

**Valuation considers new narrative, discounts stress ahead**Consumer Goods ▶ Company Update ▶ **October 23, 2023****TARGET PRICE (Rs) : 1,800**

Colgate India has registered toothpaste-portfolio MRP CAGR of 10-18% over the last three years, except in mass-end Cibaca (~5%), to bridge the product price gap with other global markets. This compares with its muted 2-5% price CAGR over 2013-20. A closer look at the various segments in Toothpaste reveals Colgate is now priced at a premium to most incumbents. Advocated further by its global CEO Noel Wallace, Colgate India will now focus on scientific expertise and technical superiority of offerings, with a view to premiumize the category. The Naturals segment, which forms ~30% of the market, is likely to be a defocus segment for the company. We still see lack of structural growth as a fundamental concern for the stock. Hence, we maintain SELL with Sep-24E TP of Rs1,800/share, on 35x P/E (based on the last 5Y avg. fwd. P/E).

**Colgate-Palmolive: Financial Snapshot (Consolidated)**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	50,998	52,262	57,112	60,949	65,294
EBITDA	15,659	15,470	18,268	19,383	20,836
Adj. PAT	10,783	10,584	12,634	13,450	14,552
Adj. EPS (Rs)	39.6	38.9	46.4	49.4	53.5
EBITDA margin (%)	30.7	29.6	32.0	31.8	31.9
EBITDA growth (%)	3.7	(1.2)	18.1	6.1	7.5
Adj. EPS growth (%)	4.1	(1.9)	19.4	6.5	8.2
RoE (%)	74.4	61.3	70.6	69.4	69.7
RoIC (%)	187.2	125.9	195.6	275.9	428.4
P/E (x)	52.2	53.1	44.5	41.8	38.7
EV/EBITDA (x)	35.4	35.8	30.1	28.2	26.1
P/B (x)	32.4	32.8	30.2	27.9	26.0
FCFF yield (%)	3.0	2.1	2.6	2.7	3.0

Source: Company, Emkay Research

**Oral care opportunity muted, need for diversification to drive growth**

With the toothpaste category's penetration at ~85% in urban and ~75% in rural, volume growth ahead would be a factor of converting non-users and users into 'twice-brushing' users. We see Toothpaste volume CAGR of ~3% over coming 5 years. Fathoming the existing core business set-up, Colgate India is now looking to drive growth via price actions and premiumization. Overall, the strategy ahead is focused on offering science-backed and technically-superior products, which would empower the company to effect price hikes. From a structural growth perspective, we see the need for diversification.

**Enhanced pricing helps in margin, but may trigger a competitive action**

In this report, we gauge the pricing behavior of Colgate. Ex-Cibaca, we see Colgate has effected MRP CAGR of 10-18% across the portfolio over the last 3 years as against low-to-mid single-digit CAGR in the previous seven (FY13-20). Also, Company's price gap with competition is widening; if competition sticks to rational hikes for price parity, Colgate's strategy would aid sector profitability. But through the competition's lens, this also makes space for rivals to seize market share. MNC contenders (P&G) may see this as an opportune time to re-enter the category. HUL still looks to re-establish *Pepsodent*.

**Stock riding the new narrative wave; prospects beyond FY24 look grim**

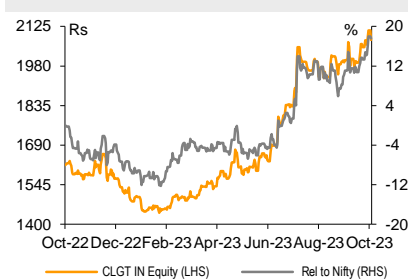
We see the new CEO's measures turning around the business, with steady price hikes aiding margin growth. Our bull case scenario reveals this would lead to mid-teen earnings growth, which has already been built-in the stock price up-move. Our deep-dive assesses usage of consumer cohorts in urban & rural markets, and suggests ~3% volume CAGR over the next 5 years. This, along with inflation pass-through, is expected to generate ~6% value growth in the category. We are concerned about growth beyond FY24, when we anticipate a stock de-rating. While our base case implies Sep-24E TP of Rs1,800 (on 35x target P/E), our bull case TP is ~Rs2,300 (40x target P/E), and our bear case TP is Rs1,465 (31x target P/E). The stock's historical (last 5Y) avg fwd P/E is 39x; retain SELL.

Target Price – 12M	Sep-24
Change in TP (%)	-
Current Reco.	SELL
Previous Reco.	SELL
Upside/(Downside) (%)	(13.0)
CMP (23-Oct-23) (Rs)	2,068.0

Stock Data	Ticker
52-week High (Rs)	2,129
52-week Low (Rs)	1,435
Shares outstanding (mn)	272.0
Market-cap (Rs bn)	562
Market-cap (USD mn)	6,761
Net-debt, FY18E (Rs mn)	-4,241
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,221.3
ADTV-3M (USD mn)	14.7
Free float (%)	49.0
Nifty-50	19,282
INR/USD	83.2
<b>Shareholding, Sep-23</b>	
Promoters (%)	51.0
FPIs/MFs (%)	24.1/5.9

**Price Performance**

(%)	1M	3M	12M
Absolute	3.3	12.8	30.3
Rel. to Nifty	5.4	15.5	18.8

**1-Year share price trend (Rs)****Nitin Gupta**nitin.gupta@emkayglobal.com  
+91 22 6612 1257

## Colgate's urge to enhance product pricing

**Colgate India is looking to bridge the price gap to global product prices**

In a recent media interview ([link](#)), Noel Wallace, Colgate-Palmolive Chairman and CEO, noted the company's perspective on the low average product price in India. With an evolving middle class, there is an opportunity for price hikes. In an ideal world, with raw-material prices easing, companies would focus on driving structural growth with benefit pass-through. However, we see the strategy of effecting pricing as quite unique. Aligning with its strategy with its parent entity, Colgate India is effecting price hikes across its portfolio.

### The last three years saw double-digit MRP hikes

As can be seen in Exhibit 1 below, over the last three years, the company has effected double-digit price hikes, except for the mass-end offering of Colgate Cibaca. This price hike is quite stark compared with the low to mid-single-digit hike in the previous seven years.

**Exhibit 1: Assessing Colgate toothpaste prices over the last decade**

	SKU (gm)	MRP (Oct-23)	MRP (Oct-20)	MRP (Oct-13)	CAGR (20-23)	CAGR (13-23)	CAGR (13-20)
Colgate Strong Teeth	100	69	52	37	10%	6%	5%
Colgate Cibaca	175	63	55	40	5%	5%	5%
Colgate Max Fresh	150	125	92	78	11%	5%	2%
Colgate Herbal	200	152	100	78	15%	7%	4%
Colgate Active Salt	100	85	58	44	14%	7%	4%
Colgate Total Advanced	120	120	85	74	12%	5%	2%
Colgate Sensitive Original	80	97	60	90	18%	1%	-6%

Source: Emkay Research

**Exhibit 2: Assessing toothpaste prices by other incumbents over the last decade**

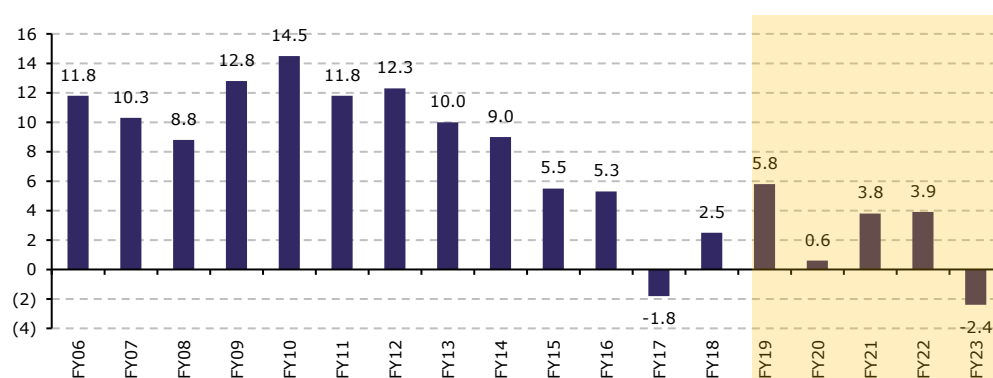
	SKU (gm)	MRP (Oct-23)	MRP (Oct-20)	MRP (Oct-13)	CAGR (20-23)	CAGR (13-23)	CAGR (13-20)
Pepsodent 2 in 1	150	97	97	78	0%	2%	3%
Dabur Red	200	125	97	75	9%	5%	4%
Dabur Meswak	200	120	97	78	7%	4%	3%
Sensodyne	75	125	99	96	8%	3%	0%
Pepsodent Whitening	150	100	95	82	2%	2%	2%

Source: Emkay Research

## Sharp price hikes have a bearing on volume growth

Colgate India's volume, which has maintained a healthy low double-digit CAGR in the past till FY13, has seen growth moderating to ~2% and ~3% over the last 5 and 10 years, respectively. Part of the moderation can be attributed to rural demand slowdown, but it has largely been a factor of its inability to gain leadership in the quick-evolving natural segment. Additionally, recent price hikes have impacted its volume growth trajectory.

