

India

August 22, 2023 - 8:58 PM

**HOLD** (no change)

Consensus ratings*: Buy 10 Hold 16 Sell 9	
Current price:	Rs1,940
Target price: <span style="color: green;">▶</span>	Rs2,000
Previous target:	Rs2,000
Up/downside:	3.1%
InCred Research / Consensus:	6.3%
Reuters:	
Bloomberg:	CLGT IN
Market cap:	US\$7,265m Rs527,584m
Average daily turnover:	US\$9.9m Rs715.6m
Current shares o/s:	272.0m
Free float:	49.0%
*Source: Bloomberg	

Key financial forecast

	Mar-24F	Mar-25F	Mar-26F
Net Profit (Rsm)	12,449	13,406	14,357
Core EPS (Rs)	45.77	49.29	52.78
Core EPS Growth	17.6%	7.7%	7.1%
FD Core P/E	42.38	39.36	36.75
Recurring ROE	71.2%	74.0%	76.3%
P/BV (x)	29.66	28.59	27.52
DPS (Rs)	43.48	46.82	50.15
Dividend Yield	2.24%	2.41%	2.59%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	5.8	20.3	22.1
Relative (%)	8.2	14.3	10.5

Major shareholders	% held
Promoter	51.0
LIC	3.4
Blackrock	1.5

Analyst(s)

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# Colgate Palmolive India

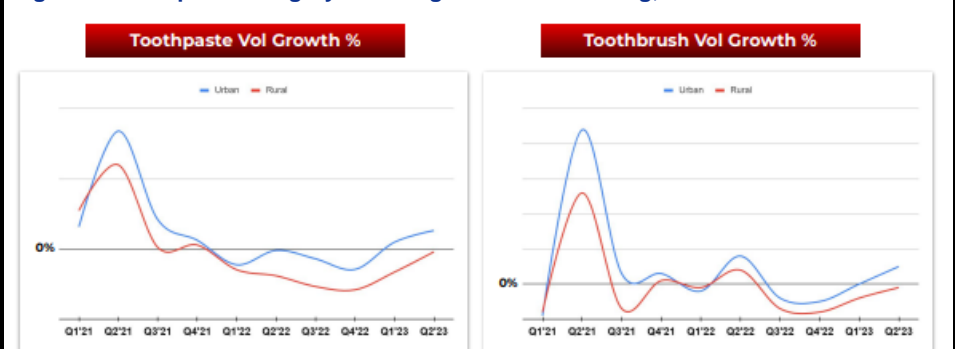
## Analyst meet takeaways - More of the same

- Management reiterated its focus on driving category development (increasing usage) by offering tech-backed products with a superior value proposition.
- Premiumization theme stays with a focus on the whitening segment. No word on recent premium products like Gum Expert and Diabetics is surprising.
- While the focus stays on premiumization, regaining volume market share remains critical. Current valuation caps the upside. We retain HOLD rating.

