

Colgate-Palmolive (India) Limited

Margin recovery - ALERT

- Company reported net sales of Rs3.4bn (up 13.6% y/y) during Q4FY07 supported by 8% volume growth in toothpaste segment and 9% in toothpowder segment which had seen deceleration in the previous quarter.
- Net profit for the quarter came at Rs501mn (up 35% y/y) on the back of 260bps expansion in operating margins. Stable trends in advertising and other expenditure along with certain price increases supported this margin expansion.
- Considering huge cash surplus on company's books, it has proposed to reduce its share capital by Rs1.2bn. This reduction will be paid as 'Deemed Dividend' of Rs9/share. However shares outstanding will remain unchanged with only par value being reduced from Rs10/share to Re1/share.
- We are maintaining our earnings estimate (22% EPS Cagr over FY07-09E) and overweight rating on the stock. Sales growth for the company should be supported by healthy industry growth and innovation pipeline. Addition of 16,000 tonnes of capacity at the Baddi plant will support gross and net margins expansion for the company.

Overweight

Rs351.80

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Cosmetics & Personal Care

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Table 1: Quarterly income statement

Rs in millions

	Mar-06	Jun-06	Sep-06	Dec'06	Mar'07	y/y change	q/q change
Net sales	3021	3096	3200	3,223	3,433	14%	7%
(Increase)/Decrease in stock	-20	-8	-41	(9)	1	NM	NM
Consumption of raw materials	649	631	577	593	591	-9%	0%
Purchase of goods	711	733	856	892	946	33%	6%
COGS	1340	1356	1392	1476	1539	15%	4%
Gross Profit	1680	1739	1808	1747	1894	13%	8%
Gross Margin	55.6%	56.2%	56.5%	54.2%	55.2%	-1%	2%
Staff cost	225	268	298	302	251	11%	-17%
Advertisement & Sales promotion	596	567	417	452	639	7%	41%
Other expenditure	467	504	485	448	468	0%	5%
Operating Profit	391	401	608	544	535	37%	-2%
Operating Margin	13.0%	12.9%	19.0%	16.9%	15.6%	20%	-8%
Other income	115	148	122	166	174	51%	4%
EBITDA	507	549	731	711	709	40%	0%
EBITDA Margin	16.8%	17.7%	22.8%	22.1%	20.7%	23%	-6%
Depreciation	37	37	36	44	37	-2%	-16%
EBIT	469	512	695	667	672	43%	1%
EBIT Margin	15.5%	16.5%	21.7%	20.7%	19.6%	26%	-5%
Interest	2	2	2	3	2.5	39%	-14%
PBT	467	509	693	664	670	43%	1%
Current tax	156	136	278	179	137	-12%	-24%
MAT Credit/FBT	-59	13	-153	-18	32.4	NM	NM
PAT	370	361	568	503	501	35%	-1%
As % of sales							
Staff cost	7.5%	8.7%	9.3%	9.4%	7.3%		
Advertisement & Sales promotion	19.7%	18.3%	13.0%	14.0%	18.6%		
Other expenditure	15.5%	16.3%	15.2%	13.9%	13.6%		

Source: Company reports.

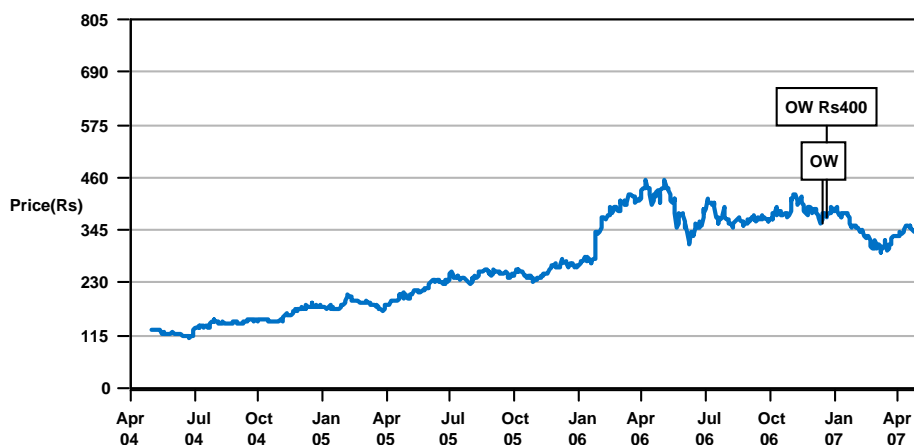
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Colgate-Palmolive (India) Limited (COLG.BO) Price Chart



Date	Rating	Share Price (Rs)	Price Target (Rs)
13-Dec-06	OW	357.05	-
21-Dec-06	OW	374.90	400.00

Source: Reuters and JPMorgan; price data adjusted for stock splits and dividends.
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