

We reiterate our **REDUCE** call on Colgate due to a high base for growth delivery ahead. The company has executed well on oral care and consistently surprised the street with its performance. However, amid a tough demand setting now, we see price power waning which will limit margin delivery ahead and result in muted earnings. Q2 results were a miss – 10% sales growth (3% lower than our estimate) and 4% adj PAT growth (11% lower). We believe business diversification is key for double-digit growth ahead; the company could double down on personal care offerings which, though, could be margin dilutive. After Q2 results and weak management commentary, we cut FY25-27E earnings 5-8% and lower our target valuation multiple, from 50x to 47x (now at 10% premium to the last 5YF avg P/E). Our new Sep-25E TP is Rs3,000.

Colgate-Palmolive: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	52,262	56,804	63,052	68,665	74,780
EBITDA	15,470	19,008	20,638	23,220	25,627
Adj. PAT	10,584	13,432	14,512	16,389	18,166
Adj. EPS (Rs)	38.9	49.4	53.4	60.3	66.8
EBITDA margin (%)	29.6	33.5	32.7	33.8	34.3
EBITDA growth (%)	(1.2)	22.9	8.6	12.5	10.4
Adj. EPS growth (%)	(1.9)	26.9	8.0	12.9	10.8
RoE (%)	61.3	74.8	81.3	93.6	99.1
RoIC (%)	125.9	233.0	374.9	556.0	989.6
P/E (x)	82.6	65.1	60.2	53.3	48.1
EV/EBITDA (x)	55.9	45.3	41.7	37.0	33.5
P/B (x)	50.9	46.6	51.6	48.3	47.0
FCFF yield (%)	1.2	1.3	1.6	1.9	2.0

Source: Company, Emkay Research

Double-digit sales growth continues; toothpaste volume grows in HSD

Colgate India reported 10% sales growth (~3% miss on our estimates) with estimated ~6% volume growth (~7% volume growth in toothpaste). Toothpaste volume growth remained in a high single-digit (HSD) range, aided by the *Max Fresh* and *Strong Teeth* offerings. Its Premium portfolio sustained double-digit growth. Toothbrush saw double-digit growth, aided by premiumization. Management cautioned on the near-term outlook. For 2H, we see a mid-single-digit volume growth and a similar price growth. Over FY26-27E, we see growth moderating to ~9%. We continue to see business diversification as key for growth ahead, wherein the company should leverage opportunities in the home and personal care space. We reduce our topline estimates by 1-2% over FY25-27E.

EBITDA margin down by 200bps YoY; drives slower EBITDA growth, at 3%

Increased trade promotion put gross-margin pressure of 25bps YoY and 210bps QoQ on Colgate. Given the healthy prices, raw material inflation impact was muted. The company has sustained higher A&P spends at 15% of sales (up by 100bps YoY); absolute spends increased 18% YoY. Other expenses surged 16% in absolute terms, and by 75bps YoY to 15.5% in terms of sales, given increased investments in technology-backed tools. Overall EBITDA margin saw a 200bps contraction YoY to 30.7%. EBITDA and adjusted PAT grew 3% and 4%, respectively, coming in 10-11% below our expectations.

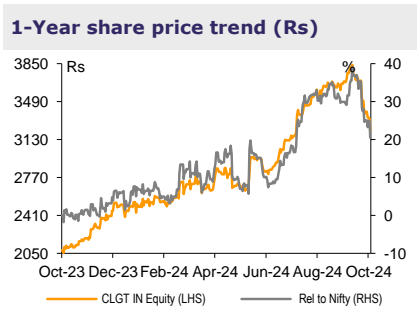
High base to limit surprises ahead; maintain REDUCE

On a high margin base, we see EBITDA margin delivery to be muted ahead, and such weakness would reflect in earnings growth too. Amid the lackluster demand, we see price-led growth to be limited which will further limit margin expansion. We cut margin estimate by 90-120bps over FY26-27E. Our earnings reduce 8% for FY25E and ~5% each for FY26E and FY27E. We cut valuation multiple, from 50x to 47x (at 10% premium to its last 5YF avg P/E, given relatively better growth, margin, and ROCE in the business); retain REDUCE with new Sep-25E TP of Rs3,000 (vs Rs3,275 earlier).

