

India

HOLD (no change)

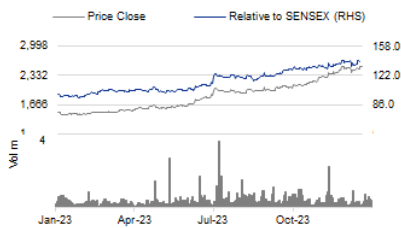
Consensus ratings*: Buy 10 Hold 11 Sell 14

Current price:	Rs2,536
Target price: ▲	Rs2,600
Previous target:	Rs2,076
Up/downside:	2.5%
InCred Research / Consensus:	18.4%
Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$8,304m Rs689,810m
Average daily turnover:	US\$13.1m Rs1084.6m
Current shares o/s:	272.0m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Raise target price to Rs2,600 from Rs2,076.
- Raise FY24F/25F EPS by 6.1%/8.2%.

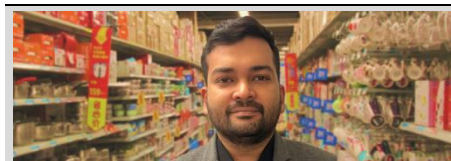


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	5.4	20.2	69.1
Relative (%)	4.9	10.0	43.5

Major shareholders	% held
Promoter	51.0
Vanguard Group	2.0
BlackRock Inc	1.8

Research Analyst(s)



Rohan KALLE

T (91) 22 4161 1561
E rohan.kalle@incredresearch.com

Nishant BAGRECHA

T (91) 22 4161 1564
E nishant.bagrecha@incredresearch.com

Colgate Palmolive India

Pricing action continues to drive growth

- Domestic sales grew 8.8% yoy in 3QFY24, led by the toothpaste business growing in double digits, showing positive volume growth led by strong pricing.
- Controlled other expenses, despite higher advertising expenses (14.6%/14% of sales in 3QFY24/2QFY24, respectively) drove EBITDA margin expansion.
- Sales growth is competitive & execution has seen an improvement. However, the valuation at 52x/47x FY24F/25F EPS remains lofty. Retain HOLD rating.

Pricing continues to boost sales growth

Colgate-Palmolive India or CLGT's standalone net revenue in 3QFY24 was up 8.1% yoy. Domestic sales grew 8.8% yoy led by the toothpaste segment, which reported a double-digit growth led by the relaunch of one of its flagship brands Colgate Max Fresh. We estimate volume growth to be c.2%, implying a pricing and sales mix growth of c.6%. CLGT's domestic sales growth is competitive as rivals Dabur India is likely to report a mid-high single-digit sales growth in its oral care segment while Hindustan Unilever too posted mid-single-digit growth in the oral care business. Pricing of the core portfolio and volume recovery, on a low base, should aid FY24F sales growth, in our view.

Category development and premiumization agenda continues

CLGT has been relaunching its flagship brands in the past few quarters and it continued to do so with Colgate MaxFresh which, we believe, will tackle rising competition in the 'fresh' toothpaste segment after Dabur India's recent entry. We reckon the toothbrush volume dipped during the quarter. Premiumization in this category remains a larger challenge with most consumers spending below Rs40 for a toothbrush in India. 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 its focus on nascent categories like body wash under the Palmolive brand.

Gross margin at an all-time high aided by moderation of input costs

Gross/EBITDA margin expanded by 631/557bp yoy to 72.2%/33.6%, respectively, with gross margin touching an all-time high. Since 1QFY24, CLGT has stepped up its advertising expenditure, with the spending up 20.2% yoy (14.6% of sales in 3QFY24 vs. 13.7%/14% of sales in 1QFY24/2QFY24, respectively). Tight control over other expenses, up 2.1% yoy (16.1% of sales, down 95bp yoy), led to a better-than-expected EBITDA margin. EBITDA/PAT grew 29.6%/35.7% yoy, respectively.

