



“Colgate-Palmolive (India) Limited”

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Moderator: Good evening, everyone, and welcome to the Colgate-Palmolive (India) Limited Analyst Conference Call for the Financial Year 2022-2023.

Please note that the conference call will include forward-looking statements. These statements are made on the basis of the company's views and assumptions as of this time and are not guarantees of future performance.

As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. At that time, participants on webcast may click on the live interaction button which will be enabled below the media player. Alternatively, you may send your questions to us through the text box on your screen. Participants connected via telephone may enter "71*" on your touchtone phone to ask a question.

Today's session will begin with a brief presentation by the management of the company, sharing their views on the overall company's performance and strategy. This will be followed by a Q&A session. I now hand over the proceedings to Ms. Prabha Narasimhan, Managing Director and CEO of Colgate-Palmolive (India) Limited. Thank you and over to you, Ms. Narasimhan.

Prabha Narasimhan: Thank you very much, and good evening, everybody, and thank you for joining us on this Friday evening as we take you through the plans and the thinking that we have on the company as well as our results for both the financial year and the quarter that's just gone by. I want to start, as always, with the safe harbor statement, which I'm sure all of you are fully familiar with.

Let me also take this opportunity to introduce the Colgate leadership team. Most of the faces on this chart, I'm sure, are extremely familiar to you. We do have one new addition, who has joined us just over the last few months. He is unfortunately not here today, but Gunjit Jain has taken over as the Marketing Head of Colgate-Palmolive India as of February 2023, replacing Arvind Chintamani, who has moved to Canada.

We also have one change in the role that Sarala Menon plays. She is now responsible for the entire end-to-end supply chain of this organization. So I want to start actually with our headline thought of what we're trying to do with this organization, and it can be summarized in really three simple words, which is Grow, Strengthen and Simplify. We do believe and we have the opportunity to show to you the potential that this organization has for growth. We have some tremendous strengths, which we think we can get even better at. And of course, there is always an opportunity to make business easier, faster, more agile and more simple, and we'll talk you through our thinking there as well.

So starting first with the idea of growth. And we've said this before but let me start with the macro picture of the toothpaste category. There is a huge opportunity to grow. Firstly, we are the market leader, and it is, therefore, incumbent upon us to grow this category. Secondly,

when we compare the per capita consumption of toothpaste, even to a country like Philippines, we do see that we are at roughly about, maybe half of their consumption in total.

And if we were to get to the toothpaste consumption level of the Philippines, which, by the way, is not obviously the highest in the world, we will have a toothpaste market that is double the size of its current size. And to get to this, what we need to do is really to move the daily brushing habit of rural households where 55% of households don't brush every day and to get urban households to brush twice a day. Neither of these are particularly easy tasks.

But as Colgate-Palmolive, we are both committed to it, both from a business perspective because this is critical to us and from a perspective of moving the oral health agenda of this country. The second leg, of course, is to take a look at toothbrush and a similar opportunity stares at us over here. Dentists would have you believe that you should replace your toothbrush once every three months to four months and that a new toothbrush actually cleans 90% better than an old toothbrush.

As you can see, the levels of replacement currently are much lower than that and getting consumers to realize the cleaning power of a new toothbrush and therefore, replacing their toothbrush more often becomes another agenda item for us. And then when we shift our attention to value, there is a whole lot of opportunity sitting here as well. Within the toothpaste category, about 65% of the category sits within this 90 to 110 index, giving us significant -- and if you see above the 110 index, you see only about 14%, 15% of the category.

Significant opportunity for us to provide value-added benefits that allow a premium to be charged and consumers to see value in paying that premium. If you compare toothpaste to a comparable category like toilet soaps and starting with the poorest consumers, which is SEC D&E, you will see that spends on toilet soaps is 70% higher than spends on toothpaste.

And then if you take a look at it at the other end of the spectrum, which is the most premium consumers at SEC A, you will see that an SEC A consumer spends only 2x the money on toothpaste that an SEC DE consumer spends. Whereas on toilet soaps, that number becomes 2.6x, 4.4x of actual toothpaste. And therefore, significant headroom for us to grow value in this category.

And if we look at it from a toothbrush lens, actually even simpler, 2/3 of the market roughly or a little under 2/3 of the market sits in a brush handle under Rs.30 and the average price per handle in this country actually is closer to Rs.20 than Rs.30. But as you move up, you start seeing that there is opportunity to sell toothbrushes that are priced above Rs.40. And if you see the growth, that's exactly where the market is moving. The numbers on the top of 0%, minus 3% and 15% at the Rs.40-plus segment. These are 2022 numbers.

But as you take a look at the numbers for the first quarter of 2023, you actually see that this Rs.40-plus toothbrush segment is actually growing 5x as fast as the sub- Rs.30 market or actually the sub- Rs.40 market. And Colgate is really well placed because we have a portfolio

of both price points and benefits ahead of this Rs.40 segment and making them visibly available to consumers represents a real opportunity to drive growth.

And therefore, with this tremendous headroom opportunity for growth, I want to come to what are our plans to get to this growth. Our first action is to announce, and I'm really happy to do this, is to announce the re-launch of our flagship brand, Colgate Strong Teeth. Colgate Strong Teeth is the volume and value leader in the toothpaste market in this country. It is available in more households than any other brand in this country and more stores than any other brand in this country. Toothpaste brand. And we have just re-launched this with patented Arginine technology backed with a stronger consumer-preferred flavor.

What this technology of arginine does is to work with the naturally present arginine in your mouth and aid remineralization of teeth. And what remineralization does is really to give you stronger teeth. And this is Colgate-Palmolive's best-in-class technology for cavity protection and strong teeth. And it's a testament to our commitment to the oral health of this country that this technology sits in our most affordable toothpaste.

The brand also has tremendous potential in rural. It is 1.2x the penetration of the next brand and our opportunity really to get rural consumers to brush more as we spoke about earlier. And what we want to do with this relaunch is really to reframe the category. If you thought that toothpaste was just about cleaning, then it's time to rethink that because it's not just about cleaning, it's about nourishing. We spend a lot of effort nourishing our hair, our skin, our bones, but we don't consider that healthy hair and skin without great teeth is perhaps not as valuable.

