

January 28, 2025

**RESULT REPORT Q3 FY25** | Sector: Consumer Staples

# Colgate-Palmolive (India)

## Earnings pressure could sustain till 1QFY26

**Colgate-Palmolive (India) Ltd. (CLGT) 3QFY25 performance was below our expectations largely due to lower imputed realizations and higher other overhead cost. Soft urban demand and plateauing rural growth pace will put pressure on topline growth going forward as well. Also, benefits from relaunch/restaging done in 2HFY24 for core brands is now starting to come into the base. Momentum in premium portfolio with support from further innovations, packaging upgrade, accessible sku's and high decibel campaign to aid near-term growth. CLGT is also lapping up high margin base and we believe CLGT will leverage its current healthy margins to invest behind brands/innovations to drive topline growth. There is 4.2%/3.1%/3.2% cut in our FY25E/FY26E/FY27E EPS. Due to the recent pressure on sector valuations, we now assign 45x on FY27E EPS, giving us a revised target price (TP) of Rs2,940 (Rs3,375 earlier). We thus downgrade our rating a notch to NEUTRAL. Update on diversification being explored in personal care will aid rerating.**

### Result Highlights

- **3QFY25 headline performance:** Revenue (including other operating income) grew by 4.7% YoY to Rs14.6bn (vs est. Rs15.1bn). EBITDA de-grew by 3% YoY to Rs4.5bn (vs est. Rs4.8bn). Adjusted PAT (APAT) was down 2.2% YoY to Rs3.2bn (vs est. 3.4bn).
- Domestic revenue grew 3.2% (mid-single digit volume growth in toothpastes) in 3QFY25 and 8.8% in 9MFY25.
- **Margins:** Gross margin was 69.9% (down ~230bps YoY and 140bps QoQ; vs est. 69.7%). Lower Advertising spends (down by 90bps YoY to 13.7%; -2% YoY on absolute basis) and Staff cost (down 40bps YoY) was largely offset by increase in Other Overheads (up 160bps YoY). Thus, EBITDA margin was down by ~250bps YoY to 31.1% (vs. our est. 31.7%).
- **9MFY25 revenue, EBITDA & APAT** were up 9.2%, 6.7% & 7.9% YoY respectively. Gross margin stood flattish YoY at 69.7% while EBITDA margin was down 80bps YoY to 31.9%.

### Excerpts from press release

(1) Quarter saw relatively soft demand, particularly in the urban market. Near term macro environment continues to look challenging. (2) Toothpaste reported mid-single digit intrinsic volume growth while Toothbrushes saw continued competitive growth. (3) Premium portfolio continued to see positive momentum, driven by science-backed innovations. (4) Innovation pipeline: Introduced *MaxFresh* Sensorial range in e-Commerce, building on the success of *Visible White Purple*.

### View & Valuation

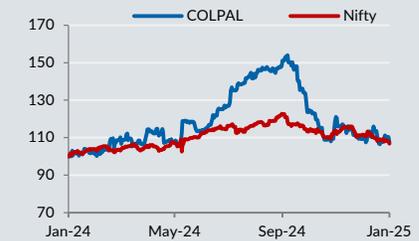
There is 4.2%/3.1%/3.2% cut in our FY25E/FY26E/FY27E EPS. We now build ~9% revenue CAGR over FY24-FY27E (way higher than the ~4.9% CAGR delivered over the last five years) led by (a) Mid-to-high single volume growth in near-term especially from rural markets, (b) Momentum in premium portfolio with support from innovation, packaging upgrade, accessible sku's and high decibel campaign, (c) Continues improvement in ASP led by premiumization and pricing action (to combat inflation). Assuming current margin profile stays and sees further modest improvement in FY26 & FY27, we see 12.4% EBITDA CAGR over FY24-FY27E (~290bps EBITDA margin expansion largely led by gross margin improvement; good chunk of improvement already visible in 9MFY25). CLGT is currently trading at ~52x/46x/41x on our FY25E/FY26E/FY27E EPS as we build 14.6% earnings CAGR. Improved margin profile & working capital, better cash generation, enhanced return ratios, diversification in personal care space and softer aspect of recent volume growth disclosures merits better target multiple, but market conditions restrict us. We thus assign 45x on our FY27E EPS, giving us a revised target price (TP) of Rs2,940 (Rs3,375 earlier). We thus downgrade our rating a notch to NEUTRAL. Update on diversification being explored in personal care will aid rerating.