Maintain HOLD rating with a higher target price of Rs2,600

While the company's focus remains on premiumization of its portfolio, gaining volume market share at the bottom of the pyramid (core portfolio) remains critical. We maintain our HOLD rating on the stock with a higher target price of Rs2,600 (45x Dec 2025F EPS) from Rs2,076 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	56,795	61,547	66,020
Operating EBITDA (Rsm)	15,659	15,470	18,638	20,362	21,973
Net Profit (Rsm)	10,783	10,583	13,209	14,510	15,735
Core EPS (Rs)	39.6	38.9	48.6	53.3	57.8
Core EPS Growth	4.1%	(1.9%)	24.8%	9.8%	8.4%
FD Core P/E (x)	63.97	65.18	52.23	47.54	43.84
DPS (Rs)	40.0	37.0	46.1	50.7	55.0
Dividend Yield	1.53%	1.53%	1.82%	2.00%	2.17%
EV/EBITDA (x)	43.62	44.04	36.75	33.60	31.10
P/FCFE (x)	168.61	54.90	77.46	47.40	43.53
Net Gearing	(38.7%)	(49.8%)	(27.5%)	(30.5%)	(34.0%)
P/BV (x)	39.77	40.19	38.70	37.19	35.68
ROE	74.4%	61.3%	75.5%	79.8%	83.1%
% Change In Core EPS Estimates			6.10%	8.23%	9.59%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Pricing action continues to drive growth

Figure 1: Quarterly results summary - standalone

Y/E Mar (Rs m)	3QFY23	2QFY24	3QFY24	YoY (%)	QoQ (%)	9MFY23	9MFY24	Gr (%)
Revenue	12,913	14,711	13,957	8.1	-5.1	38,756	41,904	8.1
Expenditure	9,298	9,890	9,273	-0.3	-6.2	27,805	28,218	1.5
Cost of goods sold	4,407	4,594	3,883	-11.9	-15.5	13,467	12,657	-6.0
as % of sales	34.1	31.2	27.8			34.7	30.2	
Employee cost	989	1,062	1,098	11.0	3.4	2,872	3,118	8.6
as % of sales	7.7	7.2	7.9			7.4	7.4	
Ad spends	1,699	2,060	2,043	20.2	-0.8	4,912	5,916	20.4
as % of sales	13.2	14.0	14.6			12.7	14.1	
Other expenditure	2,203	2,173	2,248	2.1	3.5	6,554	6,527	-0.4
as % of sales	17.1	14.8	16.1			16.9	15.6	
EBITDA	3,615	4,821	4,684	29.6	-2.8	10,951	13,686	25.0
Depreciation	437	443	414	-5.3	-6.6	1,317	1,294	-1.7
EBIT	3,178	4,379	4,270	34.4	-2.5	9,634	12,392	28.6
Other income	104	210	179	71.9	-14.9	332	539	62.1
Interest	13	11	15			38	36	
PBT	3,269	4,578	4,434	35.6	-3.1	9,928	12,895	29.9
Total tax	837	1,178	1,133	35.4	-3.8	2,526	3,261	29.1
Net profit (before extraordinary items)	2,432	3,401	3,301	35.7	-2.9	7,403	9,633	30.1
Extraordinary items	0	0	0	NA	NA	-93	-195	NA
Reported net profit	2,432	3,401	3,301	35.7	-2.9	7,309	9,438	29.1
Adjusted EPS	8.9	12.5	12.1	35.7	-2.9	27.2	35.4	30.1
Margins (%)				(bp)	(bp)			(bp)
Gross margin	65.9	68.8	72.2	631	341	65.3	69.8	454
EBITDA	28.0	32.8	33.6	557	79	28.3	32.7	440
EBIT	24.6	29.8	30.6	599	83	24.9	29.6	471
EBT	25.3	31.1	31.8	645	65	25.6	30.8	515
Net profit	18.8	23.1	23.7	482	54	19.1	23.0	389
Effective tax rate	25.6	25.7	25.6	-5	-17	25.4	25.3	-15

