



# Colgate-Palmolive (India) Ltd

Relative to sector: **Outperformer**

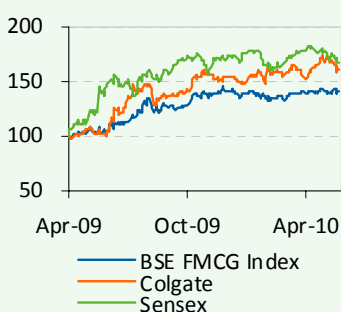
**Hemant Patel**

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**Relative Performance**



Source: Bloomberg, ENAM Research

**Stock data**

No. of shares : 136 mn  
Market cap : Rs 97.2 bn  
52 week high/low : Rs 772/ Rs 447  
Avg. daily vol. (6mth) : 117,000 shares  
Bloomberg code : CLGT IB  
Reuters code : COLG. BO

**Shareholding (%) Mar-10 QoQ chg**

Promoters	: 51.0	0.0
FIs	: 15.5	(0.2)
MFs / UTI	: 1.3	(0.1)
Banks / FIs	: 6.1	0.5
Others	: 26.1	(0.2)

**Financial Summary**

Y/E Mar	Sales (Rs mn)	Adj.PAT (Rs mn)	Consensus EPS* (Rs.)	Adj.EPS (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs.)
2009	16,983	2,943	-	21.6	26	-	156	181	-	15
2010E	19,625	4,233	28.7	31.1	44	23.0	156	176	19.1	20
2011E	22,625	4,363	31.1	32.1	3	22.3	115	148	16.6	21
2012E	26,260	5,165	35.5	38.0	18	18.8	102	136	13.5	24

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

**BREATHING FRESH IN DIFFICULT TIMES**

Colgate-Palmolive (India) Ltd reported net sales of Rs 5.2 bn (↑ 13% YoY), EBITDA of Rs 1.2 bn (↑54% YoY) and adjusted PAT of Rs 1.14 bn (↑40% YoY) in Q4FY10, ahead of expectations.

**Key highlights – Q4FY10 & Outlook**

- **Colgate’s toothpaste (~70% revenue) volume grew by 11% in Q4FY10, lower than avg. 15% growth in last 5 quarters.** In fact, toothpaste market in 2009 grew by 7% in value terms vs. 14.5% in 2008 which indicates a pull back in consumer off-take. This may have been a temporary impact due to high food inflation. We believe **Colgate can maintain volume growth of 13% over the next few years** led by 1) Shift of toothpowder & traditional oral product users to toothpaste 2) Gain in market share led by innovative new variants 3) Increase in rural distribution reach.
- **Value market share** in toothpaste and toothbrush has **consistently increased over the last 3 years** (refer page: 3). Consumption building programs and reach to dental professionals continue to improve product and brand awareness.
- **Input cost sharply declined to 30% of revenue (vs. 44% in Q4FY09).** We believe this is a one off case due to amalgamations of its subsidiaries. We expect gross margin to contract by 80 bps in FY11E.
- **Earnings dampeners in FY11E:** The production facility at Baddi will be moving out of its tax holiday period from April 2010. We expect the **effective tax rate to move up from 16% to 23%** in FY11. **Advertisement spend** (at 15.3% of revenue, lowest in last 4 years) **may be stepped up** due to increase in competition from large new entrants like P&G.

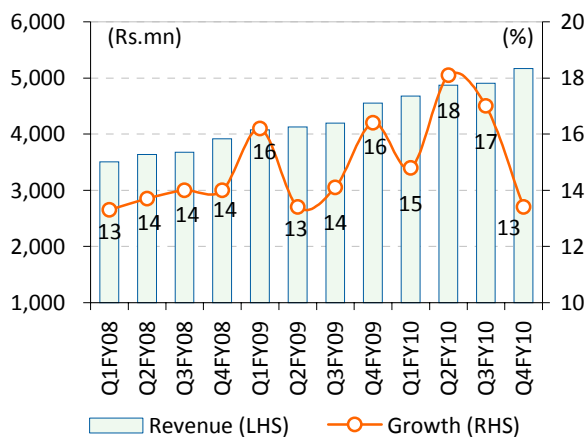
We have **upgraded our EPS estimates by 4% to Rs 32.1 for FY11E and by 9% to Rs 38 for FY12E.** On a 1-yr forward basis the stock trades at 21.3x, marginally above its historical median of 19.8x. Our price target of Rs 800 is based on 21x FY12E EPS.

