

Colgate Palmolive

The margin expansion story is largely behind us

Colgate Palmolive's 4QFY24 results exceeded consensus estimates, marking the first quarter of positive volume-led growth after eight consecutive quarters of sub-par performance. With a focused management drive to enhance penetration (with rural growth surpassing urban) and promote premiumization, Colgate-Palmolive saw further momentum. In a recent analyst meeting, CLGT reiterated its strategic priorities: (a) Expanding penetration in rural regions (where 55% of customers use toothpaste), (b) Increasing usage frequency in urban areas through robust ad campaigns (where 20% of urban customers brush twice daily), (c) Emphasizing premiumization (with products like Colgate Total and Colgate Visible White), and (d) Diversifying beyond the core by building the Palmolive brand. CLGT has seen a sharp increase in gross margin (410bps) in FY24. The majority of these gains are due to sharp price hikes taken across the product portfolio. However, a part of these gains (ad spending up 130 bps YoY) were used to strengthen the core portfolio and incubate newer brands.

We continue to maintain a REDUCE rating with a TP of INR2,900 (48x FY26 PE) as in our view (a) incremental margin gains are difficult, as further price hikes taken without any reason could be detrimental to the brand's long-term interest; (b) the company will have to burn the midnight oil for inculcating habit change (i.e. brushing twice) and driving penetration in rural areas; (c) worries are lingering over the increase in royalty rate (which is due for renewal in July, 2024). In our view, to drive further multiple rerating, the company will have to deliver on the following: (1) consistent volume-led high single-digit revenue growth in the core category, which is not easy as the category is already well-penetrated; (2) the ability to premiumise toothpaste portfolio; and (3) execution in incubating newer categories brought in from the parent's stable.

- 4QFY24 results – good show on all fronts:** CLGT's 4QFY24 results came much ahead of consensus expectations, owing to robust growth in domestic business (10.7%). Within domestic business, rural was ahead of urban and new age channels (such as MT/e-commerce) grew much faster than traditional trade (general trade). In our view, domestic business reported 3-4% volume growth courtesy (a) the high decibel ad campaign backing core brands; (b) the launch of access packs (80 grams Colgate Total), (c) the relaunch of Colgate Total and Colgate Total sensitive and (d) the launch of new and exotic variants in the Palmolive Body wash portfolio. Gross margin expansion moderated to c250bps to 69.1% (vs 2bps in 4QFY23) despite price hikes taken in the past 12 months but the expansion has been due to synergies with parent on global procurement of raw materials and packaging material. EBITDA margin expansion has moderated as well by c226bps YoY to 36% owing to higher A&P spending (up 18% YoY), which we believe the company needs for fending off increased competition and supporting launches.
- Outlook for FY25:** (a) Plans to bring a lot of products from the global portfolio and it intends to launch tooth whitening booster (gel range) under the visible white range. (b) Invest in science-backed oral care formulations. (c) Upgrading the product and packaging quality of 100% of the core portfolio.

REDUCE

CMP (as on 15 May 24)	INR 2,674
Target Price	INR 2,900
NIFTY	22,201

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,200	INR 2,900
EPS %	FY25E n.a.	FY26E n.a.

KEY STOCK DATA

Bloomberg code	CLGT IN
No. of Shares (mn)	272
MCap (INR bn) / (\$ mn)	727/8,709
6m avg traded value (INR mn)	944
52 Week high / low	INR 2,961/1,568

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	3.2	25.1	59.7
Relative (%)	1.9	13.9	42.6

SHAREHOLDING PATTERN (%)

	Dec-23	Mar-24
Promoters	51.00	51.00
FIs & Local MFs	5.88	6.10
FPIs	24.62	24.51
Public & Others	18.50	18.39
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Quarterly/annual financial summary

(INR mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY22	FY23	FY24	FY25E	FY26E
Net Sales	14,807	13,417	10.4	13,864	6.8	50,665	51,879	56,442	62,209	68,224
EBITDA	5,322	4,519	17.8	4,684	13.6	15,659	15,470	19,008	21,203	23,546
APAT	3,798	3,144	20.8	3,301	15.1	10,783	10,555	13,382	15,056	16,890
EPS (INR)	14.0	12	20.1	12	15.1	39.6	38.8	49.2	55.4	62.1
P/E (x)						68.1	69.6	54.9	48.8	43.5
EV / EBITDA (x)						46.4	46.9	38.1	34.0	30.5
RoCE (%)						73.4	60.7	76.7	82.4	84.6

Source: Company, HSIE Research

Analyst meeting takeaways

Toothpaste

- Increasing penetration of its flagship brands with the distribution campaign “Colgate Bright Smiles, Bright Future” and plan of expanding it to 10-12 states.
- Revamped Colgate Max Fresh with premium packaging and launched in INR20 SKU to accelerate growth.
- Plans to restore Colgate Total to its earlier glory and as a decade back, it had double-digit market share, but is now in low single digits. As a result, it has launched access pack for INR 80 for 80 grams to drive trials.
- Intends to launch whitening booster gel, which has property of giving whitening effect, as customer has to apply gel for a certain period of time and rinse it.