Target Price – 12M	Sep-25
Change in TP (%)	(8.4)
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(6.6)
CMP (24-Oct-24) (Rs)	3,212.7

Stock Data	COLGATE
52-week High (Rs)	3,893
52-week Low (Rs)	1,996
Shares outstanding (mn)	272.0
Market-cap (Rs bn)	874
Market-cap (USD mn)	10,393
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,891.6
ADTV-3M (USD mn)	22.5
Free float (%)	49.0
Nifty-50	24,399
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	51.0
FPIs/MFs (%)	24.9/5.8

Price Performance			
(%)	1M	3M	12M
Absolute	(12.7)	2.3	55.3
Rel. to Nifty	(7.2)	2.3	22.8



Nitin Gupta
 nitin.gupta@emkayglobal.com
 +91 22 6612 1257

Pinky Mahato
 pinky.mahato@emkayglobal.com
 +91 22 6612 1306

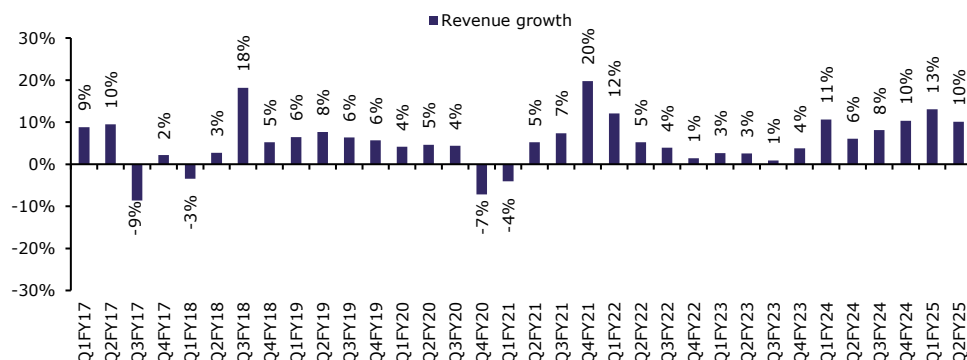
Quarterly performance

Exhibit 1: Colgate India – Q2FY25 performance

(Rs mn)	2QFY25	2QFY24	YoY (%)	1QFY25	QoQ (%)	2QFY25E	Var.(%)	1HFY25	1HFY24	YoY (%)
Total income	16,191	14,711	10.1	14,967	8.2	16,621	(2.6)	31,158	27,948	11.5
Cost of goods	5,093	4,594	10.9	4,393	15.9	4,986	2.1	9,486	8,773	8.1
Employee expenses	1,184	1,062	11.4	1,123	5.4	1,197	(1.1)	2,307	2,020	14.2
A&P spends	2,427	2,060	17.8	1,991	21.9	2,368	2.5	4,418	3,873	14.1
Other expenses	2,514	2,173	15.7	2,376	5.8	2,443	2.9	4,890	4,279	14.3
EBITDA	4,974	4,821	3.2	5,083	(2.2)	5,626	(11.6)	10,057	9,003	11.7
EBITDAM (%)	30.7	32.8	-210bps	34.0	-320bps	33.9	-310bps	32.3	32.2	10bps
Depreciation	417	443	(5.8)	415	0.5	487	(14.3)	832	880	(5.5)
EBIT	4,556	4,379	4.1	4,668	(2.4)	5,139	(11.3)	9,225	8,122	13.6
EBITM (%)	28.1	29.8	-160bps	31.2	-310bps	30.9	-280bps	29.6	29.1	50bps
Interest cost	12	11	9.5	10	17.3	12		21	21	0.5
Other income	195	210	(7.1)	190	3.0	231	(15.5)	385	360	6.9
PBT	4,740	4,578	3.5	4,848	(2.2)	5,359	(11.5)	9,588	8,461	13.3
Tax	1,210	1,178	2.8	1,241	(2.5)	1,366	(11.4)	2,451	2,178	12.5
Tax rate(%)	25.5	25.7	-20bps	25.6		25.5	0bps	25.6	25.7	-20bps
Non-recurring items	421	0		33	1171.6	0		454	-145	(412.3)
PAT	3,951	3,401	16.2	3,640	8.5	3,992	(1.0)	7,590	6,137	23.7
Adj Profit	3,530	3,401	3.8	3,607	(2.1)	3,992	(11.6)	7,137	6,283	13.6
NPM (%)	21.8	23.1	-130bps	24.1	-230bps	24.0	-220bps	22.9	22.5	40bps
EPS (Rs)	13.0	12.5	3.8	13.3	(2.1)	14.7	(11.6)	52.5	46.2	13.6