## Results Update

(Rs mn)	Quarter ended					12 months ended		
	Mar-10	Mar-09	% Chg	Dec-09	% Chg	Mar-11E	Mar-10	% Chg
<b>Net Sales</b>	<b>5,166</b>	<b>4,555</b>	<b>13.4</b>	<b>4,906</b>	<b>5.3</b>	<b>22,625</b>	<b>19,625</b>	<b>15.3</b>
<b>EBIDTA</b>	<b>1,247</b>	<b>809</b>	<b>54.1</b>	<b>1,008</b>	<b>23.7</b>	<b>5,578</b>	<b>4,913</b>	<b>13.5</b>
Other income	222	205	8.0	278	(20.2)	470	325	44.6
<b>PBIDT</b>	<b>1,469</b>	<b>1,015</b>	<b>44.8</b>	<b>1,286</b>	<b>14.2</b>	<b>6,048</b>	<b>5,238</b>	<b>15.4</b>
Depreciation	206	64	224.4	56	269.2	378	376	0.7
Interest	4	1	263.6	5	(23.1)	4	15	(76.4)
<b>PBT</b>	<b>1,259</b>	<b>950</b>	<b>32.5</b>	<b>1,225</b>	<b>2.8</b>	<b>5,666</b>	<b>4,848</b>	<b>16.9</b>
Tax	115	131	(11.9)	61	88.1	1,303	615	112.0
<b>Adjusted PAT</b>	<b>1,144</b>	<b>819</b>	<b>39.6</b>	<b>1,164</b>	<b>(1.7)</b>	<b>4,363</b>	<b>4,233</b>	<b>3.1</b>
Extra ordinary income/ (exp.)	0	(49)	-	0	-	0	0	-
<b>Reported PAT</b>	<b>1,144</b>	<b>771</b>	<b>48.4</b>	<b>1,164</b>	<b>(1.7)</b>	<b>4,363</b>	<b>4,233</b>	<b>3.1</b>
No. of shares (mn)	136	136	-	136	-	136	136	-
EBIDTA margin (%)	24.1	17.8	-	20.6	-	24.7	25.0	-
PBIDT margin (%)	28.4	22.3	-	26.2	-	26.7	26.7	-
<b>EPS - annualized (Rs.)</b>	<b>33.6</b>	<b>24.1</b>	<b>39.6</b>	<b>34.2</b>	<b>(1.7)</b>	<b>32.1</b>	<b>31.1</b>	<b>3.1</b>