**Exhibit 3: Colgate India's annual volume growth**

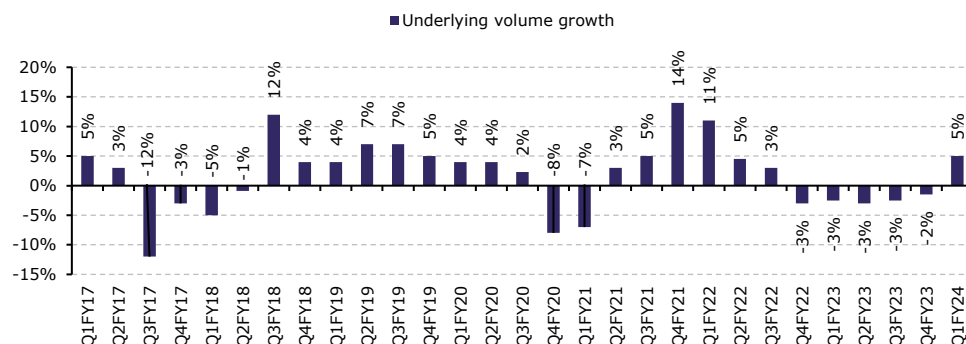


Source: Company, Emkay Research

**Muted volume growth for Colgate can be attributed to rural slowdown and steady price hikes**

A closer look at the quarterly volume growth performance of Colgate India suggests that pricing does have a bearing on structural volume growth. Colgate India has been seeing a 2-3% volume decline from Q4FY22 to Q4FY23. In Q1FY24, the company saw mid-single-digit growth on the back of planned product launches and on a low-volume base.

**Exhibit 4: Quarterly volume growth trends**



Source: Company, Emkay Research

## Widening price gap to competition

A closer look at the toothpaste segment's product pricing in the last three years suggests that Colgate has been widening the gap to other category incumbents. Being a category leader with a wider distribution reach, Colgate has so far managed to drive growth and margins.

**Exhibit 5: Toothpaste segment and key branded offerings**

	SKU (gm)	Oct-23 MRP (Rs)	Rs /gm	Oct-20 MRP (Rs)	CAGR (20-23)
<b>Low-priced products</b>					
Dabur Babool	350	121	0.35		
<b>Colgate Cibaca</b>	<b>175</b>	<b>63</b>	<b>0.36</b>	<b>55</b>	<b>5%</b>
<b>Family – Normal</b>					
Pepsodent Germi Check	300	176	0.59	129	11%
<b>Colgate Strong Teeth</b>	<b>200</b>	<b>130</b>	<b>0.65</b>	<b>95</b>	<b>11%</b>
<b>Freshness - Gel</b>					
Dabur Red Gel	150	100	0.67	80	8%
Dabur Bae Gel	150	100	0.67		
Close Up Red Hot	150	110	0.73	85	9%
<b>Colgate Max Fresh</b>	<b>150</b>	<b>125</b>	<b>0.83</b>	<b>92</b>	<b>11%</b>
<b>Family - Naturals</b>					
Dant Kanti	200	115	0.58	85	11%
Meswak	200	120	0.60	97	7%
Dabur Dantrakshak	175	110	0.63	85	9%
Dabur Red	200	125	0.63	97	9%
Dabur Herbal Tulsi / Clove	200	130	0.65	90	13%
<b>Colgate Active Salt</b>	<b>200</b>	<b>132</b>	<b>0.66</b>	<b>100</b>	<b>10%</b>
<b>Colgate Swarna Vedshakti</b>	<b>100</b>	<b>70</b>	<b>0.70</b>	<b>52</b>	<b>10%</b>
<b>Colgate Herbal</b>	<b>200</b>	<b>152</b>	<b>0.76</b>	<b>100</b>	<b>15%</b>
Vicco Vajradanti	100	82	0.82	73	4%
<b>Colgate Charcoal Clean</b>	<b>120</b>	<b>173</b>	<b>1.44</b>	<b>99</b>	<b>20%</b>
<b>Kids</b>					
Patanjali Junior	100	35	0.35	38	-3%
<b>Colgate 2-5Y</b>	<b>40</b>	<b>71</b>	<b>1.78</b>	<b>40</b>	<b>21%</b>
<b>Colgate Barbie</b>	<b>80</b>	<b>147</b>	<b>1.84</b>	<b>90</b>	<b>18%</b>
<b>Colgate Spiderman</b>	<b>80</b>	<b>147</b>	<b>1.84</b>	<b>90</b>	<b>18%</b>
<b>Colgate 0-2Y</b>	<b>70</b>	<b>158</b>	<b>2.26</b>	<b>150</b>	<b>2%</b>
<b>Colgate 6-9Y</b>	<b>80</b>	<b>230</b>	<b>2.88</b>	<b>150</b>	<b>15%</b>
<b>Colgate 3-5Y</b>	<b>80</b>	<b>230</b>	<b>2.88</b>	<b>150</b>	<b>15%</b>

Source: Emkay Research

**Adjusted for product relaunches in Q1FY24, Colgate had a weak volume growth show in the last couple of years**

**"The average price of a toothpaste is still quite low in India. So, we have this real opportunity, as the middle class grows, to continue to premiumize" – Noel Wallace**

*Except for the sensitive premium segment, we see Colgate's product prices widening vs. peers*

Exhibit 6: Toothpaste segment and key branded offerings

	SKU (gm)	Oct-23 MRP (Rs)	Rs /gram	Oct-20 MRP (Rs)	CAGR (20-23)
<b>Premium - Sensitive</b>					
Colgate Sensitive Clove	160	185	1.16	120	16%
Colgate Sensitive Original	160	195	1.22	120	18%
Sensodyne Fresh mint	75	130	1.73	110	6%
Sensodyne	70	125	1.79	92	11%
Colgate Sensitive Plus	70	195	2.79	125	16%
<b>Premium - whitening</b>					
Pepsodent Whitening	150	100	0.67	95	2%
Colgate Total Advanced Whitening	120	120	1.00	85	12%
Colgate Visible White	100	165	1.65	99	19%
<b>Premium - Multi benefit</b>					
Pepsodent Gumcare +	140	104	0.74	98	2%
Pepsodent Expert Protection Complete	140	118	0.84	114	1%
Colgate Total Advanced Health	120	140	1.17	99	12%
Colgate Total Charcoal Deep Clean	120	173	1.44	99	20%

Source: Emkay Research

## Premium-sensitive segment still has room for price hikes

Colgate India, as a part of its strategy to drive premiumization in the portfolio, has been promoting its premium offerings and driving new launches to meet the unmet needs of consumer cohorts. Recently, the company has effected a sharp ~50% price hike for Colgate Sensitive Clove and Colgate Sensitive Original.

Exhibit 7: Sensitive segment's product pricing

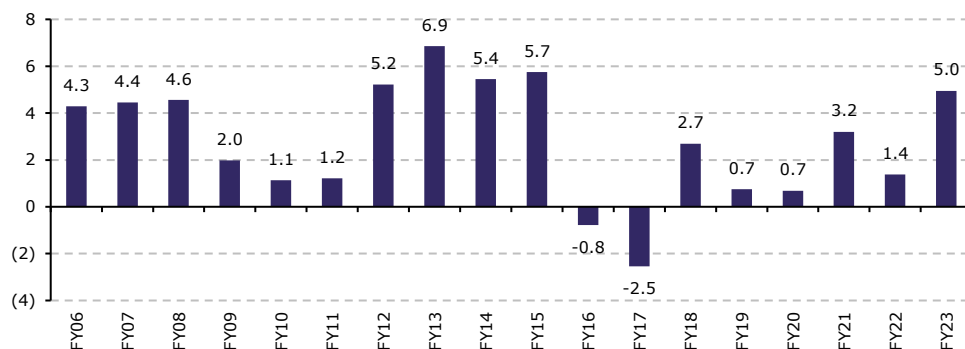
	Company	SKU	MRP (Rs)	per gram	Selling Price (Rs)	per gram
<b>Colgate</b>						
Colgate Sensitive Clove	Colgate	80 gm+80gm free	185	1.16	148	0.93
Colgate Sensitive Original	Colgate	80 gm+80gm free	195	1.22	167	1.04
Colgate Sensitive plus	Colgate	70gm	195	2.79	176	2.51
<b>GSK Consumer</b>						
Sensodyne	GSK	75gm	125	1.67	125	1.67
Sensodyne Fresh Mint	GSK	75gm	130	1.73	130	1.73
Sensodyne Herbal Multi Care	GSK	70gm	130	1.86	130	1.86
Sensodyne Whitening	GSK	70gm	145	2.07	145	2.07
Sensodyne Rapid Relief	GSK	80gm	190	2.38	190	2.38
Sensodyne Repair and Protect	GSK	70gm	205	2.93	205	2.93

Source: Emkay Research

A closer look at the category leader in the sensitive toothpaste segment suggests a wider price gap for Colgate India. Our ground checks suggest that Sensodyne has built strong brand perceptions with consumers, addressing sensitive oral care needs. Historically, Colgate tried to become an affordable brand in the segment, but perception lagged.

## Pricing likely to remain key for growth ahead

Pricing growth normally contributes to 25-30% of revenue growth for FMCG companies; for Colgate, contribution has been ~50% in the last decade. Looking at the strategy that the company has adopted, we may see a scenario like baby foods (essentials for kids), where growth is price-led. Management's thrust on increasing product prices and driving premiumization may make pricing a prime growth driver for the company ahead. Over FY25-26E, we have built a ~4% volume and ~3% realization CAGR.

