

October 31, 2011

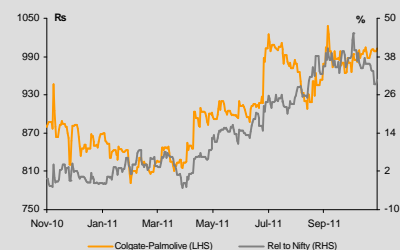
Reco	Previous Reco
Reduce	Reduce
CMP	Target Price
Rs 1003	Rs 826
EPS change FY12E/13E (%)	-4/-9
Target Price change (%)	na
Nifty	5,327
Sensex	17,705

### Price Performance

(%)	1M	3M	6M	12M
Absolute	2	3	12	15
Rel. to Nifty	(5)	6	20	29

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Consumers
Bloomberg	CLGT@IN
Equity Capital (Rs mn)	136
Face Value(Rs)	1
No of shares o/s (mn)	136
52 Week H/L	1,057/783
Market Cap (Rs bn/USD mn)	136/2,787
Daily Avg Volume (No of sh)	74679
Daily Avg Turnover (US\$m)	1.5

### Shareholding Pattern (%)

	Sep-11	Jun-11	Mar-11
Promoters	51.0	51.0	51.0
FII/NRI	19.6	19.2	19.0
Institutions	7.3	7.5	7.2
Private Corp	1.1	1.2	1.4
Public	21.0	21.1	21.4

Source: Capitaline

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- **Sales growth at 19% to Rs 6.6bn, higher than our expectations, is driven by 13% volume growth. APAT (ex-VRS of Rs82mn) at Rs 1.0 bn is marginally below our estimates**
- **Volume market shares in key categories of toothpastes and toothbrush witness a decline – 70 bps to 53% and 420 bps and 36.3%, respectively**
- **While higher realizations offset input cost pressure, higher A&P spends resulted in 196bps decline in operating margins to 18.4%.**
- **Reduce FY12E/FY13E EPS by 4% and 9% to Rs 31.4 and Rs 34.3, respectively. Maintain our Reduce rating on the stock with a target price of Rs 826/share**

### Q2FY12 revenue beats expectations... APAT marginally lower...

Colgate witnessed strong revenue growth of 19% yoy to Rs 6.6bn driven by 13% volume growth in the oral care segment. Strong growth in its flagship brands of Colgate Dental Cream, Colgate Active Salt and Colgate Total coupled with healthy performance of newly launched products including Colgate Plax mouthwash and Colgate Sensitive Pro-Relief supported this healthy growth momentum. While higher realizations offset higher input costs, increase in A&P spends (17.4% vs. 14.3% in 2QFY11) resulted in 196bps decline in EBITDA margins to 18.4%. Ex-VRS cost of Rs 82 mn (attributed to a factory closure in Hyderabad), APAT registered modest growth of 6% yoy to Rs 1bn.

### Rising competition restricts operating margin expansion...

While the oral care portfolio registered healthy volume growth during the quarter, increased competitive activity coupled with increased brand investments behind recently launched products resulted in higher A&P spends (17.4% vs. 14.3% in 2QFY11) during this quarter. We expect A&P spends to remain high in the ensuing quarters owing to these factors. This will continue to keep margins under check in the forthcoming quarters.

### Volume market shares witness a decline...

Volume market shares witnessed a decline – toothpaste market shares declined by 70 bps to 52.6% and toothbrush market shares witnessed a decline of 420 bps to 36.3% (Oct-Sept 2011 over Jan-Sept 2010). Nevertheless, Colgate Plax mouthwash continued to gain market shares with volume share at 26.4%, an increase of 1000 bps over Jan-Sept 2010 market share.

### Retain our REDUCE rating with a TP of Rs 826/share

We reduce our FY12E/FY13E EPS by 4% to Rs 31.4 and 9% to Rs 34.3, respectively, to factor in higher operating costs incurred during this quarter. We believe valuations at 29.3x FY13E EPS capture the fundamental growth story and leave little room for downside risks. Moreover, with no upgrade catalysts in sight and earnings CAGR being one of the lowest in our coverage universe, we believe current valuations are expensive. Hence, we maintain our REDUCE rating on the stock with a target price of Rs 826/share.

