



# Dabur India

BSE SENSEX 18,210	S&P CNX 5,488	<b>CMP: INR106</b>	<b>TP: INR94</b>	<b>Neutral</b>								
Bloomberg	DABUR IN	<b>YEAR</b>	<b>NET SALES</b>	<b>PAT</b>	<b>EPS</b>	<b>EPS</b>	<b>P/E</b>	<b>P/BV</b>	<b>ROE</b>	<b>ROCE</b>	<b>EV/</b>	<b>EV/</b>
Equity Shares (m)	1,740.0	<b>END</b>	<b>(INR M)</b>	<b>(INR M)</b>	<b>(INR)</b>	<b>GR. (%)</b>	<b>(X)</b>	<b>(X)</b>	<b>(%)</b>	<b>(%)</b>	<b>SALES</b>	<b>EBITDA</b>
52-Week Range (INR)	122/87	03/10A	33,905	5,032	2.9	27.6	36.8	9.8	53.5	55.5	2.6	14.2
1,6,12 Rel. Perf. (%)	-5/12/5	03/11A	40,774	5,686	3.3	13.3	32.4	13.3	40.9	30.2	4.6	24.9
M.Cap. (INR b)	184.4	03/12E	51,043	6,532	3.8	15.0	28.2	11.6	41.5	44.0	3.6	20.2
M.Cap. (USD b)	4.1	03/13E	57,961	7,806	4.5	19.5	23.6	9.2	39.3	43.8	3.1	17.2

## Key takeaways from the concall

- Dabur India's (DABUR) 1QFY12 domestic volume grew 7.5% impacted by a decline in shampoo sales, flat volume growth in Dabur Amla and a decline in glucose sales owing to a weak summer.
- DABUR took price increases of 3.5-4% in 1QFY12 and plans to increase prices again at the end of 2QFY12 to recover lost gross margins. The average price increase impact in FY12 is expected to be 9-10%.
- Advertising spends are likely to be maintained at ~13.5% in FY12. The management indicated that maintaining FY11 margins would be challenging.
- In shampoos, DABUR expects to return to year on year growth from 2QFY12 but profitability is likely to continue to be under pressure.
- DABUR plans to merge its CHD division with the CCD division to expand the CHD franchise and leverage the distribution strength of the CCD division.
- On an LTL basis, Hobi revenues increased 14% and Namaste revenues grew ~22%. Hobi margins are likely to be 12-13% and Namaste's margins are expected to be in the high teens in FY12.

## Organic growth outlook challenging, margin pressure to persist; Neutral

The standalone business continues to face headwinds owing to (1) rising competitive intensity in key categories like shampoos, skin care and hair oils, (2) continued pressure on margins due to an inflationary input cost environment and (3) inadequate price increases. Although DABUR has tried to preserve margins by cutting ad-spends for the second consecutive quarter, lower ad spends and promotions can start impacting the brand salience in highly competitive categories. Organic growth in the international business improved from 4QFY11 levels but is moderate at 12.5%. We expect slow recovery given (1) unrest in Levant markets and (2) pricing restrictions in some geographies. Recovery in the Middle East/Africa and the successful integration of Hobi and Namaste will determine the international business division's (IBD) growth trajectory after 3QFY12. The stock trades at 28.2x FY12E and 23.6x FY13E EPS of INR3.8 and INR4.5. **Neutral.**

## Quarterly Performance (Consolidated)

Y/E March	FY11				FY12E				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
<b>Volume Growth (%)</b>	<b>17.0</b>	<b>13.5</b>	<b>10.0</b>	<b>9.3</b>	<b>8.6</b>	<b>10.5</b>	<b>12.5</b>	<b>12.5</b>	<b>12.7</b>	<b>11.0</b>
<b>Net Sales</b>	<b>9,165</b>	<b>9,728</b>	<b>10,800</b>	<b>11,082</b>	<b>12,046</b>	<b>12,549</b>	<b>13,500</b>	<b>12,948</b>	<b>40,774</b>	<b>51,043</b>
YoY Change (%)	19.3	14.7	16.6	30.6	31.4	29.0	25.0	16.8	20.3	25.2
Total Exp	7,798	7,699	8,704	9,026	10,338	10,102	11,002	10,492	33,228	41,934
<b>EBITDA</b>	<b>1,367</b>	<b>2,028</b>	<b>2,095</b>	<b>2,056</b>	<b>1,708</b>	<b>2,447</b>	<b>2,497</b>	<b>2,456</b>	<b>7,547</b>	<b>9,108</b>
Margins (%)	14.9	20.9	19.4	18.6	14.2	19.5	18.5	19.0	18.5	17.8
YoY Growth (%)	18.0	15.6	18.2	27.0	24.9	20.6	19.2	19.5	20.0	20.7
Depreciation	145	190	233	249	211	245	250	289	816	994
Interest	8	46	54	159	126	105	105	76	303	412
Other Income	122	167	89	237	231	170	95	75	652	571
<b>PBT</b>	<b>1,337</b>	<b>1,960</b>	<b>1,897</b>	<b>1,884</b>	<b>1,602</b>	<b>2,267</b>	<b>2,237</b>	<b>2,167</b>	<b>7,079</b>	<b>8,273</b>
Tax	263	356	357	414	323	465	447	463	1,390	1,698
Rate (%)	19.7	18.2	18.8	22.0	20.1	20.5	20.0	21.4	19.6	20.5
Minority Interest	6	1	-4	0	2	11	10	10	3	43
<b>Adjusted PAT</b>	<b>1,068</b>	<b>1,604</b>	<b>1,544</b>	<b>1,470</b>	<b>1,277</b>	<b>1,791</b>	<b>1,780</b>	<b>1,693</b>	<b>5,686</b>	<b>6,532</b>
YoY Change (%)	19.5	15.2	12.1	10.3	19.6	11.7	15.3	15.2	13.7	15.6

