

## RESULT UPDATE

### LARGE CAP

#### Share Data

Reuters code	COLG.BO
Bloomberg code	CLGT IN
Market cap. (US\$ mn)	2,033
6M avg. daily turnover (US\$ mn)	2.7
Issued shares (mn)	136
Target price (Rs)	750

Performance (%)	1M	3M	12M
Absolute	11	6	91
Relative	17	0	8

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	28.9	31.3
+/- (%)	33.0	8.3
PER (x)	24.5	22.6
PBV (x)	34.9	28.7
Dividend/Yield (%)	3.0	3.3
EV/Sales (x)	4.7	4.1
EV/EBITDA (x)	23.3	20.2

#### Major shareholders (%)

Promoters	51
FII's	15
MF's	2
BFSI's	6
Public & Others	26

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	4,125	4,873	18.1	8,201	9,553	16.5	16,948	19,832	17.0	22,579	13.8
EBITDA	512	950	85.8	1,173	2,002	70.7	2,755	4,010	45.6	4,610	15.0
EBITDA Margin (%)	12.4	19.5	-	14.3	21.0	-	16.3	20.2	-	20.4	-
Other Income	270	223	(17.4)	581	483	(17.0)	987	1,060	7.4	1,193	12.5
Interest	(5)	(1)	(71.7)	(9)	(6)	(34.1)	(11)	(12)	10.0	(13)	10.0
Depreciation	(56)	(58)	3.6	(111)	(114)	2.9	(229)	(243)	5.9	(255)	4.8
PBT	721	1,114	54.6	1,634	2,365	44.7	3,502	4,815	37.5	5,535	15.0
Extraordinary income	-	-	-	-	-	-	(49)	-	-	-	-
Tax	(86)	(216)	152.0	(280)	(439)	56.8	(551)	(891)	61.7	(1,285)	44.2
Reported PAT	635	898	41.4	1,354	1,926	42.2	2,902	3,924	35.2	4,250	8.3
Adj. PAT (After extra-ord.)	635	898	41.4	1,354	1,926	42.2	2,951	3,924	33.0	4,250	8.3
EPS (Rs)	4.7	6.6	41.4	10.0	14.2	42.2	21.7	28.9	33.0	31.3	8.3

## Colgate-Palmolive

Maintain Outperformer

Price: Rs 706

BSE Index: 16,053

29 October 2009

### 2QFY10 Result – Volume growth at all time high!!!

Net sales growth of 18% at Rs 4.9 bn was driven by strong 16% volume growth in the oral care portfolio. Lower input costs and A&P spends assisted the 710 bps expansion in operating margins to 19.5%. However, lower other income and higher tax outgo restricted the PAT growth to 41% at Rs 898 mn, which was above our expectations.

Colgate, with a strong volume growth, continues to outperform the industry led by its strong product portfolio straddling across the price points. With its strong brand equity and lower competition, resulting in lower ad spends, we expect Colgate to report volume growth of ~13% and a healthy profitability growth of 21% over FY09-11E. We are revising our estimates upwards by 4.9% for FY10E and 1.4% for FY11E to factor in the higher than anticipated volume growth in toothpastes. We maintain our positive outlook on the company's future growth prospects due to its consistent out performance to the industry, strengthening leadership position in the oral care market and improving profitability. We maintain our Outperformer rating on the stock with a revised target price of Rs 750 (revised from Rs 693) valuing the company at 24x our FY11E EPS.

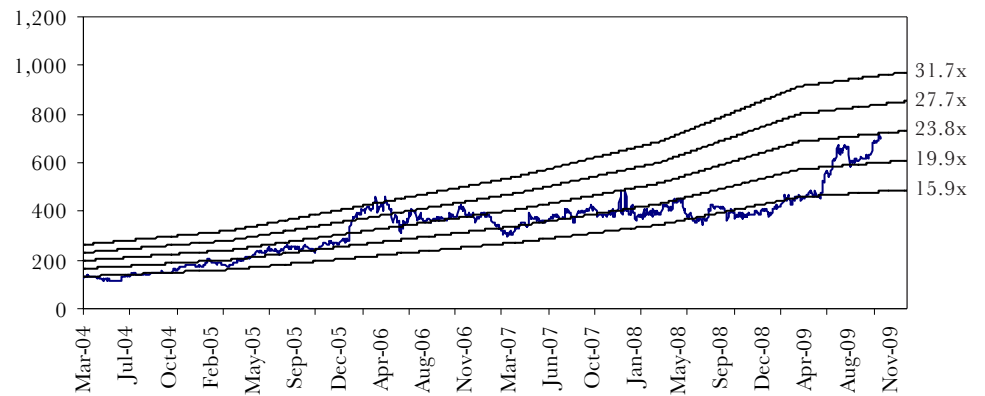
### Highlights

- Toothpastes recorded impressive volume growth of 18% led by its flagship brands, Colgate Dental Cream, Cibaca and Max Fresh.
- Lower input cost along with lower A&P spends (16.9% of sales in 2QFY10 versus 20.6% in 2QFY09) led to the operating margin expansions of 710 bps. Other income declined by 17% due to flat growth in service income and lower interest income on fixed deposits. While increased production from non-tax benefited areas resulted in higher tax provisions of 19.4% during the quarter.
- Market shares across the categories increased with toothpastes garnering a volume market share of 52.5% for September 2009 where as toothpowder and toothbrushes commanding 48.6% and 38.8%, respectively (January-September 2009).

