


**Missed on Margins; Maintain HOLD**

**Est. Vs. Actual for Q2FY25:** Revenue – **MISS**; EBITDA – **MISS**; PAT – **INLINE**  
**Changes in Estimates post Q2FY25**

**FY26E/FY27E – Revenue: 0%/2%; EBITDA: -1%/2%; PAT: -1%/2%**

**Recommendation Rationale**

- **Volume-led growth:** In Q2FY25, the company reported revenue of Rs 1,609 Cr, reflecting a 10% increase YoY, slightly below the anticipated growth rate of 11% YoY. The revenue growth was primarily driven by robust high single-digit volume growth in the toothpaste category, led by Colgate Max Fresh and Colgate Strong Teeth. Additionally, toothbrush sales experienced double-digit growth, supported by a focus on premiumization. However, EBITDA margins declined by 206 bps YoY to 30.9%, attributed to a contraction in gross margins and increased advertising expenditures.
- **New launches:** During this quarter, the company launched Colgate Visible White Purple, utilizing colour theory to enhance its whitening offerings. Management reported stellar early reactions to this new product. Additionally, the company unveiled fresh communication for its flagship product, Colgate Total, emphasizing its dual zinc and arginine technology, which positions it as the gold standard for daily oral protection and supports the brand's premiumization strategy. Furthermore, the new campaign for Colgate Strong Teeth focuses on addressing calcium loss from snacking, highlighting its calcium-boosting formula.
- **Ad-spends remain elevated:** Ad expenditures remained elevated this quarter as the company reaffirmed its commitment to promoting superior products and impactful advertising, aligned with its mission to enhance oral care for all. In Q2FY25, advertising spends surged by 17.8% YoY, reflecting increased support for both brand promotion and initiatives aimed at driving category growth.

**Sector Outlook: Positive**

**Company Outlook & Guidance:** We largely maintain our FY26/27 PAT estimates.

**Current Valuation: 46x Dec'26 EPS (Earlier Valuation: 46x Sep'26 EPS).**

**Current TP: Rs 3,150/share (Earlier TP: Rs 3,050/share).**

**Recommendation** With a downside of -2% from the CMP, we ascribe a **HOLD** rating to the stock.

**Financial Performance:** The company reported revenue growth of 10% YoY, reaching Rs 1,609 Cr in Q2FY25, slightly below expectations. This growth was primarily fueled by high single-digit volume growth in toothpaste, coupled with broad-based gains across its portfolio. Gross margin declined by 23 bps YoY to 68.4%, attributed to rising input costs. EBITDA was recorded at Rs 497 Cr, marking a 3.2% YoY increase; however, the margin fell by 206 bps to 30.9% due to gross margin contraction and increased advertising expenditures. The company's Adjusted PAT stood at Rs 395 Cr, reflecting a 16.2% YoY increase, which includes a one-time gain from interest on income tax refunds.

**Outlook & Recommendation**

We appreciate the company's overall long-term strategy, which focuses on driving top-line growth through initiatives such as: 1) Launching science-based premium products to enhance overall realizations, 2) Developing the category by increasing awareness through marketing initiatives, 3) Increasing the frequency of consumption and penetration in rural markets, and 4) Expanding the personal care portfolio to mitigate risks associated with the slow-growing oral care category. However, we believe this strategy will have a long gestation period and will 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. Additionally, category slowdown and increasing competitive intensity may further impact its long-term growth prospects. The recent sharp rise in the stock price has capped its upside potential. Therefore, we remain cautious about Colgate from a near-term perspective and **maintain our HOLD stance on the stock.**

**Key Financials (Standalone)**

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance
Net Sales	1,609	8.3	10.0	1,627	(1.1)
EBITDA	497	(2.2)	3.2	556	(10.6)
EBITDA Margin (%)	30.9	-331 bps	-206 bps	34.2	-328 bps
Net Profit	395	8.5	16.2	395	(0.1)
EPS (Rs)	14.5	8.5	16.2	14.5	(0.1)

Source: Company, Axis Research

(CMP as of 24<sup>th</sup> October 2024)

CMP (Rs)	3215
Upside /Downside (%)	-2%
High/Low (Rs)	3893/2003
Market cap (Cr)	87462
Avg. daily vol.(6m) Shrs '000.	490
No. of shares (Cr)	27

