

India

HOLD (no change)

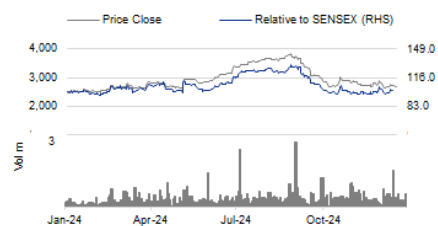
Consensus ratings*: Buy 10 Hold 12 Sell 12

Current price:	Rs2,679
Target price:	Rs2,870
Previous target:	Rs3,320
Up/downside:	7.1%
InCred Research / Consensus:	-5.9%
Reuters:	CL.MN
Bloomberg:	CLGT IN
Market cap:	US\$8,422m
	Rs728,758m
Average daily turnover:	US\$19.8m
	Rs1716.2m
Current shares o/s:	272.0m
Free float:	49.0%

*Source: Bloomberg

Key changes in this note

- Lower the target price to Rs2,870 from Rs3,320.
- Lower FY25F/26F EPS by 5%/4%.

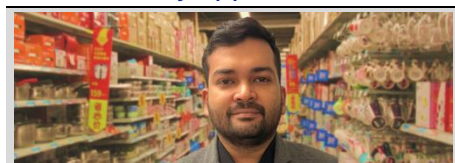


Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(1.7)	(13.4)	6.4
Relative (%)	1.9	(8.3)	0.9

Major shareholders	% held
Promoter	51.0
Vanguard Group	2.0
BlackRock	1.9

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Colgate Palmolive India

Urban weakness weighs on growth

- Domestic sales grew by 3.2% yoy in 3QFY25, led by mid-single digit (c.5%) volume growth in the toothpaste segment. Urban demand remained weak.
- Management commentary alluded towards demand weakness persisting in the near term. A&P expenses are likely to remain elevated to drive growth.
- We retain HOLD rating on CLGT with a lower TP of Rs2,870 on account of lower pace of volume growth in the near term due to weak urban demand.

High sales salience in urban markets drags growth in 3QFY25

Colgate-Palmolive India or CLGT's standalone net revenue in 3QFY25 was up 4.7% yoy. Domestic sales grew by 3.2% yoy, led by mid-single digit volume growth (c.5%) in the toothpaste segment, which was supported by the relaunch of some flagship brands in the last few quarters, backed by media campaigns. Toothbrush sales maintained their momentum. CLGT had taken corrective steps in key markets a few quarters ago in the Hindi belt, which seems to have aided in driving continued growth of the segment. CLGT's performance in 3Q seems weak as rival Hindustan Unilever (or HUL) posted mid-single digit sales growth (c.5%) in its oral care range. With CLGT's high sales salience in urban markets (c.60% contribution) we expect volume growth to remain subdued in the near term.

Premiumization push to drive a gradual sales mix improvement

CLGT has been stepping up premiumization via a heightened play in the oral beauty space as well as expanding its play in therapeutics/diabetics. CLGT is also focusing on improving the market share of its premium offerings in alternate channels, where it is seeing good traction. CLGT launched a new offering under the scientific-backed MaxFresh range in 3Q, after the launch of Visible White Purple toothpaste in 2Q and is expected to continue pushing its NPD lever in the near term (possibility of some launches from the global portfolio) to drive growth. CLGT has witnessed healthy growth in its premium range (3x faster than core) and will continue to push its premiumization lever in the medium term.

Margin expected to remain under pressure in the medium term

Gross margin contracted by 226bp yoy (+137bp qoq) to 69.9% in 3QFY25. The EBITDA margin contracted by 248bp yoy (+36bp qoq) to 31.1% due to higher other expenses (17.7% of sales, +160bp yoy). Employee costs were flat yoy while A&P spending was down 2% yoy (13.7% of sales; down 95bp yoy). While the focus will remain on driving volume growth, management commentary alluded to demand weakness persisting in the near term, which will keep A&P spending elevated as CLGT will continue to support its brands.

