

**Colgate Palmolive (India) Ltd.**

CMP Rs. 699.85  
HOLD

Result Update  
Q2FY10

Ruchak Mehta | ruchak@ppfas.com

Colgate Palmolive (India) Ltd reported a satisfactory set of numbers for the quarter ended September 2009. The company's topline continued to grow well while maintaining its market share in toothpastes and also improving it in other categories.

On a Y-o-Y basis, the company's topline grew by 18.12%, to Rs. 4,872.6 Mn from Rs. 4,125.3 Mn. This was on the back of a strong 16% volume growth. Operating Profits shot up tremendously to Rs. 950.2 Mn from Rs. 511.5 Mn in Q2FY09, a jump of 85.77%. Apart from the growth in topline, the rise in OPM was primarily due to a cutdown in Advertising & Sales Promotions(A&SP). Nevertheless, A&SP is still at 17% of Sales which we feel is healthy. Consequently, Total Expenditure increased by only 8.54% and OPM improved by a huge 710 bps to 19.5%. Reported PAT stood at Rs. 897 Mn as against Rs. 635 Mn for the same period, the year before, an increase of 41.26% while EPS grew to Rs. 6.6 from Rs. 4.7.

As compared to the previous quarter, Q1FY10, Net Revenues went up from Rs. 4,679.9 Mn to Rs. 4,872.6 Mn, an increase of 4.12%. However PAT was down by 12.73% from Rs. 1027.8 Mn to Rs. 897 Mn. This was predominantly due to Advertising and Promotional spending that went up by 41.6%, from Rs. 582.8 Mn to Rs. 825.1 Mn.

In the toothpaste category, the company maintained its leadership position at 52.3% market share (volume, Jan 09 – Sep 09). Volume growth registered for the quarter stood at 18%(y-o-y). In the toothbrush category, market share increased to 38.8% while that in the toothpowder category, was at 48.6% (volume, Jan 09 - Sep 09).

Colgate declared its first interim dividend of Rs. 8 during the quarter. At a CMP of Rs. 699.85, it is trading at a PE(TTM) of 27.4. The business fundamentals for the company remain intact along-with minuscule debt, a negative working capital, healthy cashflows and an averagely good dividend yield. However, given the high PE (with not enough 'Margin of Safety') and the market's excessive inclination to stick to FMCG/defensive stocks during times of uncertainty, we recommend a Hold.

## Colgate: Quarterly Financials

Earnings Statement								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(%)	Q2FY09	Y-Y(%)	H1FY10	H1FY09	Y-Y(%)
Net Revenues	4,872.6	4,679.9	4.12%	4,125.3	18.12%	9,552.5	8,201.3	16.48%
Cost of Materials	2,075.8	2,049.6	1.28%	1,806.8	14.89%	4125.4	3,558.5	15.93%
Gross Profit	2,796.8	2,630.3	6.33%	2,318.5	20.63%	5,427.1	4,642.8	16.89%
Staff Costs	372.8	390.7	-4.58%	320.0	16.50%	763.5	649.6	17.53%
Ads and Sales Promotion	825.1	582.8	41.58%	849.7	-2.90%	1,407.9	1,542.8	-8.74%
Other Expenses	648.7	605.2	7.19%	637.3	1.79%	1,253.9	1,250.2	0.30%
Total Expenditure	3,922.4	3,628.3	8.11%	3,613.8	8.54%	7,550.7	7,001.1	7.85%
Operating Profit	950.2	1,051.6	-9.64%	511.5	85.77%	2,001.8	1,200.2	66.79%
OPM (%)	19.50%	22.47%		12.40%		20.96%	14.63%	
Other Income	221.9	259.9	-14.62%	269.5	-17.66%	481.8	553.4	-12.94%
EBITDA	1,172.1	1,311.5	-10.63%	781.0	50.08%	2,483.6	1,753.6	41.63%
Depreciation	57.6	56.3	2.31%	55.6	3.60%	113.9	110.7	2.89%
EBIT	1,114.5	1,255.2	-11.21%	725.4	53.64%	2,369.7	1,642.9	44.24%
Interest	1.3	4.5	-71.11%	4.6	-71.74%	5.8	8.8	-34.09%
PBT	1,113.2	1,250.7	-10.99%	720.8	54.44%	2,363.9	1,634.1	44.66%
Tax	216.2	222.9		85.8		439.1	280.0	
PAT	897.0	1,027.8	-12.73%	635.0	41.26%	1,924.8	1,354.1	42.15%
Equity Capital (FV Re1)	136.0	136.0		136.0		136.0	136.0	
EPS	6.6	7.6	-12.73%	4.7	41.26%	14.2	10.0	42.15%
Ratio Analysis								
Profitability								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(bps)	Q2FY09	Y-Y(bps)	H1FY10	H1FY09	Y-Y(bps)
OPM (%)	19.50%	22.47%	(297.0)	12.40%	710.2	20.96%	14.63%	632.2
EBITDA (%)	24.05%	28.02%	(396.9)	18.93%	512.3	26.00%	21.38%	461.8
EBIT (%)	22.87%	26.82%	(394.8)	17.58%	528.9	24.81%	20.03%	477.5
PAT (%)	18.41%	21.96%	(355.3)	15.39%	301.6	20.15%	16.51%	363.9
Operational Parameters								
YE March (Rs. Mn.)	Q2FY10	Q1FY10	Q-Q(bps)	Q2FY09	Y-Y(bps)	H1FY10	H1FY09	Y-Y(bps)
RM Consumed	42.60%	43.80%	(119.4)	43.80%	(119.7)	43.19%	43.39%	(20.3)
Ads and Sales Promotion	16.93%	12.45%	448.0	20.60%	(366.4)	14.74%	18.81%	(407.3)
Staff Cost	7.65%	8.35%	(69.8)	7.76%	(10.6)	7.99%	7.92%	7.2
Other Expenditure	13.31%	12.93%	38.1	15.45%	(213.5)	13.13%	15.24%	(211.8)
Effective Tax Rate	19.42%	17.82%	159.9	11.90%	751.8	18.58%	17.13%	144.0