### Key highlights of the analyst meet

- **Demand scenario improving gradually:** Management stated that there were early signs of a recovery with category volume (both urban & rural) now recovering (refer Fig. 1), albeit on a lower base, with expectation of a sustained improvement. Management alluded to the fact that Colgate-Palmolive India or CLGT's toothpaste market share has remained stable.
- **Digital play:** CLGT has established a dedicated analytics centre which leverages data science and machine learning to generate insights. 'Amazing', a tool created for merchandizing teams, deployed in c.4,000 modern trade stores, helps automate mundane tasks at the store-level, allowing for faster reporting, led by predictive analytics. Smile Stores, which covers direct outlets (1.6m stores), is a program which helps in augmenting store-level assortment based on past purchases, neighbourhood store details and catchment potential. Value growth of Smile Stores is 1.2x that of normal stores.
- **Focus on category development:** Around 55% of rural households (HH) do not brush their teeth daily, which presents a large opportunity, as per management. The first phase focuses on driving conversions from neem twig users (datun) from rural India to toothpaste and toothbrushes, followed by driving the awareness of brushing twice a day across India - both pointing towards increasing the usage frequency (consumption). Given low per capita consumption of toothpastes and an opportunity to grow the market, the company's focus is on driving category development-led volume growth.
- **Premiumization agenda:** CLGT continues its heightened focus on whitening as a play in the 'oral beauty' products space. The opportunity for premiumization is huge, as per management. Penetration of whitening in India is at 1.5% vs. 43% in USA. The company will continue its focus on offering superior products which provide high-order benefits. CLGT has also launched a whitening pen, various electric toothbrushes, and a water flosser, which are at a nascent stage in India (vs. Western countries).
- **Personal care:** CLGT has now expanded its play across hand, body wash and face wash space (face care launched as a pilot project in 2022). Categories like body wash (shower gel) are at a nascent stage (penetration of 3%) with (category) potential of achieving Rs10bn in sales in the next two years.
- **Our view:** While the focus stays on premiumization, regaining volume market share remains critical. The current valuation of the stock caps the upside.

Figure 1: Toothpaste category volume growth is recovering, albeit on a low base



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Total assortment sold at a store is 1.3x higher than the 2021 level

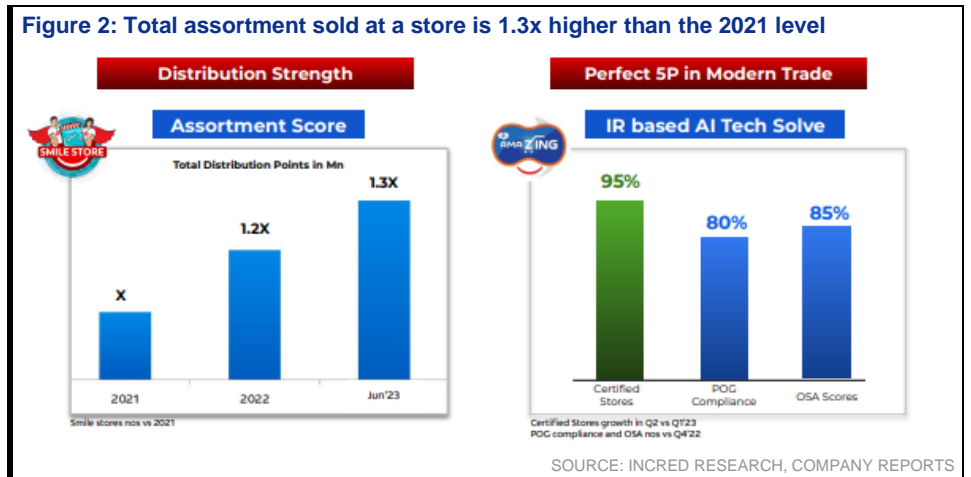


Figure 3: Increasing brushing frequency and awareness remains the key focus areas