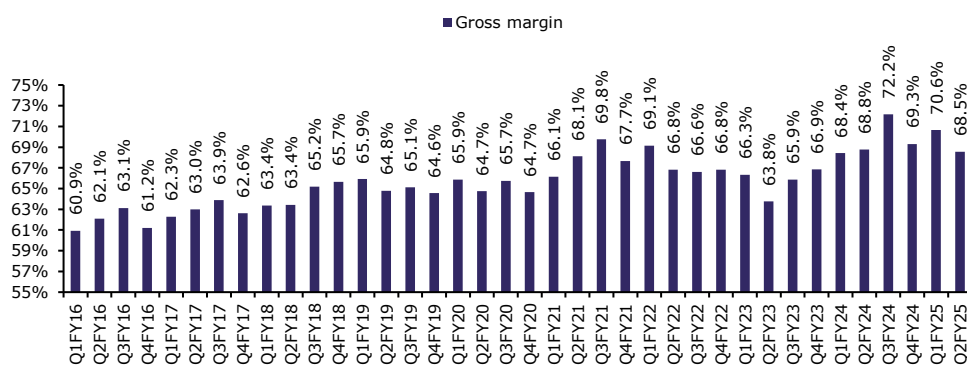
Source: Company, Emkay Research

Exhibit 2: Colgate India – Quarterly revenue growth



Source: Company, Emkay Research

Exhibit 3: Colgate India – Quarterly gross margin trend



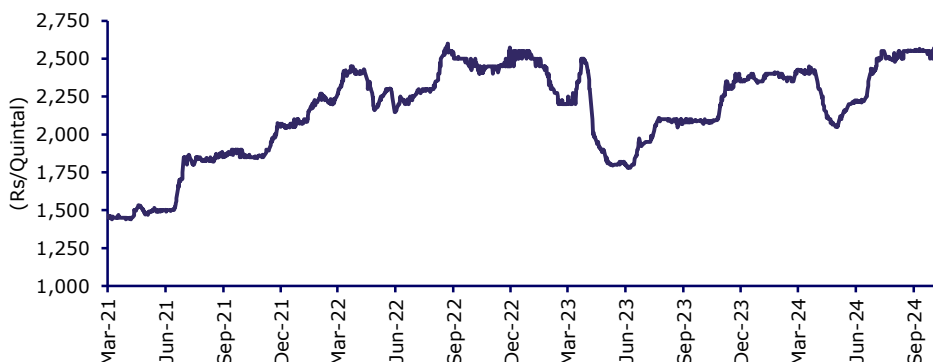
Source: Company, Emkay Research

Exhibit 4: Key raw materials for Colgate and the spot price trend

	RM mix	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	YoY	QoQ
Sorbitol (Maize)	20%	2,417	2,480	2,257	1,882	2,067	2,263	2,352	1,882	2203	7%	17%
Mentha Oil	20%	1,172	1,180	1,251	1,176	1,054	1,021	1,020	1,006	1012	-4%	1%
Crude derivative	15%	101	89	81	78	87	84	83	85	80	-7%	-5%
HDPE	10%	95,092	89,866	93,869	86,244	87,158	84,055	86,790	86,291	87,467	0%	1%

Source: Company, Bloomberg, NCDEX, Emkay Research; Note: Maize price data is in Rs/Quintal; Mentha oil and HDPE are in Rs/kg; Crude is in USD/barrel

