

# Colgate Palmolive India Ltd.

Smiles all the way



*Abhijeet Kundu*

*December 17, 2007*



# Colgate Palmolive (CLGT IN / COLG.BO)

**Buy**

Smiles all the way

CMP Rs 382

Target Rs 465 (+22%)

*This note should be read for*

- Information on the oral care category
- Estimated output and fiscal benefits from Baddi
- Sensitivity of ad-spend to product launches

## Investment Rationale

- Oral care category is on the uptrend with a rise in income levels and a shift in preferences to toothpastes.
- Evident from its improving market share, Colgate, with a broad-based presence, is well-placed to capitalize on the favourable demand scenario. Resultantly, net sales during FY07-FY10E is expected to grow at a CAGR of 14.1%.
- Fiscal benefits arising from the Baddi facility, stable ad-spend and lower staff cost will aid profit margins, going forward. This is expected to lead to a 19.4% CAGR in net profit during FY07-FY10E.

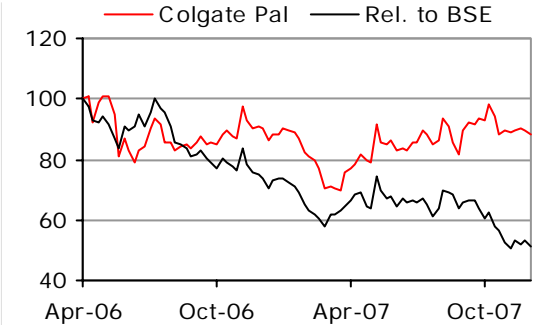
## Risks

- In a favourable market, competition may intensify from Dabur and smaller players.
- Launch of *Crest* by P&G in a vibrant market
- Sharp rise in ad-spend may impact profits.
- High dependence on a single product category.

## Valuation

The stock has been re-rated on the back of improving fundamentals of oral care.

- We believe that given its dominant positioning in an accelerating and low-penetrated oral care category, coupled with improving profitability, Colgate would be able to sustain its current valuations. We therefore recommend a BUY on the stock with a price target of Rs 465, implying a 23x one-year forward PE.



### Company data

O/S shares :	136mn
Market cap (Rs) :	52bn
Market cap (USD) :	1320mn
52 - wk Hi/Lo (Rs) :	434 / 291
Avg. daily vol. (3mth) :	327,193
Face Value (Rs) :	10

### Share holding pattern, %

Promoters :	51.0
FII / NRI :	11.2
FI / MF :	11.2
Non Pro. Corp. Holdings :	2.4
Public & Others :	24.2

Y/E Mar, Rs mn	FY07	FY08E	FY09E
Net Sales	12,951	14,948	17,040
PAT	1,854	2,268	2,749
EBIDTA mrg, %	15.6	17.2	18.1
PAT mrg, %	14.3	15.2	16.1
ROE, %	90.8	142.0	131.4
EPS, Rs	13.6	16.7	20.2
PER, x	28.0	22.9	18.9

Report priced as of December 14, 2007

INITIATING COVERAGE  
December 17, 2007

# Investment Overview

Sustainable competitive advantage	Broad-based presence in toothpastes categories, premium and popular and sub-popular, through Colgate and Cibaca, respectively, helps the company maintain its domination in the oral care category. Mainly Cibaca has been instrumental in catching the growing demand for toothpastes in the semi-urban and rural markets.
Financial structure	Low gearing due to strong free cash flow generation
Shareholder value creation	Consistent improvement in return ratios with higher asset turnover. Dividend yield is one of the best in the FMCG universe at 4.8% [including the one deemed dividend of Rs 9 per share (reduction of capital) in FY07]. Going forward, we estimate a dividend yield of 3.1% in FY08E and 3.7% in FY09E.
Earnings visibility	Leading position in a buoyant toothpaste category entailing healthy demand and stable ad-spend gives us comfort on the earnings growth.
Valuation	At the CMP of Rs 382. Colgate Palmolive trades at a PE of 22.9x and EV/EBIDTA of 20x FY08E. The stock has been re-rated from FY05, with improvement in the oral care scenario. We believe that the recent underperformance of the stock is a short-term phenomenon and makes the the stock available at attractive valuations.
MF Global vs. consensus	Our FY08E estimates are 5% lower consensus estimates and our FY09E estimates are lower by 3.8% over consensus of Rs 21.
Future event triggers	Launch of <i>Crest</i> by P&G and increase in competitive pressure could be a negative trigger.

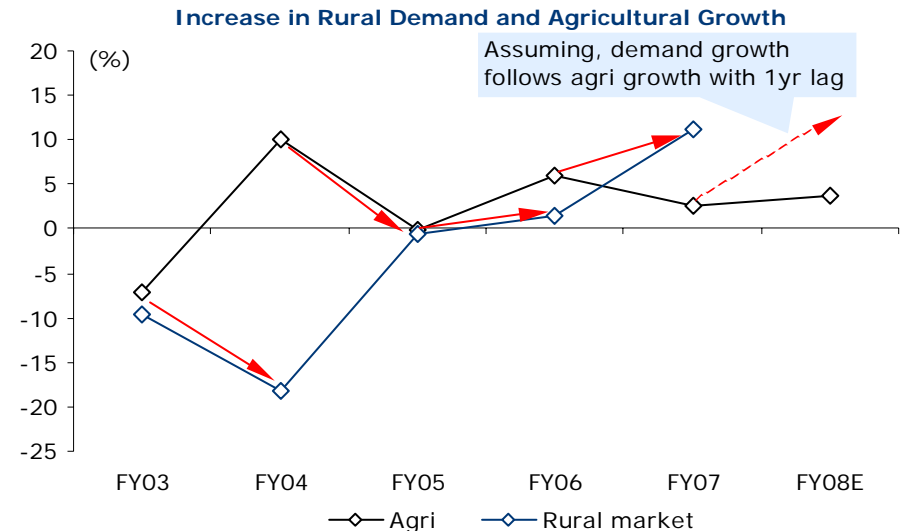
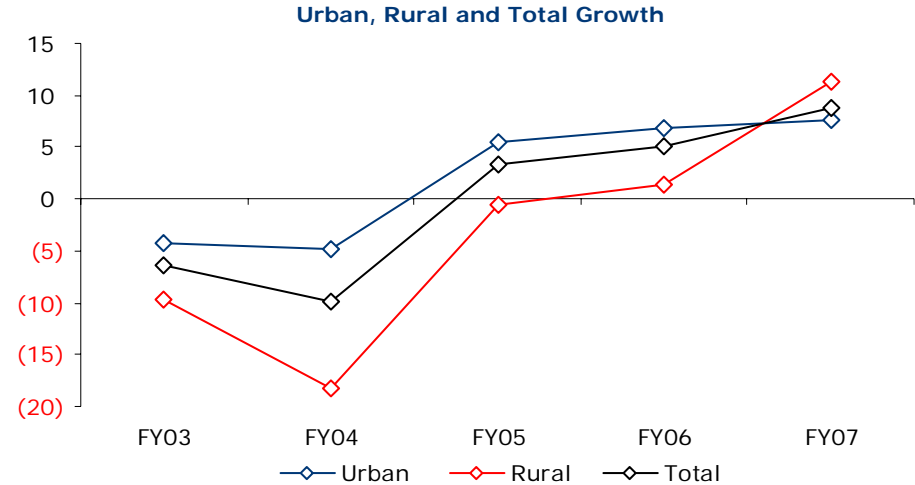
## Valuation Summary

Y/E Mar, Rs mn	FY2006	FY2007	FY2008E	FY2009E	FY2010E
Net Sales	11,242	12,951	14,948	17,040	19,237
Growth, %	16.6	15.2	15.4	14.0	12.9
Core EBIDTA	2,274	2,631	3,115	3,628	3,967
EBIDTA margins, %	20.2	20.3	20.8	21.3	20.6
Net profit	1,562	1,854	2,268	2,749	3,154
Net profit margin, %	13.9	14.3	15.2	16.1	16.4
EPS, Rs	11.5	13.6	16.7	20.2	23.2
EPS Growth, %	28.3	18.7	22.3	21.2	14.8
PER, x	33.3	28.0	22.9	18.9	16.5
EV/EBIDTA, x	26.1	25.6	20.0	16.4	14.0
EV/Net Sales, x	4.5	4.0	3.4	3.0	2.6
Price/Book Value, x	19.2	37.8	28.5	22.0	17.4
ROIC, %	92.6	112.3	155.5	161.0	175.0
ROE, %	60.4	90.8	142.0	131.4	118.0
Dividend Yield, %	2.0	4.8	3.1	3.7	4.3

