



ENAM Securities  
India Research

CMP: Rs 824  
Target Price: Rs 730  
Potential Upside: **-11%**  
Absolute Rating: **SELL**

# Colgate-Palmolive (India) Ltd

Relative to sector: **Underperformer**

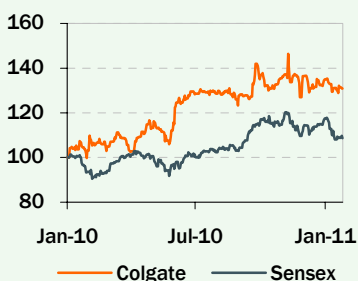
## Hemant Patel

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## Relative Performance



Source: Bloomberg, ENAM Research

## Stock data

No. of shares : 136 mn  
Market cap : Rs 112 bn  
52 week high/low : Rs 996/ Rs 670  
Avg. daily vol. (6mth) : 155,800 shares  
Bloomberg code : CLGT IB  
Reuters code : COLG. BO

## Shareholding (%)

|             | Dec-10 | QoQ chg |
|-------------|--------|---------|
| Promoters   | 51.0   | 0.0     |
| FIs         | 17.4   | 1.1     |
| MFs / UTI   | 0.8    | (0.8)   |
| Banks / FIs | 6.3    | 0.1     |
| Others      | 24.6   | (0.4)   |

## Financial Summary

| Y/E Mar | Sales<br>(Rs mn) | Adj.PAT<br>(Rs mn) | Consensus<br>EPS* (Rs.) | Adj.EPS<br>(Rs.) | Change<br>YoY (%) | P/E<br>(x) | RoE<br>(%) | RoCE<br>(%) | EV/EBITDA<br>(x) | DPS<br>(Rs.) |
|---------|------------------|--------------------|-------------------------|------------------|-------------------|------------|------------|-------------|------------------|--------------|
| 2010    | 19,625           | 4,207              | -                       | 30.9             | 43                | -          | 155        | 175         | -                | 20           |
| 2011E   | 22,224           | 3,891              | 33.6                    | 28.6             | (7)               | 28.8       | 112        | 147         | 21.2             | 22           |
| 2012E   | 25,852           | 4,518              | 38.0                    | 33.2             | 16                | 24.8       | 115        | 162         | 17.5             | 26           |
| 2013E   | 29,302           | 5,278              | 42.8                    | 38.8             | 17                | 21.2       | 118        | 167         | 14.7             | 30           |

Source: \*Consensus broker estimates, Company, ENAM estimates

## RISING BRAND INVESTMENTS IMPACT PROFITABILITY

Colgate-Palmolive (India) Ltd (Colgate) reported net sales of Rs 5.6 bn (↑ 14% YoY), EBITDA of Rs 746 mn (↓26% YoY) and adjusted PAT of Rs 662 mn (↓43% YoY) in Q3FY11, below consensus expectations. Advertising and sales promotion (ASP) expenses were up by 60% YoY (to Rs. 1.2 bn) at 21.6% of sales in Q3FY11 vs. 15.3% in Q3FY10.

## Key highlights – Q3FY11

- **Was increase in Ad spends one-off?** According to the management, majority of the increase in ASP was towards promoting products such as Colgate Sensitive, Plax, and Colgate Total, which had significantly lower ad budgets earlier. They maintain that the increase in ASP is not to pre-empt the entry of P&G in toothpastes or to ward-off any existing competition. ASP-to-sales at 16.4% for 9mFY11 is in-line with their target range of 15-17% (vs. 5-yr average is 16.4%). We believe the competitive intensity in toothpaste category is likely to rise in 2011, thus warranting higher investment in brands, though not at Q3FY11 level. Consequently, we have raised our ASP-to-sales assumption to 16.5% (earlier 15%) for FY12E.
- **Contained cost pressures:** Gross profit margin increased by 410 bps YoY to 61.3%, as the company had forward cover for RM till December. While RM cost are inching upwards, the company has effected a price hike of 2% YTD (17% hike in Cibaca).

(Continued overleaf...)

We have downgraded our earnings estimates by 17% to Rs 28.6 (earlier Rs 34.4) in FY11E and 15% to Rs 33.2 (earlier Rs 39) in FY12E, primarily due to increasing brand investments. On a 1-yr forward basis, the stock trades at 26x which is at a 24% premium to its 5-yr median of 21x. Our price target of Rs 730 (vs. Rs 857 earlier) is based on 22x FY12E EPS. We have downgraded the stock to **SELL** rating.

