

Colgate-Palmolive

BSE SENSEX
63,533

S&P CNX
18,608


Stock Info

| | |
|-----------------------|-------------|
| Bloomberg | CLGT IN |
| Equity Shares (m) | 272 |
| M.Cap.(INR b)/(USD b) | 446.5 / 5.4 |
| 52-Week Range (INR) | 1695 / 1376 |
| 1, 6, 12 Rel. Per (%) | 2/-10/8 |
| 12M Avg Val (INR M) | 559 |
| Free float (%) | 49.0 |

Financials Snapshot (INR b)

| Y/E March | 2022 | 2023E | 2024E |
|-------------------|------|-------|-------|
| Sales | 51.0 | 54.1 | 57.6 |
| Sales Gr. (%) | 5.3 | 6.0 | 6.4 |
| EBITDA | 15.7 | 15.9 | 17.5 |
| EBITDA Margin (%) | 30.7 | 29.4 | 30.5 |
| Adj. PAT | 10.5 | 10.9 | 12.0 |
| Adj. EPS (INR) | 38.5 | 40.0 | 44.1 |
| EPS Gr. (%) | 4.2 | 4.1 | 10.3 |
| BV/Sh.(INR) | 63.8 | 63.8 | 63.8 |

Ratios

| | | | |
|------------|-------|-------|-------|
| RoE (%) | 72.1 | 62.8 | 69.2 |
| RoCE (%) | 73.0 | 63.7 | 70.2 |
| Payout (%) | 104.0 | 100.0 | 100.0 |

Valuation

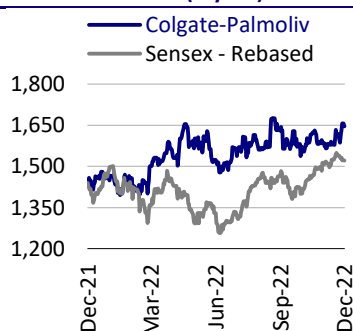
| | | | |
|----------------|------|------|------|
| P/E (x) | 42.7 | 41.0 | 37.2 |
| P/BV (x) | 25.7 | 25.7 | 25.7 |
| EV/EBITDA (x) | 28.0 | 27.5 | 24.9 |
| Div. Yield (%) | 2.4 | 2.4 | 2.7 |

Shareholding pattern (%)

| As On | Sep-22 | Jun-22 | Sep-21 |
|----------|--------|--------|--------|
| Promoter | 51.0 | 51.0 | 51.0 |
| DII | 9.3 | 9.1 | 7.7 |
| FII | 19.5 | 18.7 | 19.1 |
| Others | 20.3 | 21.2 | 22.2 |

FII Includes depository receipts

Stock Performance (1-year)


CMP: INR1642
TP: INR1620 (-1%)
Neutral

Another new beginning, but challenges persist

CLGT's new CEO Prabha Narasimhan unveiled her plans to drive growth in oral care, increase premiumization in the category, and focus on the non-oral care business as part of its annual investor day. Key takeaways from the day include the following:

- India is one of the three key countries for Colgate globally, and thus, highly important from a global perspective.
- From a growth perspective, the company plans to focus on rural areas where 55% of the population do not brush daily and in urban areas where only about 20% of the households brush twice a day.
- Slower growth in the naturals category in the last couple of years where CLGT is relatively under-indexed also enables some stability to its plans.
- From a toothbrush perspective, the company's focus will be on (a) hastening replacement of toothbrushes (from once in every six months in urban areas and from once every 15 months in rural areas); (b) gentle toothbrushes, and (c) powered toothbrushes, which is a nascent category.
- From a premiumization perspective, the focus will be on teeth whitening products with an emphasis on oral beauty. Dentist-specific products from the parent portfolio, Colgate Total (the largest global brand) and kids toothpastes are other avenues for premiumization.
- Palmolive's focus on body wash and more recently face wash will be its sole foray into personal care products for now
- There were no financial targets stated as part of the investor day, and thus, there are no changes to estimates.