Exhibit 5: Maize price trend



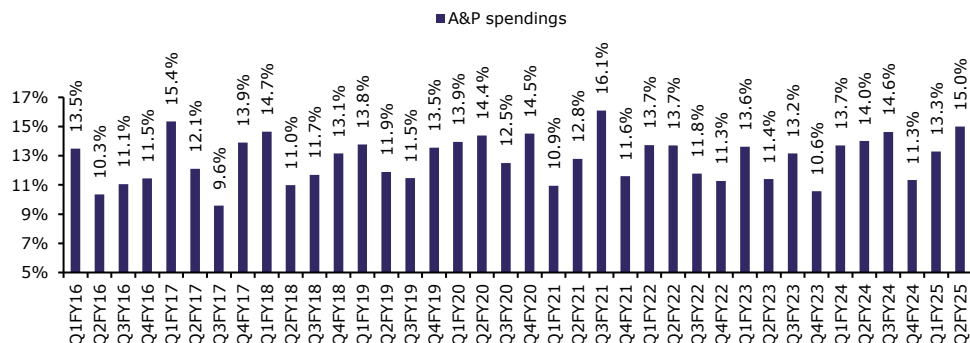
Source: NCDEX, Emkay Research

Exhibit 6: Mentha oil price trend



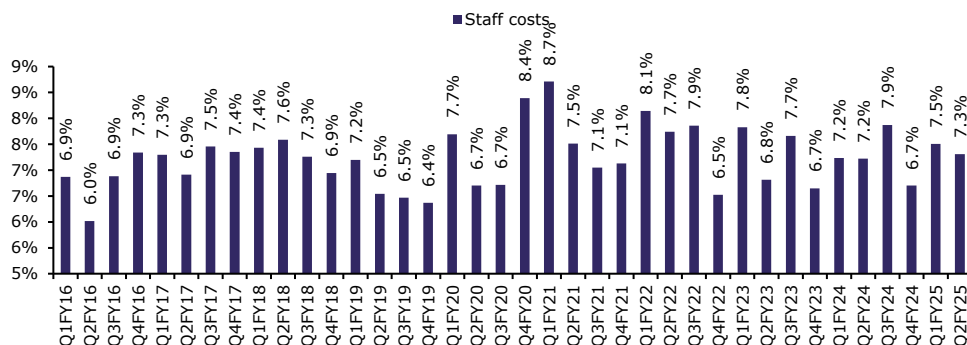
Source: Company, Emkay Research

Exhibit 7: Quarterly advertising and promotion spending as a % of sales



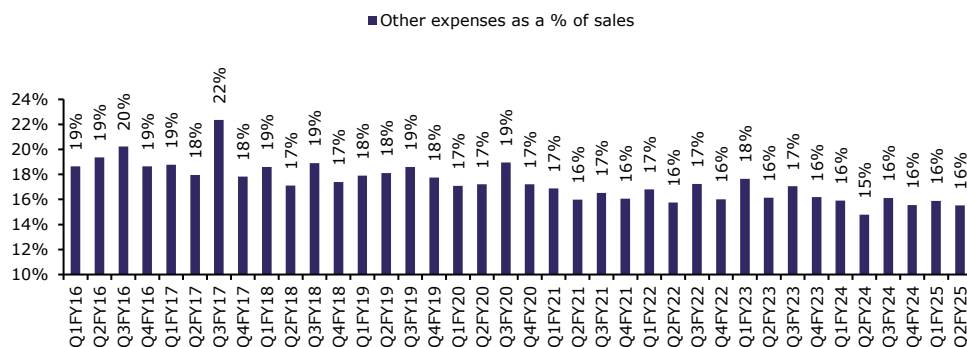
Source: Company, Emkay Research

Exhibit 8: Quarterly staff cost as a % of sales



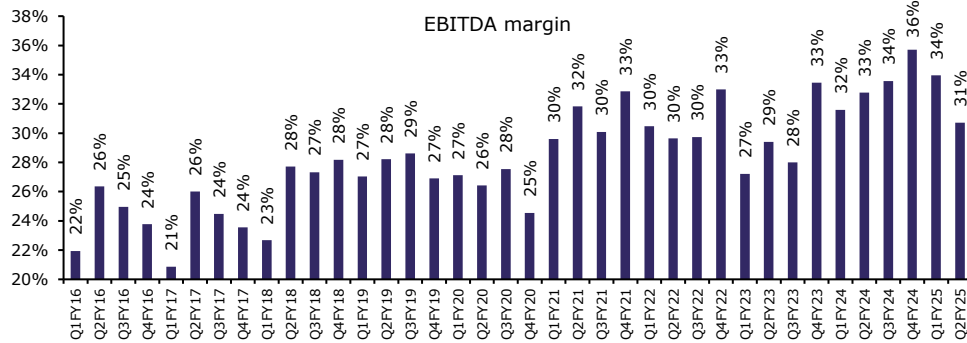
Source: Company, Emkay Research

Exhibit 9: Quarterly other expenses as a % of sales