Reco	: <b>NEUTRAL</b>
CMP	: Rs 2,679
Target Price	: Rs 2,940
Potential Return	: +9.7%

### Stock data (as on Jan 28, 2025)

Nifty	22,957
52 Week h/l (Rs)	3890 / 2467
Market cap (Rs/USD mn)	736700 / 8514
Outstanding Shares (mn)	272
6m Avg t/o (Rs mn):	1,544
Div yield (%):	2.1
Bloomberg code:	CLGT IN
NSE code:	COLPAL

### Stock performance



	1M	3M	1Y
Absolute return	-1.7%	-13.7%	7.5%

### Shareholding pattern (As of Sept'24 end)

Promoter	51.0%
FII+DII	30.8%
Others	18.2%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	ADD
Target Price	2,940	3,375

### Δ in earnings estimates

	FY25e	FY26e	FY27e
EPS (New)	51.8	58.8	65.3
EPS (Old)	54.1	60.7	67.5
% change	-4.2%	-3.1%	-3.2%

### Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Revenue	61,558	67,532	73,611
YoY Growth (%)	8.4	9.7	9.0
EBIDTA	19,865	22,337	24,745
Margins (%)	32.3	33.1	33.6
APAT	14,088	15,981	17,765
EPS	51.8	58.8	65.3
YoY Growth (%)	19.4	13.4	11.2
ROCE (%)	101.0	113.8	126.4
ROE (%)	75.2	85.3	94.8
P/E (x)	51.7	45.6	41.0
EV/EBITDA (x)	36.1	32.1	28.9

### VISHAL PUNMIYA

Lead Analyst

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**MANAS RASTOGI**, Associate

## Exhibit 1: Actual vs estimate

Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	14,618	15,063	14,922	(2.9)	(2.0)
EBITDA	4,544	4,776	4,702	(4.9)	(3.4)
EBITDA Margin (%)	31.1	31.7	31.5	(0.6)	(0.4)
Adjusted PAT	3,228	3,379	3,349	(4.5)	(3.6)