## Revision in estimates

(Rs mn)	FY10E			FY11E		
	Old	New	Variance (%)	Old	New	Variance (%)
Sales	19,449	19,832	2.0	21,994	22,579	2.7
EBITDA	3,609	4,010	11.1	4,303	4,610	7.1
EBITDA margin (%)	18.6	20.2	–	19.6	31.3	–
PAT	3,742	3,924	4.9	4,191	4,250	1.4
EPS (Rs)	27.5	28.9	4.9	30.8	31.3	1.4

## PER Band



Source: B&amp;K Research

## Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>14,734</b>	<b>16,948</b>	<b>19,832</b>	<b>22,579</b>
<i>Growth (%)</i>	<i>13.8</i>	<i>15.0</i>	<i>17.0</i>	<i>13.8</i>
Operating expenses	(12,427)	(14,193)	(15,822)	(17,968)
Operating profit	2,307	2,755	4,010	4,610
<b>EBITDA</b>	<b>2,307</b>	<b>2,755</b>	<b>4,010</b>	<b>4,610</b>
<i>Growth (%)</i>	<i>9.7</i>	<i>19.4</i>	<i>45.6</i>	<i>15.0</i>
Depreciation	(198)	(229)	(243)	(255)
Other income	836	987	1,060	1,193
<b>EBIT</b>	<b>2,945</b>	<b>3,513</b>	<b>4,827</b>	<b>5,548</b>
Interest paid	(14)	(11)	(12)	(13)
Pre-tax profit	2,930	3,502	4,815	5,535
(before non-recurring)				
Non-recurring items	(10)	(49)	–	–
Pre-tax profit	2,920	3,453	4,815	5,535
(after non-recurring)				
Tax (current + deferred)	(603)	(551)	(891)	(1,285)
Net profit	2,317	2,902	3,924	4,250
(before Minority Interest, Pref. Dividend etc..)				
<b>Reported PAT</b>	<b>2,317</b>	<b>2,902</b>	<b>3,924</b>	<b>4,250</b>
<b>Adjusted net profit</b>	<b>2,327</b>	<b>2,951</b>	<b>3,924</b>	<b>4,250</b>
<i>Growth (%)</i>	<i>25.5</i>	<i>26.8</i>	<i>33.0</i>	<i>8.3</i>

## Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable Sec.	2,095	2,860	3,640	4,700
Other current assets	2,574	2,910	3,060	3,310
Investments	74	34	34	34
Net fixed assets	1,990	1,786	1,907	1,956
Other non-current assets	432	351	351	351
<b>Total assets</b>	<b>7,164</b>	<b>7,941</b>	<b>8,991</b>	<b>10,352</b>
Current liabilities	5,342	5,557	6,017	6,779
Total debt	47	47	47	47
Other non-current liabilities	153	174	174	174
<b>Total liabilities</b>	<b>5,542</b>	<b>5,778</b>	<b>6,238</b>	<b>6,999</b>
Share capital	136	136	136	136
Reserves & surplus	1,486	2,027	2,617	3,216
<b>Shareholders' funds</b>	<b>1,622</b>	<b>2,163</b>	<b>2,753</b>	<b>3,352</b>
<b>Total equity &amp; liabilities</b>	<b>7,164</b>	<b>7,941</b>	<b>8,991</b>	<b>10,352</b>
<b>Capital employed</b>	<b>1,822</b>	<b>2,384</b>	<b>2,974</b>	<b>3,573</b>

## Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	2,920	3,453	4,815	5,535
Depreciation	198	229	243	255
Change in working capital	163	38	428	463
Total tax paid	(595)	(448)	(850)	(1,238)
<b>Cash flow from oper. (a)</b>	<b>2,687</b>	<b>3,272</b>	<b>4,636</b>	<b>5,015</b>
Capital expenditure	(214)	272	(303)	(250)
Change in investments	607	343	–	–
Others	(54)	(298)	(61)	(54)
<b>Cash flow from inv. (b)</b>	<b>339</b>	<b>317</b>	<b>(364)</b>	<b>(304)</b>
<b>Free cash flow (a+b)</b>	<b>3,026</b>	<b>3,589</b>	<b>4,272</b>	<b>4,712</b>
Equity raised/(repaid)	(1,224)	–	–	–
Debt raised/(repaid)	4	–	–	–
Dividend (incl. tax)	(1,481)	(2,540)	(3,493)	(3,651)
Others	–	20	–	–
<b>Cash flow from fin. (c)</b>	<b>(2,701)</b>	<b>(2,520)</b>	<b>(3,493)</b>	<b>(3,651)</b>
<b>Net chg in cash (a+b+c)</b>	<b>325</b>	<b>1,069</b>	<b>779</b>	<b>1,060</b>

## Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	17.1	21.7	28.9	31.3
Growth	25.5	26.8	33.0	8.3
Book NAV/share (Rs)	11.9	15.9	20.2	24.7
Dividend/share (Rs)	13.0	15.0	21.0	23.0
Dividend payout ratio	97.8	80.7	85.0	85.9
Tax	20.7	16.0	18.5	23.2
EBITDA margin	15.7	16.3	20.2	20.4
EBIT margin	20.0	20.7	24.3	24.6
RoCE	122.4	167.0	180.2	169.5
Net debt/Equity	(126.3)	(130.1)	(130.5)	(138.8)

## Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	41.3	32.6	24.5	22.6
PCE	38.0	30.2	23.1	21.3
Price/Book	59.2	44.4	34.9	28.7
Yield (%)	1.8	2.1	3.0	3.3
EV/Net sales	6.3	5.5	4.7	4.1
EV/EBITDA	40.4	33.8	23.3	20.2

## Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	15.8	17.4	19.8	18.8
Asset turnover (x)	2.1	2.2	2.3	2.3
Leverage factor (x)	3.2	4.0	3.4	3.2
Return on equity (%)	105.1	155.9	159.6	139.2

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**Analyst Declaration:** We, Sweta Jain & Ashit Desai, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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