

India

HOLD (no change)

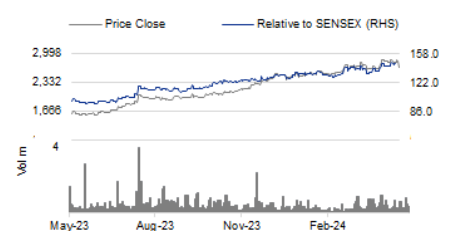
Consensus ratings*: Buy 9 Hold 12 Sell 14

Current price:	Rs2,673
Target price: ▲	Rs2,755
Previous target:	Rs2,600
Up/downside:	3.1%
InCred Research / Consensus:	9.6%
Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$8,705m Rs726,895m
Average daily turnover:	US\$11.6m Rs965.3m
Current shares o/s:	272.0m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs2,755 from Rs2,600.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.1)	3.6	60.9
Relative (%)	(1.1)	2.8	36.5

Major shareholders	% held
Promoter	51.0
BlackRock Inc	2.0
Vanguard Group	2.0

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Colgate Palmolive India

Driving volume growth remains a focus area

- Domestic sales grew 10.7% yoy in 4QFY24, led by the toothpaste business growing in double digits, showing positive volume growth due to strong pricing.
- Controlled other expenses, despite higher advertising expenses (11.3%/10.6% of sales in 4QFY24/4QFY23, respectively), drove EBITDA margin expansion.
- Sales growth is competitive & execution has seen an improvement. However, the valuation at 48x/43x FY25F/26F EPS remains lofty. Retain HOLD rating.

Toothpaste segment continues to deliver pricing-led growth

Colgate-Palmolive India or CLGT's standalone net revenue in 4QFY24 was up 10.3% yoy. Domestic sales grew 10.7% yoy led by the toothpaste segment, which reported a double-digit growth led by the relaunch of some of its flagship brands in the last one year. CLGT's domestic sales growth was lower than that of Dabur India & HUL, who posted double-digit growth (on a low base). Rural markets grew faster than urban markets by 200bp during the quarter which, we feel, were supported by market share (MS) gains from Strong Teeth and a recovery in Uttar Pradesh, where it lost MS in the toothbrush segment a few years ago.

Premiumization agenda to be stepped up in alternate channels

CLGT has relaunched its core flagship brands in FY24 with improved formulations, backed by media spending. The company has been stepping up its premiumization agenda via heightened focus on whitening as a play in the 'oral beauty' space and entering niche categories like therapeutics & diabetics, and also renewing the focus on nascent categories like body wash (sub 3% penetration) under the Palmolive brand. The focus has also shifted to improving the market share of Colgate Total in the modern trade channel back to historic levels (low single digit MS currently). We expect some launches from the global portfolio to roll out soon. To support the premiumization agenda, the larger focus going ahead will be on modern trade and e-com channels along with select general trade or GT outlets.

Margins to stay range-bound as the focus remains on volume growth

Gross/EBITDA margins expanded by +244/+226bp yoy to 69.3%/35.7%, respectively, in 4QFY24. Since the start of FY24, CLGT has stepped up its advertising expenditure, with media spending up 18.2% yoy (11.3% of sales in 4QFY24 vs. 14.6%/10.6% of sales in 3QFY24/4QFY23, respectively). Tight control over other expenses, up 6% yoy (15.6% of sales, down 63bp yoy), led to a better-than-expected EBITDA margin. Management commentary hinted towards higher focus on driving volume growth vs. protecting margins.

Retain HOLD rating with a higher target price of Rs2,755

While the company's focus remains on premiumization of its portfolio, volume market share recovery at the bottom of the pyramid (core portfolio) remains critical due to heightened competitive intensity. We maintain our HOLD rating on the stock with a higher target price of Rs2,755 (45x Mar 2026F EPS) from Rs2,600 earlier, rolling forward its valuation. Upside/downside risks: Higher/lower-than-expected sales/EBITDA growth, respectively.