And therefore, this brand is now moving the entire position of the category to talk about not just cleaning but nourishing, built on the fact that our patented fluoride plus arginine technology actually delivers teeth that are 2x stronger. And how are we going to communicate this to consumers? Let's take a look at the advertisement.

[Audio-Video Presentation]

Prabha Narasimhan:

So that was a sneak-peak to our advertising. The advertising goes live on Sunday, and we are looking to significantly invest behind this mix. We are doubling our media investment on this brand. And it is being supported by an unprecedented level of sampling with 35 million samples of this new winning formula going to consumers along with it. And this, of course, also represents our biggest opportunity to drive rural growth, and we are, therefore, spending incremental money driving reach in rural India across various mediums.

I come from our largest equity to our second largest equity, which is MaxFresh and which has actually been having a really good run over the last few years. And why? Because it is a superior product versus competition, delivering a fabulous in-mouth feel. In the last year, this brand has added 21 million consumer homes and a penetration increase of 580 basis points. It grows 5x faster than the market. We've also added a charcoal variant, if you had seen the

advertising ahead of this conversation, you would have seen the advertising for MaxFresh Charcoal. That's a variant that's been added.

And what we are intending to do here is to take a winning mix and double down on our commercial investment behind it. And with a view to saying that we will talk to our core audience, and we will also talk to a new age, younger audience and look at how we can create communication that talks to this. And let me show you one example of what we've done over the last little while.

[Audio-Video Presentation]

I then turn my attention to the natural segment, which we had referenced last time as well as plateauing. And it continues to plateau and has even started to decline a little bit. A segment which got a little bit of a fillip due to COVID has now gone back to levels that are about three years earlier. And as we've said before, we firmly believe that consumers buy benefits and are very, very confident of our ability to deliver all benefits across the entire oral care spectrum.

And with that, I want to come to one of our premium mixes, which is really Colgate Active Salt. Active Salt, which has the Salt + Clove Technology uses natural ingredients, which are enhanced in our science-backed formula and deliver proven efficacy. This is the first brand that came into the salt category has been a truly successful innovation for Colgate over the last 10 years and owns the Salt segment.

And once again, it has best-in-class communication. I'm sure most of you would recognize the line with which it goes, which is "Kya Aapke Toothpaste Main Namak Hai" tested in the top 25% of all advertising. And once again, since we are onto something that works, our effort here will be to drive an increase in reach in the priority geographies for Colgate Active Salt and make sure that we continue to build this mix.

We then come to the second leg of our strategy. We've discussed the core, which really consists of Strong Teeth, MaxFresh and Colgate Active Salt. We come to growing the second leg of our strategy, which is really all about driving premiumization. Last year, we launched Visible White O2, and it has been one of the most successful launches ever in the history of CP India. This breakthrough technology gives whiter teeth in three days and has powered the overall whitening portfolio to a 30% faster growth, albeit on a small base.

But when you take a look at the penetration of whitening in India and you see that it's just 1.5%, you can see the headroom opportunity for growth just by driving penetration. The second thing is that this really does play to Colgate's strength. It is a science-backed product with great technology. It is at a premium, and it brings in a new benefit, moving oral care more into being oral beauty rather than in the segment of either preventive health or therapeutics. Colgate is also the first mover in this category, and we intend to double down on what we've done so far.

Firstly, by establishing beauty relevance and making sure that we are present in all occasions where beauty is a driver, weddings, events, parties, you name it, oral beauty should be a part of

consumers' overall beauty regimen. The second thing is for us to innovate with devices, and we have very recently launched the Visible Whitening Pen. This is a do-it-yourself at home overnight whitening treatment that allows you to have far whiter teeth in the morning than you had before you went to sleep at night. And launched in partnership with, of course, dentists and the pharmacy channel as well as our dentist-first channel. Our intent in this segment is really to play for the long run, to continue to build this category of whitening and make sure that we're constantly innovating in a space that's actually really exciting.

I turn my attention now from whitening to the other end of the spectrum, which is therapeutics. As per a national oral health survey conducted by the Dental Council of India, 90% of adult Indians suffer from gum problems, which are either bleeding, swelling, bad breath. But at the claim level, only about 16% of consumers claim they are suffering from gum issues. And as we all know, gums are the foundation for strong teeth. Therefore, this segment which exists, the problem exists, is really an underserved segment and one that we have significant right to win because once again, it's based on a technology and a product that delivers. And that's where PerioGard comes in.

We always had a PerioGard mouthwash, which was quite successful in the professional channel. We have added to it earlier this year, a PerioGard toothpaste, and we will shortly be adding a PerioGard brush where the regimen then talks to entire gum health. Priced at Rs. 450 index to market, this is a big play for us in premium and something that we're committed to building over a period of time as we know that this therapeutic position takes time to build.

Our effort to build this will be to drive advocacy with experts, Periodontologist, partner with the dental profession and of course, have a leading profession as far as pharmacies are concerned. And we've been really lucky that as we have launched it, we've seen tremendous support from the key partners, which is the dentists, and we continue to drive this advocacy through a series of expert lecture meetings across the top 15 cities, and we are now available in 4,000-plus pharmacies with this reach.

Moving from toothpaste to growing toothbrushes. As I mentioned earlier, the average price that a consumer pays for a toothbrush is just Rs.21. And then that brush is used for longer than it ideally should be used. In Colgate, we have a really wide range of portfolio of brushes answering to every need, whether it is sustainability with the keep brush or it is the visible white brush that works along with the visible white toothpaste to enhance the whitening regimen or it is the softer brushes like what you see on the screen with the Gentle range, we have a portfolio which ranges from Rs.20 all the way up to Rs.130.

This Gentle brush portfolio has actually been a stellar performer. It has grown 4x faster than the category. Market share has nearly doubled since 2020. And once again, I'm going to sound a little bit like a stuck record, but we certainly have an opportunity to drive this wider and deeper and continue to drive growth in this important category for us.

