

The India Infoline Weekly Wrap

Stock Idea of the Week

10th March, 2008

Colgate-Palmolive (India) Ltd **Buy**
CMP Rs381

Valuations and recommendation

Colgate has acquired 75% stake in three toothpaste manufacturing companies (which used to manufacture and supply toothpastes to Colgate) - Advanced Oral Health, Professional Oral Care Products, and SS Oral Hygiene Products in November 2007 for a consideration of Rs63mn. With the successful new launches and re-launches, coupled with the fiscal benefits from the Baddi plant, we expect Colgate to register revenue and profit CAGR of 12.8% and 13.4% respectively over the next two years. At the current market price of Rs381, the stock is trading at 18.5x FY09E EPS of Rs20.6. We recommend a Buy with a price target of Rs465 an upside of 21.9%.

Shareholding pattern

| As on 30 th December, 2007 | Holding (%) | No. of Shares (in Lacs) |
|---------------------------------------|-------------|-------------------------|
| Promoter | 51.0 | 693.5 |
| Non-promoter Corporate Holding | 3.5 | 47.6 |
| FII & Institutions | 21.0 | 285.2 |
| Public & Others | 24.5 | 332.7 |

Company background

Colgate-Palmolive (India) Ltd is India's biggest oral care products company with more than 90% of its sales coming from oral care products. Colgate has products across variants and price points in toothpaste, toothpowder and toothbrush segments. It has leadership position in each of these categories with ~50% share in both toothpaste and toothpowder markets. Colgate has a presence in personal care category through its Palmolive brand in segments like shower gels, shower creams, toilet soaps, liquid handwashes, shaving creams and skincare. In the household segment, Colgate markets dish-washing soaps under the brand name Axion. Colgate-Palmolive Co. (USA) holds a 51% stake in the company.

Business outlook

Being the market leader in the oral care industry, Colgate also continues to grow the segment. We believe Colgate is well-placed to capitalize on the coming opportunity with changing consumer habits like up-gradation from toothpowders to toothpastes, twice a day brushing etc. The per capita consumption of toothpastes in India is still at a very low level at 92gms p.m. compared to other countries (Malaysia at 285gms and China at 219gms). We believe the gap should reduce leaving enough potential for further growth. For Colgate specifically, the fiscal benefits from Baddi plant will drive profitability going forward. With its presence in all price segment, strong brand positioning and wide distribution network in rural and urban India, we expect Colgate to report a revenue growth of ~13% CAGR over the next 2-years.

Strong underlying growth momentum

Indian toothpaste market has been witnessing a smart pick up in demand. Colgate is a dominant oral care player in the urban markets with increasing presence in rural India and enjoys leadership position with a market share of ~50%.

Financials

| March (Rs cr) | FY06 | FY07 | FY08E | FY09E |
|---------------------|-------|-------|-------|-------|
| Revenues | 1,124 | 1,295 | 1,462 | 1,647 |
| Yoy growth (%) | 16.6 | 15.2 | 12.9 | 12.7 |
| Operating profit | 174 | 209 | 241 | 278 |
| OPM (%) | 15.5 | 16.1 | 16.5 | 16.9 |
| PAT | 138 | 160 | 236 | 281 |
| Yoy growth (%) | 21.5 | 16.4 | 47.2 | 19.1 |
| Pre-exceptional PAT | 138 | 218 | 237 | 281 |
| EPS (Rs) | 10.1 | 11.8 | 17.3 | 20.6 |
| P/E (x) | 37.7 | 32.4 | 22.0 | 18.5 |
| EV/EBITDA (x) | 29.3 | 24.3 | 21.3 | 18.3 |