### Financial Snapshot

	Rs Mn									
YE-	Net	EBITDA	EPS	EPS	RoE	P/E	EV/	P/BV		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	(x)	EBITDA (x)	(x)
FY10	19,625	4,254	21.7	4,233	31.1	45.8	156.1	32.2	31.2	41.8
FY11	22,206	4,507	20.3	4,026	29.6	(4.9)	113.4	33.9	29.3	35.5
FY12E	25,855	4,943	19.1	4,190	31.4	6.1	115.6	31.9	26.5	38.4
FY13E	29,229	5,696	19.5	4,660	34.3	9.1	139.3	29.3	22.9	43.5

## Quarterly Results

	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
Net Sales	5,518	5,582	5,818	6,111	6,572	19.1	7.6	12,683	10,806	17.4
Expenditure	4,396	4,836	4,569	4,938	5,365	22.0	8.7	10,303	8,294	24.2
Material Cost	2,201	2,160	2,393	2,467	2,637	19.8	6.9	5,103	4,167	22.5
% of Sales	39.9	38.7	41.1	40.4	40.1	22 bps	-25 bps	40.2	38.6	167 bps
Employee Expenses	533	524	432	498	523	(1.9)	5.0	1,022	977	4.6
% of Sales	9.7	9.4	7.4	8.2	8.0	-171 bps	-19 bps	8.1	9.0	-99 bps
Advertising and Promotion spends	789	1,206	804	988	1,143	44.8	15.7	2,131	1,483	43.7
% of Sales	14.3	21.6	13.8	16.2	17.4	309 bps	122 bps	16.8	13.7	308 bps
Other Expenses	872	947	940	985	1,063	21.8	7.8	2,048	1,667	22.8
% of Sales	15.8	17.0	16.2	16.1	16.2	36 bps	4 bps	16.1	15.4	72 bps
Ebitda	1,122	746	1,249	1,173	1,207	7.6	2.9	2,380	2,512	(5.2)
Depreciation	84	91	88	88	106	25.8	20.1	194	163	18.5
EBIT	1,038	655	1,161	1,085	1,101	6.2	1.5	2,186	2,348	(6.9)
Other Income	256	277	272	303	278	8.4	(8.2)	580	519	11.8
Interest	6	19	4	6	8	23.0	23.0	14	10	43.2
PBT	1,288	913	1,429	1,381	1,372	6.5	(0.7)	2,753	2,858	(3.7)
Tax	285	250	288	377	293	2.8	(22.4)	670	635	5.4
Adjusted PAT	1,003	662	1,141	1,004	1,059	5.6	5.5	2,064	2,223	(7.2)
REPS	7.4	4.9	8.4	7.4	7.3	(0.6)	(0.8)	14.7	16.3	(10.0)

Margins (%)	Q2FY11	Q3FY11	Q4FY11	Q1FY12	Q2FY12	YoY (%)	QoQ (%)	YTDFY12	YTDFY11	YoY (%)
EBIDTA	20.3	13.4	21.5	19.2	18.4	-196 bps	-83 bps	18.8	23.2	-448 bps
EBIT	18.8	11.7	20.0	17.8	16.8	-205 bps	-100 bps	17.2	21.7	-449 bps
EBT	23.3	16.4	24.6	22.6	20.9	-247 bps	-173 bps	21.7	26.4	-474 bps
PAT	18.2	11.9	19.6	16.4	16.1	-206 bps	-32 bps	16.3	20.6	-430 bps
Effective Tax rate	22.1	27.4	20.2	27.3	21.3	-77 bps	-595 bps	24.3	22.2	210 bps

## Revision in estimates

Y/E, Mar (Rs. mn)	FY12E			FY13E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	25,235	25,855	2.5	28,334	29,229	3.2
EBITDA	5,340	4,943	-7.4	6,073	5,696	-6.2
EBITDA Margin (%)	21.2	19.1	-204 bps	21.4	19.5	-195 bps
APAT	4,438	4,272	-3.7	5,110	4,660	-8.8
EPS	32.6	31.4	-3.7	37.6	34.3	-8.8

