



Colgate Palmolive

STOCK INFO.	BLOOMBERG
BSE Sensex: 15,261	CLGT IN
	REUTERS CODE
S&P CNX: 4,440	COLG.BO

30 July 2007

Neutral

Previous Recommendation: Neutral

Rs411

Equity Shares (m)	136.0
52-Week Range (Rs)	430/291
1,6,12 Rel. Perf. (%)	1/2/-39
M.Cap. (Rs b)	55.9
M.Cap. (US\$ B)	1.4

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	12,951	1,933	14.2	47.9	28.9	199.3	70.1	69.3	43.0	25.6
03/08E	14,777	2,462	18.1	27.4	22.7	69.3	136.3	133.5	3.8	2.0
03/09E	16,733	2,923	21.5	18.7	19.1	41.9	272.9	262.8	3.3	1.4

- 1QFY08 results are above expectation with 69% increase in PAT in comparison to Rs609m, while topline growth has been 13.3% at Rs3.5b slightly lower than our estimates of Rs3.55b.
- Gross margins have improved by just 30bp to 56.5% as higher raw material costs have kept the margins under check. EBITDA margins have jumped by 680bp from 12.9% to 19.7%. Advertising cost has declined by 7.3% to 15% of sales due to higher base effect and lack of any big marketing initiative during the quarter. Staff cost declined 17.9% to Rs223m due to write-back of Rs30m and benefits of Sewri plant closure. Tax rate has declined to 20% from 23.5% due to rising production at the Baddi unit.
- Toothpaste volumes grew by a strong 10% for 1QFY08, while toothbrush volumes grew by 6%. Recent launches like Colgate Active Salt and Colgate Max Fresh achieved 5% market share. Colgate dental cream and Colgate Cibaca also grew consistently. The company launched Palmolive Spa range of body washes, aimed to maintain the leadership in the small but high potential body wash category.
- We are reducing our estimates of staff costs while ad expenses have been maintained. We are reducing the tax rates from 25% to 20% based on management guidance given that the incremental production is rising at Baddi. The company expects to ramp up the capacity at Baddi unit to 40,000 TPA by the end of current year.
- While the PAT growth during the current year is based on non operational gains, volume growth potential is limited due to slow category growth in oral care. We are increasing FY08 and FY09 EPS estimates from Rs16.4 and Rs18.5 to Rs18.1 and Rs21.5 respectively. The stock trades at 21.4x FY08 and 18.5x FY09 earnings. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Net Sales	3,096	3,200	3,223	3,433	3,507	3,625	3,700	3,946	12,951	14,777
YoY Change (%)	19.9	15.1	12.8	13.6	13.3	13.3	14.8	14.9	15.2	14.1
Total Exp	2,695	2,642	2,679	2,897	2,817	2,975	3,050	3,264	-10,863	12,106
EBITDA	401	558	544	536	689	650	650	682	2,089	2,671
Margins (%)	12.9	17.4	16.9	15.6	19.7	17.9	17.6	17.3	16.1	18.1
Depreciation	37	36	44	37	44	44	45	45	-153	179
Interest	2	2	3	3	3	2	1	0	-10	6
Other Income	148	122	166	174	135	135	185	141	585	596
PBT	509	643	664	670	777	739	789	778	2,512	3,083
Tax	149	137	161	172	158	148	158	157	-579	621
Rate (%)	29.2	21.4	24.2	25.6	20.3	20.0	20.0	20.1	23.0	20.1
Adjusted PAT	361	505	503	498	619	591	631	622	1,933	2,462
YoY Change (%)	1.6	63.7	-13.6	34.6	71.6	16.9	25.3	24.8	47.9	27.4
Extraordinary Expenses	0	-274	0	8	10	0	0	0	-331	20
Reported PAT	361	232	503	506	609	591	631	622	1,602	2,482
YoY Change (%)	28.9	-24.9	20.6	36.7	68.8	155.0	25.3	22.8	16.4	55.0

