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FIRST GLOBAL

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India Research

Sector: FMCG

What Happened Last Quarter

Colgate-Palmolive (India) Ltd. (CLGT.IN)(COLG.BO)

Market Perform ***(CMP: Rs.376.55, Mkt. Cap. Rs.51.21 bn, $ 1.23 bn (May 10, '07)***

Relevant Index: S&P CNX Nifty: 4066.8 (May 10, '07)

Improvement in future return ratios due to proposed reduction in share capital a positive

Stock appears fairly valued in comparison to peers, particularly in view of higher dependence on oral care segment

Last report's recommendation: Market Perform (MP: Rs.349.2, Feb. 2, '07)
Relevant Index: CNX Nifty: 4183.5 (Feb. 2, '07)
Relative performance since last rating change (Aug. 25, '06): CNX Nifty: Up 20.1%, CLGT: Up 4.6%

May 11, 2007

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IMPORTANT DISCLOSURES CAN BE FOUND AT THE END OF THIS REPORT

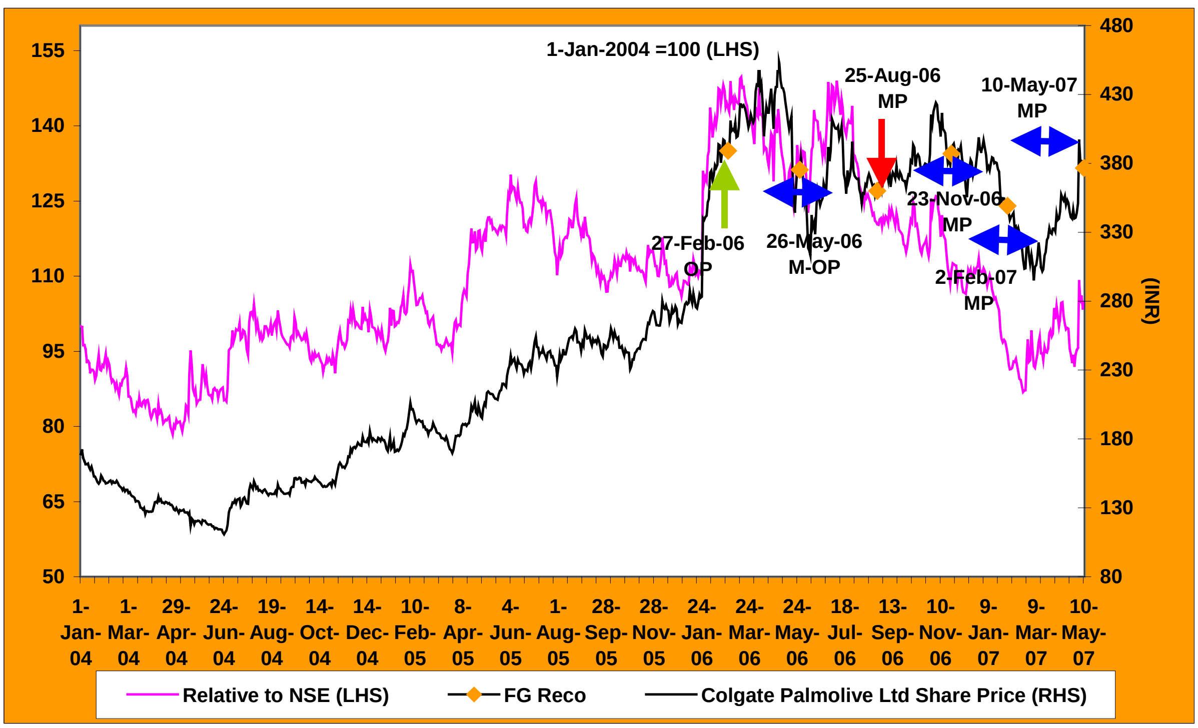
Price and Rating History Chart

Ratings Key

Positive Ratings	B = Buy	BD = Buy at Declines	OP = Outperform
	S-OP = Sector Outperform	M-OP = Market Outperform	MO-OP= Moderate Outperform
Neutral Ratings	H = Hold	MP = Market Perform	SP = Sector Perform
Negative Ratings	S = Sell	SS = Sell into Strength	UP = Underperform
	A =Avoid	MO-UP = Moderate Underperform	S-UP =Sector Underperform

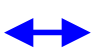
ST: Short Term **MT: Medium Term** **LT: Long Term**

Colgate-Palmolive (India) Ltd. (CLGT.IN)(COLG.BO)



Represents an Upgrade

Represents a Downgrade



Represents Reiteration of Existing Rating

Details of First Global's Rating System given at the end of the report

Financial Snapshot – Standalone (YE March 31)