Retain HOLD rating with a lower target price of Rs2870

Considering the weakness in urban markets and its higher concentration when it comes to sales, we expect volume growth to remain subdued in the near term. We cut FY25F/26F EPS by 5%/4%, respectively, retaining our HOLD rating on CLGT with a lower target price of Rs2,870 (46x Dec 2026F EPS) from Rs3,320 earlier, as we roll forward. Downside risk: Sustained weakness in urban markets.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	52,262	56,804	60,805	65,243	70,910
Operating EBITDA (Rsm)	15,470	19,008	20,115	21,872	23,849
Net Profit (Rsm)	10,583	13,432	14,367	15,875	17,330
Core EPS (Rs)	38.9	49.4	52.8	58.4	63.7
Core EPS Growth	(1.9%)	26.9%	7.0%	10.5%	9.2%
FD Core P/E (x)	68.86	54.26	50.73	45.91	42.05
DPS (Rs)	37.0	46.9	50.2	55.4	60.5
Dividend Yield	1.45%	1.60%	1.87%	2.07%	2.26%
EV/EBITDA (x)	46.56	37.66	35.68	32.78	30.04
P/FCFE (x)	58.00	43.59	62.23	46.20	42.33
Net Gearing	(49.8%)	(69.5%)	(56.8%)	(57.9%)	(58.9%)
P/BV (x)	42.46	38.88	37.45	35.98	34.50
ROE	61.3%	74.8%	75.2%	79.9%	83.8%
% Change In Core EPS Estimates			(5.02%)	(3.58%)	(5.11%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Urban weakness weighs on growth

Figure 1: Quarterly results summary - standalone

Y/E Mar (Rs m)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	Gr. (%)
Revenue	13,957	16,191	14,618	4.7	-9.7	41,904	45,777	9.2
Expenditure	9,273	11,218	10,075	8.7	-10.2	28,218	31,176	10.5
Cost of goods sold	3,883	5,093	4,399	13.3	-13.6	12,657	13,885	9.7
as % of sales	27.8	31.5	30.1			30.2	30.3	
Employee cost	1,098	1,184	1,088	-0.9	-8.0	3,118	3,395	8.9
as % of sales	7.9	7.3	7.4			7.4	7.4	
Ad spends	2,043	2,427	2,001	-2.0	-17.6	5,916	6,419	8.5
as % of sales	14.6	15.0	13.7			14.1	14.0	
Other expenditure	2,248	2,514	2,587	15.1	2.9	6,528	7,477	14.5
as % of sales	16.1	15.5	17.7			15.6	16.3	
EBITDA	4,684	4,974	4,544	-3.0	-8.6	13,686	14,601	6.7
Depreciation	414	417	411	-0.6	-1.4	1,294	1,244	-3.9
EBIT	4,270	4,556	4,132	-3.2	-9.3	12,392	13,357	7.8
Other income	179	760	204	14.0	-73.2	539	1,198	122.4
Interest	15	12	11			36	32	
PBT	4,434	5,305	4,325	-2.5	-18.5	12,895	14,522	12.6
Total tax	1,133	1,354	1,097	-3.1	-19.0	3,261	3,704	13.6
Net profit (before extraordinary items)	3,301	3,951	3,228	-2.2	-18.3	9,633	10,818	12.3
Extraordinary items	0	0	0	NA	NA	-195	0	NA
Reported net profit	3,301	3,951	3,228	-2.2	-18.3	9,438	10,818	14.6
Adjusted EPS	12.1	14.5	11.9	-2.2	-18.3	35.4	39.8	12.3
Margins (%)				(bp)	(bp)			(bp)
Gross margin	72.2	68.5	69.9	-226	137	69.8	69.7	-13
EBITDA	33.6	30.7	31.1	-248	36	32.7	31.9	-77
EBIT	30.6	28.1	28.3	-233	13	29.6	29.2	-39
EBT	31.8	32.8	29.6	-218	-317	30.8	31.7	95
Net profit	23.7	24.4	22.1	-157	-232	23.0	23.6	64
Effective tax rate	25.6	25.5	25.4	-18	-15	25.3	25.5	21

