

Management Discussion and Analysis

INDIAN ECONOMY

The World Bank forecasts India's output growth to reach 7.5 percent¹ in FY24, driven by resilient activity in services and industry. Over the medium term, the fiscal deficit and government debt in India are projected to decline, supported by robust output growth and consolidation efforts by the Central Government. The high visibility of structural demand and healthier corporate and bank balance sheets will likely be the galvanizing forces for growth going forward. This performance is especially commendable against the backdrop of geopolitical tensions, unsettled financial conditions, and stubborn inflation which is plaguing the major economies².

INDUSTRY OVERVIEW

The toothpaste category in India is valued at ₹ 18,000 Crores and observed a value growth of CAGR 5.3% in the last 5 years. The oral care market in India is a large and rapidly growing market, driven by factors such as increasing awareness of oral hygiene, rising disposable incomes, and the growing prevalence of dental diseases.

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 premiumization, customer demand for more tailored solutions, and a growing number of active practicing dentists. India adds about 25,000 qualified dentists annually³.

In cities, there is a demand for innovative products like therapeutic toothpaste and oral beauty solutions. Plus, there is a big opportunity to introduce more people to adjuncts like floss and mouthwash.

Colgate-Palmolive (India) Limited is on a mission to boost oral health across the nation. Outside of Oral Care, the Company sees opportunity in Personal Care products.

GOVERNMENT INITIATIVES

The Government of India endeavors to achieve widespread access to quality oral healthcare services for its populace.

¹<https://www.livemint.com/economy/world-bank-projects-indian-economy-to-grow-at-7-5-in-2024-11712110757361.html>

²<https://rbidocs.rbi.org.in/rdocs/Bulletin/PDFs/01AR19032024876A87F47E424F8787B2C285EA278062.PDF>

Towards this, it has launched the National Oral Health Programme to address India's varied oral health challenges. The program aims to enhance oral health determinants, diminish morbidity rates related to oral diseases, and seamlessly integrate oral health promotion into the existing healthcare framework. Moreover, it encourages the adoption of Public-Private Partnerships ('PPPs') to bolster oral health outcomes⁴.

To accomplish these goals, the Central 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) Limited 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 an Oral Care range of toothpastes, toothbrushes, mouth washes, and personal care products such as hand washes and shower gels. The Company's products reach over 1.7 million stores, 89% of which are active every quarter.

With a firm commitment to science-driven innovation across its spectrum, the Company boasts a diverse team of experts encompassing scientists, engineers, innovators, technologists, regulatory specialists, and data scientists. The Company recognizes India as a key part of its global Research and Development ('R&D') agenda. With over 86 years of presence in India, the Company has established a state-of-the-art research 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 enabling the Company to develop some of the most effective and innovative products for the Indian market.

Some of the recent product relaunches include, Colgate Strong Teeth toothpaste with Arginine, Colgate MaxFresh toothpaste with Ultrafreeze technology, Colgate Active Salt

³<https://maids.delhi.gov.in/maids/future-prospects>

⁴<https://www.nhm.gov.in/index1.php?lang=1&level=2&sublinkid=1044&id=608>

toothpaste with superior efficacy, Colgate Zig Zag toothbrush with superior aesthetics & packaging, Colgate Super Junior Toothbrush, and Palmolive's 3 new variants (Forever Happy, Sweet Delight, Alluring Love).

The detailed update on product introductions is provided in the Director's Report on Page No 124.

The Company is committed to ethical business practices and expects steady growth. The long-standing relationships with vendors, strong partnerships with major modern trade customers and e-commerce platforms, sets the Company well to take advantage of the growing opportunities in these channels.

BUSINESS OVERVIEW

Digital Transformation

The Company is advancing its digital transformation to improve both operations and customer experience. By streamlining supply chain and manufacturing operations, and enhancing marketing efforts, it has achieved significant improvements. Through digitalization, it gains better control and visibility over inventory and logistics. Additionally, Artificial Intelligence ('AI') and Machine Learning ('ML') technologies help forecast demand and streamline production, leading to heightened efficiency and cost savings. Utilizing digital marketing and social media, the Company has expanded consumer reach and brand awareness. Tailored promotional campaigns, driven by data analytics, provide insights into consumer behavior and preferences, aiding in future growth.

Continuing with our endeavor of driving best in class execution, we rely on ML that helps us create a bespoke assortment for our 1.7 mn outlets. The accuracy of this assortment ensures we assist the sales representative to sell the right Stock Keeping Unit ('SKU') in the right store to suit shopper needs. A similar philosophy is deployed in Modern Trade outlets where we have deployed Image Recognition ('IR') technology. Our flagship IR tool - AmaZing, backed by AI allows our in store executives to get the shelf layout right every time. This supported with the right shopper communication continuously helps consumers choose products best suited for their needs.

