Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

3R MATRIX	+	=	-
Right Sector (RS)		✓	
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

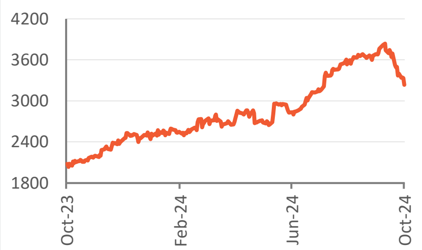
Company details

Market cap:	Rs. 87,462 cr
52-week high/low:	Rs. 3,893 / 2,004
NSE volume: (No of shares)	4.7 lakh
BSE code:	500830
NSE code:	COLPAL
Free float: (No of shares)	13.3 cr

Shareholding (%)

Promoters	51.0
FII	25.6
DII	5.8
Others	17.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-12.2	2.9	17.6	55.7
Relative to Sensex	-6.5	3.0	9.2	31.7

Sharekhan Research, Bloomberg

Stock Update

Result Update

Colgate-Palmolive (India) Ltd

Mixed bag Q2

Consumer Goods		Sharekhan code: COLPAL		
Reco/View: Hold	↔	CMP: **Rs. 3,216**	Price Target: **Rs. 3,555**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

Summary

- Colgate-Palmolive (India)'s (Colgate's) Q2FY2025 numbers were mixed with revenue coming in line with expectations, while margins missed mark owing to higher advertising spends. Revenue grew by 10% y-o-y while OPM fell by 206 bps y-o-y leading to lower PAT growth at 3.9% y-o-y.
- Toothpaste delivered another quarter of high single-digit volume growth driven by core brands, while toothbrush segment continued to grow in double digits led by premiumisation.
- Higher ad spends (up by ~18% y-o-y) dented OPM, which came in at 30.7% versus expectation of ~34%.
- The stock trades at premium valuations of 59x/53x/47x its FY2025E/FY2026E/FY2027E earnings, respectively. With an unfavourable risk-reward ratio, we maintain a Hold with an unchanged PT of Rs. 3,555.

Colgate's Q2FY2025 numbers were a mixed bag, with revenue coming in line with expectations, while margins missed the mark due to higher advertisement spends. Standalone revenue grew by 10.1% y-o-y to Rs. 1,619 crore (against our and average street expectation of Rs. 1,642 crore), driven by high single-digit volume growth in toothpaste category and double-digit growth in the toothbrush category. Gross margin fell by 23 bps y-o-y to 68.5%, while OPM fell by 206 bps y-o-y to 30.7% largely due to a 17.8% increase in advertisement spends. OPM came in much lower than ours and the street's average expectation of 34.1%. Operating profit and adjusted PAT grew by 3.2% and 3.9% y-o-y to Rs. 497 crore and Rs. 353 crore, respectively. Including exceptional gain of Rs. 56 crore towards interest on income tax refunds, reported PAT grew by 16.2% y-o-y to Rs. 395 crore. In H1FY2025, revenue grew by 11.5% y-o-y to Rs. 3,116 crore, OPM stood flat y-o-y at 32.3% and adjusted PAT grew by 14.2% y-o-y to Rs. 717 crore. The company declared an interim dividend of Rs. 24 per share.

Key positives

- Toothpaste category registered high single-digit volume growth.
- Toothbrush continued to grow at double digits with rapid premiumisation.

Key negatives

- OPM fell by 206 bps y-o-y to 30.7%, missing our and street average expectation of 34.1%.

Management Commentary

- Early response to the recently-launched Colgate Visible White Purple has been excellent.
- Colgate Strong Teeth saw new advertising, built on insights related to rising snacking leading to increased loss of calcium and Colgate Strong Teeth with its arginine + calcium boost builds back this lost calcium.
- Colgate's Bright Smiles, Bright Futures (BSBF) program achieved significant milestones partnering with the Governments of Uttar Pradesh and Goa to extend the reach of this flagship in-school program, aiming to positively impact Oral Health awareness amongst over 2 crore children in Uttar Pradesh and over 2 lakh children in Goa.

Revision in earnings estimates – We have fine-tunned our earnings estimates for FY2025E and FY2026E to factor in higher-than-expected ad spends in Q2. We have introduced FY2027E earnings through this note.