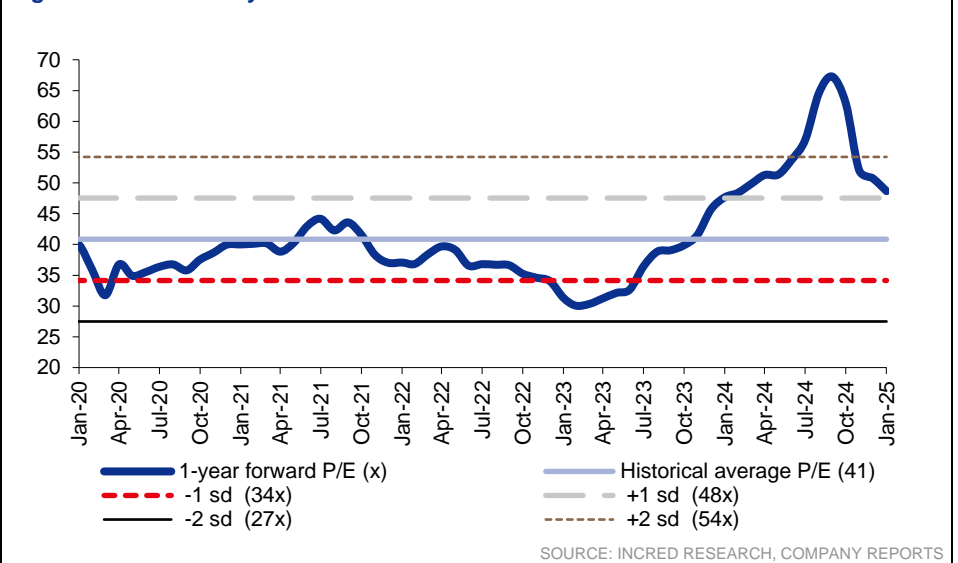
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Our revised earnings estimates

Y/E Mar (Rs. m)	FY25F			FY26F			FY27F		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenue	62,792	60,805	(3.2)	67,275	65,243	(3.0)	73,747	70,910	(3.8)
EBITDA	21,132	20,115	(4.8)	22,663	21,872	(3.5)	25,099	23,849	(5.0)
EBITDA margin (%)	33.7	33.1	-60 bps	33.7	33.5	-20 bps	34.0	33.6	-40 bps
Net profit	15,126	14,367	(5.0)	16,465	15,875	(3.6)	18,263	17,330	(5.1)
EPS	55.6	52.8	(5.0)	60.5	58.4	(3.6)	67.1	63.7	(5.1)

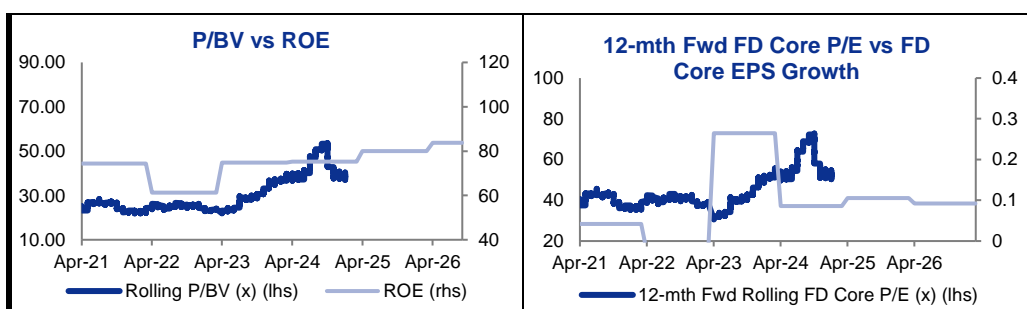
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	52,262	56,804	60,805	65,243	70,910
Gross Profit	34,320	39,575	42,544	45,845	50,040
Operating EBITDA	15,470	19,008	20,115	21,872	23,849
Depreciation And Amortisation	(1,748)	(1,715)	(1,754)	(1,724)	(1,809)
Operating EBIT	13,722	17,293	18,361	20,148	22,039
Financial Income/(Expense)	462	680	861	1,093	1,150
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	25	35	37	39	41
Profit Before Tax (pre-EI)	14,209	18,008	19,259	21,280	23,231
Exceptional Items					
Pre-tax Profit	14,209	18,008	19,259	21,280	23,231
Taxation	(3,625)	(4,577)	(4,892)	(5,405)	(5,901)
Exceptional Income - post-tax					
Profit After Tax	10,583	13,432	14,367	15,875	17,330
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	10,583	13,432	14,367	15,875	17,330
Recurring Net Profit	10,583	13,432	14,367	15,875	17,330
Fully Diluted Recurring Net Profit	10,583	13,432	14,367	15,875	17,330