Turning our attention from products now to retail environments or to the channels in which we sell. Our focus as far as premiumization is concerned is to talk to new commerce or modern

trade plus e-commerce. This has grown dramatically over the last four years with an 18% CAGR, once again, almost doubling its contribution to our business. But what makes this channel really exciting for us is a few things.

Firstly, the fantastic partnership we have with the players in this new commerce. We are truly category captains along with them in this segment. The second is that it is a channel that allows for premiumization because it allows for discovery. And it is already at about 460 bps higher premium contribution than the non-new commerce channels. And these three few things make it really attractive for us to continue to drive. We start already with a position of strength because we have a market share that is ahead of our overall market share. And as this channel grows, this provides a tailwind to our competitiveness.

So I move now from all the different ways that we're thinking about growing this organization to what we have that we really must strengthen. And the first thing that we have, and I must talk about is actually our portfolio advantage. In 21 out of 25 states and about 85% of the total market, Colgate equities are at least 2 out of the top 4 equities. And this is a unique advantage that only Colgate has in this country. And this is an opportunity for us to play the price piano, play the flavor map and appeal to the widest range of consumers with a mix that is specifically crafted for them and which can be different across different geographies, a real advantage that we have and one that we look to strengthen as we go forward.

The second area that we really look to strengthen is Palmolive equity. I know that we often get asked questions of what are we doing with Palmolive and I hope that we are providing some answers over here. But I want to start with just a couple of facts about the Palmolive brand. The Palmolive brand has existed for 73 years in India. It has an awareness that is near 70%, something that as you look to create new brands, I think, is a really, really huge advantage. And an absolutely fantastic latent equity. What we have decided to do over here is to really double down on focus on the core equity category of Palmolive, which is body wash.

Our intention will be to drive the four focus areas that you see, which is assortment and distribution, brand superiority delivering superior mixes in the hands of consumers, driving mental availability and making sure that we're constantly at the forefront of innovation, and we see a really strong growth runway for this. And then, of course, we look to strengthen our partnerships with the professionals in this category.

For the 85 years that Colgate has been in existence in India and the over 200 years that the company has been in existence globally, partnership with professionals has been at the heart of the organization. Colgate has partnered with the Indian Dental Association for more than 25 years in India and products like Colgate Dental Cream, now Colgate Strong Teeth and Colgate Total were among the first products to receive the IDA seal. The first Bright Smiles, Bright Futures school program that we ran and oral health month were also done in partnership with the Indian Dental Association.

And I must say that this Bright Smiles, Bright Future program, which has now reached 170 million children has really been the flagship of what Colgate does in India. We also partner

with associations on more than 10 specialties within the world of oral health, and we are committed to enhancing this partnership. Just recently, we've partnered with the IDA at their flagship event in Delhi. I'm going to play a video of this partnership, and then I'm going to hand it over to Jacob to talk through the all critical numbers of this business.

[Audio-Video Presentation]

M.S Jacob:

Thank you, Prabha, and good evening, everybody. A cornerstone of our business strategy is Sustainable, Profitable Growth and we are continuously looking for opportunities to strengthen in this area. So you would have seen the numbers that just came in for Quarter 4. We reported a sales of Rs.1,342 crores. Our domestic business grew by about 5.4%, and we are very happy that our toothpaste business was in the high single digit in terms of growth.

Specifically on ratios. Our gross margins at a very respectable 66.6%. The spending on advertising was 10.7%, and we're kind of getting ready for a big re-launch in this quarter, and Prabha alluded to that in the section now on Colgate Strong Teeth, and you will see a step up in spending in this quarter. Our overheads continue to be very closely controlled and our profit to sales of 23.6% is industry leading. Going on to the full year. Our full year numbers, Rs.5,188 crores, gross margin of 65.4%, advertising at 12.2% and profitability at 20.2%. So you will agree that despite all the headwinds we face in terms of commodity prices and currency, we've delivered very good healthy ratios.

Moving on. So if you look at the trend over 10 years, our margins have gone from 60.4% to 65.4% and our EBITDA has done even better from 18.7% to 29.8%. So these are the two pillars of -- that help us continuously deliver against this objective revenue growth management, which works on the revenue side and funding the growth that works on the cost side. Specifically on revenue growth management, we are continuously looking to identify opportunities to drive premiumization.

We are doing cutting-edge analytics to drive the pricing strategy across channels and across segments. And at the same time, optimizing spending on promotions, both in trade and consumer. On funding the growth side, we have dedicated teams working across the company throughout the year, they are brainstorming and looking for cost optimization opportunities. We are continuously looking at opportunities to streamline supply chain operations, warehousing, number of warehouses and other efficiencies. And we are, at the same time, looking to deliver superior products. So with all this, our EBITDA has gone from 18.7% to 29.8%, which is 1,100 bps up in 10 years.

So a reflection of the sustainable profitable growth has -- is the dividends that we pay every year. So this year, we are happy to announce that we've declared a total dividend of Rs.39 per share. This is a recognition that came away a couple of months back. So we were ranked number 1 by business standard on the Financial Sustainability Index, which is a testimony to the strength of our cash flows and our ability to sustain our business under pressure of global commodity cycles or economic cycles, etcetera. So this is some -- this is a recognition we are happy about.

Moving on to ESG, still under the strengthened bucket. So if you look at waste management, all our plants are currently TRUE Zero Waste certified. In fact, we are the brand that has the maximum number of TRUE Zero Waste certifications in the country. On the reusable area, we are looking to recycle 100% by 2025. We have reached 80%. Under the EPR requirement, we are required to dispose of 100%. We've done over that. We're at the 120% level right now. Water usage, our commitment is Net Zero water at India level by 2025 and 50% of our factories, that's two out of four are already water positive and we expect to have the other two reach at this level by 2025.

Sustainable sourcing, we are -- have a target of allocating 80% of our material spends in line with responsible sourcing guidelines by 2025. And currently, we stand at 65%, which is good progress on a way to get to the 80% goal. Staying on ESG, Bright Smiles, Bright Future. This is a flagship brand under CSR where we are doing an oral care awareness program. We've currently already covered 170 million children, and we're looking to further engage with another 10 million by 2030.