Key Financials							
(YE Mar 31st) (Rs. mn)	**2003**	**2004**	**2005**	**2006**	***2007E**	**2008E**	**2009E**
Net Sales	**9,523**	**9,378**	**9,615**	**11,276**	**12,951**	**14,676**	**16,401**
Sales Growth (Y-o-Y)		*-1.5%*	*2.5%*	*17.3%*	*14.9%*	*13.3%*	*11.8%*
Other Operating Income	**163**	**97**	**49**	**33**	**199**	**184**	**205**
Op. Inc.Growth (Y-o-Y)		*-40.4%*	*-50.2%*	*-32.4%*	*505.4%*	*-7.1%*	*11.2%*
Total Revenue	**9,686**	**9,475**	**9,663**	**11,308**	**13,150**	**14,860**	**16,606**
Revenue Growth (Y-o-Y)		*-2.2%*	*2.0%*	*17.0%*	*16.3%*	*13.0%*	*11.8%*
EBIDTA	**1,468**	**1,562**	**1,723**	**1,976**	**2,237**	**2,712**	**3,143**
EBIDTA Growth (Y-o-Y)		*6.4%*	*10.3%*	*14.7%*	*13.2%*	*21.2%*	*15.9%*
Net Profit (Excl. extra ordinaries)	**887**	**1,080**	**1,133**	**1,376**	**1,868**	**2,218**	**2,609**
Net Profit Growth (Y-o-Y)		*21.8%*	*4.9%*	*21.5%*	*35.7%*	*18.8%*	*17.6%*
Shareholders Equity	**2,750**	**2,443**	**2,498**	**2,711**	**1,441**	**1,663**	**1,924**
Number of Diluted shares(mn)	136	136	136	136	136	136	136
Key Operating Ratios							
(YE Mar 31st)	**2003**	**2004**	**2005**	**2006**	***2007E**	**2008E**	**2009E**
EPS (Rs) (Diluted) (Excl.Extraordinaries)	**6.52**	**7.94**	**8.33**	**10.12**	**13.73**	**16.31**	**19.19**
EPS Growth (Y-o-Y)		*21.8%*	*4.9%*	*21.5%*	*35.7%*	*18.8%*	*17.6%*
CEPS (Rs.)	8.0	9.7	10.0	12.4	14.9	17.8	20.7
EBIDTA (%)	15.2%	16.5%	17.8%	17.5%	17.0%	18.3%	18.9%
NPM (%)	**9.2%**	**11.4%**	**11.7%**	**12.2%**	**14.2%**	**14.9%**	**15.7%**
RoE (%)	33.9%	41.6%	45.9%	52.8%	90.0%	142.9%	145.5%
RoCE (%)	33.3%	41.4%	45.6%	52.2%	88.4%	139.4%	142.4%
Book Value per share (Rs.)	20.2	18.0	18.4	19.9	10.6	12.2	14.1
Debt/Equity (x)	**0.01**	**0.01**	**0.02**	**0.02**	**0.03**	**0.03**	**0.02**
Dividend Payout (%)	**69%**	**85%**	**95%**	**85%**	**102.9%**	**90.0%**	**90.0%**
Valuation Ratios							
(YE Mar 31st)	**2003**	**2004**	**2005**	**2006**	***2007E**	**2008E**	**2009E**
P/E (x)						**23.1**	**19.6**
P/BV (x)						**30.8**	**26.6**
P/CEPS (x)						21.1	18.1
EV/EBIDTA (x)						18.8	16.1
Market Cap./ Sales (x)						3.5	3.1
Dividend Yield (%)						3.3%	3.9%
DuPont Model							
(YE Mar 31st)	**2003**	**2004**	**2005**	**2006**	***2007E**	**2008E**	**2009E**
EBIDTA/Sales (%)	15%	16%	18%	17%	17%	18%	19%
Sales/Operating Assets (x)	**7.2**	**14.0**	**25.0**	**20.7**	**43.1**	**95.4**	**67.3**
EBIDTA/Operating Assets (%)	**110%**	**231%**	**445%**	**362%**	**734%**	**1742%**	**1273%**
Operating Assets/ Net Assets(x)	0.5	0.3	0.2	0.2	0.1	0.1	0.1
Net Earnings/ EBIDTA (%)	60%	69%	66%	70%	83%	82%	83%
Net Assets/ Equity (x)	1.1	1.0	1.0	1.0	1.0	1.0	1.0
Return on Equity (%)	**33.9%**	**41.6%**	**45.9%**	**52.8%**	**90.0%**	**142.9%**	**145.5%**

