



3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Grey	↔	Grey

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2023

31.54

High Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

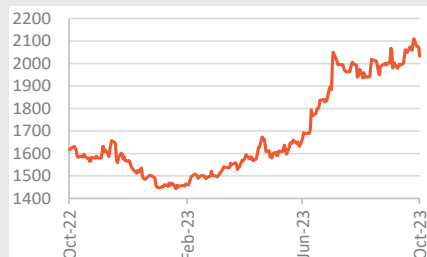
Company details

Market cap:	Rs. 55,281 cr
52-week high/low:	Rs. 2,129 / 1,435
NSE volume: (No of shares)	4.9 lakh
BSE code:	500830
NSE code:	COLPAL
Free float: (No of shares)	13.3 cr

Shareholding (%)

Promoters	51.0
FII	24.7
DII	5.9
Others	18.41

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-0.8	28.7	25.7
Relative to Sensex	2.5	3.7	24.6	19.7

Sharekhan Research, Bloomberg

Colgate-Palmolive (India) Ltd

Muted sales volumes; margins drive double digit PAT growth

Consumer Goods

Sharekhan code: COLPAL

Reco/View: Hold



CMP: Rs. 2,033

Price Target: Rs. 2,212



Upgrade



Maintain



Downgrade

Summary

- Colgate Palmolive (India) Limited's (Colgate's) Q2FY2024 performance was largely in-line with expectation with 337 bps y-o-y expansion in OPM to 32.8% leading to 22% y-o-y growth in adjusted PAT to Rs. 340.1 crore; revenues grew by 6% y-o-y to Rs. 1,471.1 crore.
- Toothpaste volumes grew 3-4% with high single digit growth in the toothpaste category.
- Any improvement in the volume growth with market share gains and improved consumption on back of revamped strategies will help driving better performance in the coming years.
- Stock trades at 47x/42x its FY2024E/FY2025E earnings. We maintain our Hold recommendation on the stock with revised PT of Rs. 2,212.

Colgate's Q2FY2024 numbers were good, with standalone revenues growing by 6% y-o-y to Rs. 1,471.1 crore, against our and average street expectation of Rs. 1,488 crore and Rs. 1,490 crore, respectively, OPM higher by 337 bps y-o-y to 32.8% (in-line with our expectation of 32.9% and higher than the average street expectation of 32.1%) and a 22.3% y-o-y growth in the adjusted PAT to Rs. 340.1 crore (largely in-line with our and average street expectation of Rs. 331-335 crore). We believe volume grow during the quarter stood at 3-4%. Gross margins shot up by 502 bps y-o-y to 68.8%, while higher advertisement expenses (up by 30% y-o-y) restricted rise in OPM to 337 bps y-o-y. In H1FY2024, revenue grew by 8.1% y-o-y to Rs. 2,794.8 crore and OPM improved by 382 bps y-o-y to 32.2%, which led to 27% y-o-y growth in the adjusted PAT to Rs. 628.3 crore. The board has declared an interim dividend of Rs. 22 per share for FY2024.

Key positives

- Toothpaste category growing in high single-digits.
- Gross margin and OPM improved by 502 bps and 337 bps y-o-y to 68.8% and 32.8%, respectively.

Key negatives

- Revenue growth at 6% was lower than our as well as street expectation of 7-8%.

Management Commentary

- Domestic business grew by 6.6% y-o-y, with toothpaste segment witnessing higher single-digit growth.
- Company doubled down on the Colgate Strong Teeth relaunch by expanding reach and availability. Further, strong performance of Colgate Max Fresh was supported by its relaunch with the best, proprietary freshness technology.
- In Q2FY2024, Colgate also restaged its largest toothbrush franchise, Colgate Zig Zag with a superior mix that focuses on its core equity of deep, interdental cleaning.
- To highlight the importance of night time brushing, the company released a film this festive season called 'The Sweet Truth'. Management expects this educational message to help in creating awareness about the important action of brushing at night.
- The company will continue to invest in brand-building activities. Advertisement spends grew by 30% y-o-y in Q2.

