

Management Discussion and Analysis

Indian Economy

India's growth continues to be resilient despite some signs of moderation in growth, says the World Bank. A conducive domestic policy environment and the Government's sustained focus on structural reforms have kept India's economic activity robust despite global headwinds. Emerging as a beacon of resilience in the global economy, despite a drop in growth rate projections, India continues to be the world's fastest-growing economy in the world, as reported by the World Economic Outlook report by the International Monetary Fund (IMF).

India is expected to maintain its position as one of the fastest growing G-20 nations in the foreseeable forthcoming years. Stabilizing inflation trajectory, rising disposable income and the Government's growing investment in capital expenditure will augur well for India's sustainable development and long term growth. India's efforts in leveraging digitalization to overcome the challenges posed by the pandemic, has not only helped the country weather the storm but also created new opportunities for growth and employment.

Overall, demand circumstances in India remain favorable for economic growth. India enters the new fiscal year with optimism bolstered by underlying and overall macroeconomic stability.

Source: <https://www.worldbank.org/en/news/press-release/2023/04/04/indian-economy-continues-to-show-resilience-amid-global-uncertainties#:~:text=The%20>

INDUSTRY OVERVIEW

Colgate-Palmolive (India) is committed to improving Oral Health in the country. Oral health issues are becoming more prevalent around the world and in India, as a result of rapid changes in lifestyles, living standards, and an increase in sugar-rich diets. Post the pandemic, there has been a rise in awareness of Oral hygiene, however, there is still work to be done. Per capita usage of toothpaste remains low in India and driving this represents an opportunity for category growth. A more detailed analysis reveals that approximately only 20% of Urban consumers brush the recommended, twice a day and around 55% of rural households do not brush daily.

The industry is also expanding as a result of increased premiumisation, customer demand for more tailored solutions, and a growing number of active practicing dentists. India adds about 25,000 qualified dentists a year.

There is also an opportunity for premium and innovative products in metros and urban cities in the space of family health, therapeutic toothpaste and oral beauty. There is also significant room to expand the penetration of oral care adjuncts like Floss and mouthwash.

Outside of Oral Care, the company sees opportunity in Skin Care, Hair Care, Bath & Shower products, that have the largest market size within the beauty & personal care segment. Rising incomes, rising aspiration and the democratization of availability through e-commerce has led to rapid growth in these categories.

GOVERNMENT INITIATIVES

The Government of India has placed significant emphasis on driving Oral Health in the nation. In order to deliver comprehensive and integrated oral healthcare services, the Indian government has established the National Oral Health Programme (NOHP). This aims to enhance oral health determinants, decrease morbidity associated with oral diseases, integrate oral health promotion and preventive services into the overall healthcare system, and foster public-private partnerships (PPP) to achieve improved oral health outcomes.

To accomplish these goals, the Indian government has provided assistance to state governments in delivering dental care alongside other existing health programs at different levels of the primary healthcare system.

COMPANY OVERVIEW

Colgate-Palmolive (India), is a caring, innovative growth company that is reimagining a healthier future for all people and the planet. The Company has steadfastly nurtured the culture of oral care in India for decades, which has made it India's most preferred oral care brand and India's most penetrated FMCG brand, reaching nine out of ten households.

The product line of the Company comprises a oral care range of toothpastes, toothbrushes, mouth washes, and personal care items such as hand washes and shower gels. The company's products reach over 1.7 million stores, 95% of which are active every quarter.

The Company believes in science-led innovation across all areas of its business and has a vast team of specialists

including scientists, engineers, innovators, technologists, regulatory experts and data scientists. The Company recognizes India as a key part of its global Research and Development (R&D) agenda. With over 85 years of presence in India, the Company has established a state-of-the-art R&D center in Mumbai, which is one of its largest R&D facilities globally.

The Company has a rich experience in the oral care & personal care industry and with support from external partners, on a global level has developed a wealth of patents and proprietary technologies, enabling the company to develop some of the most effective products for the Indian market. Some of the recent product introductions include, Colgate Max-Fresh Charcoal Toothpaste, Colgate PerioGard Toothpaste, KEEP Toothbrush, Visible White O₂ Toothpaste, advanced Electric Toothbrush, Super Flexi Toothbrush, etc.

The detailed update on the same is provided in the Director's Report on Page No 110.

The Company is also committed to building a strong personal care portfolio leveraging the high recall of the brand name 'Palmolive' as well as considering relevant opportunities from the Colgate-Palmolive global portfolio. The product portfolio includes premium body wash and hand wash.

The Company is committed to ethical and responsible business practices and is well-positioned to achieve continuous growth by leveraging its strategic market position. Apart from decades-long vendor relationships, the Company has great partnerships with all key modern trade customers and e-commerce. This offers a huge opportunity, as these channels will grow rapidly in the coming years.

