

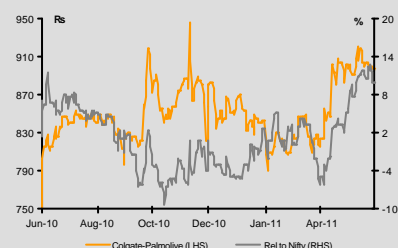
May 30, 2011

Reco	Previous Reco
Hold	Hold
CMP	Target Price
Rs 896	Rs 826
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	5,473
Sensex	18,232

Price Performance (%)	1M	3M	6M	12M
Absolute	(0)	11	4	22
Rel. to Nifty	6	8	12	14

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	996/732
Market Cap (Rs bn/USD mn)	122/2,707
Daily Avg Volume (No of sh)	37606
Daily Avg Turnover (US\$m)	0.7

### Shareholding Pattern (%)

	Mar-11	Dec-10	Sep-10
Promoters	51.0	51.0	51.0
FII/NRI	19.0	17.7	16.5
Institutions	7.2	7.0	7.8
Private Corp	1.4	2.8	3.3
Public	21.4	21.5	21.5

Source: Capitaline

### Pritesh Chheda, CFA

pritesh.chheda@emkayglobal.com

+91 22 6612 1273

### Sweta Jain

sweta.jain@emkayglobal.com

+91 22 6624 2479

- Lower volume growth in toothbrush restricts revenue growth at 12.6% to Rs 5.8 bn, marginally below our expectation. APAT at Rs 1.1 bn is above our forecasts
- Moderation in volume growth- Toothpaste market shares improved YoY, however declined sequentially - new launches likely to aid further market share improvement
- New launches, skewed towards premium/niche category, will result in higher A&P spends, which along with higher tax rates, will restrict PAT CAGR to 13% over FY11-13E
- Retain FY13E earnings of Rs37.6/Share- Valuations at 24X FY13E EPS appear fair - Maintain HOLD rating with target price of Rs826/Share

### Operational performance marginally below expectations...

While toothpaste continues to witness healthy growth, lower volumes in toothbrush have restricted overall revenue growth to 12.6%, which is marginally below our expectations. Although operational performance is not comparable YoY as 4QFY10 has accounted for the consolidation of Professional Oral Care for the full year FY10, results indicate that higher input costs have arrested margin expansion, despite lower A&P spends (13.8% in 4QFY11 versus 16.1% in 4QFY10). While EBITDA margins at 21.5% and PBT growth at 13% is below our expectations, lower-than-estimated tax provisioning has resulted in a muted PAT growth to Rs 1.1bn, lower than our forecast of 6% decline.

### Toothpastes continue to outperform ... toothbrush reports weak performance

Toothpastes continue to witness robust volume growth of 12% driven by healthy growth in its flagship brands Colgate Dental Cream, MaxFresh, Active Salt, etc. Increasing penetration of toothpastes (64.3%) and higher per capita consumption (127 gms/year) are aiding healthy and sustainable growth in this segment. However, toothbrush witnessed weak performance with volumes growing in single-digits for the quarter after two consecutive quarters of 24% volume growth. This has resulted in moderation of overall volume growth to 10% for the company in 4QFY11 against 12% for FY11.

### Sequential dip in market shares ... expect new launches to provide respite

Market shares in toothpaste have increased by 20 bps to 53.1% YoY – however, a 30 bps fall from November 2010. Market shares in toothbrush segment at 40.3% reported a decline of 60 bps since November 2010. Nevertheless, new product launches like the Colgate Sensitive Pro-Relief toothpaste and a similar toothbrush along with continuing brand investments will likely result in a healthy improvement in future. With new launches skewed towards premium/niche categories, we expect A&P spends to remain high in the coming quarters.

### Expect PAT CAGR at 13%... Maintain HOLD

While we forecast a moderation in overall volume growth, we expect Colgate to maintain its leadership position in the market aided by healthy new product launches and regular brand activation programmes. We expect the company to post PAT CAGR of 13% over FY11-13E with unchanged FY13E earnings of Rs37.6/Share. Valuations at 24X FY13E EPS appear fair and hence, we maintain our HOLD rating on the stock with target price of Rs826/Share.