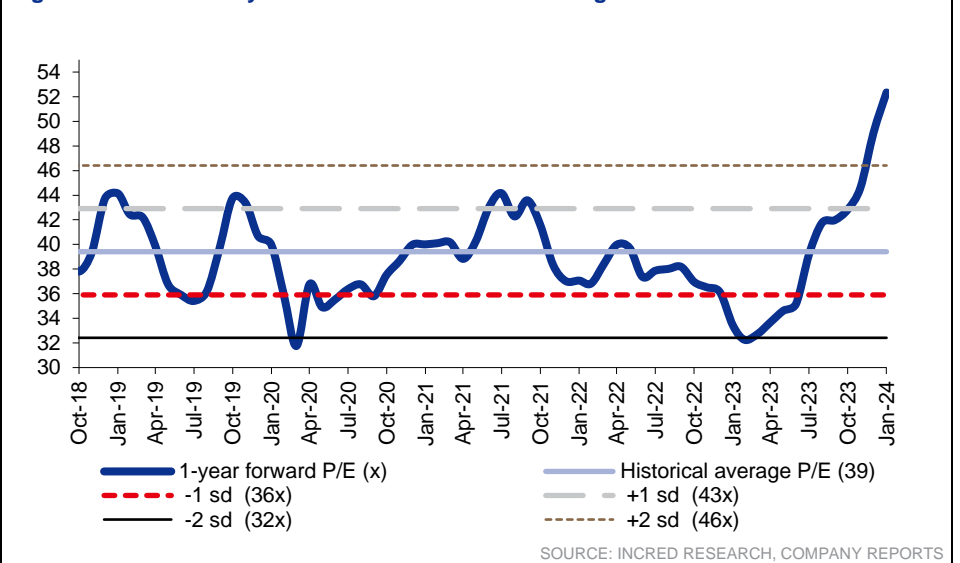
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY24F			FY25F			FY26F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	57,164	56,795	(0.6)	60,953	61,547	1.0	64,700	66,020	2.0
EBITDA	17,639	18,638	5.7	18,909	20,362	7.7	20,161	21,973	9.0
EBITDA Margin (%)	30.9	32.8	200 bp	31.0	33.1	210 bp	31.2	33.3	210 bp
Net Profit	12,449	13,209	6.1	13,406	14,510	8.2	14,357	15,735	9.6
EPS	45.8	48.6	6.1	49.3	53.3	8.2	52.8	57.8	9.6

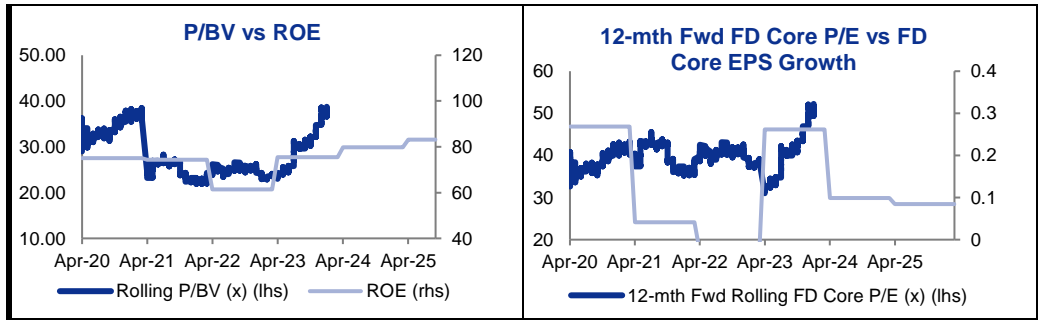
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: CLGT's one-year forward P/E trades much higher than +2 SD



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	56,795	61,547	66,020
Gross Profit	34,323	34,320	39,626	43,126	46,458
Operating EBITDA	15,659	15,470	18,638	20,362	21,973
Depreciation And Amortisation	(1,773)	(1,748)	(1,790)	(1,852)	(1,901)
Operating EBIT	13,886	13,722	16,848	18,509	20,072
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	17,380	19,091	20,704
Exceptional Items					
Pre-tax Profit	14,090	14,209	17,380	19,091	20,704
Taxation	(3,307)	(3,625)	(4,171)	(4,582)	(4,969)
Exceptional Income - post-tax					
Profit After Tax	10,783	10,583	13,209	14,510	15,735
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,783	10,583	13,209	14,510	15,735
Recurring Net Profit	10,783	10,583	13,209	14,510	15,735
Fully Diluted Recurring Net Profit	10,783	10,583	13,209	14,510	15,735

