

July 29, 2024

**RESULT REPORT Q1 FY25** | Sector: Consumer Staples

# Colgate-Palmolive (India)

## Volume beat & disclosure, a welcome surprise

Colgate-Palmolive (India) Ltd. (CLGT) delivered robust 1QFY25 performance. Domestic revenue growth stood at a 2yr CAGR of 12.6% on the back of high single-digit volume growth in Toothpaste segment (higher than our estimate of 3%). Gross margin profile continues to improve, which led to higher operating margins versus our estimate. Pickup in rural market (outpaced urban markets for 2<sup>nd</sup> consecutive quarter), relaunch/restaging of key brands done in 2HFY24, activations through campaigns, along with premiumization should continue to support near-term growth. We have been surprised by the company on margins over the last few quarters. Assuming current margin profile stays and sees further modest improvement in FY25 & FY26, we see a 5.1%/7.4% upwards revision in our FY25E/FY26E EPS. Disclosure of volume growth improvement will be welcomed by the street, but we hope it remains part of disclosure in future as well. We roll-forward our valuation to Sep'26E EPS and assign a higher target multiple of ~48x now, which changes our target price (TP) to Rs3,300 (Rs2,700 earlier). Maintain NEUTRAL. Market share movement & update on diversification being explored in personal care will aid further rerating.

### Result Highlights

- **1QFY25 headline performance:** Revenue (including OOI) grew by 13.1% YoY to Rs15.0bn (vs est. Rs14.4bn). EBITDA grew by 21.6% YoY to Rs5.1bn (vs est. Rs4.7bn). Adjusted PAT (APAT) was up 26.3% YoY to Rs3.6bn (vs est. 3.4bn).
- **Margins:** Gross margin surprised us positively coming at 70.6% (up ~220bps YoY and 130bps QoQ; vs est. 69.5%). Advertising spends were down by 40bps YoY to 13.3% (+9.8% YoY on absolute basis) while staff cost was up 30bps YoY, which meant that EBITDA margin was up by ~240bps YoY to 34% (vs. our est. 32.7%), ahead of expectations.

### Excerpts from press release

- The quarter witnessed continued demand pickup in rural markets outpacing growth in urban markets for the second quarter in a row.
- Toothbrush portfolio has also seen a concrete positive shift in competitive growth trajectory with strong double-digit growth in topline.
- Quarter saw introduction of first to the world Whitening booster gel in the rapidly growing Whitening segment.

### View & Valuation

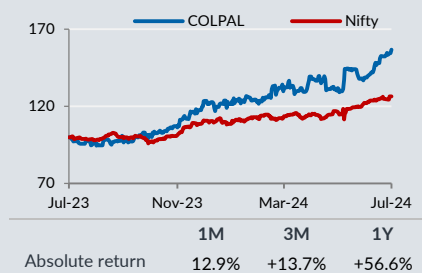
We now build 10.8% revenue CAGR over FY24-FY26E (way higher than the ~4.9% CAGR delivered over the last five years) led by (a) Better overall category growth especially from rural markets, (b) Support from relaunches, innovations, and activations, (c) Premiumization. Assuming current margin profile stays and sees further modest improvement in FY25 & FY26, we now see a strong 18.2% EBITDA CAGR over FY24-FY26E (~420bps EBITDA margin expansion largely led by gross margin improvement). We thus see a 5.1%/7.4% upwards revision in our FY25E/FY26E EPS. CLGT is currently trading at ~56x/50x on our FY25E/FY26E EPS. Improved margin profile & working capital, better cash generation, enhanced return ratios, potential inorganic opportunity in personal care space and softer aspect of volume growth disclosure merits better target multiple as we build strong 21.7% EPS CAGR over FY24-26E. Disclosure of volume growth improvement will be welcomed by the street, but we hope it remains part of disclosure in future as well. We roll-forward our valuation to Sep'26E EPS and assign a higher target multiple of ~48x now, which changes our TP to Rs3,300 (Rs2,700 earlier). Maintain NEUTRAL. Market share movement & update on diversification being explored in personal care will aid further rerating.