Financial Summary

	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue (Rsm)	50,998	52,262	56,804	61,595	66,556
Operating EBITDA (Rsm)	15,659	15,470	19,008	21,229	23,261
Net Profit (Rsm)	10,783	10,583	13,432	15,112	16,642
Core EPS (Rs)	39.6	38.9	49.4	55.6	61.2
Core EPS Growth	4.1%	(1.9%)	26.9%	12.5%	10.1%
FD Core P/E (x)	67.41	68.69	54.12	48.10	43.68
DPS (Rs)	40.0	37.0	46.9	52.8	58.1
Dividend Yield	1.45%	1.45%	1.61%	1.97%	2.17%
EV/EBITDA (x)	45.99	46.44	37.56	33.85	30.84
P/FCFE (x)	177.67	57.86	43.48	74.78	43.06
Net Gearing	(38.7%)	(49.8%)	(69.5%)	(43.0%)	(46.5%)
P/BV (x)	41.91	42.35	38.78	37.28	35.75
ROE	74.4%	61.3%	74.8%	79.0%	83.6%
% Change In Core EPS Estimates				4.15%	5.77%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Driving volume growth remains a focus

Highlights from the earnings call

Highlights

- Rural markets outperformed their urban counterparts by 200bp in 4QFY24 led by improved distribution expansion and media spending. Strong Teeth toothpaste has performed well. Macroeconomic indicators for the upcoming monsoon suggest optimism and hence, management believes this is sustainable. Both rural and urban markets are expected to perform better in FY25F.
- Brand awareness has improved for Colgate or CLGT to 67% in FY24 vs. 64%/61% in FY23/FY22, respectively. Recall, as an oral care expert, has also improved.
- The data analytics module has been improved to maximize media RoI. AI-led planning module has ensured a 95% compliance in on-the-shelf availability. AI/ML are being used to improve demand forecasting, ensuring efficient inventory delivery across its supply chain network.
- **Oral care category in India:** Average toothpaste consumption continues to be under-indexed. The Philippines is the closest, where India is at 0.6 in terms of per capita consumption (indexed to the Philippines). Compared to Brazil, we are at 0.3 level.
 - Only 20% of the residents of urban households brush their teeth twice a day. 55% of the residents of rural households don't brush twice.
 - **Toothbrush:** 78% of toothbrushes are sold under Rs40 and the replacement cycle is nine months (vs. the ideal cycle of three months). Premiumization is an opportunity.
 - Given Colgate's market leadership, management believes the company can drive the premiumization story as well as improve volume.
 - Compared to the No.2 player, Colgate is 3x higher than the No.2 in toothpastes and 1.4x vs. the No.2 player in toothbrushes.
- **Modern trade:** Planogram at a few stores being piloted with Reliance Industries – is witnessing significant ASP growth in toothpastes as well as boost premiumization. Will continue to evolve this.
- **E-commerce:** Continues to be margin- and growth-accretive. The channel grew 3x faster than the rest of the business in FY24.

Strategy

- The first task is to lead the toothpaste category's growth led by volume growth as well as grow the core brands (Strong Teeth, MaxFresh and Active Salt).
- Premiumization play through Visible White and the therapeutics range.
- Drive growth in toothbrushes and devices.
- Build personal care products under the Palmolive brand.

Categories

Personal Care

- **Palmolive:** 60% of the target audience is aware of the brand. Body wash penetration is at 3% in India but is growing rapidly (growing 30-40% on a relatively smaller position). Given Colgate's global portfolio, there are strong opportunities to premiumize.
- Three new variants under Palmolive Body Wash have been launched in 4Q, backed by media spending.
- Opportunities from the global portfolio (brands like Protex & Sanex may see some launches) remain an opportunity. New launches are likely going ahead.

- The Smile store assortment platform will be used to scale in modern trade and e-commerce as well as GT in a calibrated manner.
- **Competitive intensity:** Given low penetration, there is lot of headroom for all players to grow and hence, not much of an impact is expected in this segment.