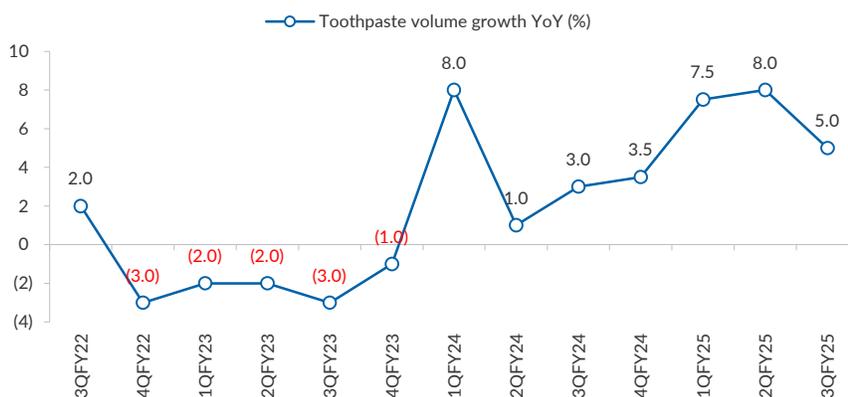
Source: Bloomberg, YES Sec

## Exhibit 2: Quarterly snapshot

Particulars (Rs. Mn)	3QFY24	2QFY25	3QFY25	YoY (%)	QoQ (%)	9MFY24	9MFY25	YoY (%)
Revenue	13,957	16,191	14,618	4.7	-9.7	41,904	45,777	9.2
COGS	3,883	5,093	4,399	13.3	-13.6	12,657	13,885	9.7
Gross margin %	72.2	68.5	69.9	-2.3	1.4	69.8	69.7	-0.1
Employee costs	1,098	1,184	1,088	-0.9	-8.0	3,118	3,395	8.9
% of sales	7.9	7.3	7.4	-0.4	0.1	7.4	7.4	0.0
Advertising costs	2,043	2,427	2,001	-2.0	-17.6	5,916	6,419	8.5
% of sales	14.6	15.0	13.7	-0.9	-1.3	14.1	14.0	-0.1
Other expenses	2,248	2,514	2,587	15.1	2.9	6,527	7,477	14.5
% of sales	16.1	15.5	17.7	1.6	2.2	15.6	16.3	0.8
EBITDA	4,684	4,974	4,544	-3.0	-8.6	13,686	14,601	6.7
EBITDA margin %	33.6	30.7	31.1	-2.5	0.4	32.7	31.9	-0.8
Depreciation	414	417	411	-0.6	-1.4	1,294	1,244	-3.9
EBIT	4,270	4,556	4,132	-3.2	-9.3	12,392	13,357	7.8
Interest expense	15	12	11	-4.0	-0.4	36	32	-10.7
Other income	179	195	204	14.0	4.5	539	589	9.3
PBT	4,434	4,740	4,325	-2.5	-8.7	12,895	13,913	7.9
Tax	1,133	1,218	1,097	-3.1	-9.9	3,311	3,568	7.8
Effective tax rate %	25.6	25.7	25.4	-0.2	-0.3	25.7	25.6	0.0
APAT	3,301	3,522	3,228	-2.2	-8.4	9,584	10,345	7.9
PAT margin %	23.7	21.8	22.1	-1.6	0.3	22.9	22.6	-0.3
EPS	12.1	12.9	11.9	-2.2	-8.4	35.2	38.0	7.9

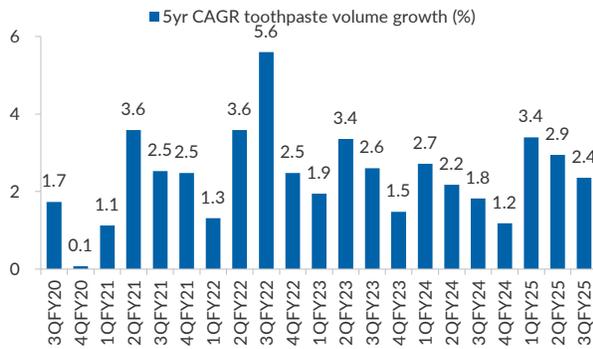
Source: Company, YES Sec

## Exhibit 3: Toothpaste volumes grew in mid-single digit this quarter vs our est. of 5%

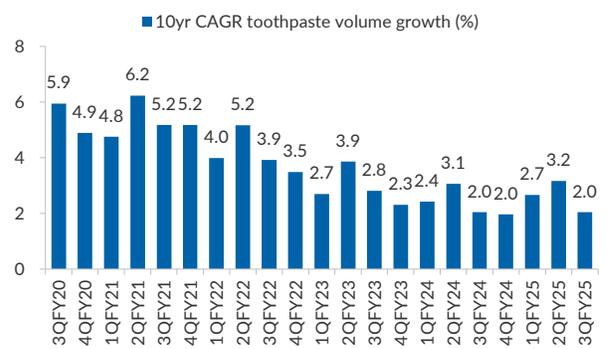


Source: Company, YES Sec; Note: Volume growth pre-1QFY25 are our internal estimate

**Exhibit 4: 5-year CAGR trend sees moderation in 3QFY25 to 2.4%**      **Exhibit 5: ...and 10yr CAGR trend has moderated to 2%**