Reco	: NEUTRAL
CMP	: Rs 3,210
Target Price	: Rs 3,300
Potential Return	: +1.9%

### Stock data (as on July 29, 2024)

Nifty	24,836
52 Week h/l (Rs)	3272 / 1818
Market cap (Rs/USD mn)	860889 / 10280
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	984
Div yield (%):	1.4
Bloomberg code:	CLGT IN
NSE code:	COLPAL

### Stock performance



### Shareholding pattern (As of Jun'24 end)

Promoter	51.0%
FII+DII	30.5%
Others	18.6%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	3,300	2,700

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	57.7	64.2
EPS (Old)	54.9	59.8
% change	+5.1%	+7.4%

### Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	56,804	63,737	69,749
YoY Growth (%)	8.7	12.2	9.4
EBIDTA	17,426	22,037	24,347
Margins (%)	30.7	34.6	34.9
APAT	11,800	15,702	17,475
EPS	43.4	57.7	64.2
YoY Growth (%)	11.8	33.1	11.3
ROCE (%)	90.6	112.6	124.4
ROE (%)	65.7	83.8	93.2
P/E (x)	74.0	55.6	50.0
EV/EBITDA (x)	49.3	39.1	35.4

### VISHAL PUNMIYA

Lead Analyst

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MANAS RASTOGI, Associate

## Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	14,967	14,426	14,294	3.8	4.7
EBITDA	5,083	4,724	4,719	7.6	7.7
EBITDA Margin (%)	34.0	32.7	33.0	1.2	1.0
Adjusted PAT	3,640	3,350	3,316	8.7	9.8

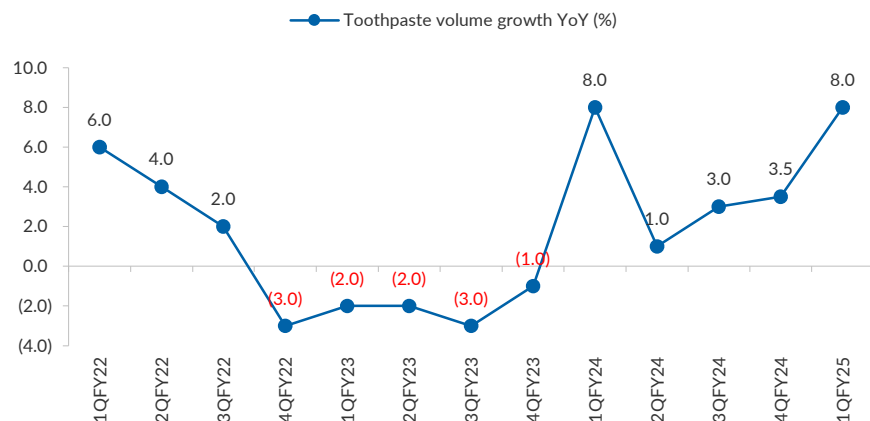
Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	1QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Revenue	13,237	14,900	14,967	13.1	0.4
COGS	4,179	4,573	4,393	5.1	-3.9
Gross margin %	68.4	69.3	70.6	2.2	1.3
Employee costs	958	999	1,123	17.3	12.4
% of sales	7.2	6.7	7.5	0.3	0.8
Advertising costs	1,813	1,689	1,991	9.8	17.9
% of sales	13.7	11.3	13.3	-0.4	2.0
Other expenses	2,106	2,317	2,376	12.9	2.6
% of sales	15.9	15.6	15.9	0.0	0.3
EBITDA	4,181	5,322	5,083	21.6	-4.5
EBITDA margin %	31.6	35.7	34.0	2.4	-1.8
Depreciation	438	421	415	-5.1	-1.4
EBIT	3,744	4,901	4,668	24.7	-4.7
Interest expense	11	14	10	-0.9	-3.8
Other income	150	227	234	56.3	3.3
PBT	3,737	5,114	4,893	30.9	-4.3
Tax	1,001	1,315	1,253	25.2	-4.8
Effective tax rate %	26.8	25.7	25.6	-1.2	-0.1
PAT	2,882	3,798	3,640	26.3	-4.2
PAT margin %	21.8	25.5	24.3	2.5	-1.2
EPS	10.6	14.0	13.4	26.3	-4.2