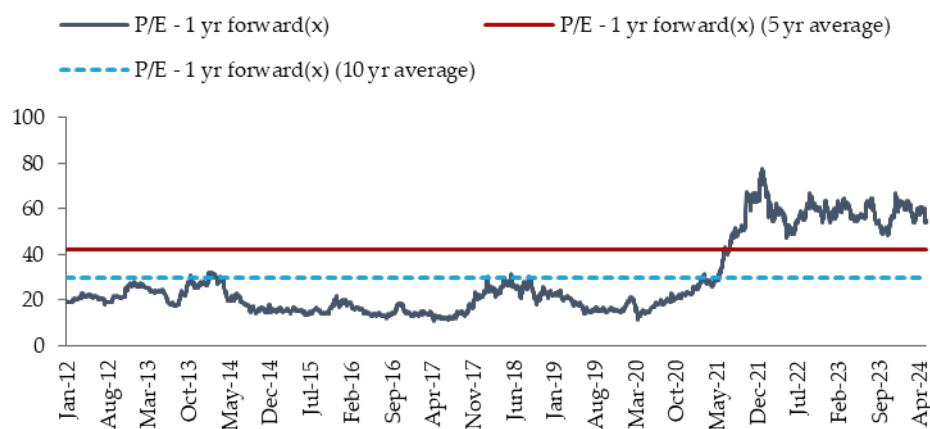
Toothbrush

- Relaunch of Colgate ZigZag toothbrush delivered stellar performance.
- The earlier market share loss in UP has been restored.

Personal Care

- Bodywash penetration is 3% which leaves enough headroom for growth and Colgate is pushing more towards MT and E-commerce currently for its distribution and judicious use of General trade outlets.
- Launched three new variants in bodywash.

PE trading at , 1 year forward 57x



Source: Company, HSIE Research

Consolidated P&L (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
Net Revenues	50,665	51,879	56,442	62,209	68,224
Growth (%)	5.3	2.4	8.8	10.2	9.7
Material Expenses	16,675	17,942	17,230	18,953	20,659
Employee Expense	3,851	3,770	4,117	4,467	4,847
ASP Expense	6,431	6,341	7,604	8,403	9,243
Other expenses	8,381	8,740	8,845	9,583	10,368
EBITDA	15,659	15,470	19,008	21,203	23,546
EBITDA Growth (%)	3.7	(1.2)	22.9	11.5	11.1
EBITDA Margin (%)	30.9	29.8	33.7	34.1	34.5
Depreciation	1,773	1,748	1,715	1,704	1,660
EBIT	14,149	14,258	18,058	20,341	22,812
Other Income (Including EO Items)	263	536	765	842	926
Interest	59	49	50	50	50
PBT	14,090	14,209	18,008	20,291	22,762
Tax	3,307	3,625	4,577	5,235	5,873
RPAT	10,783	10,471	13,237	15,056	16,890
adjustment	-	112	195	-	-
Adjusted PAT	10,783	10,555	13,382	15,056	16,890
APAT Growth (%)	4.1	(2.1)	26.8	12.5	12.2
Adjusted EPS (Rs)	39.6	38.8	49.2	55.4	62.1
EPS Growth (%)	4.1	(2.1)	26.8	12.5	12.2

Source: Company, HSIE Research

Consolidated Balance Sheet (INR mn)

Year End	FY22	FY23	FY24	FY25E	FY26E
SOURCES OF FUNDS					
Share Capital - Equity	272	272	272	272	272
Reserves	17,075	16,892	17,072	18,528	20,458
Total Shareholders' Funds	17,347	17,164	17,344	18,800	20,730
Minority Interest	-	-	-	-	-
Long Term Debt	-	-	-	-	-
Short Term Debt	-	-	-	-	-
Total Debt	-	-	-	-	-
Net Deferred Taxes	(173)	(288)	(288)	(288)	(288)
Long Term Provisions & Others	847	820	820	820	820
TOTAL SOURCES OF FUNDS	18,021	17,695	17,876	19,331	21,261
APPLICATION OF FUNDS					
Net Block	9,630	8,618	7,903	7,199	6,539
CWIP	1,218	1,141	1,141	1,141	1,141
Other Non-current Assets	3,169	3,304	3,304	3,304	3,304
Total Non-current Assets	14,017	13,063	12,348	11,644	10,984
Inventories	3,572	3,354	3,866	4,261	4,673
Debtors	2,247	1,574	1,712	1,887	2,069
Other Current Assets	1,463	1,321	1,126	1,126	1,126
Cash & Equivalents	7,547	9,230	10,340	12,776	15,653
Total Current Assets	14,829	15,479	17,044	20,049	23,521
Creditors	7,714	7,611	8,281	9,127	10,009
Other Current Liabilities & Provns	3,111	3,235	3,235	3,235	3,235
Total Current Liabilities	10,825	10,846	11,516	12,362	13,244
Net Current Assets	4,004	4,632	5,528	7,687	10,277
TOTAL APPLICATION OF FUNDS	18,021	17,695	17,876	19,331	21,261

Source: Company, HSIE Research

Consolidated Cash Flow (INR mn)