Source: Company, MF Global India Research Estimates

# Oral care revival to stay put

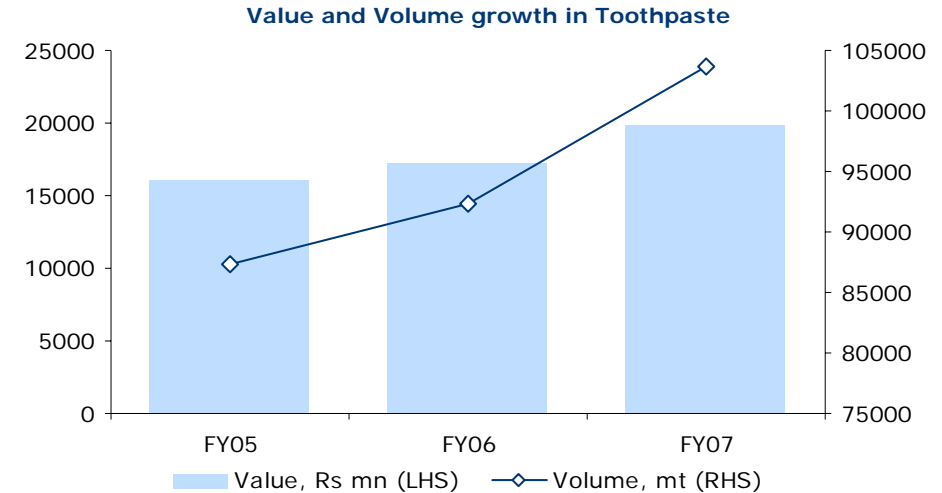
- Toothpastes growth witnessing continued improvement
  - Demand picked up after two years of decline from FY05, led by a stronger urban demand.
  - During FY07, toothpastes demand improved with contribution from the rural markets.
  - In the current fiscal, FY08E, overall demand has accelerated primarily led by better growth in the rural markets coupled with consistent healthy growth in urban markets.
  
- Sustained growth in income levels in the urban markets, supported by continued agricultural growth benefiting rural markets, have led the overall demand revival in toothpastes.
- We understand that growth in the rural markets follows the direction of agricultural growth with a lag of 12 months.
- We, therefore, believe that with agricultural growth estimated at 3.7 during FY08E, toothpaste demand would be sustained during FY09E



Source: Industry, MF Global India Research Estimates

# Oral care revival to stay put

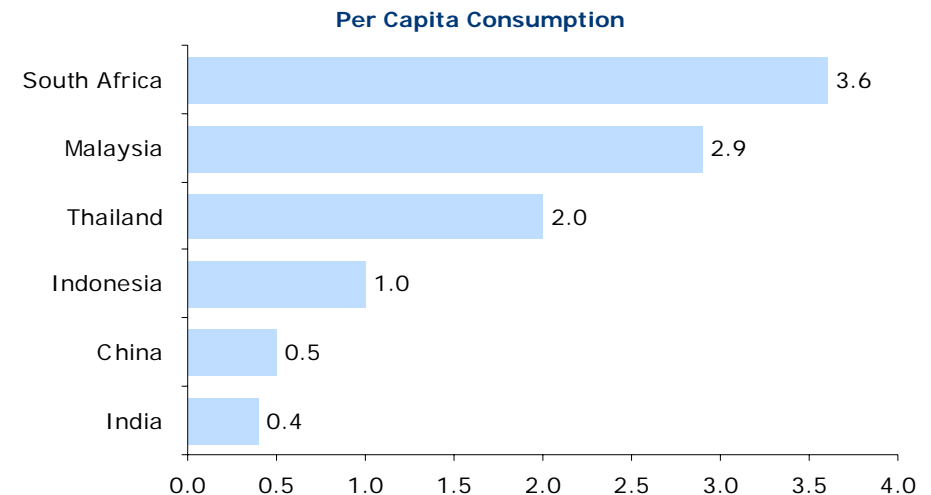
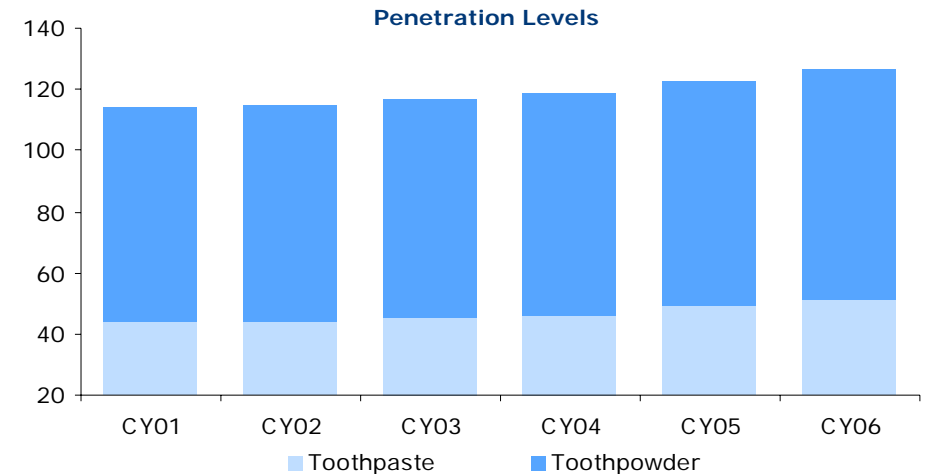
- Favorable demand arrests down-trading, aiding pricing power
  - An improving demand scenario has arrested the drop in toothpaste realizations from FY05.
  - During FY07, realizations improved by about 3% with price hikes by leading players to the tune of 3.5-4%. These higher realizations should be also viewed in the light of higher growth in the rural markets, which would, in turn, mean higher growth in low realization toothpastes.
  - During FY08E, realizations are slated to be higher by about 2.5-3%, led primarily by price hikes during July 2007.
  - Growing realizations and the ability to implement price hikes is indicating the arrest of down-trading. This, in turn, is indicative of the underlying demand in the category.



Source: Industry, MF Global India Research

# Oral care revival to stay put

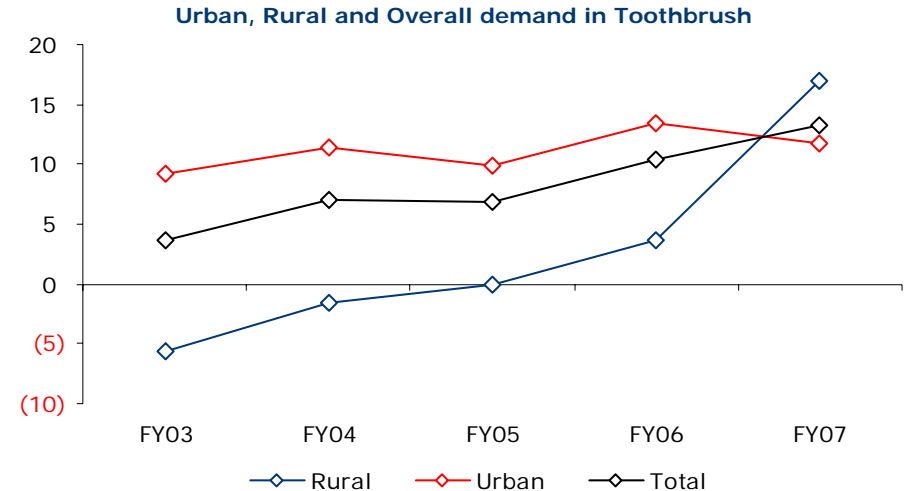
- Low consumption and penetration levels to support growth
  - Toothpastes is one of the low-penetration personal care categories in India.
  - The improved demand scenario has aided growth in penetration levels of toothpaste from 44% in CY01 to 51% in CY06.
  - The higher growth in penetration levels of both toothpowder and toothpaste shows a rising awareness for branded oral care products while the higher growth in toothpaste over toothpowder penetration shows a rising preference towards toothpaste.
  - India's per capita consumption is one of the lowest in the Asian region. Within its Asian counterparts, the scope of increase in consumption levels is promising with 7% of the urban Indian population brushing twice a day as against 61% in China and 86% in Malaysia.