Increasing female representation in management. Our objective is to get to 27% by 2025. We are currently at 25%. On the water augmentation program, we look to cover about 100 villages by 2025, and we are already very close to it. We have covered 96 by this financial year. Empowering rural women with digital and financial literacy, our objective is to get to 100,000 women by 2030, and we're making good progress here. We have got to 30,000 by 2022-23.

Smiles for Life, this is the cleft program we're running. We've already done about 1,346 children, and we look to cover about 3,000 children by 2025. So all-in-all, we are very proud of the strides we are making in this area. You've seen the ESG report that we released for the first time last year. And the second addition will be coming out along with the annual report in June.

So I would leave you with a video that shows our flagship BSBF program on oral awareness. And post that, I'll handover to Bala, who will take us on the human resources piece.

[Audio-Video Presentation]

Balaji Sreenivasan:

Thank you, Jacob. A critical component of the strengthened bucket that Prabha talked about is strengthening our organizational people capability. And to do that, I wanted to just take you through the broad framework through which we are intending to strengthen our organization's people capability. The ESG report that Jacob talked about already captures a lot of the people's practices that we have in the organization.

And I've covered a few of those in my last call as well. So here, what I want to do is just take a couple of minutes to walk you through the broad framework through which we are intending to strengthen our organization's people capability. So we look at it from the lens of structure, culture, processes and people. In terms of the structure, we want to be a Digital, Agile And Right-Layered Organization that leverages the strength of our global organization, the global

expertise that we have but also has a local empowerment and allows us to be nimble and competitive and quick to be able to capitalize on the local growth opportunities.

Over the last couple of years, we have repurposed almost 10% of our organization white-collared positions to positions that are more meaningful, more growth oriented and value-adding in order to be able to drive growth. Structure has to be supported by the right culture. And I mentioned some of the efforts we are doing for this in the last call. I'm happy to say that in terms of driving a culture that is results-oriented, empowered and experimental that harnesses the power of diversity.

We have made some good progress over the last couple of years. We are seeing -- we do regular dipstick surveys, and we are seeing our employees reflect the fact that they are experiencing a more empowered and agile culture in the organization. And of course, we have made considerable progress on D&I, which again, you can see a little more in our ESG report.

We also did some recent diagnostic work and realized that some of our processes unfortunately have not kept pace with our expectations in terms of agility and speed. And therefore, what we are trying to do this time is as a critical priority for the year. Look at how to integrate all our systems from an end-to-end perspective, that will support seamless processes and facilitate intelligent data flow. So we want all of these systems to talk to each other and leverage AI and ML to help us make better decisions, thereby helping to reduce manual intervention and taking the workload off people to be able to focus on growth.

And last, but most importantly, are the people. We are incredibly proud of the talent that we have in the organization. But as I mentioned last time, we do bring in from time-to-time, external talent that have got special skills that will help us drive the organization towards growth. And to do that, employer branding is a critical priority for us. We have traditionally been shy, a little bit shy, I would say, in terms of this. And a critical priority for us is to get a little bit more out and upfront on this employee branding piece. And I'm happy to say that to that point, endpoint, we've been recognized externally.

There are some good awards that we've recently received, and that's helping us become a better employer brand, which will help us attract better talent as we go along. So in summary, we are constantly looking to strengthen our organization internally and our organization image externally. And this will help us remain fit for future delivery of the growth objectives that we have.

With that, I hand over to Ruchir, who will talk to us a little bit about our simplification efforts. Ruchir?

Ruchir Bhatnagar:

Thank you, Bala. I'm going to talk to you about simplification and how we use simplification at the heart of our -- all set of processes and help it drive growth? We spoke last time about Smile Stores which is our machine learning program that customizes the assortment that our salesmen sell to the 1.6 million outlets that we covered. Very happy to share that, that program

is going from strength-to-strength. The last year 2022 saw a 17% increase in our total distribution points enabled by Smile Stores.

Total distribution point, which really measures the strength of our distribution, the breadth and the depth of our distribution, has become even more stronger in March with a 30% increase. Using this program, we've been able to take away the manual effort that the salesman does on the ground and support it with digitization and machine learning knowledge. We have taken digitization into the stores as well.

Prabha talked to you about how modern trade and new retail is growing really well, and we've applied digitization into these modern trade outlets. We've brought in AmaZing, which is our image recognition technology, which allows us to capture images inside the store and analyze them real time to provide insights to our merchandisers, making them enabled with change topics that they can execute straight inside the store. One clear measure of success that has come out of this is on-shelf availability. This program that was launched exit 2022 has already given us results. And what you can see here on the screen is that there has been as high as 40% increase on on-shelf availability and products that are available on shelf sell faster.

So clearly, we are using digitization at the heart of our growth story.

We've taken simplification to our network as well and applied it across our plants as well as our logistics processes. We've used frugal innovation to introduce cobots in our Sanand, Baddi and Goa plant, which is allowing us to drive automation at these locations. We've used localization to start producing mouthwash at Baddi, thereby reducing logistics complications. Very happy to share that both SriCity and Sanand plants have started using solar power within the plants to make sure that the energy footprint reduces. And lastly, we've reduced our logistic warehouses by as much as 15% without reducing the service levels that we provide to our distributors.

Simplification has also been supported by data and analytics. We want to use data, analyze it and provide real insights to our teams on ground. This journey started by creating a data lake. We get a lot of data points from our primary, secondary and external data sets. We've gotten them all together and created a single source of truth, which is used to power all the decisions that are taken in the organization.

One clear usage of that was converting this data lake and pulling out reports and dashboards, which are simple, efficient and provide real insights to our teams across functions and which allows them to act right away. This really takes away the time that people spend on going through multiple reports and creating their own and straightaway gives them actionable insights that they can work on.

We are now taking this one step further to predict the future. We are working on creating an AI-led demand forecasting system which understands our past historic business trends, the uplift analysis and allows us to do more specific future forecasts, making sure that we have the

right products available to service the demand that we need. So clearly, simplification is one of the key parameters that we live by, and we're using that to drive growth in every possible way.

I will now hand it back to Prabha to take us through the growth pillars once again.