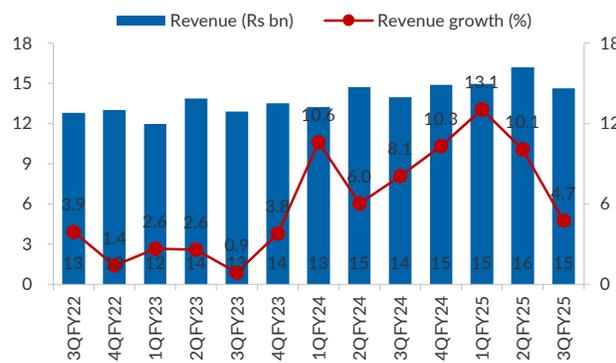


Source: Company, YES Sec



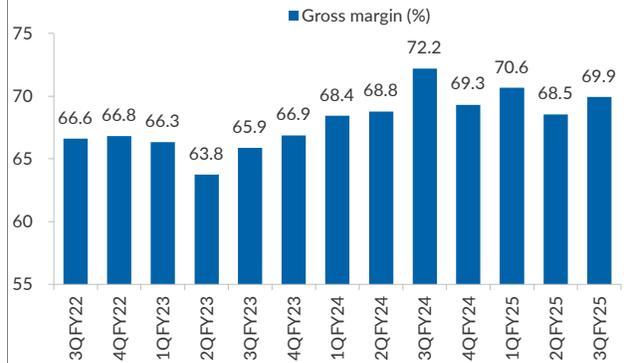
Source: Company, YES Sec

**Exhibit 6: Revenues grew by 4.7% YoY**



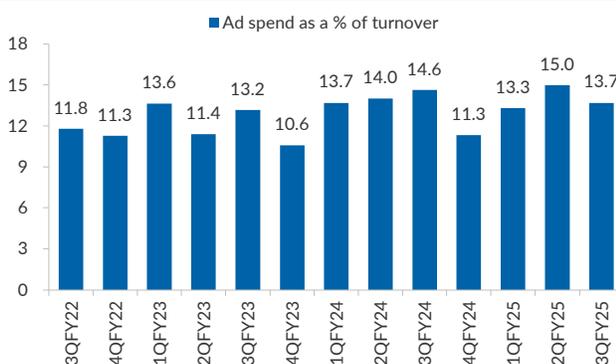
Source: Company, YES Sec

**Exhibit 7: Gross margin down 230bps YoY / up 140bps QoQ to 69.9%**



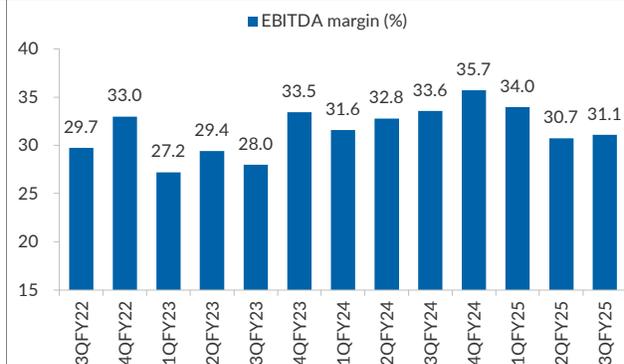
Source: Company, YES Sec

**Exhibit 8: A&SP spends down 90bps YoY to 13.7%**



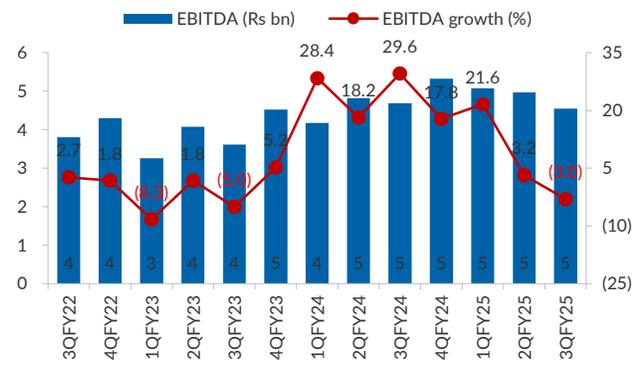
Source: Company, YES Sec

**Exhibit 9: EBITDA margin was down 250bps YoY to 31.1%**



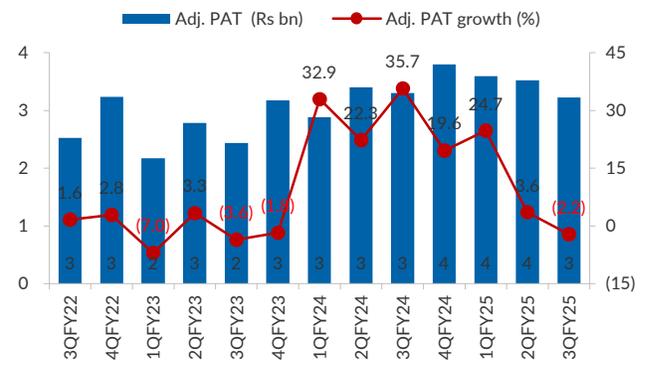
Source: Company, YES Sec