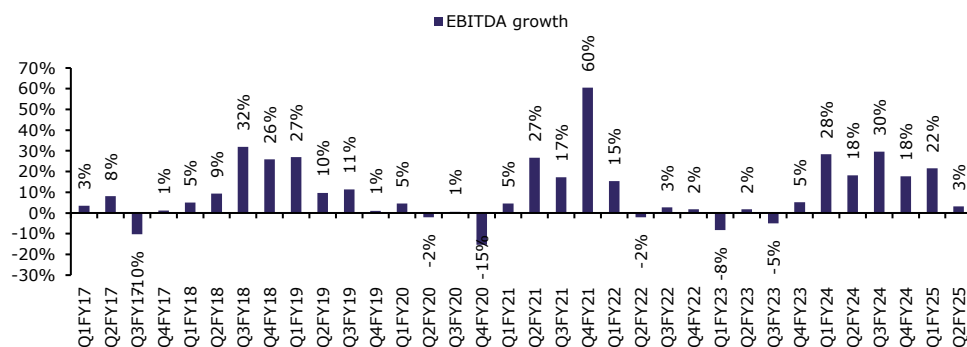
Source: Company, Emkay Research

Exhibit 10: Quarterly EBITDA margin trends



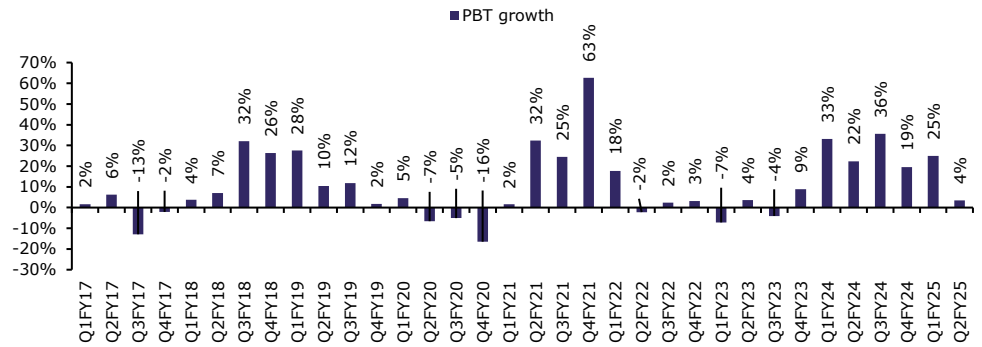
Source: Company, Emkay Research

Exhibit 11: Quarterly EBITDA growth trends



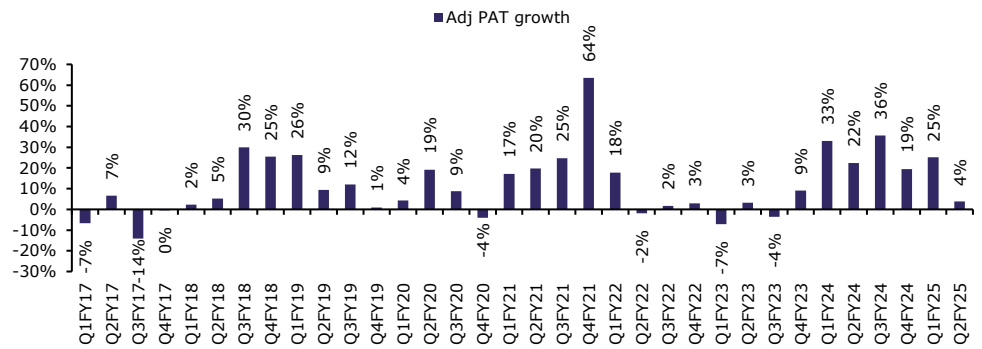
Source: Company, Emkay Research

Exhibit 12: Quarterly profit before tax growth trend



Source: Company, Emkay Research

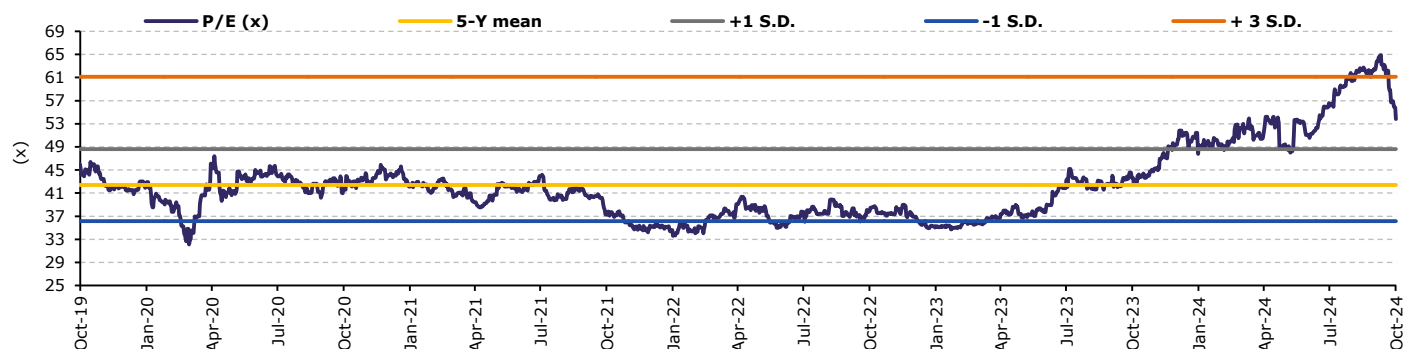
Exhibit 13: Quarterly adjusted PAT growth trend