## Results Update

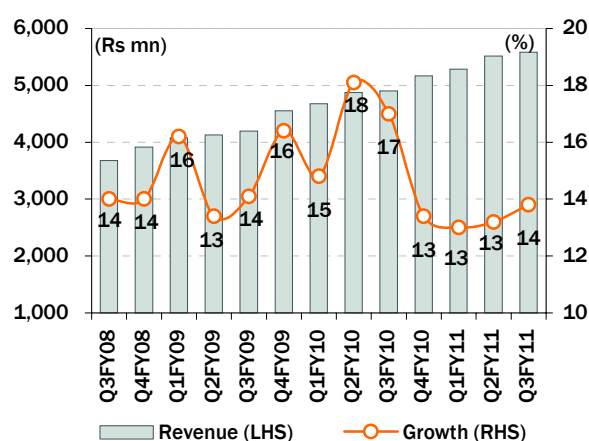
| (Rs mn)                       | Quarter ended |              |               |              |               | 12 months ended |               |              |
|-------------------------------|---------------|--------------|---------------|--------------|---------------|-----------------|---------------|--------------|
|                               | Dec-10        | Dec-09       | % Chg         | Sep-10       | % Chg         | Mar-11E         | Mar-10        | % Chg        |
| <b>Net Sales</b>              | <b>5,582</b>  | <b>4,906</b> | <b>13.8</b>   | <b>5,518</b> | <b>1.2</b>    | <b>22,224</b>   | <b>19,625</b> | <b>13.2</b>  |
| <b>EBIDTA</b>                 | <b>746</b>    | <b>1,008</b> | <b>(26.0)</b> | <b>1,122</b> | <b>(33.5)</b> | <b>5,093</b>    | <b>4,876</b>  | <b>4.4</b>   |
| Other income                  | 277           | 278          | (0.4)         | 256          | 8.0           | 430             | 336           | 27.9         |
| <b>PBIDT</b>                  | <b>1,023</b>  | <b>1,286</b> | <b>(20.5)</b> | <b>1,378</b> | <b>(25.8)</b> | <b>5,523</b>    | <b>5,213</b>  | <b>5.9</b>   |
| Depreciation                  | 91            | 56           | 63.3          | 84           | 8.5           | 356             | 376           | (5.2)        |
| Interest                      | 19            | 5            | 265.4         | 6            | 211.5         | 46              | 15            | 207.3        |
| <b>PBT</b>                    | <b>913</b>    | <b>1,225</b> | <b>(25.5)</b> | <b>1,288</b> | <b>(29.1)</b> | <b>5,120</b>    | <b>4,822</b>  | <b>6.2</b>   |
| Tax                           | 250           | 61           | 309.2         | 285          | (12.0)        | 1,229           | 615           | 99.7         |
| <b>Adjusted PAT</b>           | <b>662</b>    | <b>1,164</b> | <b>(43.1)</b> | <b>1,003</b> | <b>(34.0)</b> | <b>3,891</b>    | <b>4,207</b>  | <b>(7.5)</b> |
| Extra ordinary income/ (exp.) | 0             | 0            | -             | 0            | -             | 0               | 26            | -            |
| <b>Reported PAT</b>           | <b>662</b>    | <b>1,164</b> | <b>(43.1)</b> | <b>1,003</b> | <b>(34.0)</b> | <b>3,891</b>    | <b>4,233</b>  | <b>(8.1)</b> |
| No. of shares (mn)            | 136           | 136          | -             | 136          | -             | 136             | 136           | -            |
| EBIDTA margin (%)             | 13.4          | 20.6         | -             | 20.3         | -             | 22.9            | 24.8          | -            |
| PBIDT margin (%)              | 18.3          | 26.2         | -             | 25.0         | -             | 24.9            | 26.6          | -            |
| <b>EPS - annualized (Rs.)</b> | <b>19.5</b>   | <b>34.2</b>  | <b>(43.1)</b> | <b>29.5</b>  | <b>(34.0)</b> | <b>28.6</b>     | <b>30.9</b>   | <b>(7.5)</b> |

Source: Company, ENAM Research

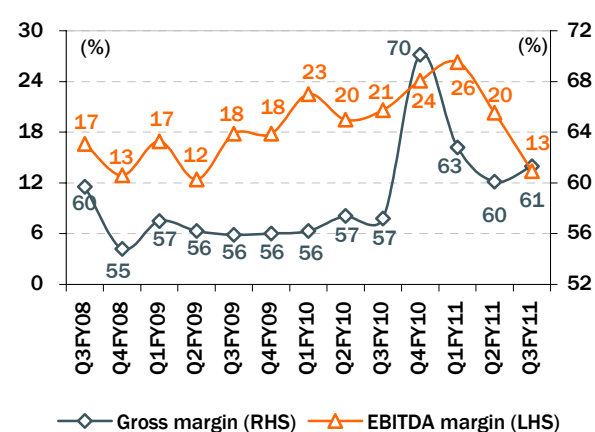
## Key highlights – Q3FY11 (...continued from first page)

- **Healthy volume growth:** Toothpaste volume growth at 13% YoY was encouraging. Colgate continues to gain market share (53.4% volume share for 11mCY10 vs. 52.3% in 11mCY09) at the expense of smaller regional players. Cibaca (economy brand) growth is outpacing Colgate Dental Cream growth by about 100-150 bps.
- **Effective tax rate is expected to increase to 24% in FY11E (vs. 13% in FY10E)** and 29% in FY12E, due to lower tax breaks from Baddi manufacturing facility.