**Exhibit 10: EBITDA de-grew by 3% YoY in 3QFY25**



Source: Company, YES Sec

**Exhibit 11: APAT was down just 2.2% YoY in 3QFY25**



Source: Company, YES Sec

**Exhibit 12: CLGT exploring parents' wide portfolio as well for diversification**

Wide Global Portfolio to choose from



Source: Company, YES Sec

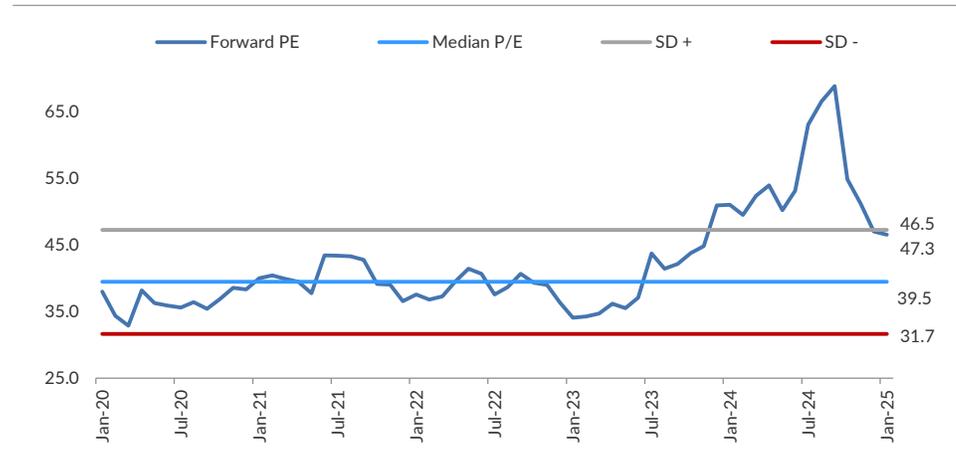
**Exhibit 13: In recent times, 90% of the products have undergone packaging upgrade**



Source: Company, YES Sec

# Colgate-Palmolive (India)

**Exhibit 14: Currently trading at ~47x on one-year forward basis**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 15: Balance Sheet

