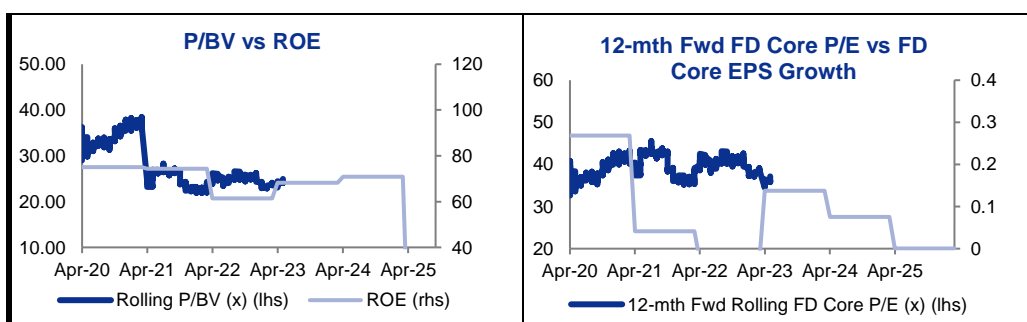
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 8: CLGT's one-year forward P/E trades at -1SD level**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>48,412</b>	<b>50,998</b>	<b>52,262</b>	<b>56,460</b>	<b>60,210</b>
<b>Gross Profit</b>	<b>32,919</b>	<b>34,323</b>	<b>34,320</b>	<b>37,642</b>	<b>40,322</b>
<b>Operating EBITDA</b>	<b>15,096</b>	<b>15,659</b>	<b>15,470</b>	<b>16,900</b>	<b>18,133</b>
Depreciation And Amortisation	(1,825)	(1,773)	(1,748)	(1,791)	(1,853)
<b>Operating EBIT</b>	<b>13,271</b>	<b>13,886</b>	<b>13,722</b>	<b>15,109</b>	<b>16,280</b>
Financial Income/(Expense)	155	179	436	468	514
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	76	25	51	53	56
<b>Profit Before Tax (pre-EI)</b>	<b>13,502</b>	<b>14,090</b>	<b>14,209</b>	<b>15,630</b>	<b>16,851</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>13,502</b>	<b>14,090</b>	<b>14,209</b>	<b>15,630</b>	<b>16,851</b>
Taxation	(3,148)	(3,307)	(3,625)	(3,720)	(4,044)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>10,354</b>	<b>10,783</b>	<b>10,584</b>	<b>11,910</b>	<b>12,806</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>10,354</b>	<b>10,783</b>	<b>10,584</b>	<b>11,910</b>	<b>12,806</b>
Recurring Net Profit	10,354	10,783	10,584	11,910	12,806
<b>Fully Diluted Recurring Net Profit</b>	<b>10,354</b>	<b>10,783</b>	<b>10,584</b>	<b>11,910</b>	<b>12,806</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>15,096</b>	<b>15,659</b>	<b>15,470</b>	<b>16,900</b>	<b>18,133</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	7,914	(8,044)	1,033	(4,140)	(210)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	304	263	536	581	630
Net Interest (Paid)/Received	(73)	(59)	(49)	(60)	(60)
Tax Paid	(3,148)	(3,307)	(3,625)	(3,720)	(4,044)
<b>Cashflow From Operations</b>	<b>20,093</b>	<b>4,512</b>	<b>13,364</b>	<b>9,560</b>	<b>14,449</b>
Capex	(792)	(525)	(659)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments		186			
Other Investing Cashflow					
<b>Cash Flow From Investing</b>	<b>(792)</b>	<b>(339)</b>	<b>(659)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Debt Raised/(repaid)	(103)	(81)	(141)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(9,211)	(10,572)	(10,575)	(11,314)	(12,166)
Preferred Dividends					
Other Financing Cashflow	(5,596)	5,292	(356)	(60)	(60)
<b>Cash Flow From Financing</b>	<b>(14,911)</b>	<b>(5,361)</b>	<b>(11,072)</b>	<b>(11,374)</b>	<b>(12,226)</b>
Total Cash Generated	4,391	(1,188)	1,634	(3,314)	723
<b>Free Cashflow To Equity</b>	<b>19,199</b>	<b>4,091</b>	<b>12,565</b>	<b>8,060</b>	<b>12,949</b>
<b>Free Cashflow To Firm</b>	<b>19,374</b>	<b>4,232</b>	<b>12,755</b>	<b>8,120</b>	<b>13,009</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	8,862	7,547	9,230	5,976	6,759
Total Debtors	1,171	2,247	1,574	1,892	2,017
Inventories	3,358	3,572	3,355	3,836	4,091
Total Other Current Assets	3,405	4,631	4,625	7,542	8,043
<b>Total Current Assets</b>	<b>16,797</b>	<b>17,997</b>	<b>18,783</b>	<b>19,247</b>	<b>20,911</b>
Fixed Assets	12,096	10,848	9,759	9,468	9,115
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	48	173	288	288	288
<b>Total Non-current Assets</b>	<b>12,143</b>	<b>11,021</b>	<b>10,047</b>	<b>9,756</b>	<b>9,404</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	15,248	9,861	9,835	9,739	10,358
<b>Total Current Liabilities</b>	<b>15,248</b>	<b>9,861</b>	<b>9,835</b>	<b>9,739</b>	<b>10,358</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	912	831	690	690	690
<b>Total Non-current Liabilities</b>	<b>912</b>	<b>831</b>	<b>690</b>	<b>690</b>	<b>690</b>
Total Provisions	1,122	980	1,141	815	867
<b>Total Liabilities</b>	<b>17,281</b>	<b>11,672</b>	<b>11,666</b>	<b>11,244</b>	<b>11,915</b>
Shareholders Equity	11,659	17,347	17,164	17,759	18,400
Minority Interests					
<b>Total Equity</b>	<b>11,659</b>	<b>17,347</b>	<b>17,164</b>	<b>17,759</b>	<b>18,400</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	7.0%	5.3%	2.5%	8.0%	6.6%
Operating EBITDA Growth	25.6%	3.7%	(1.2%)	9.2%	7.3%
Operating EBITDA Margin	31.2%	30.7%	29.6%	29.9%	30.1%
Net Cash Per Share (Rs)	29.23	24.69	31.40	19.44	22.31
BVPS (Rs)	42.86	63.78	63.10	65.29	67.65
Gross Interest Cover	182.80	235.76	279.47	251.82	271.34
Effective Tax Rate	23.3%	23.5%	25.5%	23.8%	24.0%
Net Dividend Payout Ratio	89.0%	98.0%	99.9%	95.0%	95.0%
Accounts Receivables Days	9.41	12.23	13.34	11.20	11.85
Inventory Days	74.53	75.85	70.45	69.73	72.74
Accounts Payables Days					
ROIC (%)	274.8%	119.6%	140.5%	113.7%	123.4%
ROCE (%)	91.5%	91.7%	78.6%	85.9%	89.6%
Return On Average Assets	37.1%	36.6%	35.1%	39.6%	41.4%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Volume growth %	3.0%	4.0%	4.0%	5.0%	5.0%
EBIDTA margins %	31.2%	30.7%	29.6%	29.9%	30.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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