### Financial Snapshot

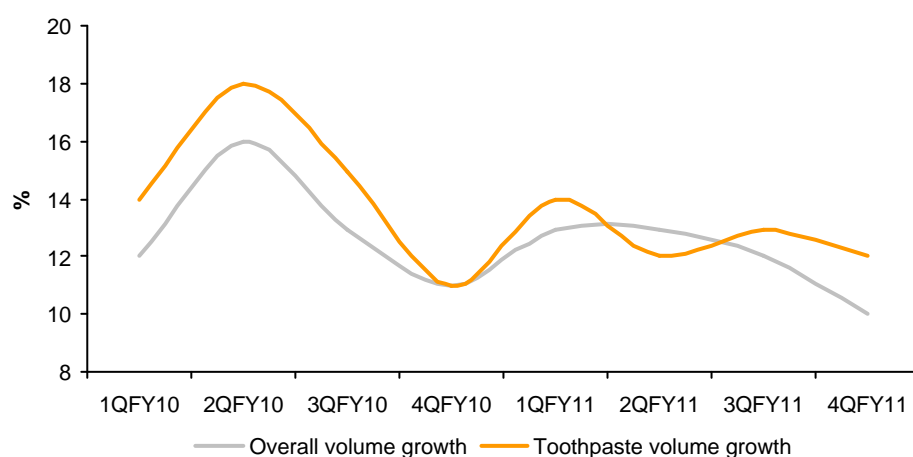
YE-	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	Rs Mn		
								P/E	EV/ EBITDA	P/BV
Mar										
FY10	19,625	4,254	21.7	4,233	31.1	45.8	156.1	28.8	27.8	37.4
FY11E	22,206	4,507	20.3	4,026	29.1	(6.4)	113.9	30.7	25.1	31.6
FY12E	25,365	5,368	21.2	4,431	32.6	11.8	115.0	27.5	21.5	29.3
FY13E	28,479	6,097	21.4	5,107	37.6	15.3	122.3	23.9	18.7	27.0

## Quarterly Results

	Q4FY10	Q1FY11	Q2FY11	Q3FY11	Q4FY11	YoY (%)	QoQ (%)	FY11	FY10	YoY (%)
Net Sales	5,166	5,288	5,518	5,582	5,818	12.6	4.2	22,206	19,625	13.2
Expenditure	3,919	3,898	4,396	4,836	4,569	16.6	(5.5)	17,699	15,370	15.1
Material Cost	1,543	1,966	2,201	2,160	2,393	55.0	10.8	8,720	7,768	12.2
% of Sales	29.9	37.2	39.9	38.7	41.1	1,125 bps	243 bps	39.3	39.6	-32 bps
Employee Expenses	421	444	533	524	432	2.5	(17.6)	1,932	1,591	21.5
% of Sales	8.1	8.4	9.7	9.4	7.4	-73 bps	-196 bps	8.7	8.1	60 bps
Advertising and Promotion spends	834	694	789	1,206	804	(3.5)	(33.3)	3,493	2,994	16.7
% of Sales	16.1	13.1	14.3	21.6	13.8	-231 bps	-778 bps	15.7	15.3	47 bps
Other Expenses	1,121	795	872	947	940	(16.1)	(0.7)	3,554	3,017	17.8
% of Sales	21.7	15.0	15.8	17.0	16.2	-554 bps	-80 bps	16.0	15.4	63 bps
Ebidta	1,247	1,390	1,122	746	1,249	0.2	67.4	4,507	4,254	5.9
Depreciation	206	79	84	91	88	(57.3)	(3.4)	343	376	(8.8)
EBIT	1,041	1,311	1,038	655	1,161	11.5	77.3	4,164	3,878	7.4
Other Income	222	263	256	277	272	22.7	(1.7)	1,068	985	8.5
Interest	4	3	6	19	4	10.0	(76.8)	33	15	118.7
PBT	1,259	1,570	1,288	913	1,429	13.5	56.5	5,200	4,848	7.3
Tax	115	350	285	250	288	150.5	15.1	1,174	615	90.7
PAT	1,144	1,220	1,003	662	1,141	(0.3)	72.2	4,026	4,233	(4.9)
REPS	8.4	9.0	7.4	4.9	8.4	(0.3)	72.2	29.1	31.1	(6.4)

