


Rich Valuation Will Cap Upside Potential; Maintain HOLD

Est. Vs. Actual for Q4FY24: Revenue – **MISS**; EBITDA – **BEAT**; PAT – **BEAT**
Changes in Estimates post Q4FY24

FY25E/FY26E – Revenue: 0%/1%; EBITDA:1%/3%; PAT: 3%/5%

Recommendation Rationale

- **Pricing-led Growth:** In Q4FY24, the company recorded a revenue growth of 10.4% YoY, reaching Rs 1481 Cr, slightly below our expectations. This growth was primarily attributed to price hikes. Domestic sales also saw a YoY increase of 10.7% in Q4FY24 and 9.5% in FY24, with volume growth expected to remain in the low single digits. Notably, rural business outpaced urban growth by 200bps, signalling a positive demand recovery trend in line with other FMCG companies. Despite an 18.2% YoY increase in ad spends, the company's EBITDA margin improved by 226bps YoY to 35.9%, supported by gross margin expansion and cost-saving initiatives.
- **Ad-spends increased:** The management highlighted that ad-spends are expected to increase by 18% YoY in Q4FY24 on account of new launches/re-launches.
- **Strategic growth pillars:** The CEO further highlighted the company's strategic growth pillars, which include– 1) Growth acceleration in the core portfolio through increased marketing spends, 2) Premiumisation through science-based innovations, 3) Driving category growth in Toothbrush and building personal care portfolio under Palmolive, and 4) Increasing usage frequency along with driving rural penetration. We believe that while these initiatives are positive from a long-term perspective, they will take time to bear fruits as slowing category growth is adding woes to the short-term performance. Hence, based on expensive valuation, increasing competitive intensity and the long gestation period for the said strategy to work out, we expect limited upside potential on the stock.

Sector Outlook: Positive

Company Outlook & Guidance: We increase our FY25/26PAT estimates by 3%/5% to account for near-term margin improvement.

Current Valuation: 40x Mar'26 EPS (Earlier Valuation: 40xDec-25 EPS).

Current TP: Rs 2,500/share (Earlier TP: Rs 2,350/share).

Recommendation With a limited upside potential from the CMP, we ascribe a **HOLD** rating to the stock.

Financial Performance

The company's revenue grew by 10.4% YoY to Rs 1,481 Cr in Q4FY24, which was marginally below our expectations. This growth was primarily driven by price hikes. Domestic sales grew by 10.7% YoY in Q4FY24. Gross margin improved by 247bps YoY to 69.1%, driven by benign raw material costs. EBITDA stood at Rs 532 Cr, up 17.8% YoY, beating expectations. EBITDA margin improved by 226bps to 35.9% despite an 18.2% YoY increase in ad spends, supported by gross margin expansion and cost-saving initiatives. The company's Adjusted PAT stood at Rs 380 Cr, up 20% YoY.

Outlook & Recommendation

We like the overall long-term strategy of the company, which is to drive top-line growth through initiatives such as – 1) Launching science-based premium products to drive overall realisations, 2) Category development by driving awareness through marketing initiatives, 3) Increasing the frequency of consumption and penetration in rural markets, and 4) Expanding personal care portfolio to derisk from slow-growing Oral care category. However, we believe this strategy would have a long gestation period and would require consistent investment in market development (higher marketing and ad-spends) which will put pressure on the company's bottom line in the near term. Moreover, category slowdown and increasing competitive intensity would further add to the woes of its long-term growth story. However, the sharp run in the stock price in recent months has capped the upside potential of the stock. Hence we remain cautious on Colgate from a near-term perspective. **We maintain our HOLD stance on the stock.**

Key Financials (Standalone)

(Rs Cr)	Q4FY24	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,481	6.8	10.4	1,493	(0.8)
EBITDA	532	13.6	17.8	525	1.4
EBITDA Margin (%)	35.9	216 bps	226 bps	35.1	80 bps
Net Profit	380	15.1	20.1	371	2.2
EPS (Rs)	14.0	15.1	20.1	13.7	2.2

Source: Company, Axis Research

(CMP as of 15th May 2024)

CMP (Rs)	2673
Upside /Downside (%)	-6%
High/Low (Rs)	2961/1567
Market cap (Cr)	72,715
Avg. daily vol.(6m)Shrs '000.	382
No. of shares (Cr)	27

