

Valuation factors in enhanced execution in Core

Consumer Goods ▶ Analyst Meet Update ▶ November 27, 2024

TARGET PRICE (Rs): 3,000

Colgate's 'Investor Day' showcased management effort toward driving category consumption and focus on enhancing consumer uptrade. Colgate's endeavor to make its toothpaste portfolio superior continues; it is now aligning its brushes portfolio, where it has seen growth recovery. Focus remains on driving consumption in urban (ie 'brushing twice' daily; recent adoption of *Oral Health* movement for creating awareness) and improving usage in rural. With growth slowing in urban and growth recovery plateauing in rural, Colgate is looking at a balanced mix of volume and price growth. Non oral care is yet to see action; the *Palmolive* play is now restricted to body-/hand-wash. Mgmt targets keeping margin within the historical range. We believe valuations factor in the superior execution in oral care; retain REDUCE and Sep-25E TP of Rs3,000 (on 47x P/E).

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)	77.6	61.1	56.6	50.1	45.2
EV/EBITDA (x)	52.5	42.5	39.2	34.7	31.4
P/B (x)	47.8	43.8	48.5	45.4	44.2
FCFF yield (%)	1.2	1.3	1.6	1.9	2.0

Source: Company, Emkay Research

Focus on relevance and needs of cohort to help increase oral-care share

Under the present management, Colgate has seen improvement in execution; after achieving product superiority, the company's strategy is leaning toward communication and category awareness (being the category leader). We continue to see volume growth in the category to be limited to a mid-single-digit; this entails an upside, if consumption in urban (push for brushing twice being key) and rural (making products affordable and communicating via wall paintings) rises. We see similar action in oral care by the company as seen in skin care, where D2C brands have created awareness around formulation and been able to cater to cohort needs. We see an evolved consumer base being key for its mix growth. In the Toothbrush category, where consumption is 1.2 Handles per person per year, the company aligning the offering with toothpaste is an apt strategy, which is aiding growth.

Elevated margin to limit diversification needs

The company has elevated its margin with a healthy price and mix growth—ranging at 30-34% since the last four years. We see the company continuing to dedicate A&P spends toward oral care. For non oral care categories, we believe marketing muscle is limited. With the *Palmolive* brand, the company looks to focus on the body-wash and hand-wash segments. Additionally, the company aspires to enter new categories from the parent portfolio. We await management strategy on the non-oral care category, where its ability to establish a franchisee is likely to be an enabler for top-line growth. We see sales CAGR of ~9% and earnings CAGR at ~12%, over FY25-27E. Limited diversification and current actions aid margins.

Valuation factors in the enhanced execution in Core; maintain REDUCE

We factor the company's enhanced execution in our target valuation multiple of 47x, and ascribe 10% execution premium to its historical average 5YF P/E. As we build in the margin improvement ahead, any re-rating in the stock would be contingent on its actions toward diversifying operations and accelerating topline growth. We maintain REDUCE.

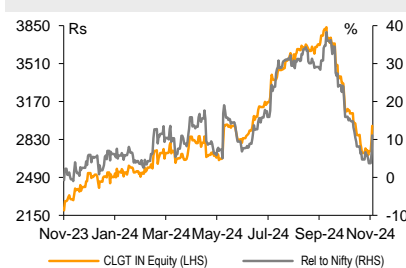
Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	REDUCE
Previous Reco.	REDUCE
Upside/(Downside) (%)	(0.6)
CMP (27-Nov-24) (Rs)	3,017.6

Stock Data	CLGT IN
52-week High (Rs)	3,893
52-week Low (Rs)	2,139
Shares outstanding (mn)	272.0
Market-cap (Rs bn)	821
Market-cap (USD mn)	9,718
Net-debt, FY25E (Rs mn)	0
ADTV-3M (mn shares)	1
ADTV-3M (Rs mn)	1,917.7
ADTV-3M (USD mn)	22.7
Free float (%)	49.0
Nifty-50	24,275
INR/USD	84.5
Shareholding, Sep-24	
Promoters (%)	51.0
FPIs/MFs (%)	24.9/5.8

Price Performance

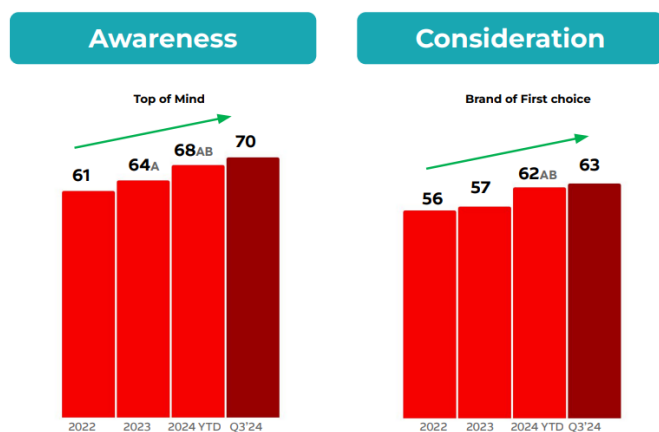
(%)	1M	3M	12M
Absolute	(2.1)	(14.8)	38.0
Rel. to Nifty	(2.5)	(12.2)	12.5