Oral Care

Toothpaste

- The focus will be on driving category growth by improving the brushing frequency (backed by media spending).
- **Driving awareness:** Activations were done during the Diwali festival through sweet gift kiosks, with the banners placed next to stalls to drive awareness of brushing the teeth twice. The home-to-home program has been strengthened.
- **Bright Smiles Bright Futures Program:** It is in its fifth decade: going to schools and teaching the basics of oral care, brushing frequency, etc. Has reached 176m children since its inception. Aiming to reach 10m more children in FY25F. It is present in 8 states currently but will go to 10-12 states in FY25F.
- **Colgate Strong Teeth:** It was relaunched last year with Arginine. The packaging has been revamped to drive awareness. Rural distribution expansion continued in a strong manner.
- **Colgate Max Fresh:** Colgate's second-most successful brand in India. The Rs20 pack has been supported by activation and distribution expansion. The focus is on younger adults here and hence, media spending was high to keep it relevant.
- **Colgate Active Salt:** It was relaunched in 4Q with superior technology to counter dental problems. New communications have been tested in the top 15% of advertisements.
- Science-led premiumization:
 - Colgate's top brand globally is Colgate Total. The focus is now on accelerating trials (9m trials in FY24) with an access pack at 80 gm size (priced at a premium to peers). Early results have been good. In modern trade or MT and e-commerce channels, the market share has improved. The portfolio is growing 3x faster than Colgate's other brands. Colgate Total (in terms of sales) used to perform better a decade ago (double-digit share in MT that time). Efforts are underway to take it back to that level (low single-digit in MT currently, doing better in e-commerce channels).
 - **Whitening:** New advertising campaigns have been launched for the Visible White range. Reaching 50m consumers via influencers currently (will be stepped up in FY25F). In Jun 2024, a first-to-the-world whitening booster will be launched. The product will be a gel application on teeth, used as a supplement to toothpaste. Will allow expansion beyond toothpaste under Visible White. Now Visible White will have a toothpaste, a whitening device (already launched) and a whitening gel to offer a complete range in oral beauty.
 - **Therapeutics:** 9% of Indians visit the dentist every year. Accelerating this channel has been a strong focus area. There are 2.5m touchpoints currently with 1.8x higher dental college tie-ups vs. the closest competitor. This channel grew 4.5x faster than overall business in 2023.
 - By the end of this year, recyclable toothpaste tubes are expected to be rolled out in a big way.

Toothbrush

- ZigZag range was relaunched.
- Periogard toothbrush launched to complement the toothpaste offering.
- In Uttar Pradesh (a key market), Colgate was losing market share over the last two years but this has been fixed and now the market share has improved.

Input costs and margins

- Almost 100% of the portfolio was relaunched this year. Packaging has been revamped. Recyclable tubes are expected to come in this year in a major way.
- Advertising expenditure was up 20% yoy at 13.5% of sales in FY24. A sizeable portion was spent on driving the brushing frequency.
- The premium portfolio is targeted to grow 2.5x-3x faster than the base portfolio, which has been playing out. Expected to continue in the medium term, which will support mix improvement.

Outlook

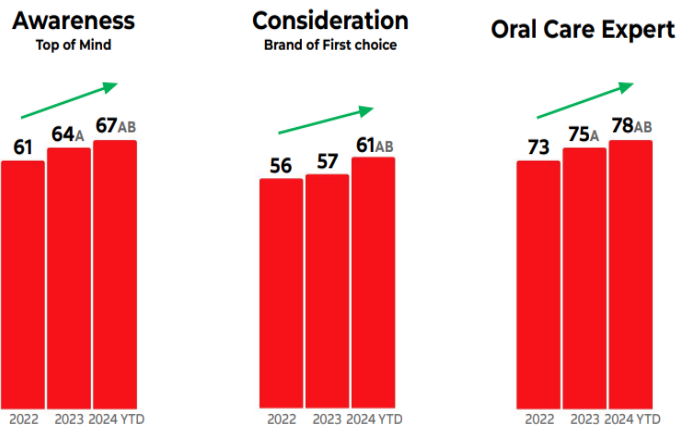
- Diversification presents a significant opportunity for the company as it aims to enter more categories.
- Management is optimistic about growing the category led by premiumization. Bulk of the premiumization growth will come from the Rs50-100 price points.
- Management believes that there is some scope for increasing the pricing led by improved product superiority and premiumization.
- The focus will be on growing volume share over protecting margins. There is room for more cost savings (4-5% of sales) via internal initiatives, but those gains will be deployed to drive better product packaging or media spending. Targets margins to remain at a level similar to that in FY24.