Revision in earnings estimates – We have broadly maintained our earnings estimates for FY2024E and FY2025E as Q2FY2024 performance was largely in-line with expectation.

Our Call

View – Maintain Hold with a revised PT of Rs. 2,212: Colgate's Q2FY2024 performance was in line with the performance of other large consumer good companies with slight miss on revenue growth, while strong margin expansion drove bottom-line growth. Management is focusing on improving the toothpaste category's growth by creating awareness of oral hygiene (especially in rural markets) and achieve a higher volume growth ahead of the category's growth in the coming quarters. We expect the company to maintain high advertisement spends to support its brands. The stock is currently trading at 47x/42x its FY2024E/FY2025E earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs. 2,212 (rolling it over to September 2025 earnings). Any consistent improvement in the operating performance will act as a key re-rating trigger for the stock.

Key Risks

Any fall in the market share or slow recovery in the toothpaste would act as a key risk to our earnings estimates.

Valuation (Standalone)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	5,100	5,226	5,661	6,089
OPM (%)	30.7	29.6	31.4	31.8
Adjusted PAT	1,078	1,056	1,188	1,304
% YoY growth	4.1	-2.1	12.6	9.8
Adjusted EPS (Rs.)	39.6	38.8	43.7	48.0
P/E (x)	51.3	52.4	46.5	42.4
P/B (x)	31.9	32.2	29.5	25.8
EV/EBIDTA (x)	34.9	35.2	30.6	27.9
RoNW (%)	74.4	61.2	66.2	65.0
RoCE (%)	76.6	77.5	84.2	82.8

Source: Company; Sharekhan estimates

Good Q2 – Revenue growth at 6% y-o-y; OPM expanded by 337 bps y-o-y

Colgate's standalone revenues grew by 6% y-o-y to Rs. 1,471.1 crore, against our and average street expectation of Rs. 1,488 crore and Rs. 1,490 crore, respectively. We believe sales volume grew by 3-4% during the quarter. Gross margin sharply improved by 502 bps y-o-y to 68.8%, while higher advertisement expenses (up by 30% y-o-y) restricted the expansion in OPM to 337 bps y-o-y to 32.8%; in line with our expectation of 32.9% and higher than street average expectation of 32.1%. Operating profit grew by 18.2% y-o-y to Rs. 482.1 crore. This coupled with higher other income led to 22.3% y-o-y growth in the adjusted PAT to Rs. 340.1 crore, slightly ahead of our and average street expectation of Rs. 331-335 crore. In H1FY2024, revenue grew by 8.1% y-o-y to Rs. 2,794.8 crore and OPM improved by 382 bps y-o-y to 32.2%, which led to 27% y-o-y growth in the adjusted PAT to Rs. 628.3 crore. The board has declared an interim dividend of Rs. 22 per share for FY2024.

Results (Standalone)

Particulars	Q2FY24	Q2FY23	y-o-y (%)	Rs cr	
				Q1FY24	q-o-q (%)
Net revenue	1,471.1	1,387.5	6.0	1,323.7	11.1
Raw materials	459.4	502.9	-8.6	417.9	9.9
Employee costs	106.2	94.5	12.4	95.8	10.9
Advertising	206.0	158.2	30.2	181.3	13.6
Other expenditure	217.3	223.8	-2.9	210.6	3.2
Total expenditure	989.0	979.5	1.0	905.6	9.2
Operating profit	482.1	408.0	18.2	418.1	15.3
Other income	21.0	11.3	86.3	15.0	40.3
Interest expenses	1.1	1.3	-17.3	1.1	-1.9
Depreciation	44.3	43.9	1.0	43.8	1.2
Profit Before Tax	457.8	374.1	22.4	388.3	17.9
Tax	117.8	96.1	22.5	100.1	17.7
Adjusted PAT	340.1	278.0	22.3	288.2	18.0
Extra-ordinary items	0.0	0.0	-	-14.5	-
Reported PAT	340.1	278.0	22.3	273.7	24.3
Depreciation	12.5	10.2	22.3	10.6	18.0
			bps		bps
GPM (%)	68.8	63.8	502	68.4	34
OPM (%)	32.8	29.4	337	31.6	119
NPM (%)	31.1	27.0	416	29.3	179
Tax rate (%)	23.1	20.0	308	20.7	244

