

November 27, 2024

**EVENT REPORT** | Sector: Consumer Staples

# Colgate-Palmolive (India) Ltd.

## Capitalizing on solid margin profile to fund growth

We recently participated in the Analyst/Investor Meet held by Colgate-Palmolive (India) Ltd. (CLGT). Highlights at a glance: 1) CLGT outperformed peers on growth in recent times, 2) Toothpaste category growth softening as well in urban areas, 3) Average Selling Price (ASP) in recent times driven by mix improvement. As inflation rises, price actions to contribute as well, 4) Innovation, packaging upgrade, accessible sku's and high decibel campaign to aid growth, 5) Margin profile strengthened above normative levels in recent times; CLGT to leverage strong margins to invest behind brands/innovations and drive topline growth. 6) It is also looking to aggressively expand Personal Care portfolio. While there is 3.6%/4%/3.5% cut in our FY25E/FY26E/FY27E EPS, recent stock correction (down ~22% from peak) leads to one notch upgrade in our rating to ADD with a revised target price (TP) of Rs3,375 (Rs3,500 earlier). Market share improvement & update on diversification being explored in personal care will aid further rerating.

### Highlights from the Analyst Meet:-

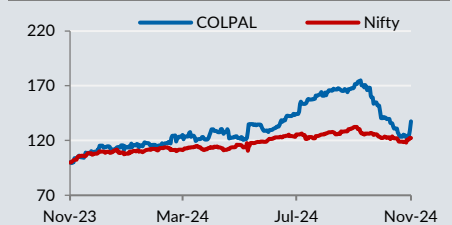
- **Outlook:** CLGT grew 1.6x ahead of FMCG peers in FY24; 2.4x in 1HFY25. In near-term, company is seeing some macro challenges. Unlike recent quarters, CLGT expects balanced growth going forward as inflation is going up and price changes will pick-up. Last year margins were outside of range, hence company expects it to moderate now and is likely remain range bound going forward.
- **Rural vs Urban:** Rural growing ahead of urban over the last two quarters, but the pace of rural growth is now plateauing. Toothpaste category growth in urban areas have seen softening but CLGT reckons this as a near-term concern. After a long time, rural outpacing urban in toothbrush growth.
- **Improvement in realizations:** Toothpaste average realization per kg increased by 13% over 2022-2024YTD. Over the last one year the ASP growth was led by mix improvement than MRP change. Going ahead, with inflation going up, pricing growth is expected to catch-up.
- **Margins:** Management believes margin profile in recent times have strengthened above normative levels. Hence, it will leverage the strong margin delivery to invest on brands/innovation and drive topline growth and also to increase awareness.
- **Oral Health Movement:** To improve and drive oral health, CLGT has recently launched their biggest initiative "Oral Health Movement". It is evolved from the earlier model used in 'Oral health month'. It is using technology (smartphone penetration) to drive dental screening. As part of the campaign, 800mn packs will have the QR code, 550mn+ campaign reach and 500+ on-ground locations. Management believes, awareness increase should eventually lead to growth in market size.
- **For the flagship brand in premium portfolio i.e., Colgate Total,** company has rolled out new packaging. CT is growing 3x vs the toothpaste category growth. To drive accessibility, CT is now made available at Rs80 price pack as well. The pricing is now 0.77x in Dec'23 and distribution has grown 10x from 30k to 300k stores. It has also launched anti-Tartar variant (biggest variant globally) across major e-com platforms.
- **Personal care:** PC has grown in strong double digits. CLGT plans to remain focus on body and handwash segment. Management highlighted it has aggressive plans and an interesting innovation pipeline. It is also looking at other parent brands to launch in India which has a point of difference.
- **Whitening:** CLGT is also creating desire for whitening as penetration in India is sub 2%. Whitening portfolio is seeing strong double-digit growth. Company believes the opportunity for innovation is very high in this category. It has recently launched Purple tech whitening product which has received tremendous early response. Science here is the colour technology/active oxygen tech. It has already garnered 3% share in Ecom and is available across MT now. Purple tech: Growth (2x of company), share (+130bps vs company) and margin accretive (~200bps higher).