Figure 1: Quarterly summary - standalone

Y/E Mar (Rs m)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	Gr (%)
Revenue	13,506	13,957	14,900	10.3	6.8	52,262	56,804	8.7
Expenditure	8,987	9,273	9,578	6.6	3.3	36,792	37,796	2.7
Cost of goods sold	4,475	3,883	4,573	2.2	17.8	17,942	17,230	-4.0
as % of sales	33.1	27.8	30.7			34.3	30.3	
Employee cost	898	1,098	999	11.2	-9.0	3,770	4,117	9.2
as % of sales	6.7	7.9	6.7			7.2	7.2	
Ad spends	1,429	2,043	1,689	18.2	-17.3	6,341	7,604	19.9
as % of sales	10.6	14.6	11.3			12.1	13.4	
Other expenditure	2,185	2,248	2,317	6.0	3.1	8,740	8,845	1.2
as % of sales	16.2	16.1	15.6			16.7	15.6	
EBITDA	4,519	4,684	5,322	17.8	13.6	15,470	19,008	22.9
Depreciation	431	414	421	-2.3	1.8	1,748	1,715	-1.9
EBIT	4,088	4,270	4,901	19.9	14.8	13,722	17,293	26.0
Other income	204	179	227	11.3	26.6	536	765	42.8
Interest	11	15	14			49	50	
PBT	4,281	4,434	5,114	19.5	15.3	14,209	18,009	26.7
Total tax	1,100	1,133	1,315	19.6	16.1	3,625	4,577	26.2
Net profit (before extraordinary items)	3,181	3,301	3,798	19.4	15.1	10,584	13,432	26.9
Extraordinary items	-19	0	0	NA	NA	-93	-195	NA
Reported net profit	3,162	3,301	3,798	20.1	15.1	10,490	13,237	26.2
Adjusted EPS	11.7	12.1	14.0	19.4	15.1	38.9	49.4	26.9
Margins (%)				(bp)	(bp)			(bp)
Gross margin	66.9	72.2	69.3	244	-287	65.7	69.7	400
EBITDA	33.5	33.6	35.7	226	216	29.6	33.5	386
EBIT	30.3	30.6	32.9	263	230	26.3	30.4	419
EBT	31.7	31.8	34.3	263	255	27.2	31.7	452
Net profit	23.6	23.7	25.5	194	184	20.3	23.6	339
Effective tax rate	25.7	25.6	25.7	3	17	25.5	25.4	-10

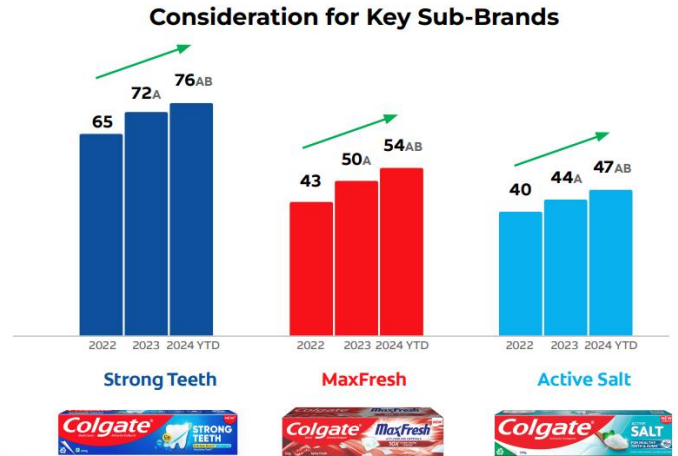
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Brand awareness improves for the Colgate brand...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: ...led by an improvement across key sub-brands



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Renewed focus on body wash category...



New Range launched
3 new variants with improved fragrance

New Communication live
'Savour The Feeling' campaign

On Growth Momentum
1.2x \$SOM v prev quarter in MT

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 5: ...as new brands are likely to be launched from the global portfolio



Wide Global Portfolio to choose from

SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Therapeutics range to be expanded in FY25F

Strategic business pillar
4.5x growth v overall business in 2023

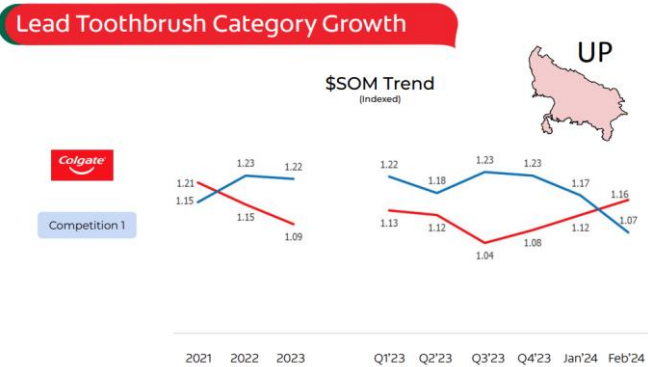
Best-in-class Dentist Connects
2.5 Mn+ annual touchpoints