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	24.1	26.3	20.3	13.4	21.5	-267	811	20.3	21.7	-138
EBIT	20.2	24.8	18.8	11.7	20.0	-20	823	18.8	19.8	-101
EBT	24.4	29.7	23.3	16.4	24.6	19	821	23.4	24.7	-129
PAT	22.1	23.1	18.2	11.9	19.6	-254	774	18.1	21.6	-344
Effective Tax rate	9.1	22.3	22.1	27.4	20.2	1,103	-726	22.6	12.7	988

## Moderation in volume growth



Source: Company

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	<b>19625</b>	<b>22206</b>	<b>25365</b>	<b>28479</b>
Growth	15.8	13.2	14.2	12.3
<b>Expenses</b>	<b>15370</b>	<b>17699</b>	<b>19997</b>	<b>22382</b>
Growth	8.3	15.1	13.0	11.9
Raw Materials	7768	8720	9808	11047
% Of Sales	39.6	39.3	38.7	38.8
Employee Cost	1591	1932	2280	2509
% Of Sales	8.1	8.7	9.0	8.8
Manufacturing Expenses	644	755	840	917
% Of Sales	3.3	3.4	3.3	3.2
Admin Expenses	1866	2187	2276	2522
% Of Sales	9.5	9.8	9.0	8.9
Selling & Distribn Expenses	3502	4105	4793	5387
% Of Sales	17.8	18.5	18.9	18.9
<b>Ebidta</b>	<b>4254</b>	<b>4507</b>	<b>5368</b>	<b>6097</b>
Growth	54.4	5.9	19.1	13.6
Ebidta%	21.7	20.3	21.2	21.4
Other Income	985	1068	1241	1465
Interest	15	33	20	20
Depreciation	376	343	434	449
PBT	4848	5200	6154	7094
Tax	615	1174	1723	1986
<b>PAT (Before EO Item)</b>	<b>4233</b>	<b>4026</b>	<b>4431</b>	<b>5107</b>
Growth	43.4	-4.9	10.1	15.3
Net Margin%	21.6	18.1	17.5	17.9
E/O Item	0	0	0	0
<b>Reported PAT</b>	<b>4233</b>	<b>4026</b>	<b>4431</b>	<b>5107</b>

## Cash Flow

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>Pre-Tax Profit</b>	<b>4848</b>	<b>5285</b>	<b>6154</b>	<b>7094</b>
Depreciation	376	406	434	449
Chg in W Cap	754	471	476	468
Tax Paid	-767	-1141	-1621	-1919
<b>Operating CashFlow</b>	<b>5211</b>	<b>5020</b>	<b>5443</b>	<b>6091</b>
Capex	-1121	-163	-200	-248
<b>Free Cash Flow</b>	<b>4090</b>	<b>4857</b>	<b>5243</b>	<b>5844</b>
Investments	173	0	0	0
Equity Capital	0	0	0	0
Loans	-1	-45	0	0
Dividend	-3336	-3334	-4048	-4763
Others	39	126	0	0
<b>Net Change in Cash</b>	<b>964</b>	<b>1604</b>	<b>1195</b>	<b>1081</b>
<b>Opening Cash Position</b>	<b>2511</b>	<b>3476</b>	<b>5079</b>	<b>6275</b>
<b>Closing Cash Position</b>	<b>3476</b>	<b>5079</b>	<b>6275</b>	<b>7356</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
Equity Share Capital	136	136	136	136
Reserves	3125	3722	4025	4370
<b>Networth</b>	<b>3261</b>	<b>3858</b>	<b>4161</b>	<b>4506</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>3859</b>	<b>4162</b>	<b>4507</b>
Gross Block	5345	5470	5670	5918
Less: Depreciation	2876	3281	3716	4165
<b>Net Block</b>	<b>2469</b>	<b>2189</b>	<b>1955</b>	<b>1753</b>
Capital Work In Progress	62	100	100	100
<b>Investments</b>	<b>14</b>	<b>14</b>	<b>14</b>	<b>14</b>
<b>Current Assets</b>	<b>6097</b>	<b>7799</b>	<b>9224</b>	<b>10537</b>
Inventories	1106	1201	1359	1520
Debtors	98	104	118	132
Cash&Bank	3672	5275	6470	7551
Loans&Advances	1222	1219	1277	1334
<b>Current Liabilities &amp; Provisions</b>	<b>5515</b>	<b>6423</b>	<b>7310</b>	<b>8077</b>
<b>Net Current Assets</b>	<b>582</b>	<b>1377</b>	<b>1914</b>	<b>2460</b>
Miscellaneous Expenditure	0	0	0	0
Deferred Tax	179	179	179	179
<b>Total Assets</b>	<b>3307</b>	<b>3859</b>	<b>4162</b>	<b>4507</b>