**Exhibit 8: Colgate India's realization growth (YoY, %)**

Source: Company, Emkay Research

## Disconnect in MRP increases and price growth

Looking closely at the products' MRP increases and realization growth for the company, it is clear that the company has adopted promotions as a tool to entice consumers. We see a good part of the price increases getting absorbed in promotions.

### Trade promotions

**Exhibit 9: Colgate India's revenue growth and trade promotion spends**

	FY18	FY19	FY20	FY21	FY22	FY23
<b>Revenue as per contracted price</b>	<b>47,393</b>	<b>48,588</b>	<b>50,173</b>	<b>51,677</b>	<b>54,799</b>	<b>57,464</b>
Change (%)		2.5%	3.3%	3.0%	6.0%	4.9%
Sales return	193	114	306	272	267	291
As a %	0.4%	0.2%	0.6%	0.5%	0.5%	0.5%
Variable consideration	3,916	3,850	4,640	2,993	3,534	4,912
Change (%)		-1.7%	20.5%	-35.5%	18.1%	39.0%
As a %	8.3%	7.9%	9.2%	5.8%	6.4%	8.5%
<b>Reported net sales</b>	<b>43,284</b>	<b>44,624</b>	<b>45,227</b>	<b>48,412</b>	<b>50,998</b>	<b>52,262</b>
Change (%)		3.1%	1.4%	7.0%	5.3%	2.5%

Source: Company, Emkay Research

### Consumer promotions

**Exhibit 10: Toothpaste Freshness - Assessing consumer promotion (in Modern trade)**

	MRP (Rs)	SKU (grm)	Per grm	Selling price (Rs)	Effective price per grm	Effective promotion
Colgate Max Fresh Blue	125	150	0.83	115	0.77	-8%
Colgate Max Fresh Red	72	80	0.90	67	0.84	-7%
Dabur Red Gel Ayurvedic Paste	300	230	1.30	155	0.67	-48%
Dabur Red Gel Ayurvedic Paste	55	50	1.10	50	1.00	-9%
Close up Cool Breeze	222	300	0.74	172	0.57	-23%
Close-up Ever Fresh Red Hot	110	150	0.73	92	0.61	-16%
Close-up lemon mint	121	150	0.81	113.5	0.76	-6%
Close Up Fresh Multi Vitamin paste	135	150	0.90	115	0.77	-15%
Close up EF Blue Cool Breeze	121	150	0.81	113	0.75	-7%

Source: Company, Emkay Research

**Exhibit 11: Toothpaste Normal - Assessing consumer promotion (in Modern trade)**

	MRP (Rs)	SKU (gram)	Per gram	Selling price (Rs)	Effective price per gram	Effective promotion
Colgate Strong Teeth	69	100	0.69	62	0.62	-10%
	130	200	0.65	120	0.60	-8%
	199	300	0.66	169	0.56	-15%
	294	500	0.59	218	0.44	-26%
Dabur Babool	63	100	0.63	59	0.59	-6%
	125	350	0.36	105	0.30	-16%
Pepsodent Germi check H&F	62	100	0.62	58	0.58	-6%
	175	300	0.58	163	0.54	-7%
	270	550	0.49	220	0.40	-19%
Pepsodent 2 in 1	194	300	0.65	162	0.54	-16%

Source: Emkay Research

**Exhibit 12: Toothpaste Natural - Assessing consumer promotion (in Modern trade)**

	MRP (Rs)	SKU (gram)	Per gram	Selling price (Rs)	Effective price per gram	Effective promotion
Colgate Active Salt	73	100	0.73	70	0.70	-4%
	137	200	0.69	127	0.64	-7%
	192	300	0.64	175	0.58	-9%
Colgate Swarna Vedshkti	70	100	0.70	65	0.65	-7%
	135	200	0.68	125	0.63	-7%
	250	400	0.63	130	0.33	-48%
Colgate Herbal	150	200	0.75	140	0.70	-7%
Dabur Red Paste	125	200	0.63	110	0.55	-12%
	295	500	0.59	229	0.46	-22%
Dabur Clove Paste	110	200	0.55	99	0.50	-10%
Dabur Tulsi Paste	130	200	0.65	110	0.55	-15%
Patanjali Dant Kanti	105	200	0.53	95	0.48	-10%
	280	600	0.47	250	0.42	-11%
Vicco Vajradanti	82	100	0.82	72	0.72	-12%
Dabur Dant Rakshak	209	175+ 175	0.60	209	0.60	0%
Dabur Meswak	70	100	0.70	65	0.65	-7%
	125	200	0.63	112.5	0.56	-10%
	195	300	0.65	149	0.50	-24%
Pepsodent Lavang and Salt	101	200	0.51	95	0.48	-6%

Source: Emkay Research

**Exhibit 13: Toothpaste premium - Assessing consumer promotion (in Modern trade)**

	MRP (Rs)	SKU (gram)	Per gram	Selling price	Effective price per gram	Effective promotion
Colgate Sensitive	195	80+80	1.22	195	1.22	-50%
Colgate Visible White	288	200	1.44	199	0.50	-31%
	190	100	1.90	170	0.85	-11%
Colgate Total Advanced Health	162	120	1.35	111	0.93	-31%
Sensodyne Fresh Mint	220	150	1.47	203	1.35	-8%
Sensodyne Repair and Protect	235	100	2.35	215	2.15	-9%
	370	300	1.23	280	0.93	-24%

Source: Company, Emkay Research

**Exhibit 14: Toothpowder - Assessing consumer promotion (in Modern trade)**

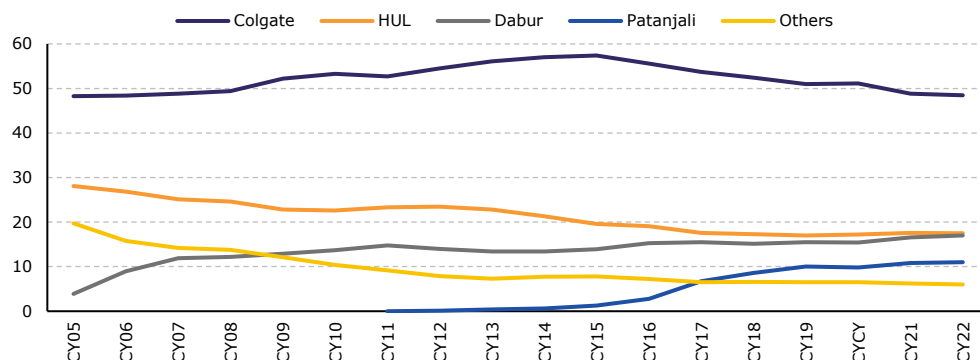
	MRP (Rs)	SKU (gram)	Per gram	Selling price (Rs)	Effective price per gram	Effective promotion
Colgate Tooth Powder	65	100	0.65	61	0.61	-6%
	120	240	0.50	115	0.48	-4%
Dabur Red Powder	99	150	0.66	90	0.60	-9%

Source: Emkay Research

## Competitive intensity remains a key watch out

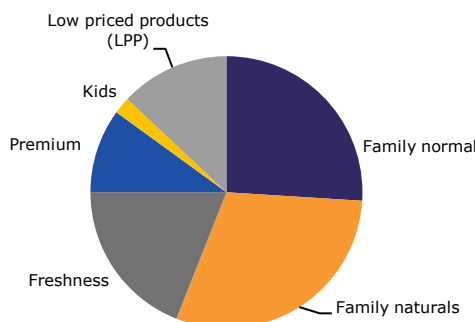
With growth rates normalizing across toothpaste segments, we expect Colgate to maintain its market share, which was eroding earlier, given faster growth in the natural segment.

Exhibit 15: Toothpaste category's volume market share



Source: Industry, Emkay Research

Exhibit 16: Segments of the toothpaste category



Source: Emkay Research

### Competition reaction key for Colgate's strategy

Given high consumer loyalty to a brand (cost per usage is low vs. other FMCG categories), we may see continued brand consumption despite sharp price hikes. However, in case competition looks to drive share advocating similar benefits at an affordable pricing, there is an opportunity for consumer shifts.

So far, competition is largely considered natural as a proposition to shift consumer. It is important to note that the second and third participant in the category has ~1/3<sup>rd</sup> share of Colgate Palmolive's share in the category. Moreover, HUL and Dabur have a much-diversified portfolio to look after vs. Colgate generating ~90% revenue from oral care offerings, which have limited aggression. For HUL, we see ~70% of revenue is concentrated in the freshness segment under *Close Up*. While for Dabur, most of the revenue is concentrated in family natural segments.

We see an opportunity for competition to drive volume market share, as Colgate is aggressive with price actions. However, in case other incumbents look to drive profitability in-line with the category leader, it will be positive for Colgate India.

### GSK Consumer to up the ante in the premium sensitive segment

With HUL and GSK Consumer tie-up ending in Nov-23, we see GSK to get aggressive on product push under its own distribution set-up. The company has already appointed distributors to look after the OTC range. We see competitive intensity firming up, where GSK holds category leadership in the sensitive segment.