1-Year share price trend (Rs)

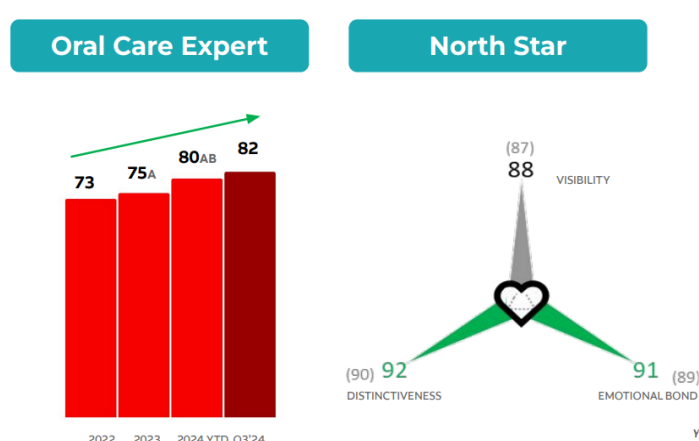


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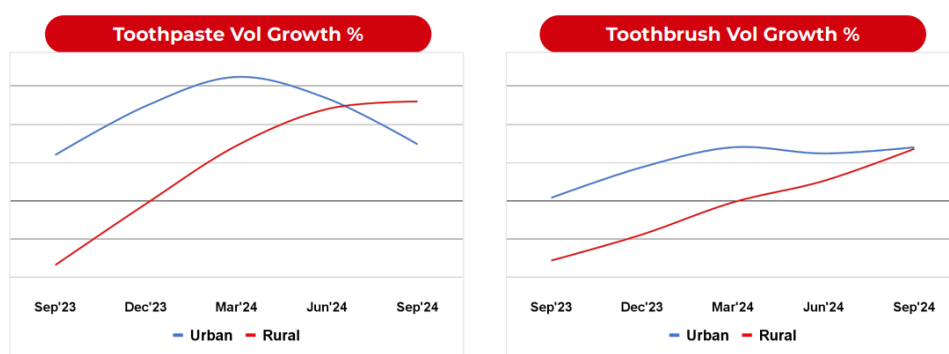
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Exhibit 1: Brand health continues to improve (as per Kantar)

Source: Company, Emkay Research

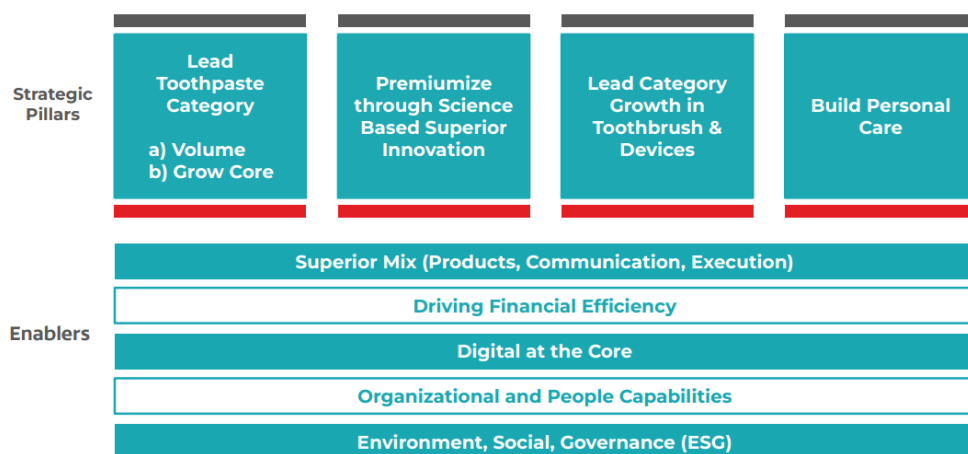
Exhibit 2: External assessment suggests improvement

Source: Company, Emkay Research

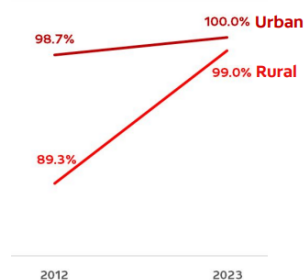
Exhibit 3: Near-term outlook benign – Urban growth slows down, while rural growth plateauing

* on MAT basis

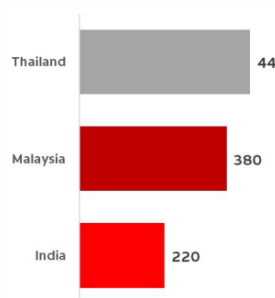
Source: Company, Emkay Research

Exhibit 4: Strategic pillars and enablers remain firm

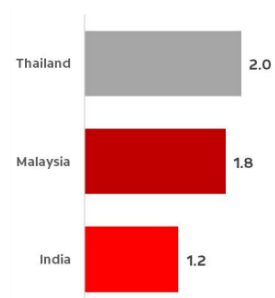
Source: Company, Emkay Research

Exhibit 5: Oral care penetration 100%; focus ahead is on driving consumption**Universal TP Penetration****TP Consumption**