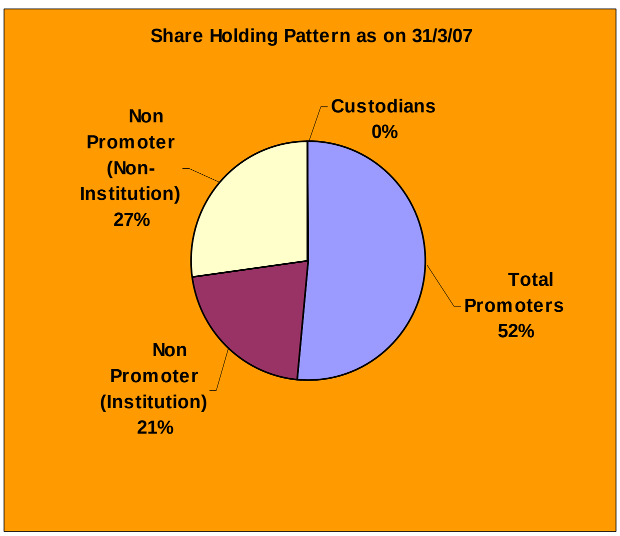
Common Sized Profit & Loss Account							
(YE Mar 31st)	**2003**	**2004**	**2005**	**2006**	***2007E**	**2008E**	**2009E**
Total Revenues	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**	**100%**
Net Raw Material Consumed	47.8%	50.6%	49.7%	45.0%	45.2%	44.7%	44.6%
Manufacturing Expenses	1.4%	1.3%	1.3%	1.7%	1.7%	1.6%	1.6%
Personnel	6.8%	6.8%	7.2%	6.9%	6.9%	6.8%	6.8%
Advertisement and sales promotion Exp.	23.2%	20.1%	18.8%	23.2%	23.3%	22.9%	22.6%
Miscellaneous Exp	5.7%	4.7%	5.1%	5.8%	5.9%	5.6%	5.4%
EBITDA	**15.2%**	**16.5%**	**17.8%**	**17.5%**	**17.0%**	**18.3%**	**18.9%**
Depreciation and Amortization	2.0%	2.6%	2.3%	2.8%	1.2%	1.4%	1.3%
Interest	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%	0.1%
PAT	9.2%	11.4%	11.7%	12.2%	14.2%	14.9%	15.7%

Source: Company Reports, FG estimates

Note: Quarterly numbers may not exactly match with the annual numbers due to differences in classification of income and expenses in the company's quarterly and annual reporting.

** Profit & Loss a/c nos. for FY07 are actual while Balance sheet figures are FG estimate*

Key Statistics



Industry:	FMCG Sector
52 Week Hi:Low:	Rs.441/276
CMP:	Rs.376.55
Avg. Daily Vol (20 days):	0.25mn
Avg. Daily Val (20 days):	Rs.94.36mn
Performance over 52 weeks:	
CPIL:	down 11.3%
Nifty:	up 8.3%

Colgate-Palmolive (India)'s Business in Pictures…(FY07)*

Operations/ Value added
Total Revenues: Rs. 13150 Mn (100%)

Mfg Expenses:
Rs. 219 Mn (1.7%)
Manpower:
Rs. 909 Mn (6.9%)
Other Expenses:
Rs. 773 Mn (5.9%)
S, G & Admin:
Rs. 3063 Mn (23.3%)

RM
Rs. 5949 Mn
(45.2%)

Sources
Chemicals (~8.4%)

Tubes and Containers (~5.6%)
Oils (~1.7%)
Cartons (~2.5%)
Others (~0.9%)

Purchase of finished goods (~25.4%)

Imported – ~12%
Indigenous – ~88%

Pricing
Inputs are mainly dominated by Sodium carbonate and sorbitol prices.
Considerable savings achieved with measures like supplier partnerships

Finished Products
Toiletries, cosmetics ~11677.5 Mn (90.1%)
Tooth/shaving brushes ~ Rs.1260.1 Mn (9.7%)
Others ~ Rs. 23.1 mn (0.2%)

Pricing
-Intense competition resulted into lower the pricing power of the company

Competition
Market leader in Oral care product categories- 48.1% in toothpaste, 43.8% in toothpowder, 34.7% toothbrush, (as on Mar.07).