Shareholding (%)

	Sep-23	Dec-23	Mar-24
Promoter	51.0	51.0	51.0
FII	24.1	24.6	24.5
MFs / UTI	2.4	2.8	3.1
FIs/ Banks	0.0	0.0	0.0
Others	22.5	21.6	21.4

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	5,644	6,222	6,860
EBITDA	1,901	2,141	2,393
Net Profit	1,338	1,517	1,699
EPS (Rs.)	49.2	55.8	62.5
PER (x)	54.1	47.9	42.8
EV/EBITDA (x)	37.6	33.1	29.4
P/BV (x)	38.7	33.1	27.6
ROE (%)	71.5	69.1	64.5

Change in Estimates (%)

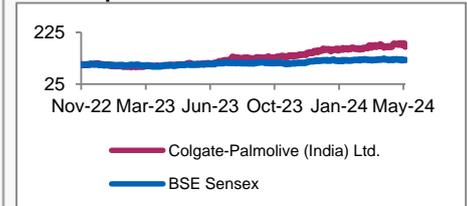
Y/E Mar	FY25E	FY26E
Sales	0%	1%
EBITDA	1%	3%
PAT	3%	5%

ESG disclosure Score**

Environmental Disclosure	54.54
Social Disclosure Score	25.96
Governance Disclosure Score	78.59
Total ESG Disclosure Score	53.07
Sector Average	44.87

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance


Source: Ace Equity, Axis Securities

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Key highlights

- **Focusing on building Personal Care (Palmolive):** The company has launched three new variants of the Palmolive body wash portfolio with unique fragrances. In the Cleansing category, both body wash and hand wash are growing at a CAGR of 30-40%; however, since the penetration level is only 3% at the Pan-India level, the management believes there is enough headroom for everyone to grow in this category.
- **New launches/Re-launches:** In Q4FY24, Colgate Active Salt was re-launched with a more potent and efficacious formula and also introduced Colgate Total in an easily accessible 80gm pack. The toothpaste category further grew by double-digits in FY24. The management also guided that going ahead, it is looking for at least 3x growth in the Colgate Total and Colgate Visible white category from the rest of the portfolio.

Key Risks to our Estimates and TP

- Increase in competitive intensity; Prolonged demand recovery; RM inflation

Change in Estimates

	Old		New		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	6,216	6,821	6,222	6,860	0%	1%
EBITDA	2,112	2,332	2,141	2,393	1%	3%
PAT	1,468	1,625	1,517	1,699	3%	5%
EPS	54	59.7	55.8	62.5	3%	5%

Source: Company, Axis Securities

Results Review

(Rs Cr)	Q4FY23	Q3FY24	Axis Est.	Q4FY24	YoY growth %	QoQ growth (%)	Axis Sec Var. (%)
Net Sales	1,342	1,386	1,493	1,481	10.4	6.8	(0.8)
Gross Profits	894	998	1,060	1,023	14.4	2.5	(3.5)
Gross Margin (%)	66.6	72.0	71.0	69.1	247 bps	-288 bps	-189 bps
Staff costs	90	110	97	100	11.2	(9.0)	3.0
Ad spends	143	204	210	169	18.2	(17.3)	(19.6)
Other operating expenses	219	225	238	232	6.0	3.1	(2.7)
EBITDA	452	468	525	532	17.8	13.6	1.4
EBITDA margin (%)	33.7	33.8	35.1	35.9	226 bps	216 bps	80 bps
Depreciation	-43	-41	-43	-42	(2.3)	1.8	(1.2)
EBIT	409	427	482	490	19.9	14.8	1.6
Interest	-1	-2	-2	-1	25.9	(9.9)	(14.2)
Other Income	20	18	21	23	11.3	26.6	6.0
PBT	426	443	502	511	20.0	15.3	1.9
Tax rate (%)	26	26	26	26	-8 bps	17 bps	-28 bps
Rep PAT	316	330	371	380	20.1	15.1	2.2
EPS	11.6	12.1	13.7	14.0	20.1	15.1	2.2

Source: Company, Axis Securities

Financials (Standalone)

Profit & Loss

(Rs Cr)

