

India

HOLD (no change)

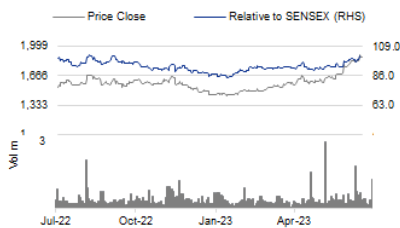
Consensus ratings*: Buy 9 Hold 16 Sell 9

Current price:	Rs1,884
Target price: ▲	Rs2,000
Previous target:	Rs1,645
Up/downside:	6.2%
InCred Research / Consensus:	18.2%
Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$6,248m Rs512,312m
Average daily turnover:	US\$7.0m Rs574.0m
Current shares o/s:	272.0m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs2,000.
- Raise FY24F/25F EPS by 4.5%/4.7%.
- Introduce FY26F estimates.

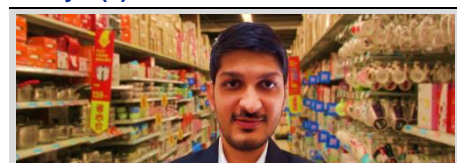


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	11.3	19.3	20.4
Relative (%)	5.8	8.4	0.8

Major shareholders	% held
Promoter	51.0
LIC	3.4
Blackrock	1.5

Analyst(s)



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Colgate Palmolive India

Improved execution in 1Q, but priced in

- Colgate-Palmolive India's 1Q domestic sales grew 12.3%, with toothpaste sales rising in high double digits. Volume growth rose due to CDC relaunch.
- Controlled overheads (flat yoy) and measured advertising expenses (13.7%/12.1% in 1QFY24/1HCY23) led to strong EBITDA margin expansion.
- Sales growth is competitive & execution has seen an improvement. However, the valuation at 41x/38x FY24F/25F EPS factors that in. Retain HOLD rating.

Competitive sales growth; sustaining volume growth is critical

Colgate-Palmolive India or CLGT's standalone net revenue in 1QFY24 was up 10.6% yoy. Domestic sales grew 12.3% yoy led by the toothpaste segment, which saw a high double-digit growth led by relaunch of its flagship brand Colgate Dental Cream (CDC). We estimate the volume growth to be in the mid-single digit range. Management stated that there were early signs of a recovery in rural markets, and it expects sustained improvement. CLGT's domestic sales growth is competitive as Dabur India is expected to report a low double-digit sales growth in its oral care segment (though Dabur India's oral care segment growth, on a 4-year CAGR at c.11% will be much higher than that of CLGT) while Hindustan Unilever or HUVR too called out double-digit growth in oral care. Pricing in the core portfolio and volume recovery, on a low base, should aid FY24F sales growth.

Premiumization agenda continues

Apart from the relaunch of its flagship brand, CLGT also launched its first-ever whitening pen, made via a tie-up with its dentist partners, which offers a new at-home teeth whitening experience. CLGT has been stepping up its premiumization agenda via its heightened focus on whitening as a play in the 'oral beauty' space and entering niche categories like therapeutics (launched PerioGard) & diabetics, and the renewed focus on nascent categories like body wash in the personal care segment under the Palmolive brand.

Improved execution

Gross margin/EBITDA margin expanded by 211bp/438bp yoy to 68.4%/31.6%, respectively. Despite the deferral of advertisement spending relating to relaunch of CDC to 1Q, 1QFY23/1HCY23 advertising expenses look quite reasonable at 13.7%/12.1%, respectively. We had estimated a higher spending on advertising. Other expenditure was also controlled and was flat yoy (15.9% of sales, down 180bp yoy) leading to a higher-than-estimated EBITDA margin. EBITDA/APAT grew 28%/34% yoy, respectively.

Maintain HOLD rating with a higher target price of Rs2,000

While the focus stays on premiumization, gaining volume market share at the bottom of the pyramid (core portfolio) is critical. Given the 1QFY24 results, we raise our sales/EPS estimates by 1.2%-4.7% for FY24F-25F, retaining our HOLD rating on the stock with a higher target price of Rs2,000 (40x Jun 2025F EPS, 5-year avg. P/E). Upside risk: Higher-than-expected sales growth. Downside risk: Lower-than-estimated EBITDA margin.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	50,998	52,262	57,164	60,953	64,700
Operating EBITDA (Rsm)	15,659	15,470	17,639	18,909	20,161
Net Profit (Rsm)	10,783	10,583	12,449	13,406	14,357
Core EPS (Rs)	39.6	38.9	45.8	49.3	52.8
Core EPS Growth	4.1%	(1.9%)	17.6%	7.7%	7.1%
FD Core P/E (x)	47.51	48.41	41.15	38.22	35.68
DPS (Rs)	40.0	37.0	43.5	46.8	50.1
Dividend Yield	2.06%	2.06%	2.31%	2.49%	2.66%
EV/EBITDA (x)	32.29	32.57	28.75	26.78	25.07
P/FCFE (x)	125.22	40.78	60.82	37.84	35.23
Net Gearing	(38.7%)	(49.8%)	(28.9%)	(32.2%)	(35.7%)
P/BV (x)	29.54	29.85	28.81	27.76	26.72
ROE	74.4%	61.3%	71.2%	74.0%	76.3%
% Change In Core EPS Estimates			4.53%	4.68%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Improved execution in 1Q, but priced in

