

India

HOLD (no change)

Consensus ratings*: Buy 9 Hold 12 Sell 13

Current price: Rs2,487
 Target price: ▼ Rs2,570
 Previous target: Rs2,870
 Up/downside: 3.3%
 InCred Research / Consensus: -4.6%

Reuters: CL.MN
 Bloomberg: CLGT IN
 Market cap: US\$7,865m
 Rs676,456m
 Average daily turnover: US\$15.5m
 Rs1332.6m
 Current shares o/s: 272.0m
 Free float: 49.0%

*Source: Bloomberg

Key changes in this note

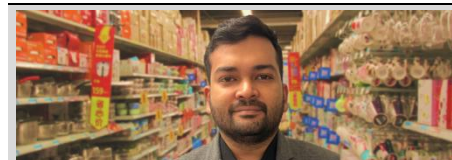
- Cut the target price to Rs2,570 from Rs2,870.
- Introduce FY28F estimates.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.5)	1.2	(8.1)
Relative (%)	(7.4)	(5.9)	(14.4)

Major shareholders	% held
Promoter	51.0
Vanguard Group	2.1
SBI MF	2.0

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Colgate Palmolive India

Challenging environment expected to persist

- Colgate posted a 1.8% yoy sales decline in 4Q led by flat volume growth, implying negative pricing largely impacted by high trade promotion intensity.
- The EBITDA margin guidance in low 30's and expectations of a gradual recovery in 2HFY26F drives a 3-4% cut in our FY26F/27F EPS.
- Corrective steps to revive growth in core brands & its premiumization agenda are in the right direction; Maintain HOLD with a lower target price of Rs2,570.

Intense competition and weak urban demand drag sales

Colgate-Palmolive (India) or Colgate posted weak 4QFY25 results, with a 1.8% yoy sales decline and flat yoy volume growth. The gross margin at 70.6% was better than our estimate. EBITDA declined by 6.4% yoy; however, the EBITDA margin expanded by 167bp yoy to 34.1%, largely led by cost-saving initiatives. Promotional intensity remained elevated owing to higher schemes in the general trade channel, which negated the effect of price hikes. Intensity in trade schemes and promotions are expected to normalize gradually. Colgate has seen the highest competition at the mass-end, especially in the Strong Teeth range, which has been relaunched in 4QFY25. Management commentary pointed towards a slowdown in the toothpaste category in urban India at the mass-end (bottom 70% of the urban population); however, the premium-end continues to remain healthy.

Strategy involves reviving the mass-end & focus on premiumization

To drive growth in the toothpaste category, Colgate will focus on improving volume growth in its core brands MaxFresh, Active Salt & Strong Teeth. MaxFresh has been one of the fastest-growing brands for Colgate and the focus is on shifting the share from red gel-based paste to a blue variant. At the premium-end, it has focused on 1) driving appeal with younger customers by extending MaxFresh to MaxFresh Sensorial (40% premium to the base variant) which was launched on e-commerce channels, 2) improving volume growth in Colgate Total which is clocking 4x higher-than-market growth led by price corrections done in 4QFY24 aiding volume growth and increasing the reach, 3) driving growth in the Visible White Purple range, which is already c.5% of the whitening category for Colgate, and is seeing good traction in modern trade and e-commerce channels, and 4) driving the therapeutics range with a focus on gum health with a full range of pastes, mouthwash, etc.

Maintain HOLD rating with a lower target price of Rs2,570

While Colgate has been able to drive growth in its premium range, reviving growth in core brands remains critical. While the management's guidance entailed a recovery anticipated in 2HFY26F, we expect the competitive intensity to remain elevated, which should keep margins under pressure (expected in low 30's, as per management). We have cut FY26F/27F EPS by 3-4% and maintain our HOLD rating on Colgate with a lower target price of Rs2,570 or 42x FY27F EPS (Rs2,870 earlier) as we roll forward. Downside risks: Continued weakness in core franchise hindering volume growth recovery. Upside risk: Faster-than-expected recovery in urban demand.