Prabha Narasimhan:

Thank you, Ruchir. So I want to summarize actually with what we've said in the past and what we are actually reiterating as we go forward, which is our 4-pronged strategy. Our first pillar, we are an oral care company, we lead the toothpaste category. We drive the toothpaste category's growth, and our effort will be to drive the volume growth of the category by building good oral care habits in the country and making sure that we grow our core brands of strong Teeth, MaxFresh and Colgate Active Salt.

We also have a significant opportunity on our next rung to really premiumize through driving science-based superior innovation. And all of the words on that strategy are actually important, premiumize because we do want to provide more value to consumers and therefore, get more value from them.

Science-based because that is really the heart of our organization. We have a huge number of scientists working with the highest number of patents of any oral care company in the world, and we bring that to bear on the products that we bring to our consumers, and it must be superior innovation in the hands of the consumer. And that's really our second pillar. The third one is for us to make sure that we drive category growth in toothbrushes. We already discussed the fact that there's potential in terms of premiumization and driving the over Rs.40 brushes. And there is significant opportunity in devices where the newly launched whitening pen is our first foray into an innovative device play, and you will see more of that as we go forward.

And the fourth one, of course, is we have an underserved equity in our portfolio, which is Palmolive, we will use that to build and drive personal care. Underpinning all of our strategic pillars is really our key enablers. The first one, and I repeat the superior science-backed products because it is the heart of this organization, driving financial efficiency, that is something that this organization has been recognized for, as Jacob mentioned, it is something that we are quite good at, and it is something that we are committed to continuing.

Digital at the core. This has been a journey. We've made some progress. We do see that we have some more paths to traverse like every organization does. And once again, we are committed to travelling that path to make sure that we are truly an organization that is being digital rather than doing digital.

Organization and people capabilities. Bala talked about it, this is what powers our organization, the quality of people and how we provide an environment that allows them to unleash their true potential and bring everything to work, and the work that's being done in that space. And of course, we started the journey on an ESG report last year, but as an organization has been committed to the idea of ESG for longer than that, and that commitment continues to stay. So that's really our strategy in action.

And with that, I'm going to turn it over to the section on Q&A. Thank you very much for your attention.

Moderator: Thank you very much Ma'am. We will take the first question from Mr. Abneesh Roy of Nuvama.

Abneesh Roy: Okay. So my first question is the plateau seen in naturals. What are the reasons? And do you see this as a near-term trend in the sector or because it is now 30% of the sector. It's a very large number. For the next two years, three years, non-natural will grow faster. So what would be your view on this?

Prabha Narasimhan: Okay. So firstly, Abneesh, thank you for the question. I think our belief actually is that there is no segment called naturals and non-natural, what consumers tend to buy is a benefit. What they want is stronger teeth, fresher breath, whiter teeth, gum care, protection from sensitivity and so on and so forth. And that benefit can be delivered naturally, it can be delivered through science.

And the question is that the consumer will buy the benefit, the brand that delivers the benefit best. And therefore, I think the way we see it is that the natural segment plateaus because the brands that use that as the reason to believe are now perhaps being perceived as not offering something that's good enough to deliver that benefit. And maybe there is an opportunity for brands that offer it in a different way through science to be perceived as offering that benefit.

So that was really where we would come at it from saying that it's the benefit that takes primacy and then the reason to believe whether it comes from naturals or science really is a secondary thing. So I don't want to hazard a guess in terms of what will happen to the segment as it goes forward. But I do want to tell you that our understanding of consumers is that benefit delivery is paramount, and there is great belief in science in oral care.

Abneesh Roy: At your own natural segment, say, Vedshakti, etc, have you seen plateau there also? Or because you have been a bit late at trend, you are seeing faster growth than overall naturals?

Prabha Narasimhan: So I think, from our overall naturals play in which we include the active naturals that we have of Colgate Active Salt, Charcoal, Vedshakti, we are not actually seeing a plateauing. These brands continue to grow as a collective, and they continue to do well. So like I said, I'm not sure that the way to look at this is necessarily naturals and non-naturals. But the portfolio of active naturals that we have continues to grow.

Abneesh Roy: Sure. My second question is on the brushing twice a day. You said Urban India, it's around 20%. So in this, how many cities are you considering? So it seems slightly on the higher side to me. And similarly, in rural India, do you track this data?

Prabha Narasimhan: So I'm going to let Swati build on the brushing twice a day comment in just a moment. But just to the thing on the numbers, the 20% number that we quote is actually all Urban India. It's a derived number from panel and per capita consumption. So it could wobble here and there a

little bit. If you ask consumers claimed brushing twice a day, the number will be significantly higher than the 20% that we have on the chart.

But whichever way it is, whether the number is 15% or the number is 20%, the bottom line is that, that number is really low. And like I said, I'll let Swati maybe articulate the benefits of brushing twice a day and go to your point on rural. We don't measure brushing twice a day in rural areas because actually 55% of consumers don't brush every day. And really, our first port of call is to get them to brush every day before we then transition to a brush twice a day message. Swati, do you want to talk about this?

Swati Agarwal:

Yes. Sure. Thanks a lot, Prabha. I think it is a great point when we say, see the numbers, but the claimed numbers would be much higher because consumers do believe, I mean, we all believe that brushing twice does help. As a mother, they always want their children to brush twice because we do see benefits. But at the same time, what happened is that it's a habit which needs to be built in. So that's where probably you see the difference in the numbers now coming on the benefit piece, what truly brushing twice daily can help.

If you look at, we consume food on a -- during the day. And when we consume food, our lifestyle actually adds a lot of carbohydrates. And then our saliva breaks down that food into sugars and then it leads to the acid attack on our teeth enamel. And what happens when you're not brushing at the night time, you're actually more susceptible to bacterial attack because nothing is happening in the mouth.

We are sleeping at that time, even though saliva's generation is not that much, which is a natural defense mechanism to maintain the pH of the mouth. So all in all, during the day also, we are under attack with the -- because we are consuming food. But after dinner, let's say, if we are not brushing, it is more susceptible to tooth decay, gum problems and a lot of other oral health issues. So that's where I think it's extremely important for better oral health to continue promoting brushing twice a day, which will improve the overall oral health of our country.

