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Colgate

Strong market share gains in toothpaste segment

Colgate continues to dominate the oral care industry with strong 50%+ market share despite increased competition in the oral care space. Colgate has developed significant entry barriers by means of distribution (5mn+ outlets) and branding efforts. It has successfully driven both penetration and premiumisation in the Indian markets, leading to consistent gross margin gains and 600bps+ increase in toothpaste market share at ~56% since 2008. It has aggressively marketed products like Colgate Sensitive, Colgate Pro-Relief and Colgate Total where prices are 2-5x that of the base Colgate Dental Cream. Premium products now contribute ~10% to sales compared to negligible numbers a few years ago. We believe the premiumisation focus will help Colgate improve margins as these products gain scale.

Low penetration levels offer opportunity to grow further

Indian oral care industry is highly under-penetrated especially in the rural markets. Companies are using these low penetration levels as an opportunity to grow the market. The per capita consumption (PCC) level in India is very low at 137gms/year compared to 277gms in China and 561gms in USA. In rural India PCC is ~1/3rd that of urban India. We believe increasing rural penetration, shift in demand from toothpowder to toothpaste and rising urban PCC levels will continue to drive volume growth for the toothpaste category. Being the market leader, Colgate is expected to benefit most (economy brand 'Cibaca' has strong presence in the rural markets).

Dominant position in the oral care industry... Recommend BUY

With its robust brand equity, innovative launches and products across price-points, Colgate continues to dominate the industry. The entry of P&G has not affected Colgate in a significant manner so far. We expect Colgate to increase its focus on the personal care (Palmolive) and household care (Axion) segments which will further drive growth. The mouthwash category (Colgate Plax) which is nascent is also expected to develop over the longer term and add to profits. We expect Colgate to witness ~12%/23% revenue/PAT CAGR over FY15-17, driven by healthy volume growth and price/mix gains. Recommend Buy.

Target (1-3 months):	Rs2,170
CMP:	Rs1,970
Upside:	10.1%
Exit Trigger*:	Rs1,870

* Exit trigger is the price level below which investor should exit position

Sector: FMCG

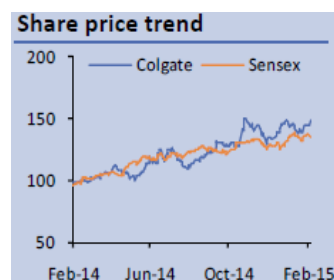
Sector view:	Positive
Sensex:	28,975
52 Week h/l (Rs):	2,050/1,301
Market cap (Rscr) :	26,791
6m Avg vol ('000Nos):	175
Bloomberg code:	CLGT IB
BSE code:	500830
NSE code:	COLPAL
FV (Re):	1

Prices as on February 23, 2015

Company rating grid

	Low High				
	1	2	3	4	5
Earnings Growth			■		
Cash Flow				■	
B/S Strength				■	
Valuation appeal			■		
Risk		■			

Share price trend





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Financial Summary

Y/e 31 Mar (Rs m)	FY14	FY15E	FY16E	FY17E
Revenues	35,449	39,449	44,099	49,757
yoy growth (%)	14.9	11.3	11.8	12.8
Operating profit	6,640	8,216	10,890	13,018
OPM (%)	18.7	20.8	24.7	26.2
Pre-exceptional PAT	4,755	5,704	7,156	8,564
Reported PAT	5,461	5,704	7,156	8,564
yoy growth (%)	9.9	4.4	25.5	19.7
EPS (Rs)	35.0	41.9	52.6	63.0
P/E (x)	56.3	47.0	37.4	31.3
Price/Book (x)	44.7	37.0	30.3	25.0
EV/EBITDA (x)	39.9	32.2	24.2	20.2
RoE (%)	87.3	86.1	89.0	87.6
RoCE (%)	121.8	118.8	130.9	128.8



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