Financial Summary	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	56,804	60,402	63,458	68,042	73,155
Operating EBITDA (Rsm)	19,008	19,581	20,651	22,232	24,015
Net Profit (Rsm)	13,432	14,368	15,452	16,647	17,996
Core EPS (Rs)	49.4	52.8	56.8	61.2	66.2
Core EPS Growth	26.9%	7.0%	7.5%	7.7%	8.1%
FD Core P/E (x)	50.37	47.08	43.78	40.64	37.59
DPS (Rs)	46.9	50.2	54.0	58.1	62.9
Dividend Yield	1.73%	2.40%	2.17%	2.34%	2.53%
EV/EBITDA (x)	34.90	34.02	32.30	29.98	27.72
P/FCFE (x)	40.46	49.33	48.83	41.33	38.02
Net Gearing	(69.5%)	(62.1%)	(54.5%)	(54.9%)	(55.8%)
P/BV (x)	36.09	40.64	38.84	37.07	35.33
ROE	74.8%	81.2%	90.7%	93.3%	96.2%
% Change In Core EPS Estimates			(2.67%)	(3.94%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

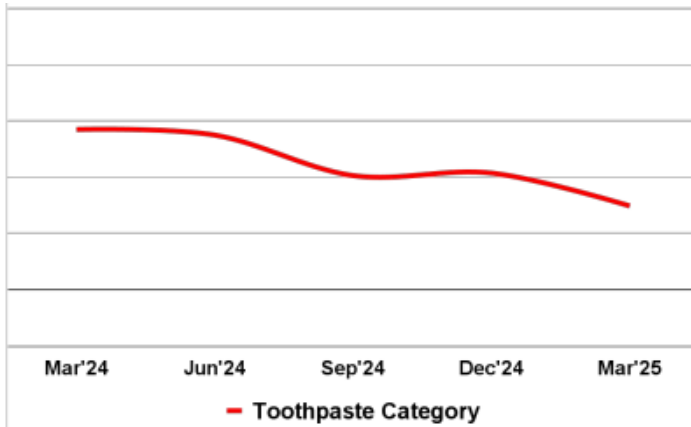
Challenging environment expected to persist

Figure 1: Quarterly results summary

Y/E Mar (Rs m)	4QFY24	3QFY25	4QFY25	YoY (%)	QoQ (%)	FY24	FY25	Gr (%)
Revenue	14,900	14,618	14,625	-1.8	0.0	56,804	60,402	6.3
Expenditure	9,578	10,075	9,645	0.7	-4.3	37,796	40,821	8.0
Cost of goods sold	4,573	4,399	4,298	-6.0	-2.3	17,230	18,183	5.5
as % of sales	30.7	30.1	29.4			30.3	30.1	
Employee costs	999	1,088	1,073	7.4	-1.4	4,117	4,468	8.5
as % of sales	6.7	7.4	7.3			7.2	7.4	
Advertising expenses	1,689	2,001	1,806	6.9	-9.8	7,604	8,225	8.2
as % of sales	11.3	13.7	12.3			13.4	13.6	
Other expenditure	2,317	2,587	2,469	6.5	-4.6	8,845	9,946	12.5
as % of sales	15.6	17.7	16.9			15.6	16.5	
EBITDA	5,322	4,544	4,980	-6.4	9.6	19,008	19,581	3.0
Depreciation	421	411	384	-8.9	-6.7	1,715	1,627	-5.1
EBIT	4,901	4,132	4,596	-6.2	11.2	17,293	17,953	3.8
Other income	227	204	191	-15.8	-6.6	765	1,388	81.4
Interest	14	11	11			50	43	
PBT	5,114	4,325	4,776	-6.6	10.4	18,008	19,298	7.2
Total tax	1,315	1,097	1,226	-6.8	11.7	4,577	4,930	7.7
Net profit (before extraordinary items)	3,798	3,228	3,550	-6.5	10.0	13,431	14,368	7.0
Extraordinary items	0	0	0	NA	NA	-195	0	NA
Reported net profit	3,798	3,228	3,550	-6.5	10.0	13,236	14,368	8.6
Adjusted EPS	14.0	11.9	13.1	-6.5	10.0	49.4	52.8	7.0
Margins (%)								
				(bp)	(bp)			(bp)
Gross margin	69.3	69.9	70.6	131	70	69.7	69.9	23
EBITDA	35.7	31.1	34.1	-167	297	33.5	32.4	-104
EBIT	32.9	28.3	31.4	-146	316	30.4	29.7	-72
EBT	34.3	29.6	32.7	-166	307	31.7	32.0	25
Net profit	25.5	22.1	24.3	-122	219	23.6	23.8	14
Effective tax rate	25.7	25.4	25.7	-5	30	25.4	25.5	13