Valuation and view

- With high oral care penetration as well as loss of market share to herbal players, volume growth has been elusive for CLGT for several years now. Premiumization in general trade as well as traction in personal care have been quite slow. While initiatives for growth under the new CEO are welcome, we do not see any material change in business prospects over the near to medium term.
- EPS CAGR of ~5.5% over the next two years implies a tepid outlook with volumes actually declining on a YTD basis this year. Over the past five years, sales growth and earnings growth stood at an unimpressive 5% CAGR and ~10% CAGR, respectively.
- With weak revenue and earnings growth likely to sustain going forward, there is unlikely to be any re-rating of the stock. We retain our target multiple of 35x Sep'24 EPS to arrive at our TP of INR1,620. We reiterate our **Neutral** rating on the stock.

Colgate Investor day highlights

New CEO Ms. Prabha Narasimhan's thoughts on the business

- Ms. Prabha Narasimhan was appointed as India business CEO with effect from Sept'22 after 24 years in Hindustan Unilever in the Home Care business.
- Colgate is the most penetrated brand in India.
- Its market share is 3x bigger than the next competitor in oral care.
- It is equipped with cutting edge technologies with over 1000 scientists with 1500 global patents filed annually.
- The company has a direct reach of 1.7m outlets and 95% of these outlets are active every quarter; 70% of them are a part of 'Smile' stores, which enable track-ability.
- Colgate enjoys higher market share in Modern Trade and e-commerce than in General Trade
- India is one of the three key countries for Colgate globally.

Recent initiatives

- The company is launching a platform called 'Dentists first'. Beta testing is on for now and will be formally launched in 2023. The platform can be accessed by dentists and indirectly by their patients. The company has a very strong global portfolio on this front

Opportunity

- To drive category volumes, if India is 1x, Philippines is 1.8x and Brazil 3.1x
- Rural usage is 0.6x of the National average with 55% who do not brush daily
- Even in urban areas only 20% of households brush twice daily
- The potential for premiumization is also high
- 2/3rd of market are in INR 90-100 SKU range

How do they intend to drive earnings growth going forward?

- **Lead category growth** - Focus on Colgate Strong teeth (boosted with arginine), Freshness (Max Fresh with Charcoal) and Colgate Active Salt. Naturals category grew 900 bp between 2015 and 2020, but only by 40 bp in the last two years and thus Colgate's market share loss has been curtailed. On a cumulative basis, Bright Smiles Bright Futures reached 170m school kids.
- **Use science and technology to drive premiumization**- Have launched Colgate Visible White O2 this year, its first foray into oral beauty. Base Visible White product has 70% market share. Focus on Colgate Total will be higher going forward (the biggest sub-brand worldwide). Also, focusing on kids toothpaste made especially for kids who are six years or below.
- **Lead category growth in toothbrush and devices**- Urban consumers replace their toothbrush every six months and for rural consumers it is every 15 months. The company plans to encourage faster replacement. Its focus is on 'Gentle' toothbrushes. These are priced between 2x and 8x of the base variant. Powered toothbrushes are another focus area that also has dedicated focus on kids.

- **Build personal care portfolio** - Centred on Palmolive body historically. Face care category focus with foam face wash is starting this year. These are nascent categories in India.

Premiumization drivers

- Family health care
- Newly launched Oral beauty category
- Dentists program to bring in new products
- Premium portfolio proportion to sales is currently in double digits overall. The market share is high in modern trade and e-commerce but it is growing much more slowly in general trade.