**Shareholding (%)**

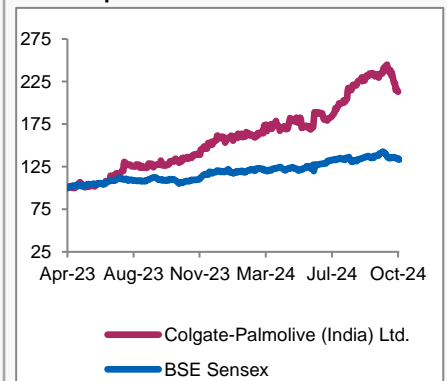
	Mar-24	Jun-24	Sep-24
Promoter	51.0	51.0	51.0
FIIs	24.5	24.4	24.9
MFs / UTI	3.1	3.2	3.6
FIs/ Banks	0.0	0.0	0.0
Others	21.4	21.3	20.5

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	6,218	6,919	7,701
EBITDA	2,087	2,395	2,697
Net Profit	1,516	1,701	1,921
EPS (Rs.)	55.7	62.5	70.6
PER (x)	57.6	51.4	45.5
EV/EBITDA (x)	41.2	35.9	31.8
P/BV (x)	50.4	51.5	48.8
ROE (%)	87.4	100.3	107.3

**Change in Estimates (%)**

Y/E Mar	FY26E	FY27E
Sales	0%	2%
EBITDA	-1%	2%
PAT	-1%	2%

**Relative performance**


Source: Ace Equity, Axis Securities

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### Key Risks to Our Estimates and TP

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

### Change in Estimates

	Old		New		% Change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	6,926	7,563	6,919	7,701	0%	2%
EBITDA	2,421	2,645	2,395	2,697	-1%	2%
PAT	1,720	1,882	1,701	1,921	-1%	2%
EPS	63.2	69.2	62.5	70.6	-1%	2%

Source: Company, Axis Securities

**Results Review**

(Rs Cr)	Q2FY24	Q1FY25	Axis Est.	Q2FY25	YoY growth %	QoQ growth (%)	Axis Sec Var. (%)
<b>Net Sales</b>	<b>1,462</b>	<b>1,486</b>	<b>1,627</b>	<b>1,609</b>	<b>10.0</b>	<b>8.3</b>	<b>(1.1)</b>
<b>Gross Profits</b>	<b>1,003</b>	<b>1,046</b>	<b>1,139</b>	<b>1,100</b>	<b>9.7</b>	<b>5.1</b>	<b>(3.4)</b>
<b>Gross Margin (%)</b>	<b>68.6</b>	<b>70.4</b>	<b>70.0</b>	<b>68.4</b>	<b>-23 bps</b>	<b>-208 bps</b>	<b>-165 bps</b>
Staff costs	106	112	122	118	11.4	5.4	(3.1)
Ad spends	206	199	227	243	17.8	21.9	7.1
Other operating expenses	217	238	243	251	15.7	5.8	3.3
<b>EBITDA</b>	<b>482</b>	<b>508</b>	<b>556</b>	<b>497</b>	<b>3.2</b>	<b>(2.2)</b>	<b>(10.6)</b>
<b>EBITDA margin (%)</b>	<b>33.0</b>	<b>34.2</b>	<b>34.2</b>	<b>30.9</b>	<b>-206 bps</b>	<b>-331 bps</b>	<b>-328 bps</b>
Depreciation	-44	-42	-43	-42	(5.8)	0.5	(2.4)
EBIT	438	467	513	456	4.1	(2.4)	(11.3)
Interest	-1	-1	-1	-1	9.5	17.3	11.8
Other Income	21	23	22	76	261.8	224.7	244.6
PBT	458	489	534	530	15.9	8.4	(0.7)
Tax rate (%)	26	26	26	26	-20 bps	-8 bps	-47 bps
<b>Rep PAT</b>	<b>340</b>	<b>364</b>	<b>395</b>	<b>395</b>	<b>16.2</b>	<b>8.5</b>	<b>(0.1)</b>
<b>EPS</b>	<b>12.5</b>	<b>13.4</b>	<b>14.5</b>	<b>14.5</b>	<b>16.2</b>	<b>8.5</b>	<b>(0.1)</b>

