

BUY

CMP (Rs)	1,799
Target Price (Rs)	2,126
Potential Upside	18.2%
Sensex	65,618
Nifty	19,439

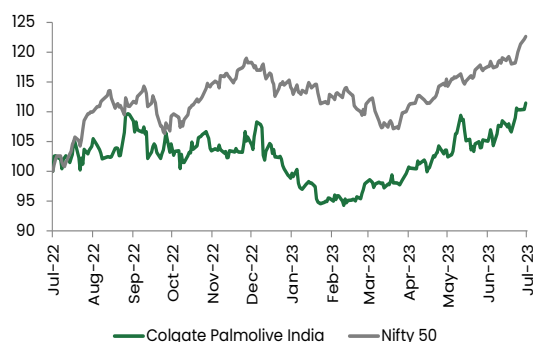
Key Stock data

BSE Code	500830
NSE Code	COLPAL
Bloomberg	CLGT IN
Shares o/s, Cr (FV 1)	27.2
Market Cap (Rs Cr)	48,922
3M Avg Volume	365,352
52 week H/L	1,808/1,435

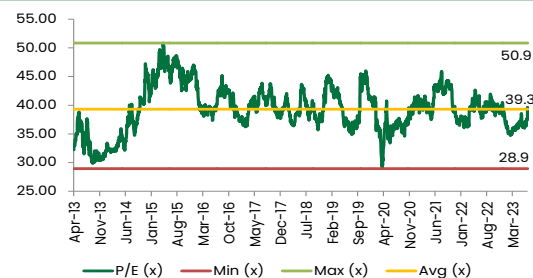
Shareholding Pattern

(%)	Sep-22	Dec-22	Mar-23
Promoter	51.0	51.0	51.0
FII	19.5	21.1	21.5
DII	9.3	7.8	7.6
Others	20.3	20.1	19.9

1 Year relative price performance



Forward PE Band Chart (x)



Research Analyst

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Routine is worthy

High Conviction Idea | Sector: FMCG | JULY 12, 2023

With over 85 years of presence in India, **Colgate- Palmolive India** is the leader of the oral care segment and is also India's most preferred oral care brand, reaching nine out of ten households. The product line of the company comprises a oral care range of toothpastes, toothbrushes, mouth washes, and personal care items such as hand washes and shower gels. The company's products reach over 1.7mn stores, 95% of which are active every quarter. Further, it has established a state-of-the-art R&D center in Mumbai, which is one of its largest R&D facilities globally.

Withstanding leadership in Toothpaste: Colgate remains a market leader in the oral care hygiene with strong presence in both toothpaste and toothbrush categories. They are constantly focusing on driving growth from the core segment i.e. toothpaste led by innovations, premiumization and using science technology for products.

Opportunity and innovation to drive growth for Toothbrush: After toothpaste, Colgate has been one of the leaders in the toothbrush market as well and still there is huge scope of opportunity to grow in this space. Going ahead, they are committed to shift 100% of toothpaste portfolio to recyclable tubes by 2025 in India, improve portfolio efficiency, focus on innovation-led growth and at the same time maintain leadership position.

Shift towards building Palmolive Portfolio: Being a leader in oral care over years, now the company's focus is on expanding and building personal care portfolio across segments such as skin, hair, body care, etc. Thus, the company has launched a range of products under Palmolive brands and further new launches in India would be supported by expertise of global parent and its strong recall value.

Financials & Valuation: We believe the company would continue to see steady growth ahead because of its leadership position across product portfolio, parent expertise and focusing on premiumization. We have estimated its Revenue/EBITDA/PAT to grow at a 6.7%/10.3%/10.8% CAGR of FY23-25E and have initiated coverage with a Buy rating and a target price of Rs 2,126.

Financial Summary – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Net revenue	5,099.8	5,226.2	5,539.8	5,955.2
EBITDA	1,566.0	1,547.0	1,713.2	1,883.3
EBITDAM (%)	30.7	29.6	30.9	31.6
APAT	1,078.3	1,047.2	1,165.5	1,285.1
APATM (%)	21.1	20.0	21.0	21.6
EPS (Rs)	39.6	38.5	42.8	47.2
PE (x)	45.4	46.7	42.0	38.1
RoE (%)	62.2	61.0	65.0	64.5

Source : RBL Research

Colgate remains a market leader in the oral care hygiene with strong presence in both toothpaste and toothbrush categories

Withstanding leadership in Toothpaste

Colgate remains a market leader in the oral care hygiene with strong presence in both toothpaste and toothbrush categories. They are constantly focusing on driving growth from the core segment i.e. toothpaste led by innovations, premiumization and using science technology for products. Amongst the product portfolio, some of its higher share and competitive products includes strong teeth, max fresh, active salt, along with natural, ayurvedic and whitening portfolio. For further innovation, the management has introduced science based technology like Arginine in toothpaste and is also developing products suitable for kids which remains a fastest growing segment and is in high demand. Moreover, they have associated with therapeutics for advanced treatment along with setting-up a new eB2B platform for professionals which will aid in driving category value.