BUSINESS OVERVIEW

Digital Transformation

The Company is continuing its digital transformation to enhance its operations and customer experience. It has been able to effectively simplify and optimize supply chain, manufacturing operations and boost marketing initiatives. The digitized supply chain provides improved control and visibility over inventories and logistics. It has also employed artificial intelligence (AI) and machine learning (ML) technologies to estimate demand and optimize production, resulting in increased efficiency and cost optimisation.

To increase consumer reach and brand awareness, the Company has been effectively using digital marketing strategies and social media channels. It continues to build customized promotional campaigns using data analytics to gain a better understanding of consumer behavior and preferences.

Colgate-Palmolive has introduced an AI-based image recognition tool that allows for in-store aided merchandising, resulting in zero in-store display gaps. This substantial advancement has eliminated manual input monitoring in favor of a one-click solution, providing real-time surveillance of crucial in-store merchandising features such as availability, planogram adherence, and element purity. The app provides live insights and suggests corrective action within 30 seconds, minimizing manual intervention. With just one image, the Company can track various in-store efficiency parameters such as on-shelf availability, planogram compliance, assets utilization, competition presence, and share of shelf. Real-time dashboards facilitate on-the-go monitoring and corrections, adding to the app's versatility. This game-changing solution enhances the Company's efficiency and ensures seamless in-store operations.

Risk Management

This is integral to the Company's strategy and attainment of its long-term goals. The Company's success lies in its ability to identify the opportunities generated by the business and the markets it operates in. The primary objective of the Company's risk management framework is to guarantee timely and effective identification and mitigation of potential risks, while also enabling flexibility in adapting a risk-conscious business strategy that can tap into new opportunities.

The Company implemented a comprehensive risk management system that protects its stakeholders' interests by detecting, scrutinizing and managing significant business risks. This entails various strategies such as risk identification surveys, environmental business analysis, and gathering feedback from internal and external stakeholders.

The Company has formulated an Enterprise Risk Management Committee and the members meet periodically to efficiently identify upcoming risks and work on the mitigation plans. The risks are rated to various parameters, such as probability of occurrence, severity of impact and Company's preparedness to mitigate such risks. The risks identified are placed on a matrix to depict the potential staging and monitoring of the same. The assessment considers both short and long-term risks, including how these risks are changing, together with emerging risk areas. These are assessed on an ongoing basis and officially at least once a year by the Risk Management Committee and the Board.

Opportunities

Colgate-Palmolive is perhaps the only oral care company that has the full portfolio of oral care products in India – toothpastes for varied benefits and from basic toothbrushes to premium electric toothbrushes.

With its current reach and extensive product portfolio, Colgate-Palmolive has the opportunity to drive premiumisation. The

equity of Palmolive is under-served at the moment and there is clearly an opportunity to build a robust personal care business, as the brand has a 60-65% awareness level, which is difficult to build in a fragmented market. Additionally, ~55% of rural India does not brush daily so there lies an opportunity to get the other 45% to start brushing every day. Only 20% of urban India brushes twice a day and moving the remaining 80% to brush twice a day adds another opportunity to drive growth.

The detailed explanation and outcome of each of these risks and opportunities is given in the Business Responsibility and Sustainability Report, forming part of the Board's Report.

Health and Well-being

The Company is committed to supporting the physical and mental well-being of its human capital. It has prioritized providing healthcare benefits to its workforce, which encompasses medical, dental, and vision coverage, in addition to wellness programmes and mental health support. The Company also supports a healthy work-life balance by providing flexible work arrangements and paid time off. It also offers career development prospects and training programmes to facilitate the professional growth of its employees.

Flexi-work Policy

Post COVID-19, the Company introduced a hybrid work policy known as 'BlendIn'. This allows employees to choose two days in a week to work from home, while requiring them to work from the office for three days, with flexible working hours, except during the core hours.

Diversity, Equity and Inclusion

The Company is committed to creating an inclusive workplace that promotes diversity, equity, and inclusion (DEI). The Company recognises the value of a diverse workforce and is dedicated to providing equal opportunities for all employees regardless of their race, ethnicity, gender, sexual orientation, or any other characteristic. The Company's DEI initiatives include training and education programmes for employees, creating an inclusive culture and implementing policies that ensure fairness and equality for all. The Company regularly monitors and evaluates its progress towards its DEI goals and takes action to address any issues that might arise.

New Initiatives

The Company introduced a new Parental Support Policy named WIN (Workplace INclusivity for new and expectant parents). The policy offers equal opportunities for parental leave to all employees regardless of their gender or sexual orientation. In addition, the policy offers greater flexibility and support to new and expectant parents, including extended remote working options and financial assistance in the

form of childcare allowance and creche reimbursements. The Company has also collaborated with creche facilities to provide additional support to parents.