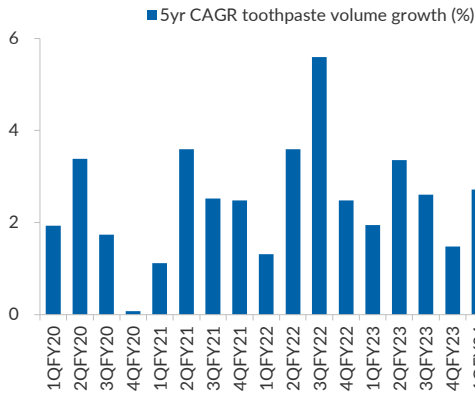
Source: Company, YES Sec

## Exhibit 3: Toothpaste volumes grew in high single digit this quarter



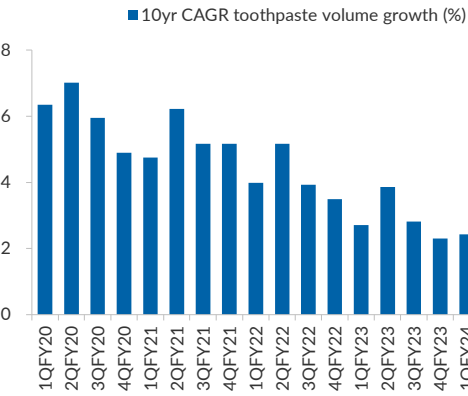
Source: Company, YES Sec; Note: Volume growth pre-1QFY25 are our internal estimate