Costs and margins

- Science-based premiumization will drive gross margins
- Huge focus on cost management enables investment back into the business

Digital at the Core

- Established a digital analysis wing
- AI-led assortment recommendation for 1.7m stores as part of Smile Stores program.
- Data points on not only these stores but also on stores in the vicinity
- Digital initiative also enables best use of promotions
- 'Amazing', an in-house image recognition feature, enables much better automation at the retail level for out of stock and ideal SKU scenario, including competitor analysis
- In-house digital assets enable 4x faster turnaround times and 3x volumes, resulting in 87% savings on content production costs

Talent

- Important to retain talent who leave for consumer tech from FMCG
- LEAP - Their global experience program and Evolve –The new skills program facilitate retention
- 90% of leadership team has global experience
- Automation and robotics being introduced as part of supply chain
- Workplace inclusivity including new parents program among other such initiatives

ESG initiatives

- Put out maiden ESG report this year
- World's first recyclable tube launched; eventually 100% using recyclable tube.
- Launched toothbrushes with metal handles and replaceable heads
- Three out of four factories are water neutral or Positive
- Baddi plant runs on 85% hydro-electric power
- Alternative energy usage in Sanand and Sri City plants as well

Exhibit 1: Execution Prowess: Traditional Trade



1.7mn direct coverage

95% active every quarter

70% active with Smile Stores

Source: Company, MOFSL

Exhibit 2: Execution Prowess - New Retail

Category Supremacy II Strategic Partnerships

~75% Biz coverage have merchandisers



\$SOM over-indexed than TT



DT **+180 bps**
Ecomm **+1040 bps**

Source: Company, MOFSL

Exhibit 3: Opportunity: Volume

Per Capita TP Consumption



India Split

| | Urban | Rural |
|------------------------|-------|-------|
| Per Capita Consumption | 1.7x | 0.6x |

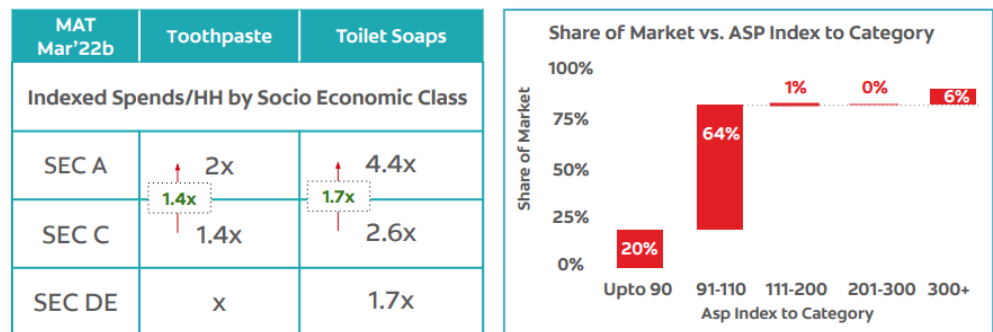
Urban ~ **20%** Households brush twice a day