E: MOST Estimates

Steady volume growth in toothpastes; toothbrushes report lower growth

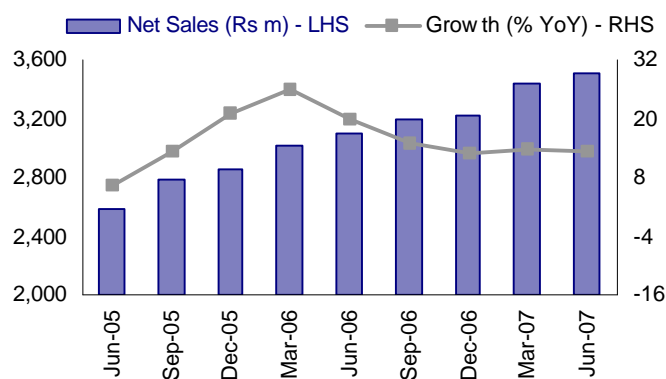
Colgate reported double-digit volume growth with Toothpaste volumes growing by 10% in 1QFY08. New launches like Active Salt and Colgate Max Fresh continued to drive increased volumes and achieved 5% share. Traditional brands like Colgate dental cream and Colgate Cibaca grew consistently. The company has not only been maintaining its dominance but gaining market share at the cost of competitors.

	JAN-MARCH '07	MARCH JUNE '07
Colgate	48.2	49.2
HLL	30.0	30.0
Dabur	10.0	11.5

Source: Company/Motilal Oswal Securities

Toothbrushes reported a sedate volume growth of 6%. The company has launched a slew of toothbrushes like Colgate Motion, Colgate Super Flexible and Colgate 360 which are expected to increase the growth rates in the coming quarters

TREND IN SALES GROWTH



Source: Company/Motilal Oswal Securities

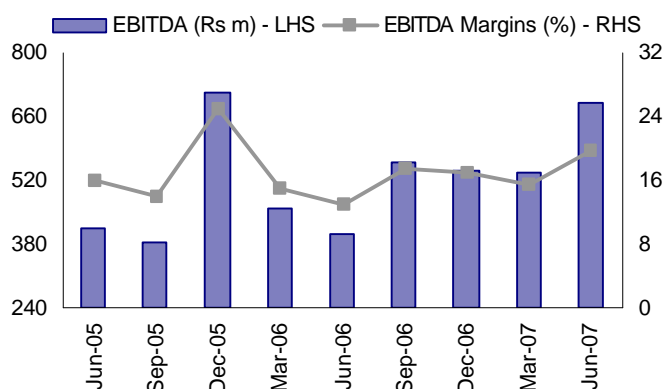
Benefits of Sewri closure and lower advertising boosts profits

Gross margins have improved by just 30bp to 56.5% as higher raw material costs have kept the margins under check. EBITDA margins have jumped by 680bp from 12.9% to 19.7%. Advertising cost has declined by 7.3% to 15% of sales due to higher base effect and lack of any big marketing

initiative during the quarter. Advertising spend has been lumpy in the past due to several launches and various activation programs from time to time. Management expects the advertising cost to remain at last year's levels of 16% for the full year.

Staff costs declined 17.9% to Rs223m due to writeback of Rs30m. In addition, the Sewri plant closure resulted in lower staff costs. Management has guided for a small increase in staff cost as the benefits of Sewri plant closure will result in lower cost.

TREND IN EBITDA MARGINS



Source: Company/Motilal Oswal Securities

Baddi production leads to lower tax rate; revising estimates The company has reported a decline in the tax rate to 20% from 23% last year as increased production at Baddi has resulted in a lower tax rate. Management expects the capacity to ramp up to 40,000tpa by the end of current year, the benefits of which would flow through in the forthcoming year also. We are reducing our tax rate estimates to 20% from the earlier guidance of 25%. We are revising our FY08 and FY09 EPS estimates to Rs18.5 and Rs21.9 from our earlier estimates of Rs16.4 and Rs18.5 respectively. Our estimates factor in lower taxes and staff costs in comparison to that estimated earlier.