Product launches in Toothpaste



Source : RBL Research

In addition, their plan is to improve the quality of toothpaste packaging by reducing the use of plastics and going green. So, they have launched the first of its kind Recyclable toothpaste tube which is made of HDPE and they are the world's first company to manufacture recyclable toothpaste tubes. Going ahead, they are committed to shift 100% of toothpaste portfolio to recyclable tubes by 2025 in India, improve portfolio efficiency, focus on innovation-led growth and at the same time maintain leadership position.

Plan is to improve the quality of toothpaste packaging by reducing the use of plastics and shift to recyclable tubes



Source : RBL Research

For toothbrush, plan is to continue with the innovation journey, untapped rural market and create more awareness, push urban masses for brushing twice and use superior technology which would aid premiumization

Opportunity and innovation to drive growth for Toothbrush

After toothpaste, Colgate has been one of the leaders in the toothbrush market as well and still there is huge scope of opportunity to grow in this space. The scope is from both urban and rural areas, firstly in rural areas, where 55% of the household do not brush daily and in urban 20% brushes twice a day. So, the opportunity is to add the remaining rural population to brush daily while remaining 80% of urban population to brush twice a day. Further, per capita consumption is low which needs improvement as well as the frequency of replacing the toothbrush in urban and rural areas is once every 6 months and once every 15 months which means the consumer prefers spending less on toothbrush due to low awareness. Moreover, the price of the toothbrush lower than Rs 40 is much preferred by consumers and has a higher market share of ~84-85% while more than Rs 40 toothbrush is less, so premiumization would be the key for growth. On the innovation side, the company has recently launch KEEP toothbrushes (which allows it to replace the brush head in the same handle) electric, super flexi, visible white, baby toothbrush, etc. Going ahead, the management plan is to continue with the innovation journey, untapped rural market and create more awareness, push urban masses for brushing twice and use superior technology which would aid premiumization.



Source : RBL Research

Expanding beyond Oral Care and building Palmolive Portfolio

Being a leader in oral care over years, Colgate strategy is now to expand and build personal care portfolio across segments such as skin, hair, body care, etc. Thus, the company has launched a range of products under Palmolive brands for Skin & Body care such as soaps, body wash, face care products, including face foams, gels, scrubs and masque, etc. Further, Colgate has a strong support from its global parent Palmolive which would aid in leveraging its portfolio as well as expertise, for it to innovate products in this space. Additionally, rising income, premiumization and healthy demand for branded products will drive growth for Palmolive portfolio in India.

Palmolive Portfolio



Source : RBL Research

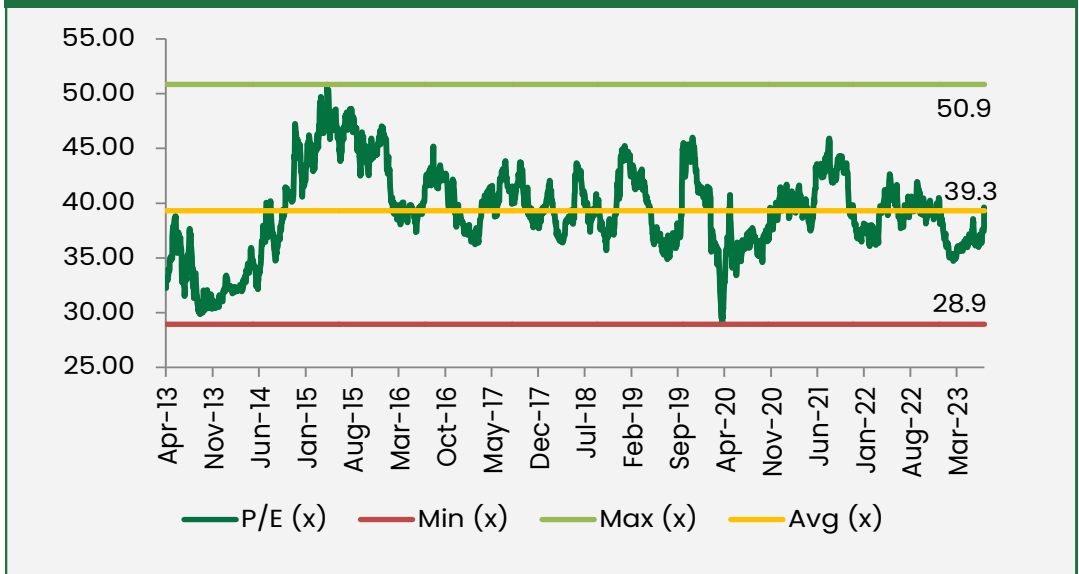
Building Palmolive portfolio by launching range of products in skin, hair, body care, etc