Source: Company, MF Global India Research

# Oral care revival to stay put

- Rising toothbrush demand indicates potential for toothpaste growth.
  - Consistent growth in the toothbrush category in the past five years has been followed by higher toothpaste demand.
  - Assuming that higher toothbrush consumption would mean higher frequency of usage or increased number of users. Both the scenarios would lead to a higher demand growth and increase in per capita consumption for toothpastes.
  - Acceleration of demand growth for toothbrushes in rural markets indicates the rising awareness of oral care and shift in preferences to toothpastes in these markets.



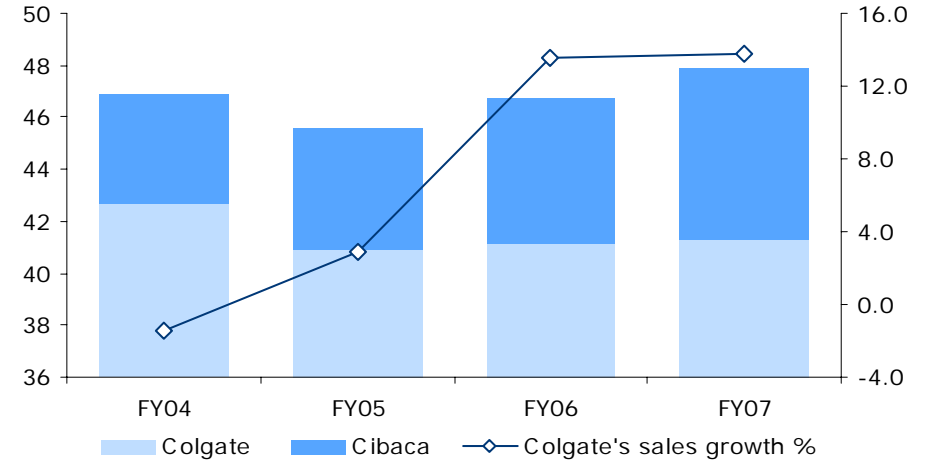
Source: Industry, MF Global India Research

# Colgate, riding the uptrend in oral care

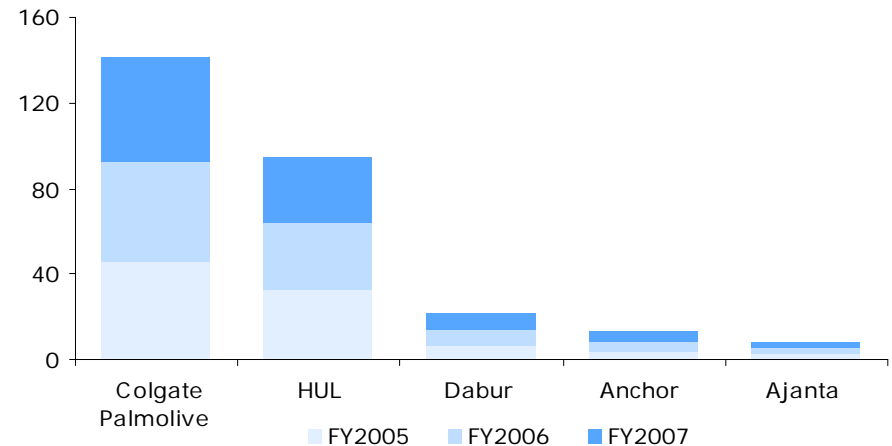
- Colgate's gross sales are estimated to grow at 13.1% CAGR during FY07-FY10E, against the 10% growth recorded during FY04-FY07. This would be largely led by better demand growth in the toothpaste category and Colgate's improving dominance in the category.
  - Colgate witnessed an improvement in market share from 45.5% in FY06 to 48% in FY08E.
  - Backed by a shift in preferences in semi-urban and rural markets, Cibaca has been a key contributor to Colgate's growth.
  - HUL (second-biggest player with a market share of 30.5%) lacks products in the economy segment and this constrains it to urban markets. HUL is present in rural markets only through small unit packs.

Segment	Brand	Competition
Premium	Colgate 12	Pepsodent G
	Colgate Maxfresh Gel	Close-up Red/ Lemon Mint
	Colgate Advanced Whitening	Close up , Promise
Popular	Colgate Gel	Pepsodent 2 in 1
	Colgate Dental Cream	
	Colgate Fresh Energy Gel	
	Colgate Active Salt	Pepsodent whitening, Meswak, Dabur Red Toothpaste
Subpopular	Cibaca	Babool, Ajanta

Sales growth and Market share



Toothpaste Market share trend (%)



Source: Company, MF Global India Research



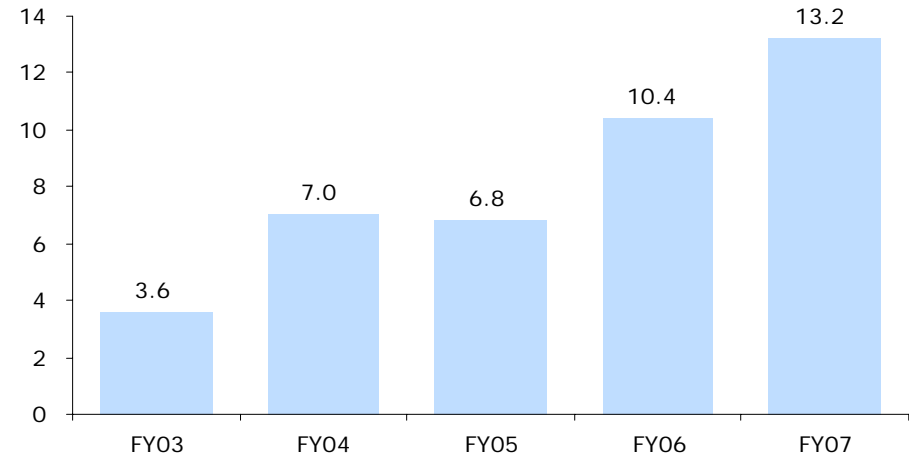
# Colgate, riding the uptrend in oral care

- Innovations supported by global parentage and branding will aid growth in a favourable market
  - Global parentage provides a extensive product portfolio.
  - Strong branding and widespread distribution provides the platform to launch new products in an effective manner.
  - 3 new launches made at the end of FY06, (Colgate Advanced Whitening, Colgate Active Salt and Colgate Maxfresh Gel) garnered 5% market share by FY07.
  - Further launched a new variant, Colgate Maxfresh Gel (Citrus Blast) during FY07.
  
- Accelerated growth in toothbrushes forming about 10% of Colgate’s sales is providing a further fillip to the company sales

Global Portfolio to aid product launches

Global portfolio	Indian portfolio
Colgate Total® Toothpaste	Colgate Dental Cream
Colgate MaxFresh® Toothpaste	Colgate Total 12
Colgate Total® Whitening	Colgate Max Fresh (New)
Colgate Total® Advanced Fresh	Colgate Kids ToothPaste
Colgate Total® Advanced Clean	Colgate Fresh Energy Gel
Colgate Luminous®	Colgate Herbal
Colgate Simply White®	Colgate Cibaca Family Protection
Colgate® 2in1	Colgate Advanced Whitening (New)
Colgate® Sensitive	Colgate Active Salt (New)
Colgate® Fresh Confidence®	
Colgate® Sparkling White®	
Colgate® Baking Soda & Peroxide Whitening Oxygen Bubbles	
Colgate® Tartar Control	
Colgate® Cavity Protection	
Children’s Toothpaste	

Growth in Toothbrush



Source: Company, MF Global India Research

# Buoyant demand, higher insourcing to better margins

- Increased sourcing from the backward area unit to aid margin expansion
  - First phase of Colgate's backward area unit in Baddi commenced operations in April '05.
  - The new unit brings in excise exemptions for ten years and income-tax exemptions for five years, followed by 30% income-tax exemption for the remaining five years.
  - Baddi capacity was increased from 24,000 to 40,000 tons per annum in FY07.
  - Capacity utilization levels at Baddi during FY07 was estimated to be about 111% at an output of 26,705 tons per annum leading to about incremental excise savings of about Rs 175m.
  - Sourcing from Baddi unit in FY08E estimated to increase to 69.3% from about 57.4% in FY07. This is estimated to lead to an incremental excise saving of Rs 164m in FY08E and about Rs 114m in FY09E.
  - Additionally, reduction in income tax provisioning from 24.9% in FY07 to 21.7% in FY08E and about 18.8% in FY09E would improve overall profitability.
- Price hikes and lower staff cost to feed margins
  - Colgate hiked prices of its Colgate brand (60% of sales) to the tune of 4% during July 2007.
  - Offered VRS to its 263 employees at Sewri (Mumbai) unit, in September '06 and closed operations there.