Valuation and view

We expect overall volumes to grow at 10% due to mid single digit volume growth in the Toothpowder segment. The company has a dominant position in body washes, a

small but high-growth category, which augurs well for long term growth. While the PAT growth during the current year is based on non operational gains, volume growth potential is limited due to slow category growth in oral care. We are

increasing FY08 and FY09 EPS estimates from Rs16.4 and Rs18.5 to Rs18.1 and Rs21.5 respectively. The stock trades at 21.4x FY08 and 18.5x FY09 earnings. We maintain **Neutral**.

Colgate Palmolive: an investment profile

Company description

Colgate is a market leader in the toothpaste segment with a market share of 50%. With the relaunch of Cibaca Top in early CY04 the company has captured 38% of low price segment. Oral care is one of the most underpenetrated segments of the FMCG market with a penetration of 32%. Colgate has invested Rs700m in a toothpaste facility at Baddi in Himachal Pradesh which will accrue fiscal benefits.

Key investment arguments

- Colgate has regained its leadership position in the oral care market. In FY05, it grew 14% in volumes compared to 9% industry growth.
- Pricing environment has improved as is evident by the latest price hikes. This would aid margin improvement.

Key investment risks

- P&G's entry in the oral care market with its Crest brand, at a lower price point than Colgate.
- Higher input cost prices could affect margins.

COMPARATIVE VALUATIONS

		COLGATE	HLL	NESTLE
P/E (x)	FY08E	21.4	27.2	27.7
	FY09E	18.0	24.0	23.7
EV/EBITDA (x)	FY08E	1.8	24.3	16.9
	FY09E	1.3	20.9	14.5
EV/Sales (x)	FY08E	3.8	3.1	3.3
	FY09E	3.3	2.8	2.9
P/BV (x)	FY08E	65.2	16.3	16.5
	FY09E	39.4	15.7	14.9

SHAREHOLDING PATTERN (%)

	JUN-07	MAR-07	JUN-06
Promoter	51.0	51.0	51.0
Domestic Inst	9.9	9.9	11.6
Foreign	12.1	12.1	10.2
Others	27.0	27.0	27.2

Recent developments

- Colgate has introduced *Colgate MaxFresh Citrus Blast* in three sizes – 40gm, 80gm and 140gm.
- The company has expanded the production facility at Baddi to 40,000 ton and full capacity utilization is expected by the end of 4QFY08.
- The company has announced capital reduction by paying off Rs9 from the face value as deemed dividend to the shareholders.

Valuation and view

- We have an EPS forecast of Rs18.1 for FY08 and Rs21.5 for FY09.
- The stock is trading at 21.4x FY08E EPS and 18.0x FY09E EPS. We maintain **Neutral** rating on the stock.

Sector view

- We have a cautious view on the sector, given the inflationary tendency in the economy, which could impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects bright, given rising incomes and low penetration.

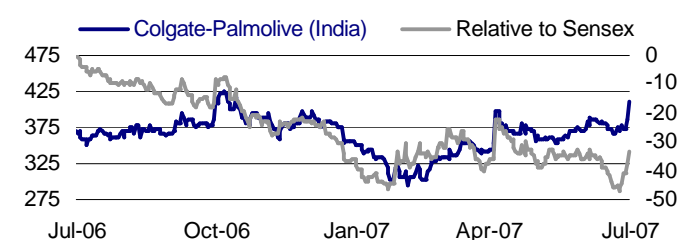
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	18.1	16.4	10.5
FY09	21.5	19.7	9.4