# Disclaimer

## Disclosure of Interest Statement

1. Analyst Ownership of the scrip
2. PPFAS ownership of the scrip
3. PMS ownership of the scrip

## Colgate

- NO  
NO  
NO

This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Parag Parikh Financial Services Ltd. (PPFAS). PPFAS is disseminated and available primarily electronically, and, in some cases, in printed form. Additional information on recommended securities is available on request.

PPFAS is a Stock Broker registered with Securities and Exchange Board of India Limited (SEBI) and so it is regulated by SEBI. This report is not and should not be construed as an investment advice to any client to acquire, subscribe, purchase, sell, dispose of, retain any securities or an offer to sell or the solicitation of an offer to purchase or subscribe for any investment or as an official endorsement of any investment.

If 'Buy', 'Sell', or 'Hold' recommendation is made in this report such recommendation or view or opinion expressed on investments in this report is not intended to constitute investment advice and should not be intended or treated as a substitute for necessary review or validation or any professional advice. The views expressed in this report are those of the analyst which are subject to change and do not represent to be an authority on the subject. PPFAS may or may not subscribe to any and/ or all the views expressed herein.

PPFAS makes best endeavour to ensure that the analyst(s) use current, reliable, comprehensive information and obtain such information from sources, which the analyst(s) believes to be reliable. However, such information has not been independently verified by PPFAS or the analyst(s).

The information, opinions and views contained within this report are based upon publicly available information and rates of taxation at the time of publication, which are subject to change from time to time without any prior notice. reports may be updated anytime without any prior notice to any and/ or all client(s).

PPFAS makes no guarantee, representation or warranty, express or implied; and accepts no responsibility or liability as to the accuracy or completeness or currentness of the information in this report.

Please note that past performance is not necessarily a guide to evaluate future performance.

PPFAS and its affiliates and their respective officers directors and employees may hold positions in any securities mentioned in this report (or in any related investment) and may from time to time add to or dispose of any such securities (or investment).

This report should be read and relied upon at the sole discretion and risk of the client.

The value of any investment made at your discretion based on this report or income therefrom may be affected by changes in economic, financial and/ or political factors and may go down as well as up and you may not get back the full or the expected amount invested. Some securities and/ or investments involve substantial risk and are not suitable for all investors.

This report is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied in whole or in part, for any purpose. Neither this report nor any copy of it may be taken or transmitted or distributed, directly or indirectly within India or into any other countries or to any resident thereof. The distribution of this report in other jurisdictions may be strictly restricted and/ or prohibited by law, and persons into whose possession this report comes should inform themselves about such restriction and/ or prohibition, and observe any such restrictions and/ or prohibition.

Neither PPFAS nor its affiliates or their directors, employees, agents or representatives, shall be responsible or liable in any manner, directly or indirectly, for views or opinions expressed in this report or the contents or any errors or discrepancies herein or for any decisions or actions taken in reliance on the report or inability to use or access our service or this report or for any loss or damages whether direct or indirect, incidental, special or consequential including without limitation loss of revenue or profits or any loss or damage that may arise from or in connection with the use of or reliance on this report or inability to use or access our service or this report.

## Contact

Ridhim Thapar	Institutional Sales	ridhim@ppfas.com	91 22 2284 6555 Extn 312
Ruchak Mehta	Analyst - Investment Research	ruchak@ppfas.com	91 22 2284 6555 Extn 202

**Now access PPFAS Reports on Bloomberg**

**<PPFS> <Go>**

**Parag Parikh Financial Advisory Services Limited**

130/132, Great Western Building, 1st Floor, S. B. Marg, Near Lion Gate, Fort, Mumbai - 400 001.

Tel : 91-22-2284 6555 Fax : 91-22-2284 6555, e-mail : researchcall@ppfas.com

[www.ppfas.com](http://www.ppfas.com)