We have valued Colgate at P/E of 45x FY25E EPS and arrived at a target price of Rs 2,126

Outlook & Valuations

Colgate is the leader in the oral care segment having a full range of portfolio. Its strategy is to accelerate growth across segments with focus on core, driving premiumization and innovation in the oral care segment and building Palmolive portfolio. In addition, support from parent, spending on advertisements (one of the highest amongst industry leaders) and connecting to consumers for oral needs bodes well for the growth. Colgate market share in the toothpaste category is ~45-50% share but it is facing stiff competition however management strategy would be to maintain leadership position and gain share driven by innovation, expanding distribution reach and market spends as well as premiumization. We believe the company would continue to see steady growth ahead with Revenue/EBITDA/PAT estimated to grow at a 6.7%/10.3%/10.8% CAGR of FY23-25E. We have initiated coverage with a Buy rating and a target price of Rs 2,126.

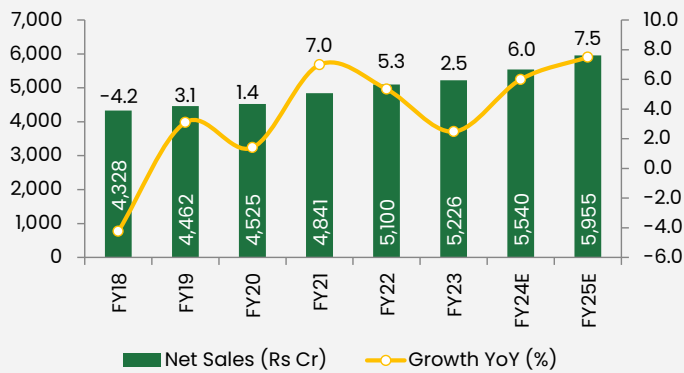
Forward PE Band Chart (x)