Rural ~ **55%** Households do not brush daily

Source: Kantar World Panel

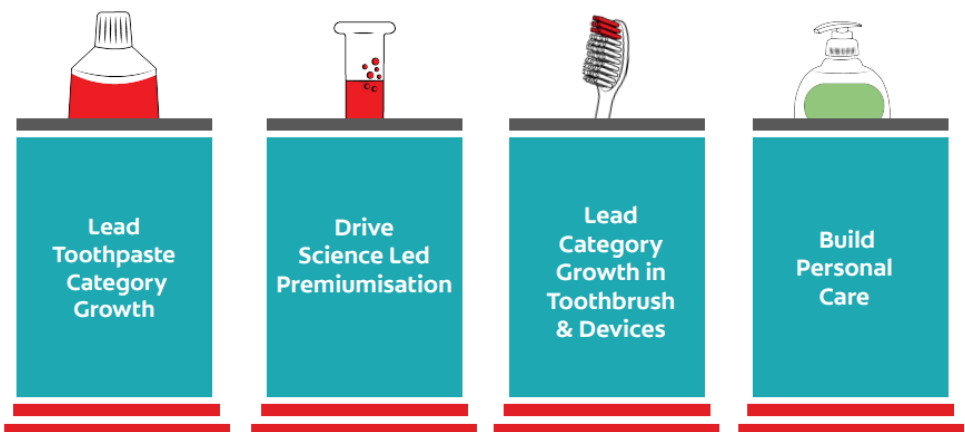
Exhibit 4: Opportunity: Value

Potential for Premiumisation



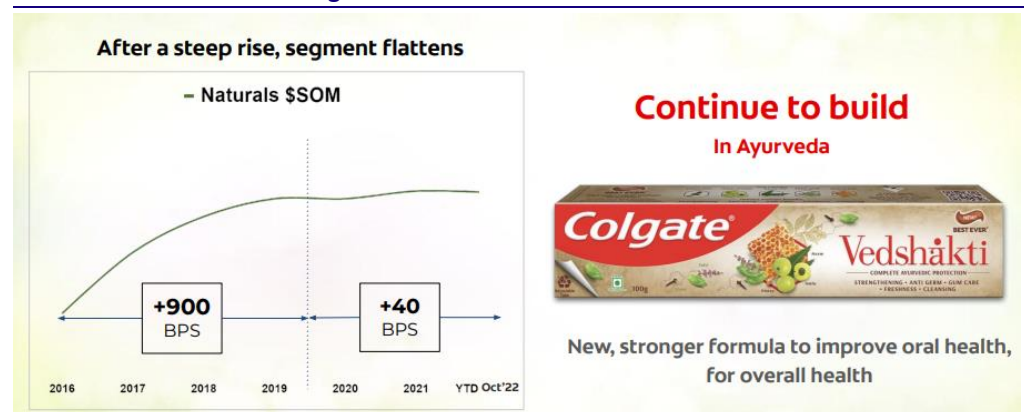
Source: Kantar World Panel, Nielsen

Exhibit 5: Strategy in Action: Growth Pillars



Source: Company

Exhibit 6: Naturals Plateauing



Source: Nielsen data

Exhibit 7: Drive Consumption

65% HH in Rural

55% don't brush daily

Drive **everyday** toothpaste consumption



Source: Kantar Panel

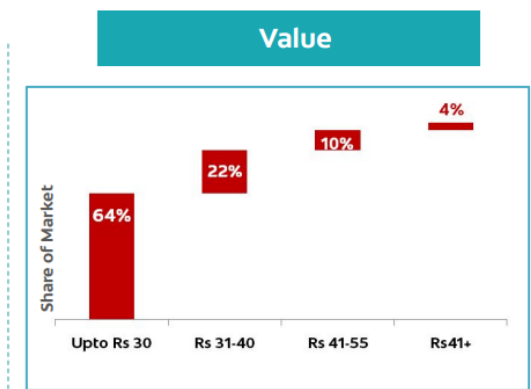
Exhibit 8: Toothbrush Opportunity

| Volume | | |
|------------------------|-------|-------|
| | Urban | Rural |
| Per Capita Consumption | 1.3x | 0.5x |