Reco	: ADD
CMP	: Rs 3,018
Target Price	: Rs 3,375
Potential Return	: +11.8%

### Stock data (as on Nov 27, 2024)

Nifty	24,275
52 Week h/l (Rs)	3890 / 2139
Market cap (Rs/USD mn)	770957 / 9137
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	1,464
Div yield (%):	2.1
Bloomberg code:	CLGT IN
NSE code:	COLPAL

### Stock performance



	1M	3M	1Y
Absolute return	-2.1%	-14.8%	37.5%

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

Promoter	51.0%
FII+DII	30.8%
Others	18.2%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	3,375	3,500

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	54.1	60.7	67.5
EPS (Old)	56.1	63.2	69.9
% change	-3.6%	-4.0%	-3.5%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	63,144	69,099	75,314
YoY Growth (%)	11.2	9.4	9.0
EBIDTA	20,704	23,055	25,527
Margins (%)	32.8	33.4	33.9
PAT	14,708	16,501	18,352
EPS	54.1	60.7	67.5
YoY Growth (%)	24.6	12.2	11.2
Pre-tax RoCE (%)	105.5	117.5	130.6
ROE (%)	78.5	88.0	97.9
P/E (x)	55.8	49.7	44.7
EV/EBITDA (x)	39.1	35.1	31.6

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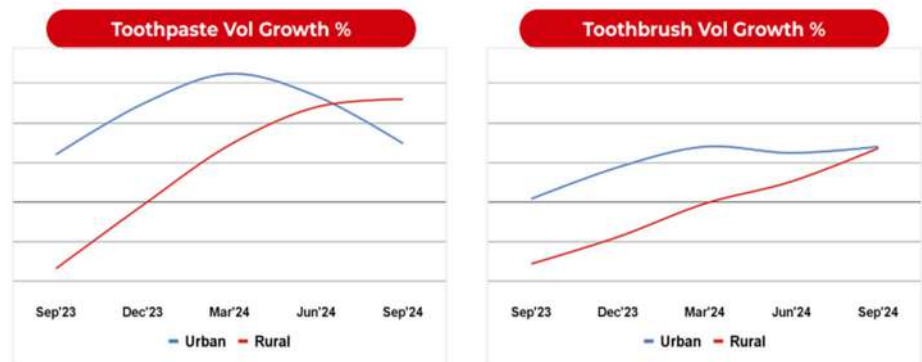
## Highlights Continued..

- **Initiatives for Core:** Company has rolled out new piece of communication for Colgate Strong Teeth with enhanced packaging based on insight that 1 out of 2 people are eating something at every moment and snacking erodes enamel. To improve access, CLGT ST is now also available at Rs20. Maxfresh is now also available in blue variant for key areas.
- **Lead Toothpaste category growth:** As toothpaste penetration has reached almost 100% but consumption is still low in India at ~220gms per year vs 440gms in Thailand and 380gms in Malaysia. Still 80% urban Indians do not brush twice a day and 55% rural Indians don't brush daily. Also, based on a recent study, 9 out of 10 Indians have oral health issues. Half of the visits to dentist gets converted to extraction of tooth. Hence to improve and drive oral health, CLGT has recently launched their biggest initiative "Oral Health Movement" and also scaling up BSBF.
- **Bright Smiles, Bright Future (BSBF):** Scaling to even bigger level. New partnerships with states like UP, Goa and AP added (representing 24% of India's population). Touchpoints increased to 10mn children from 5.2mn in 2023.
- **Continued investment on brush twice a day** through partnerships and activations.
- **Toothbrush:** Toothbrush handles per capita per year is 1.2 in India vs 2 in Thailand. Rural consumers replace new toothbrush every 15 months. This year has been the best growth in toothbrush. It has grown at 1.4x the category growth in YTD CY24. The company gained market share and now is leader in super premium segment. 78% of the category is still below Rs40 price point. CLGT aims to up pricing and drive replacement for toothbrush.
- **Distribution:** Direct reach now stands at 1.7mn outlets with total reach of ~7mn outlets. Distributor inventory at 0.9x in Sep'24 compared to 2022. There is 15% increase in assortment score in 1.7mn stores which has ML Led assortment model. Using AI/ML demand forecasting to also lower company inventory and increased distributor's sales. YTD CY24 growth for AmaZing (IR based AI model to drive MT 5Ps) stores is 2x of Non-AmaZing stores.
- **Q-commerce:** The channel is share and margin accretive. It is advantageous to incumbent players like CLGT since it sells products which are at the highest velocity.
- **Advertising spends:** Advertising spends increased by 14% in 1HFY25 (representing 14.3% of net sales). CLGT will continue to drive consumption from campaigns like Oral care movement and BSBF. It believes moving consumer behaviour to brushing twice a day will be slow and will require high ad spends.
- Premium flagships are 1.5x in pricing versus the company average. New launches are also at higher price levels.
- The company is not seeing competitive intensity in the near term. Relative market performance good this year. CLGT growing competitively.
- Balance growth aim stays. CLGT has seen that 140-170 indexed pricing leads to better growth. CLGT is putting effort to bring products in that range. 12-13% oral care market sits above Rs140 price index, compared to other personal care categories which are at 25%. So, the potential for growth is robust led by pricing.
- There are few consumers who look at Naturals as a segment. Consumers are rather looking at benefits.
- 100% of Colgate toothpaste tubes by volume to be fully recyclable by the exit of FY25. Tech for this has been open sourced.
- As per Kantar track, for YTD CY, CLGT now has 70% 'top of mind' score. 63% score as 'brand of first choice'.
- "Funding The Growth" savings was 5.8% of sales in CY24 (\$11mn) which was re-invested in Product superiority, Packaging & Sustainability.