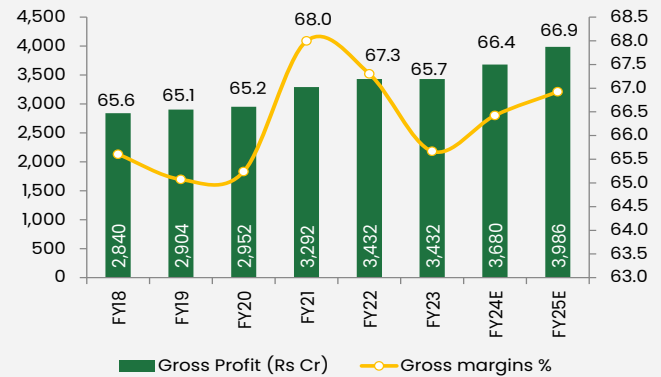
Source : RBL Research

Story in charts

Net Sales expected to grow at 6.7% CAGR in FY23-25E

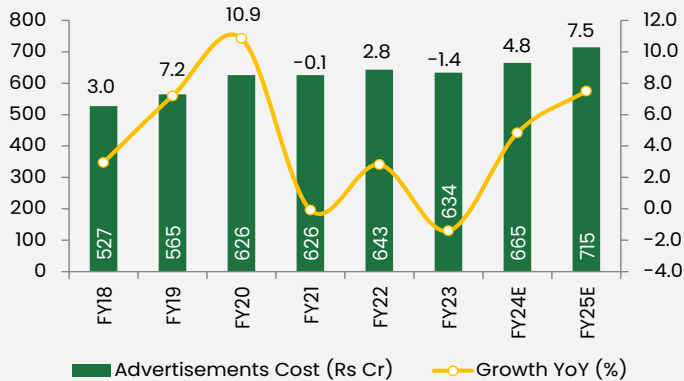


Gross margin is expected to improve to 66.9% by FY25E

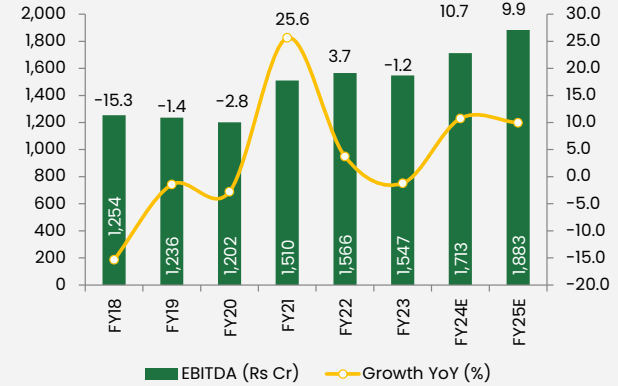


Source : RBL Research

Colgate is expected to spend ~12% of revenue on Advertisements

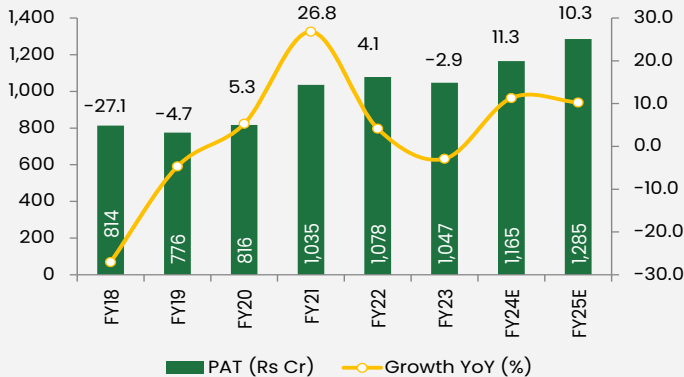


EBITDA is expected to grow at 10.3% CAGR in FY23-25E

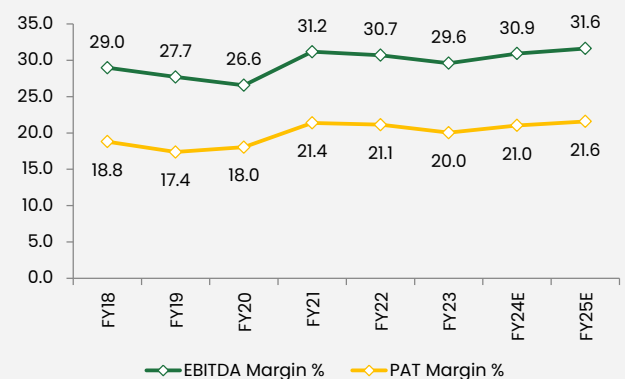


Source : RBL Research

PAT is expected to grow at 10.8% CAGR in FY23-25E

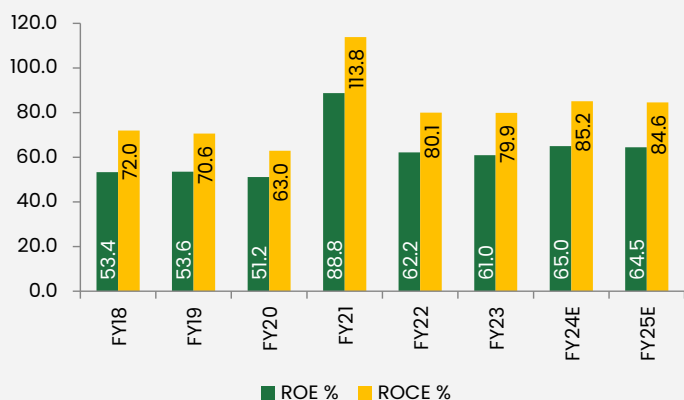


EBITDA and PAT margins expected to reach to 31.6% & 21.6%

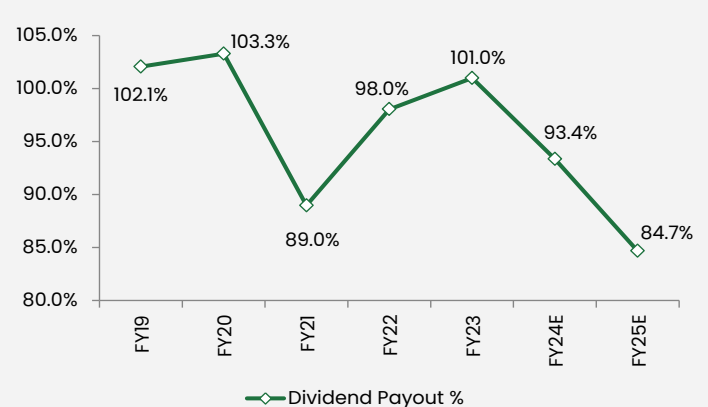


Source : RBL Research

ROE & ROCE to reach to 64.5% & 84.6% by FY25E



Dividend Payout remains more than 85% which is positive



Source : RBL Research

Profit & Loss A/C – standalone

Particulars, Rs Cr	FY22	FY23	FY24E	FY25E
Net sales	5,099.8	5,226.2	5,539.8	5,955.2
Expenditure				
Cost of materials	1,368.0	1,492.5	1,551.1	1,637.7
Purchase of stock in trade	296.1	297.8	304.7	327.5
(Increase) / Decrease In Stocks	3.4	3.9	4.2	4.5
Total raw materials	1,667.5	1,794.2	1,860.0	1,969.7
Gross Profit	3,432.3	3,432.0	3,679.8	3,985.5
Employee cost	385.1	377.0	387.8	416.9
Advertisements cost	643.1	634.1	664.8	714.6
Other expenses	838.1	874.0	914.1	970.7
Total expenditure	3,533.8	3,679.2	3,826.6	4,071.9
EBITDA	1,566.0	1,547.0	1,713.2	1,883.3
EBITDAM (%)	30.7	29.6	30.9	31.6
Depreciation	177.3	174.8	185.3	199.2
EBIT	1,388.6	1,372.2	1,527.9	1,684.2