Schedule of tax savings & royalty payment

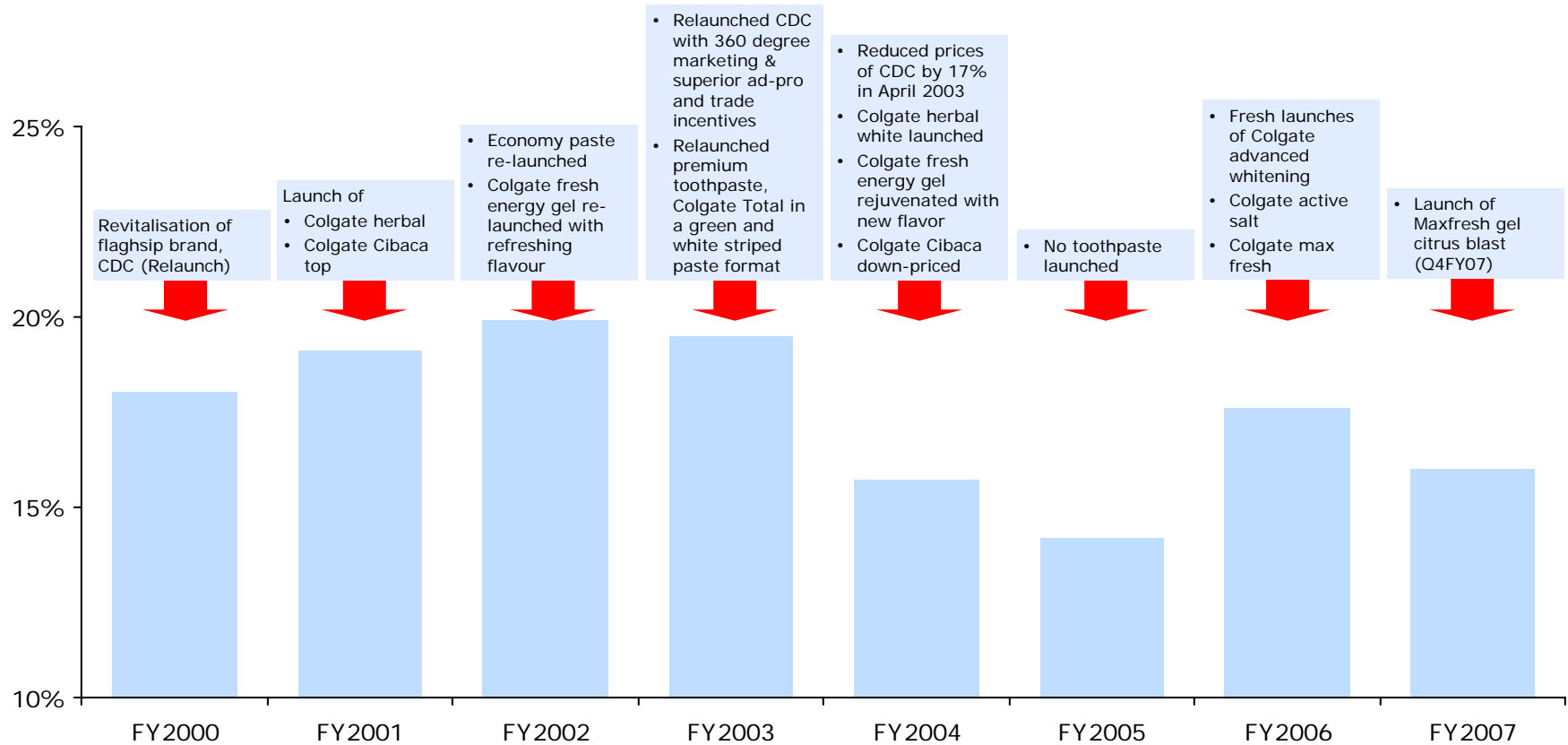
(Volumes in mt)	FY2008E	FY2009E	FY2010E
Total Toothpaste sales	11346	12976	14612
<i>Growth %</i>	15.2	14.4	12.6
Total Toothpaste sales (Volumes)	56645	61743	66683
<i>Growth %</i>	10.0	9.0	8.0
Insourcing from backward area unit (Volumes )	35000	40000	49500
<i>% of total toothpaste sales (Volumes)</i>	61.8	64.8	74.2
Insourcing from backward area unit (Value)	7861	9388	11734
<i>% insourcing from backward area unit</i>	69.3	72.3	80.3
Total Insourcing of toothpaste (Value)	7861	9388	11734
<i>% insourcing</i>	69.3	72.3	80.3
Total Insourcing of toothpaste (volumes)	35000	40000	49500
<i>% of total toothpaste sales (Volumes)</i>	61.8	64.8	74.2
Excise duty payment	851	854	787
<i>% of gross sales</i>	5.4%	4.8%	3.9%
Incremental excise savings from Baddi	164	114	175
<i>% of gross sales</i>	1.0%	0.6%	0.9%
Cost of Raw material	6579	7357	8157
<i>% of net sales</i>	44.0	43.2	42.4
Income tax savings	66.5	99.6	156.8
<i>effective tax rate %</i>	21.7	18.8	14.5
Royalty Payment	393	469	587
<i>% of net sales</i>	2.6	2.8	3.0
Power and freight	445	527	630
<i>% of net sales</i>	3.0	3.1	3.3

Source: Company, MF Global India Research Estimates

# Favourable demand and increase in market share to limit ad-spend

- During FY01-FY04, Colgate spent about 18-19% of net sales on advertisement. This was mainly to back aggressive product launches and re-launches in toothpaste.
- During FY05, advertisement expenditure dropped to 14.2% of net sales due to lack of product launches.
- During FY06, with improvement in the demand scenario, product launches were accelerated and three new launches were made in toothpastes, which, in turn, led to an increase in ad-spend for the company to 17.6% of net sales.
- During FY07, with continued improvement in toothpaste demand and the launches made by the end of FY06, Colgate's toothpaste volumes grew by 9%, which also led to its improvement in market share in toothpastes (by value) to 48.0% (from 47% in FY06).
- As a result of the lack of launches in toothpastes in FY07, ad-spends dropped to 16% of net sales.
- During FY08E, with an improvement in market share expected to the tune of about 50-60 bps, we believe that the company will not be required to make any aggressive launches in toothpaste and consequently increase its ad-spend. We have estimated Colgate's ad-spend at about 16.5% of net sales for the next three years.

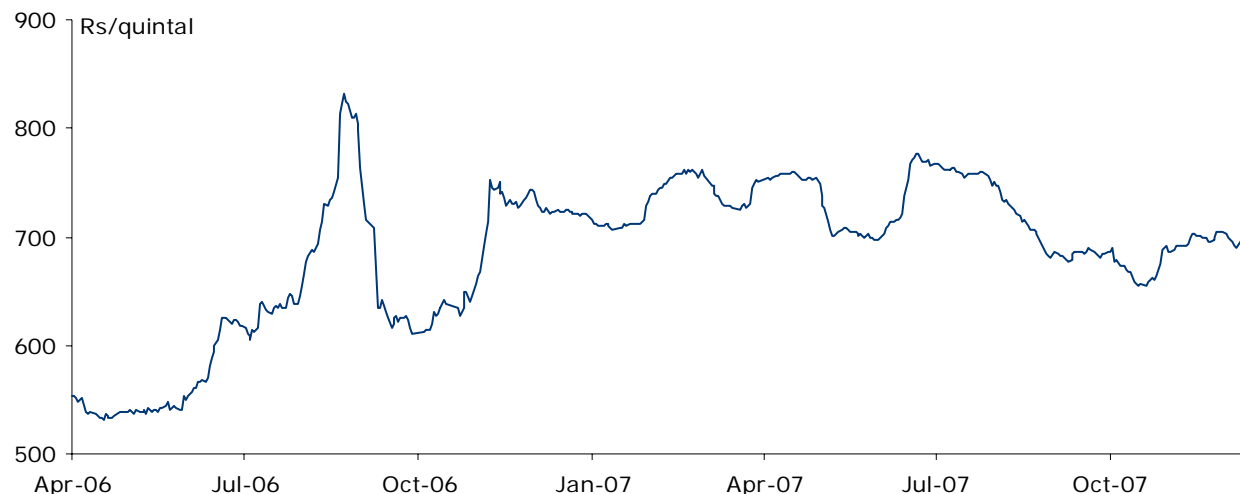
# Co-relation of Ad spend with toothpaste launches