Intense competition form organised and unorganised segment

New competition from private labels of Organised Retailing companies

Increased ad spend

EBIDTA
Rs.2237 Mn (17.0%)

Below Operating Line

Depreciation: Rs. 153 Mn(1.2%)
Interest Paid: Rs. 10 Mn (0.1%)
Non- Operating Income: Rs. 411 Mn (3.1%)
Extra- Ordinary Income: Rs. -269 mn (-2.1%)

Profit Before Tax
Rs.2218 Mn (16.9%)

Taxes
Rs. 619 Mn (4.7%)

Profit After Tax
Rs. 1599 Mn (12.2%)

Balance Sheet
Rs. 2678 Mn (100%)

Assets

Fixed Assets: Rs. 1600 Mn (59.7%)
Investments: Rs. 1483 Mn (55.4%)
Capital WIP : Rs. 91 mn (3.4%)
Loans & Advances: Rs. 1317 Mn (49.2%)
Debtors: Rs. 74 Mn (2.8%)
Inventory: Rs. 744 Mn (27.8%)
Cash & Bank Balance: Rs. 880 Mn (32.8%)
Others: (0%)

Liabilities

Debt: Rs. 44 Mn (1.6%)
Sundry Creditors: Rs. 2133 Mn (79.6%)
Provisions: Rs. 687 Mn (25.7%)
Reserves: Rs. 1351 Mn (50.4%)
Equity: Rs. 1360 Mn (50.8%)
Others: Rs.690Mn (25.8%)
Deferred Tax Liabilities: Rs. –76 Mn (-2.8%)

Secured:
Rs. 44 Mn

Unsecured: Nil

*(*Profit & Loss a/c nos. pertain to FY07 while Balance sheet nos. pertain to FY06)*

What Happened Last Quarter…

Colgate-Palmolive (India) Ltd.'s (CPIL) (CLGT.IN) (COLG.BO) Q4 FY07 results came in line with our expectations. Net revenues stood at Rs.3.43 bn (as against our estimate of Rs.3.39 bn), up 13.6% Y-o-Y, while the net profit was Rs.498 mn (as against our estimate of Rs.486 mn). For FY07, net revenues grew by 15.2% Y-o-Y to Rs.12.95 bn and the net profit (excluding one-time items) was up 35.7% Y-o-Y to Rs.1.87 bn.

The impressive growth in net revenues continued in Q4 FY07 on the back of a volume growth of 8% Y-o-Y in toothpaste, 20% Y-o-Y in toothbrush and surprisingly, a growth of 9% Y-o-Y in toothpowder. For FY07, CPIL's toothpaste, toothbrush volumes recorded a good volume growth of 9% Y-o-Y and 22% Y-o-Y respectively, while toothpowder performed sluggishly and grew by 5% Y-o-Y, mainly due to a shift from toothpowder to toothpaste among consumers.

Despite a rise of 40bps Y-o-Y to 44.8% in the raw material to sales ratio, the EBIDTA margin (excluding one-time items) improved by 350 bps Y-o-Y to 19.7% in Q4 FY07, mainly due to increasing excise benefits as a result of higher output from plant located in excise free zone, as well as a decline in the advertisement and sales promotion to sales ratio by 90bps Y-o-Y to 18.6% and decline of 190bps Y-o-Y in other expenses to sales ratio to 13.6% in Q4 FY07.

We expect the A&P to sales ratio to remain in the range of 14.5-15%, unless the company launches new products. We further believe that CPIL will generate more excise and tax savings, as its toothpaste production at the Baddi plant has been ramped up and the company planning to increase the plant capacity to 40,000 TPA from the current 24,000 TPA.

The company has proposed to reduce its share capital, in view of its significantly higher treasury portfolio ratio to capital employed of over 100%, invested mainly in bonds, government securities and inter-corporate deposits yielding comparatively low returns, as well as suppressing return ratios

The company has proposed to reduce its share capital, in view of its significantly higher treasury portfolio ratio to capital employed of over 100%, invested mainly in bonds, government securities and inter-corporate deposits yielding comparatively low returns, as well as suppressing return ratios. Management has proposed to reduce the excess capital employed in the business (without reducing the total number of share) by way of reduction in the share capital to the extent of Rs.1224 mn by reducing the face value of the share from Rs.10 to Rs.1 and thereby distributing Rs.9 as 'deemed dividend' to the shareholders, which is subject to the approval of shareholders and the High court. The company has declared a dividend of 95% of the face value of the share (before reduction) for FY07.

Valuation

We believe that the rising income levels and low per capita consumption of oral care products in India, in comparison to countries such as China and Brazil, will help the company maintain its sales growth in the double-digits. In view of increasing excise benefits from the Baddi plant, we are making an upward revision to our net revenue estimate to Rs.14.68 bn (as against our earlier estimate of Rs.14.47 bn). However, we are maintaining our EPS estimate (excl. extraordinaries/one-time items) at Rs.16.31, owing to an expected decline in other income, as a result of sale of investments to facilitate the proposed reduction in share capital, which is to be repaid in the form of dividend to the shareholders.