Leave/ Parental Support Policies

The Company has modified its leave policy to be more inclusive, which now includes Flexi Festival Leaves, which allow employees of different religions & communities to choose and celebrate as per their preference. Additionally, the Care & Compassion Leave policy allows employees to take time off to care for a sick partner, spouse, child, parent, or pet.

Gender affirmation surgery coverage

The Company has developed a new medical insurance policy for its transgender employees that covers both outpatient and surgical charges for gender affirmation operations.

Sustainability

The Company places a significant emphasis on sustainability as a core focus area. It is committed to integrating sustainable practices throughout its operations, ensuring responsible and ethical business conduct. One key aspect of Colgate-Palmolive (India)'s sustainability efforts is its commitment to environmental conservation. The Company strives to minimize its ecological footprint by implementing initiatives that reduce waste, conserve water, and optimize energy usage. To meet these objectives, it has established clear and quantifiable targets ESG goals for 2025, which are governed by strong practices.

The Company continues to align its business practices with sustainable principles, focusing on - Environmental Stewardship, Social Impact, and Governance Excellence. As part of its efforts to inspire trust and transparency, this is the second year of publishing its Environmental, Social and Governance (ESG) Report.

Circularity represents a transformative shift in the way the Company approaches resource utilization, waste management, and product life cycles. It is about designing out waste and pollution, keeping materials in use for longer, and regenerating natural systems. By embracing circular principles, Colgate-Palmolive is committed to minimizing its environmental footprint while maximizing positive social impact. The Company's patented, first-ever recyclable tubes are a great example for circular economy.

The Company is also working towards reducing energy usage and increasing the use of renewable energy. It has employed the Internet of Things to transition from preventive to predictive maintenance, in addition to reducing waste and protecting the environment.

Colgate-Palmolive (India) also prioritizes community engagement and social responsibility. The Company actively participates in community development initiatives, supporting oral healthcare awareness, education, women empowerment and water augmentation, etc.

KEY FINANCIAL RATIOS

Details of changes in key financial ratios as compared to immediate previous financial year.

Particulars	FY 2022-23	FY 2021-22
Debtors Turnover	27.16	29.65
Inventory Turnover	5.18	4.81
Interest Coverage Ratio [*]	281.82	236.30
Current Ratio	1.43	1.37
Debt Equity Ratio [*]	0.04	0.05
Return on Capital Employed	84%	82%
Operating Profit Margin (%)	26%	27%
Net Profit Margin (%) (after tax)	20%	21%

^{*}Interest expenses appearing in the Financial Statements for the current year relate to the lease liability as per Ind AS 116.

^{*}Debt mainly pertains to lease liabilities as per Ind AS 116 which are on reducing balance.

A comprehensive analysis of the Company's financial performance, including operational performance, adequacy of internal control systems, product-wise performance, and the use of innovation & technology, is included in the Board's Report.

INTERNAL CONTROL SYSTEMS

The Company has a highly skilled team of internal auditors who are entrusted with the responsibility of overseeing internal financial processes, policies, and providing recommendations for effective financial controls. The implementation of these robust internal financial controls serves to uphold compliance with the Company's adopted policies and procedures, thereby fostering seamless and efficient operations.

These internal financial controls play a pivotal role in safeguarding assets, detecting and preventing instances of fraud or errors, and ensuring the accuracy and completeness of accounting and financial records. Furthermore, they contribute to the timely preparation of transparent, comprehensive, and accurate financial information and statements, aligning with the prescribed accounting standards and principles.

To ensure the continual relevance and adequacy of the internal financial control system, the Company's Audit Committee conducts periodic assessments and evaluations, scrutinizing its effectiveness.

OUR APPROACH

The investments required to support growth are developed through ongoing, company-wide initiatives aimed at improving realizations, reducing costs, and enhancing asset utilization. These initiatives, referred to as the company's revenue growth management and growth funding initiatives, aim to make the company more efficient across its operations.

These initiatives also focus on cost reduction in areas such as direct materials, indirect expenses, distribution and logistics, advertising and promotions. They encompass a wide range of projects, including raw material substitution, formulation simplification, reduced packaging, supplier consolidation to leverage volume, and increase manufacturing efficiency through SKU optimization.

The macroeconomic conditions are expected to remain volatile in the near future given tremendous uncertainty in the global economic outlook. However, the company believes it is well-prepared to face challenges due to its strong financial condition, experience in operating under difficult circumstances, and ongoing focus on key priorities.

The priorities include increasing sales through improved consumer engagement, delivering world-class innovation, collaborating with distributors and retail partners. The company aims to drive efficiency across all aspects of its income statement to boost margins. It also strives to generate strong cash flow performance and utilize that cash effectively to enhance shareholder returns. Lastly, the company aims to win by staying true to its organizational culture and prioritizing its stakeholders.