## Revenue and growth trends

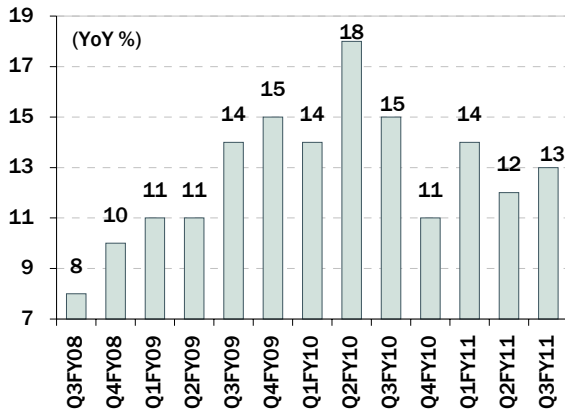


## EBIDTA margin's impacted by high Ad spends

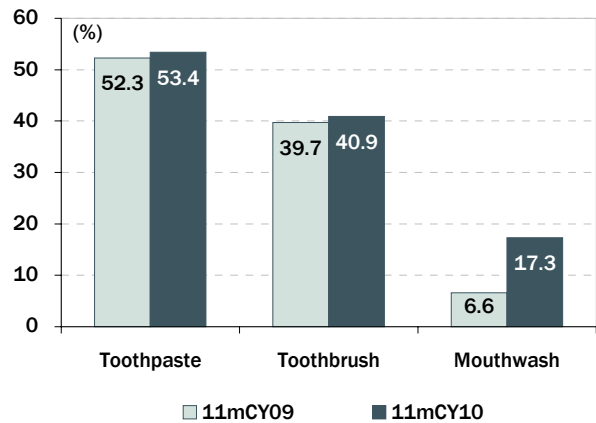


Source: Company

### Toothpaste volume trend

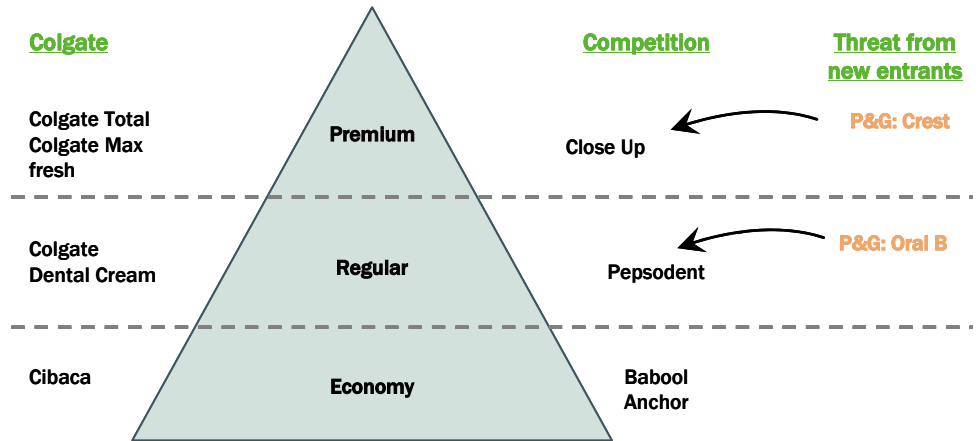


### Gain in volume market share



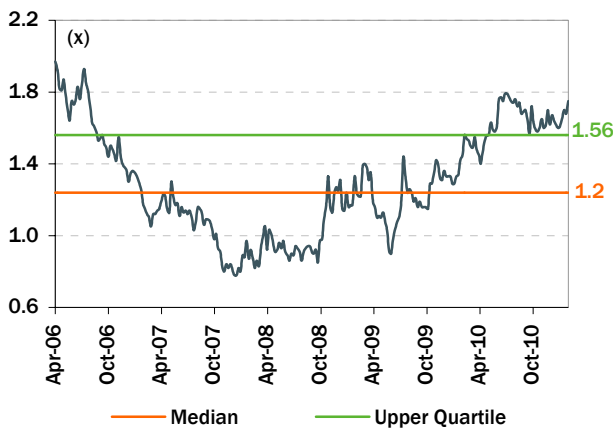
Source: Company

### Competitive landscape may change

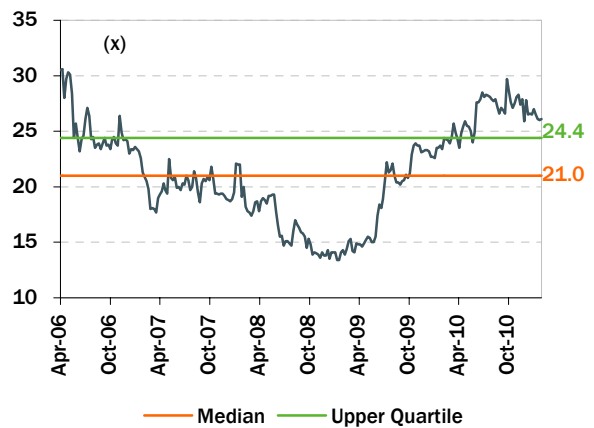


Source: ENAM Research

### Colgate P/E relative to Sensex P/E



### Colgate 1-yr forward P/E



Source: ENAM Research, Bloomberg

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