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
411	430	11.1	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Net Sales	9,642	11,242	12,951	14,777	16,733	
Change (%)	2.7	16.6	15.2	14.1	13.2	
Total Expenditure	-7,968	-9,504	-10,863	-12,106	-13,523	
EBITDA	1,674	1,738	2,089	2,671	3,210	
Change (%)	14.4	3.8	20.2	27.9	20.2	
Margin (%)	17.4	15.5	16.1	18.1	19.2	
Depreciation	-224	-314	-153	-179	-189	
Int. and Fin. Charges	-12	-6	-10	-6	-6	
Other Income	342	461	254	616	639	
Profit before Taxes	1,781	1,879	2,181	3,103	3,654	
Change (%)	17.6	5.5	16.1	42.3	17.8	
Margin (%)	18.5	16.7	16.8	21.0	21.8	
Tax	-700	-529	-746	-652	-767	
Deferred Tax	52	26	167	31	37	
Tax Rate (%)	-36.4	-26.8	-26.5	-20.0	-20.0	
Adjusted PAT	1,124	1,307	1,933	2,462	2,923	
Change (%)	4.1	16.3	47.9	27.4	18.7	
Margin (%)	11.7	11.6	14.9	16.7	17.5	
Reported PAT	1,133	1,376	1,602	2,482	2,923	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	1,360	1,360	1,360	136	136	
Reserves	1,138	1,351	1,445	671	1,200	
Net Worth	2,498	2,711	2,805	807	1,336	
Loans	40	44	43	44	44	
Deferred Liability	-86	-76	-257	-288	-324	
Capital Employed	2,452	2,678	2,591	562	1,055	
Gross Block	3,244	4,035	4,115	4,465	4,715	
Less: Accum. Depn.	-2,447	-2,435	-2,438	-2,616	-2,805	
Net Fixed Assets	797	1,600	1,677	1,848	1,910	
Capital WIP	675	91	243	91	91	
Investments	1,608	1,483	1,333	0	500	
Curr. Assets, L&A	2,493	3,014	3,564	2,954	3,361	
Inventory	745	744	803	855	906	
Account Receivables	174	65	93	125	142	
Cash and Bank Balance	561	879	1,117	410	703	
Others	1,014	1,327	1,550	1,564	1,610	
Curr. Liab. and Prov.	3,122	3,511	4,226	4,330	4,806	
Account Payables	2,024	2,386	2,833	3,265	3,684	
Other Liabilities	126	437	324	280	292	
Provisions	971	687	1,069	785	831	
Net Current Assets	-628	-497	-662	-1,377	-1,445	
Application of Funds	2,452	2,678	2,591	562	1,055	

E: MOST Estimates

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	8.3	9.6	14.2	18.1	21.5	
Cash EPS	9.9	11.9	1.5	19.4	22.9	
BV/Share	18.4	19.9	2.1	5.9	9.8	
DPS	7.0	7.5	9.5	12.8	15.0	
Payout %	84.7	78.0	66.8	70.0	70.0	
Valuation (x)						
P/E		42.8	28.9	22.7	19.1	
Cash P/E		34.5	268.1	21.2	18.0	
EV/Sales		4.8	43.0	3.8	3.3	
EV/EBITDA		30.8	25.6	2.0	1.4	
P/BV		20.6	199.3	69.3	41.9	
Dividend Yield (%)		18	2.3	3.1	3.7	
Return Ratios (%)						
RoE	37.3	50.2	70.1	136.3	272.9	
RoCE	45.2	49.5	69.3	133.5	262.8	
Working Capital Ratios						
Debtor (Days)	6	2	2	3	3	
Asset Turnover (x)	57.0	10.2	12.8	31.3	36.0	
Leverage Ratio						
Debt/Equity (x)	0.0	0.0	0.0	0.1	0.0	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
OP/(loss) before Tax	1,506	1,669	2,334	2,946	3,539	
Int./Div. Received	278	147	188	143	121	
Interest Paid	12	6	10	6	6	
Direct Taxes Paid	-700	-469	-704	-578	-684	
(Incr)/Decr in WC	-278	-186	-403	-7	-363	
CF from Operations	817	1,167	1,423	2,510	2,620	
(Incr)/Decr in FA	-751	-197	-412	-228	-287	
(Pur)/Sale of Investments	-449	124	150	1,333	-500	
CF from Invest.	-1,200	-73	-262	1,105	-787	
Issue of Shares	0	0	0	-1,224	0	
(Incr)/Decr in Debt	-17	-4	1	-1	0	
Dividend Paid	-1,078	-1,163	-1,481	-2,033	-2,394	
Others	759	151	557	-1,065	855	
CF from Fin. Activity	-336	-1,016	-923	-4,323	-1,539	
Incr/Decr of Cash	-719	78	238	-708	294	
Add: Opening Balance	1,280	561	879	1,117	410	
Closing Balance	561	639	1,117	409	703	



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Colgate Palmolive

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|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

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