Although the improvement in future return ratios, as a result of the proposed reduction in share capital, is positive for CPIL, the stock appears fairly valued in comparison to that of its peers, especially considering the company's higher dependence on the oral care segment. We, therefore, reiterate our rating of Market Perform on CPIL

CPIL currently trades at a P/E of 23.1x and 19.6x our FY08 and FY09 earnings estimate respectively. Although the improvement in future return ratios, as a result of the proposed reduction in share capital, is positive for CPIL, the stock appears fairly valued in comparison to that of its peers, especially considering the company's higher dependence on the oral care segment. We, therefore, reiterate our rating of Market Perform on CPIL.

Comparative Valuation – Indian Companies

Company Name	Year	P/E (x)		P/S(x)		P/BV(x)	EV/SALES(x)		EV/EBIDTA(x)		EBIDTA Margin	ROE	ROCE	Annual EPS Growth	Annual Sales Growth
	End	FY08E	FY09E	FY08E	FY09E	LFY	FY08E	FY09E	FY08E	FY09E	FY08E	FY08E	FY08E	(09/08)	(09/08)
Hind Lever	Dec	23.4	20.1	3.1	2.7	15.4	3.0	2.7	18.8	16.2	16.1%	61.2%	59.8%	16.3%	11.7%
Marico	Mar	24.1	20.3	1.9	1.7	17.4	1.9	1.6	13.6	11.6	14.0%	60.3%	32.0%	18.5%	12.0%
ITC Ltd.	Mar	20.7	17.7	4.4	3.8	6.0	4.2	3.6	13.3	11.3	31.4%	26.9%	26.7%	16.9%	16.4%
Colgate-Palmolive/India	**Mar**	**23.1**	**19.6**	**3.5**	**3.1**	**31.8**	**3.5**	**3.1**	**18.8**	**16.1**	**18.5%**	**142.9%**	**139.4%**	**17.6%**	**11.8%**
Dabur	Mar	24.0	20.6	3.2	2.9	13.5	3.2	2.9	18.5	15.8	17.5%	49.2%	43.5%	16.8%	12.7%

Comparative Valuation - Global Companies

Company Name	Year	P/E		P/S		P/BV	EV/SALES		EV/EBIDTA		EBIDTA	ROE	ROCE	Annual EPS Growth	Annual Sales Growth
	End	FY08E	FY09E	FY08E	FY09E	LFY	FY08E	FY09E	FY08E	FY09E	FY08E	FY08E	FY08E	(09/08)	(09/08)
Colgate-Palmolive/India	**Mar**	**23.1**	**19.6**	**3.5**	**3.1**	**31.8**	**3.5**	**3.1**	**18.8**	**16.1**	**18.5%**	**142.9%**	**139.4%**	**17.6%**	**11.8%**
PROCTER & GAMBLE CO	June	20.6	18.0	2.7	2.6	3.2	3.1	2.9	12.4	11.4	24.8%	51.9%	34.3%	14.0%	5.6%
AVON PRODUCT	Dec.	24.0	20.2	2.1	2.0	20.4	2.1	2.0	13.5	11.9	15.4%	85.4%	51.2%	18.5%	5.4%
COLGATE/ PALMOLIVE	Dec.	20.8	18.8	2.7	2.6	24.2	2.9	2.8	12.1	11.4	24.2%	94.1%	40.0%	10.7%	5.3%

Source- FG estimates for HLL, Colgate-Palmolive (India), Marico, ITC and Dabur consensus estimates for global companies

LFY: Last Financial Year

FY08= CY07 for HLL, Avon Product

Quarterly Result Analysis (Standalone)