Other income	26.3	53.6	56.8	61.1
Interest expenses	5.9	4.9	4.9	4.9
PBT	1,409.0	1,420.9	1,579.8	1,740.3
Tax	330.7	362.5	403.1	444.0
Reported PAT	1,078.3	1,058.4	1,176.7	1,296.3
Exceptional Income / Expenses	0.0	-11.2	-11.2	-11.2
PAT (after Exceptional)	1,078.3	1,047.2	1,165.5	1,285.1
PAT Margin %	21.1	20.0	21.0	21.6
EPS	39.6	38.5	42.8	47.2

Source : RBL Research

Balance Sheet – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Share Capital	27.2	27.2	27.2	27.2
Reserves & Surplus	1,707.5	1,689.2	1,766.7	1,963.8
Total Shareholder's Fund	1,734.7	1,716.4	1,793.9	1,991.0
Long term provision	14.0	23.6	25.0	26.9
Other long term liabilities	70.7	58.4	61.9	66.5
Total	84.7	82.0	86.9	93.4
Current Liabilities				
Trade payables	771.4	761.1	806.8	867.3
Short term provisions	84.0	90.5	95.9	103.1
Other current liabilities	227.1	233.0	247.0	265.5
Total	1,082.5	1,084.6	1,149.7	1,235.9
Total liabilities	2,901.8	2,883.0	3,030.5	3,320.3
Application of Assets				
Net Block	963.0	861.8	887.7	914.3
Current work in process	121.8	114.1	114.1	114.1
Tax assets	17.3	28.8	30.6	32.9
Long term loans and advances	1.3	0.9	1.0	1.0
Other non-current assets	315.5	329.5	349.2	375.4
Total	1,419.0	1,335.1	1,382.5	1,437.7
Current Assets				
Inventories	357.2	335.5	355.6	382.2
Trade receivables	224.7	157.4	166.8	179.3
Cash balance	724.1	806.1	879.9	1,076.0
Bank balance	30.7	116.9	105.7	94.5
Short term loans and advances	107.3	87.6	92.9	99.8
Other current assets	39.0	44.5	47.1	50.7
Total	1,482.9	1,547.9	1,647.9	1,882.6
Total assets	2,901.8	2,883.0	3,030.5	3,320.3

