

## Colgate-Palmolive (India) Ltd.

BUY  
CMP Rs715  
TP Rs797

28 May 2010

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### Margins Drive Performance; Upgrade to BUY

Colgate's Q4 numbers were strong with net sales growth of 13% driven by a 11% volume growth. Gross margin expansion of 1,367bps was partly negated by higher A&P and other expenditure. Overall EBITDA margins expanded by 724bps. Adjusted PAT (ex prior period items) grew 35% to Rs1,044mn.

We raise our estimates for FY11 by 12.5% on the back of improvement in margins and also introduce FY12 numbers. We upgrade our recommendation to BUY with a TP of Rs797.

### Market share gain

Colgate's toothpaste category clocked 11% growth. Volume market share expanded by 170bps on the back of higher direct and indirect contacts to the consumers through the focus mass reaching programs. MS of Toothbrush improved by 340bps while that of the Toothpowder contracted by 90bps.

### Tax rate to increase further

Baddi plant has exhausted the tax free benefits and will attract normal tax rate going forward. Management has guided 23-24% tax rate for FY11.

### VALUATIONS AND RECOMMENDATION

We maintain our target multiple of 23x slightly higher than the sector as we believe the growth will maintain on the back of rural focus, regular product launches, continuous dental awareness programme and width & depth of Colgate's product portfolio. We believe higher A&P and tax expense will be set off by the better product mix and rationalisation of other cost.

At Jun'11 earnings we derive TP of Rs797. Average dividend yield of ~2.5% will further improve the upside. We upgrade our recommendation to 'BUY' from 'HOLD'.

### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Sep-09	Dec-09	Mar-10
Net Sales	4,873	4,906	5,166
YoY Gr. (%)	18.1	17.0	13.4
Op. Profit	1,106	1,212	1,441
OPM (%)	22.0	23.7	26.9
Adj.Net Profit	897	1,070	1,044
YoY Gr. (%)	41.3	37.6	35.4

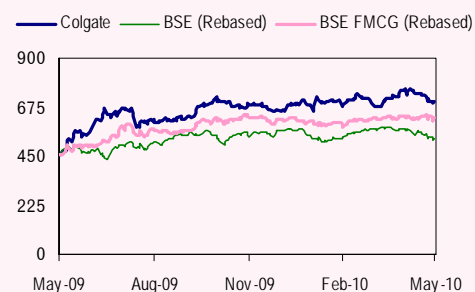
### STOCK DATA

Market cap	Rs95bn
Book Value per share	Rs23
Shares O/S (F.V. Rs1)	136mn
Free Float	49.0%
Avg Trade Value (6 months)	Rs83mn
52 week High/Low	Rs772/447
Bloomberg Code	CLGT IN
Reuters Code	COLG.BO

### PERFORMANCE (%)

	1M	3M	12M
Absolute	(6.6)	1.2	52.7
Relative	0.9	0.3	31.4

### RELATIVE PERFORMANCE



Q4FY2010 Update

### KEY FINANCIALS (Rs mn)

	FY08	FY09	FY10	FY11E	FY12E
Net Sales	14,752	16,987	19,685	22,745	26,278
YoY Gr. (%)	13.8	15.2	15.9	15.5	15.5
Op. Profit	2,950	3,374	5,069	5,682	6,384
Op. Marg. (%)	19.4	19.3	24.9	24.1	23.5
Adj. Net Profit	2,359	2,878	4,204	4,745	5,464
YoY Gr. (%)	29.2	22.0	46.1	12.9	15.2

### KEY RATIOS

Dil. EPS (Rs)	17.3	21.2	30.9	34.9	40.2
ROCE (%)	167.6	150.8	154.4	116.7	89.0
RoE (%)	141.0	133.7	132.4	100.2	77.8
PER (x)	41.2	33.8	23.1	20.5	17.8
EV/ Net Sales (x)	6.3	5.4	4.6	3.9	3.3
EV/EBDITA (x)	32.3	28.0	18.4	16.1	13.9

## Analyst Meet Highlights

- Oral care contributed ~96% of the total sales in which toothpaste, toothbrush and toothpowder category stood at ~66%, ~16% and ~14% respectively.
- Within toothpaste category, Cibaca exhibited 16% volume growth while others grew by 14%.
- Market share of Toothpowder category continued to decline as consumers replace white powder with toothpaste compared to other toothpowder products.
- Urban-Rural business contribution ratio maintained at 63:37.
- Overall volume growth was 11.6% in which urban market grew by 10% while rural market displayed 13.7% growth.
- Consolidation
- Tax included prior period items and excluding the same the tax rate was ~16.7%. For the quarter these prior period items were ~Rs100mn.