YE Mar.,31st (Rs.mn)	Q4 FY07	Q4 FY06	Y-o-Y %	Q3 FY07	Seq. Q-o-Q %	FY07	FY06	Y-o-Y %
Net Sales	**3,433**	**3,021**	***13.6%***	**3,223**	***6.5%***	**12,951**	**11,242**	***15.2%***
Add: Other Operating income	174	115	*50.6%*	166	*4.3%*	610	355	*71.8%*
Total Revenue	**3,606**	**3,136**	*15.0%*	**3,389**	*6.4%*	**13,561**	**11,597**	*16.9%*
Less: Total Expenditure								
Net Raw Material consumed	593	629	*-5.8%*	585	*1.4%*	2,337	2,112	*10.7%*
Purchase of Finished Goods	946	711	*33.0%*	892	*6.1%*	3,427	2,942	*16.5%*
Advertisement and sales promotionExp.	639	596	*7.2%*	452	*41.3%*	2,075	1,978	*4.9%*
Personnel	251	225	*11.3%*	302	*-17.0%*	1,119	915	*22.3%*
Other Expenditure	468	467	*0.1%*	448	*4.5%*	1,955	1,452	*34.7%*
Total Expenditure	**2,897**	**2,629**	***10.2%***	**2,679**	***8.2%***	**10,913**	**9,398**	***16.1%***
EBIDTA	**709**	**507**	***40.0%***	**711**	***-0.3%***	**2,649**	**2,199**	***20.5%***
Less: Depreciation	37	37	*-2.4%*	44	*-16.3%*	153	314	*-51.4%*
EBIT	**672**	**469**	***43.3%***	**667**	***0.8%***	**2,496**	**1,885**	***32.4%***
Less: Interest	2.5	1.8	*38.9%*	2.9	*-13.8%*	9.8	5.9	*66.1%*
Profit Before Extraordinary items and Tax	**670**	**467**	***43.4%***	**664**	***0.8%***	**2,486**	**1,879**	***32.3%***
Less: Extraordinary Expense (net)	-5	0		0		268	0	
Profit Before Tax	**675**	**467**	***44.5%***	**664**	***1.6%***	**2,218**	**1,879**	***18.0%***
Less: Total Tax	**172**	**97**	***76.7%***	**161**	***6.8%***	**619**	**503**	***23.1%***
Profit After Tax	**503**	**370**	***36.0%***	**503**	***0.0%***	**1,599**	**1,376**	***16.2%***
Proforma Net Profit	**498**	**370**	***34.6%***	**503**	***-1.1%***	**1,868**	**1,376**	***35.7%***
Shares Outstanding (mn)	136	136	*0.0%*	136	*0.0%*	181	181	*0.0%*
Reported EPS (Rs.)	**3.70**	**2.72**	***36.0%***	**3.70**	***0.0%***	**8.82**	**7.59**	***16.2%***
Proforma EPS (Rs.)	**3.66**	**2.72**	***34.6%***	**3.70**	***-1.1%***	**10.30**	**7.59**	***35.7%***
RM/Net Sales	17.3%	20.8%		18.1%		18.0%	18.8%	
Purchase of Finished Goods	27.6%	23.5%		27.7%		26.5%	26.2%	
Advertisement and sales promotionExp./Net Sales	18.6%	19.7%		14.0%		16.0%	17.6%	
Personnel/Net Sales	7.3%	7.5%		9.4%		8.6%	8.1%	
Other Expenditure/Net sales	13.6%	15.5%		13.9%		15.1%	12.9%	
EBIDTA Margin	19.7%	16.2%		21.0%		19.5%	19.0%	
Proforma NPM	14.5%	12.3%		15.6%		14.4%	12.2%	
Effective Tax Rate	25.6%	20.8%		24.2%		24.9%	26.8%	

Source: Company Reports

Note: Quarterly numbers may not exactly match with the annual numbers due to differences in classification of income and expenses in the company's quarterly and annual reporting.

- CPIL recorded a growth of 13.6% Y-o-Y in net sales to Rs.3.43 bn in Q4 FY07, driven by a good volume growth in toothpaste (up 8% Y-o-Y), toothpowder (up 9% Y-o-Y) and toothbrush (up 20% Y-o-Y) in the quarter. While net sales for FY07 grew by 15.2% Y-o-Y to Rs.12.95 bn, on the back of a healthy volume growth in toothpaste (up 9% Y-o-Y), toothbrush (up 22% Y-o-Y), toothpowder reported a sluggish volume growth and was up 5% Y-o-Y in FY07.

- Although the raw material to sales ratio increased by 40bps to 44.8%, the EBIDTA margin improved by 350bps Y-o-Y to 19.7%, on account of a decline in the advertisement and sales promotion to sales ratio by 90bps Y-o-Y to 18.6%, as well as a decline in other expenses to sales ratio by 190bps to 13.6% in Q4 FY07. The increased output from the company's plant located in Baddi, where it enjoys excise duty exemption, also contributed towards the margin expansion.