Y/E Mar	FY23	FY24A	FY25E	FY26E
Net sales	5,188	5,644	6,222	6,860
Growth, %	2	9	10	10
Other operating income	38	36	40	44
Total income	5,226	5,680	6,262	6,904
Raw material expenses	(1,794)	(1,723)	(1,861)	(2,038)
Employee expenses	(377)	(412)	(449)	(494)
Other Operating expenses	(1,508)	(1,645)	(1,811)	(1,980)
EBITDA (Core)	1,547	1,901	2,141	2,393
Growth, %	(1)	23	13	12
Margin, %	30	34	34	35
Depreciation	(175)	(172)	(179)	(187)
EBIT	1,372	1,729	1,962	2,205
Growth, %	(1)	26	13	12
Margin, %	26	31	32	32
Other Income	54	77	77	78
Non-recurring Items	-	-	-	-
Pre-tax profit	1,421	1,801	2,034	2,278
Tax provided	(363)	(458)	(517)	(579)
Profit after tax	1,058	1,343	1,517	1,699
Net Profit	1,058	1,343	1,517	1,699
Growth, %	(2)	27	13	12
Net Profit (adjusted)	1,055	1,338	1,517	1,699
Unadj. shares (cr)	27	27	27	27

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar	FY23	FY24E	FY25E	FY26E
Cash & bank	923	1,275	1,707	2,273
Debtors	157	171	189	208
Inventory	335	309	341	376
Loans & advances	88	88	88	88
Other current assets	44	44	44	44
Total current assets	1,548	1,887	2,369	2,989
Investments	-	-	-	-
Gross fixed assets	2,121	2,221	2,321	2,421
Less: Depreciation	(1,260)	(1,431)	(1,611)	(1,798)
Add: Capital WIP	114	114	114	114
Net fixed assets	976	904	825	738
Non-current assets	32	32	32	32
Total assets	2,854	3,122	3,524	4,057
Current liabilities	1,085	1,152	1,236	1,330
Provisions	24	24	24	24
Total current liabilities	1,108	1,175	1,260	1,354
Non-current liabilities	30	30	30	30
Total liabilities	1,138	1,205	1,290	1,383
Paid-up capital	27	27	27	27
Reserves & surplus	1,689	1,870	2,188	2,627
Shareholders' equity	1,716	1,917	2,235	2,674
Total equity & liabilities	2,854	3,122	3,524	4,057

Source: Company, Axis Securities

Cash Flow

(Rs Cr)

Y/E Mar	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,421	1,801	2,034	2,278
Depreciation	175	172	179	187
Chg in working capital	98	79	36	39
Total tax paid	(383)	(458)	(517)	(579)
Cash flow from operating activities	1,311	1,594	1,732	1,926
Capital expenditure	(66)	(100)	(100)	(100)
Chg in marketable securities	-	-	-	-
Cash flow from investing activities	(66)	(100)	(100)	(100)
Free cash flow	1,245	1,494	1,632	1,826
Equity raised/(repaid)	(7)	19	-	0
Dividend (incl. tax)	(1,088)	(1,142)	(1,200)	(1,259)
Cash flow from financing activities	(1,095)	(1,123)	(1,200)	(1,259)
Net chg in cash	150	371	432	566
Opening cash balance	755	923	1,275	1,707
Closing cash balance	923	1,275	1,707	2,273