## Guidance

- Normal capex requirement as no plans to expand the capacity in FY11.
- Margins are likely to be maintained at the current level.
- Effective tax rate ~23-24% for FY11.

**Exhibit 1 - Q4FY10 Earnings Summary**

Quarter Ended (Rs in Mn.)	Mar-09	Mar-10	YoY Gr %	Dec-09	QoQ Gr%	FY09	FY10	YoY Gr %	PINC Comments
Net Sales	4,555	5,166	13.4	4,906	5.3	16,948	19,625	15.8	On the back of 11% volume growth
Operating income	167	194	15.8	203	(4.7)	760	727	(4.3)	
<b>Total Revenue</b>	<b>4,722</b>	<b>5,360</b>	<b>13.5</b>	<b>5,110</b>	<b>4.9</b>	<b>17,708</b>	<b>20,352</b>	<b>14.9</b>	
<b>Expenditures</b>									
(Inc)/Dec in Stock in trade and WIP	1,127	1,029		1,025		3,956	4,088		
Raw materials and Packaging costs	69	(5)		(82)		(45)	(114)		
Purchase of traded goods	809	520		1,156		3,502	3,795		
<b>RM cost</b>	<b>2,005</b>	<b>1,543</b>	<b>(23.0)</b>	<b>2,100</b>	<b>(26.5)</b>	<b>7,413</b>	<b>7,768</b>	<b>4.8</b>	
<b>Gross Profit</b>	<b>2,717</b>	<b>3,817</b>	<b>40.5</b>	<b>3,010</b>	<b>26.8</b>	<b>10,295</b>	<b>12,584</b>	<b>22.2</b>	
<i>Gross Profit Margin (%)</i>	<i>57.5%</i>	<i>71.2%</i>	<i>1,367bps</i>	<i>58.9%</i>	<i>1,230bps</i>	<i>58.1%</i>	<i>61.8%</i>	<i>369bps</i>	
Employees Cost	438	421	(3.8)	406	3.6	1,434	1,591	10.9	
Advertisement & Sales Promotion Expenses	702	834	18.7	753	10.7	2,717	2,994	10.2	
Other Expenditure	649	1,121	72.7	639	75.4	2,677	3,014	12.6	
<b>Operating Profit</b>	<b>928</b>	<b>1,441</b>	<b>55.3</b>	<b>1,212</b>	<b>18.9</b>	<b>3,467</b>	<b>4,985</b>	<b>43.8</b>	
<i>OPM (%)</i>	<i>19.7%</i>	<i>26.9%</i>	<i>724bps</i>	<i>23.7%</i>	<i>317bps</i>	<i>19.6%</i>	<i>24.5%</i>	<i>492bps</i>	<i>Higher than expected margins</i>
Other Income	38	28	(26.6)	74	(62.5)	227	254	11.8	
Depreciation	64	206	224.4	56	269.2	230	376	63.7	
<b>EBIT</b>	<b>902</b>	<b>1,263</b>	<b>40.0</b>	<b>1,230</b>	<b>2.7</b>	<b>3,464</b>	<b>4,863</b>	<b>40.4</b>	
<i>EBIT Margin %</i>	<i>19.1%</i>	<i>23.6%</i>	<i>445bps</i>	<i>24.1%</i>	<i>-51bps</i>	<i>19.6%</i>	<i>23.9%</i>	<i>433bps</i>	
Interest	1	4	263.6	5	(23.1)	11	15	36.4	
<b>PBT</b>	<b>901</b>	<b>1,259</b>	<b>39.7</b>	<b>1,225</b>	<b>2.8</b>	<b>3,453</b>	<b>4,848</b>	<b>40.4</b>	
<b>Tax</b>	<b>131</b>	<b>115</b>	<b>(11.9)</b>	<b>61</b>	<b>88.1</b>	<b>551</b>	<b>615</b>	<b>11.7</b>	
<i>Effective tax rate %</i>	<i>14.5%</i>	<i>9.1%</i>	<i>-535bps</i>	<i>5.0%</i>	<i>415bps</i>	<i>16.0%</i>	<i>12.7%</i>	<i>-326bps</i>	<i>Inclusive of prior period items, excluding the same tax rate was at 16.7%</i>
<b>Reported PAT</b>	<b>771</b>	<b>1,144</b>	<b>48.4</b>	<b>1,164</b>	<b>(1.7)</b>	<b>2,902</b>	<b>4,233</b>	<b>45.8</b>	
<b>Adjusted PAT</b>	<b>771</b>	<b>1,044</b>	<b>35.4</b>	<b>1,070</b>	<b>(2.4)</b>	<b>2,902</b>	<b>4,038</b>	<b>39.1</b>	<b>Adjustment of prior period items in the taxes</b>
<b>EPS (adjusted)</b>	<b>5.7</b>	<b>7.7</b>	<b>35.4</b>	<b>7.9</b>	<b>(2.4)</b>	<b>21.3</b>	<b>29.7</b>	<b>39.1</b>	