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	15,659	15,470	18,638	20,362	21,973
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(8,044)	1,033	(4,593)	(309)	(288)
(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)	(4,171)	(4,582)	(4,969)
Cashflow From Operations	4,512	13,364	10,405	16,053	17,348
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)	(12,548)	(13,784)	(14,948)
Preferred Dividends					
Other Financing Cashflow	5,292	(356)	(45)	(40)	(40)
Cash Flow From Financing	(5,361)	(11,072)	(12,593)	(13,824)	(14,988)
Total Cash Generated	(1,188)	1,634	(3,688)	729	860
Free Cashflow To Equity	4,091	12,565	8,905	14,553	15,848
Free Cashflow To Firm	4,232	12,755	8,950	14,593	15,888

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	5,587	6,356	7,256
Total Debtors	2,247	1,574	1,903	2,062	2,212
Inventories	3,572	3,355	3,859	4,182	4,486
Total Other Current Assets	4,631	4,625	7,587	8,222	8,819
Total Current Assets	17,997	18,783	18,936	20,822	22,773
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	9,393	10,139	10,843
Total Current Liabilities	9,861	9,835	9,393	10,139	10,843
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	786	849	908
Total Liabilities	11,672	11,666	10,869	11,677	12,440
Shareholders Equity	17,347	17,164	17,824	18,550	19,337
Minority Interests					
Total Equity	17,347	17,164	17,824	18,550	19,337

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	5.3%	2.5%	8.7%	8.4%	7.3%
Operating EBITDA Growth	3.7%	(1.2%)	20.5%	9.2%	7.9%
Operating EBITDA Margin	30.7%	29.6%	32.8%	33.1%	33.3%
Net Cash Per Share (Rs)	24.69	31.40	18.01	20.83	24.14
BVPS (Rs)	63.78	63.10	65.53	68.20	71.09
Gross Interest Cover	235.76	279.47	374.40	462.73	501.80
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	11.17	11.76	11.82
Inventory Days	75.85	70.45	76.67	79.66	80.86
Accounts Payables Days					
ROIC (%)	119.6%	140.5%	122.9%	134.8%	146.7%
ROCE (%)	91.7%	78.4%	95.1%	100.7%	105.0%
Return On Average Assets	36.6%	35.0%	44.2%	47.4%	48.8%

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%	32.8%	33.1%	33.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

DISCLAIMER

This report (including the views and opinions expressed therein, and the information comprised therein) has been prepared by Incred Research Services Private Ltd. (formerly known as Earnest Innovation Partners Private Limited) (hereinafter referred to as "IRSPL"). IRSPL is registered with SEBI as a Research Analyst vide Registration No. INH000011024. Pursuant to a trademark agreement, IRSPL has adopted "Incred Equities" as its trademark for use in this report.

The term "IRSPL" shall, unless the context otherwise requires, mean IRSPL and its affiliates, subsidiaries and related companies. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IRSPL and its affiliates/group companies to registration or licensing requirements within such jurisdictions.

This report is being supplied to you strictly on the basis that it will remain confidential. No part of this report may be (i) copied, photocopied, duplicated, stored or reproduced in any form by any means; or (ii) redistributed or passed on, directly or indirectly, to any other person in whole or in part, for any purpose without the prior written consent of IRSPL.

The information contained in this report is prepared from data believed to be correct and reliable at the time of issue of this report.

IRSPL is not required to issue regular reports on the subject matter of this report at any frequency and it may cease to do so or change the periodicity of reports at any time. IRSPL is not under any obligation to update this report in the event of a material change to the information contained in this report. IRSPL has not any and will not accept any, obligation to (i) check or ensure that the contents of this report remain current, reliable or relevant; (ii) ensure that the content of this report constitutes all the information a prospective investor may require; (iii) ensure the adequacy, accuracy, completeness, reliability or fairness of any views, opinions and information, and accordingly, IRSPL and its affiliates/group companies (and their respective directors, associates, connected persons and/or employees) shall not be liable in any manner whatsoever for any consequences (including but not limited to any direct, indirect or consequential losses, loss of profits and damages) of any reliance thereon or usage thereof.