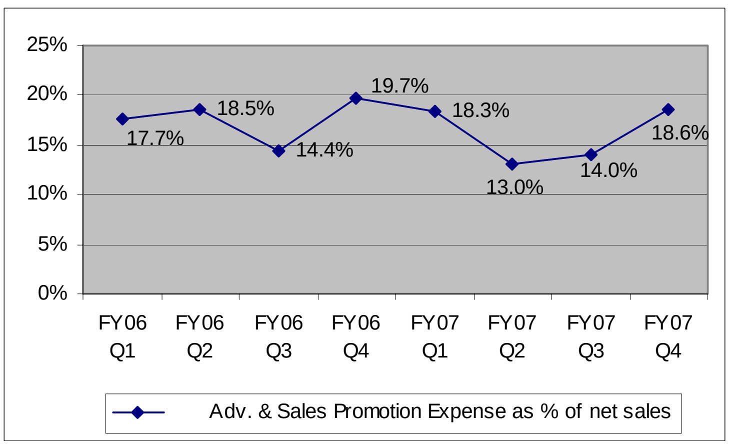
- After providing for interest of Rs.2.5 mn (as against Rs.1.8 mn in Q4 FY06) and depreciation of Rs.37 mn, the PAT (excl. extraordinaries/one time items) stood at Rs.498 mn, up 34.6% Y-o-Y in Q4 FY07.

Advertising expenditure to depend upon new launches

Advertisement and sales promotion expenses

	FY06				FY07			
(Rs.mn)	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Adv. & Sales Promotion Expense	456	516	410	596	567	417	452	639
% Y-o-Y	*17.2%*	*46.3%*	*36.1%*	*83.2%*	*24.3%*	*-19.2%*	*10.3%*	*7.2%*

Source: Company reports



Source: Company reports

Until Q1 FY07, CPIL had been incurring heavy advertisement and sales promotion expenditure, which was essential for backing its new product launches, *'Colgate Maxfresh Gel'*, *'Colgate Active Salt' and 'Colgate Advanced Whitening'* in the toothpaste category, as well as the re-launch of *'Colgate Toothpowder'* in the toothpowder segment. However, from Q2 FY07 onwards, CPIL's advertising expenditure as a percentage of net sales has been declining and was down 90bps Y-o-Y to 18.6% in the quarter, marking the highest level in FY07, as the company launched a new variant of *'Colgate Maxfresh'*, *'Colgate Maxfresh Citrus Blast'* in Q4 FY07. We believe that the company's advertisement and promotional expenses, as a percentage of sales, is expected to remain in the range of 14.5-15% in FY08, unless the company launches any new products.

Benefits to continue on back of higher production from tax free zones

In FY06, CPIL commenced production at its new plant in Baddi, Himachal Pradesh, which has a capacity of 24,000 tpa and provides significant excise and income tax benefits. The company is planning to ramp-up the Baddi unit's capacity to 40,000 tpa in order to meet the growing demand and we expect it to continue benefiting from the tax sops on higher production from tax free zones. CPIL increased the output by 62% Y-o-Y in FY07, which resulted in a good amount of savings through excise and tax benefits. The company may reinvest the savings generated towards building strong brands.

Rewarding investors with a proposal to return excess capital

CPIL's treasury portfolio to capital employed ratio is over 100%, as its investments in bonds/govt. securities and inter-corporate deposit resulted in a higher income from non-operating activities. Considering the 'Treasury business' is a non-core activity, the company has decided to reduce its share capital (without reducing the total number of shares) to the extent of Rs.1224 mn by reducing the face value of the share from Rs.10 to Rs.1 and thereby, distributing Rs.9 as 'deemed dividend' to shareholders, which is subject to the approval of shareholders and the High Court. The company has declared a dividend of 95% of the face value of the share (before reduction) for FY07.

Implications of reduction in share capital

- Reduction in excess cash invested in low yielding investments, thereby increasing investor value
- Significant increase in return ratios
- Reduction in interest income in the future

Earnings Model – CPIL (Standalone)