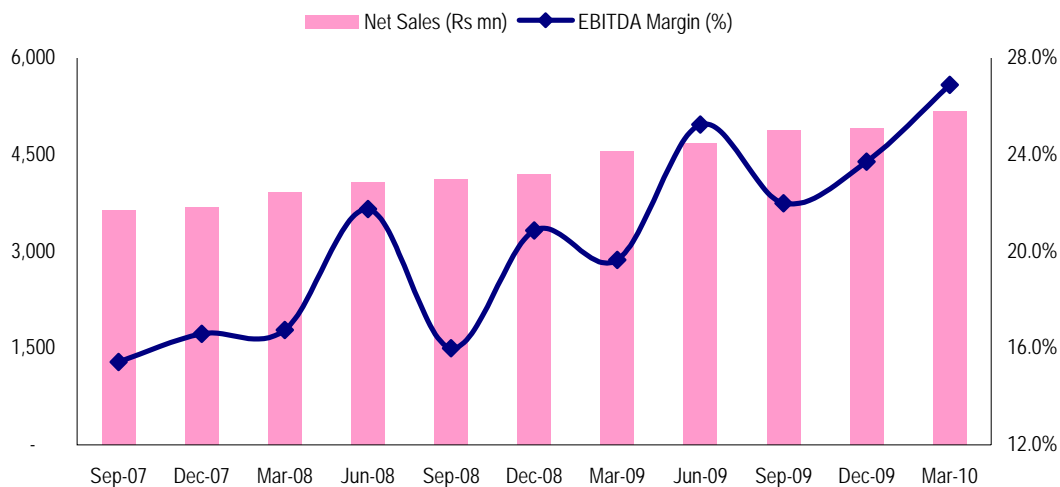
Source: Company, PINC Research

**Exhibit 2 - Q4FY10 Expenditure Breakup**

Expenditure (% of net sales)	Mar-09	Mar-10	YoY Gr %	Dec-09	QoQ Gr%	FY09	FY10	YoY Gr %
<b>Total expenditures (% of net sales)</b>	<b>80.3%</b>	<b>73.1%</b>	<b>-724bps</b>	<b>74.7%</b>	<b>-164bps</b>	<b>80.4%</b>	<b>75.5%</b>	<b>-492bps</b>
Consumption of raw materials	42.5%	28.8%	-1,367bps	42.2%	-1,343bps	41.9%	38.2%	-369bps
Other Expenditure	13.7%	20.9%	717bps	12.5%	845bps	15.1%	14.8%	-31bps
Advertisement & Sales Promotion Expenses	14.9%	15.6%	68bps	12.0%	354bps	15.3%	14.7%	-63bps
Employees Cost	9.3%	7.9%	-141bps	8.0%	-19bps	8.1%	7.8%	-28bps