Source: Company, Emkay Research

Valuations

Exhibit 14: Colgate India's one-year forward P/E



Source: Company, Emkay Research

Exhibit 15: Changes to estimates

(Rs mn)	New estimates			Old estimates			Change in Emkay estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	62,712	68,291	74,368	63,438	69,518	76,187	-1.1%	-1.8%	-2.4%
- growth	11.0%	8.9%	8.9%	12.3%	9.6%	9.6%			
EBITDA	20,638	23,220	25,627	22,235	24,464	26,936	-7.2%	-5.1%	-4.9%
- growth	8.6%	12.5%	10.4%	17.0%	10.0%	10.1%			
EBITDA margin (%)	32.9%	34.0%	34.5%	35.1%	35.2%	35.4%			
Adj PAT	14,512	16,389	18,166	15,699	17,313	19,139	-7.6%	-5.3%	-5.1%
- growth	8.0%	12.9%	10.8%	24.7%	24.9%	25.1%			
EPS (Rs)	53.4	60.3	66.8	57.7	63.6	70.4	-7.6%	-5.3%	-5.1%

Source: Company, Emkay Research

Exhibit 16: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Profit and loss statement									
Net sales growth	6.6%	1.4%	7.0%	5.3%	2.5%	8.7%	11.0%	8.9%	8.9%
Toothpaste volume growth	5.8%	1.0%	4.0%	3.5%	-2.5%	2.0%	6.5%	4.0%	4.0%
Gross margin	65.1%	65.2%	68.0%	67.3%	65.7%	69.7%	69.5%	70.0%	70.0%
A&P spends as a % of sales	12.7%	13.8%	12.9%	12.6%	12.1%	13.4%	13.7%	13.7%	13.7%
Employee costs	6.6%	7.3%	7.6%	7.6%	7.2%	7.2%	7.3%	7.3%	7.2%
EBITDA margin	27.7%	26.6%	31.2%	30.7%	29.6%	33.5%	32.7%	33.8%	34.3%
EBITDA growth	11.1%	-2.8%	25.6%	3.7%	-1.2%	22.9%	8.6%	12.5%	10.4%
EBIT growth	12.7%	-6.8%	32.2%	4.6%	-1.2%	26.0%	9.0%	13.3%	10.9%
PBT growth	11.8%	-6.2%	29.4%	4.4%	0.8%	26.7%	8.4%	12.9%	10.8%
Effective tax rate	35.4%	21.7%	23.3%	23.5%	25.5%	25.4%	25.7%	25.7%	25.7%
Adjusted PAT growth	10.4%	13.7%	26.8%	4.1%	-1.9%	26.9%	8.0%	12.9%	10.8%
EPS (Rs)	26.4	30.0	38.1	39.6	38.9	49.4	53.4	60.3	66.8
DPS (Rs)	23.0	29.0	38.0	40.0	39.0	58.0	54.0	61.0	70.0
Dividend payout	87%	97%	100%	101%	100%	117%	101%	101%	105%
Balance sheet									
Inventory days (no of)	20	24	25	26	23	19	23	22	24
Receivable days (no of)	17	11	9	16	11	11	11	11	11
Payable days (no of)	81	64	115	70	69	73	70	69	69
Avg ROE	48%	54%	75%	74%	61%	75%	81%	94%	99%
Avg ROCE	71%	62%	90%	90%	76%	93%	101%	117%	124%
Capex spends (Rs mn)	1,042	604	573	495	695	755	1,000	1,100	1,200