## Key Ratios

Y/E, Mar (Rs. mn)	FY10	FY11E	FY12E	FY13E
<b>Profitability %</b>				
Ebidta Mgn	21.7	20.3	21.2	21.4
PAT Mgn	21.6	18.1	17.5	17.9
ROCE	157.8	133.1	137.7	145.2
ROE	156.1	111.3	110.5	117.8
<b>Per Share Data</b>				
EPS	31.1	29.1	32.6	37.6
CEPS	33.9	32.1	35.8	40.9
BVPS	24.0	28.4	30.6	33.1
DVPS	20.0	22.0	26.0	30.0
<b>Valuations</b>				
PER	28.8	30.7	27.5	23.9
CPER	26.4	27.9	25.1	21.9
P/BV	37.4	31.6	29.3	27.0
Ev/Sales	6.0	5.2	4.5	4.0
Ev/Ebidta	27.8	25.1	21.5	18.7
Dividend Yield	2.2	2.5	2.9	3.3
<b>Turnover X Days</b>				
Debtor TO	1.8	1.7	1.7	1.7
Inventory TO	20.6	19.6	19.6	19.5
<b>Gearing Ratio</b>				
Net Debt/Equity	-105.2	-131.6	-150.8	-163.2
Total Debt/Equity	1.4	0.0	0.0	0.0

**Recommendation History: Colgate – CLGT IN**

Date	Reports	Reco	CMP	Target
07/04/2011	<a href="#">Colgate; Consumer Sector Report</a>	Hold	846	826

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
11/05/2011	<a href="#">Asian Paints Q4FY11 Result Update</a>	Accumulate	2,697	2,923
09/05/2011	<a href="#">Hindustan Unilever Q4FY11 Result Update</a>	Accumulate	284	312
02/05/2011	<a href="#">Marico Q4FY11 Result Update</a>	Accumulate	136	142
02/05/2011	<a href="#">GCPL Q4FY11 Result Update</a>	Accumulate	394	420

**Emkay Global Financial Services Ltd.**

Paragon Center, H -13 -16, 1st Floor, Pandurang Budhkar Marg, Worli, Mumbai – 400 013. Tel No. 6612 1212. Fax: 6624 2410

**DISCLAIMER:** This document is not for public distribution and has been furnished to you solely for your information and may not be reproduced or redistributed to any other person. The manner of circulation and distribution of this document may be restricted by law or regulation in certain countries, including the United States. Persons into whose possession this document may come are required to inform themselves of, and to observe, such restrictions. This material is for the personal information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. No person associated with Emkay Global Financial Services Ltd. is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this document. The material is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon. Neither Emkay Global Financial Services Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipient of this material should rely on their own investigations and take their own professional advice. Opinions expressed are our current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. We and our affiliates, officers, directors, and employees world wide, including persons involved in the preparation or issuance of this material may; (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or may perform or seek to perform investment banking services for such company(ies) or act as advisor or lender / borrower to such company(ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. The same persons may have acted upon the information contained here. No part of this material may be duplicated in any form and/or redistributed without Emkay Global Financial Services Ltd.'s prior written consent. No part of this document may be distributed in Canada or used by private customers in the United Kingdom. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.