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Demand to be impacted by rural slowdown in the near term

The toothpaste category is one of the most highly penetrated categories in India with almost 100% penetration. It is reeling under inflationary pressure and is registering a decline for the past few quarters due to lower demand in rural markets. Per capita consumption of toothpaste is lower in India as compared to some developing economies. Awareness of better dental habits and usage is low in rural markets, which provides an opportunity for toothpaste makers to achieve sustained growth momentum in the medium term. Further, companies are adding more premium variants to provide large options to consumers in urban markets for better dental habits. However, higher inflation and slowdown in rural India would lead to a slow recovery in the category's growth compared to other categories in the FMCG sector.

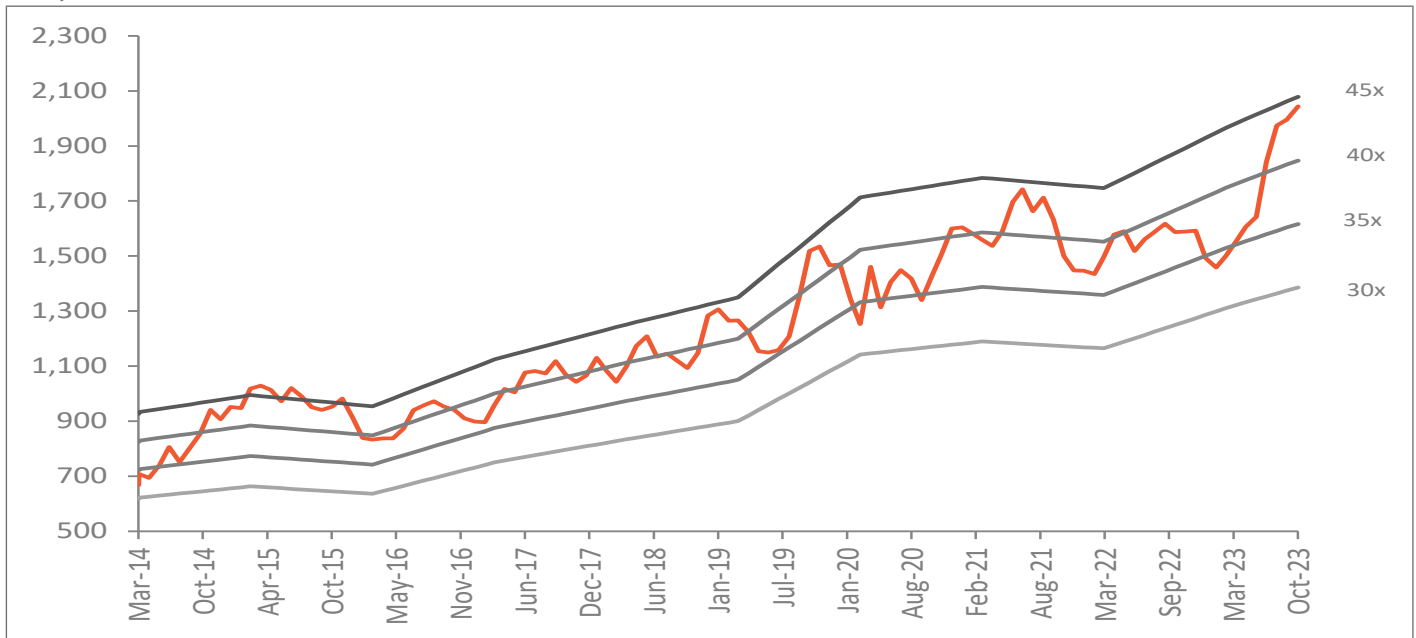
■ Company Outlook – On the recovery path