**Exhibit 4: 5-year CAGR trend sees sharp jump in 1QFY25**



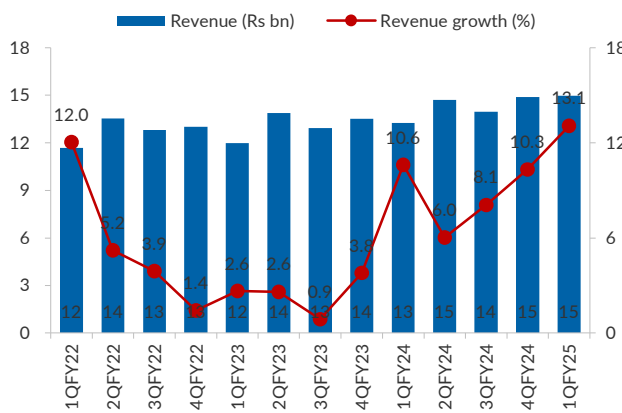
Source: Company, YES Sec

**Exhibit 5: Even 10yr CAGR term trend has improved**



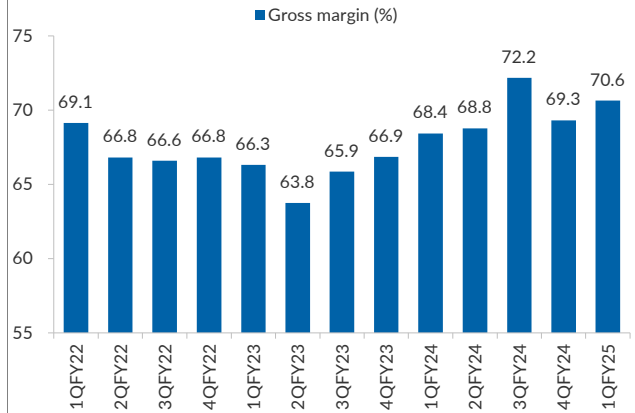
Source: Company, YES Sec

**Exhibit 6: Revenues grew by 13.1% YoY**



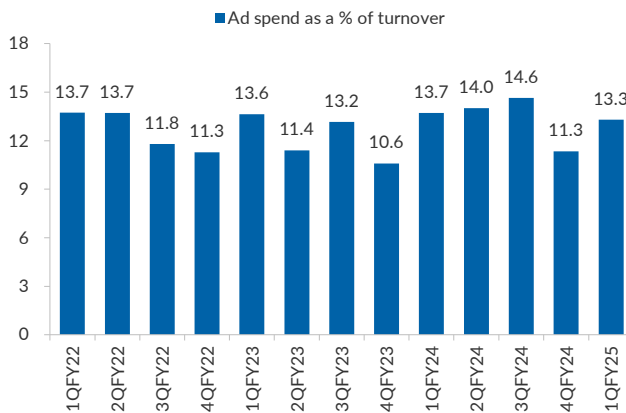
Source: Company, YES Sec

**Exhibit 7: Gross margin up 220bps YoY / 130bps QoQ**



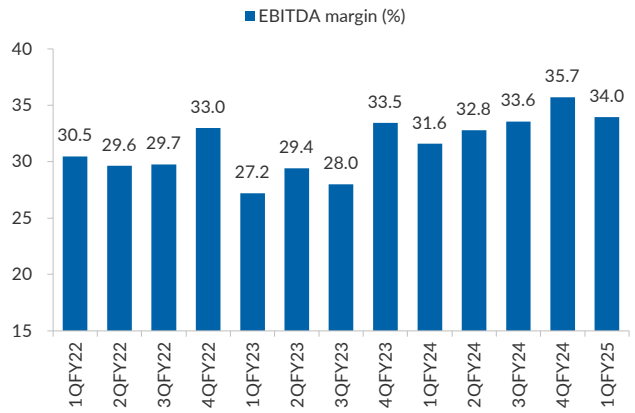
Source: Company, YES Sec

**Exhibit 8: A&SP spends down 40bps YoY to 13.3%**



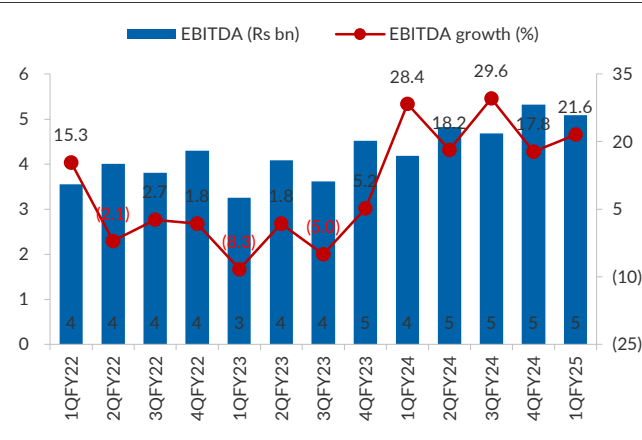
Source: Company, YES Sec

**Exhibit 9: EBITDA margin was up 240bps YoY to 34%**



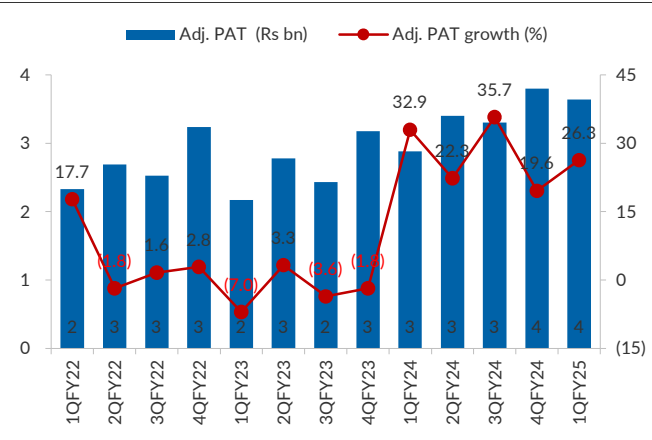
Source: Company, YES Sec

**Exhibit 10: EBITDA thus grew 21.6% YoY**



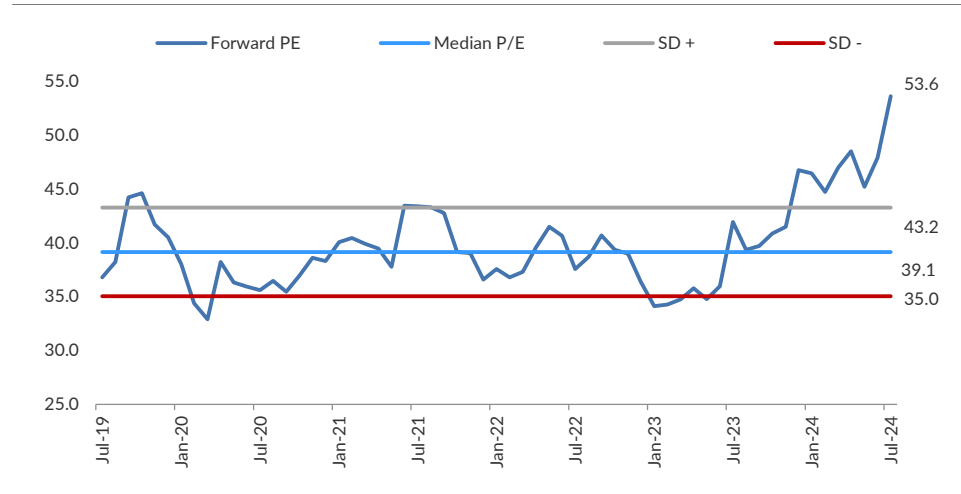
Source: Company, YES Sec

**Exhibit 11: APAT was up 26.3% YoY**



Source: Company, YES Sec

**Exhibit 12: Currently trading at ~54x on Jul'25E EPS**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 13: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves	17,075	16,892	18,472	18,472	18,472
Net worth	17,347	17,164	18,744	18,744	18,744
Total debt	0	0	0	0	0
Others	831	690	718	718	718
<b>Total liabilities</b>	<b>18,177</b>	<b>17,853</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>
Gross block	20,504	21,214	22,188	22,894	23,599
Depreciation	10,874	12,596	14,247	15,983	17,749
Capital work-in-progress	1,218	1,141	1,103	1,103	1,103
Investments	0	0	0	0	0
Inventories	3,572	3,354	2,964	3,743	4,049
Debtors	2,247	1,574	1,674	1,908	2,088
Cash	7,547	9,230	13,738	11,333	12,290
Loans & advances	1,710	1,646	2,169	2,327	2,559
Other current assets	2,921	2,979	2,979	2,979	2,979
<b>Total current assets</b>	<b>17,997</b>	<b>18,783</b>	<b>23,524</b>	<b>22,290</b>	<b>23,965</b>
Creditors	7,714	7,611	8,819	8,037	8,603
Other current liabilities & provisions	3,127	3,365	4,935	3,453	3,500
<b>Total current liabilities</b>	<b>10,841</b>	<b>10,976</b>	<b>13,754</b>	<b>11,490</b>	<b>12,103</b>
<b>Net current assets</b>	<b>7,156</b>	<b>7,806</b>	<b>9,770</b>	<b>10,800</b>	<b>11,861</b>
Deferred tax asset	173	288	648	648	648
<b>Total assets</b>	<b>18,177</b>	<b>17,854</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>