Source: Company, Axis Securities

## Financials (Standalone)

### Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net sales	5,644	6,218	6,919	7,701
Growth, %	9	10	11	11
Other operating income	36	40	44	48
Total income	5,680	6,258	6,963	7,749
Raw material expenses	(1,723)	(1,878)	(2,056)	(2,283)
Employee expenses	(412)	(473)	(521)	(578)
Other Operating expenses	(1,645)	(1,819)	(1,990)	(2,191)
<b>EBITDA (Core)</b>	<b>1,901</b>	<b>2,087</b>	<b>2,395</b>	<b>2,697</b>
Growth, %	23	10	15	13
Margin, %	34	34	35	35
Depreciation	(172)	(179)	(187)	(195)
<b>EBIT</b>	<b>1,729</b>	<b>1,908</b>	<b>2,208</b>	<b>2,503</b>
Growth, %	26	10	16	13
Margin, %	31	31	32	32
Other Income	77	130	78	79
Non-recurring Items	-	-	-	-
<b>Pre-tax profit</b>	<b>1,801</b>	<b>2,033</b>	<b>2,281</b>	<b>2,576</b>
Tax provided	(458)	(517)	(580)	(655)
<b>Profit after tax</b>	<b>1,343</b>	<b>1,516</b>	<b>1,701</b>	<b>1,921</b>
<b>Net Profit</b>	<b>1,343</b>	<b>1,516</b>	<b>1,701</b>	<b>1,921</b>
Growth, %	27	13	12	13
<b>Net Profit (adjusted)</b>	<b>1,338</b>	<b>1,516</b>	<b>1,701</b>	<b>1,921</b>
Unadj. shares (cr)	27	27	27	27

Source: Company, Axis Securities

### Balance Sheet

(Rs Cr)

As of 31st Mar	FY24	FY25E	FY26E	FY27E
Cash & bank	1,374	1,344	1,446	1,694
Debtors	167	184	205	228
Inventory	296	341	379	422
Loans & advances	7	7	7	7
Other current assets	60	60	60	60
Total current assets	1,904	1,935	2,096	2,410
Investments	-	-	-	-
Gross fixed assets	2,219	2,316	2,413	2,511
Less: Depreciation	(1,425)	(1,604)	(1,791)	(1,985)
Add: Capital WIP	110	110	110	110
Net fixed assets	904	822	733	636
Non-current assets	26	26	26	26
<b>Total assets</b>	<b>3,132</b>	<b>3,081</b>	<b>3,153</b>	<b>3,370</b>
Current liabilities	1,239	1,329	1,439	1,561
Provisions	22	22	22	22
Total current liabilities	1,261	1,351	1,460	1,582
Non-current liabilities	(4)	(4)	(4)	(4)
Total liabilities	1,257	1,347	1,457	1,579
Paid-up capital	27	27	27	27
Reserves & surplus	1,847	1,707	1,669	1,764
Shareholders' equity	1,874	1,734	1,696	1,791
<b>Total equity &amp; liabilities</b>	<b>3,132</b>	<b>3,081</b>	<b>3,153</b>	<b>3,370</b>

Source: Company, Axis Securities

**Cash Flow**

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Pre-tax profit	1,801	2,033	2,281	2,576
Depreciation	172	179	187	195
Chg in working capital	257	28	50	56
Total tax paid	(494)	(517)	(580)	(655)
<b>Cash flow from operating activities</b>	<b>1,736</b>	<b>1,724</b>	<b>1,939</b>	<b>2,172</b>
Capital expenditure	(100)	(97)	(97)	(97)
Chg in marketable securities	-	-	-	-
<b>Cash flow from investing activities</b>	<b>(100)</b>	<b>(97)</b>	<b>(97)</b>	<b>(97)</b>
Free cash flow	1,636	1,626	1,841	2,074
Equity raised/(repaid)	3	0	-	-
Dividend (incl. tax)	(1,578)	(1,656)	(1,739)	(1,826)
<b>Cash flow from financing activities</b>	<b>(1,575)</b>	<b>(1,656)</b>	<b>(1,739)</b>	<b>(1,826)</b>
Net chg in cash	61	(30)	102	248
Opening cash balance	923	1,374	1,344	1,446
Closing cash balance	1,374	1,344	1,446	1,694