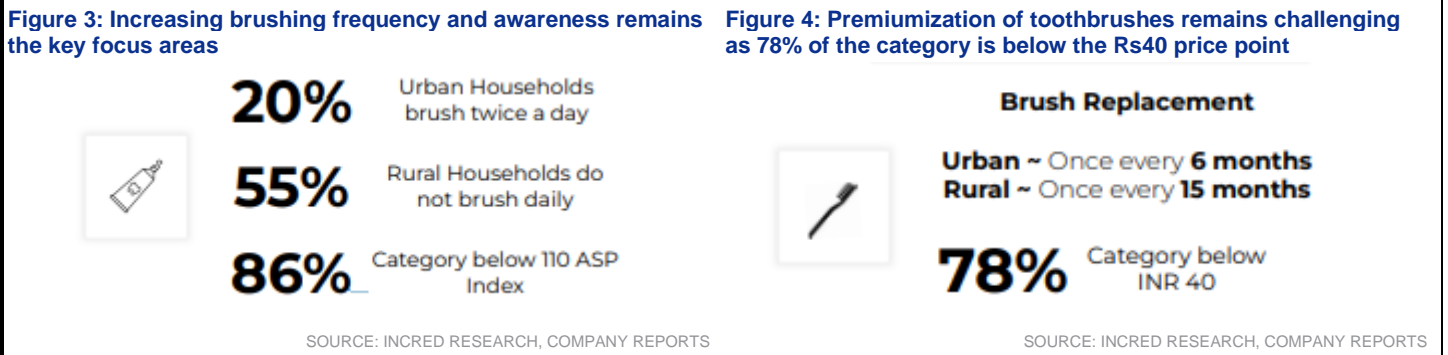


Figure 4: Premiumization of toothbrushes remains challenging as 78% of the category is below the Rs40 price point

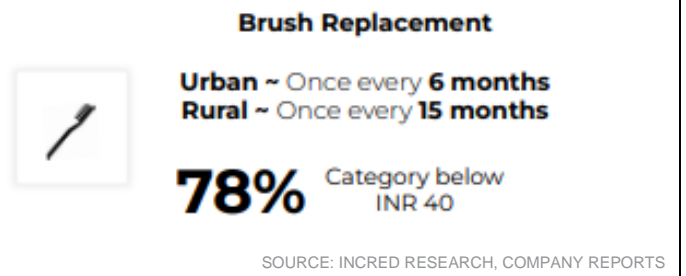


Figure 5: Oral care awareness in India

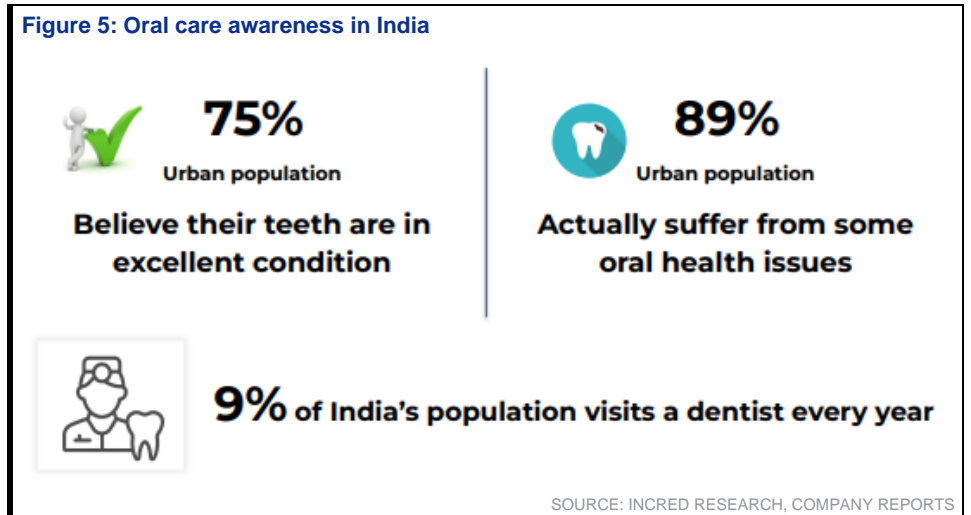


Figure 6: Colgate aims to drive premiumization in the toothbrush category



Leadership position in the category



Superior portfolio across price tiers



Premiumisation focus to drive growth

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: The Palmolive range of personal care products has a large headroom to grow



Nascent Category, Scope to Grow

Penetration of Body Wash - 2% AI (U+R)