Source: Company, India Infoline Research

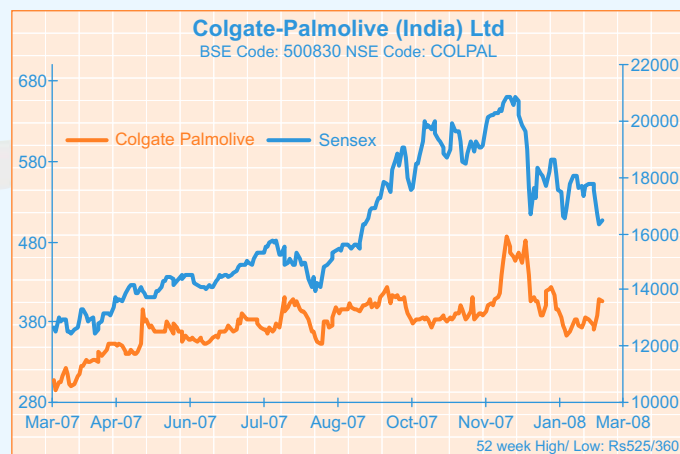
Face value Re1

Colgate outperformed the industry by recording 10% volume growth during FY07. The oral care industry in India is poised to grow at a steady pace of 9-10%. Low penetration level of toothpastes, toothbrush and dentifrices in semi-urban and rural India will keep the demand strong. Rising oral healthcare awareness and affluence levels will further accelerate the growth. Going forward, we expect Colgate to record robust volume growth driven by strong pick up in demand in both urban as well as rural markets.

Baddi Plant: Fiscal benefits to supplement growth

Colgate is in the process of expanding the capacity of its Baddi plant from current 24,000 MT to 40,000 MT by FY09. This plant is eligible for the backward area tax benefits, providing full excise exemption for ten years apart from income tax exemption of 100% for the first five years and 30% for the subsequent five years. Post capacity expansion, we expect Colgate to manufacture ~65% its total requirement in the Baddi facility. The enhanced capacity will significantly reduce Colgate's dependence on third party sourcing, which is evident from the sharp drop in outsourcing cost (23.8% of net sales in Apr-Dec'07 from 26.1% of net sales in Apr-Dec'06). Toothpaste being the core product of the company, we expect the excise and income tax savings from the Baddi plant to contribute significantly to the bottomline.

Share Price Chart



Source: BSE

52 week High/ Low: Rs525/360

Stock Idea of the Week

Cairn India Ltd

Buy
CMP Rs209

Crude oil prices on a surge

Crude oil prices have surged above the psychological mark of US\$100/bbl and have stayed there over the last 10 days. The demand-supply scenario is not improving a great deal. Reserve accretion at a global level has declined from 124% in 2002 to 26% in 2006. No major finds have happened in 2007 as well. On the demand side, with emerging economies like India and China staging robust economic performance, the demand for crude oil will only increase. Speculations are rife that US slowdown will lower demand for crude oil. However, in the near term, the driving season will keep the prices firm as gasoline demand is highly inelastic to price.

Shareholding pattern

| As on 30 th December, 2007 | Holding (%) | No. of Shares (in cr) |
|---------------------------------------|-------------|-----------------------|
| Promoter | 68.9 | 122.6 |
| Non-promoter Corporate Holding | 1.3 | 2.2 |
| FII & MF | 16.5 | 29.3 |
| Public & Others | 13.3 | 23.6 |

Cairn target price

| | EV (Rs mn) | Per share value (Rs) |
|----------------------------------|----------------|----------------------|
| MBA Fields - Including EOR | 402,990 | 227 |
| Smaller Fields - Rajasthan Block | 15,019 | 8 |
| Producing assets | | |
| Ravva | 16,952 | 10 |
| Cambay | 5,927 | 3 |
| Exploratory assets | | |
| LPDs - Rajasthan Block | 29,949 | 17 |
| KG-DWN -98/2 | 2,174 | 1 |
| Total | 473,012 | 266 |

Rajasthan block key growth driver

Rajasthan Block is among the world's most prolific oil exploration and development blocks, with a resource base of more than 3.6 bn boe. More than 24 discoveries have been made in the field so far. Mangala block is amongst the most notable one. This field is among the world's top ten growth assets, with the first oil production due in H2CY2009. Currently four fields Mangala, Aishwariya, Raageshwari, and Saraswati are under development with more than 146 wells drilled. With