Source: Company, MF Global India Research

# Softening of Sorbitol prices may provide added boost to margins

- Colgate's key raw material, Sorbitol, witnessed a rise in prices during FY07 on the back of rise in global prices of its key input corn.
- We estimate Sorbitol to be about 16% of total raw material cost and about 6-7% of net sales for Colgate.
- Higher prices of corn and Sorbitol during FY07 were due to crop failure and consequent lower supply of corn. In FY08E, with a better supply scenario in corn, Sorbitol may see some softening.
- However, in our current estimates, we have not factored in the possibility of lower prices of Sorbitol during FY08E. Therefore, any such drop in prices of Sorbitol would be a case of further margin improvement for Colgate.



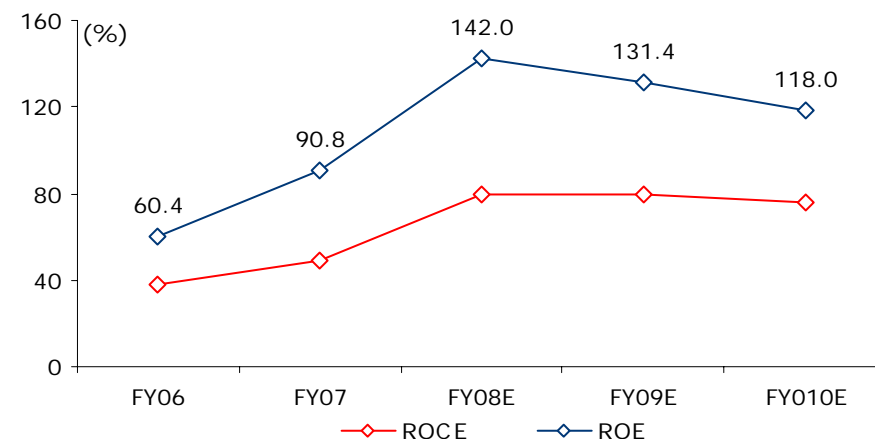
Source: NCDEX

# Capital reduction through deemed dividend per share of Rs 9, to improve return ratios

- In view of the strong cash-flow generation and resultant excess cash flow, Colgate has reduced its share capital under Section 100 of the Companies Act by reducing the face value per share from Rs 10 to Rs 1 with the number of shares, at 136m, remaining the same. This measure has effectively reduced the share capital from Rs 1,360m to Rs 136m.
- The reduction of the face value per share has been through payment of Rs 9 per share to shareholders under Section 2(22) of the Income-Tax Act. The payment has been in the form of deemed dividend and would be tax-free in the hands of shareholders.
- Colgate is utilising the excess treasury cash to pay about Rs 1,224m towards the deemed dividend and is also paying about Rs 208m in the form of dividend distribution tax. Therefore, its total outgo will be to the tune of Rs 1,432m.
- The reduction in capital, will lead to a strong improvement in return ratios during the year.

Balance sheet pre & post reduction of capital

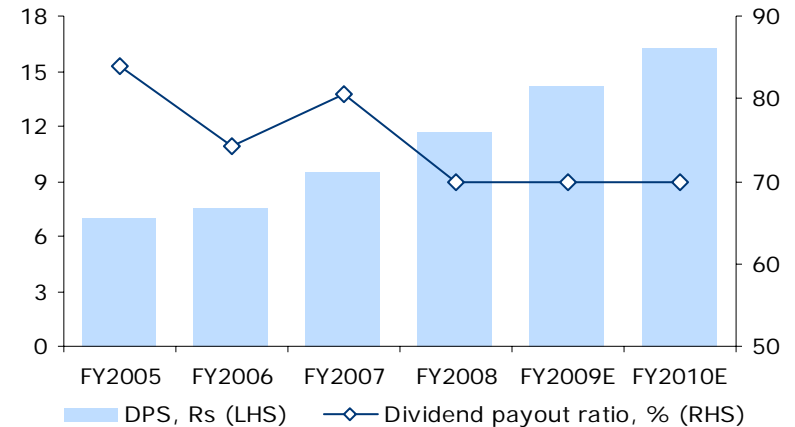
Rs mn	Pre-reduction	Post-reduction
<b>Share capital</b>	<b>1360</b>	<b>136</b>
<i>Reserves and surplus</i>		
General Reserves	1066	1066
Share premium	128	128
P/L Account	249	41
Capital Investment subsidy	3	3
<b>Total Reserves and Surplus</b>	<b>1446</b>	<b>1238</b>
<b>Total Shareholders Funds</b>	<b>2806</b>	<b>1374</b>
<i>Treasury Portfolio</i>		
Investments in Bonds/ Govt Securities	1333	1333
Inter-Corporate deposits	682	150
Cash and bank deposits	1117	217
<b>Total Treasury Portfolio</b>	<b>3132</b>	<b>1700</b>



Source: Company, MF Global India Research Estimates

# Strong free cash flow generation to maintain high dividend payout

- Colgate has already paid a dividend per share of Rs 9.5 during FY07. Therefore, the payment of the deemed dividend sums up to a total dividend for FY07 at Rs 18.50 per share, entailing a dividend yield of 4.84%.
- In view of the strong free cash flow generation, we believe that the company will be able to maintain a dividend yield of 3.1% in FY08E and a 3.7% in FY09E assuming a dividend payout ratio of 70% during the next two years.
- Colgate has maintained an average dividend payout ratio of 89% during FY04-FY07 (excluding the deemed dividend of Rs 9 per share in FY07). Therefore, given the average dividend payout, dividend per share and yields could be higher than expected in the coming years.



Source: Company, MF Global India Research Estimates

# Key risks

- Competition may intensify from Dabur and regional players
- Launch of *Crest* by P&G in a vibrant market
- Sharp rise in ad spend may impact estimates
- High dependence on a single product category

## Our Comments

◀ In a scenario of consistent demand growth, smaller players are also increasing their focus on the category to get a larger share of the market. Dabur has increased its market share from 6.7% in FY04 to about 8.0% in FY07.

◀ In a vibrant market, where consumers primarily in the urban markets are receptive to global brands, there is a possibility of P&G Home Products launching its oral-care brand, *Crest*, in India.

◀ Sensing the revival in the sector, Colgate introduced new products backed with aggressive ad-spends during FY06. We believe that the company would not be required to make any aggressive launches in the short term in a buoyant market. However, higher competition in a growing market may entail a higher number of product launches to capture a larger share of the market, resulting in to higher-than-expected advertisement expenditure.