Strong brand equity, built over 73 years

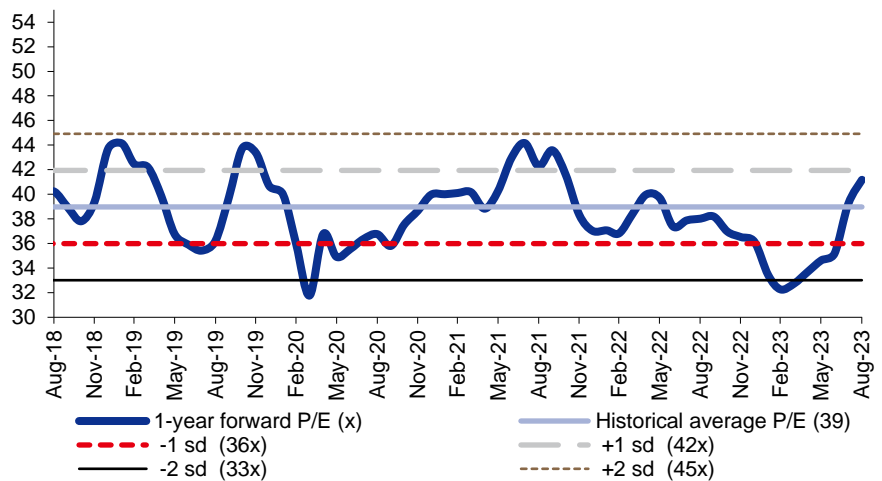
2 out of 3 brand aware



Wide Global Portfolio to choose from

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Colgate-Palmolive India's one-year forward P/E trades close to +1SD



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Profit & Loss**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>52,262</b>	<b>57,164</b>	<b>60,953</b>	<b>64,700</b>
<b>Gross Profit</b>	<b>34,320</b>	<b>38,740</b>	<b>41,490</b>	<b>44,235</b>
<b>Operating EBITDA</b>	<b>15,470</b>	<b>17,639</b>	<b>18,909</b>	<b>20,161</b>
Depreciation And Amortisation	(1,748)	(1,790)	(1,852)	(1,901)
<b>Operating EBIT</b>	<b>13,722</b>	<b>15,849</b>	<b>17,057</b>	<b>18,259</b>
Financial Income/(Expense)	462	506	555	603
Pretax Income/(Loss) from Assoc.				
Non-Operating Income/(Expense)	25	26	27	29
<b>Profit Before Tax (pre-EI)</b>	<b>14,209</b>	<b>16,381</b>	<b>17,639</b>	<b>18,891</b>
Exceptional Items				
<b>Pre-tax Profit</b>	<b>14,209</b>	<b>16,381</b>	<b>17,639</b>	<b>18,891</b>
Taxation	(3,625)	(3,931)	(4,233)	(4,534)
Exceptional Income - post-tax				
<b>Profit After Tax</b>	<b>10,583</b>	<b>12,449</b>	<b>13,406</b>	<b>14,357</b>
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
<b>Net Profit</b>	<b>10,583</b>	<b>12,449</b>	<b>13,406</b>	<b>14,357</b>
Recurring Net Profit	10,583	12,449	13,406	14,357
<b>Fully Diluted Recurring Net Profit</b>	<b>10,583</b>	<b>12,449</b>	<b>13,406</b>	<b>14,357</b>

**Balance Sheet**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Cash And Equivalents</b>	<b>9,230</b>	<b>5,827</b>	<b>6,631</b>	<b>7,535</b>
<b>Total Debtors</b>	<b>1,574</b>	<b>1,915</b>	<b>2,042</b>	<b>2,168</b>
Inventories	3,355	3,884	4,141	4,396
<b>Total Other Current Assets</b>	<b>4,625</b>	<b>7,636</b>	<b>8,143</b>	<b>8,643</b>
<b>Total Current Assets</b>	<b>18,783</b>	<b>19,263</b>	<b>20,958</b>	<b>22,743</b>
Fixed Assets	9,759	9,469	9,117	8,715
Total Investments				
Intangible Assets				
<b>Total Other Non-Current Assets</b>	<b>288</b>	<b>288</b>	<b>288</b>	<b>288</b>
<b>Total Non-current Assets</b>	<b>10,047</b>	<b>9,757</b>	<b>9,405</b>	<b>9,004</b>
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors				
Other Current Liabilities	9,835	9,730	10,350	10,965
<b>Total Current Liabilities</b>	<b>9,835</b>	<b>9,730</b>	<b>10,350</b>	<b>10,965</b>
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	690	690	690	690
<b>Total Non-current Liabilities</b>	<b>690</b>	<b>690</b>	<b>690</b>	<b>690</b>
Total Provisions	1,141	814	866	918
<b>Total Liabilities</b>	<b>11,666</b>	<b>11,234</b>	<b>11,906</b>	<b>12,572</b>
Shareholders Equity	17,164	17,786	18,457	19,175
Minority Interests				
<b>Total Equity</b>	<b>17,164</b>	<b>17,786</b>	<b>18,457</b>	<b>19,175</b>