Source: Company, Axis Securities

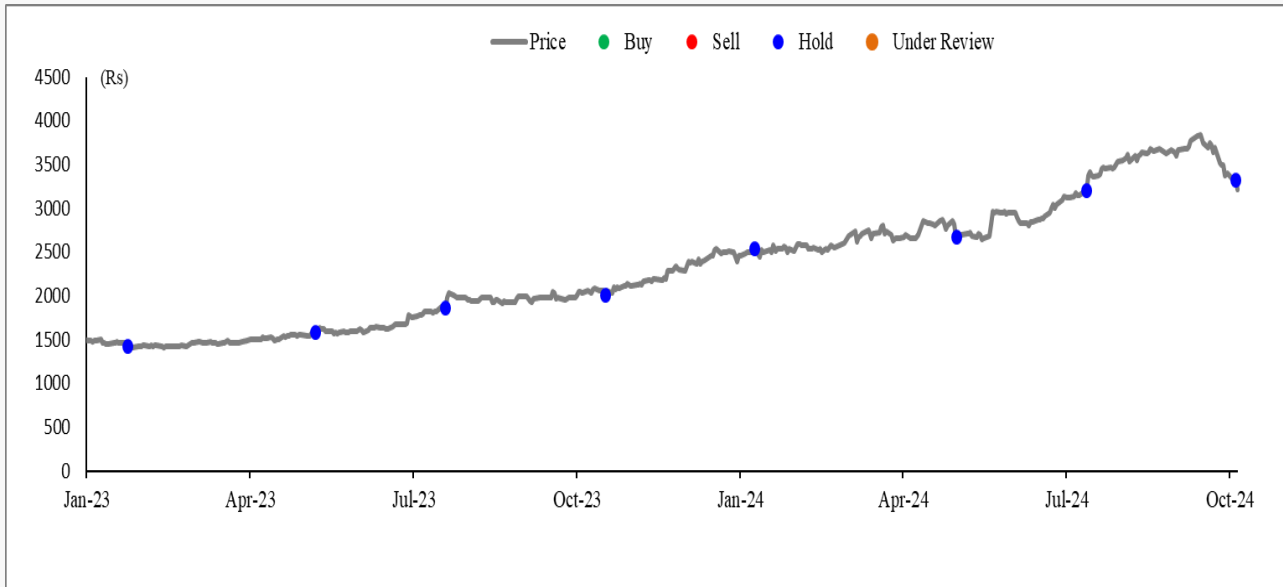
**Ratio Analysis**

(%)

	FY24	FY25E	FY26E	FY27E
<b>Per Share data</b>				
EPS (INR)	49.2	55.7	62.5	70.6
Growth, %	26.9	12.9	12.2	12.9
Book NAV/share (INR)	68.9	63.8	62.4	65.8
FDEPS (INR)	49.4	55.7	62.5	70.6
CEPS (INR)	55.7	62.3	69.4	77.8
CFPS (INR)	60.8	58.6	68.4	76.9
DPS (INR)	58.0	60.9	63.9	67.1
<b>Return ratios</b>				
Return on assets (%)	45.0	49.0	54.8	59.1
Return on equity (%)	71.7	87.4	100.3	107.3
Return on capital employed (%)	73.6	83.5	98.5	109.4
<b>Turnover ratios</b>				
Asset turnover (x)	19.1	79.0	(149.3)	(39.9)
Sales/Total assets (x)	1.9	2.0	2.2	2.4
Sales/Net FA (x)	6.0	7.2	8.9	11.3
Working capital/Sales (x)	(0.1)	(0.1)	(0.1)	(0.1)
Receivable days	10.8	10.8	10.8	10.8
Inventory days	19.2	20.0	20.0	20.0
Payable days	85.2	85.0	86.4	86.9
Working capital days	(45.9)	(43.3)	(41.6)	(40.0)
<b>Liquidity ratios</b>				
Current ratio (x)	1.5	1.5	1.5	1.5
Quick ratio (x)	1.3	1.2	1.2	1.3
Net debt/Equity (%)	(73.3)	(77.5)	(85.2)	(94.6)
<b>Valuation</b>				
PER (x)	65.0	57.6	51.4	45.5
PEG (x) - y-o-y growth	2.4	4.5	4.2	3.5
Price/Book (x)	46.6	50.4	51.5	48.8
EV/Net sales (x)	15.2	13.8	12.4	11.1
EV/EBITDA (x)	45.2	41.2	35.9	31.8
EV/EBIT (x)	49.7	45.1	38.9	34.2

Source: Company, Axis Securities

## Colgate Palmolive Price Chart and Recommendation History



Date	Reco	TP	Research
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
30-Jul-24	HOLD	3,050	Result Update
25-Oct-24	HOLD	3,150	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
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