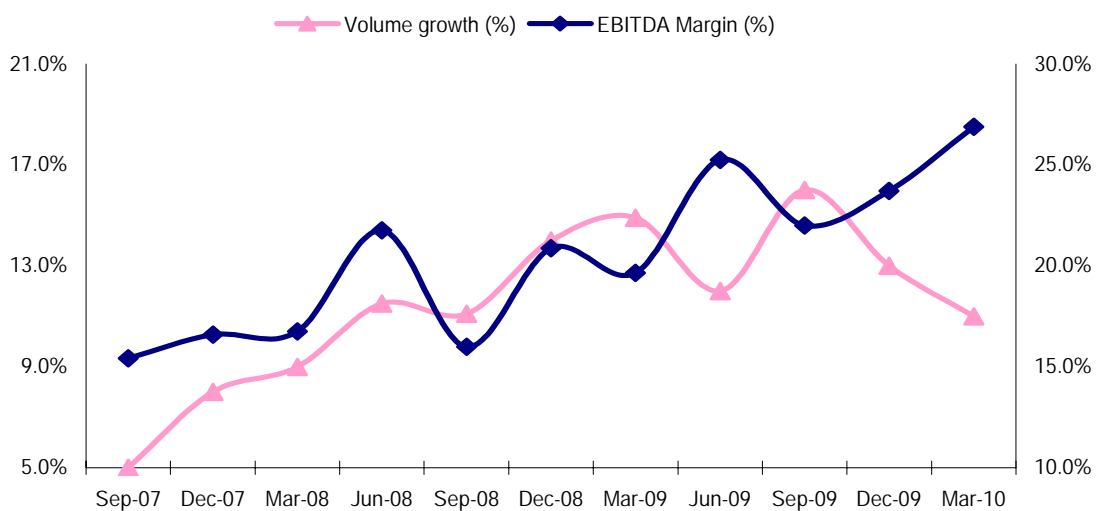
Source: Company, PINC Research

**Exhibit 3 - Net Sales (Rs mn) and EBITDA Margin (%)**



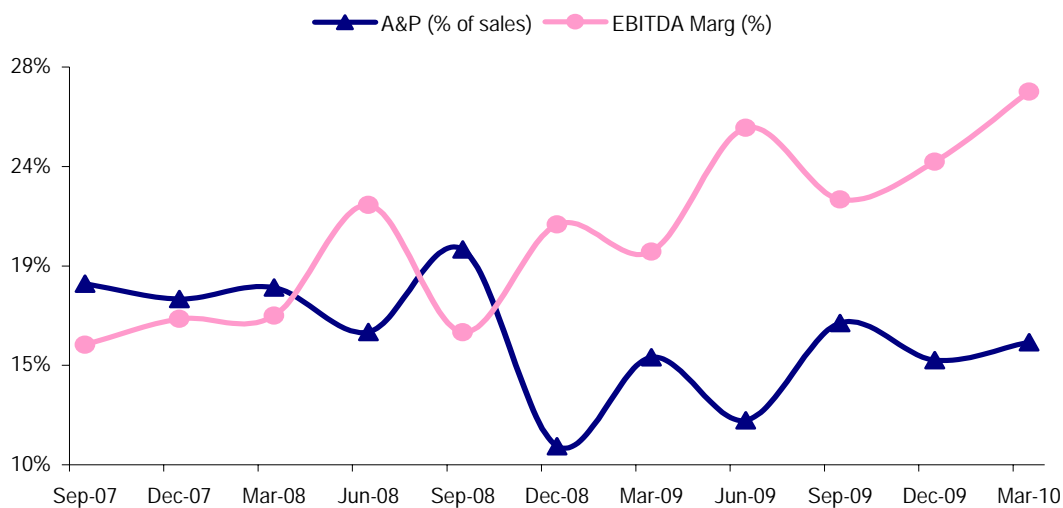
Source: Company, PINC Research

**Exhibit 4 - Sales Volume Growth (%) and EBITDA Margin (%)**



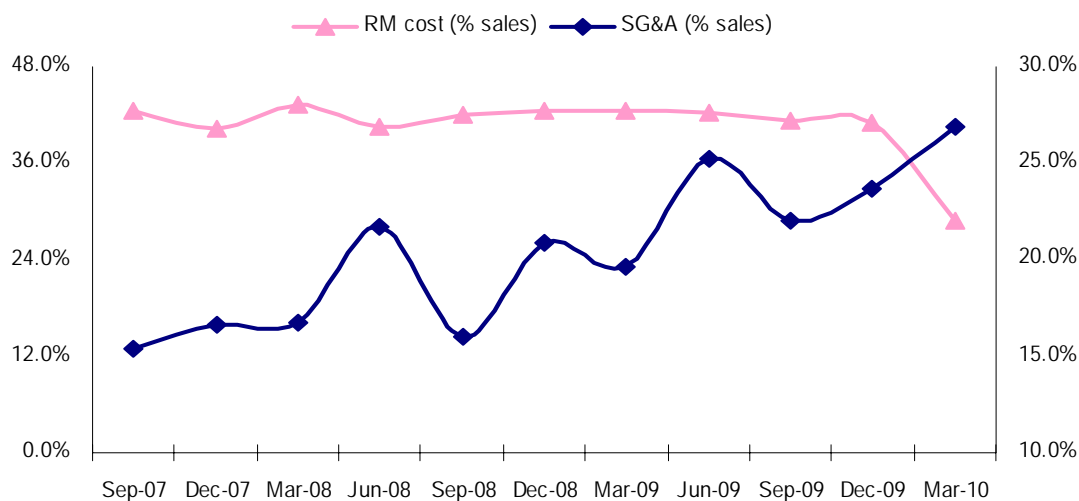
Source: Company, PINC Research

**Exhibit 5 - A&P Expenditure and EBITDA Margin (%)**



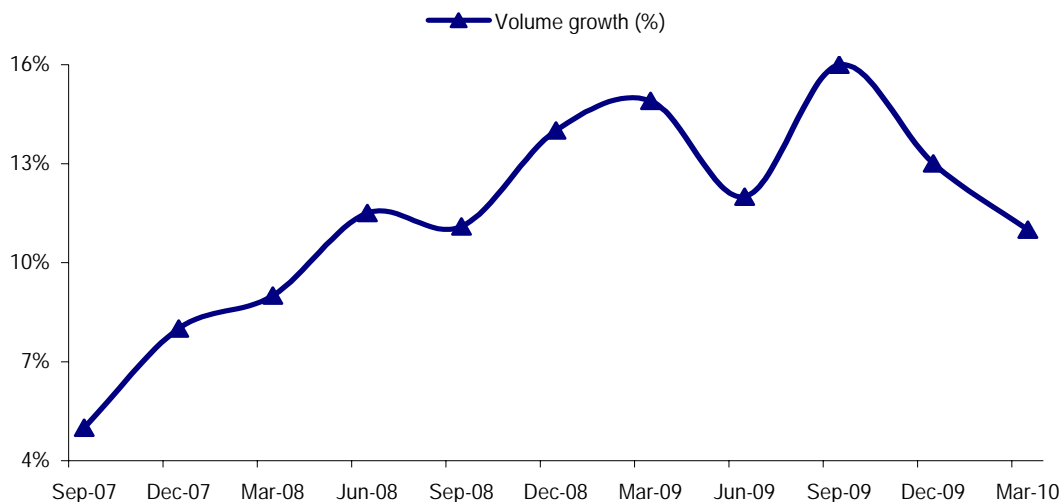
Source: Company, PINC Research

**Exhibit 6 - RM and SG&A Cost (%)**



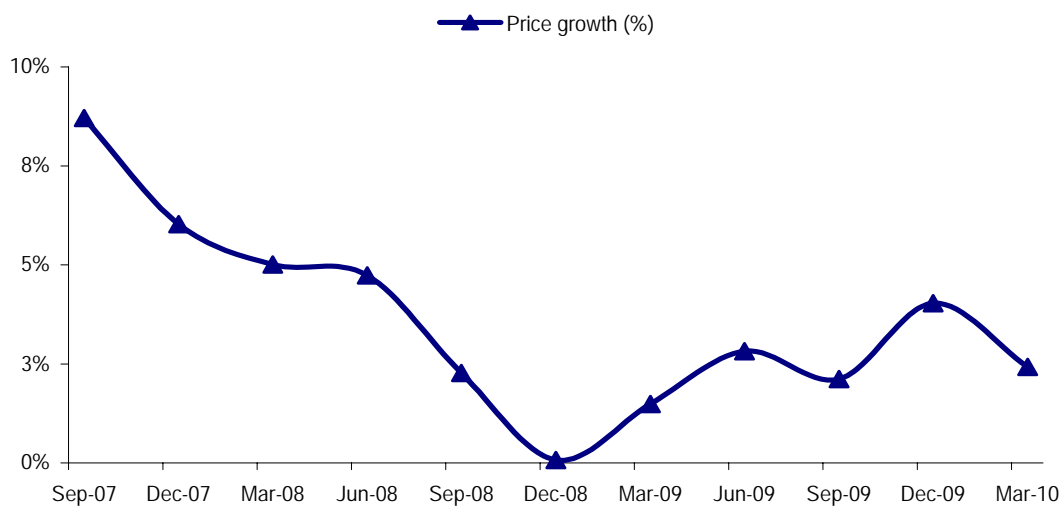
Source: Company, PINC Research