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	272	272	272	272	272
Reserves	16,892	18,472	18,472	18,472	18,472
Net worth	17,164	18,744	18,744	18,744	18,744
Total debt	0	0	0	0	0
Others	690	718	718	718	718
<b>Total liabilities</b>	<b>17,853</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>
Gross block	21,214	22,188	22,894	23,599	24,304
Depreciation	12,596	14,247	15,904	17,624	19,396
Capital work-in-progress	1,141	1,103	1,103	1103	1103
Investments	0	0	0	0	0
Inventories	3,354	2,964	3,737	4,011	4,649
Debtors	1,574	1,674	1,842	2,021	2,203
Cash	9,230	13,738	11,320	12,185	12,908
Loans & advances	1,646	2,169	2,327	2559	2815
Other current assets	2,979	2,979	2,979	2979	2979
<b>Total current assets</b>	<b>18,783</b>	<b>23,524</b>	<b>22,205</b>	<b>23,755</b>	<b>25,555</b>
Creditors	7,611	8,819	8,031	8,519	9,201
Other current liabilities & provisions	3,365	4,935	3,453	3,500	3,550
<b>Total current liabilities</b>	<b>10,976</b>	<b>13,754</b>	<b>11,484</b>	<b>12,019</b>	<b>12,752</b>
<b>Net current assets</b>	<b>7,806</b>	<b>9,770</b>	<b>10,721</b>	<b>11,736</b>	<b>12,803</b>
Deferred tax asset	288	648	648	648	648
<b>Total assets</b>	<b>17,854</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>	<b>19,461</b>

Source: Company, YES Sec

### Exhibit 16: Income statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Revenue	52,262	56,804	61,558	67,532	73,611
Revenue growth	2.5%	8.7%	8.4%	9.7%	9.0%
COGS	17,942	18,812	18,502	19,914	21,342
Staff costs	3,770	4,117	4,523	5,063	5,629
Advertising costs	6,341	7,604	8,618	9,590	10,563
Other expenses	8,739	8,844	10,050	10,628	11,332
<b>Total expenses</b>	<b>36,792</b>	<b>39,378</b>	<b>41,693</b>	<b>45,195</b>	<b>48,866</b>
<b>EBITDA</b>	<b>15,470</b>	<b>17,426</b>	<b>19,865</b>	<b>22,337</b>	<b>24,745</b>
<i>EBITDA growth</i>	<b>-1.3%</b>	<b>12.6%</b>	<b>14.0%</b>	<b>12.4%</b>	<b>10.8%</b>
<i>EBITDA margin</i>	<b>29.6%</b>	<b>30.7%</b>	<b>32.3%</b>	<b>33.1%</b>	<b>33.6%</b>
Other income	536	765	799	785	813
Interest costs	49	50	45	45	45
Depreciation	1,748	1,715	1,657	1,720	1,772

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Profit before tax (before exceptional)	14,209	16,426	18,961	21,356	23,740
Exceptional items	(85)	(145)	0	0	0
Tax	3,652	4,627	4,873	5,375	5,975
PAT	10,557	11,800	14,088	15,981	17,765
PAT margin	20.2%	20.8%	22.9%	23.7%	24.1%
PAT growth	-2.2%	11.8%	19.4%	13.4%	11.2%

Source: Company, YES Sec

## Exhibit 17: Cash flow statement

Y/E March (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PAT	10,400	13,127	14,089	15,982	17,766
Depreciation	1,748	1,715	1,657	1,720	1,772
Other income	(296)	(580)	(754)	(740)	(768)
(Inc.)/dec. in working capital	(89)	(2,272)	(3,369)	(151)	(344)
<b>Cash flow from operations</b>	<b>11,763</b>	<b>11,990</b>	<b>11,624</b>	<b>16,811</b>	<b>18,427</b>
Capital expenditure (-)	(695)	(755)	(706)	(705)	(705)
<b>Net cash after capex</b>	<b>11,068</b>	<b>11,234</b>	<b>10,918</b>	<b>16,106</b>	<b>17,722</b>
Inc./(dec.) in investments	221	828	0	0	0
Others	1,262	4,399	801	786	815
<b>Cash from investing activities</b>	<b>787</b>	<b>4,471</b>	<b>95</b>	<b>81</b>	<b>110</b>
Dividends paid (-)	(10,575)	(11,670)	(14,088)	(15,981)	(17,765)
Others	(293)	(282)	(48)	(48)	(48)
<b>Cash from financial activities</b>	<b>(10,867)</b>	<b>(11,953)</b>	<b>(14,136)</b>	<b>(16,029)</b>	<b>(17,812)</b>
Opening cash balance	7,547	9,230	13,738	11,321	12,185
Closing cash balance	9,230	13,738	11,321	12,185	12,909
Change in cash balance	1,683	4,508	(2,417)	864	724