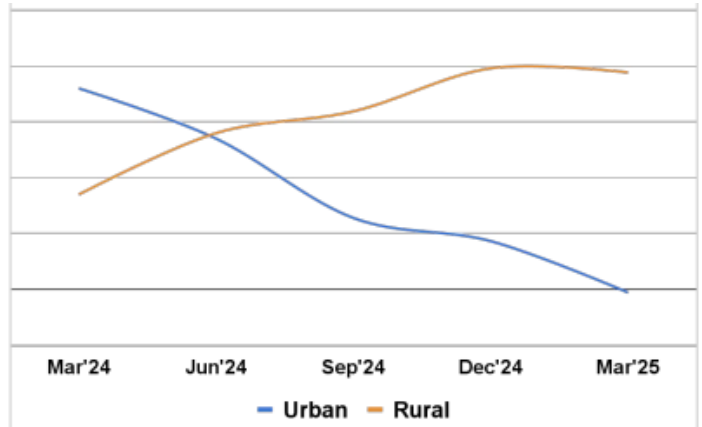
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Toothpaste volume growth was weak in FY25...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: ...largely led by weakness in urban markets

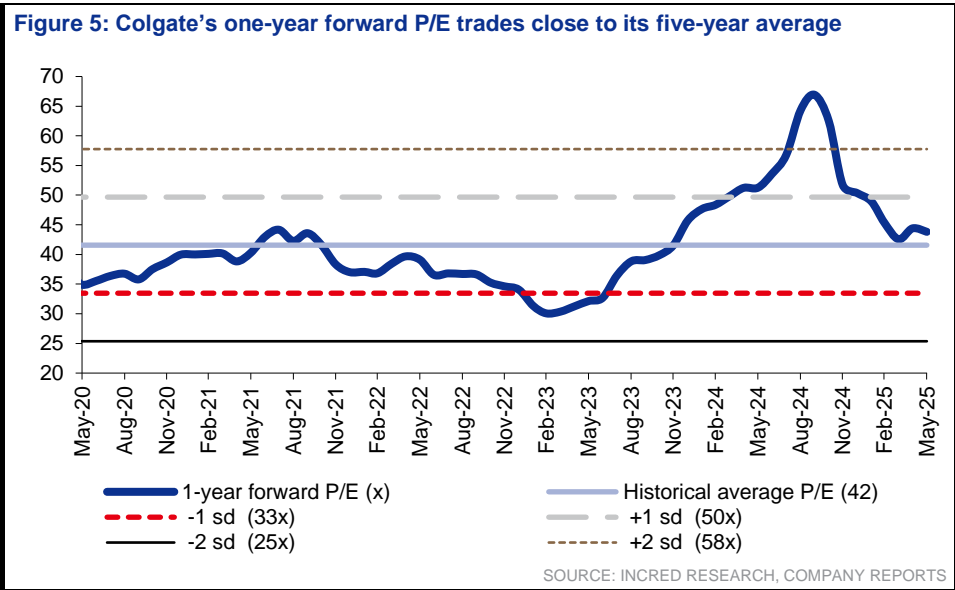


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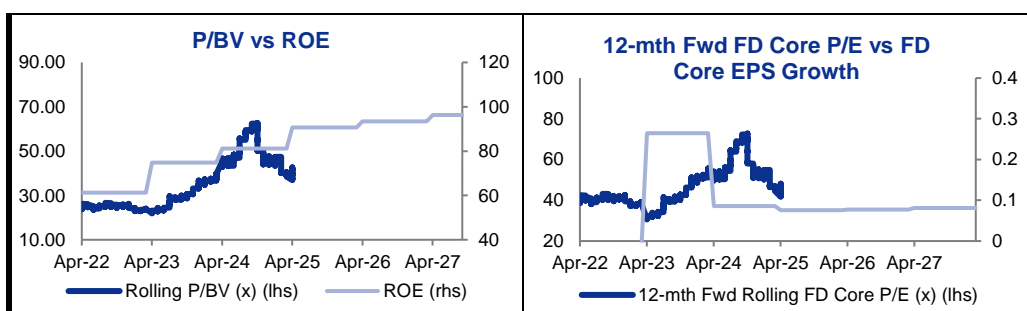
Figure 4: Our revised earnings estimates