Brush Replacement

Urban ~ Once every 6 months

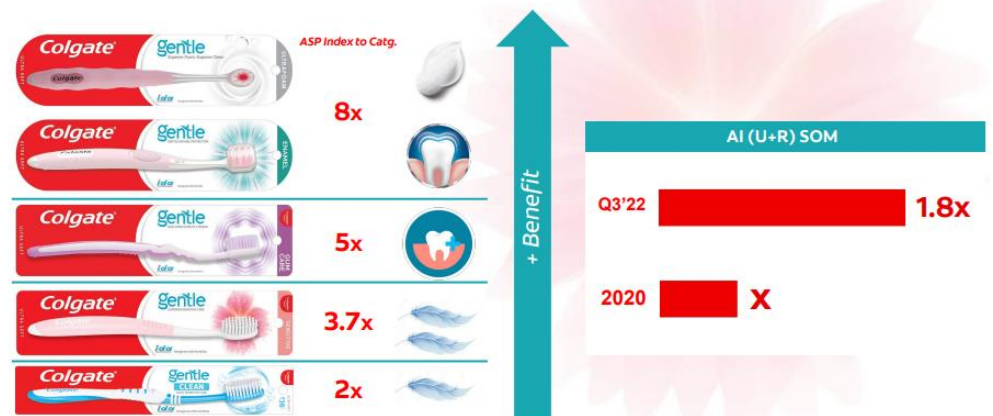
Rural ~ Once every 15 months



~90% market at <INR 50 price point

Source: Kantar World Panel

Exhibit 9: Premiumization with 'Gentle'



Source: Kantar World Panel

Financials and valuations

| Income Statement | | | | | | (INR m) | |
|----------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
| Net Sales | 41,880 | 44,624 | 45,251 | 48,412 | 50,998 | 54,078 | 57,564 |
| Change (%) | 5.2 | 6.6 | 1.4 | 7.0 | 5.3 | 6.0 | 6.4 |
| COGS | 14,887 | 15,586 | 15,729 | 15,494 | 16,675 | 18,587 | 18,881 |
| Gross Profit | 26,992 | 29,039 | 29,522 | 32,918 | 34,323 | 35,491 | 38,683 |
| Gross Margin (%) | 64.5 | 65.1 | 65.2 | 68.0 | 67.3 | 65.6 | 67.2 |
| Operating expenses | 15,855 | 16,678 | 17,505 | 17,822 | 18,663 | 19,573 | 21,144 |
| EBITDA | 11,137 | 12,361 | 12,017 | 15,096 | 15,659 | 15,918 | 17,539 |
| Change (%) | 18.0 | 11.0 | -2.8 | 25.6 | 3.7 | 1.6 | 10.2 |
| Margin (%) | 26.6 | 27.7 | 26.6 | 31.2 | 30.7 | 29.4 | 30.5 |
| Depreciation | 1,565 | 1,592 | 1,979 | 1,825 | 1,773 | 1,792 | 1,943 |
| Int. and Fin. Charges | 0 | 25 | 96 | 73 | 59 | 59 | 59 |
| Financial Other Income | 375 | 377 | 492 | 304 | 263 | 493 | 515 |
| Profit before Taxes | 9,947 | 11,120 | 10,434 | 13,502 | 14,090 | 14,559 | 16,052 |
| Change (%) | 16.8 | 11.8 | -6.2 | 29.4 | 4.4 | 3.3 | 10.3 |
| Margin (%) | 23.8 | 24.9 | 23.1 | 27.9 | 27.6 | 26.9 | 27.9 |
| Tax | 3,022 | 3,566 | 2,475 | 3,572 | 3,768 | 3,668 | 4,044 |
| Tax Rate (%) | 31.1 | 32.1 | 21.7 | 25.6 | 25.7 | 25.2 | 25.2 |
| Adjusted PAT | 6,850 | 7,555 | 8,165 | 10,039 | 10,463 | 10,890 | 12,007 |
| Change (%) | 18.6 | 10.3 | 8.1 | 23.0 | 4.2 | 4.1 | 10.3 |
| Margin (%) | 16.4 | 16.9 | 18.0 | 20.7 | 20.5 | 20.1 | 20.9 |
| Non-rec. (Exp)/Income | -117 | 201 | 0 | 315 | 320 | 0 | 0 |
| Reported PAT | 6,734 | 7,756 | 8,165 | 10,354 | 10,783 | 10,890 | 12,007 |