100+ Dental Colleges Tie-ups
1.8X higher than closest competitor



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: The toothbrush market share in Uttar Pradesh improves



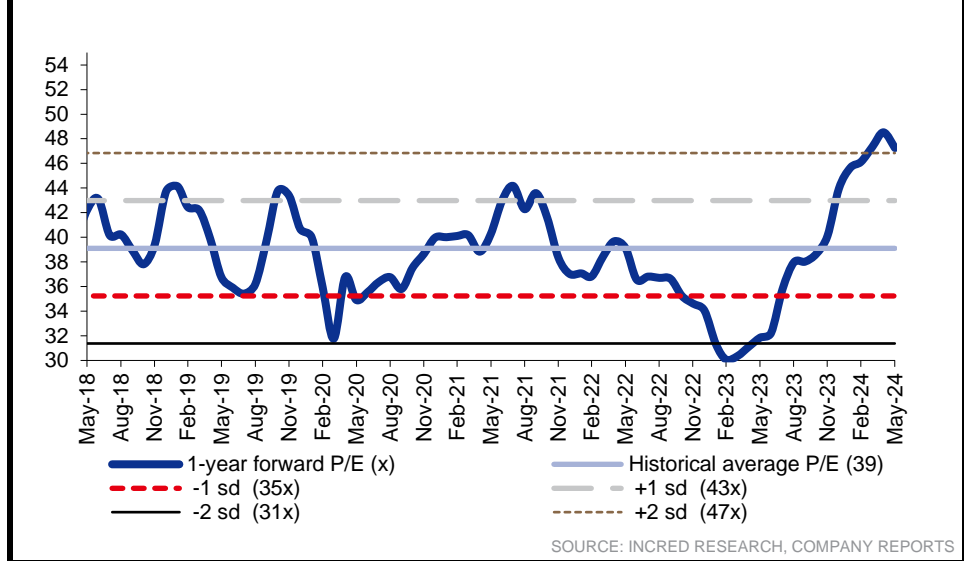
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Our revised earnings estimates

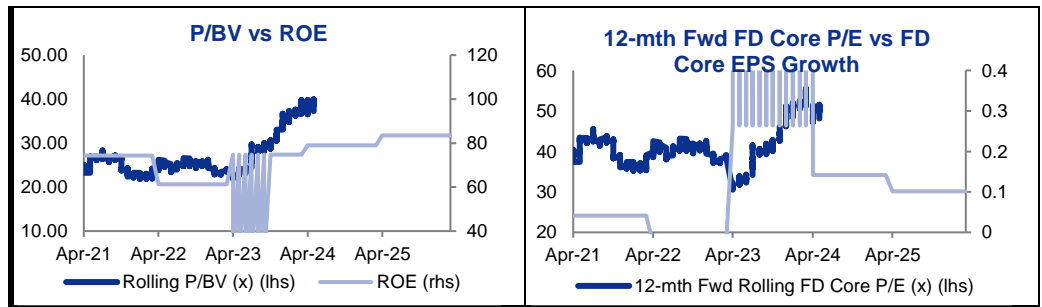
Y/E Mar (Rs. m)	FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	61,547	61,595	0.1	66,020	66,556	0.8
EBITDA	20,362	21,229	4.3	21,973	23,261	5.9
EBITDA Margin (%)	33.1	34.5	140 bp	33.3	35.0	170 bp
Net Profit	14,510	15,112	4.2	15,735	16,642	5.8
EPS	53.3	55.6	4.2	57.8	61.2	5.8

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Colgate's one-year forward P/E trades at its +2 SD P/E