Unless otherwise specified, this report is based upon reasonable sources. Such sources will, unless otherwise specified, for market data, be market data and prices available from the main stock exchange or market where the relevant security is listed, or, where appropriate, any other market. Information on the accounts and business of company(ies) will generally be based on published statements of the company(ies), information disseminated by regulatory information services, other publicly available information and information resulting from our research. Whilst every effort is made to ensure that statements of facts made in this report are accurate, all estimates, projections, forecasts, expressions of opinion and other subjective judgments contained in this report are based on assumptions considered to be reasonable as of the date of the document in which they are contained and must not be construed as a representation that the matters referred to therein will occur. Past performance is not a reliable indicator of future performance. The value of investments may go down as well as up and those investing may, depending on the investments in question, lose more than the initial investment. No report shall constitute an offer or an invitation by or on behalf of IRSPL and its affiliates/group companies to any person to buy or sell any investments.

The opinions expressed are based on information which are believed to be accurate and complete and obtained through reliable public or other non-confidential sources at the time made. (Information barriers and other arrangements may be established where necessary to prevent conflicts of interests arising. However, the analyst(s) may receive compensation that is based on his/their coverage of company(ies) in the performance of his/their duties or the performance of his/their recommendations. In reviewing this report, an investor should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additional information is, subject to the duties of confidentiality, available on request. The report is not a "prospectus" as defined under Indian Law, including the Companies Act, 2013, and is not, and shall not be, approved by, or filed or registered with, any Indian regulator, including any Registrar of Companies in India, SEBI, any Indian stock exchange, or the Reserve Bank of India. No offer, or invitation to offer, or solicitation of subscription with respect to any such securities listed or proposed to be listed in India is being made, or intended to be made, to the public, or to any member or section of the public in India, through or pursuant to this report.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

The research analysts, strategists or economists principally responsible for the preparation of this research report are segregated from the other activities of IRSPL. Information barriers and other arrangements have been established, as required, to prevent any conflicts of interests.

IRSPL may have issued other reports (based on technical analysis, event specific, short term views etc.) that are inconsistent with and reach different conclusion from the information presented in this report.

Holding of Analysts/Relatives of Analysts, IRSPL and Associates of IRSPL in the covered securities, as on the date of publishing of this report

	Analyst/ Relative	Entity/ Associates
any financial interests in the company covered in this report (subject company) and nature of such financial interest	NO	NO
actual/beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the research report or date of the public appearance;	NO	NO
any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
received any compensation or other benefits from the subject company or third party in connection with the research report	NO	NO
served as an officer, director or employee of the subject company	NO	NO
been engaged in market making activity for the subject company	NO	NO

Analyst declaration

- The analyst responsible for the production of this report hereby certifies that the views expressed herein accurately and exclusively reflect his or her personal views and opinions about any and all of the issuers or securities analysed in this report and were prepared independently and autonomously in an unbiased manner.
- No part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations(s) or view(s) in this report or based any specific investment banking transaction.
- The analyst(s) has(have) not had any serious disciplinary action taken against him/her(them).
- The analyst, strategist, or economist does not have any material conflict of interest at the time of publication of this report.
- The analyst(s) has(have) received compensation based upon various factors, including quality, accuracy and value of research, overall firm performance, client feedback and competitive factors.

IRSPL and/or its affiliates and/or its Directors/employees may own or have positions in securities of the company(ies) covered in this report or any securities related thereto and may from time to time add to or dispose of, or may be materially interested in, any such securities.

IRSPL and/or its affiliates and/or its Directors/employees may do and seek to do business with the company(ies) covered in this research report and may from time to time (a) buy/sell the securities covered in this report, from time to time and/or (b) act as market maker or have assumed an underwriting commitment in securities of such company(ies), and/or (c) may sell them to or buy them from customers on a principal basis and/or (d) may also perform or seek to perform significant investment banking, advisory, underwriting or placement services for or relating to such company(ies) and/or (e) solicit such investment, advisory or other services from any entity mentioned in this report and/or (f) act as a lender/borrower to such company and may earn brokerage or other compensation. However, Analysts are forbidden to acquire, on their own account or hold securities (physical or uncertificated, including derivatives) of companies in respect of which they are compiling and producing financial recommendations or in the result of which they play a key part.