Financials

| March (Rs cr) | FY07 | FY08E | FY09E |
|------------------|-------|-------|-------|
| Sales | 1,121 | 1,698 | 4,259 |
| Operating profit | 779 | 1,190 | 3,245 |
| OPM (%) | 69.5 | 70.1 | 76.2 |
| PAT | 244 | 647 | 2,180 |
| Equity | 1,778 | 1,800 | 1,800 |
| EPS (Rs) | 1.4 | 3.6 | 12.1 |

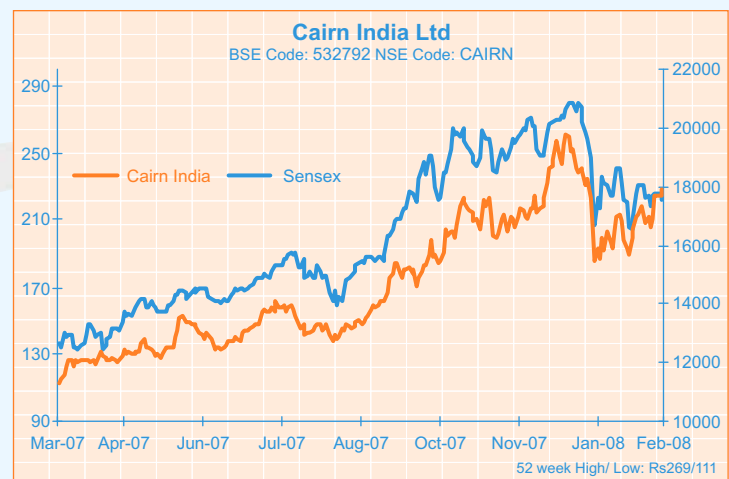
Source: Company

US\$860mn capex (net) incurred on Rajasthan's development so far, Cairn aims to reach a production target of more than 150kbpd gross after the MBA start up. We recommend a BUY with a target price of Rs266 with an upside of 25%.

Company Background

Cairn is 69% owned by CAIRN Energy PLC UK, an upstream oil and gas company primarily operating in India. The main business is to explore and develop high potential oil and gas assets in India's rich sedimentary basin. Cairn has been operating in India for 12 years, with its Ravva and Cambay operations (small and medium fields secured in the first round of NELP). The Rajasthan (Mangala) oil discovery was announced in 2004 at 829mboe. It is India's largest oil discovery since ONGC's discovery in Bombay High in 1973. This is in the Barmer basin that was originally licensed to Shell. Later in 2002, Cairn acquired 100% interest in the block. In 2005, ONGC acquired 30% interest under PSC terms, which has since then reduced Cairn's net working interest to 70%.

Share Price Chart



Source: BSE, India Infoline

Heard it on the grapevine

Promoters may dilute 15% stake in merged entity of **Kingfisher** and **Air Deccan**, to raise Rs16,000cr for expansion.

GAIL may buy ADB's 5.2% stake in Petronet LNG.

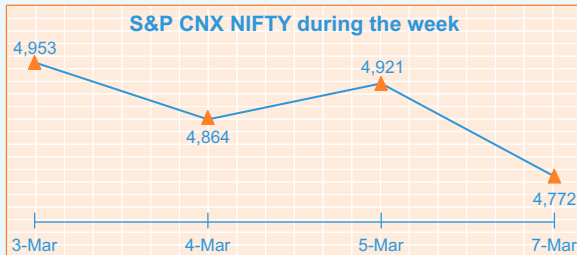
Tata Motors Jaguar-Land Rover deal may be delayed as issues relating to supply of engines, platforms and technologies are still to be sorted out

Ranbaxy Lab may shortly announce a bonus issue.