# Colgate-Palmolive (India) Ltd.

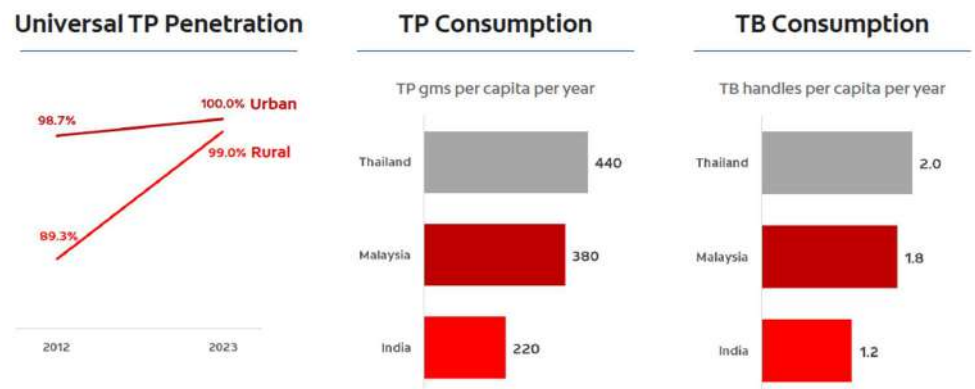
- Most of the Personal care products are now locally sourced compared to being imported in the past.
- 90% of the portfolio have seen a packaging upgrade.
- CLGT believes it has got the pricing right on toothbrush hence doing well vs Oral B.

**Exhibit 1: Rural outpaced urban in toothpaste volumes for 2 quarters in a row and rural outpaced urban toothbrush volumes after a long time**



Source: Nielsen Retail Audit, Company, YES Sec

**Exhibit 2: While toothpaste penetration has now reached universal levels, per capita consumption remains low; Toothbrush consumption also remains low at 1.2 handles per capita per year**