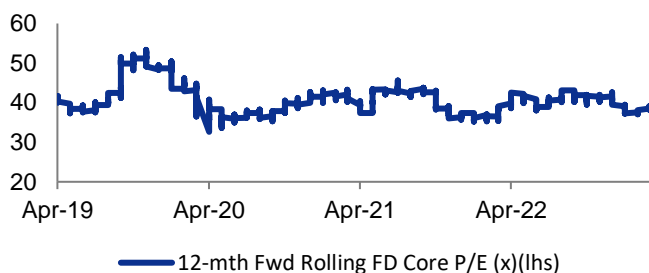
**Cash Flow**

(Rs mn)	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>15,470</b>	<b>17,639</b>	<b>18,909</b>	<b>20,161</b>
Cash Flow from Invt. & Assoc.				
Change In Working Capital	1,033	(4,315)	(219)	(215)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	536	577	622	672
Net Interest (Paid)/Received	(49)	(45)	(40)	(40)
Tax Paid	(3,625)	(3,931)	(4,233)	(4,534)
<b>Cashflow From Operations</b>	<b>13,364</b>	<b>9,924</b>	<b>15,039</b>	<b>16,044</b>
Capex	(659)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries				
Acq. Of Subsidiaries/Investments				
Other Investing Cashflow				
<b>Cash Flow From Investing</b>	<b>(659)</b>	<b>(1,500)</b>	<b>(1,500)</b>	<b>(1,500)</b>
Debt Raised/(repaid)	(141)			
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(10,575)	(11,827)	(12,736)	(13,639)
Preferred Dividends				
Other Financing Cashflow	(356)	(45)	(40)	(40)
<b>Cash Flow From Financing</b>	<b>(11,072)</b>	<b>(11,872)</b>	<b>(12,776)</b>	<b>(13,679)</b>
Total Cash Generated	1,634	(3,448)	764	864
<b>Free Cashflow To Equity</b>	<b>12,565</b>	<b>8,424</b>	<b>13,539</b>	<b>14,544</b>
<b>Free Cashflow To Firm</b>	<b>12,755</b>	<b>8,469</b>	<b>13,579</b>	<b>14,584</b>

**Key Ratios**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	2.5%	9.4%	6.6%	6.1%
Operating EBITDA Growth	(1.2%)	14.0%	7.2%	6.6%
Operating EBITDA Margin	29.6%	30.9%	31.0%	31.2%
Net Cash Per Share (Rs)	31.40	18.89	21.84	25.17
BVPS (Rs)	63.10	65.39	67.86	70.49
Gross Interest Cover	279.47	352.20	426.43	456.49
Effective Tax Rate	25.5%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	99.9%	95.0%	95.0%	95.0%
Accounts Receivables Days	13.34	11.14	11.85	11.88
Inventory Days	70.45	71.70	75.25	76.13
Accounts Payables Days				
ROIC (%)	140.5%	117.7%	127.5%	137.8%
ROCE (%)	78.4%	89.7%	93.3%	96.4%
Return On Average Assets	35.0%	41.3%	43.3%	44.3%

**12-mth Fwd Rolling FD Core P/E (x)**



**Key Drivers**

	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Volume growth %	4.0%	5.0%	5.0%	5.0%
EBIDTA margins %	29.6%	30.9%	31.0%	31.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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