### Strong category profitability may entice P&G to re-enter the toothpaste category

P&G's previous attempts in toothpaste did not bode well, given counter actions from the category leader. However, in the current setting (when natural salience plateaued), when Colgate is looking to drive growth with price, which helped expand margin over 30%, it may be an opportune time for P&G to enter India.

**With the natural category's contribution plateauing, Colgate India's market share looks stable ahead**

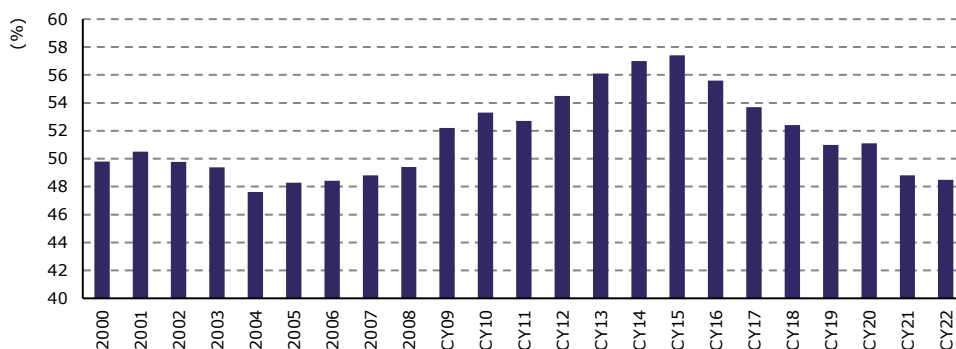


## Thrust on science and its technical superiority

After struggling to make headway in the evolving naturals segment, which is also reflected in its market share loss from the peak of CY15, the company is now looking to leverage its core expertise, which is offering scientific and technically superior offerings for consumers. Naturals incrementally is a tactical segment for the company; the company has a strategic thrust on products with science and technical superiority.

From a volume growth perspective, ~55% of the population in rural areas does not brush daily, and ~80% of urban users only brush once a day. This offers a long-term opportunity. While Colgate India generates ~4% revenue for the parent entity, it is the third biggest market for the parent entity. Colgate India has been important for parent entity, where India has gained importance from a talent, innovation, and growth perspective.

Exhibit 17: Colgate’s volume market share in the toothpaste category



Source: Industry, Emkay Research

Exhibit 18: Colgate India's thrust on science-backed technically superior products

*"...driving per capita consumption, driving premiumization, and bringing unique innovation that deals with people centricity orientation in the market. If we can do those three consistently and not be distracted, I think India can obviously become one of our fastest-growing markets in the world" – Noel Wallace*

*"...we play naturals because we know how to play naturals. But the bridge from naturals to ayurvedic is a big bridge to cross to have that credibility. We want to bring products to the market that clearly bring scientific and tangible healthcare benefits to the consumer" – Noel Wallace*

		<b>Unique Arginine Technology</b> 2X Remineralization of Teeth
		<b>Powerful Dual zinc + Arginine formula</b> Prevents all dental problems*
		<b>Superior freshness technology</b> v/s eyeball competition
		<b>Specially curated portfolio</b>

Source: Company



## Exhibit 19: Summary financials for Colgate Palmolive and Colgate India, highlighting contribution from India to the parent

	CY17	CY18	CY19	CY20	CY21	CY22
<b>Colgate Palmolive Global (USD mn)</b>						
Net sales	15,454	15,544	15,693	16,471	17,421	17,967
Growth		0.6%	1.0%	5.0%	5.8%	3.1%
<i>Emerging market revenue salience</i>	50.0%	48.0%	48.0%	44.0%	45.0%	45.0%
<i>Revenue from oral care and personal care</i>	67.0%	67.0%	66.0%	65.0%	64.0%	62.0%
<b>Gross margin</b>	<b>59.4%</b>	<b>60.0%</b>	<b>59.4%</b>	<b>60.8%</b>	<b>59.6%</b>	<b>57.0%</b>
EBITDA	3,707	3,694	3,554	3,885	3,903	3,614
<b>EBITDA margin</b>	<b>24.0%</b>	<b>23.8%</b>	<b>22.6%</b>	<b>23.6%</b>	<b>22.4%</b>	<b>20.1%</b>
PAT	2,024	2,400	2,367	2,695	2,737	2,506
Growth		18.6%	-1.4%	13.9%	1.6%	-8.4%
PAT margin	13.1%	15.4%	15.1%	16.4%	15.7%	13.9%
<b>Colgate India (Rs mn)</b>						
Revenue	43,866	43,709	45,719	45,978	50,481	51,395
Growth		-0.4%	4.6%	0.6%	9.8%	1.8%
<b>Contribution to global sales</b>	<b>4.4%</b>	<b>4.1%</b>	<b>3.7%</b>	<b>3.8%</b>	<b>3.9%</b>	<b>3.6%</b>
<i>Contribution to emerging market sales</i>	8.7%	8.6%	7.7%	8.6%	8.7%	8.1%
<i>Contribution to oral care and personal care sales</i>	6.5%	6.1%	5.6%	5.8%	6.1%	5.9%
<b>Gross margin</b>	<b>65.7%</b>	<b>65.1%</b>	<b>64.9%</b>	<b>67.1%</b>	<b>67.3%</b>	<b>65.4%</b>
EBIDTA	10,492	12,331	12,438	13,508	15,583	15,245
growth		17.5%	0.9%	8.6%	15.4%	-2.2%
<b>EBIDTA Margin</b>	<b>23.9%</b>	<b>28.2%</b>	<b>27.2%</b>	<b>29.4%</b>	<b>30.9%</b>	<b>29.7%</b>
PAT	6,105	7,165	7,776	8,939	10,379	10,295
Growth		17.4%	8.5%	15.0%	16.1%	-0.8%
PAT Margin	13.9%	16.4%	17.0%	19.4%	20.6%	20.0%
<b>Contribution to parent PAT</b>	<b>4.6%</b>	<b>4.4%</b>	<b>4.2%</b>	<b>4.5%</b>	<b>5.1%</b>	<b>5.2%</b>

Source: Company, Emkay Research

## Category growth opportunity looks muted

**~90% revenue for Colgate India is from oral care vs. parent dependence on oral care at 43%**

Penetration of the toothpaste category is ~85% in the urban market and ~75% in the rural market. Overall, ~55% of households in the rural market are not regular category users, as per management. India's national per-capita toothpaste consumption is ~300gm on average, where usage in urban is at ~1.7x (i.e. ~500gm), while usage in rural is 0.7x (i.e. ~210gm). Over the coming five years, we expect the toothpaste category's volume growth at ~3%; this growth will be a factor of the ~1.5% population growth and the ~1% per-capita consumption expansion. With ~3% expected price growth, we see value growth to be ~6%.

### Volume growth likely to remain muted in the category

As highlighted by Colgate India, in rural, 55% of the users do not brush daily. Additionally, in urban areas, with ~85% penetration, we see ~15% users do not use toothpaste as a category. With focus on aligning product prices with other markets and to drive premiumization, we see the shift to be limited. If companies look to drive consumption to the bottom of the pyramid, we see growth acceleration. This task is largely reliance on Colgate, which has nearly half of the share in the category and has ~90% revenue concentrated in oral care. We estimate ~3% volume growth for the category over the next five years.

**Exhibit 20: Toothpaste category – Growth outlook**

	Now					FY28E						
	Share	Population (mn)	Per capita (kg)	Volume (mn kg)	Value size (Rs mn)	Share	Population (mn)	Per capita (kg)	Volume (mn kg)	CAGR (%)	Value size (Rs mn)	CAGR
<b>India</b>	<b>100%</b>	<b>1,420</b>	<b>0.31</b>	<b>446</b>	<b>130,143</b>	<b>100%</b>	<b>1,530</b>	<b>0.34</b>	<b>516</b>	<b>3%</b>	<b>167,370</b>	<b>5%</b>
<b>Urban</b>	<b>35%</b>	<b>497</b>	<b>0.50</b>	<b>249</b>	<b>80,763</b>	<b>38%</b>	<b>581</b>	<b>0.52</b>	<b>301</b>	<b>4%</b>	<b>107,944</b>	<b>6%</b>
- Brushing once daily	65%	323	0.50	162	52,496	65%	378	0.50	189	3%	67,791	5%
- Brushing twice daily	20%	99	0.88	87	28,267	22%	128	0.88	112	5%	40,153	7%
- No brushing	15%	75	0.00	0	0	13%	76	0.00	0		0	
<b>Rural</b>	<b>65%</b>	<b>923</b>	<b>0.21</b>	<b>198</b>	<b>49,381</b>	<b>62%</b>	<b>948</b>	<b>0.23</b>	<b>215</b>	<b>2%</b>	<b>59,426</b>	<b>4%</b>
- Brushing once daily	43%	397	0.40	159	39,689	47%	446	0.40	178	2%	49,216	4%
- Brushing twice daily	2%	18	0.60	11	2,769	2%	19	0.60	11	1%	3,141	3%
- Occasional users	30%	277	0.10	28	6,923	27%	256	0.10	26	-2%	7,068	0%
- No brushing	25%	231	0.00	0	0	24%	228	0.00	0		0	

Source: Emkay Research

### Key volume growth drivers

Volume growth with the existing consumer cohort to be negligible given limited product usage. Case in point is twice brushing users, where the quantum of toothpaste needed remains firm. Similar is the case with daily brush users. Delta volume growth would be a factor of users moving from non-users/non-daily users and users moving to twice brushing.