Abneesh Roy:

Sure. My next question is on the overall dentist focus. So we have seen in the past few quarters, higher focus in terms of B2B towards dentists and B2C also. So I wanted to understand how the performance has been, especially the B2B part, which was not, I think, two quarters back. And on the overall dentist usage in India, that's quite low. So what is Colgate doing to really increase that because if you do a lot of activities with dentists and the customer doesn't really use too much of dentists in India, then you may not get that commensurate benefit. So what is Colgate doing on that part?

Prabha Narasimhan:

So firstly, to answer the first part of your question, we, as Colgate, I think, cover the maximum number of dentists of any oral care brand in the country. We cover approximately 75,000 dentists. Of those 75,000 dentists, we've seen a really positive response to the B2B side of dentists first. We have about 20,000 registrations of dentists on that site. It is a site that's meant only for dentists. And you will recall that it was launched only about three months ago. So we are very encouraged with the progress of what is happening with that dentist's first site. To the second comment that you made on people going to dentists less often. That is absolutely true.

And our effort is actually three-pronged really. Firstly, we partner with the IDA to make sure that there are workshops and there is information out there on the importance of going to the dentist, and that's something that we share across various platforms. The second is, of course, our flagship Bright Smiles, Bright Future program, which talks about healthy habits brushing twice a day, regular visits to the dentists and dentist checkups and that has tremendous reach.

We have a plan like we showed for about 10 million. And then the third one, of course, is for us to have this partnership with dentists where we continue to disseminate oral health education. So with all of this, we do expect that as the country evolves and access to dentists improve, this is something that will continue to get better and better.

Abneesh Roy: And last quick question. So we have seen under your leadership, a lot of steps being taken in terms of scaling up in terms of growth. This quarter, in fact, the toothpaste part of the business has done reasonably well. So FY '24, would you be expecting a high single-digit kind of a volume-led sales growth. Overall sales growth of, say, high single digit in at least the toothpaste part of the business.

Prabha Narasimhan: I always leave these kind of questions to Jacob, so I'm going to look at him for this one.

M.S Jacob: Yes. I mean, our endeavour would be to grow ahead of the market. So remember, in the strategic pillars, Prabha called out, growing the category is a priority and within that growing shares is a category. So a lot would depend on how the category was because these things do take time. But assuming normal levels of category, we would definitely be looking at that level of sales growth.

Abneesh Roy: So just one follow-up question here. You must have seen the results of other companies in Q4. So when you compare that versus oral care, on paper, oral care always looks very exciting with a low per capita, 55% of the rural are not brushing every day. When you match up both the things, where would you see the issues in toothpaste in terms of growth because it looks good on paper, but then we see a lot of other FMCG categories growing faster. So where is the issue? Category creation is the issue, or because in India, there are other forms of oral cleaning that remains a very difficult habit to change?

M.S Jacob: Yes. I mean the trigger for growth has to be rural consumption. And we haven't seen that take off. And we are seeing other categories like food are doing much better. So we do have a job to do there in terms of getting more and more people to brush every day as you saw only 55% brush every day. So there is work for us to do also to drive more regular use and make it a habit for the rural households.

Moderator: We will now take the next question that's from the line of Percy Panthaki from IIFL.

Percy Panthaki: Okay. So Yes, my question is basically the non-oral care portfolio. If you can give some idea as to what percentage of revenue is coming from the non-oral care? And how that has evolved over, let's say, the last decade, has it materially shifted? And what's your view in the future? Do you expect that contribution to sort of go up materially? And if so, what will drive it. If I --

correct me if I'm wrong, but I believe it has not materially changed over the last 10 years or so. So what -- if you want to increase it, what do you plan to do, which will be different?

Prabha Narasimhan:

So firstly, Percy, it's always nice to hear you, even if we can see you. I want to take the second part of your question first, and then I'll let Jacob build on the numbers part of it. I think what we have with Palmolive really is underserved equity, if we are honest.

For a brand to exist for 73 years, have 60-plus percent awareness in such a fragmented market of the world of personal care is really unusual. And therefore, the onus is on us to translate this very high level of latent equity into actual sales. And our effort in this area is really going to be, like I mentioned, to double down on what we believe is the heartland category of Palmolive, which is the body care between bodywash and hand wash. And what you will see, if you haven't seen already, is the effort that goes into building that category.

And body wash per se is a relatively small category with relatively low penetration and very, very high headroom to grow. And Palmolive will be one of the few brands that actually plays in body wash, not in soap, giving us the opportunity, hopefully, to make the transition from soap to body wash that much faster amongst premium consumers.

M.S Jacob:

Yes. In terms of share of the total business, you're right, it's stayed at the low single digits over time, and it's not more material. But as Prabha said, we do see a big opportunity in Palmolive as the country gets affluent, gets more urbanized categories like shower gel have a big headroom to grow. And we're going to step up investment. There's going to be more innovation here. We're going to leverage our distribution muscle. So you'll hear a lot about this. And we do expect in years to come this growth will inch up the share of business of Personal Care to the company's total business.

Percy Panthaki:

Right. Second question is on the margins. This quarter, you've done fairly high margins of 33% plus. So is there any phasing issue here? Or do you believe that with the benign input cost, these margins are sort of sustainable? How should I look at the margins for the full year FY '24?

M.S Jacob:

Yes. I would just ask you to pay attention to gross margins at this stage, which was 66.6%, which is back to the levels we were a year earlier. So we should see sequential improvement, although it would be moderate, not a very sharp increase based on what we are seeing right now. The EBITDA, of course, is influenced by the low spend on advertising at 10.7%.

And so we kind of kept the powder dry. As we get into this quarter, we have the biggest relaunch we have in the year of Colgate Strong Teeth. And you saw the new campaign we're going to run. And so it's going to be a stepped-up investment and you would see much higher levels of spending in the first quarter which will affect EBITDA. But for us, the gross margin is the one monitorable on a quarter-on-quarter basis. On a full year basis, the EBITDA is a more relevant one.

Percy Panthaki:

So on a full year basis, FY '24 versus FY '23, it would be a fair assumption to build-in some EBITDA margin expansion, right?