TP gms per capita per year

**TB Consumption**

TB handles per capita per year



Source: Company, Emkay Research

Exhibit 6: Actions areas for toothpaste**80%** Urban Indians do not brush 2X a day**55%** Rural Indians do not brush daily**53%** Indians continue to use a frayed toothbrush

9/10
Indians have
Oral Health
issues

Source: Mouth Audit, Kantar HH Panel, Kantar Dental Camp Study

Source: Company, Emkay Research

Exhibit 7: Action areas for toothbrush**1.2**

Handles per person per year

78%

Category below INR 40

Source: Company, Emkay Research

Exhibit 8: Adoption of Oral Health movement

Source: Company, Emkay Research

Exhibit 9: Leveraging technology to reach a wider consumer base**Technology Can Unlock Access At Scale**

Source: Company, Emkay Research

Exhibit 10: Outcome of the comprehensive pan-India study conducted by Colgate and Kantar in 2023

	Share of population...				
	...visiting dentists	...with toothache issues	...with Gum problems	...with sensitivity concerns	...with cavities
North	10%	18%	14%		
East	8%	27%	22%	21%	15%
South	9%	14%			
West	10%	16%		14%	

Source: Company, Emkay Research

Exhibit 11: Sustained thrust on Colgate Total to drive premiumization

Educating the consumer on benefits which is what consumers look at for oral care needs



~3X growth vs. TP category



Driving Accessibility + Availability

Pricing : 0.77X vs Dec'23
Distribution : 30k → 3L stores



Total Anti-Tartar New Launch

Available across major Ecom platforms

Source: Company, Emkay Research

Exhibit 12: Whitening remains the second leg of the company's premiumization strategy in the toothpaste segment

Premium mix in oral care is 12-13%, which is lower vs the adjacent category like Shampoos, for which premium mix is 30%



Strong double digit growth



Targeted Media approach

Cohort wise sharp media plan + strong influencer outreach



Enhanced Packaging Experience

Source: Company, Emkay Research

Exhibit 13: Product superiority an enabler for the company's growth pillars

Total (family), whitening (youth), and gum disease are three legs of the company's premiumization strategy



Source: Company, Emkay Research

Exhibit 14: Packaging revamped with 100% toothpaste tubes, to be recyclable by FY25-end

Source: Company, Emkay Research

Exhibit 15: Emkay estimates vs Consensus

	Emkay estimates			Consensus estimates			Emkay estimate vs consensus		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	62,712	68,291	74,368	62,662	68,604	75,005	0%	0%	-1%
- growth	11.0%	8.9%	8.9%	10.9%	9.5%	9.3%			
EBITDA	20,638	23,220	25,627	20,810	23,127	25,614	-1%	0%	0%
- growth	8.6%	12.5%	10.4%	9.5%	11.1%	10.8%			
EBITDA margin	32.9%	34.0%	34.5%	33.2%	33.7%	34.1%			
Adj PAT	14,512	16,389	18,166	14,927	16,579	18,493	-3%	-1%	-2%
- growth	8.0%	12.9%	10.8%	11.1%	11.1%	11.5%			
EPS (Rs)	53.4	60.3	66.8	54.8	60.9	67.9	-3%	-1%	-2%

Source: Company, Emkay Research

Exhibit 16: Key assumptions

	FY19	FY20	FY21	FY22	FY23	FY24	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%	5.0%	5.0%
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	22
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

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)	77.6	61.1	56.6	50.1	45.2
P/CE(x)	73.5	59.8	55.6	49.6	45.0
P/B (x)	47.8	43.8	48.5	45.4	44.2
EV/Sales (x)	15.6	14.3	12.9	11.8	10.8
EV/EBITDA (x)	52.5	42.5	39.2	34.7	31.4
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 (%)	1.3	1.4	2.0	1.9	2.2
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

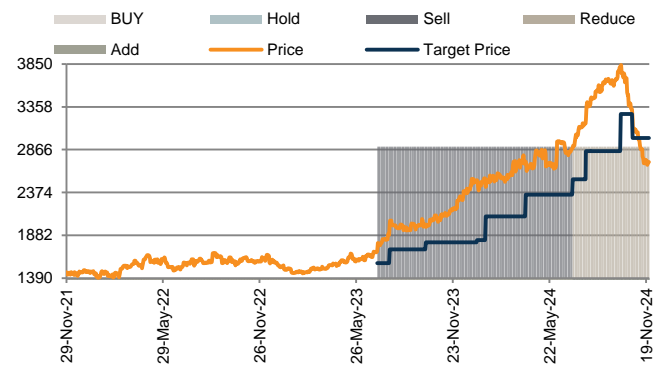
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Oct-24	3,213	3,000	Reduce	Nitin Gupta
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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ADD	5-15% upside
REDUCE	5% upside to 15% downside
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