Our Call

View – Maintain Hold with an unchanged PT of Rs. 3,555: Colgate registered yet another quarter of healthy volume growth in its core toothpaste segment with core brands performing well. 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. The stock trades at 59x/53x/47x its FY2025E/FY2026E/FY2027E earnings, respectively. With valuations remaining at premium providing limited upside scope, we maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 3,555.

Key Risks

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

Valuation (Standalone) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue	5,226	5,680	6,335	6,942	7,636
OPM (%)	29.6	33.5	33.3	33.8	34.1
Adjusted PAT	1,056	1,338	1,495	1,669	1,863
% YoY growth	-2.1	26.8	11.8	11.6	11.6
Adjusted EPS (Rs.)	38.8	49.2	55.0	61.4	68.5
P/E (x)	83.3	65.7	58.8	52.7	47.2
P/B (x)	51.2	46.9	42.6	37.1	31.2
EV/EBIDTA (x)	56.3	45.6	41.1	36.8	33.0
RoNW (%)	61.2	74.5	75.9	75.2	71.7
RoCE (%)	77.5	94.7	96.5	96.0	92.0

Source: Company; Sharekhan estimates

Revenue in line; margins miss mark due to higher ad-spends

Colgate's standalone revenue grew by 10.1% y-o-y to Rs. 1,619 crore, against our and average street expectation of Rs. 1,642 crore. Toothpaste category registered high single-digit volume growth on the back of its core brands - Colgate Maxfresh and Colgate Strong Teeth, which is in line with ours and the street's expectation. Toothbrush continued to grow at double digits with rapid premiumisation. Gross margins fell by 23 bps y-o-y to 68.5%, while higher advertisement spends (up by 17.8% y-o-y) led to 206 bps y-o-y decline in OPM to 30.7%; OPM came in much lower than our and street average expectation of 34.1%. Operating profit grew by 3.2% y-o-y to Rs. 497 crore and adjusted PAT increased by 3.9% y-o-y to Rs. 353 crore; versus ours and average street expectation of Rs. 398 crore and Rs. 415 crore, respectively. Including the exceptional gain of Rs. 56 crore towards interest on income tax refunds, reported PAT grew by 16.2% y-o-y to Rs. 395 crore. In H1FY2025, revenue grew by 11.5% y-o-y to Rs. 3,116 crore, OPM stood flat y-o-y at 32.3% and adjusted PAT grew by 14.2% y-o-y to Rs. 717 crore. The company declared an interim dividend of Rs. 24 per share.

Results (Standalone) Rs cr

Particulars	Q2FY25	Q2FY24	Y-o-Y (%)	Q1FY25	Q-o-Q (%)
Net revenue	**1,619.1**	**1,471.1**	**10.1**	**1,496.7**	**8.2**
Raw materials	509.3	459.4	10.9	439.3	15.9
Employee costs	118.4	106.2	11.4	112.3	5.4
Advertising	242.7	206.0	17.8	199.1	21.9
Other expenditure	251.4	217.3	15.7	237.6	5.8
Total expenditure	1,121.8	989.0	13.4	988.4	13.5
Operating profit	**497.4**	**482.1**	**3.2**	**508.3**	**-2.2**
Other income	19.5	21.0	-7.1	23.4	-16.6
Interest expenses	1.2	1.1	9.5	1.0	17.3
Depreciation	41.7	44.3	-5.8	41.5	0.5
Profit Before Tax	**474.0**	**457.8**	**3.5**	**489.3**	**-3.1**
Tax	120.7	117.8	2.5	125.3	-3.6
Adjusted PAT	**353.3**	**340.1**	**3.9**	**364.0**	**-2.9**
Extra-ordinary items	41.8	0.0	-	0.0	-
Reported PAT	**395.1**	**340.1**	**16.2**	**364.0**	**8.5**
Depreciation	13.0	12.5	3.9	13.4	-2.9
			bps		**bps**
GPM (%)	68.5	68.8	-23	70.6	-210
OPM (%)	30.7	32.8	-206	34.0	-325
NPM (%)	29.3	31.1	-185	32.7	-341
Tax rate (%)	24.4	23.1	128	24.3	8

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Consumer demand remains muted

The toothpaste category is one of the most highly penetrated categories in India with a 100% penetration. It is reeling under inflationary pressures 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 as compared to other categories in the FMCG sector.