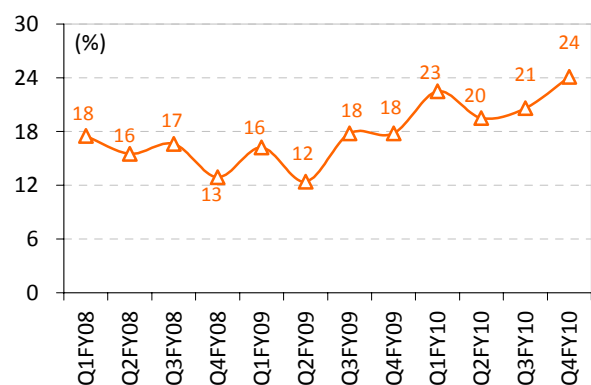
Source: Company, ENAM Research

## Revenue and growth trends

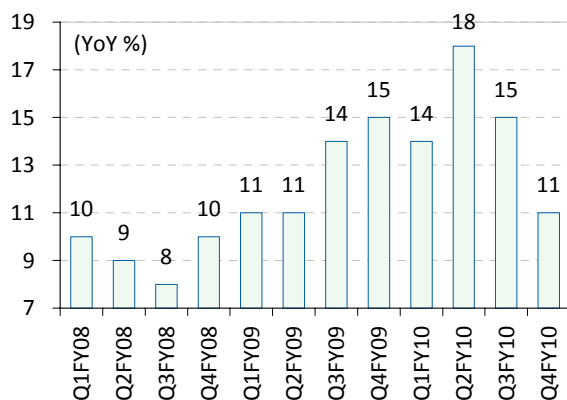


Source: Company

## EBITDA margin: Is this the Peak?

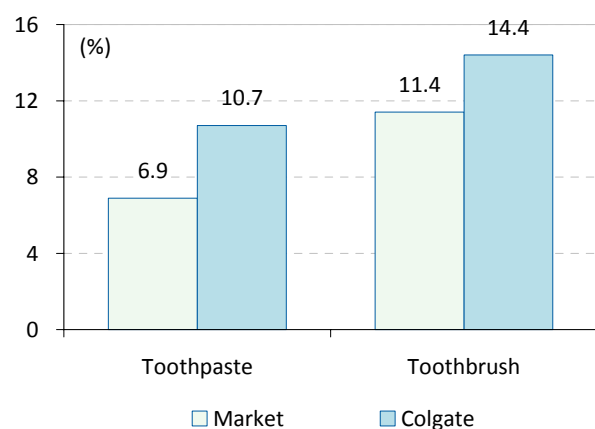


## Toothpaste volume slowdown in Q4'10



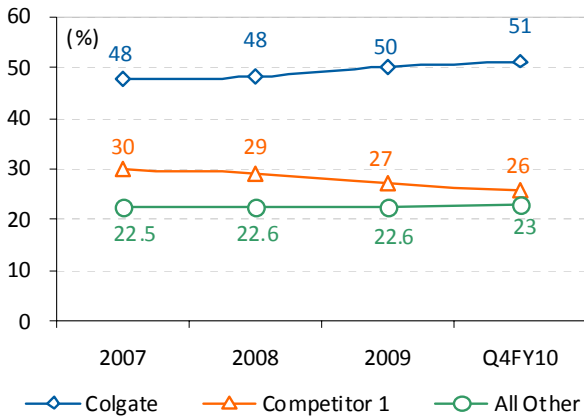
Source: Company

## ...but grows ahead of category in 2009

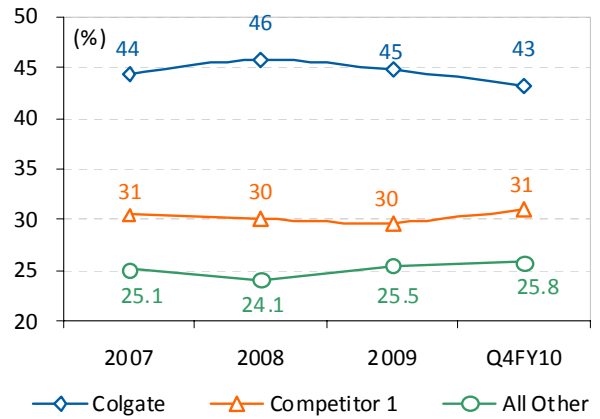


Source: AC Nielsen; % Growth in Value

### Toothpaste Value Market Share

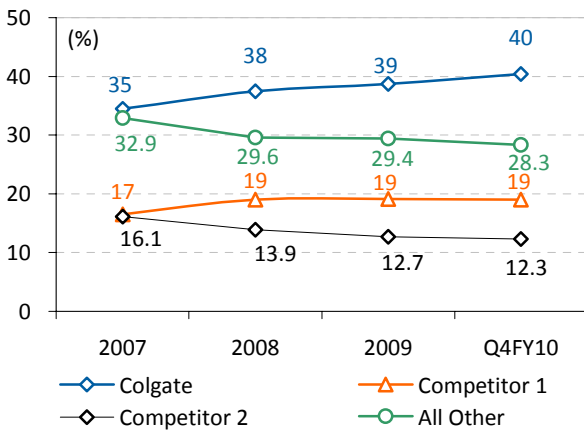


### Toothpowder Value Market Share



Source: AC Nielsen

### Toothbrush Value Market Share

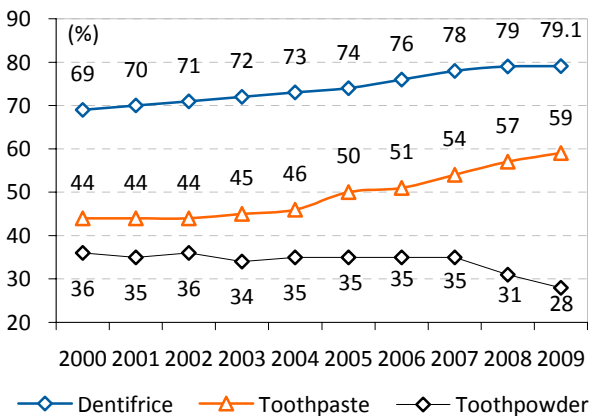