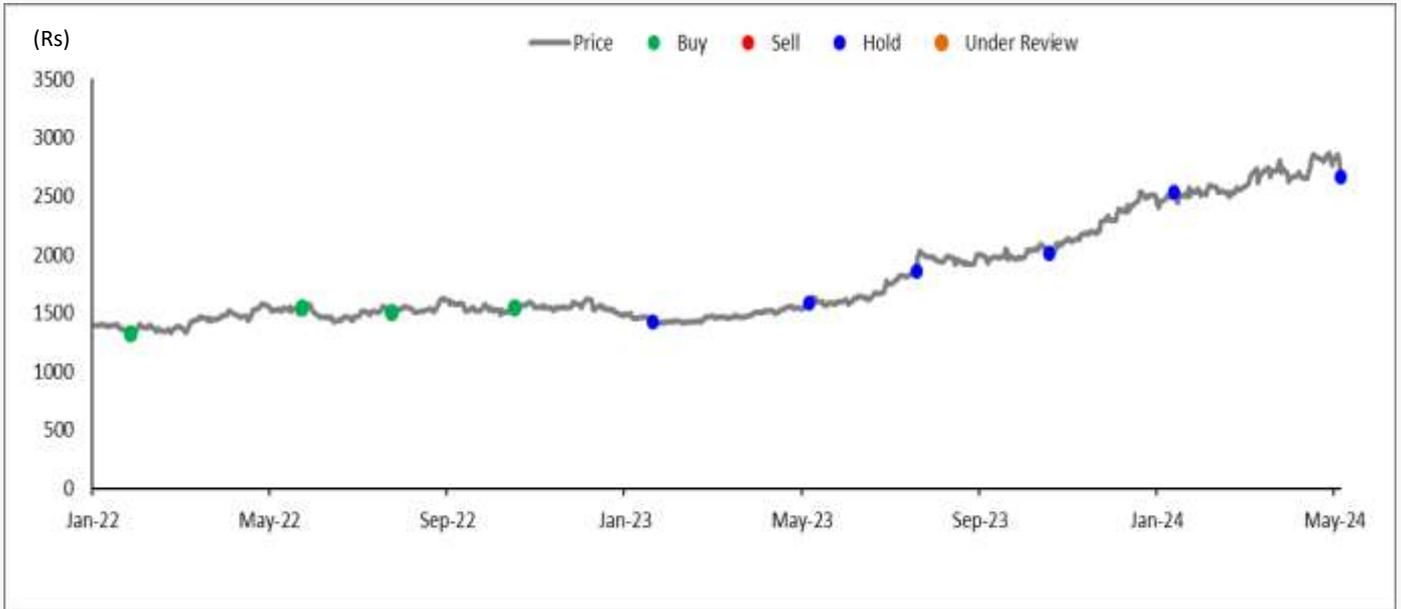
Source: Company, Axis Securities

Ratio Analysis
(%)

	FY23	FY24E	FY25E	FY26E
Per Share data				
EPS (INR)	38.8	49.2	55.8	62.5
Growth, %	(1.9)	26.9	12.9	12.0
Book NAV/share (INR)	63.1	70.5	82.2	98.3
FDEPS (INR)	38.9	49.4	55.8	62.5
CEPS (INR)	45.3	55.7	62.4	69.4
CFPS (INR)	46.4	55.8	60.8	67.9
DPS (INR)	40.0	42.0	44.1	46.3
Return ratios				
Return on assets (%)	37.1	45.1	45.8	45.0
Return on equity (%)	61.7	70.1	67.9	63.5
Return on capital employed (%)	59.5	72.1	71.5	68.0
Turnover ratios				
Asset turnover (x)	9.3	14.8	24.9	53.3
Sales/Total assets (x)	1.8	1.9	1.9	1.8
Sales/Net FA (x)	5.0	6.0	7.2	8.8
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	11.1	11.1	11.1	11.1
Inventory days	23.6	20.0	20.0	20.0
Payable days	75.5	80.0	80.9	81.4
Working capital days	(32.3)	(34.9)	(33.7)	(32.7)
Liquidity ratios				
Current ratio (x)	1.4	1.6	1.9	2.2
Quick ratio (x)	1.1	1.4	1.6	2.0
Net debt/Equity (%)	(53.8)	(66.5)	(76.4)	(85.0)
Valuation				
PER (x)	68.7	54.1	47.9	42.8
PEG (x) - y-o-y growth	(37.1)	2.0	3.7	3.6
Price/Book (x)	42.3	37.9	32.5	27.2
EV/Net sales (x)	13.8	12.7	11.4	10.3
EV/EBITDA (x)	46.4	37.6	33.1	29.4
EV/EBIT (x)	52.3	41.3	36.2	31.9

Source: Company, Axis Securities

Colgate Palmolive Price Chart and Recommendation History



Date	Reco	TP	Research
28-Jan-22	BUY	1,650	Result Update
27-May-22	BUY	1,780	Result Update
28-Jul-22	BUY	1,710	Result Update
21-Oct-22	BUY	1,750	Result Update
25-Jan-23	HOLD	1,550	Result Update
15-May-23	HOLD	1,720	Result Update
27-Jul-23	HOLD	1,830	Result Update
27-Oct-23	HOLD	2,100	Result Update
23-Jan-24	HOLD	2,350	Result Update
16-May-24	HOLD	2,500	Result Update

Source: Axis Securities

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