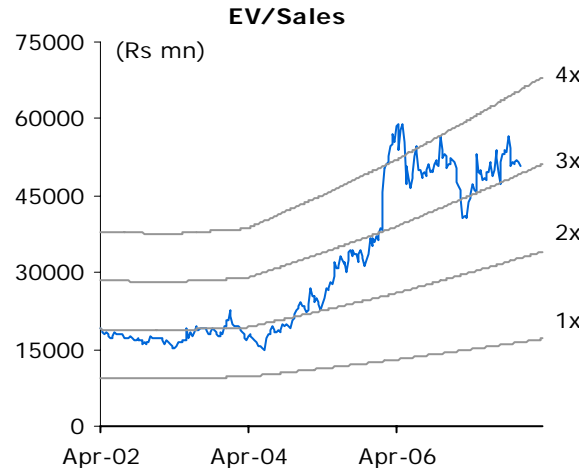
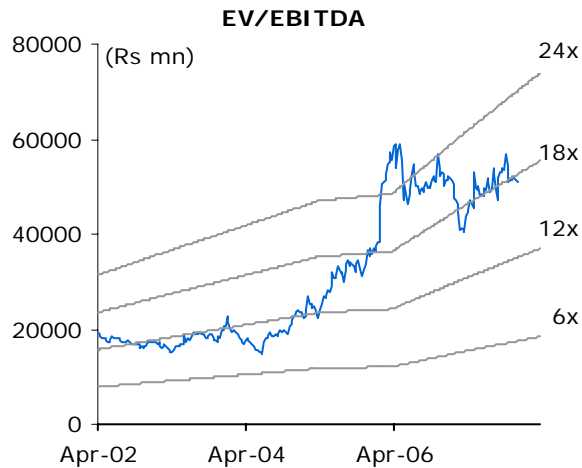
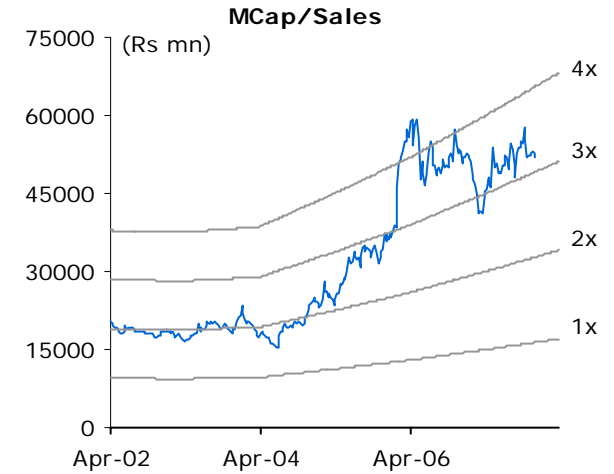
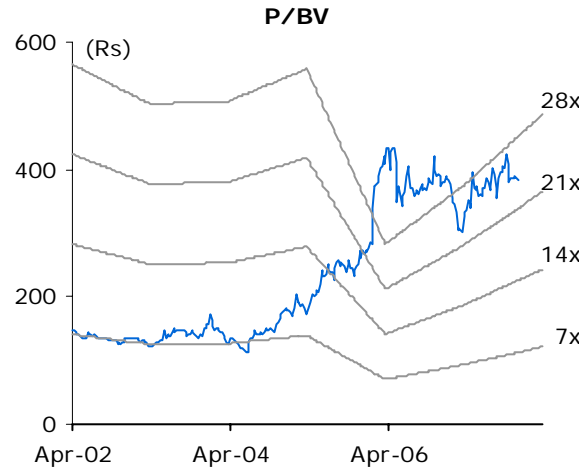
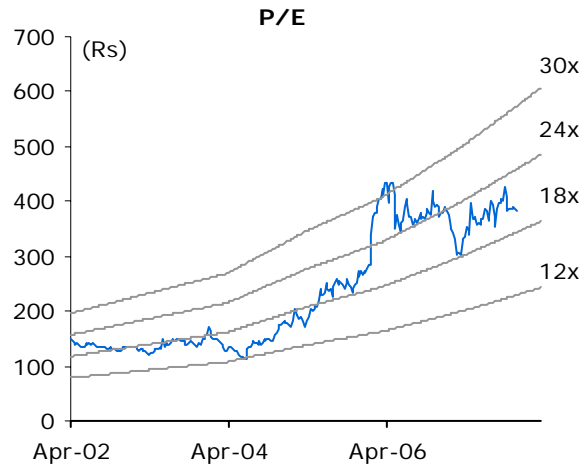
◀ Almost 70% of Colgate's turnover comes from toothpaste and about 80% of its sales (including toothbrushes) is contributed by the oral care category as a whole. Therefore, any slowdown in the category or any intense competitive pressure in the category may have a far-reaching impact on the company.



## Re-rating due, imply price target of Rs 465

- At the the CMP of Rs 382, the stock trades at 22.9x and 18.9x FY08E and FY09E earnings, respectively. At FY10E earnings, the stock trades at 16.5x.
- On a rolling one-year forward PE basis, it has been consistently re-rated from FY05, due to the improving scenario in toothpastes, leading to accelerated sales growth and better growth in earnings.
- Going forward, we believe that the demand scenario for toothpastes is expected to be buoyant. Colgate with its broad-based presence in the oral care category is well-placed to benefit from the improving fundamentals of the sector. This is expected to result in consistent growth in sales and a stable ad-spend and fiscal benefits would lead to a healthy growth in earnings of 19.4% to Rs 3154m during FY07-FY10E.
- In view of the consistent growth in earnings, backed by improving fundamentals of its key product category, we believe that the company would be able to witness a further re-rating. We therefore recommend a BUY rating on the stock, with a price target of Rs 465 for a one-year time frame, implying a one-year forward target multiple of 23x.

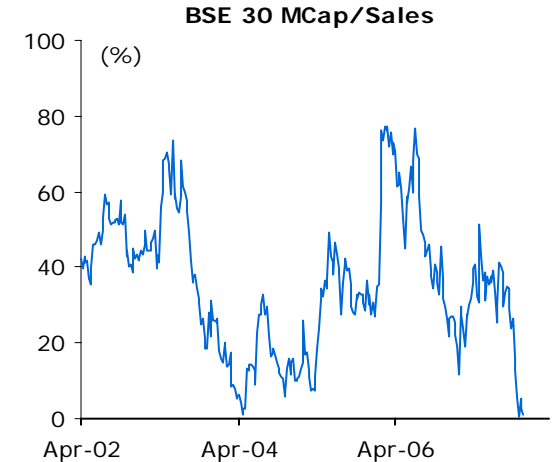
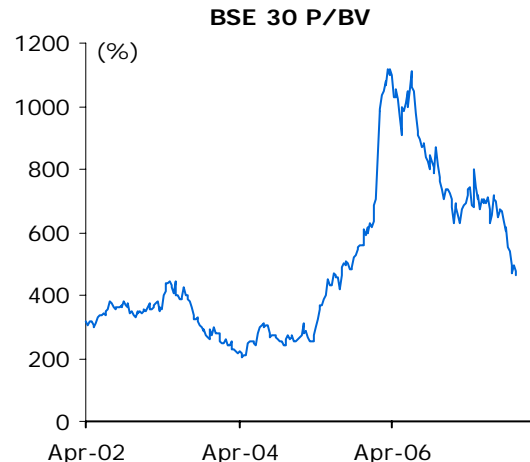
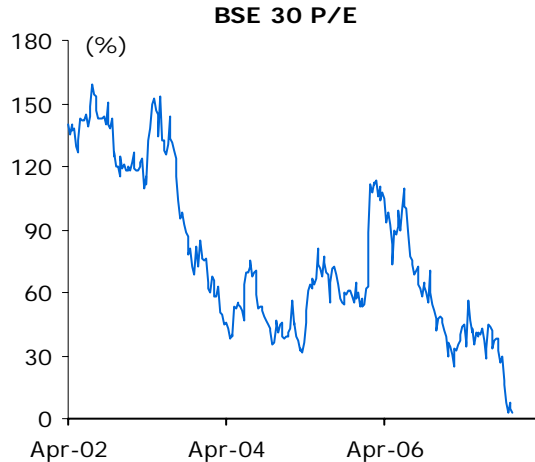
# Absolute rolling Valuation band charts



- Valuation multiples witnessed a re-rating from FY05, due to the improving scenario in toothpastes and higher sales.
- During the current year, multiples dropped with higher-than-expected ad-spends during Q2FY08, raising concerns of a rise in ad-spends for the full year.
- We expect multiples to expand with stable ad-spends during FY08E and strong growth in earnings.