H1FY2024 numbers were decent with revenue growing by 8.1% y-o-y, OPM higher by 382 bps y-o-y and adjusted PAT up by 27% y-o-y. To enhance revenue growth trajectory over the next 3-4 years, the company is focusing on improving its share with the relaunch of Colgate Strong Teeth and increasing penetration of premium products. Further, the company is focusing on building up the Palmolive portfolio with relevant launches to scale up brand salience in the long run. However, the company's market share remains stagnant for the past few years. We expect revenue and PAT to grow in high single-digits over the next two years.

■ Valuation – Maintain Hold with a revised PT of Rs. 2,212

Colgate's Q2FY2024 performance was in line with the performance of other large consumer good companies with slight miss on revenue growth, while strong margin expansion drove bottom-line growth. Management is focusing on improving the toothpaste category's growth by creating awareness of oral hygiene (especially in rural markets) and achieve a higher volume growth ahead of the category's growth in the coming quarters. We expect the company to maintain high advertisement spends to support its brands. The stock is currently trading at 47x/42x its FY2024E/FY2025E earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs. 2,212 (rolling it over to September 2025 earnings). Any consistent improvement in the operating performance will act as a key re-rating trigger for the stock.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur India	52.8	41.6	34.6	41.7	34.4	28.8	22.1	25.5	28.1
Hindustan Unilever	58.1	53.4	46.8	42.3	38.2	33.1	25.6	28.0	31.1
Colgate-Palmolive	52.4	46.5	42.4	35.2	30.6	27.9	77.5	84.2	82.8

Source: Company, Sharekhan estimates

About the company

Colgate is a leading multi-national consumer products company focused on the production and distribution of oral care and personal care products. Oral care contributes ~95% to the company's turnover. The company is the market leader in oral care in the country and has a wide product portfolio comprising toothpastes, toothpowder, toothbrushes, oil-pulling products, and mouthwashes under the Colgate brand. The company has a leadership position in both the toothbrush and toothpaste categories. In personal care products, the company has a specialised range of personal care products, including hand wash and the recently launched facial bars under the Palmolive brand.

Investment theme

Colgate is among the most trusted brands in Indian households, with a market share of ~50% in the domestic toothpaste market. In the past few quarters, the company has launched several new products under its core toothpaste/toothbrush category, focusing on digitalisation and consumer needs, and has various entered categories (including oral hygiene and skin/face cleansing). The company is seeing early signs of recovery in rural markets and remains optimistic about consistent improvement in the coming quarters. Focused strategies have started showing good results with a decent performance in H1FY2024. We shall keenly monitor the performance in the quarters ahead.

Key Risks

- ◆ Any incremental competition from top players would continue to put pressure on the company's market share in the near to medium term.
- ◆ Any slowdown in domestic demand would affect volume growth in the near to medium term.

Additional Data

Key management personnel

M. Deoras	Chairman
Prabha Narasimhan	Managing Director and Chief Executive Officer
M.S. Jacob	Whole-time Director and Chief Financial Officer
Surender Sharma	Whole-time Director-Legal and Company Secretary

Source: BSE; Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mitsubishi UFJ Financial Group Inc	2.2
2	Vanguard Group Inc	2.0
3	Life Insurance Corp of India	2.0
4	Blackrock Inc	1.5
5	Republic of Singapore	1.4
6	First State Investment ICVC	1.2
7	JP Morgan Chase & Co	0.9
8	SBI Funds Management Ltd	0.8
9	Nippon Life India AMC	0.6
10	Caisse de Depot et Placement du Quebec	0.5

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

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