**Exhibit 7 - Sales Volume Performance (%)**



Source: Company, PINC Research

**Exhibit 8 - Sales Price Performance (%)**



Source: Company, PINC Research

**Year Ended March (Figures in Rs mn)**

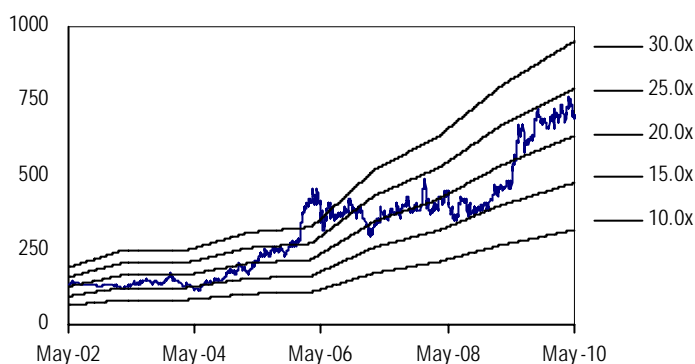
Income Statement	FY08	FY09	FY10P	FY11E	FY12E
Net sales	14,752	16,987	19,685	22,745	26,278
Growth (%)	13.8	15.2	15.9	15.5	15.5
Other Operating Income	441	525	705	796	920
<b>Total Income</b>	<b>15,193</b>	<b>17,512</b>	<b>20,390</b>	<b>23,541</b>	<b>27,198</b>
EBITDA	2,950	3,374	5,069	5,682	6,384
Growth (%)	58.7	14.4	50.3	12.1	12.3
Depreciation	209	283	304	298	313
Other Income	331	410	322	819	1,161
EBIT	3,072	3,501	5,086	6,203	7,231
Interest Paid	12	15	9	9	9
PBT (before E/o items)	3,060	3,485	5,077	6,194	7,222
Tax Provision	674	436	485	1,243	1,538
E/o income/(loss)	(1)	(20)	188	-	-
<b>Reported Net Profit</b>	<b>2,358</b>	<b>2,858</b>	<b>4,392</b>	<b>4,745</b>	<b>5,464</b>
<b>Adjusted Net Profit</b>	<b>2,359</b>	<b>2,878</b>	<b>4,204</b>	<b>4,745</b>	<b>5,464</b>
Growth (%)	29.2	22.0	46.1	12.9	15.2
Diluted EPS (Rs)	17.3	21.2	30.9	34.9	40.2
Diluted EPS Growth (%)	29.1	22.0	46.1	12.9	15.2

