

Colgate Palmolive (India) Ltd.



DOLAT CAPITAL

CMP: Rs 670

Target Price: Rs 805

FMCG / Accumulate

Colgate continued its dream result journey in Q3FY10 with sales growth of 17% and PAT growth of 50%. With increased media spend of Rs 752 million, Colgate has done over all volume growth of 13%, in toothbrush category the volume share increased to 39.5% and in the toothpowder category it increased to 48.4%. We continue to remain positive on the stock on the back of its incredible marketing of flanking brand strategy, which is indeed guarding its leadership position in Indian Oral care Industry (Jan-Dec'09 Market share of 52.4% in toothpaste category). We note low penetration level and switch from toothpowder to toothpaste is likely to keep up the volume growth momentum intact in future as well. We revise our price target to Rs 790 at which it would trade at 25x FY11E EPS. We recommend Accumulate on the stock.

Q3FY10 Result

Particulars (Rs Mn)	Q3FY10	Q3FY09	YoY (%)	Q2FY10	QoQ (%)
Net Sales	4906.1	4192.0	17.0	4872.6	0.7
Expenditure	3896.8	3446.4	13.1	3922.4	-0.7
Raw Mat.	2098.8	1840.2	14.1	2075.8	1.1
Raw Mat.% of Sales	42.8	43.9		42.6	
A&P Spend	752.8	472.3	59.4	825.1	-8.8
A&P Spend % of Sales	15.3	11.3		16.9	
EBIDT	1009.3	745.6	35.4	950.2	6.2
OPM (%)	20.6	17.8		19.5	
PAT	1164.9	777.3	49.9	897.0	29.9
NPM (%)	23.7	18.5		18.4	
EPS Adj.	8.6	5.7	49.9	6.6	29.9

Result Analysis:

- Colgate posted strong Q3FY0 performance with sales growth of 17% and PAT growth of 50%. During the quarter, company has done 13% volume growth. Toothpaste registered 15% volume growth and has inched up its market share to 52.4%. The company has also increased its market share in toothbrush to 39.5% and toothpowder to 48.4%.
- RM scenario for the company has remained benign with RM to sales stands at 42.8% as compared to 43.9% in Q3FY09 on account of lower input costs due to decrease in Sorbitol and other oil prices. We believe, it would be remain in the range of 43 % in FY10E.
- A&P spend as a percentage of sales have increased from 11.3% in Q3FY09 to 15.3% in Q3FY10. Media spend in absolute amount has increased by 59% to Rs 725 million.
- Resultant EBIDTA grew up by 35% to Rs 1bn. EBIDTA margin surged to 20.6% in Q3FY10 as against 17.8% in Q3FY09.
- Resultant PAT grew by 50% to Rs 1.1 bn due to write back of tax provision of earlier years of Rs 105 mn. Adjusting the same, PAT would have grown by 36% in Q3FY10. Reported EPS stands at Rs 8.6 as against Rs 5.7 in Q3FY09.
- Company has declared an interim dividend of Rs 7/share making the total dividend to Rs 15/share (dividend yield is at ~ 2.2%)

Valuation

We continue to remain positive on the stock on the back of its incredible marketing of flanking brand strategy, which is indeed guarding its leadership position in Indian Oral care Industry (Jan-Dec'09 Market share of 52.4% in toothpaste category). We note low penetration level and switch from toothpowder to toothpaste is likely to keep up the volume growth momentum intact in future as well.

At CMP, the stock quotes at multiple of 23x its FY10E EPS. We believe Colgate is one of the very few FMCG companies which is blessed with no excessive competition, benign RM scenario and no adverse impact on volume growth due to food inflation and drought. We revise our price target to Rs 805 at which it would trade at 25x FY11E EPS. We recommend Accumulate on the stock.

Financials

Year	Net Sales	% growth	EBITDA	OPM%	PAT	% growth	EPS(Rs.)	% growth	PER(x)	ROANW(%)	ROAIC(%)
FY08	14,734	13.8	2,271	15.4	2,317	44.7	17.0	44.7	39.3	104.7	146.7
FY09	16,948	15.0	2,605	15.4	2,902	25.3	21.3	25.3	31.4	153.4	201.7
FY10E	19,696	16.2	3,957	20.1	3,991	37.5	29.3	37.5	22.8	160.4	199.5
FY11E	22,651	15.0	4,546	20.1	4,375	9.6	32.2	9.6	20.8	140.1	176.1

Figure in Rs mn

The ratings are based on the absolute upside of our target price from the current price.