Interestingly, once a consumer is hooked to the category, there is no exit from the category (quite unique vs. other FMCG categories). Consumers may look to up trade/down trade. As such, volume growth in the sector is unlikely to see major movements.

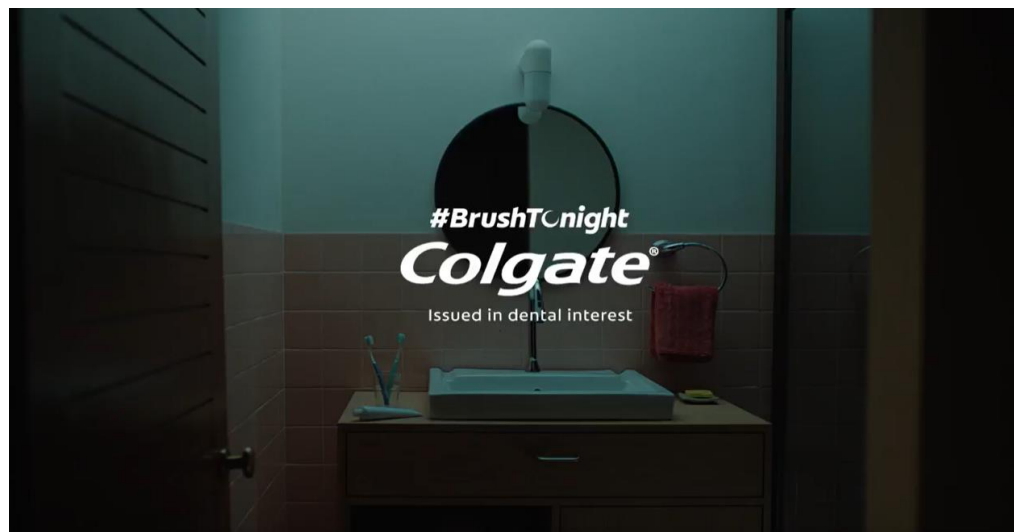
We see the strategy of pricing emanating from the thought of limited volume growth in the cohorts. Driving volume growth would be a factor of converting non-users, which is likely to be an expensive proposition. As such, premiumizing the portfolio with price hikes looks like an easy route to drive growth, which also helps in margin growth and earnings.

**Exhibit 21: Toothpaste category – Growth**

	As on date	FY28E	CAGR
Population (mn)	1,420	1,530	1.5%
Per capita (kg)	0.31	0.34	1.1%
Penetration	79%	80%	0.3%
<b>Volume growth</b>			<b>2.9%</b>
Price growth			3.0%
<b>Value growth</b>			<b>5.9%</b>

Source: Emkay Research

Exhibit 22: Advocating twice brushing with latest *Brush Tonight / The Sweet Truth* campaign

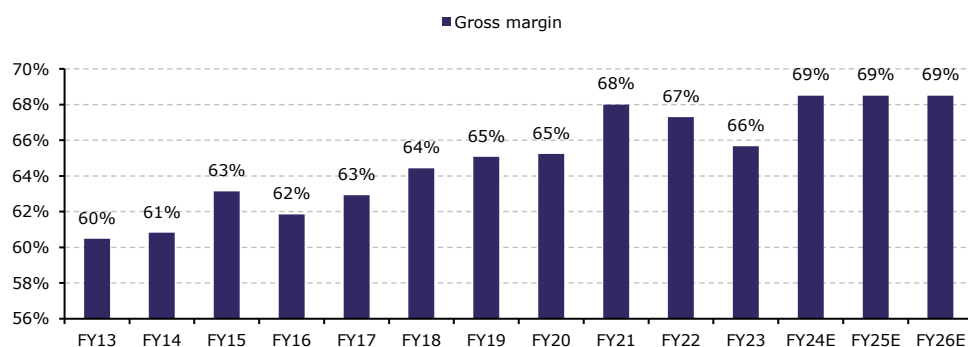


Source: Company

### Recent price actions to strengthen gross margin profile

We see Colgate India to witness healthy gross margin expansion in FY24, over a low base of FY23, driven from easing raw-material prices and steady price actions. This margin shift is likely to help the company with better earnings growth, which with near full dividend payout is accredited to the investor. Our biggest worry is the margin trajectory ahead. In case Colgate looks to effect the sharp price hikes, competition will react and look to gain share in the category. We see margins to be stable where price growth will largely be a factor of inflation.

Exhibit 23: Annual gross margin trend

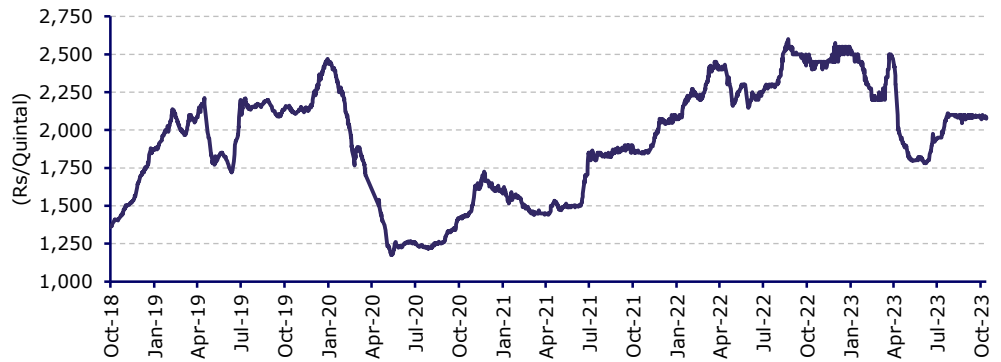


Source: Company, Emkay Research

Effective today, the company started with it's *The Sweet Truth* campaign, which highlights need for brushing in night to reduce changes of developing cavities by 50%.

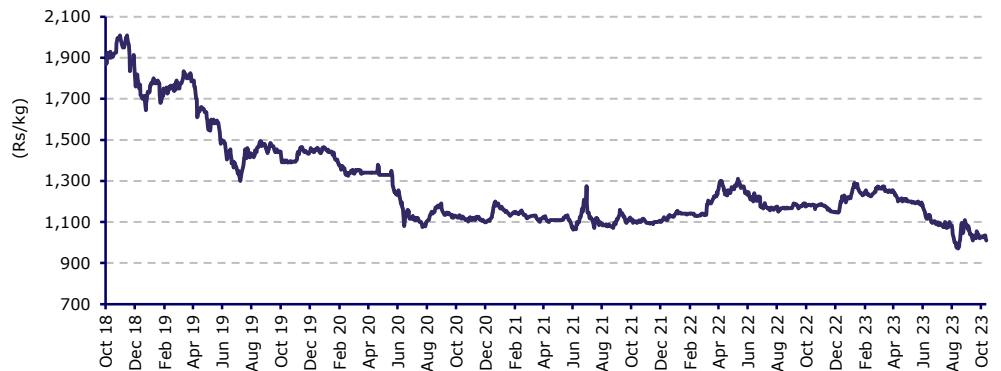
**Maize and menthe oil prices are down 13-14% in the last 12 months**

**Exhibit 24: Maize price trend**



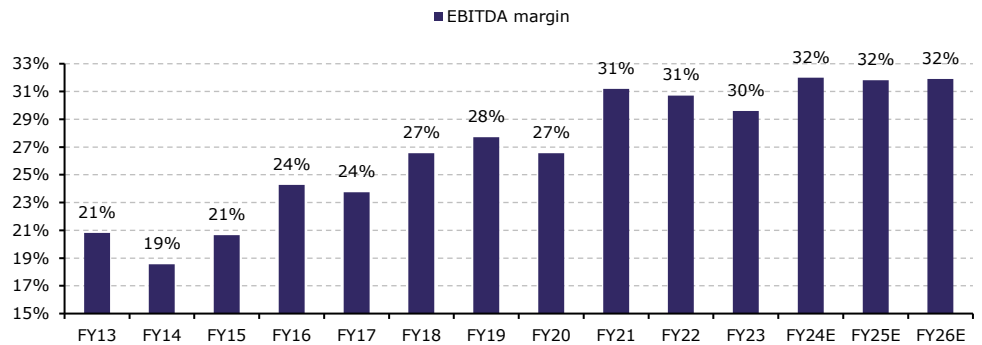
Source: NCDEX, Emkay Research

**Exhibit 25: Menthe oil price trend**



Source: Bloomberg, Emkay Research

**Exhibit 26: Annual EBITDA margin trends**



Source: Company, Emkay Research

## Valuations: Sustenance of growth critical

**Our SELL rating on Colgate has been a factor of weak topline delivery and restricted diversification in the business. Unlike our expectations of the company focusing on its structural growth trajectory, Colgate instead has been driving its topline with steady price hikes in the portfolio, despite easing raw-material prices. We see near-term performance to be better, given improved growth and margin trajectory. However, lack of initiatives is expected to drive structural growth and remains our key concern over the long term. We maintain our Sep-24 TP of Rs1,800/share.**

### Scenario analysis

Given the anomaly in stock price performance and our/street expectations, we have visited three scenarios to assess the true potential of Colgate.

