



## 3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green with check	Grey	Red
Right Valuation (RV)	Green	Grey with check	Red
	+ Positive	= Neutral	- Negative

## What has changed in 3R MATRIX

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

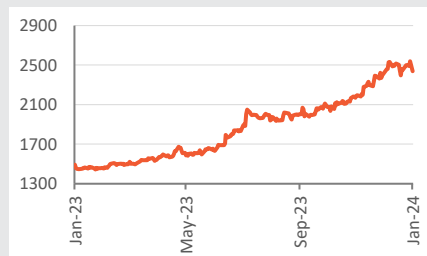
## Company details

Market cap:	Rs. 66,301 cr
52-week high/low:	Rs. 2,580 / 1,435
NSE volume: (No of shares)	5.0 lakh
BSE code:	500830
NSE code:	COLPAL
Free float: (No of shares)	13.3 cr

## Shareholding (%)

Promoters	51.0
FII	25.3
DII	5.9
Others	17.86

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	1.3	17.5	28.4	63.5
Relative to Sensex	2.3	7.6	22.3	48.1

Sharekhan Research, Bloomberg

## Colgate-Palmolive (India) Ltd

### Good Q3; sharp rise in margins drove PAT

## Consumer Goods

Sharekhan code: COLPAL

Reco/View: Hold



CMP: Rs. 2,438

Price Target: Rs. 2,596



Upgrade



Maintain



Downgrade

## Summary

- Colgate Palmolive (India) Limited's (Colgate's) Q3FY2024 performance was beat on all fronts with 557 bps y-o-y expansion in OPM to 33.6% leading to 36% y-o-y growth in adjusted PAT to Rs. 330 crore; revenues grew by 8.1% y-o-y to Rs. 1,396 crore.
- Surge in OPM led to a 30% y-o-y growth in adjusted PAT in 9MFY2024. We expect operating profit to shrink in FY2025 on a high base and hence earnings growth will be largely driven by revenue growth.
- Volume growth in toothpaste stays in low single digit. Any rise in volume growth with market share gains and better consumption on revamped strategies will drive growth.
- Stock trades at 50x/46x its FY2025E/FY2026E EPS. We maintain a Hold with a revised PT of Rs. 2,596.

**Colgate's Q3FY2024 performance beat ours and the street's expectations with the toothpaste segment reporting positive volume growth and OPM coming in much higher-than-anticipated. Revenues grew by 8.1% y-o-y to Rs. 1,396 crore led by a double-digit price-led growth in the toothpaste segment. Volume growth stood largely in low-single digit, in line with our as well as street expectation. Softening of input prices aided in sharp 631 bps and 557 bps y-o-y expansion in gross margins and OPM to 72.2% and 33.6%, respectively. OPM came in much higher than our and average street expectation of 31.4%. Operating profit grew by 29.6% y-o-y to Rs. 468 crore. High single-digit revenue growth and a sharp rise in OPM aided in 35.7% y-o-y growth in adjusted PAT to Rs. 330 crore. In 9MFY2024, revenue grew by 8.1% y-o-y to Rs. 4,190 crore, OPM improved by 440 bps y-o-y to 32.7% and adjusted PAT rose by 30% y-o-y to Rs. 958 crore.**

## Key positives

- Toothpaste category grew in double-digits largely driven by higher price-mix led realisation growth.
- Gross margin and OPM rose by 631 bps and 557 bps y-o-y to 72.2% and 33.6%, respectively.

## Key negatives

- Toothpaste volumes stood in low single digits.
- Revenues fell by 5% q-o-q.

## Management Commentary

- Colgate continued its focus on building Oral Health in the country through 'Brush at Night' campaign, reaching over 300 million people in urban India.
- Colgate MaxFresh was re-launched in Q3 through a new campaign '#NeendBhagaoTaazgiJagao'.
- The company will continue to invest in brand-building activities. Advertisement spends grew by 20% y-o-y in Q3 (ad expenses as a percentage of sales increased from 13.2% in Q3FY23 to 14.6% in Q3FY24).

**Revision in earnings estimates** – We have fine-tuned our earnings estimates for FY2024 and FY2025 to factor in better-than-expected earnings performance for Q3FY2024.