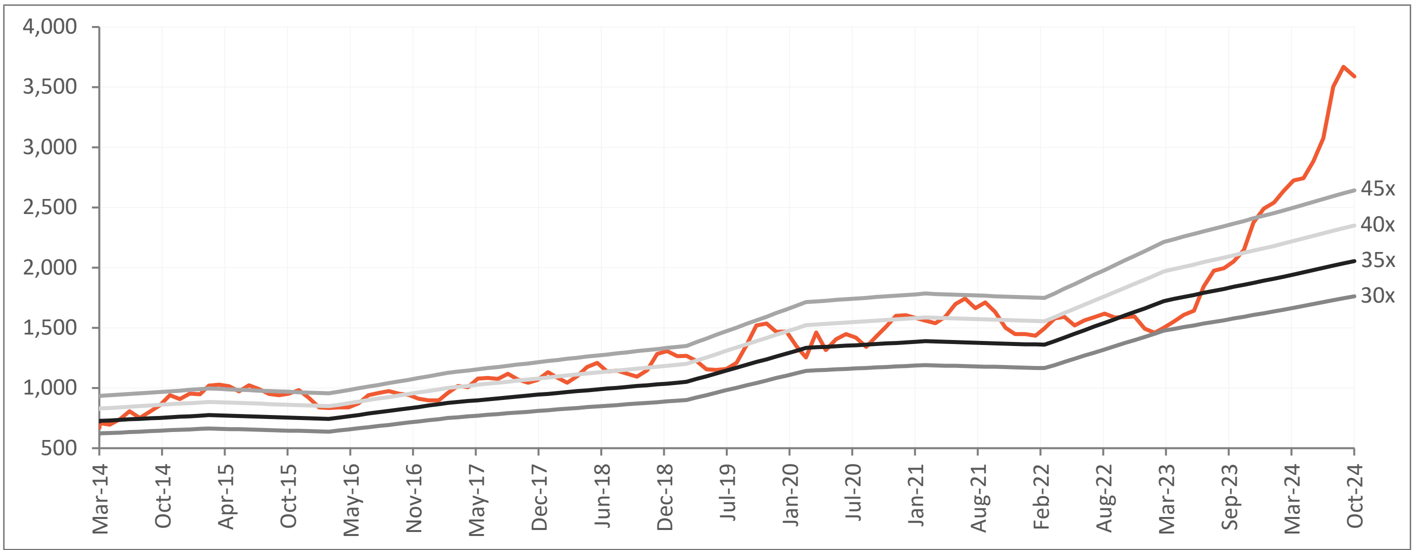
■ Company Outlook – On the recovery path

Colgate registered yet another quarter strong volume growth performance in Q2FY2025. For H1FY2025, the company' revenues grew by 11% driven by high single digit volume growth. We expect the high single-digit volume growth momentum to sustain in the coming quarters. To enhance its revenue growth trajectory over the next 3-4 years, the company is focusing on category development, launching innovative products, superior brand communication and better penetration of premium products. Further, the company is focusing on building the Palmolive portfolio with relevant launches to scale up brand salience in the long run. We expect revenue and PAT to grow by 10%/12% respectively, over FY2024-FY2027E.

■ Valuation – Maintain Hold with an unchanged PT of Rs. 3,555

Colgate registered yet another quarter of healthy volume growth in its core toothpaste segment with core brands performing well. 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. The stock trades at 59x/53x/47x its FY2025E/FY2026E/FY2027E earnings, respectively. With valuations remaining at premium providing limited upside scope, we maintain our Hold recommendation on the stock with an unchanged price target (PT) of Rs. 3,555.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Dabur India	53.2	45.4	38.4	40.6	35.2	30.2	21.5	23.1	25.0
Hindustan Unilever	59.4	55.8	51.2	41.6	39.8	36.4	25.9	26.9	29.2
Colgate-Palmolive	65.7	58.8	52.7	45.6	41.1	36.8	94.7	96.5	96.0

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 entered various 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. 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.	2.06
2	Blackrock Inc.	2.05
3	The Vanguard Group Inc.	2.00
4	Life Insurance Corp of India	1.79
5	First State Investment Intl. Ltd.	1.24
6	SBI Funds Management Ltd	0.88
7	JP Morgan Chase & Co.	0.69
8	Caisse de Depot et Placement du Quebec	0.51
9	Robeco Schweiz AG	0.49
10	Dimensional Fund Advisors LP	0.46

Source: Bloomberg (old data)

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 detoriating 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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