Figure 1: Quarterly summary - standalone

Y/E, Mar (Rs m)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Revenue	11,968	13,506	13,237	10.6	-2.0
Expenditure	8,711	8,987	9,056	3.9	0.8
Cost of goods sold	4,031	4,475	4,179	3.7	-6.6
as % of sales	33.7	33.1	31.6		
Employee cost	937	898	958	2.2	6.6
as % of sales	7.8	6.7	7.2		
Ad spends	1,630	1,429	1,813	11.2	26.9
as % of sales	13.6	10.6	13.7		
Other expenditure	2,114	2,185	2,106	-0.4	-3.6
as % of sales	17.7	16.2	15.9		
EBITDA	3,257	4,519	4,181	28.4	-7.5
Depreciation	442	431	438	-0.9	1.5
EBIT	2,815	4,088	3,744	33.0	-8.4
Other income	115	204	150	29.7	-26.4
Interest	13	11	11		
PBT	2,918	4,281	3,883	33.1	-9.3
Total tax	727	1,100	951	30.7	-13.5
Net profit (before extraordinary items)	2,190	3,181	2,932	33.9	-7.8
Extraordinary items	-24	-19	-195	NA	NA
Reported net profit	2,166	3,162	2,737	26.4	-13.5
Adjusted EPS	8.1	11.7	10.8	33.9	-7.8
Margins (%)				(bp)	(bp)
Gross margin	66.3	66.9	68.4	211	156
EBIDTA	27.2	33.5	31.6	438	-187
EBIT	23.5	30.3	28.3	476	-198
EBT	24.4	31.7	29.3	495	-236
Net profit	18.3	23.6	22.1	385	-140
Effective tax rate	24.9	25.7	24.5	-44	-120

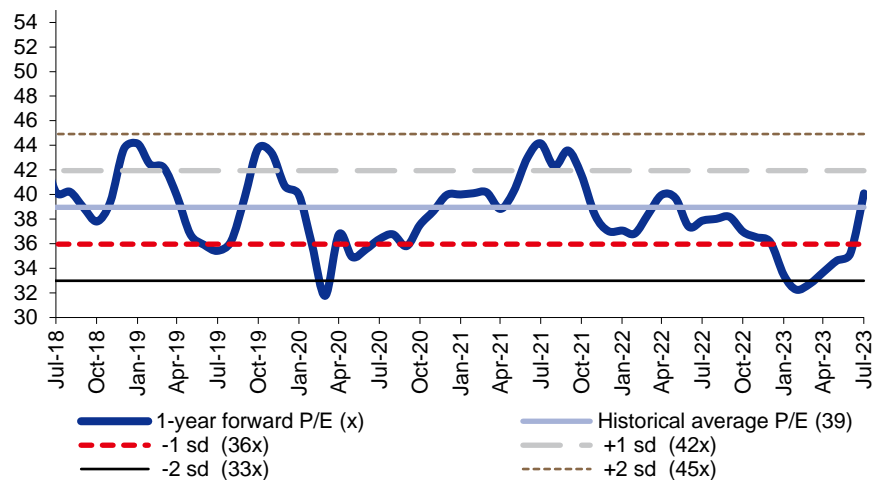
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E, Mar (Rs. m)	FY24F			FY25F			FY26F
	Earlier	Revised	% Change	Earlier	Revised	% Change	Introduced
Revenue	56,460	57,164	1.2	60,210	60,953	1.2	64,700
EBITDA	16,900	17,639	4.4	18,133	18,909	4.3	20,161
EBITDA margin (%)	29.9	30.9	100 bp	30.1	31.0	90 bp	31.2
Net profit	11,910	12,449	4.5	12,806	13,406	4.7	14,357
EPS	43.8	45.8	4.5	47.1	49.3	4.7	52.8

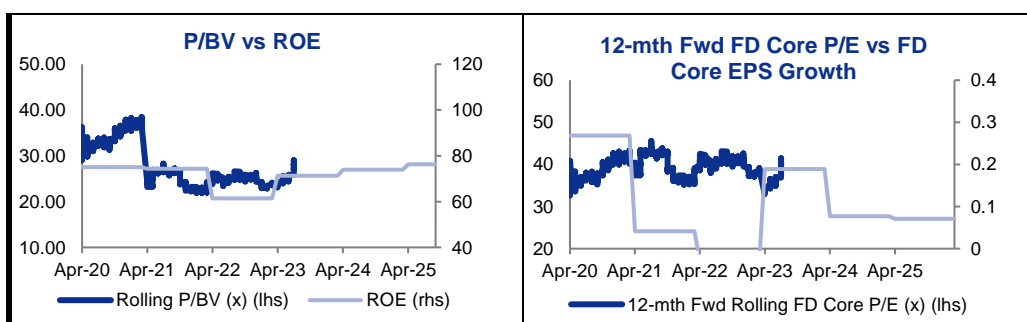
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: CLGT's one-year forward P/E trades close to its five-year average