Source: Company, YES Sec

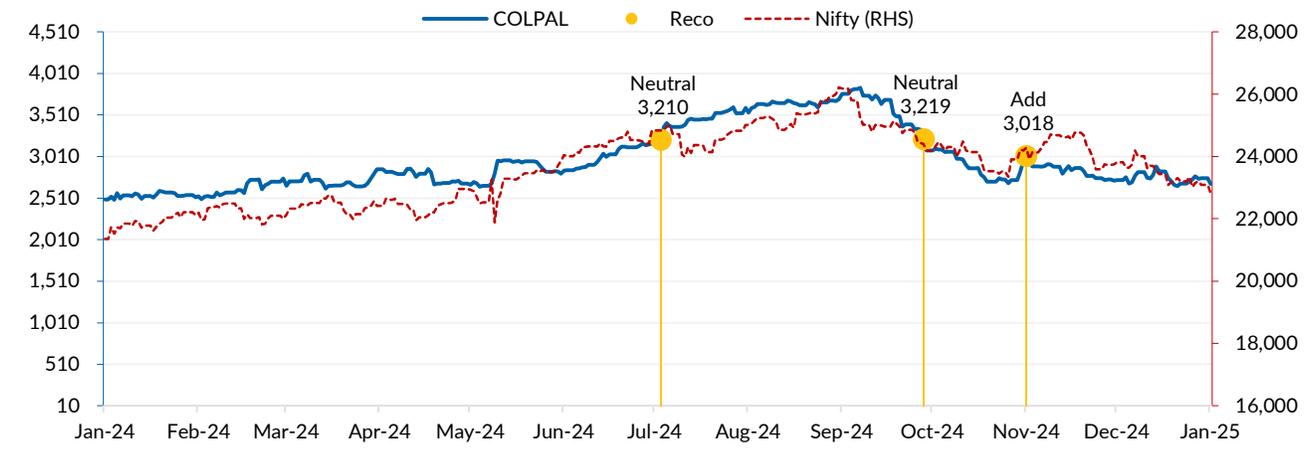
## Exhibit 18: Ratios

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
<b>Per share (Rs)</b>					
EPS	38.8	43.4	51.8	58.8	65.3
Book value	63.1	68.9	68.9	68.9	68.9
DPS	39.0	58.0	51.8	58.8	65.3
<b>Valuation (x)</b>					
EV/sales	13.8	12.6	11.7	10.6	9.7
EV/EBITDA	46.5	41.0	36.1	32.1	28.9
P/E	69.0	61.8	51.7	45.6	41.0
P/BV	42.5	38.9	38.9	38.9	38.9
<b>Return ratios (%)</b>					
RoCE *	80.2	90.6	101.0	113.8	126.4
RoE	61.2	65.7	75.2	85.3	94.8
<b>Profitability ratios (%)</b>					

Y/E March	FY23	FY24	FY25E	FY26E	FY27E
Gross margin	65.7	66.9	69.9	70.5	71.0
EBITDA margin	29.6	30.7	32.3	33.1	33.6
EBIT margin	26.3	27.7	29.6	30.5	31.2
PAT margin	20.2	20.8	22.9	23.7	24.1
<b>Liquidity ratios (%)</b>					
Current ratio	1.7	1.7	1.9	2.0	2.0
Quick ratio	1.4	1.5	1.6	1.6	1.6
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.0	0.0	0.0	0.0	0.0
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.2	3.2	3.5	3.8	4.2
Fixed asset turnover ratio (x)	6.1	7.2	8.8	11.3	15.0
Debtor days	13	10	10	10	10
Inventory days	70	61	66	71	74
Creditor days	156	159	166	152	152

Source: Company, YES Sec; \* Pre-tax

## Recommendation Tracker



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Analyst signature

Analyst signature

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