| Balance Sheet | | | | | | (INR m) | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|
| Y/E March | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
| Share Capital | 272 | 272 | 272 | 272 | 272 | 272 | 272 |
| Reserves | 14,974 | 14,196 | 15,670 | 11,387 | 17,075 | 17,075 | 17,075 |
| Net Worth | 15,246 | 14,468 | 15,942 | 11,659 | 17,347 | 17,347 | 17,347 |
| Loans | 0 | 777 | 0 | 0 | 0 | 0 | 0 |
| Deferred Liability | 355 | 309 | 50 | -48 | -173 | -173 | -173 |
| Capital Employed | 15,601 | 15,553 | 15,992 | 11,611 | 17,174 | 17,174 | 17,174 |
| Gross Block | 19,077 | 21,077 | 22,182 | 19,831 | 20,587 | 21,087 | 22,087 |
| Less: Accum. Depn. | -7,617 | -9,169 | -10,953 | -9,184 | -10,957 | -12,749 | -14,692 |
| Net Fixed Assets | 11,459 | 11,909 | 11,229 | 10,647 | 9,630 | 8,338 | 7,395 |
| Capital WIP | 1,586 | 1,987 | 1,900 | 1,448 | 1,218 | 1,218 | 1,218 |
| Investments | 312 | 312 | 186 | 186 | 0 | 0 | 0 |
| Curr. Assets, L&A | 12,282 | 12,058 | 12,725 | 16,611 | 17,997 | 19,920 | 21,142 |
| Inventory | 2,267 | 2,486 | 2,969 | 3,358 | 3,572 | 3,607 | 3,678 |
| Account Receivables | 2,010 | 2,098 | 1,326 | 1,171 | 2,247 | 2,354 | 2,506 |
| Cash & Bank | 4,562 | 3,994 | 4,213 | 8,676 | 7,547 | 8,532 | 9,437 |
| Others | 3,443 | 3,481 | 4,217 | 3,405 | 4,631 | 5,427 | 5,521 |
| Curr. Liab. and Prov. | 10,037 | 10,712 | 10,048 | 17,282 | 11,672 | 12,303 | 12,582 |
| Account Payables | 6,203 | 6,132 | 6,125 | 7,604 | 7,714 | 8,177 | 8,280 |
| Other Liabilities | 3,040 | 3,757 | 2,830 | 8,555 | 2,978 | 3,096 | 3,221 |
| Provisions | 794 | 823 | 1,093 | 1,122 | 980 | 1,029 | 1,080 |
| Net Current Assets | 2,245 | 1,346 | 2,677 | -671 | 6,326 | 7,618 | 8,561 |
| Application of Funds | 15,601 | 15,553 | 15,992 | 11,611 | 17,174 | 17,174 | 17,174 |

E: MOSL Estimates

Financials and valuations

Ratios

| Y/E March | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|--------------------|------|------|------|-------|-------|-------|-------|
| Basic (INR) | | | | | | | |
| EPS | 25.2 | 27.8 | 30.0 | 36.9 | 38.5 | 40.0 | 44.1 |
| Cash EPS | 30.9 | 33.6 | 37.3 | 43.6 | 45.0 | 46.6 | 51.3 |
| BV/Share | 56.1 | 53.2 | 58.6 | 42.9 | 63.8 | 63.8 | 63.8 |
| DPS | 24.0 | 23.0 | 28.0 | 38.0 | 40.0 | 40.0 | 44.1 |
| Payout % | 95.3 | 82.8 | 93.3 | 103.0 | 104.0 | 100.0 | 100.0 |

Valuation (x)

| | | | | | | | |
|--------------------|------|------|------|------|------|------|------|
| P/E | 65.2 | 59.1 | 54.7 | 44.5 | 42.7 | 41.0 | 37.2 |
| Cash P/E | 53.1 | 48.8 | 44.0 | 37.6 | 36.5 | 35.2 | 32.0 |
| EV/Sales | 10.5 | 9.9 | 9.8 | 9.0 | 8.6 | 8.1 | 7.6 |
| EV/EBITDA | 39.7 | 35.8 | 36.8 | 29.0 | 28.0 | 27.5 | 24.9 |
| P/BV | 29.3 | 30.9 | 28.0 | 38.3 | 25.7 | 25.7 | 25.7 |
| Dividend Yield (%) | 1.5 | 1.4 | 1.7 | 2.3 | 2.4 | 2.4 | 2.7 |