(YE Mar 31st) (Rs. mn)	FY07-Q1	FY07-Q2	FY07-Q3	FY07-Q4	FY-07	FY08-Q1	FY08-Q2	FY08-Q3	FY08-Q4	FY-08
Net Sales	**3,096**	**3,200**	**3,223**	**3,433**	**12,951**	**3,508**	**3,632**	**3,669**	**3,867**	**14,676**
Other Operating Income	148	122	166	174	610	149	123	143	151	566
Total Revenue	**3,244**	**3,323**	**3,389**	**3,606**	**13,561**	**3,657**	**3,756**	**3,812**	**4,018**	**15,242**
Net Raw Materials	623	537	585	593	2,337	677	636	638	688	2,639
Purchase of Finished Goods	733	856	892	946	3,427	824	926	992	1,004	3,746
Personnel	268	298	302	251	1,119	298	334	345	290	1,267
Advertisement and sales promotion Exp.	567	417	452	639	2,075	621	499	512	630	2,262
Other Exp	504	535	448	468	1,955	544	576	508	605	2,233
Total Cost	**2,695**	**2,642**	**2,679**	**2,897**	**10,913**	**2,964**	**2,971**	**2,996**	**3,217**	**12,148**
EBIDTA	**549**	**681**	**711**	**709**	**2,649**	**693**	**785**	**816**	**800**	**3,094**
Less: Depreciation	37	36	44	37	153	50	51	51	52	204
EBIT	**512**	**645**	**667**	**672**	**2,496**	**643**	**734**	**765**	**748**	**2,890**
Less: Interest	2	2	3	3	10	2	2	2	2	8
Extraordinary Expenses	0	274	0	-5	268	0	0	0	0	0
PBT	**509**	**369**	**664**	**675**	**2,218**	**641**	**732**	**763**	**746**	**2,882**
Less: Total Tax	149	137	161	172	619	183	176	160	146	664
Profit After Tax	**361**	**232**	**503**	**503**	**1,599**	**458**	**556**	**603**	**601**	**2,218**
Proforma PAT	**361**	**505**	**503**	**498**	**1,868**	**458**	**556**	**603**	**601**	**2,218**
Earnings Per Share (In Rs.)										
Diluted	2.65	1.70	3.70	3.70	11.76	3.37	4.09	4.43	4.42	16.31
Diluted (Excl. extraordinaries)	2.65	3.72	3.70	3.66	13.73	3.37	4.09	4.43	4.42	16.31
Weighted average Shares Outstanding (mn)	136.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0	136.0
EBIDTA Margin (%)	16.9%	20.5%	21.0%	19.7%	19.5%	18.9%	20.9%	21.4%	19.9%	20.3%
EBIT (%)	15.8%	19.4%	19.7%	18.6%	18.4%	17.6%	19.5%	20.1%	18.6%	19.0%
PBT Margin (%)	15.7%	11.1%	19.6%	18.7%	16.4%	17.5%	19.5%	20.0%	18.6%	18.9%
NPM (%)	11.1%	7.0%	14.9%	14.0%	11.8%	12.5%	14.8%	15.8%	15.0%	14.6%
Effective Tax Rate (%)	29.2%	21.4%	24.2%	25.6%	24.9%	28.5%	24.0%	21.0%	19.5%	23.0%

Source: Company Reports, FG Estimates

Note – Due to difference in classification of income and expenses in quarterly and annual results some of the items in the earnings model may not match with the annual nos.

IMPORTANT DISCLOSURES

Price Target

Price targets (if any) are derived from a subjective and/or quantitative analysis of financial and nonfinancial data of the concerned company using a combination of P/E, P/Sales, earnings growth, discounted cash flow (DCF) and its stock price history.

The Risks that may hinder the achievement of our price target/investment thesis are:

- ***Increase in competition***
- ***Inability to pass on cost increases to customers***
- ***Change in demand pattern of consumers***

Rating system of First Global

Our rating system consists of three categories of ratings: Positive, Neutral and Negative. Within each of these categories, the rating may be absolute or relative. When assigning an absolute rating, the price target, if any, and the time period for the achievement of this price target, are given in the report. Similarly when assigning a relative rating, it will be with respect to certain market/sector index and for a certain period of time, both of which are specified in the report.

Rating in this report is relative to: CNX Nifty 50 Index

Positive Ratings

(i) Buy (B) – *This rating means that we expect the stock price to move up and achieve our specified price target, if any, over the specified time period.*

(ii) Buy at Declines (BD) – *This rating means that we expect the stock to provide a better (lower) entry price and then move up and achieve our specified price target, if any, over the specified time period.*

(iii) Outperform (OP) – *This is a relative rating, which means that we expect the stock price to outperform the specified market/sector index over the specified time period.*

Neutral Ratings

(i) Hold (H) – *This rating means that we expect no substantial move in the stock price over the specified time period.*

(ii) Marketperform (MP) – *This is a relative rating, which means that we expect the stock price to perform in line with the performance of the specified market/sector index over the specified time period.*

Negative Ratings

(i) Sell (S) – *This rating means that we expect the stock price to go down and achieve our specified price target, if any, over the specified time period.*

(ii) Sell into Strength (SS) – *This rating means that we expect the stock to provide a better (higher) exit price in the short term, by going up. Thereafter, we expect it to move down and achieve our specified price target, if any, over the specified time period.*

(iii) Underperform (UP) – *This is a relative rating, which means that we expect the stock price to underperform the specified market/sector index over the specified time period.*

(iv) Avoid (A) – *This rating means that the valuation concerns and/or the risks and uncertainties related to the stock are such that we do not recommend considering the stock for investment purposes.*

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