Source : RBL Research

Cash Flow – standalone

Particulars, Rs Cr	FY22	FY23	FY24E	FY25E
Profit before tax	1,409.0	1,420.9	1,579.8	1,740.3
Add: Depreciation	177.3	174.8	185.3	199.2
Add: Interest cost	5.9	4.9	4.9	4.9
Less: Other Income	(21.9)	(41.0)	(42.0)	(45.2)
Others	10.3	6.5	-	-
Operating profit before	1,580.6	1,566.1	1,727.9	1,899.2
Changes in working capital	415.1	(8.9)	10.9	14.5
Cash from Operations	1,995.6	1,557.1	1,738.9	1,913.7
Less: Taxes	(369.9)	(380.9)	(403.1)	(444.0)
Cash flow from	1,625.7	1,176.3	1,335.8	1,469.7
Net cash used in Investing				
Purchase of fixed assets	(49.6)	(70.1)	(211.1)	(225.8)
Sales of fixed assets	0.1	0.6	-	-
Dividend Income	20.6	37.4	42.0	45.2
Others	(78.7)	24.5	-	-
Cash flow from investing	(107.6)	(7.5)	(169.1)	(180.6)
Cash flow from Financing				
Dividend (Incl dividend	(1,057.2)	(1,057.5)	(1,088.0)	(1,088.0)
Interest cost	-	-	(4.9)	(4.9)
Others	(33.4)	(29.3)	-	-
Cash flow from Financing	(1,090.6)	(1,086.7)	(1,092.9)	(1,092.9)
Net cash Inflow/Outflow	427.5	82.0	73.8	196.2
Opening cash	296.6	724.1	806.1	879.9
Closing cash	724.1	806.1	879.9	1,076.0

Source : RBL Research

Key ratios – standalone

Particulars, Rs cr	FY22	FY23	FY24E	FY25E
Per share Data				
EPS (Rs)	39.6	38.5	42.8	47.2
Book value per share (Rs)	63.8	63.1	66.0	73.2
Dividend per share (Rs)	38.9	38.9	40.0	40.0
Dividend Yield (%)	98.0	101.0	93.4	84.7
Dividend Yield %	2.2	2.2	2.2	2.2
Profitability Ratios				
EBITDAM(%)	30.7	29.6	30.9	31.6
PBTM (%)	27.6	27.2	28.5	29.2
NPM (%)	21.1	20.0	21.0	21.6
RoE (%)	62.2	61.0	65.0	64.5
RoCE (%)	80.1	79.9	85.2	84.6
Efficiency Data				
Debt-Equity Ratio	0.0	0.0	0.0	0.0
Interest Cover Ratio	235.4	279.5	311.2	343.0
Fixed Asset Ratio	0.2	0.2	0.2	0.2
Debtors (Days)	16.1	11.0	11.0	11.0
Inventory (Days)	25.6	23.4	23.4	23.4
Payable (Days)	55.2	53.2	53.2	53.2
WC (Days)	-13.6	-18.7	-18.7	-18.7
Valuation				
P/E (x)	45.4	46.7	42.0	38.1
P/BV	28.2	28.5	27.3	24.6
EV/EBITDA	30.8	31.1	28.0	25.4
EV/Sales	9.5	9.2	8.7	8.0

Source : RBL Research

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Statements on ownership and material conflicts of interest , compensation– Research Analyst (RA)

S. No.	Statement	Answer	
		Tick appropriate	
		Yes	No
	I/we or any of my/our relative has any financial interest in the subject company? [If answer is yes, nature of Interest is given below this table]		No
	I/we or any of my/our relatives, have actual/beneficial ownership of one per cent. or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report or date of the public appearance?		No
	I / we or any of my/our relative, has any other material conflict of interest at the time of publication of the research report or at the time of public appearance?		No
	I/we have received any compensation from the subject company in the past twelve months?		No
	I/we have managed or co-managed public offering of securities for the subject company in the past twelve months?		No
	I/we have received any compensation for brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation for products or services other than brokerage services from the subject company in the past twelve months?		No
	I/we have received any compensation or other benefits from the subject company or third party in connection with the research report?		No
	I/we have served as an officer, director or employee of the subject company?		No
	I/we have been engaged in market making activity for the subject company?		No

[Please note that only in case of multiple RAs, if in the event answers differ inter-se between the RAs, then RA specific answer with respect to questions under F(a) to F(j) below , are given separately]

Nature of Interest (if answer to F (a) above is Yes :

.....

Name(s) with Signature(s) of RA(s).

[Please note that only in case of multiple RAs and if the answers differ inter-se between the RAs, then RA specific answer with respect to questions under F (a) to F(j) above , are given below]

SS.No.	Name(s) of RA.	Signatures of RA	Serial Question of question which the signing RA needs to make a separate declaration / answer	Yes	No.

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