Source: Company, YES Sec

### Exhibit 14: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net Revenue	50,998	52,262	56,804	63,737	69,749
Revenue growth	5.3%	2.5%	8.7%	12.2%	9.4%
COGS	16,668	17,942	18,812	18,511	20,096
Staff costs	3,851	3,770	4,117	4,748	5,127
Advertising costs	6,431	6,341	7,604	8,609	9,491
Other expenses	8,381	8,739	8,844	9,832	10,688
<b>Total expenses</b>	<b>35,331</b>	<b>36,792</b>	<b>39,378</b>	<b>41,700</b>	<b>45,402</b>
<b>EBITDA</b>	<b>15,667</b>	<b>15,470</b>	<b>17,426</b>	<b>22,037</b>	<b>24,347</b>
<i>EBITDA growth</i>	<b>3.8%</b>	<b>-1.3%</b>	<b>12.6%</b>	<b>26.5%</b>	<b>10.5%</b>
<i>EBITDA margin</i>	<b>30.7%</b>	<b>29.6%</b>	<b>30.7%</b>	<b>34.6%</b>	<b>34.9%</b>
Other income	263	536	765	882	823
Interest costs	59	49	50	50	50
Depreciation	1,773	1,748	1,715	1,736	1,767

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax (before exceptional)	14,097	14,209	16,426	21,134	23,353
Exceptional items	0	(85)	(145)	0	0
Tax	3,307	3,652	4,627	5,431	5,878
PAT	10,790	10,557	11,800	15,702	17,475
PAT margin	21.2%	20.2%	20.8%	24.6%	25.1%
PAT growth	4.2%	-2.2%	11.8%	33.1%	11.3%

Source: Company, YES Sec

## Exhibit 15: Cash flow statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT	10,391	10,400	13,127	15,703	17,476
Depreciation	1,773	1,748	1,715	1,736	1,767
Other income	(58)	(296)	(580)	(832)	(773)
(Inc.)/dec. in working capital	4,151	(89)	(2,272)	(3,435)	(105)
<b>Cash flow from operations</b>	<b>16,257</b>	<b>11,763</b>	<b>11,990</b>	<b>13,172</b>	<b>18,365</b>
Capital expenditure (-)	(496)	(695)	(755)	(706)	(705)
<b>Net cash after capex</b>	<b>15,762</b>	<b>11,068</b>	<b>11,234</b>	<b>12,466</b>	<b>17,660</b>
Inc./(dec.) in investments	(812)	221	828	0	0
Others	(5,173)	1,262	4,399	874	814
<b>Cash from investing activities</b>	<b>(6,481)</b>	<b>787</b>	<b>4,471</b>	<b>168</b>	<b>109</b>
Dividends paid (-)	(10,572)	(10,575)	(11,670)	(15,702)	(17,475)
Others	(334)	(293)	(282)	(43)	(43)
<b>Cash from financial activities</b>	<b>(10,906)</b>	<b>(10,867)</b>	<b>(11,953)</b>	<b>(15,745)</b>	<b>(17,517)</b>
Opening cash balance	8,676	7,547	9,230	13,738	11,334
Closing cash balance	7,547	9,230	13,738	11,334	12,290
Change in cash balance	(1,129)	1,683	4,508	(2,404)	956