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>19625</b>	<b>22206</b>	<b>25855</b>	<b>29229</b>
Growth	15.8	13.2	16.4	13.1
<b>Expenses</b>	<b>15370</b>	<b>17699</b>	<b>20912</b>	<b>23533</b>
Growth	8.3	15.1	18.2	12.5
Raw Materials	7768	8720	10380	11737
% Of Sales	39.6	39.3	40.1	40.2
Employee Cost	1591	1932	2164	2381
% Of Sales	8.1	8.7	8.4	8.1
Manufacturing Expenses	644	755	979	1095
% Of Sales	3.3	3.4	3.8	3.7
Admin Expenses	1866	2187	2490	2808
% Of Sales	9.5	9.8	9.6	9.6
Selling & Distribn Exp.	3502	4105	4899	5512
% Of Sales	17.8	18.5	18.9	18.9
<b>Ebidta</b>	<b>4254</b>	<b>4507</b>	<b>4943</b>	<b>5696</b>
Growth	54.4	5.9	9.7	15.2
Ebidta%	21.7	20.3	19.1	19.5
Other Income	985	1068	1163	1234
Interest	15	33	30	30
Depreciation	376	343	413	428
PBT	4848	5200	5663	6472
Tax	615	1174	1472	1812
<b>PAT (Before EO Item)</b>	<b>4233</b>	<b>4026</b>	<b>4190</b>	<b>4660</b>
Growth	43.4	-4.9	4.1	11.2
Net Margin%	21.6	18.1	16.2	15.9
E/O Item	0	0	-82	0
<b>Reported PAT</b>	<b>4233</b>	<b>4026</b>	<b>4272</b>	<b>4660</b>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Pre-Tax Profit</b>	<b>4848</b>	<b>5199</b>	<b>5745</b>	<b>6472</b>
Depreciation	376	342	413	428
Chg in W Cap	754	-205	1152	450
Tax Paid	-767	-1031	-1396	-1725
<b>Operating CashFlow</b>	<b>5211</b>	<b>4306</b>	<b>5913</b>	<b>5625</b>
Capex	-1121	-484	-177	-242
<b>Free Cash Flow</b>	<b>4090</b>	<b>3822</b>	<b>5735</b>	<b>5383</b>
Investments	173	-177	0	0
Equity Capital	0	0	0	0
Loans	-1	-45	0	0
Dividend	-3336	-3172	-4476	-5074
Others	39	53	-164	0
<b>Net Change in Cash</b>	<b>964</b>	<b>480</b>	<b>1095</b>	<b>309</b>
<b>Opening Cash Position</b>	<b>2511</b>	<b>3476</b>	<b>3956</b>	<b>5051</b>
<b>Closing Cash Position</b>	<b>3476</b>	<b>3956</b>	<b>5051</b>	<b>5360</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
Equity Share Capital	136	136	136	136
Reserves	3125	3705	3415	3001
<b>Networth</b>	<b>3261</b>	<b>3841</b>	<b>3551</b>	<b>3137</b>
Secured Loans	0	0	0	0
Unsecured Loans	46	1	1	1
<b>Loan Funds</b>	<b>46</b>	<b>1</b>	<b>1</b>	<b>1</b>
<b>Total Liabilities</b>	<b>3307</b>	<b>3841</b>	<b>3552</b>	<b>3138</b>
Gross Block	5345	5798	5998	6240
Less: Depreciation	2876	3248	3661	4089
<b>Net Block</b>	<b>2469</b>	<b>2550</b>	<b>2338</b>	<b>2151</b>
Capital Work In Progress	62	123	100	100
<b>Investments</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>6097</b>	<b>7432</b>	<b>8348</b>	<b>8955</b>
Inventories	1106	1537	1772	1994
Debtors	98	430	121	137
Cash&Bank	3672	4343	5438	5748
Loans&Advances	1222	1122	1016	1076
<b>Current Lia &amp; Pro.</b>	<b>5515</b>	<b>6432</b>	<b>7402</b>	<b>8236</b>
<b>Net Current Assets</b>	<b>582</b>	<b>1000</b>	<b>946</b>	<b>719</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	179	168	168	168
<b>Total Assets</b>	<b>3307</b>	<b>3841</b>	<b>3552</b>	<b>3138</b>

## Key Ratios

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	21.7	20.3	19.1	19.5
PAT Mgn	21.6	18.1	16.2	15.9
ROCE	157.8	131.2	136.2	172.4
ROE	156.1	113.4	115.6	139.3
<b>Per Share Data</b>				
EPS	31.1	29.6	31.4	34.3
CEPS	33.9	32.1	33.8	37.4
BVPS	24.0	28.2	26.1	23.1
DVPS	20.0	22.0	26.0	30.0
<b>Valuations</b>				
PER	32.2	33.9	31.9	29.3
CPER	29.6	31.2	29.6	26.8
P/BV	41.8	35.5	38.4	43.5
Ev/Sales	6.8	5.9	5.1	4.5
Ev/Ebidta	31.2	29.3	26.5	22.9
Dividend Yield	2.0	2.2	2.6	3.0
<b>Turnover X Days</b>				
Debtor TO	1.8	7.1	1.7	1.7
Inventory TO	20.6	25.3	25.0	24.9
<b>Gearing Ratio</b>				
Net Debt/Equity	-105.2	-103.0	-142.2	-170.8
Total Debt/Equity	1.4	0.0	0.0	0.0

**Recommendation History: Colgate – CLGT IN**

Date	Reports	Reco	CMP	Target
15/09/2011	<a href="#">Consumers Sector Sector Update</a>			
22/07/2011	<a href="#">Colgate-Palmolive Q1FY12 Result Update</a>	Reduce	993	826
30/05/2011	<a href="#">Colgate-Palmolive Q4FY11 Result Update</a>	Hold	896	826
07/04/2011	<a href="#">Colgate: Consumer Sector Report</a>	Hold	846	826

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
12/08/2011	<a href="#">Jubilant Foodworks Q1FY12 Result Update</a>	Accumulate	852	900
03/08/2011	<a href="#">Berger Paints Q1FY12 Result Update</a>	Accumulate	101	109
03/08/2011	<a href="#">GSK Cosnumer Q2CY11 Result Update</a>	Accumulate	2,388	2,547
01/08/2011	<a href="#">Nestle India Q2CY11 Result Update</a>	Accumulate	4,349	4,268

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