Cash Flow Statement	FY08	FY09	FY10P	FY11E	FY12E
Pre-tax profit	3,059	3,485	5,077	6,194	7,222
Depreciation	209	283	304	298	313
Total Tax Paid	(489)	(557)	(525)	(1,285)	(1,583)
Chg in working capital	339	496	114	(16)	351
Other operating activities	(205)	(211)	9	9	9
<b>Cash flow from oper (a)</b>	<b>2,914</b>	<b>3,496</b>	<b>4,979</b>	<b>5,200</b>	<b>6,312</b>
Capital Expenditure	(434)	(336)	(350)	(300)	(300)
Chg in investments	650	307	150	(500)	(500)
Other investing activities	(16)	220	-	-	-
<b>Cash flow from inv.(b)</b>	<b>201</b>	<b>191</b>	<b>(200)</b>	<b>(800)</b>	<b>(800)</b>
<b>Free cash flow (a+b)</b>	<b>3,114</b>	<b>3,687</b>	<b>4,779</b>	<b>4,400</b>	<b>5,512</b>
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	4	(36)	(1)	-	-
Interest paid	(12)	(15)	(9)	(9)	(9)
Dividend (incl. Tax)	(1,167)	(2,201)	(3,182)	(3,182)	(3,182)
Other financing activities	(1,606)	(383)	-	-	-
<b>Cash flow from fin. (c)</b>	<b>(2,781)</b>	<b>(2,635)</b>	<b>(3,193)</b>	<b>(3,192)</b>	<b>(3,192)</b>
<b>Net chg in cash (a+b+c)</b>	<b>333</b>	<b>1,052</b>	<b>1,587</b>	<b>1,209</b>	<b>2,321</b>

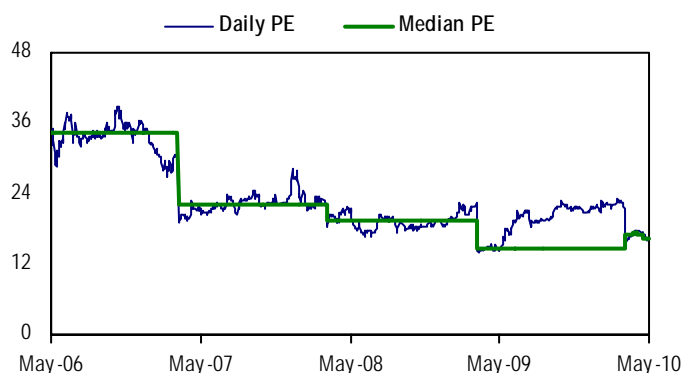
Balance Sheet	FY08	FY09	FY10P	FY11E	FY12E
Equity Share Capital	136	136	136	136	136
Reserves & surplus	1,537	2,017	3,039	4,601	6,883
<b>Shareholders' funds</b>	<b>1,673</b>	<b>2,153</b>	<b>3,175</b>	<b>4,737</b>	<b>7,019</b>
Minorities interests	41	38	62	87	111
Total Debt	47	47	46	46	46
<b>Capital Employed</b>	<b>1,761</b>	<b>2,237</b>	<b>3,283</b>	<b>4,870</b>	<b>7,176</b>
Net fixed assets	2,403	2,571	2,617	2,619	2,605
Cash & Cash Eq.	1,481	2,534	3,933	5,142	7,462
Net Other current assets	(3,059)	(3,369)	(3,482)	(3,466)	(3,817)
Investments	652	349	199	699	1,199
Net Deferred tax Assets	283	152	17	(123)	(273)
<b>Total Assets</b>	<b>1,761</b>	<b>2,237</b>	<b>3,283</b>	<b>4,870</b>	<b>7,176</b>

Key Ratios	FY08	FY09	FY10P	FY11E	FY12E
OPM (%)	19.4	19.3	24.9	24.1	23.5
Net Margin (%)	15.5	16.4	20.6	20.2	20.1
Div. Yield (%)	1.8	2.1	2.8	2.8	2.8
Net debt/Equity (x)	(0.9)	(1.2)	(1.2)	(1.1)	(1.1)
Net Working Capital (days)	(73.5)	(70.2)	(62.3)	(53.7)	(51.2)
ROCE (%)	167.6	150.8	154.4	116.7	89.0
RoE (%)	141.0	133.7	132.4	100.2	77.8
EV/Net Sales (x)	6.3	5.4	4.6	3.9	3.3
EV/EBITDA (x)	32.3	28.0	18.4	16.1	13.9
PER (x)	41.2	33.8	23.1	20.5	17.8
PCE (x)	42.8	35.9	25.4	22.7	20.1
Price/Book (x)	58.1	45.2	30.6	20.5	13.9

**P/E Band**



**Daily P/E vs Median P/E**



## T E A M

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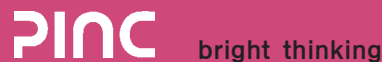
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