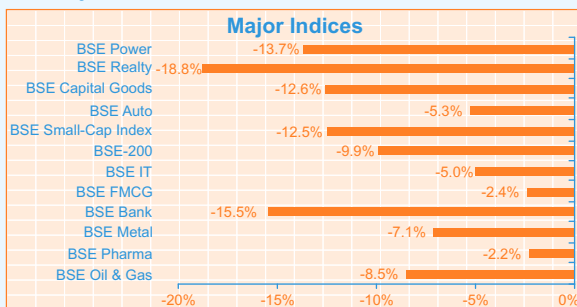
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Market Overview

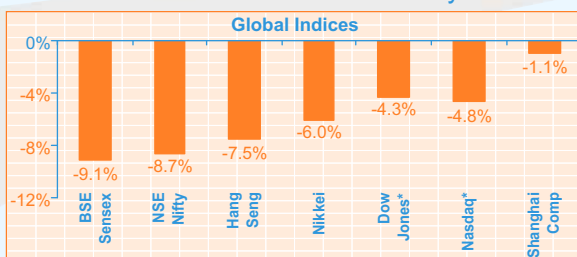
Intensified selling in index heavyweights brought the benchmark Sensex below 16k mark, registering its biggest weekly decline in 21 months. Post budget, hike in short-term capital gains and withdrawal of tax rebate on STT played the spoilsport. Lack of clarity on crisis in the US housing and credit markets also proved to be a dampener on Dalal Street. Finally, the benchmark Sensex lost 9.1% to close the week at 15,976 and NSE Nifty fell 8.7% to close at 4,772.



All the major sectoral indices ended in red. Banking stocks were among the top losers over the week on lack of clarity with respect to reimbursement to banks for Rs60,000 crore farm loan waiver. ICICI Bank fell sharply after reporting \$264mn marked to market losses on value of overseas investments. Capital goods, realty, power, metal and oil and gas stocks were the other major losers.



US stocks fell sharply on Thursday, led by banks, after home foreclosures climbed to a record. Loan defaults by Thornburg Mortgage and a Carlyle Group bond fund sparked concern that credit losses are deepening. Similar trend was seen in other Asian and European markets as investors remained on the sidelines amid record high commodity prices, weakening dollar and fresh bad news on the US economy.



* US data from Thursday to Thursday

FII & MF Activity

(Rs in cr)

| Date | FII Net Investment | MF Net Investment |
|-------------------|--------------------|-------------------|
| 28-Feb-08 | (131) | 601 |
| 29-Feb-08 | (61) | 456 |
| 3-Mar-08 | (169) | (453) |
| 4-Mar-08 | (117) | (151) |
| 5-Mar-08 | N.A | N.A |
| Total 2008 | (12,671) | 7,459 |

BSE Sensex & BSE 200 Five Top Gainers

| BSE Sensex | | | BSE 200 | | |
|-----------------|----------|----------|------------------|----------|----------|
| Company | CMP (Rs) | % Change | Company | CMP (Rs) | % Change |
| HeroHonda Motor | 767 | 0.3 | Nestle | 1,499 | 9.2 |
| | | | Zee | 258 | 7.0 |
| | | | Sun Pharma | 1,308 | 6.7 |
| | | | Colgate-Palm. | 381 | 2.3 |
| | | | Nicholas Pirama. | 279 | 1.9 |

BSE Sensex & BSE 200 Five Top Losers

| BSE Sensex | | | BSE 200 | | |
|-----------------|----------|----------|------------------|----------|----------|
| Company | CMP (Rs) | % Change | Company | CMP (Rs) | % Change |
| Reliance Energy | 1,270 | (19.0) | Indiabulls | 461 | (25.1) |
| Tata Power | 1,136 | (18.9) | Bank India | 271 | (24.5) |
| ICICI Bank | 893 | (18.2) | Reneka sugars | 897 | (24.2) |
| Bajaj Auto | 1,889 | (17.1) | Reliance Capital | 1,384 | (23.9) |
| Larsen & Toubro | 2,988 | (15.2) | Anant Raj Inds. | 243 | (23.8) |