Source: Company, Emkay Research

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Colgate-Palmolive: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	52,262	56,804	63,052	68,665	74,780
Revenue growth (%)	2.5	8.7	11.0	8.9	8.9
EBITDA	15,470	19,008	20,638	23,220	25,627
EBITDA growth (%)	(1.2)	22.9	8.6	12.5	10.4
Depreciation & Amortization	1,748	1,715	1,795	1,878	1,969
EBIT	13,722	17,293	18,843	21,342	23,659
EBIT growth (%)	(1.2)	26.0	9.0	13.3	10.9
Other operating income	320	318	340	374	411
Other income	536	765	738	765	842
Financial expense	49	50	51	52	53
PBT	14,209	18,008	19,530	22,055	24,448
Extraordinary items	0	0	0	0	0
Taxes	3,625	4,577	5,018	5,667	6,281
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	10,471	13,237	14,512	16,389	18,166
PAT growth (%)	(2.9)	26.4	9.6	12.9	10.8
Adjusted PAT	10,584	13,432	14,512	16,389	18,166
Diluted EPS (Rs)	38.9	49.4	53.4	60.3	66.8
Diluted EPS growth (%)	(1.9)	26.9	8.0	12.9	10.8
DPS (Rs)	39.0	43.0	60.0	56.0	65.0
Dividend payout (%)	101.3	88.4	112.5	92.9	97.3
EBITDA margin (%)	29.6	33.5	32.7	33.8	34.3
EBIT margin (%)	26.3	30.4	29.9	31.1	31.6
Effective tax rate (%)	25.5	25.4	25.7	25.7	25.7
NOPLAT (pre-IndAS)	10,221	12,898	14,001	15,859	17,580
Shares outstanding (mn)	272.0	272.0	272.0	272.0	272.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	14,209	18,008	19,530	22,055	24,448
Others (non-cash items)	65	99	0	0	0
Taxes paid	(3,809)	(4,686)	(5,018)	(5,667)	(6,281)
Change in NWC	(89)	(2,272)	(344)	583	72
Operating cash flow	11,763	11,990	15,276	18,137	19,418
Capital expenditure	(695)	(755)	(1,000)	(1,100)	(1,200)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,014	1,252	1,355	1,414	3,326
Investing cash flow	(75)	792	(262)	(335)	(358)
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(191)	(190)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(102)	(93)	(51)	(52)	(53)
Dividend paid (incl tax)	(10,575)	(11,670)	(16,320)	(15,232)	(17,680)
Others	0	0	0	0	0
Financing cash flow	(10,867)	(11,953)	(16,371)	(15,284)	(17,733)
Net chg in Cash	820	829	(1,357)	2,518	1,327
OCF	11,763	11,990	15,276	18,137	19,418
Adj. OCF (w/o NWC chg.)	11,852	12,079	15,620	17,554	19,346
FCFF	11,068	11,234	14,276	17,037	18,218
FCFE	12,033	12,437	15,580	18,399	21,492
OCF/EBITDA (%)	76.0	63.1	74.0	78.1	75.8
FCFE/PAT (%)	113.7	92.6	107.4	112.3	118.3
FCFF/NOPLAT (%)	108.3	87.1	102.0	107.4	103.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	272	272	272	272	272
Reserves & Surplus	16,892	18,472	16,664	17,820	18,307
Net worth	17,164	18,744	16,936	18,092	18,579
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(288)	(648)	(648)	(648)	(648)
Total debt	942	950	986	1,024	1,063
Total liabilities & equity	17,817	19,046	17,274	18,468	18,994
Net tangible fixed assets	8,618	7,941	7,145	6,367	5,598
Net intangible assets	0	0	0	0	0
Net ROU assets	0	0	0	0	0
Capital WIP	1,141	1,103	1,103	1,103	1,103
Goodwill	0	0	0	0	0
Investments [JV/Associates]	325	257	270	283	296
Cash & equivalents	9,230	13,738	12,381	14,899	16,226
Current assets (ex-cash)	9,228	8,279	9,450	9,914	10,973
Current Liab. & Prov.	10,724	12,272	13,075	14,097	15,203
NWC (ex-cash)	(1,496)	(3,992)	(3,624)	(4,183)	(4,229)
Total assets	17,817	19,046	17,274	18,468	18,994
Net debt	(9,214)	(13,721)	(12,364)	(14,882)	(16,210)
Capital employed	16,892	18,113	16,305	17,461	17,948
Invested capital	7,122	3,948	3,521	2,184	1,369
BVPS (Rs)	63.1	68.9	62.3	66.5	68.3
Net Debt/Equity (x)	(0.5)	(0.7)	(0.7)	(0.8)	(0.9)
Net Debt/EBITDA (x)	(0.6)	(0.7)	(0.6)	(0.6)	(0.6)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	83.7	103.2	113.8	130.9	138.4