Upside

> 25 %
15% - 25%
0% - 15%
< 0 %

Ratings

Buy
Accumulate
Reduce
Sell

DOLAT TEAM

	Sector / Tel. No.	Tel. No.
Principal		
Purvag Shah purvag@dolatcapital.com	+9122 4096 9747	
Research research@dolatcapital.com		
Ankit Babel ankit@dolatcapital.com	<i>Textile, Capital Goods, Engineering</i> +9122 4096 9732	
Bhavin Shah bhavin@dolatcapital.com	<i>Pharma, Healthcare, Agro Chemical</i> +9122 4096 9731	
Indrajeet Kelkar indrajeet@dolatcapital.com	<i>IT, Retail</i> +9122 4096 9751	
Kapil Yadav kapil@dolatcapital.com	<i>Hospitality, Maritime, Rail, Politics</i> +9122 4096 9735	
Nadeem Parkar nadeem@dolatcapital.com	<i>Logistics, Aviation</i> +9122 4096 9736	
Priyank S. Chandra priyank@dolatcapital.com	<i>Telecom, Oil & Gas, Cables</i> +9122 4096 9737	
Ram Modi ram@dolatcapital.com	<i>Metals, Mining, Cement</i> +9122 4096 9756	
Ritesh Poladia ritesh@dolatcapital.com	<i>Media, Entertainment, Consumer</i> +9122 4096 9753	
Sameer Panke sameer@dolatcapital.com	<i>Real Estate, Construction, Engineering</i> +9122 4096 9757	
Associates		
Binoy Jariwala binoy@dolatcapital.com	+9122 4096 9722	
Jaynee Shah jaynee@dolatcapital.com	+9122 4096 9723	
Manpreet Singh Sandhu manpreet@dolatcapital.com	+9122 4096 9720	
Namrata Sharma namrata@dolatcapital.com	+9122 4096 9726	
Neha Sarwal neha@dolatcapital.com	+9122 4096 9740	
Support Staff		
Paresh Girkar pareshgirkar@dolatcapital.com	+9122 4096 9742	
Rajesh Shinde rajesh@dolatcapital.com	+9122 4096 9743	
Sales sales@dolatcapital.com		
Mayur Shah mayur@dolatcapital.com	+9122 4096 9796	
R. Sriram rsriram@dolatcapital.com	+9122 4096 9706	
Vikram Babulkar vikram@dolatcapital.com	+9122 4096 9746	
Equity Sales Traders salestrading@dolatcapital.com		
Chandrakant Ware chandrakant@dolatcapital.com	+9122 4096 9707	
Jignesh Shahukar jignesh@dolatcapital.com	+9122 4096 9727	
P. Sridhar sridhar@dolatcapital.com	+9122 4096 9728	
Parthiv Dalal parthiv@dolatcapital.com	+9122 4096 9705	
Derivatives Team		
Vijay Kanchan vijayk@dolatcapital.com	+9122 4096 9704	
Derivatives Sales Traders		
Chirag Makati chiragm@dolatcapital.com	+9122 4096 9702-03	
Mihir Thakar mihir@dolatcapital.com	+9122 4096 9701	
Quantitative Research derivativesinfo@dolatcapital.com		
Prachi Save prachi@dolatcapital.com	<i>Derivatives Research</i> +9122 4096 9733	
Sachin Mulay sachin@dolatcapital.com	<i>Technicals</i> +9122 4096 9720	
Bloomberg Id dolatcapital@bloomberg.net		
Board Lines	+9122 4096 9700	
	+9122 2265 9200	
Fax Lines	+9122 2265 0410	
	+9122 2265 1278	

Dolat Capital Market Pvt. Ltd.

20, Rajabhadur Mansion, 1st Floor, Ambalal Doshi Marg, Fort, Mumbai - 400 001