- M.S Jacob:** At this stage, we would believe, yes, there is opportunity given commodity prices are turned benign. And there is some pricing still happening. So I would say it's a fair assumption. But we will continue to calibrate with the media investment required. If there are opportunities in, say, spending a bit more in the shower with good return on investment, we would definitely not hesitate to go into that space.
- Percy Panthaki:** Got it. And the last question is on growth. I mean this quarter, the growth is 3.7% on sales. I don't have the number, but I would assume that volume growth would be flattish. Most companies which are reporting this quarter are showing some amount of volume growth like between 3% to 5%. I just wanted to understand in a very stable category like oral care, why should the growth be lagging other FMCG categories. And if the category has indeed grown in line with other FMCG then is it a market share issue for us, or how should I be sort of interpreting this number?
- M.S Jacob:** Yes. I mean, just first on the sales number. Although we reported 3.7%, our domestic sales were up 5.4%, and the export piece is kind of a bit soft. And within that, toothpaste grew high single digit, as I mentioned in my presentation. So Percy, what's really happening is that we continue to see pressure on volume growth in the category. Volume share is actually up YTD. So what's happening is the category is still under pressure. And it's mainly coming from rural. We're still seeing declines, although the level of decline is going down. So it's not as bad as it was in the prior quarters. And so we stay positive that in quarters to come, this will go up with all the positivity around.
- Percy Panthaki:** And what's the story behind toothbrushes? If you're saying toothpaste has done high single digits then I'm assuming toothbrushes are in decline. So what's the story behind that?
- M.S Jacob:** So toothbrushes, is also a similar story. Volume in the category is a challenge. And with pricing being less of an opportunity than in toothpaste because like, Prabha mentioned the Rs.20, Rs.30 where the market plays and those are kind of locked in terms of price point. We're not seeing a lot of pricing action also. So a combination of that, unlike toothpaste where the volume softness is more than offset with pricing, we still don't see the impact here. And again, going back to the presentation, the premiumization is a big opportunity for us here. So while we work on the consumption piece, we also would take enhanced steps to drive the mix towards the higher price brushes.
- Percy Panthaki:** Okay, sir. That's all from me. Thanks and all the best.
- M.S Jacob:** Welcome.
- Moderator:** Thank you. Our Next question is a text question from Varun Singh of ICICI Securities. His question is, four-year revenue CAGR still continues to be 4%. How should we look at this number?
- M.S Jacob:** Yes. As again, as I responded to Percy, we do see signs of the category growth coming back. To add to that, our strategy is going to be -- we're going to double down on driving category volume growth this quarter, plus all the stuff we have in armor, which we're going to launch

like the CDC re-launch, and you will see more innovation coming from our side. So we do expect our market shares to inch up also. So a combination of category and volume growth and the share growth should get us to a respectable place I would expect.

Moderator: Thank you. We take the next question from Richard from JM Financial.

Richard: I just want to ask one simple question, right? I mean what I noticed in the -- as far as pricing data is concerned, is that very recently, you again upped prices. What I can see is that Strong Teeth 100 grams is up from Rs.63 to Rs.69, which is like quite a reasonable spike. And this is an environment where, Jacob said, that commodity costs are falling. And we've also seen across the board, a lot of other companies talking about price cuts.

Here, you have a category where apparently growth is getting challenged. And there's no real need for pricing, but you are still choosing to do so despite the fact that growth has been so subdued. And given that, you talked about large opportunity in terms of growing per capita, etcetera, and rural being the main problem. Is this kind of a pricing growth? I mean, was it really, really necessary? I mean I guess it is, but just want to understand your perspective on why you think so?

Prabha Narasimhan: Okay. So, maybe I'll go first on this one and then hand it over to Jacob. I think firstly, our pricing moved from Rs.63 to Rs.66 to Rs.69 over the last, I think, seven months, if I'm not mistaken, somewhere in the seven months, eight months range, not Rs.63 to Rs.69. Equally, I think with this Colgate Strong Teeth relaunch, we are actually delivering a better product that has the best-in-class science with this whole arginine technology. And what consumers tend to look at is the value of what is being delivered to them more than what is the price of what is being delivered to them. And I think the value that the CST mix offers actually is worth the price. And this is why CST is the largest brand in this country. So I'm not worried about the pricing that we have taken because I do believe the value that we're delivering is commensurate.

On the comment on rural, what is important to rural is actually to make sure that we have access. And that is why we have the Rs.10 and Rs.20 SKUs for rural, both of which -- certainly the Rs.20 SKU doing really well in helping us to drive both consumption and hopefully, usage. What we have to get right, like Jacob said, is the efforts to drive up everyday usage of toothpaste. And as you would know, any kind of consumer behaviour change, particularly of the frequency nature, tends to be a long haul, slow burn and something that you need to stay committed to, and it is something that we are committed to. Jacob, do you want to add?

M.S Jacob: Yes. No, nothing to add.

Richard: Got it. Thanks Prabha. Wish you all the best.

Prabha Narasimhan: Thank you so much.