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	82.6	65.1	60.2	53.3	48.1
P/CE(x)	73.5	59.8	55.6	49.6	45.0
P/B (x)	50.9	46.6	51.6	48.3	47.0
EV/Sales (x)	16.6	15.2	13.7	12.6	11.5
EV/EBITDA (x)	55.9	45.3	41.7	37.0	33.5
EV/EBIT(x)	65.4	51.6	47.4	41.8	37.6
EV/IC (x)	125.9	226.0	253.8	408.0	650.1
FCFF yield (%)	1.2	1.3	1.6	1.9	2.0
FCFE yield (%)	1.3	1.4	1.7	2.0	2.4
Dividend yield (%)	1.2	1.3	1.9	1.7	2.0
DuPont-RoE split					
Net profit margin (%)	20.3	23.6	23.0	23.9	24.3
Total asset turnover (x)	3.1	3.2	3.7	4.1	4.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
RoE (%)	61.3	74.8	81.3	93.6	99.1
DuPont-RoIC					
NOPLAT margin (%)	19.6	22.7	22.2	23.1	23.5
IC turnover (x)	6.4	10.3	16.9	24.1	42.1
RoIC (%)	125.9	233.0	374.9	556.0	989.6
Operating metrics					
Core NWC days	(49.9)	(52.4)	(52.4)	(50.5)	(49.5)
Total NWC days	(10.5)	(25.7)	(21.0)	(22.2)	(20.6)
Fixed asset turnover	2.5	2.6	2.8	2.9	3.0
Opex-to-revenue (%)	36.1	36.2	36.8	36.2	35.7

Source: Company, Emkay Research

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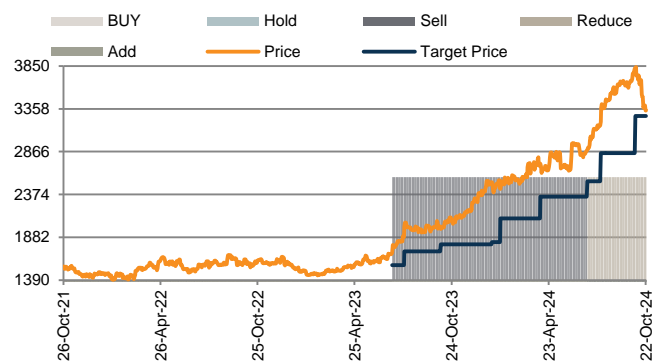
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Date	Closing Price (INR)	TP (INR)	Rating	Analyst
02-Oct-24	3,820	3,275	Reduce	Nitin Gupta
24-Sep-24	3,682	2,850	Reduce	Nitin Gupta
29-Jul-24	3,210	2,850	Reduce	Nitin Gupta
04-Jul-24	2,885	2,525	Reduce	Nitin Gupta
26-Jun-24	2,802	2,350	Sell	Nitin Gupta
04-Jun-24	2,810	2,350	Sell	Nitin Gupta
15-May-24	2,673	2,350	Sell	Nitin Gupta
13-May-24	2,859	2,350	Sell	Nitin Gupta
08-May-24	2,825	2,350	Sell	Nitin Gupta
15-Apr-24	2,673	2,350	Sell	Nitin Gupta
07-Apr-24	2,729	2,350	Sell	Nitin Gupta
14-Mar-24	2,687	2,100	Sell	Nitin Gupta
23-Jan-24	2,438	2,100	Sell	Nitin Gupta
07-Jan-24	2,515	1,825	Sell	Nitin Gupta
12-Dec-23	2,336	1,800	Sell	Nitin Gupta
30-Nov-23	2,196	1,800	Sell	Nitin Gupta
24-Nov-23	2,195	1,800	Sell	Nitin Gupta
26-Oct-23	2,034	1,800	Sell	Nitin Gupta
24-Oct-23	2,076	1,800	Sell	Nitin Gupta
20-Oct-23	2,111	1,800	Sell	Nitin Gupta
03-Oct-23	1,978	1,800	Sell	Nitin Gupta
28-Aug-23	1,936	1,720	Sell	Nitin Gupta
22-Aug-23	1,940	1,720	Sell	Nitin Gupta
15-Aug-23	1,963	1,720	Sell	Nitin Gupta
27-Jul-23	2,002	1,720	Sell	Nitin Gupta
04-Jul-23	1,705	1,560	Sell	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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REDUCE	5% upside to 15% downside
SELL	<15% downside

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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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