

India

HOLD (no change)

Consensus ratings*: Buy 10 Hold 15 Sell 9

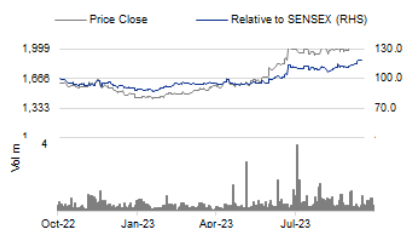
Current price:	Rs2,034
Target price:	Rs2,076 ▲
Previous target:	Rs2,000
Up/downside:	2.1%
InCred Research / Consensus:	6.1%

Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$6,648m Rs553,328m
Average daily turnover:	US\$11.5m Rs957.9m
Current shares o/s:	272.0m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

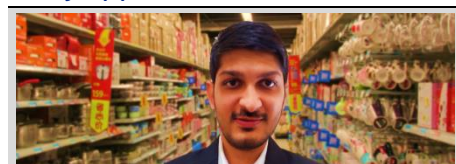
- Raise target price to Rs2,076 from Rs2,000 earlier.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.8)	1.6	25.6
Relative (%)	3.9	6.6	18.8

Major shareholders	% held
Promoter	51.0
Vanguard Group	2.0
LIC	2.0

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Colgate Palmolive India

Pricing actions drive growth

- 2QFY24 domestic sales grew 6.6%, with toothpaste sales rising in high single digits. Pricing actions taken over the last year drove this growth.
- Controlled other expenses, despite higher advertising expenses (13.7%/14% in 1QFY24/2QFY24, respectively) drove EBITDA margin expansion.
- Sales growth is competitive & execution has seen an improvement. However, the valuation at 41x/39x FY24F/25F EPS factors that in. Retain HOLD rating

Pricing actions over last one year aid growth in 2QFY24

Colgate-Palmolive India or CLGT's standalone net revenue in 2QFY24 was up 6% yoy. Domestic sales grew 6.6% yoy led by the toothpaste segment, which saw a high single-digit growth led by relaunch of its flagship brands Colgate Strong Teeth and Max Fresh. We estimate the volume growth to be flattish to marginally negative. CLGT's domestic sales growth is competitive as rival Dabur India is likely to report mid-single-digit sales growth in its oral care segment (though Dabur India's oral care segment growth, on a 4-year CAGR at c.13.2% will be much higher than CLGT's 4.8%) while Hindustan Unilever or HUVR too posted mid-single-digit growth in oral care. Pricing of the core portfolio and volume recovery, on a low base, should aid FY24F sales growth, in our view.

Premiumization and category development initiatives continue

Apart from the relaunch of its flagship brand, CLGT also restaged its largest toothbrush brand Colgate Zig Zag. Premiumization in the toothbrush segment remains a larger challenge as most consumers spend below Rs40 for a toothbrush. CLGT 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 (launched PerioGard) & diabetics, and the renewed focus on nascent categories like body wash in the personal care segment under the Palmolive brand.

Controlled overheads and lower input cost inflation aid margins

Gross margin/EBITDA margin expanded by 502bp/337bp yoy to 68.8%/32.8%, respectively. Since 1Q, CLGT has stepped up its advertising expenditure, with higher spending in 2Q (13.7%/14% in 1QFY24/2QFY24, respectively). Other expenditure was controlled, down 2.9% yoy (14.8% of sales, down 136bp yoy), leading to a higher-than-estimated EBITDA margin. EBITDA/APAT grew 18.2%/22.3% yoy, respectively.

Maintain HOLD rating with a higher target price of Rs2,076

While the focus stays on premiumization, gaining volume market share at the bottom of the pyramid (core portfolio) is critical. We retain our HOLD rating on CLGT with a higher target price of Rs2,076 (40x Sep 2025F EPS) from Rs2,000 earlier, rolling forward its valuation. 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)	51.31	52.29	44.45	41.28	38.54
DPS (Rs)	40.0	37.0	43.5	46.8	50.1
Dividend Yield	1.91%	1.91%	2.14%	2.30%	2.46%
EV/EBITDA (x)	34.91	35.22	31.08	28.95	27.11
P/FCFE (x)	135.25	44.04	65.68	40.87	38.05
Net Gearing	(38.7%)	(49.8%)	(28.9%)	(32.2%)	(35.7%)
P/BV (x)	31.90	32.24	31.11	29.98	28.86
ROE	74.4%	61.3%	71.2%	74.0%	76.3%

% Change In Core EPS Estimates

InCred Research/Consensus EPS (x)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Pricing actions drive growth