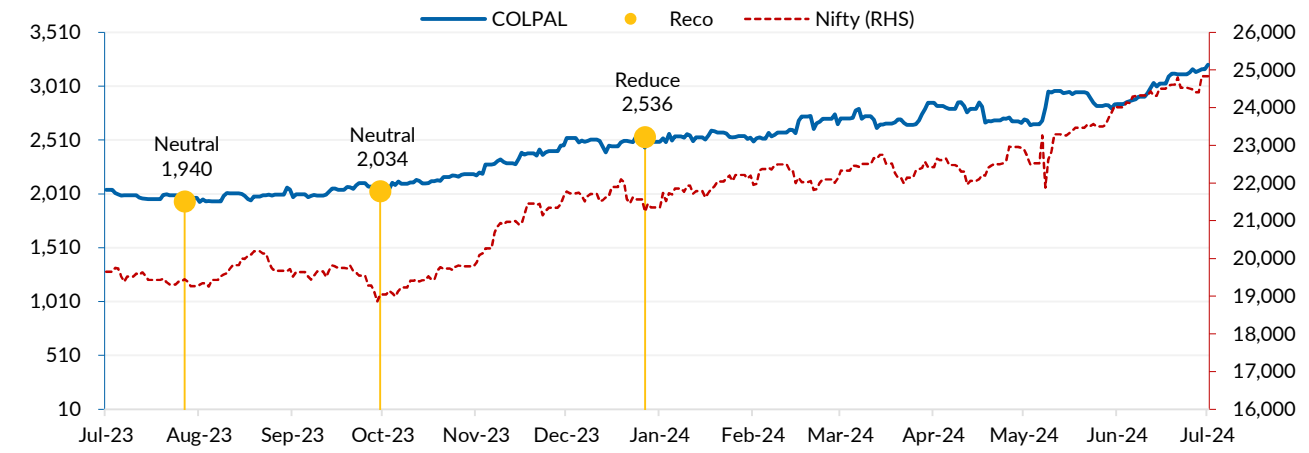
## Exhibit 16: Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E
<b>Per share (Rs)</b>					
EPS	39.7	38.8	43.4	57.7	64.2
Book value	63.8	63.1	68.9	68.9	68.9
DPS	40.0	39.0	58.0	57.7	64.2
<b>Valuation (x)</b>					
EV/sales	17.0	16.5	15.1	13.5	12.3
EV/EBITDA	55.2	55.8	49.3	39.1	35.4
P/E	80.9	82.7	74.0	55.6	50.0
P/BV	50.3	50.9	46.6	46.6	46.6
<b>Return ratios (%)</b>					
RoCE *	92.7	80.2	90.6	112.6	124.4
RoE	74.4	61.2	65.7	83.8	93.2
<b>Profitability ratios (%)</b>					

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Gross margin	67.3	65.7	66.9	71.0	71.2
EBITDA margin	30.7	29.6	30.7	34.6	34.9
EBIT margin	27.2	26.3	27.7	31.9	32.4
PAT margin	21.2	20.2	20.8	24.6	25.1
<b>Liquidity ratios (%)</b>					
Current ratio	1.7	1.7	1.7	1.9	2.0
Quick ratio	1.3	1.4	1.5	1.6	1.6
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.0	3.2	3.2	3.6	3.9
Fixed asset turnover ratio (x)	5.3	6.1	7.2	9.2	11.9
Debtor days	12	13	10	10	10
Inventory days	76	70	61	66	71
Creditor days	168	156	159	166	151

Source: Company, YES Sec; \* Pre-tax

## Recommendation Tracker



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Analyst signature

Analyst signature

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