### Colgate continued to increase numeric distribution network

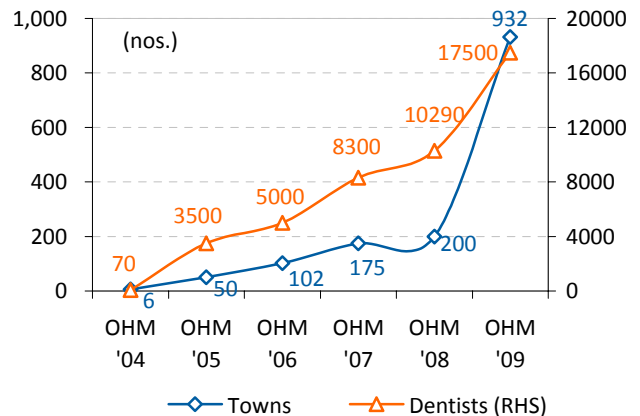
	2007	2008	2009
Urban	83%	84%	86%
Rural	76%	79%	83%
U+R	80%	81%	84%

Source: AC Nielsen

### Users switch from toothpowder to toothpaste

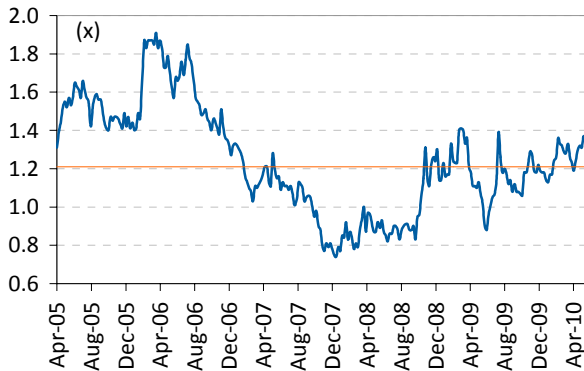


### Partnership with the Profession

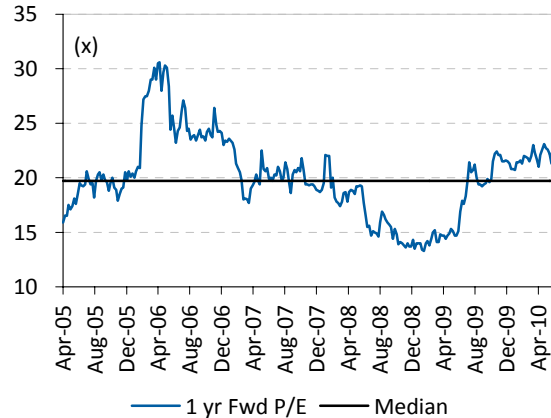


Source: Source: Indian Readership Survey; Dentifrice = Toothpaste or toothpowder

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



## Colgate 1-yr forward P/E



Source: ENAM Research, Bloomberg

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