Source: MF Global India Research

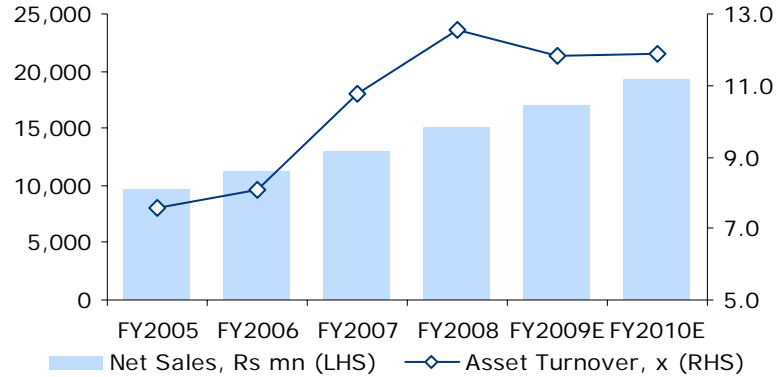
# Premium discount to Sensex



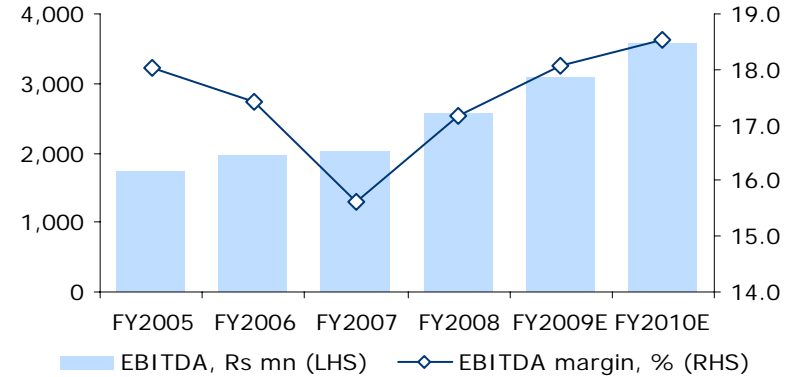
Source: MF Global India Research

- Colgate's de-rating during FY02-FY05 lead to a sharp reduction in its premium over the benchmark index.
- However, with improvement in the sectoral demand scenario, the stock witnessed a improvement in its premium over the benchmark index during FY06 and FY07.
- We believe that the stock will trade at the FY06 and FY07 average premium of about 68% and therefore, we believe that the current valuations are attractive.

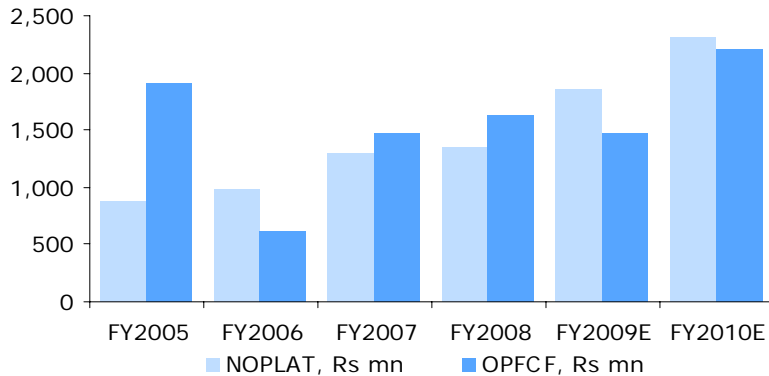
# Financial Performance



- Net sales expected to grow at a CAGR of 14.1% aided by about 9% growth in volumes and price hikes

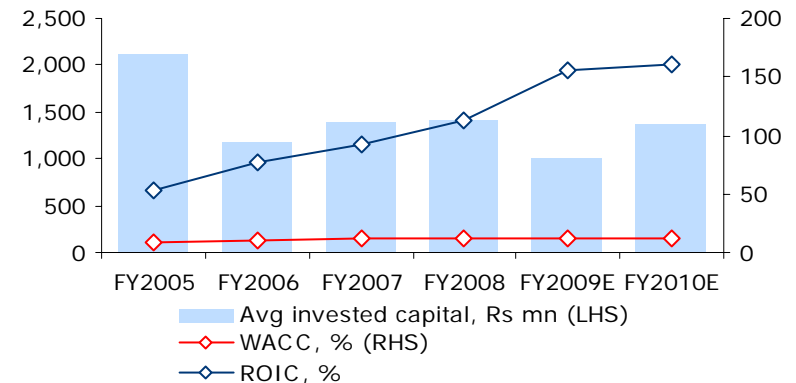


- EBIDTA to grow at a higher rate over turnover at 20.9% CAGR due to excise savings, lower staff cost and stable ad-spend



- Free cashflow generation will remain strong assuring high dividend payout

Source: Company, MF Global India Research Estimates



- Returns ratio to improve with high asset turnover and a continued double-digit growth in earnings

# Relative Valuations

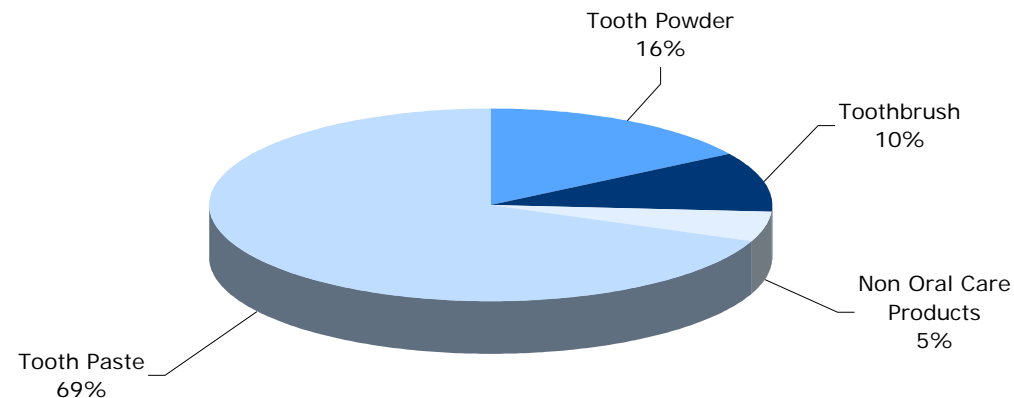
	EBIDTA, Rs mn			EPS, Rs			PE, x			EV/EBIDTA, x		
	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E	FY07	FY08E	FY09E
Colgate Palmolive	2,631	3,115	3,628	13.6	16.7	20.2	28.0	22.9	18.9	25.6	20.0	16.4
HUL	16,481	18,833	21,192	7.0	7.9	9.1	31.1	27.6	23.9	28.8	25.0	22.0
ITC	39,564	43,085	51,981	7.2	7.9	9.7	28.0	25.3	20.8	18.9	17.1	13.9
Dabur	3,497	4,292	5,059	3.3	4.1	4.9	36.4	29.0	24.5	29.7	23.5	19.5
Marico	2,087	2,531	2,996	1.9	2.6	3.1	37.6	27.0	22.8	21.8	17.7	14.8
Godrej Consumer	1801	2135	2456	6.0	7.1	8.4	24.0	20.1	17.1	18.4	15.1	12.8

Source: Company, MF Global India Research Estimates

- Peer companies have seen a re-rating with expectations of favourable agricultural growth leading to broad-based growth in income levels in the year ahead. We believe that Colgate is due to be re-rated in view of its dominance in the low-penetration oral care category and a better earnings visibility in a buoyant demand scenario.

# Company Background

A 51% subsidiary of Colgate Palmolive Co. (US), Colgate Palmolive (India) Ltd. manufactures and markets products for oral-care, personal care and household care. Oral care forms a major component of its product portfolio, contributing about 96%. In this core business, Colgate dominates, enjoying a 47.4% market share in toothpastes and about 46.7% in toothpowders in India. It markets toothpastes under two main brands, Colgate and Cibaca, aimed at the premium and value for-money segments, respectively. In the toothpaste (and toothbrush) category, the company markets its products under its umbrella brand. In personal care, it operates in categories like shower gels, shower creams, toilet soaps, liquid handwashes, shaving creams and skincare. These products are mainly marketed under the Palmolive brand. In the household segment, Colgate markets dish-washing soaps under the brand name *Axion*. The company had three manufacturing units at two locations in Maharashtra (India), at Mumbai and Aurangabad, and at one location in Himachal Pradesh at Baddi. After offering VRS to its factory employees at its Sewri (Mumbai) unit, in September '06, Colgate has closed operations there. In future, it is expected to obtain its toothpaste requirements primarily from Baddi.