Return Ratios (%)

| | | | | | | | |
|------|------|------|------|------|------|------|------|
| RoE | 49.0 | 50.9 | 53.7 | 72.7 | 72.1 | 62.8 | 69.2 |
| RoCE | 47.9 | 48.6 | 52.2 | 73.1 | 73.0 | 63.7 | 70.2 |

Working Capital Ratios

| | | | | | | | |
|--------------------|-----|-----|-----|-----|-----|-----|-----|
| Debtor (Days) | 17 | 17 | 11 | 9 | 16 | 16 | 16 |
| Asset Turnover (x) | 3.1 | 3.4 | 3.3 | 4.9 | 3.2 | 3.4 | 3.6 |

Leverage Ratio

| | | | | | | | |
|-----------------|-----|-----|-----|-----|-----|-----|-----|
| Debt/Equity (x) | 0.0 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
|-----------------|-----|-----|-----|-----|-----|-----|-----|

Cash Flow Statement

(INR m)

| Y/E March | 2018 | 2019 | 2020 | 2021 | 2022 | 2023E | 2024E |
|------------------------------|---------------|---------------|---------------|---------------|----------------|----------------|----------------|
| OP/(loss) before Tax | 9,947 | 11,121 | 10,434 | 13,502 | 14,090 | 14,559 | 16,052 |
| Depreciation | 1,565 | 1,592 | 1,979 | 1,825 | 1,773 | 1,792 | 1,943 |
| Int./Div. Received | 81 | 85 | -95 | 58 | 150 | -493 | -515 |
| Interest Paid | -290 | -317 | -171 | -137 | -208 | 59 | 59 |
| Direct Taxes Paid | -3,474 | -4,144 | -3,213 | -3,584 | -3,699 | -3,668 | -4,044 |
| (Incr)/Decr in WC | -889 | 1,494 | -35 | -3,826 | 4,151 | -308 | -37 |
| CF from Operations | 6,940 | 9,830 | 8,899 | 7,839 | 16,257 | 11,942 | 13,457 |
| (Incr)/Decr in FA | -2,087 | -1,042 | -604 | -573 | -493 | -500 | -1,000 |
| Free Cash Flow | 4,853 | 8,788 | 8,295 | 7,265 | 15,765 | 11,442 | 12,457 |
| (Pur)/Sale of Investments | 0 | 0 | 133 | 1,060 | -1,003 | 0 | 0 |
| Others | 564 | -1,209 | 305 | 5,703 | -4,985 | 708 | 730 |
| CF from Invest. | -1,523 | -2,251 | -166 | 6,190 | -6,481 | 208 | -270 |
| Change in Equity | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (Incr)/Decr in Debt | 0 | -121 | 0 | 0 | 0 | 0 | 0 |
| Dividend Paid | -2,986 | -6,462 | -7,315 | -9,211 | -10,572 | -10,890 | -12,007 |
| Others | -812 | -1,564 | -1,199 | -353 | -334 | -275 | -275 |
| CF from Fin. Activity | -3,798 | -8,147 | -8,514 | -9,565 | -10,906 | -11,166 | -12,282 |
| Incr/Decr of Cash | 1,619 | -568 | 219 | 4,464 | -1,129 | 984 | 905 |
| Add: Opening Balance | 2,943 | 4,562 | 3,994 | 4,213 | 8,676 | 7,547 | 8,532 |
| Closing Balance | 4,562 | 3,994 | 4,213 | 8,676 | 7,547 | 8,532 | 9,437 |

E: MOSL Estimates

| Explanation of Investment Rating | |
|----------------------------------|--|
| Investment Rating | Expected return (over 12-month) |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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