## Our Call

**View – Maintain Hold with a revised PT of Rs. 2,596:** Colgate delivered good numbers in Q3FY2024, with OPM coming in at 33.6%, revenues rising 8.1% and PAT growing by 35.7%, beating our and street expectations on all fronts. Management is focusing on improving the toothpaste category's growth by creating awareness of oral hygiene (especially in rural markets) and aiming to achieve higher volume growth ahead of the category's growth in the coming quarters. We expect earnings growth in FY2025 to moderate as the EBIDTA growth will be in single digit due to high base of FY2024. The stock is currently trading at 50x/46x its FY2025E/FY2026E earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs. 2,596 (rolling it over to FY2026E earnings). Any consistent improvement in the volume growth of core toothpaste category will act as a key re-rating trigger for the stock.

## Key Risks

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

## Valuation (Standalone)

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	5,226	5,645	6,071	6,583
OPM (%)	29.6	32.2	32.1	32.4
Adjusted PAT	1,056	1,217	1,315	1,442
% YoY growth	-2.1	15.3	8.1	9.7
Adjusted EPS (Rs.)	38.8	44.7	48.3	53.0
P/E (x)	62.8	54.5	50.4	46.0
P/B (x)	38.6	34.9	30.4	25.6
EV/EBIDTA (x)	42.3	36.0	33.3	30.3
RoNW (%)	61.2	67.3	64.4	60.5
RoCE (%)	77.5	85.5	82.1	77.4

Source: Company; Sharekhan estimates

## Good Q3 – Beat on all fronts; sharp ~560 bps rise in OPM

Colgate's standalone revenue grew by 8.1% y-o-y to Rs. 1,396 crore, marginally ahead of our and average street expectation of Rs. 1,363 crore and Rs. 1,379 crore, respectively, aided by double-digit price-led growth in the toothpaste segment. Volumes largely rose in low-single digit, in line with our as well as street expectation. Gross margin and OPM improved by 631 bps and 557 bps y-o-y to 72.2% and 33.6%, respectively, largely aided by softening of raw material prices. OPM came in much higher than ours and the average street expectation of 31.4%. Colgate continued its investment towards advertisement, with advertisement expenses rising by 20% y-o-y (ad expenses as a percentage of sales up from 13.2% in Q3FY23 to 14.6% in Q3FY24). Operating profit grew by 29.6% y-o-y to Rs. 468 crore and adjusted PAT increased by 35.7% y-o-y to Rs. 330 crore, marginally ahead of our and average street expectation of Rs. 296-298 crore. In 9MFY2024, revenue grew by 8.1% y-o-y to Rs. 4,190 crore, OPM improved by 440 bps y-o-y to 32.7% and adjusted PAT rose by 30% y-o-y to Rs. 958 crore.

### Results (Standalone)

					Rs cr
Particulars	Q3FY24	Q3FY23	Y-o-Y (%)	Q2FY24	Q-o-Q (%)
<b>Net revenue</b>	<b>1,395.7</b>	<b>1,291.3</b>	<b>8.1</b>	<b>1,471.1</b>	<b>-5.1</b>
Raw materials	388.3	440.7	-11.9	459.4	-15.5
Employee costs	109.8	98.9	11.0	106.2	3.4
Advertising	204.3	169.9	20.2	206.0	-0.8
Other expenditure	224.8	220.3	2.1	217.3	3.5
Total expenditure	927.3	929.8	-0.3	989.0	-6.2
<b>Operating profit</b>	<b>468.4</b>	<b>361.5</b>	<b>29.6</b>	<b>482.1</b>	<b>-2.8</b>
Other income	17.9	10.4	71.9	21.0	-14.9
Interest expenses	1.5	1.3	19.8	1.1	43.8
Depreciation	41.4	43.7	-5.3	44.3	-6.6
<b>Profit Before Tax</b>	<b>443.4</b>	<b>326.9</b>	<b>35.6</b>	<b>457.8</b>	<b>-3.1</b>
Tax	113.3	83.7	35.4	117.8	-3.8
<b>Reported PAT</b>	<b>330.1</b>	<b>243.2</b>	<b>35.7</b>	<b>340.1</b>	<b>-2.9</b>
Diluted EPS	12.1	8.9	35.7	12.5	-2.9
			<b>bps</b>		<b>bps</b>
GPM (%)	72.2	65.9	631	68.8	341
OPM (%)	33.6	28.0	557	32.8	79
NPM (%)	31.8	25.3	645	31.1	65
Tax rate (%)	23.7	18.8	482	23.1	54

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 an 100% penetration. It is reeling under inflationary pressure and is seeing a volume 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. Increasing awareness of better dental habits and low usage in rural markets 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 a slowdown in rural India would lead to a slow recovery in the category's growth compared to other categories in the FMCG sector.