- In our **Bull case** scenario, we assumed a higher price CAGR at ~5% over FY24-26E and share gains in the portfolio, driving the volume CAGR higher at ~5%. With a gradual 50bps expansion in gross margin (pricing > inflation), we see EBITDA CAGR at ~15% over the next three years.
- In our **Base case** scenario, we see higher pricing in FY24 to aid better margins and drive 18% EBITDA growth. However, over FY25-26E, we see the sales CAGR to be at ~7%, which with steady margin is expected to flow to earnings growth. We estimate volume growth to be aligned with sector growth at ~3%, which implies a stable market share. With accelerated growth in FY24, EBITDA CAGR over the next three years is expected to be at ~10%
- In a **Bear case** scenario, we can consider a case of aggression from other category incumbents, which will have a bearing on its market share. Sharp price actions in the past are expected to erode its price power, leading to ~3% price hikes over FY25-26. EBITDA margin is likely to contract to ~30% by FY26. EBITDA CAGR over FY23-26E is expected to be ~7%. Over FY24-26E, EBITDA CAGR is likely to be muted at ~3%.

Exhibit 27: Scenario analysis

(Rs mn)	Emkay Base case				Bull case				Bear case			
	FY24E	FY25E	FY26E	CAGR	FY24E	FY25E	FY26E	CAGR	FY24E	FY25E	FY26E	CAGR
Net sales	56,775	60,589	64,909	8%	57,136	62,849	69,134	10%	56,097	58,902	61,847	6%
Growth	9%	7%	7%		10%	10%	10%		8%	5%	5%	
Volume growth	4%	3%	3%		5%	5%	5%		3%	2%	2%	
Realization growth	5%	4%	4%		5%	5%	5%		5%	3%	3%	
Other income	336	360	385		336	360	385		336	360	385	
<b>Total income (TI)</b>	<b>57,112</b>	<b>60,949</b>	<b>65,294</b>	<b>8%</b>	<b>57,472</b>	<b>63,209</b>	<b>69,519</b>	<b>10%</b>	<b>56,433</b>	<b>59,262</b>	<b>62,232</b>	<b>6%</b>
<b>Gross profit</b>	<b>39,121</b>	<b>41,750</b>	<b>44,726</b>	<b>9%</b>	<b>39,368</b>	<b>43,614</b>	<b>48,316</b>	<b>12%</b>	<b>38,657</b>	<b>40,446</b>	<b>42,318</b>	<b>7%</b>
Gross margin	68.5%	68.5%	68.5%		68.5%	69.0%	69.5%		68.5%	68.3%	68.0%	
Employee costs	3,923	4,159	4,409	5%	3,923	4,159	4,409	5%	3,923	4,159	4,409	5%
Change	4%	6%	6%		4%	6%	6%		4%	6%	6%	
As a % of TI	7%	7%	7%		7%	7%	6%		7%	7%	7%	
A&P spends	7,381	8,028	8,600	11%	7,381	8,119	8,931	12%	7,381	7,750	8,137	9%
Change	16%	9%	7%		16%	10%	10%		16%	5%	5%	
As a % of TI	13%	13%	13%		13%	13%	13%		13%	13%	13%	
Royalty	2,806	2,994	3,207	8%	2,823	3,105	3,415	10%	2,772	2,911	3,057	6%
Change	9%	7%	7%		10%	10%	10%		8%	5%	5%	
As a % of TI	5%	5%	5%		5%	5%	5%		5%	5%	5%	
Other operating spends	6,744	7,186	7,674	8%	6,744	7,284	7,866	8%	6,744	7,284	7,866	8%
Change	9%	7%	7%		9%	8%	8%		9%	8%	8%	
As a % of TI	12%	12%	12%		12%	12%	11%		12%	12%	13%	
<b>EBITDA</b>	<b>18,268</b>	<b>19,383</b>	<b>20,836</b>	<b>10%</b>	<b>18,497</b>	<b>20,948</b>	<b>23,695</b>	<b>15%</b>	<b>17,837</b>	<b>18,343</b>	<b>18,848</b>	<b>7%</b>
Growth	18%	6%	7%		20%	13%	13%		15%	3%	3%	
As a % of TI	32%	32%	32%		32%	33%	34%		32%	31%	30%	

Source: Company, Emkay Research

This report is intended for team.emkay@whitemarquesolutions.com use and downloaded at 10/25/2023 12:43 PM

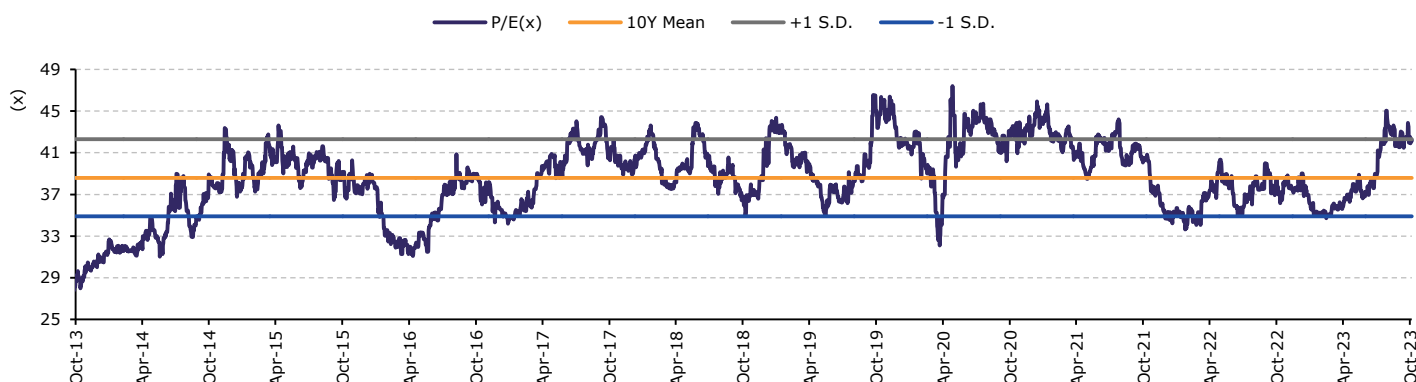
Emkay Research is also available on www.emkayglobal.com and Bloomberg EMKAY<GO>. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.

## Exhibit 28: Target price across scenarios

	Base case	Bull case	Bear case
Sep-24 EPS (Rs)	51.47	57.53	47.33
Target multiple (PE)	35x (10% discount to last 10Y avg. fwd. P/E, factoring slow growth ahead)	40x (slight premium to its last 10Y avg. fwd. P/E of 39x, factoring double-digit earnings potential)	31x (20% discount to last 10Y avg. fwd. P/E, factoring weaker earnings visibility)
<b>Target price (Rs)</b>	<b>1,800</b>	<b>2,300</b>	<b>1,465</b>
CMP (Rs)	2,068	2,068	2,068
Upside (%)	-13%	11%	-29%

Source: Company, Emkay Research

## Exhibit 29: Colgate India's one-year forward P/E



Source: Bloomberg, Emkay Research

## Exhibit 30: Emkay vs. Consensus estimates

(Rs mn)	Emkay estimates			Consensus estimates			Emkay vs. Consensus		
	FY24	FY25	FY26	FY24	FY25	FY26	FY24	FY25	FY26
Sales	56,775	60,589	64,909	56,815	61,248	65,803	0%	-1%	-1%
Growth (%)	9.3%	6.7%	7.1%	9.4%	7.8%	7.4%			
EBITDA	18,268	19,383	20,836	17,750	19,292	20,890	3%	0%	0%
Growth (%)	18.1%	6.1%	7.5%	14.7%	8.7%	8.3%			
EBITDA margin	32.0%	31.8%	31.9%	31.2%	31.5%	31.7%			
Adj PAT	12,634	13,450	14,552	12,184	13,498	14,533	4%	0%	0%
Growth (%)	19.4%	6.5%	8.2%	15.1%	10.8%	7.7%			

Source: Company, Emkay Research

## Exhibit 31: Key assumptions

(%)	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales growth	6.6%	1.4%	7.0%	5.3%	2.5%	9.3%	6.7%	7.1%
Toothpaste volume growth	5.8%	1.0%	4.0%	3.5%	-2.5%	4.0%	3.0%	3.0%
Gross margin	65.1%	65.2%	68.0%	67.3%	65.7%	68.5%	68.5%	68.5%
A&P spends as a % of sales	12.7%	13.8%	12.9%	12.6%	12.1%	12.9%	13.2%	13.2%
Employee costs	6.6%	7.3%	7.6%	7.6%	7.2%	6.9%	6.8%	6.8%
EBITDA margin	27.7%	26.6%	31.2%	30.7%	29.6%	32.0%	31.8%	31.9%
EBITDA growth	11.1%	-2.8%	25.6%	3.7%	-1.2%	18.1%	6.1%	7.5%
EBIT growth	12.7%	-6.8%	32.2%	4.6%	-1.2%	19.7%	6.3%	7.9%
PBT growth	11.8%	-6.2%	29.4%	4.4%	0.8%	19.4%	6.5%	8.2%
Effective tax rate	35.4%	21.7%	23.3%	23.5%	25.5%	25.5%	25.5%	25.5%
Adjusted PAT growth	10.4%	13.7%	26.8%	4.1%	-1.9%	19.4%	6.5%	8.2%
EPS (Rs)	26.4	30.0	38.1	39.6	38.9	46.4	49.4	53.5
DPS (Rs)	23.0	29.0	38.0	40.0	39.0	42.0	46.0	50.0
Dividend payout	87%	97%	100%	101%	100%	90%	93%	93%
Avg ROE	48%	54%	75%	74%	61%	71%	69%	70%
Avg ROCE	71%	62%	90%	90%	76%	88%	87%	87%

Source: Company, Emkay Research

This report is intended for team.emkay@whitemarquesolutions.com use and downloaded at 10/25/2023 12:43 PM

Emkay Research is also available on www.emkayglobal.com and Bloomberg EMKAY&lt;GO&gt;. Please refer to the last page of the report on Restrictions on Distribution. In Singapore, this research report or research analyses may only be distributed to Institutional Investors, Expert Investors or Accredited Investors as defined in the Securities and Futures Act, Chapter 289 of Singapore.