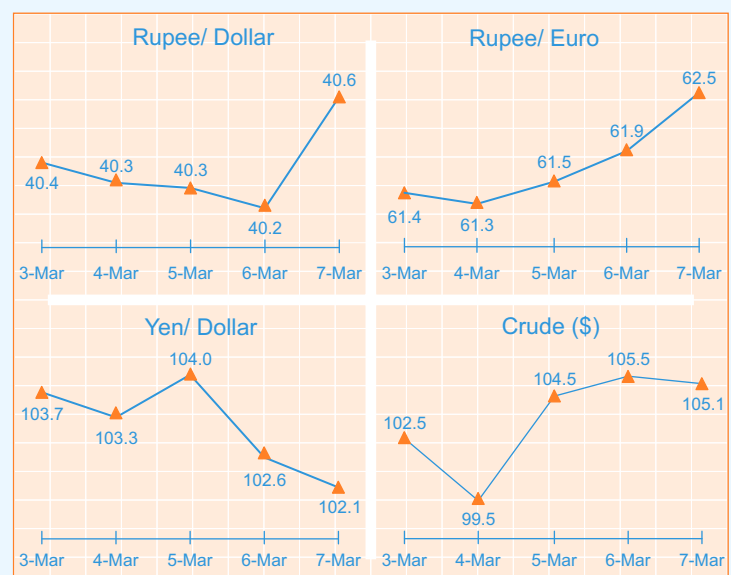
Corporate Action

| Company | Record Date | Purpose |
|------------------|-------------|---------------------|
| Best E. Hotel | 19-Mar-08 | Interim Dividend |
| Power Grid | 11-Mar-08 | 5% Interim Dividend |
| Godrej Const. | 19-Mar-08 | Interim Dividend |
| Andhra Bank | 17-Mar-08 | Interim Dividend |
| L.G. Balkrishnan | 22-Mar-08 | Payment of Interest |
| Emco | 25-Mar-08 | Stock Split |
| IDBI | 26-Mar-08 | Int./Redem of Bonds |

Stocks in No Delivery Period

| Company | From | To |
|--------------------------|-----------|-----------|
| Pudmajee Agro | 11-Mar-08 | 17-Mar-08 |
| Network18 Fin. | 11-Mar-08 | 17-Mar-08 |
| Marksons Pharmaceuticals | 11-Mar-08 | 17-Mar-08 |
| Bajaj Auto | 14-Mar-08 | 24-Mar-08 |
| Gandhi Sp. Tube | 17-Mar-08 | 25-Mar-08 |

Currency and Crude Movements

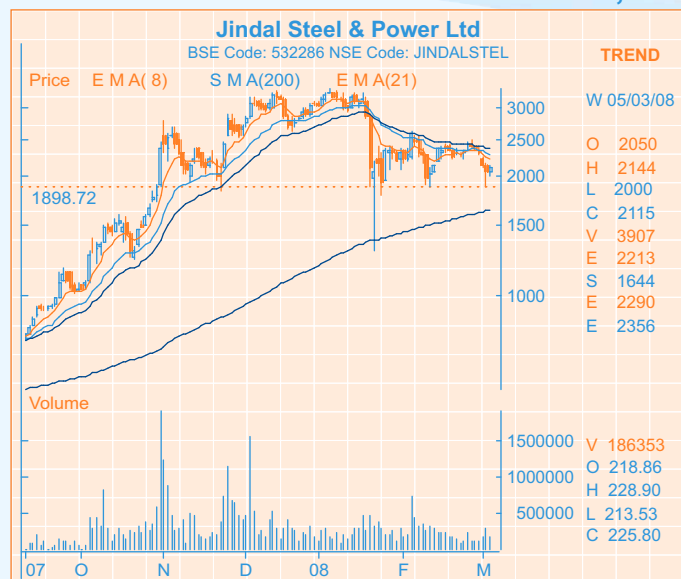


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Technical Stock Ideas of the Week

Sell

Jindal Steel & Power Ltd CMP Rs2,006



The stock rallied to an all time high of Rs3,356 in early January 2008 and was one of the strong outperformer in the Bull market. The recent Market wide correction saw the stock correcting to a low of Rs1,305 in mid January. The stock has since then been trading between the Rs1,800-2,615 levels.

The Price movement of the since November 2007 appears to have taken the shape of a Head & Shoulder pattern with the neckline placed at Rs1,900 levels.

