

31 May 2010

Colgate Palmolive

*Gaining market share; reiterate Buy*Rating: **Buy**
Target Price: Rs930
Share Price: Rs733

- **Maintain Buy.** Colgate's 4Q10 net profit was up 42% yoy. Given less competition, its pricing power and sub-segmentation strategy, we expect Colgate to gain market share and report revenue and net profit CAGRs of 17% and 14%, respectively, over FY10-12. We rate the stock a Buy, and raise our target price to Rs930.
- **Gains market share.** Colgate's revenue grew 13.4% in 4Q, led by volume growth of 11%. It gained market share in toothpastes and toothbrushes, of 180bp and 360bp, respectively. In toothpowders, however, it lost 220bp, which could have been due to consumers' shift from toothpowders to toothpastes.
- **Margin rise despite higher brand-building costs.** EBITDA margin was up 640bp mainly on lower raw material costs and despite a 70bp rise in adspend-to-sales ratio. The income-tax rate was 610bp lower and net profit rose 42% yoy.
- **Change in estimates.** We change FY11 and FY12 estimates to factor in the better operational performance and higher tax rates as the income-tax benefit at the Baddi factory tapers off. We raise our FY11e/12e earnings 2.6% and 3.6%, respectively
- **Valuation.** We raise the target price to Rs930 (from Rs838) at a target PE of 23x 12-month forward earnings, a 42% premium to the Nifty and in line with its 10-year average premium.

Key data	CLGT IN /COLG.BO
52-week high/low	Rs772/Rs447
Sensex/Nifty	16863/4931
3-m average volume	US\$1.8m
Market cap	Rs99bn/US\$2.2bn
Shares outstanding	136m
Free float	49.0%
Promoters	51.0%
Foreign Institutions	15.5%
Domestic Institutions	7.3%
Public	26.2%

Quarterly results

Year end 31 Mar	4QFY09	4QFY10	% yoy	FY09	FY10	% yoy
Sales (Rsm)	4,555	5,166	13.4	16,952	19,625	15.8
EBITDA (Rsm)	809	1,247	54.1	2,897	4,372	50.9
EBITDA margin (%)	17.8	24.1	640bps	17.1	22.3	519bps
Interest (Rsm)	1	4	263.6	15	15	(2.5)
Depreciation (Rsm)	64	206	224.4	279	307	10.1
Other income (Rsm)	205	222	8.0	935	954	2.1
PBT (Rsm)	950	1,259	32.5	3,538	5,004	41.4
Tax (Rsm)	145	115	(20.4)	603	753	24.9
Tax rate (%)	15.2	9.1	(610)bps	17.0	15.0	(200)bps
PAT (Rsm)	805	1,144	42.0	2,935	4,251	44.9

Source: Company, Anand Rathi Research

Financials

Year end 31 Mar	FY11e	FY12e
Sales (Rsm)	23,076	26,861
Net profit (Rsm)	4,669	5,491
EPS (Rs)	34.3	40.4
Growth (%)	10.2	17.6
PE (x)	21.4	18.2
PBV (x)	23.2	17.2
RoE (%)	125.8	108.7
RoCE (%)	127.6	111.2
Dividend yield (%)	3.0	3.4
Net gearing (%)	(165.3)	(167.7)

Source: Bloomberg, Anand Rathi Research

Anand Rathi Financial Services, its affiliates and subsidiaries, do and seek to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are located in Appendix 1.

Appendix 1

Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

Anand Rathi Research Ratings Distribution (as of 31 Mar 10)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (118)	61%	12%	27%
% who are investment banking clients	8%	0%	0%

Other Disclosures

This report has been issued by Anand Rathi Financial Services Limited (ARFSL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARFSL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARFSL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Stock Exchange, Mumbai, and the National Stock Exchange of India.

© 2010 Anand Rathi Financial Services Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.