Risk Management

Managing risks is integral to Colgate-Palmolive (India) Limited's long-term goals and strategies. The Company's success lies in its ability to identify the opportunities generated by the business and the markets it operates in. Thus, while the primary objective of the Company's Risk Management Framework is to guarantee timely and effective identification and mitigation of potential risks, it also plays a key role in adapting a risk-conscious business strategy that can tap into new opportunities.

The Company has 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 identified risks 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 boasts a comprehensive portfolio of Oral Care products in India - from toothpastes for varied benefits and toothbrushes (basic, premium and electric) to a range of mouthwashes. Coupled with its current reach, this portfolio gives the Company a unique opportunity to drive premiumization.

The equity of the Palmolive brand 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.

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

Material Developments in Human Resources

The Company has always had a focus on introducing new benefits & policies that would help a culture of diversity, equity and inclusion to thrive while ensuring the well-being of the employees.

Employee Well-being

The Company is committed to supporting the physical as well as 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. This year, the company introduced a new OPD policy in addition to its existing medical insurance cover. The company also has a holistic support available for employees mental well-being that includes unlimited EAP coverage as well as an AI based mental well-being app.

The Company also supports healthy work-life balance for employees through various policies like:

Inclusive Leave Policy: An exhaustive leave policy that provides employees with various types of leaves like Annual leave, Care & Compassion leave (to take care of sudden illness for self, family, pets, etc), give back leave (paid holiday to support employees in volunteering) and a gender neutral parental leave policy.

Hybrid Work Policy: The Company has a hybrid work policy known as 'BlendIn', that 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.

DE&I

The Company recognises the value of a diverse workforce and offers equal opportunities for all employees regardless of their race, ethnicity, genders, 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 endeavor to create a more inclusive culture and takes action to address any issues that might arise.

Workplace Inclusivity Policies (WIN Policies)

New & 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 providers to provide additional support to parents.

Persons With Disabilities: The Company introduced a new policy this year to help in the inclusion of employees with disabilities. As a part of this policy, the company provides Assistive Technology reimbursement to support productivity of employees with permanent disabilities, through purchase and maintenance of essential assistive products based on specialist doctor's prescription.

The total number of employees as on March 31, 2024 were 2221.

Sustainability

The Company places a significant emphasis on sustainability as a core focus area, and it 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 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.

The Company is 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. By embracing circular principles, Colgate-Palmolive is committed to minimizing its environmental footprint and the usage of patented, first-ever recyclable toothpaste tubes, developed by Colgate-Palmolive Company, US are a great example of a step towards circularity.

Colgate-Palmolive (India) Limited also prioritizes community engagement and social responsibility, and actively engages in initiatives around supporting oral healthcare awareness, women empowerment, water augmentation and waste management in marginalized communities.

As part of its efforts to inspire trust and transparency, this is the third year of publishing its BRSR disclosures and Environmental, Social and Governance ('ESG') Report.

KEY FINANCIAL RATIOS

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

Particulars	FY 2023-24	FY 2022-23
Debtors Turnover	34.76	27.16
Inventory Turnover	5.45	5.18
Interest Coverage Ratio [^]	346.85	281.82
Current Ratio	1.54	1.43
Debt Equity Ratio*	0.04	0.04
Return on Capital Employed	99%	84%
Operating Profit Margin (%)	31%	26%
Net Profit Margin (%) (after tax)	23%	20%

[^]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.

Increase in receivables driven out of increase in sales and change in channel mix to new retail channels.

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

Internal Control Systems are essential for promoting best practices and enhancing governance standards within an organization. The Company employs a skilled team of internal auditors who monitor internal financial processes and policies, providing recommendations for effective financial controls. Implementing these robust internal financial controls ensures adherence to the Company's policies and procedures, thereby facilitating smooth and efficient operations.

These internal financial controls are vital for safeguarding assets, detecting and preventing fraud or errors, and ensuring the accuracy and completeness of accounting and financial records. Additionally, they support the timely preparation of transparent, comprehensive, and accurate financial information and statements, in accordance with prescribed accounting standards and principles.

To maintain the ongoing relevance and adequacy of the internal financial control system, the Company's Audit Committee conducts periodic assessments and evaluations to scrutinize its effectiveness.

OUR APPROACH

The investments necessary to support growth are cultivated through continuous, company-wide initiatives aimed at enhancing realizations, reducing costs, and optimizing asset utilization. These initiatives, known as the Company's revenue growth management and growth funding endeavors, are geared towards strengthening operational efficiency. 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, leveraging digitization, 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.