The Head & Shoulders is a Bearish pattern signalling Distribution activity and possible future declines in the price.

Volumes have a steady decline since December 2007 which is confirmation with the price pattern.

A sustained break below 1900 will see the stock testing short term targets of its 200 DMA currently placed at the Rs1650 levels.

A move past the Rs2,600 levels which corresponds to the Right Shoulder levels will see the stock coming out this Bearish Distribution pattern.

Keeping in mind the above mentioned technical evidences we recommend Investors to protect their existing longs with a stop loss placed at Rs1,900 levels.

Traders can follow any of the suggested two strategies depending on their risk taking capacity.

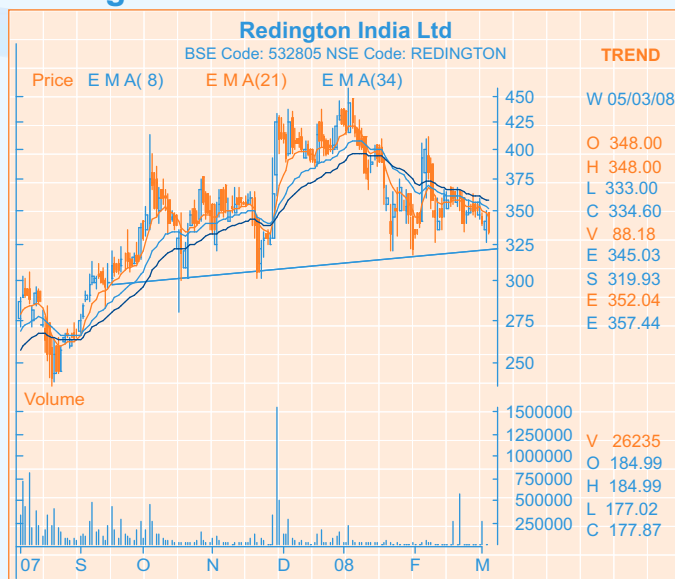
- Initiate shorts between 2,050-2,120 with a stop loss of Rs2,175 for targets of Rs1,900 and/or Rs1,660-1,600 levels.

Technically Strong

| Company | CMP (Rs) | 10 days Moving Average (Rs) | Total Traded Qty (Lacs) | 10 days Average Traded Qty (Lacs) |
|---------------|----------|-----------------------------|-------------------------|-----------------------------------|
| Hind Unilever | 227 | 222 | 18.8 | 6.4 |
| Tata Tea | 813 | 810 | 0.5 | 0.2 |
| Zee | 258 | 248 | 3.5 | 1.8 |
| Dr Reddy Labs | 569 | 557 | 0.5 | 0.3 |
| Tata Chem. | 320 | 316 | 4.1 | 2.4 |

Sell

Redington India Ltd CMP Rs310



The stock has been a strong outperformer gaining smartly from a low of Rs118 in March 2007 to touch a high of Rs458 in January 2008.

The stock corrected sharply in the market wide correction to touch a low of Rs317 levels.

The price pattern since October 2007 till date has taken the shape of a Head & Shoulders pattern. This is a bearish pattern suggesting weakness in the trend.

A sustained move below the Rs310 levels will lead to a breakdown from this bearish pattern.

Keeping in mind the above mentioned technical evidences we recommend traders to sell the stock at current levels and on rallies to Rs318-322 levels. We expect the stock to test any or all of the following targets of A) Rs280, B) Rs260.

All short positions should be protected with a stop loss of Rs327 levels.

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Technically Weak

| Company | CMP (Rs) | 10 days Moving Average (Rs) | Total Traded Qty (Lacs) | 10 days Average Traded Qty (Lacs) |
|--------------|----------|-----------------------------|-------------------------|-----------------------------------|
| Grasim | 2,784 | 2,867 | 0.6 | 0.2 |
| RCom. | 543 | 568 | 44.1 | 11.8 |
| Auro Pharma | 306 | 315 | 1.0 | 0.6 |
| United Phos. | 303 | 314 | 0.3 | 1.0 |
| India Cem. | 202 | 208 | 2.0 | 4.4 |

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