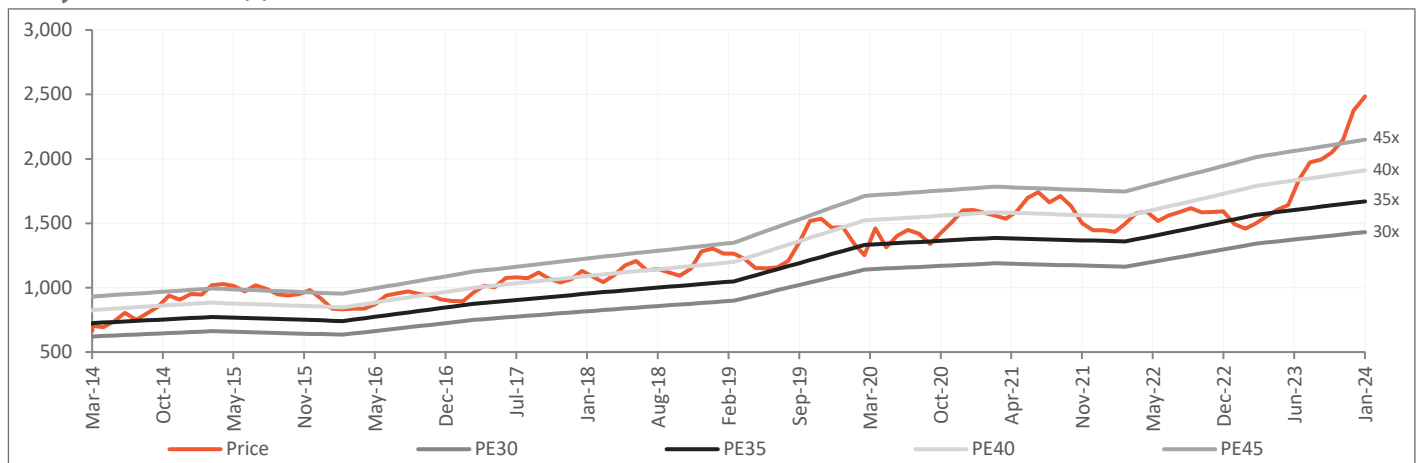
### ■ Company Outlook – On the recovery path

Colgate's 9MFY2024 numbers were good with revenue growing by 8.1% y-o-y, OPM higher by 440 bps y-o-y and adjusted PAT up by 30% 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 Colgate MaxFresh 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 by 8%/11%, respectively, over FY2023-26E.

### ■ Valuation – Maintain Hold with a revised PT of Rs. 2,596

Colgate delivered good numbers in Q3FY2024, with OPM coming in at 33.6%, revenues rising 8.1% and PAT growing by 35.7%, beating our and street expectations on all fronts. Management is focusing on improving the toothpaste category's growth by creating awareness of oral hygiene (especially in rural markets) and aiming to achieve higher volume growth ahead of the category's growth in the coming quarters. We expect earnings growth in FY2025 to moderate as the EBIDTA growth will be in single digit due to high base of FY2024. The stock is currently trading at 50x/46x its FY2025E/FY2026E earnings. We maintain our Hold recommendation on the stock with a revised price target of Rs. 2,596 (rolling it over to FY2026E earnings). Any consistent improvement in the volume growth of core toothpaste category 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	54.7	44.5	37.0	43.2	37.0	30.8	22.1	24.7	27.5
Hindustan Unilever	55.7	54.0	49.0	40.5	38.2	34.4	25.6	27.0	29.1
Colgate-Palmolive	62.8	54.5	50.4	42.3	36.0	33.3	77.5	85.5	82.1

Source: Company, Sharekhan estimates

## About 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 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 good performance in 9MFY2024. 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: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mitsubishi UFJ Financial Group Inc	2.10
2	Vanguard Group Inc	1.97
3	Blackrock Inc	1.82
4	Life Insurance Corp of India	1.79
5	First State Investment Intl. Ltd.	1.24
6	St Jame's Place PLC	0.95
7	SBI Funds Management Ltd	0.84
8	JP Morgan Chase & Co	0.83
9	Caisse de Depot et Placement du Quebec	0.51
10	Nippon Life India Asset Management Ltd	0.49

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

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