	FY26F			FY27F			FY28F
Y/E Mar (Rs. m)	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenue	65,243	63,458	(2.7)	70,910	68,042	(4.0)	73,155
EBITDA	21,872	20,651	(5.6)	23,849	22,232	(6.8)	24,015
EBITDA margin (%)	33.5	32.5	-100 bps	33.6	32.7	-100 bps	32.8
Net profit	15,875	15,452	(2.7)	17,330	16,647	(3.9)	17,996
EPS	58.4	56.8	(2.7)	63.7	61.2	(3.9)	66.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Net Revenues	56,804	60,402	63,458	68,042	73,155
Gross Profit	39,575	42,219	44,038	47,287	50,913
Operating EBITDA	19,008	19,581	20,651	22,232	24,015
Depreciation And Amortisation	(1,715)	(1,627)	(1,584)	(1,654)	(1,728)
Operating EBIT	17,293	17,953	19,066	20,577	22,288
Financial Income/(Expense)	680	1,281	1,579	1,666	1,761
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	35	64	67	71	74
Profit Before Tax (pre-EI)	18,008	19,298	20,713	22,315	24,123
Exceptional Items					
Pre-tax Profit	18,008	19,298	20,713	22,315	24,123
Taxation	(4,577)	(4,930)	(5,261)	(5,668)	(6,127)
Exceptional Income - post-tax					
Profit After Tax	13,432	14,368	15,452	16,647	17,996
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	13,432	14,368	15,452	16,647	17,996
Recurring Net Profit	13,432	14,368	15,452	16,647	17,996
Fully Diluted Recurring Net Profit	13,432	14,368	15,452	16,647	17,996

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
EBITDA	19,008	19,581	20,651	22,232	24,015
Cash Flow from Invt. & Assoc.					
Change In Working Capital	2,544	(1,441)	(1,707)	37	36
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	765	1,388	1,702	1,799	1,904
Net Interest (Paid)/Received	(50)	(43)	(55)	(62)	(68)
Tax Paid	(4,577)	(4,930)	(5,261)	(5,668)	(6,127)
Cashflow From Operations	17,691	14,554	15,329	18,338	19,760
Capex	(1,000)	(733)	(1,500)	(2,000)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(1,000)	(733)	(1,500)	(2,000)	(2,000)
Debt Raised/(repaid)	28	(109)	24	32	33
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(11,670)	(16,262)	(14,679)	(15,814)	(17,096)
Preferred Dividends					
Other Financing Cashflow	(591)	(280)	(55)	(62)	(68)
Cash Flow From Financing	(12,233)	(16,651)	(14,710)	(15,845)	(17,131)
Total Cash Generated	4,458	(2,830)	(881)	494	629
Free Cashflow To Equity	16,719	13,712	13,853	16,370	17,793
Free Cashflow To Firm	16,741	13,865	13,884	16,400	17,828

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Total Cash And Equivalents	13,738	10,951	10,125	10,681	11,378
Total Debtors	1,674	2,263	1,217	1,305	1,403
Inventories	2,964	3,773	2,434	2,610	2,806
Total Other Current Assets	3,898	4,371	6,085	6,525	7,015
Total Current Assets	22,274	21,357	19,862	21,120	22,602
Fixed Assets	9,043	8,149	8,064	8,410	8,682
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	648	680	680	680	680
Total Non-current Assets	9,691	8,828	8,744	9,089	9,362
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	11,302	11,618	9,382	10,041	10,770
Total Current Liabilities	11,302	11,618	9,382	10,041	10,770
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	718	608	633	664	698
Total Non-current Liabilities	718	608	633	664	698
Total Provisions	1,202	1,315	1,173	1,255	1,346
Total Liabilities	13,222	13,541	11,188	11,960	12,814
Shareholders Equity	18,744	16,645	17,417	18,250	19,149
Minority Interests					
Total Equity	18,744	16,645	17,417	18,250	19,149

Key Ratios

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue Growth	8.7%	6.3%	5.1%	7.2%	7.5%
Operating EBITDA Growth	22.9%	3.0%	5.5%	7.7%	8.0%
Operating EBITDA Margin	33.5%	32.4%	32.5%	32.7%	32.8%
Net Cash Per Share (Rs)	47.87	38.03	34.90	36.83	39.27
BVPS (Rs)	68.91	61.19	64.03	67.09	70.40
Gross Interest Cover	345.86	415.58	346.66	331.89	327.76
Effective Tax Rate	25.4%	25.5%	25.4%	25.4%	25.4%
Net Dividend Payout Ratio	86.9%	113.2%	95.0%	95.0%	95.0%
Accounts Receivables Days	10.43	11.89	10.01	6.76	6.76
Inventory Days	66.93	67.62	58.33	44.35	44.44
Accounts Payables Days					
ROIC (%)	249.7%	235.7%	209.6%	216.9%	227.1%
ROCE (%)	95.8%	103.6%	115.8%	119.3%	123.1%
Return On Average Assets	41.9%	42.1%	47.2%	50.9%	52.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Recommendation Framework

Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.