Source: Kantar Household Panel, Company, YES Sec

# Colgate-Palmolive (India) Ltd.

Exhibit 3: CLGT exploring parents' wide portfolio as well for diversification



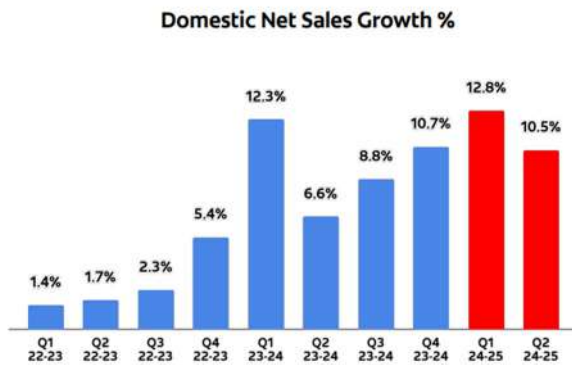
Source: Company, YES Sec

Exhibit 4: In recent times, 90% of the products have undergone packaging upgrade



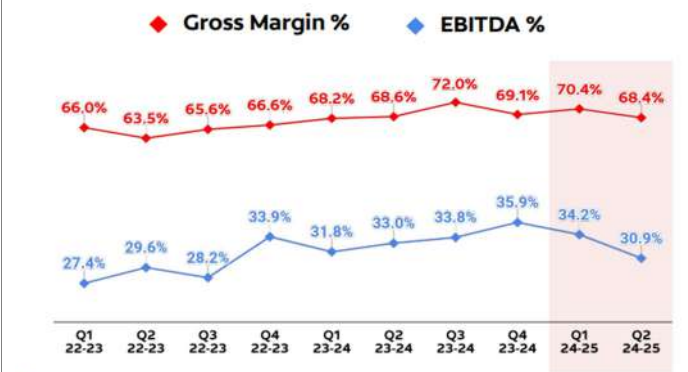
Source: Company, YES Sec

Exhibit 5: Double digit domestic growth in 2QFY25 was largely led by volume growth



Source: Company, YES Sec

Exhibit 6: Margins to moderate and will remain range bound going forward

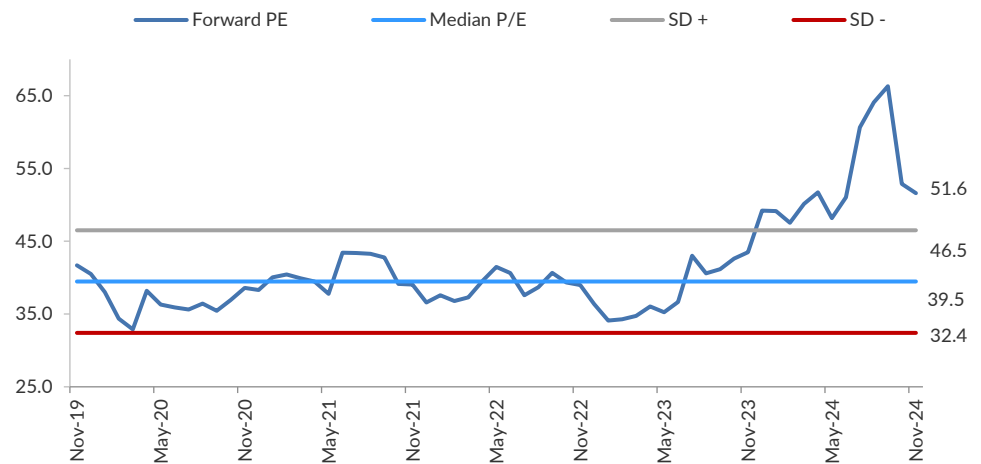


Source: Company, YES Sec

## View & Valuation

- We now build ~10% revenue CAGR over FY24-FY27E (way higher than the ~4.9% CAGR delivered over the last five years) led by (a) Better volume growth in near-term especially from rural markets, (b) Support from innovation, packaging upgrade, accessible sku's and high decibel campaign, (c) Continues improvement in ASP led by premiumization and pricing action (to combat inflation).
- Assuming current margin profile stays and sees further modest improvement in FY26 & FY27, we now see a strong 13.6% EBITDA CAGR over FY24-FY27E (~320bps EBITDA margin expansion largely led by gross margin improvement).
- CLGT is currently trading at ~56x/50x/45x on our FY25E/FY26E/FY27E EPS as we build 15.9% earnings CAGR.
- Improved margin profile & working capital, better cash generation, enhanced return ratios, diversification in personal care space and softer aspect of recent volume growth disclosure merits better target multiple, even while CLGT expects continued difficult market conditions.
- While there is 3.6%/4%/3.5% cut in our FY25E/FY26E/FY27E EPS, recent stock correction from peak (down 22% from peak and down 15% in last 3 months) leads to one notch upgrade in our rating to ADD from NEUTRAL earlier.
- We continue to assign a target multiple of ~50x, arriving at target price of Rs3,375 (Rs3,500 earlier). Market share movement & update on diversification being explored in personal care will aid further rerating.