Source: Company

# Financials

## Income Statement

Y/E Mar, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
<b>Net sales</b>	<b>11,242</b>	<b>12,951</b>	<b>14,948</b>	<b>17,040</b>	<b>19,237</b>
<i>Growth, %</i>	<i>16.6</i>	<i>15.2</i>	<i>15.4</i>	<i>14.0</i>	<i>12.9</i>
Other income	316	610	550	550	400
Total income	11,558	13,561	15,498	17,590	19,637
Operating expenses	-9,284	-10,931	-12,383	-13,962	-15,670
<b>EBITDA</b>	<b>2,274</b>	<b>2,631</b>	<b>3,115</b>	<b>3,628</b>	<b>3,967</b>
<i>Growth, %</i>	<i>9.3</i>	<i>15.7</i>	<i>18.4</i>	<i>16.5</i>	<i>9.3</i>
<i>Margin, %</i>	<i>20.2</i>	<i>20.3</i>	<i>20.8</i>	<i>21.3</i>	<i>20.6</i>
Depreciation	-205	-228	-259	0	0
<b>EBIT</b>	<b>2,069</b>	<b>2,402</b>	<b>2,856</b>	<b>3,628</b>	<b>3,967</b>
<i>Growth, %</i>	<i>7.3</i>	<i>16.1</i>	<i>18.9</i>	<i>27.0</i>	<i>9.3</i>
<i>Margin, %</i>	<i>18.4</i>	<i>18.5</i>	<i>19.1</i>	<i>21.3</i>	<i>20.6</i>
Interest paid	-6	-10	-14	-16	-18
<b>Pre-tax profit</b>	<b>2,063</b>	<b>2,392</b>	<b>2,842</b>	<b>3,612</b>	<b>3,949</b>
Tax provided	-557	-614	-629	-635	-535
<b>Profit after tax</b>	<b>1,506</b>	<b>1,778</b>	<b>2,214</b>	<b>2,977</b>	<b>3,413</b>
<b>Net Profit</b>	<b>1,376</b>	<b>1,602</b>	<b>2,268</b>	<b>2,749</b>	<b>3,154</b>
<b>MF Global Net profit</b>	<b>1,562</b>	<b>1,854</b>	<b>2,268</b>	<b>2,749</b>	<b>3,154</b>
<i>Growth, %</i>	<i>28.3</i>	<i>18.7</i>	<i>22.3</i>	<i>21.2</i>	<i>14.8</i>
EOI: Gains/(Losses)	-186	-252	0	0	0
Unadj. shares (m)	136	136	136	136	136
Wtd avg shares (m)	136	136	136	136	136

## Balance Sheet

Y/E Mar, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Cash & bank	880	218	596	1,429	2,056
Debtors	65	93	108	123	137
Inventory	744	803	951	1,085	1,225
Loans & advances	1,284	980	1,202	1,320	1,416
Other current assets	42	39	39	39	39
<b>Total current assets</b>	<b>3,015</b>	<b>2,133</b>	<b>2,896</b>	<b>3,995</b>	<b>4,873</b>
Investments	1,483	1,333	1,333	1,333	1,333
Gross fixed assets	4,035	4,115	4,540	4,915	5,388
Less: Depreciation	-2,435	-2,438	-2,642	-2,871	-3,130
Add: Capital WIP	91	243	243	243	243
Net fixed assets	1,691	1,920	2,141	2,288	2,501
Non-current assets	3,354	3,653	3,873	4,020	4,233
<b>Total assets</b>	<b>6,369</b>	<b>5,785</b>	<b>6,769</b>	<b>8,015</b>	<b>9,107</b>
Current liabilities	2,425	2,833	3,065	3,353	3,587
Provisions	21	353	547	848	962
<b>Total current liabilities</b>	<b>2,446</b>	<b>3,186</b>	<b>3,612</b>	<b>4,201</b>	<b>4,549</b>
Non-current liabilities	1,213	1,225	1,336	1,451	1,573
<b>Total liabilities</b>	<b>3,658</b>	<b>4,412</b>	<b>4,948</b>	<b>5,652</b>	<b>6,122</b>
Paid-up capital	1,360	136	136	136	136
Reserves & surplus	1,351	1,238	1,685	2,227	2,848
Shareholders' equity	2,711	1,374	1,821	2,363	2,984
<b>Total equity &amp; liabilities</b>	<b>6,369</b>	<b>5,785</b>	<b>6,769</b>	<b>8,015</b>	<b>9,107</b>

Source: Company, MF Global India Research Estimates

# Financials

## Cash Flow

Y/E Mar, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
Pre-tax profit	1,933	2,216	2,897	3,383	3,690
Depreciation	149	153	205	228	259
Chg in working capital	427	603	-42	137	105
Total tax paid	-557	-614	-629	-635	-535
<b>CF from operating act.</b>	<b>1,952</b>	<b>2,358</b>	<b>2,431</b>	<b>3,114</b>	<b>3,518</b>
Capital expenditure	-368	-382	-425	-375	-472
Chg in investments	124	150	0	0	0
<b>CF from investing act.</b>	<b>-244</b>	<b>-232</b>	<b>-425</b>	<b>-375</b>	<b>-472</b>
Free cash flow	1,465	1,894	1,580	2,363	2,573
Equity raised/(repaid)	173	-1,089	0	0	0
Debt raised/(repaid)	4	-1	0	0	0
Dividend (incl. tax)	-1,396	-2,595	-1,628	-1,906	-2,413
Other financing activities	-172	897	1	0	-6
<b>CF from financing act.</b>	<b>-1,391</b>	<b>-2,788</b>	<b>-1,627</b>	<b>-1,906</b>	<b>-2,419</b>
Net chg in cash	318	-662	378	832	627

## Per-share data

Y/E Mar, Rs mn	FY06	FY07	FY08E	FY09E	FY10E
MF Global EPS (INR)	11.5	13.6	16.7	20.2	23.2
<i>Growth, %</i>	<i>28.3</i>	<i>18.7</i>	<i>22.3</i>	<i>21.2</i>	<i>14.8</i>
Book NAV/share (INR)	19.9	10.1	13.4	17.4	21.9
FDEPS (INR)	11.5	13.6	16.7	20.2	23.2
CEPS (INR)	13.9	16.6	18.2	21.9	25.1
CFPS (INR)	12.0	12.9	13.8	18.9	22.9
DPS (INR)	7.5	18.5	11.7	14.1	16.2

## Ratios

Y/E Mar	FY06	FY07	FY08E	FY09E	FY10E
Return on assets (%)	22.9	26.5	36.3	37.3	37.0
Return on equity (%)	60.4	90.8	142.0	131.4	118.0
Return on Invested capital (%)	92.6	112.3	155.5	161.0	175.0
RoIC/Cost of capital (x)	7.9	9.3	12.9	13.3	14.5
RoIC - Cost of capital (%)	80.9	100.2	143.4	148.9	162.9
Return on capital employed (%)	37.6	49.3	79.1	79.2	75.6
Cost of capital (%)	11.7	12.1	12.1	12.1	12.1
RoCE - Cost of capital (%)	25.9	37.2	67.0	67.1	63.5
Total debt/Equity (%)	1.6	3.1	2.3	1.8	1.4
Net debt/Equity (%)	(30.8)	(12.7)	(30.4)	(58.7)	(67.5)
Asset turnover (x)	8.1	10.8	12.6	11.8	11.9
Sales/Total assets (x)	1.9	2.1	2.4	2.3	2.2
Sales/Net FA (x)	7.1	7.2	7.4	7.7	8.0
Working capital/Sales (x)	(0.0)	(0.1)	(0.1)	(0.1)	(0.1)
Fixed capital/Sales (x)	0.1	0.1	0.1	0.1	0.1
Receivable days	2.1	2.6	2.6	2.6	2.6
Inventory days	24.1	22.6	23.2	23.2	23.3
Payable days	83.9	81.1	74.8	73.2	71.2
Current ratio (x)	1.2	0.7	0.8	1.0	1.1
Quick ratio (x)	0.9	0.4	0.5	0.7	0.8
Interest cover (x)	308.7	190.6	168.6	178.1	183.8
Dividend cover (x)	1.5	1.4	1.4	1.4	1.4
PER (x)	33.3	28.0	22.9	18.9	16.5
PEG (x) - y-o-y growth	1.2	1.5	1.0	0.9	1.1
Price/Book (x)	19.2	37.8	28.5	22.0	17.4
Yield (%)	2.0	2.5	3.1	3.7	4.3
EV/Net sales (x)	4.5	4.0	3.4	3.0	2.6
EV/EBITDA (x)	26.1	25.6	20.0	16.4	14.0
EV/EBIT (x)	28.2	27.7	21.8	17.7	15.1
EV/NOPLAT (x)	39.7	38.3	27.8	21.8	17.7
EV/CE	13.6	14.5	15.1	13.0	19.9
EV/IC (x)	36.8	43.1	43.2	35.2	30.9

Source: Company, MF Global India Research Estimates



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