## Colgate-Palmolive : Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>50,998</b>	<b>52,262</b>	<b>57,112</b>	<b>60,949</b>	<b>65,294</b>
Revenue growth (%)	5.3	2.5	9.3	6.7	7.1
<b>EBITDA</b>	<b>15,659</b>	<b>15,470</b>	<b>18,268</b>	<b>19,383</b>	<b>20,836</b>
EBITDA growth (%)	3.7	(1.2)	18.1	6.1	7.5
Depreciation & Amortization	1,773	1,748	1,842	1,916	1,996
<b>EBIT</b>	<b>13,886</b>	<b>13,722</b>	<b>16,426</b>	<b>17,467</b>	<b>18,839</b>
EBIT growth (%)	4.6	(1.2)	19.7	6.3	7.9
Other operating income	289	320	336	360	385
Other income	263	536	582	639	746
Financial expense	59	49	50	51	52
<b>PBT</b>	<b>14,090</b>	<b>14,209</b>	<b>16,958</b>	<b>18,054</b>	<b>19,533</b>
Extraordinary items	0	0	0	0	0
Taxes	3,307	3,625	4,324	4,604	4,981
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>10,783</b>	<b>10,471</b>	<b>12,634</b>	<b>13,450</b>	<b>14,552</b>
PAT growth (%)	4.1	(2.9)	20.7	6.5	8.2
<b>Adjusted PAT</b>	<b>10,783</b>	<b>10,584</b>	<b>12,634</b>	<b>13,450</b>	<b>14,552</b>
<b>Diluted EPS (Rs)</b>	<b>39.6</b>	<b>38.9</b>	<b>46.4</b>	<b>49.4</b>	<b>53.5</b>
Diluted EPS growth (%)	4.1	(1.9)	19.4	6.5	8.2
<b>DPS (Rs)</b>	<b>39.0</b>	<b>39.0</b>	<b>41.0</b>	<b>44.0</b>	<b>48.0</b>
<b>Dividend payout (%)</b>	<b>98.4</b>	<b>101.3</b>	<b>88.3</b>	<b>89.0</b>	<b>89.7</b>
EBITDA margin (%)	30.7	29.6	32.0	31.8	31.9
EBIT margin (%)	27.2	26.3	28.8	28.7	28.9
Effective tax rate (%)	23.5	25.5	25.5	25.5	25.5
<b>NOPLAT (pre-IndAS)</b>	<b>10,627</b>	<b>10,221</b>	<b>12,238</b>	<b>13,013</b>	<b>14,035</b>
Shares outstanding (mn)	272.0	272.0	272.0	272.0	272.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	14,090	14,209	16,958	18,054	19,533
Others (non-cash items)	103	65	0	0	0
Taxes paid	(3,699)	(3,809)	(4,324)	(4,604)	(4,981)
Change in NWC	4,151	(89)	761	358	534
<b>Operating cash flow</b>	<b>16,257</b>	<b>11,763</b>	<b>14,704</b>	<b>15,137</b>	<b>16,389</b>
Capital expenditure	(495)	(695)	(852)	(909)	(974)
Acquisition of business	0	0	0	0	0
Interest & dividend income	1,018	1,014	1,252	1,355	1,414
<b>Investing cash flow</b>	<b>(1,076)</b>	<b>(75)</b>	<b>(270)</b>	<b>(270)</b>	<b>(228)</b>
Equity raised/(repaid)	0	0	0	0	0
Debt raised/(repaid)	(225)	(191)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(109)	(102)	(50)	(51)	(52)
Dividend paid (incl tax)	(10,572)	(10,575)	(11,152)	(11,968)	(13,056)
Others	0	0	0	0	0
<b>Financing cash flow</b>	<b>(10,906)</b>	<b>(10,867)</b>	<b>(11,202)</b>	<b>(12,019)</b>	<b>(13,108)</b>
Net chg in Cash	4,275	820	3,233	2,848	3,052
OCF	16,257	11,763	14,704	15,137	16,389
Adj. OCF (w/o NWC chg.)	12,107	11,852	14,794	14,779	15,855
FCFF	15,762	11,068	13,853	14,228	15,415
FCFE	16,721	12,033	15,055	15,533	16,776
OCF/EBITDA (%)	103.8	76.0	80.5	78.1	78.7
FCFE/PAT (%)	155.1	113.7	119.2	115.5	115.3
<b>FCFF/NOPLAT (%)</b>	<b>148.3</b>	<b>108.3</b>	<b>113.2</b>	<b>109.3</b>	<b>109.8</b>

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	272	272	272	272	272
Reserves & Surplus	17,075	16,892	18,374	19,856	21,352
<b>Net worth</b>	<b>17,347</b>	<b>17,164</b>	<b>18,646</b>	<b>20,128</b>	<b>21,624</b>
Minority interests	0	0	0	0	0
Deferred tax liability (net)	(173)	(288)	(288)	(288)	(288)
<b>Total debt</b>	<b>987</b>	<b>942</b>	<b>976</b>	<b>1,013</b>	<b>1,051</b>
<b>Total liabilities &amp; equity</b>	<b>18,161</b>	<b>17,817</b>	<b>19,334</b>	<b>20,852</b>	<b>22,386</b>
Net tangible fixed assets	9,630	8,618	7,628	6,620	5,598
Net intangible assets	0	0	0	0	0
Net ROU assets	0	0	0	0	0
Capital WIP	1,218	1,141	1,141	1,141	1,141
Goodwill	0	0	0	0	0
Investments [JV/Associates]	281	325	341	357	375
<b>Cash &amp; equivalents</b>	<b>7,547</b>	<b>9,230</b>	<b>12,463</b>	<b>15,310</b>	<b>18,363</b>
Current assets (ex-cash)	10,169	9,228	9,585	9,985	10,295
Current Liab. & Prov.	10,684	10,724	11,824	12,562	13,384
<b>NWC (ex-cash)</b>	<b>(515)</b>	<b>(1,496)</b>	<b>(2,238)</b>	<b>(2,577)</b>	<b>(3,090)</b>
<b>Total assets</b>	<b>18,161</b>	<b>17,817</b>	<b>19,334</b>	<b>20,852</b>	<b>22,386</b>
Net debt	(7,530)	(9,214)	(12,446)	(15,294)	(18,347)
Capital employed	17,191	16,892	18,374	19,856	21,352
<b>Invested capital</b>	<b>9,114</b>	<b>7,122</b>	<b>5,390</b>	<b>4,044</b>	<b>2,508</b>
BVPS (Rs)	63.8	63.1	68.6	74.0	79.5
Net Debt/Equity (x)	(0.4)	(0.5)	(0.7)	(0.8)	(0.8)
Net Debt/EBITDA (x)	(0.5)	(0.6)	(0.7)	(0.8)	(0.9)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
<b>RoCE (%)</b>	<b>98.2</b>	<b>83.7</b>	<b>96.5</b>	<b>94.7</b>	<b>95.1</b>

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	52.2	53.1	44.5	41.8	38.7
P/CE(x)	42.8	43.6	37.1	35.0	32.5
P/B (x)	32.4	32.8	30.2	27.9	26.0
EV/Sales (x)	10.9	10.7	9.7	9.0	8.4
EV/EBITDA (x)	35.4	35.8	30.1	28.2	26.1
EV/EBIT(x)	38.2	38.5	32.0	29.9	27.5
EV/IC (x)	58.1	74.2	97.4	129.1	206.9
FCFF yield (%)	3.0	2.1	2.6	2.7	3.0
FCFE yield (%)	3.1	2.2	2.8	2.9	3.1
Dividend yield (%)	1.9	1.9	2.0	2.1	2.3
<b>DuPont-RoE split</b>					
Net profit margin (%)	21.1	20.3	22.1	22.1	22.3
Total asset turnover (x)	3.5	3.1	3.2	3.2	3.2
Assets/Equity (x)	1.0	1.0	1.0	1.0	1.0
<b>RoE (%)</b>	<b>74.4</b>	<b>61.3</b>	<b>70.6</b>	<b>69.4</b>	<b>69.7</b>
<b>DuPont-RoIC</b>					
NOPLAT margin (%)	20.8	19.6	21.4	21.4	21.5
IC turnover (x)	9.0	6.4	9.1	12.9	19.9
<b>RoIC (%)</b>	<b>187.2</b>	<b>125.9</b>	<b>195.6</b>	<b>275.9</b>	<b>428.4</b>
<b>Operating metrics</b>					
Core NWC days	(71.2)	(49.9)	(49.8)	(50.8)	(50.5)
<b>Total NWC days</b>	<b>(3.7)</b>	<b>(10.5)</b>	<b>(14.3)</b>	<b>(15.4)</b>	<b>(17.3)</b>
Fixed asset turnover	2.5	2.5	2.6	2.7	2.8
Opex-to-revenue (%)	36.6	36.1	36.5	36.7	36.6