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	50,998	52,262	57,164	60,953	64,700
Gross Profit	34,323	34,320	38,740	41,490	44,235
Operating EBITDA	15,659	15,470	17,639	18,909	20,161
Depreciation And Amortisation	(1,773)	(1,748)	(1,790)	(1,852)	(1,901)
Operating EBIT	13,886	13,722	15,849	17,057	18,259
Financial Income/(Expense)	179	462	506	555	603
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	25	26	27	29
Profit Before Tax (pre-EI)	14,090	14,209	16,381	17,639	18,891
Exceptional Items					
Pre-tax Profit	14,090	14,209	16,381	17,639	18,891
Taxation	(3,307)	(3,625)	(3,931)	(4,233)	(4,534)
Exceptional Income - post-tax					
Profit After Tax	10,783	10,583	12,449	13,406	14,357
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,783	10,583	12,449	13,406	14,357
Recurring Net Profit	10,783	10,583	12,449	13,406	14,357
Fully Diluted Recurring Net Profit	10,783	10,583	12,449	13,406	14,357

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	15,659	15,470	17,639	18,909	20,161
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,044)	1,033	(4,315)	(219)	(215)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	263	536	577	622	672
Net Interest (Paid)/Received	(59)	(49)	(45)	(40)	(40)
Tax Paid	(3,307)	(3,625)	(3,931)	(4,233)	(4,534)
Cashflow From Operations	4,512	13,364	9,924	15,039	16,044
Capex	(525)	(659)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments	186				
Other Investing Cashflow					
Cash Flow From Investing	(339)	(659)	(1,500)	(1,500)	(1,500)
Debt Raised/(repaid)	(81)	(141)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,572)	(10,575)	(11,827)	(12,736)	(13,639)
Preferred Dividends					
Other Financing Cashflow	5,292	(356)	(45)	(40)	(40)
Cash Flow From Financing	(5,361)	(11,072)	(11,872)	(12,776)	(13,679)
Total Cash Generated	(1,188)	1,634	(3,448)	764	864
Free Cashflow To Equity	4,091	12,565	8,424	13,539	14,544
Free Cashflow To Firm	4,232	12,755	8,469	13,579	14,584

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	7,547	9,230	5,827	6,631	7,535
Total Debtors	2,247	1,574	1,915	2,042	2,168
Inventories	3,572	3,355	3,884	4,141	4,396
Total Other Current Assets	4,631	4,625	7,636	8,143	8,643
Total Current Assets	17,997	18,783	19,263	20,958	22,743
Fixed Assets	10,848	9,759	9,469	9,117	8,715
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	173	288	288	288	288
Total Non-current Assets	11,021	10,047	9,757	9,405	9,004
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	9,861	9,835	9,730	10,350	10,965
Total Current Liabilities	9,861	9,835	9,730	10,350	10,965
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	831	690	690	690	690
Total Non-current Liabilities	831	690	690	690	690
Total Provisions	980	1,141	814	866	918
Total Liabilities	11,672	11,666	11,234	11,906	12,572
Shareholders Equity	17,347	17,164	17,786	18,457	19,175
Minority Interests					
Total Equity	17,347	17,164	17,786	18,457	19,175

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	5.3%	2.5%	9.4%	6.6%	6.1%
Operating EBITDA Growth	3.7%	(1.2%)	14.0%	7.2%	6.6%
Operating EBITDA Margin	30.7%	29.6%	30.9%	31.0%	31.2%
Net Cash Per Share (Rs)	24.69	31.40	18.89	21.84	25.17
BVPS (Rs)	63.78	63.10	65.39	67.86	70.49
Gross Interest Cover	235.76	279.47	352.20	426.43	456.49
Effective Tax Rate	23.5%	25.5%	24.0%	24.0%	24.0%
Net Dividend Payout Ratio	98.0%	99.9%	95.0%	95.0%	95.0%
Accounts Receivables Days	12.23	13.34	11.14	11.85	11.88
Inventory Days	75.85	70.45	71.70	75.25	76.13
Accounts Payables Days					
ROIC (%)	119.6%	140.5%	117.7%	127.5%	137.8%
ROCE (%)	91.7%	78.4%	89.7%	93.3%	96.4%
Return On Average Assets	36.6%	35.0%	41.3%	43.3%	44.3%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Volume growth %	4.0%	4.0%	5.0%	5.0%	5.0%
EBIDTA margins %	30.7%	29.6%	30.9%	31.0%	31.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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