## Exhibit 7: Currently trading at ~52x 1-yr forward earnings



Source: Company, YES Sec

## FINANCIALS

Exhibit 8: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	272	272	272	272	272
Reserves	16,892	18,472	18,472	18,472	18,472
Net worth	17,164	18,744	18,744	18,744	18,744
Total debt	0	0	0	0	0
Others	690	718	718	718	718
<b>Total liabilities</b>	<b>17,853</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>
Gross block	21,214	22,188	22,894	23,599	24,304
Depreciation	12,596	14,247	15,926	17,670	19,466
Capital work-in-progress	1,141	1,103	1,103	1103	1103
Investments	0	0	0	0	0
Inventories	3,354	2,964	3,817	4,096	4,757
Debtors	1,574	1,674	1,890	2,068	2,254
Cash	9,230	13,738	11,414	12,293	13,044
Loans & advances	1,646	2,169	2,327	2559	2815
Other current assets	2,979	2,979	2,979	2979	2979
<b>Total current assets</b>	<b>18,783</b>	<b>23,524</b>	<b>22,427</b>	<b>23,995</b>	<b>25,850</b>
Creditors	7,611	8,819	8,230	8,713	9,426
Other current liabilities & provisions	3,365	4,935	3,453	3,500	3,550
<b>Total current liabilities</b>	<b>10,976</b>	<b>13,754</b>	<b>11,683</b>	<b>12,213</b>	<b>12,977</b>
<b>Net current assets</b>	<b>7,806</b>	<b>9,770</b>	<b>10,743</b>	<b>11,782</b>	<b>12,873</b>
Deferred tax asset	288	648	648	648	648
<b>Total assets</b>	<b>17,854</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>

Source: Company, YES Sec

## Exhibit 9: Income statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	52,262	56,804	63,144	69,099	75,314
<i>Revenue growth</i>	2.5%	8.7%	11.2%	9.4%	9.0%
COGS	17,942	18,812	18,927	20,369	21,860
Staff costs	3,770	4,117	4,703	5,181	5,760
Advertising costs	6,341	7,604	8,905	9,814	10,772
Other expenses	8,739	8,844	9,904	10,679	11,395
Total expenses	36,792	39,378	42,440	46,044	49,787
EBITDA	15,470	17,426	20,704	23,055	25,527
<i>EBITDA growth</i>	-1.3%	12.6%	18.8%	11.4%	10.7%
<i>EBITDA margin</i>	29.6%	30.7%	32.8%	33.4%	33.9%
Other income	536	765	820	789	845
Interest costs	49	50	50	50	50
Depreciation	1,748	1,715	1,679	1,743	1,796
Profit before tax (before exceptional)	14,209	16,426	19,795	22,051	24,525
Tax	3,652	4,627	5,087	5,550	6,173
PAT	10,557	11,800	14,708	16,501	18,352
<i>PAT margin</i>	20.2%	20.8%	23.3%	23.9%	24.4%
<i>PAT growth</i>	-2.2%	11.8%	24.6%	12.2%	11.2%