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Net Revenues	50,998	52,262	56,804	61,595	66,556
Gross Profit	34,323	34,320	39,575	43,097	46,768
Operating EBITDA	15,659	15,470	19,008	21,229	23,261
Depreciation And Amortisation	(1,773)	(1,748)	(1,715)	(1,756)	(1,801)
Operating EBIT	13,886	13,722	17,293	19,473	21,460
Financial Income/(Expense)	179	462	680	747	809
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	25	35	37	39
Profit Before Tax (pre-EI)	14,090	14,209	18,008	20,257	22,309
Exceptional Items					
Pre-tax Profit	14,090	14,209	18,008	20,257	22,309
Taxation	(3,307)	(3,625)	(4,577)	(5,145)	(5,666)
Exceptional Income - post-tax					
Profit After Tax	10,783	10,583	13,432	15,112	16,642
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,783	10,583	13,432	15,112	16,642
Recurring Net Profit	10,783	10,583	13,432	15,112	16,642
Fully Diluted Recurring Net Profit	10,783	10,583	13,432	15,112	16,642

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
EBITDA	15,659	15,470	19,008	21,229	23,261
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,044)	1,033	2,544	(5,647)	(63)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	263	536	765	824	889
Net Interest (Paid)/Received	(59)	(49)	(50)	(40)	(40)
Tax Paid	(3,307)	(3,625)	(4,577)	(5,145)	(5,666)
Cashflow From Operations	4,512	13,364	17,691	11,221	18,380
Capex	(525)	(659)	(1,000)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments	186				
Other Investing Cashflow					
Cash Flow From Investing	(339)	(659)	(1,000)	(1,500)	(1,500)
Debt Raised/(repaid)	(81)	(141)	28		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,572)	(10,575)	(11,670)	(14,356)	(15,810)
Preferred Dividends					
Other Financing Cashflow	5,292	(356)	(591)	(40)	(40)
Cash Flow From Financing	(5,361)	(11,072)	(12,233)	(14,396)	(15,850)
Total Cash Generated	(1,188)	1,634	4,458	(4,676)	1,030
Free Cashflow To Equity	4,091	12,565	16,719	9,721	16,880
Free Cashflow To Firm	4,232	12,755	16,741	9,761	16,920

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Total Cash And Equivalents	7,547	9,230	13,738	9,102	10,172
Total Debtors	2,247	1,574	1,674	1,519	1,732
Inventories	3,572	3,355	2,964	2,700	2,918
Total Other Current Assets	4,631	4,625	3,898	6,750	7,294
Total Current Assets	17,997	18,783	22,274	20,071	22,115
Fixed Assets	10,848	9,759	9,044	8,788	8,487
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	173	288	648	648	648
Total Non-current Assets	11,021	10,047	9,691	9,435	9,134
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	9,861	9,835	11,302	8,294	9,015
Total Current Liabilities	9,861	9,835	11,302	8,294	9,015
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	831	690	718	718	718
Total Non-current Liabilities	831	690	718	718	718
Total Provisions	980	1,141	1,202	995	1,186
Total Liabilities	11,672	11,666	13,222	10,007	10,918
Shareholders Equity	17,347	17,164	18,744	19,499	20,331
Minority Interests					
Total Equity	17,347	17,164	18,744	19,499	20,331

Key Ratios					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Revenue Growth	5.3%	2.5%	8.7%	8.4%	8.1%
Operating EBITDA Growth	3.7%	(1.2%)	22.9%	11.7%	9.6%
Operating EBITDA Margin	30.7%	29.6%	33.5%	34.5%	35.0%
Net Cash Per Share (Rs)	24.69	31.40	47.87	30.83	34.76
BVPS (Rs)	63.78	63.10	68.91	71.69	74.75
Gross Interest Cover	235.76	279.47	345.86	486.83	536.51
Effective Tax Rate	23.5%	25.5%	25.4%	25.4%	25.4%
Net Dividend Payout Ratio	98.0%	99.9%	86.9%	95.0%	95.0%
Accounts Receivables Days	12.23	13.34	10.43	9.46	8.91
Inventory Days	75.85	70.45	66.93	55.88	51.81
Accounts Payables Days					
ROIC (%)	119.6%	140.5%	249.7%	160.8%	177.9%
ROCE (%)	91.7%	78.4%	95.8%	101.4%	107.4%
Return On Average Assets	36.6%	35.0%	42.0%	46.7%	52.1%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24A	Mar-25F	Mar-26F
Volume growth %	4.0%	4.0%	5.0%	5.0%	5.0%
EBIDTA margins %	30.7%	29.6%	33.5%	34.5%	35.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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