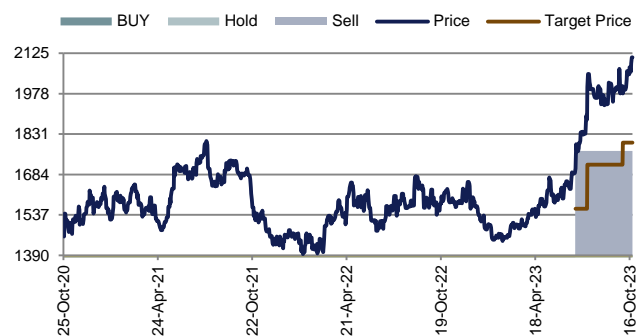
Source: Company, Emkay Research

**RECOMMENDATION HISTORY - DETAILS**

Date	CMP (INR)	TP (INR)	Rating	Analyst
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: Bloomberg, Company, Emkay Research

**GENERAL DISCLOSURE/DISCLAIMER BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Emkay Global Financial Services Limited (CIN-L67120MH1995PLC084899) and its affiliates are a full-service, brokerage, investment banking, investment management and financing group. Emkay Global Financial Services Limited (EGFSL) along with its affiliates are participants in virtually all securities trading markets in India. EGFSL was established in 1995 and is one of India's leading brokerage and distribution house. EGFSL is a corporate trading member of BSE Limited (BSE), National Stock Exchange of India Limited (NSE), MCX Stock Exchange Limited (MCX-SX), Multi Commodity Exchange of India Ltd (MCX) and National Commodity & Derivatives Exchange Limited (NCDEX) (hereinafter referred to be as "Stock Exchange(s)"). EGFSL along with its [affiliates] offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Institutional and retail), merchant banking, commodity broking, depository participant, portfolio management and services rendered in connection with distribution of primary market issues and financial products like mutual funds, fixed deposits. Details of associates are available on our website i.e. [www.emkayglobal.com](http://www.emkayglobal.com).

EGFSL is registered as Research Analyst with the Securities and Exchange Board of India ("SEBI") bearing registration Number INH000000354 as per SEBI (Research Analysts) Regulations, 2014. EGFSL hereby declares that it has not defaulted with any Stock Exchange nor its activities were suspended by any Stock Exchange with whom it is registered in last five years. However, SEBI and Stock Exchanges had conducted their routine inspection and based on their observations have issued advice letters or levied minor penalty on EGFSL for certain operational deviations in ordinary/routine course of business. EGFSL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

EGFSL offers research services to its existing clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the clients simultaneously, not all clients may receive this report at the same time. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient.

EGFSL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. EGFSL may have issued or may issue other reports (on technical or fundamental analysis basis) of the same subject company that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Users of this report may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports of EGFSL. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the research published by any other analyst or by associate entities of EGFSL; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. All material presented in this report, unless specifically indicated otherwise, is under copyright to Emkay. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of EGFSL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of EGFSL or its affiliates. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

This report has not been reviewed or authorized by any regulatory authority. There is no planned schedule or frequency for updating research report relating to any issuer/subject company.

Please contact the primary analyst for valuation methodologies and assumptions associated with the covered companies or price targets.

**Disclaimer for U.S. persons only:** Research report is a product of Emkay Global Financial Services Ltd., under Marco Polo Securities 15a6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of Financial Institutions Regulatory Authority (FINRA) or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors. Emkay Global Financial Services Ltd. has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer.

**RESTRICTIONS ON DISTRIBUTION**

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation. Except otherwise restricted by laws or regulations, this report is intended only for qualified, professional, institutional or sophisticated investors as defined in the laws and regulations of such jurisdictions. Specifically, this document does not constitute an offer to or solicitation to any U.S. person for the purchase or sale of any financial instrument or as an official confirmation of any transaction to any U.S. person. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. No part of this document may be distributed in Canada or used by private customers in United Kingdom.

**ANALYST CERTIFICATION BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL)**

The research analyst(s) primarily responsible for the content of this research report, in part or in whole, certifies that the views about the companies and their securities expressed in this report accurately reflect his/her personal views. The analyst(s) also certifies that no part of his/her compensation was, is, or will be, directly or indirectly, related to specific recommendations or views expressed in the report. The research analyst (s) primarily responsible of the content of this research report, in part or in whole, certifies that he or his associated persons<sup>1</sup> may have served as an officer, director or employee of the issuer or the new listing applicant (which includes in the case of a real estate investment trust, an officer of the management company of the real estate investment trust; and in the case of any other entity, an officer or its equivalent counterparty of the entity who is responsible for the management of the issuer or the new listing applicant). The research analyst(s) primarily responsible for the content of this research report or his associate may have Financial Interests<sup>2</sup> in relation to an issuer or a new listing applicant that the analyst reviews. EGFSL has procedures in place to eliminate, avoid and manage any potential conflicts of interests that may arise in connection with the production of research reports. The research analyst(s) responsible for this report operates as part of a separate and independent team to the investment banking function of the EGFSL and procedures are in place to ensure that confidential information held by either the research or investment banking function is handled appropriately. There is no direct link of EGFSL compensation to any specific investment banking function of the EGFSL.

<sup>1</sup> An associated person is defined as (i) who reports directly or indirectly to such a research analyst in connection with the preparation of the reports; or (ii) another person accustomed or obliged to act in accordance with the directions or instructions of the analyst.

<sup>2</sup> Financial Interest is defined as interest that are commonly known financial interest, such as investment in the securities in respect of an issuer or a new listing applicant, or financial accommodation arrangement between the issuer or the new listing applicant and the firm or analysis. This term does not include commercial lending conducted at the arm's length, or investments in any collective investment scheme other than an issuer or new listing applicant notwithstanding the fact that the scheme has investments in securities in respect of an issuer or a new listing applicant.

**COMPANY-SPECIFIC / REGULATORY DISCLOSURES BY EMKAY GLOBAL FINANCIAL SERVICES LIMITED (EGFSL):**

Disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her associate/relative's may have Financial Interest/proprietary positions in the securities recommended in this report as of October 23, 2023
- EGFSL, and/or Research Analyst does not market make in equity securities of the issuer(s) or company(ies) mentioned in this Report  
**Disclosure of previous investment recommendation produced:**
- EGFSL may have published other investment recommendations in respect of the same securities / instruments recommended in this research report during the preceding 12 months. Please contact the primary analyst listed in the first page of this report to view previous investment recommendations published by EGFSL in the preceding 12 months.
- EGFSL, its subsidiaries and/or other affiliates and Research Analyst or his/her relative's may have material conflict of interest in the securities recommended in this report as of October 23, 2023
- EGFSL, its affiliates and Research Analyst or his/her associate/relative's may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the October 23, 2023
- EGFSL or its associates may have managed or co-managed public offering of securities for the subject company in the past twelve months.
- EGFSL, its affiliates and Research Analyst or his/her associate may have received compensation in whatever form including compensation for investment banking or merchant banking or brokerage services or for products or services other than investment banking or merchant banking or brokerage services from securities recommended in this report (subject company) in the past 12 months.
- EGFSL, its affiliates and/or and Research Analyst or his/her associate may have received any compensation or other benefits from the subject company or third party in connection with this research report.

**Emkay Rating Distribution**

Ratings	Expected Return within the next 12-18 months.
<b>BUY</b>	Over 15%
<b>HOLD</b>	Between -5% to 15%
<b>SELL</b>	Below -5%

**Emkay Global Financial Services Ltd.**

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

**OTHER DISCLAIMERS AND DISCLOSURES:****Other disclosures by Emkay Global Financial Services Limited (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) -:**

EGFSL or its associates may have financial interest in the subject company.

Research Analyst or his/her associate/relative's may have financial interest in the subject company.

EGFSL or its associates and Research Analyst or his/her associate/ relative's may have material conflict of interest in the subject company. The research Analyst or research entity (EGFSL) have not been engaged in market making activity for the subject company.

EGFSL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst or his/her associate/relatives may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of public appearance or publication of Research Report.

Research Analyst may have served as an officer, director or employee of the subject company.

EGFSL or its affiliates may have received any compensation including for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. . Emkay may have issued or may issue other reports that are inconsistent with and reach different conclusion from the information, recommendations or information presented in this report or are contrary to those contained in this report. Emkay Investors may visit [www.emkayglobal.com](http://www.emkayglobal.com) to view all Research Reports. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the research published by any other analyst or by associate entities of Emkay; our proprietary trading, investment businesses or other associate entities may make investment decisions that are inconsistent with the recommendations expressed herein. EGFSL or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. EGFSL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. EGFSL or its associates may have received compensation from the subject company in the past twelve months. Subject Company may have been client of EGFSL or its affiliates during twelve months preceding the date of distribution of the research report and EGFSL or its affiliates may have co-managed public offering of securities for the subject company in the past twelve months.