Source: Company, YES Sec

## Exhibit 10: Cash flow statement

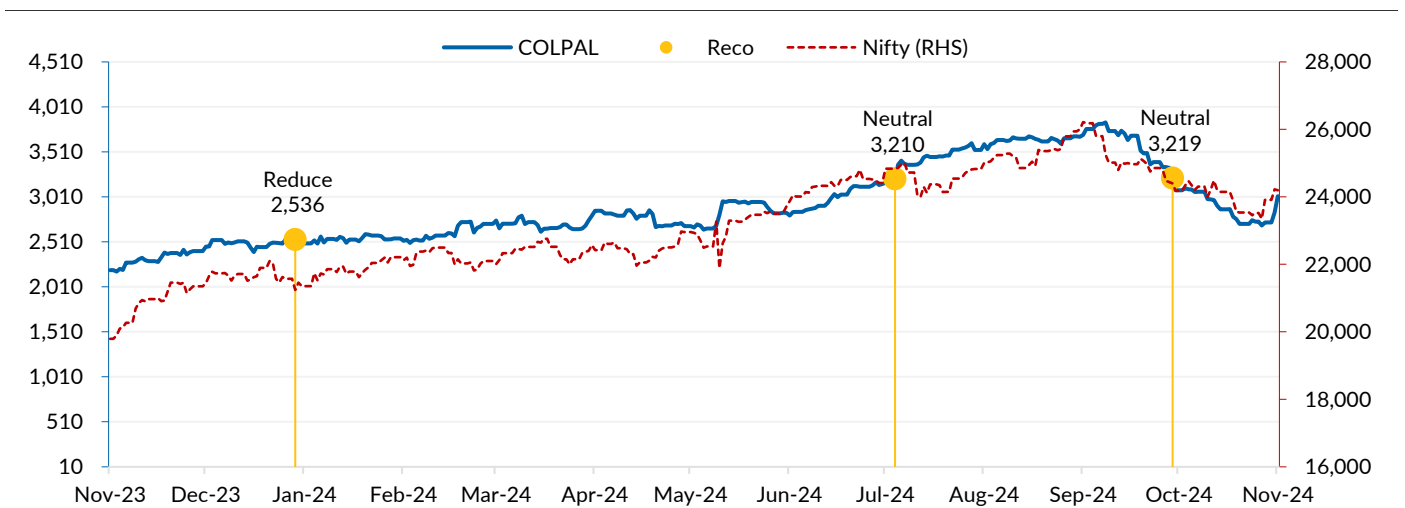
Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	10,400	13,127	14,709	16,502	18,353
Depreciation	1,748	1,715	1,679	1,743	1,796
Other income	(296)	(580)	(770)	(739)	(795)
(Inc.)/dec. in working capital	(89)	(2,272)	(3,298)	(160)	(340)
<b>Cash flow from operations</b>	<b>11,763</b>	<b>11,990</b>	<b>12,320</b>	<b>17,346</b>	<b>19,015</b>
Capital expenditure (-)	(695)	(755)	(706)	(705)	(705)
<b>Net cash after capex</b>	<b>11,068</b>	<b>11,234</b>	<b>11,614</b>	<b>16,641</b>	<b>18,310</b>
Inc./(dec.) in investments	221	828	0	0	0
Others	1,262	4,399	811	781	836
<b>Cash from investing activities</b>	<b>787</b>	<b>4,471</b>	<b>105</b>	<b>76</b>	<b>131</b>
Dividends paid (-)	(10,575)	(11,670)	(14,708)	(16,501)	(18,352)
Others	(293)	(282)	(43)	(43)	(43)
<b>Cash from financial activities</b>	<b>(10,867)</b>	<b>(11,953)</b>	<b>(14,750)</b>	<b>(16,543)</b>	<b>(18,395)</b>
Opening cash balance	7,547	9,230	13,738	11,413	12,293
Closing cash balance	9,230	13,738	11,413	12,293	13,044
Change in cash balance	1,683	4,508	(2,325)	879	751

## Exhibit 11: Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	38.8	43.4	54.1	60.7	67.5
Book value	63.1	68.9	68.9	68.9	68.9
DPS	39.0	58.0	54.1	60.7	67.5
<b>Valuation (x)</b>					
EV/sales	15.5	14.2	12.8	11.7	10.7
EV/EBITDA	52.5	46.3	39.1	35.1	31.6
P/E	77.7	69.6	55.8	49.7	44.7
P/BV	47.8	43.8	43.8	43.8	43.8
<b>Return ratios (%)</b>					
RoCE *	80.2	90.6	105.5	117.5	130.6
RoE	61.2	65.7	78.5	88.0	97.9
<b>Profitability ratios (%)</b>					
Gross margin	65.7	66.9	70.0	70.5	71.0
EBITDA margin	29.6	30.7	32.8	33.4	33.9
EBIT margin	26.3	27.7	30.1	30.8	31.5
PAT margin	20.2	20.8	23.3	23.9	24.4
<b>Liquidity ratios (%)</b>					
Current ratio	1.7	1.7	1.9	2.0	2.0
Quick ratio	1.4	1.5	1.6	1.6	1.6
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.2	3.2	3.6	3.9	4.3
Fixed asset turnover ratio (x)	6.1	7.2	9.1	11.7	15.6
Debtor days	13	10	10	10	10
Inventory days	70	61	65	71	74
Creditor days	156	159	164	152	151

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

## Recommendation Tracker





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Analyst signature

Analyst signature

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