- Moderator:** Thank you. We'll take the next question from Shirish Pardeshi from Centrum Capital. Please go ahead with your question.
- Shirish Pardeshi:** Yes. So three questions. Of late, we have been seeing most of the leading FMCG companies using Nielsen data, which is as fresh as trying to give the perspective in terms of urban rural consumption, trying to give the category volume growth and value growth. I see that you are not using any of those slides. I'm not sure why, but if you can give some sense in January, February, March quarter, what is the category per se, toothpaste and toothbrush volume value growth? And maybe, Jacob, if you can help me for FY '23, what is the full year volume growth for toothpaste in India?
- M.S Jacob:** Yes. I mean we've stopped talking share. So that's why we don't quote Nielsen data as much. But I can say the category volume has been down in the low single digits. So, and especially, we've seen in urban areas, urban is slightly positive, but rural is in the mid-single negative. So that's the kind of numbers we are looking at overall around 2% to 3% negative volume.
- Shirish Pardeshi:** And FY '23, you were saying 2% to 3% negative volume, full year '23?
- M.S Jacob:** So I was saying in Q1, that's the kind of negative volume we are seeing in the category.
- Shirish Pardeshi:** So for us -- for a full year, what will be the volume?
- M.S Jacob:** So it will be slightly better than the category decline.
- Shirish Pardeshi:** Okay. My second question on the toothbrush slide. The market has always remained higher in terms of Rs.30 and lower. And historically, we have done a lot of work around Super Flexi. However, now we are seeing the premium segment, we are putting a lot of energy. So is that the market structure is unfavorable, and that's why the toothbrush decline is higher, or generally, we feel that we are underrepresented into the premium segment, and that's why we're focusing more energy on the premium segment?
- Prabha Narasimhan:** Thank you for the question. I think there are two parts to the answer. The first part is that actually for the average toothbrush price to be Rs.21, we think it is not commensurate with the value of the job that a toothbrush does. And I want to reiterate because it's a fact that I learned only after joining this organization that a new toothbrush cleans 90% better than an old toothbrush. So we definitely think that there is an opportunity for consumers to improve their usage of toothbrushes. That's the first thing.
- The second is that we are definitely seeing a trend towards softer brushes with softer bristles. And these brushes tend to be at a premium. So we are seeing a marked shift in that direction towards softer brushes and they are indeed better for your teeth, the softer brushes. And that's what's driving this overall more premium, call it, Rs.40 brush-plus. The other thing that we are seeing is actually the fact that there are brushes for benefits. So there is a whitening brush. There is a brush that's better for your gums and so on. And these brushes are also seeing tremendous traction.

So as we talk to consumers and we understand what their needs are, we are seeing that there's an opportunity for us to move in this direction, and that's exactly how we are doing it. The fact that we are driving premiumization doesn't mean that we're taking away focus from Super Flexi because Super Flexi certainly has a job to do in our portfolio, and it will continue to do that job. It is that the growth potential of premiumization is really staring us in the face.

Shirish Pardeshi: It's coincided because now I see even Oral-B is -- very aggressively pushed through the media spends. So I think it coincided. The other question I had was in terms of penetration on toothpaste. Will you be able to share and quantify in terms of absolute grammage, how it has moved between 2015 to 2020 because in the past, we used to give this number. I think for a long time, we have not shared. So maybe that's why I'm pushing you if you can share that number.

Prabha Narasimhan: So penetration of the toothpaste category is now near universal. So there is not a home in this country that doesn't buy toothpaste at least once a year. And so that's not a number that can be moved much higher. And that's why the comment on actually average per capita consumption, which you saw in the first slide, which is really about all urban households brush daily, 20% of them brush twice a day, only 55% of rural households don't brush every day, and that's how the volume of the category actually adds up, and that's why the effort to drive consumption because there isn't headroom on penetration.

Moderator: Mr. Pardeshi, sorry to interrupt. Maybe request you to return to the queue...

Shirish Pardeshi: I am done. I just wanted to thank Prabha, that you have done a good job to convince the division to give 35 million samples for the new product. So all the best to you.

Prabha Narasimhan: Thank you very much.

Moderator: Thank you. We'll take a last question from our audio participant, it's from Arnab of Goldman Sachs. Arnab, please go ahead.

Arnab: Hi, Prabha and team. My first question was, you showed the major volume growth opportunity in the category seems to be recently increase urban or rural. However, if I look at your advertising campaign, they seem to more focus on the value addition part of value portfolio. Is it because there is past experience in the company that advertising cannot increase your consumption, or is there any other reason why we don't see at least in India some efforts from the market leaders price increase recently? Thank you.

Prabha Narasimhan: So I think, again, I'm going to give you a two-part answer to this. The first part answers being that consumers buy benefits and that's what actually makes them use more of a category. If I buy into the benefit that a category is giving me, I'm likely to adopt that category and use more of it. And we do believe that the benefit of strong teeth of freshness or the protection that Colgate Active Salt offers are relevant benefits to consumers. And that's why we're doubling down on the communication of that to consumers.

And we do expect that, that itself will move the needle on consumption a little bit. Having said that, there is a longer-term action for us to do to convince consumers who don't brush every day in terms of the benefit of brushing your teeth every day. And that's a piece of work that's in the pipeline. That's what -- as you can imagine, moving frequency is not easy. Moving penetration actually is relatively simpler. And the work that is being done and hopefully just watch this space and we will come back with some work on Part 2. Though I do think that Part 1 itself will move the consumption needle.

Arnab: Okay. Thanks a lot. And my last question was on the chart that you showed on the value of the category by 55% of volume sitting in the Rs.90 to Rs.110 price index. It's also interesting to note that there is almost nothing between Rs.110 and Rs.200. Is that superior to this category for some reason because in your colored categories, we see quite a good price and it's for the consumer to premiumize in oral care and this is going to be a big jump and is that something that you are working on?

Prabha Narasimhan: Can I say yes and yes, as a short answer to your question. So it is certainly unusual and it is certainly an opportunity for us.

Arnab: Okay. Thank you so much. All the best.

Prabha Narasimhan: Thank you.

Moderator: Thank you. I now hand the conference back to Ms. Prabha Narasimhan for closing comments. Over to you, ma'am.

Prabha Narasimhan: Thank you very much, and thank you once again for -- to all of you who have joined and to all of you who took the time to ask us the questions. I know we probably didn't manage to get to all of the questions. But I'm sure that over a period of time, we will give you the answers to the other questions. I want to actually end with two points.

One, that we are very clear on our strategy, which has those four pillars of growth in the category, drive premiumization, win in toothbrushes and build personal care. And equally, we are committed to our mantra, if you want to call it, for this year, which is really about growth, strengthen and simplify. And between these, we think we have a really sharp agenda. So thank you again for joining us, and happy weekend to all of you.

Moderator: Thank you very much, members of the management. Ladies and gentlemen, if you have any further questions, we request you to reach out to the Colgate-Palmolive (India) Limited Investor Relations team. We now conclude today's Colgate-Palmolive analyst conference meet, and we shall thank you all for your participation. Goodbye.

Disclaimer: This transcript has been edited to remove any grammatical inaccuracies or inconsistencies of English language that might have occurred inadvertently while speaking