Figure 1: Quarterly results summary - standalone

Y/E Mar (Rs M)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	Gr (%)
Revenue	13,875	13,237	14,711	6.0	11.1	25,843	27,948	8.1
Expenditure	9,795	9,056	9,890	1.0	9.2	18,506	18,945	2.4
Cost of goods sold	5,029	4,179	4,594	-8.6	9.9	9,060	8,773	-3.2
as % of sales	36.2	31.6	31.2			35.1	31.4	
Employee cost	945	958	1,062	12.4	10.9	1,882	2,020	7.3
as % of sales	6.8	7.2	7.2			7.3	7.2	
Advertising expenses	1,582	1,813	2,060	30.2	13.6	3,212	3,873	20.6
as % of sales	11.4	13.7	14.0			12.4	13.9	
Other expenditure	2,238	2,106	2,173	-2.9	3.2	4,352	4,279	-1.7
as % of sales	16.1	15.9	14.8			16.8	15.3	
EBITDA	4,080	4,181	4,821	18.2	15.3	7,337	9,003	22.7
Depreciation	439	438	443	1.0	1.2	880	880	0.0
EBIT	3,641	3,744	4,379	20.2	17.0	6,456	8,122	25.8
Other Income	113	150	210	86.3	40.3	228	360	57.7
Interest	13	11	11			26	21	
PBT	3,741	3,883	4,578	22.4	17.9	6,659	8,461	27.1
Total tax	961	951	1,178	22.5	23.9	1,689	2,128	26.0
Net profit (before extraordinary items)	2,780	2,932	3,401	22.3	16.0	4,970	6,332	27.4
Extraordinary items	0	-195	0	NA	NA	-93	-195	NA
Reported net profit	2,780	2,737	3,401	22.3	24.3	4,877	6,137	25.8
Adjusted EPS	10.2	10.8	12.5	22.3	16.0	18.3	23.3	27.4
Margins (%)				(bp)	(bp)			(bp)
Gross margin	63.8	68.4	68.8	502	34	64.9	68.6	367
EBITDA	29.4	31.6	32.8	337	119	28.4	32.2	382
EBIT	26.2	28.3	29.8	352	148	25.0	29.1	408
EBT	27.0	29.3	31.1	416	179	25.8	30.3	451
Net profit	20.0	22.1	23.1	308	97	19.2	22.7	343
Effective tax rate	25.7	24.5	25.7	3	123	25.4	25.2	-20

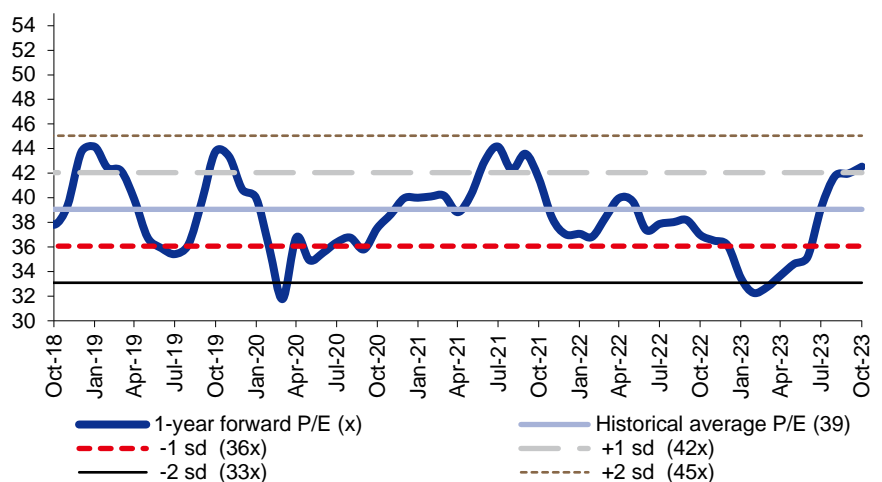
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY24F			FY25F			FY25F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	57,164	57,164	-	60,953	60,953	-	64,700	64,700	-
EBITDA	17,639	17,639	-	18,909	18,909	-	20,161	20,161	-
EBITDA margin (%)	30.9	30.9	0 bp	31.0	31.0	0 bp	31.2	31.2	0 bp
Net profit	12,449	12,449	-	13,406	13,406	-	14,357	14,357	-
EPS	45.8	45.8	-	49.3	49.3	-	52.8	52.8	-

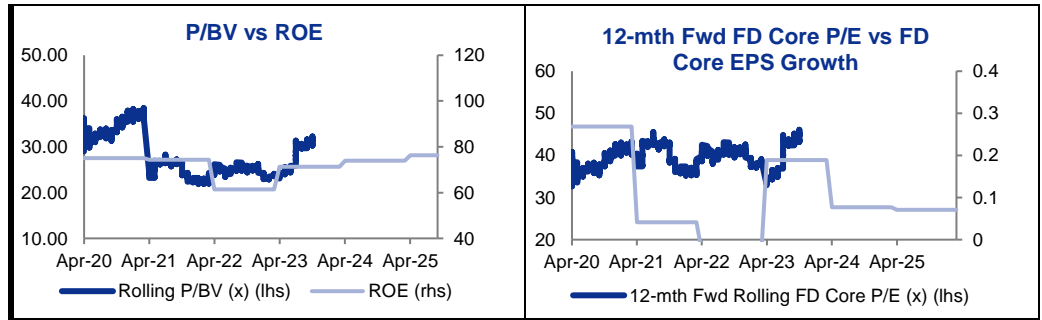
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: CLGT's one-year forward P/E trades at +1SD



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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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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