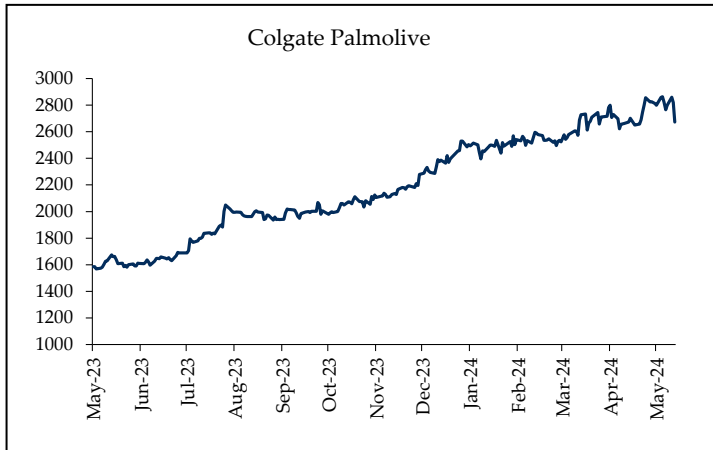
Year End	FY22	FY23	FY24	FY25E	FY26E
Reported PBT	14,090	14,209	18,008	20,291	22,762
Non-operating & EO Items	91	54	-	-	-
Interest Expenses	(149)	(350)	-	-	-
Depreciation	1,773	1,748	1,715	1,704	1,660
Working Capital Change	4,151	(89)	20	276	288
Tax Paid	3,699	3,809	4,577	5,235	5,873
OPERATING CASH FLOW (a)	16,257	11,763	15,166	17,035	18,838
Capex	(496)	(701)	(1,000)	(1,000)	(1,000)
Free Cash Flow (FCF)	15,761	11,062	14,166	16,035	17,838
Investments & Acquisition	(812)	221	-	-	-
Non-operating Income	231	405	-	-	-
INVESTING CASH FLOW (b)	(1,076)	(75)	(1,000)	(1,000)	(1,000)
Debt Issuance/(Repaid)	-	-	-	-	-
Interest Expenses	-	-	-	-	-
FCFE	15,181	11,687	14,166	16,035	17,838
Share Capital Issuance	-	-	-	-	-
Dividend	(10,572)	(10,575)	(13,056)	(13,600)	(14,960)
Others	(334)	(293)	-	-	-
FINANCING CASH FLOW (c)	(10,906)	(10,867)	(13,056)	(13,600)	(14,960)
NET CASH FLOW (a+b+c)	4,275	820	1,110	2,435	2,878
EO Items, Others	2,966	7,241	8,061	9,172	11,607
Closing Cash & Equivalents	7,241	8,061	9,172	11,607	14,485

Ratios

Year End	FY22	FY23	FY24	FY25E	FY26E
PROFITABILITY (%)					
GPM	67.1	65.4	69.5	69.5	69.7
EBITDA Margin	30.9	29.8	33.7	34.1	34.5
EBIT Margin	27.9	27.5	32.0	32.7	33.4
APAT Margin	21.3	20.3	23.7	24.2	24.8
RoE	74.4	61.2	77.6	83.3	85.5
RoIC (or Core RoCE)	165.6	117.1	174.4	223.1	291.7
RoCE	73.4	60.7	76.7	82.4	84.6
EFFICIENCY					
Tax Rate (%)	23.5	25.5	25.4	25.8	25.8
Fixed Asset Turnover (x)	2.5	2.4	2.5	2.7	2.8
Inventory (days)	25.7	23.6	25.0	25.0	25.0
Debtors (days)	16.2	11.1	11.1	11.1	11.1
Other Current Assets (days)	10.5	9.3	7.3	6.6	6.0
Payables (days)	55.6	53.6	53.6	53.6	53.6
Other Current Liab & Provns (days)	22.4	22.8	20.9	19.0	17.3
Cash Conversion Cycle (days)	(25.5)	(32.3)	(31.1)	(29.9)	(28.8)
Net D/E (x)	(0.4)	(0.5)	(0.6)	(0.7)	(0.8)
Interest Coverage(x)	240.0	290.2	361.2	406.8	456.2
PER SHARE DATA (Rs)					
EPS	39.6	38.8	49.2	55.4	62.1
CEPS	46.2	45.2	55.5	61.6	68.2
Dividend	40.0	39.0	48.0	50.0	55.0
Book Value	63.8	63.1	63.8	69.1	76.2
VALUATION					
P/E (x)	71	73	57	51	45
P/BV (x)	44.2	44.7	44.2	40.8	37.0
EV/EBITDA (x)	48.5	49.0	39.8	35.6	31.9
EV/Revenues (x)	15.0	14.6	13.4	12.1	11.0
OCF/EV (%)	2.1	1.6	2.0	2.3	2.5
FCF/EV (%)	2.1	1.5	1.9	2.1	2.4
FCFE/Mkt Cap (%)	2.0	1.5	1.8	2.1	2.3
Dividend Yield (%)	1.4	1.4	1.7	1.8	2.0

Source: Company, HSIE Research

1 Yr Price Movement



Rating Criteria

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

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