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	15,470	19,008	20,115	21,872	23,849
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,033	2,544	(2,930)	(353)	41
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	536	765	938	1,162	1,231
Net Interest (Paid)/Received	(49)	(50)	(40)	(30)	(40)
Tax Paid	(3,625)	(4,577)	(4,892)	(5,405)	(5,901)
Cashflow From Operations	13,364	17,691	13,191	17,246	19,180
Capex	(659)	(1,000)	(1,500)	(1,500)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow					
Cash Flow From Investing	(659)	(1,000)	(1,500)	(1,500)	(2,000)
Debt Raised/(repaid)	(141)	28	22	30	38
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(10,575)	(11,670)	(13,649)	(15,081)	(16,464)
Preferred Dividends					
Other Financing Cashflow	(356)	(591)	(40)	(30)	(40)
Cash Flow From Financing	(11,072)	(12,233)	(13,667)	(15,082)	(16,465)
Total Cash Generated	1,634	4,458	(1,977)	664	715
Free Cashflow To Equity	12,565	16,719	11,712	15,776	17,219
Free Cashflow To Firm	12,755	16,741	11,731	15,776	17,220

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	9,230	13,738	11,801	12,495	13,250
Total Debtors	1,574	1,674	1,000	1,251	1,360
Inventories	3,355	2,964	2,166	2,502	2,720
Total Other Current Assets	4,625	3,898	5,831	6,256	6,800
Total Current Assets	18,783	22,274	20,797	22,505	24,130
Fixed Assets	9,759	9,043	8,790	8,566	8,756
Total Investments					
Intangible Assets					
Total Other Non-Current Assets	288	648	648	648	648
Total Non-current Assets	10,047	9,691	9,437	9,213	9,404
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors					
Other Current Liabilities	9,835	11,302	8,918	9,506	10,315
Total Current Liabilities	9,835	11,302	8,918	9,506	10,315
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	690	718	739	769	807
Total Non-current Liabilities	690	718	739	769	807
Total Provisions	1,141	1,202	1,115	1,188	1,289
Total Liabilities	11,666	13,222	10,772	11,463	12,411
Shareholders Equity	17,164	18,744	19,462	20,256	21,122
Minority Interests					
Total Equity	17,164	18,744	19,462	20,256	21,122

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	2.5%	8.7%	7.0%	7.3%	8.7%
Operating EBITDA Growth	(1.2%)	22.9%	5.8%	8.7%	9.0%
Operating EBITDA Margin	29.6%	33.5%	33.1%	33.5%	33.6%
Net Cash Per Share (Rs)	31.40	47.87	40.67	43.11	45.75
BVPS (Rs)	63.10	68.91	71.55	74.47	77.66
Gross Interest Cover	279.47	345.86	459.03	671.61	550.98
Effective Tax Rate	25.5%	25.4%	25.4%	25.4%	25.4%
Net Dividend Payout Ratio	99.9%	86.9%	95.0%	95.0%	95.0%
Accounts Receivables Days	13.34	10.43	8.02	6.30	6.72
Inventory Days	70.45	66.93	51.27	43.92	45.67
Accounts Payables Days					
ROIC (%)	140.5%	249.7%	193.0%	207.3%	221.1%
ROCE (%)	78.4%	95.8%	96.4%	102.5%	107.5%
Return On Average Assets	35.0%	41.9%	43.4%	47.7%	49.6%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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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.