E: MOSL Estimates

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**Key takeaways from the concall**

- Dabur India's (DABUR) 1QFY12 domestic volume grew 7.5% impacted by a decline in shampoo sales, flat volume growth in Dabur Amla and a decline in glucose sales owing to a weak summer.
- DABUR took price increases of 3.5-4% in 1QFY12 and plans to increase prices again at the end of 2QFY12 to recover lost gross margins. The average price increase impact in FY12 is expected to be 9-10%.
- Advertising spends are likely to be maintained at ~13.5% in FY12. The management indicated that maintaining FY11 margins would be challenging.
- In shampoos, DABUR expects to return to year on year growth from 2QFY12 but profitability is likely to continue to be under pressure.
- DABUR plans to merge its CHD division with the CCD division to expand the CHD franchise and leverage the distribution strength of the CCD division.
- On an LTL basis, Hobi revenues increased 14% and Namaste revenues grew ~22%. Hobi margins are likely to be 12-13% and Namaste's margins are expected to be in the high teens in FY12.

**DABUR consolidated segmental numbers: EBIT margin contraction**

Year Ended March	1QFY12	1QFY11	% Chg
<b>Net Sales (INR m)</b>	<b>12,162</b>	<b>9,244</b>	<b>31.6</b>
Consumer Care	9,500	7,044	34.9
Consumer Health	770	691	11.4
Foods	1,567	1,317	19.0
Retail	84	32	159.8
Others	242	160	50.9
<b>EBIT (INR m)</b>	<b>2,332</b>	<b>1,993</b>	<b>17.0</b>
Consumer Care	1,922	1,603	19.9
Consumer Health	185	179	3.1
Foods	248	231	7.4
Retail	-26	-22	17.4
Others	4	2	78.3
<b>EBIT Margin %</b>	<b>19.2</b>	<b>21.6</b>	<b>-2.4</b>
Consumer Care	20.2	22.8	-2.5
Consumer Health	24.0	26.0	-1.9
Foods	15.8	17.5	-1.7
Retail	-31.3	-69.3	38.0
Others	1.7	1.4	0.3

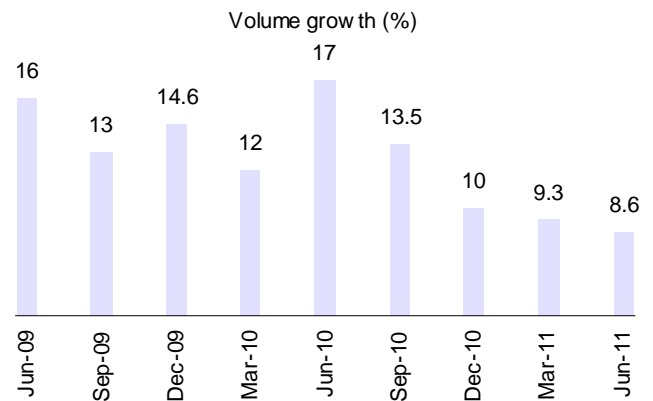
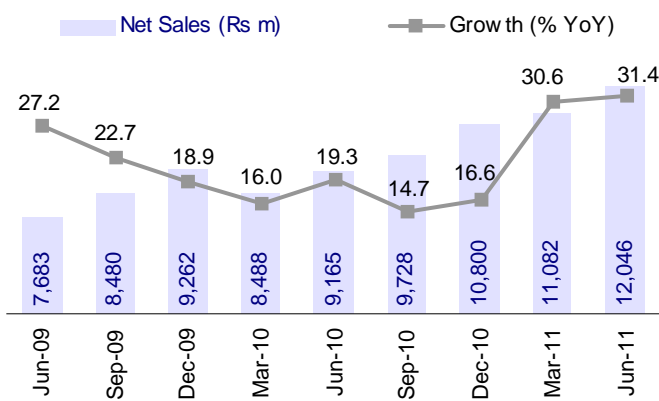
Source: Company/MOSL

Volume growth declined to 8.6%; Standalone was EBITDA up 4.4% Consolidated sales increased 31.4%, of which 18% was acquisition driven. Volume growth in 1QFY12 moderated to 8.6%, impacted by a 19.2% decline in shampoo sales and flat growth in health supplements. Gross margins contracted 480bp to 47.8% as price increases were not passed on in line with input costs increases. A 380bp decline in advertising spends restricted EBITDA margin contraction to 70bp at 14.2%. Higher other income (up 56%) boosted PAT growth to 19.6% to INR1,277m.

Domestic sales grew 12.6% to INR 8.4b, gross margins contracted 590bp to 44.1%, a 390bp reduction in ad spends (16.8% absolute decline) restricted EBITDA margin contraction to 110bp at 13.8%. EBITDA increased by only 4.4% and 59% growth in other income enabled adjusted PAT growth of 1.8% to INR 911m.

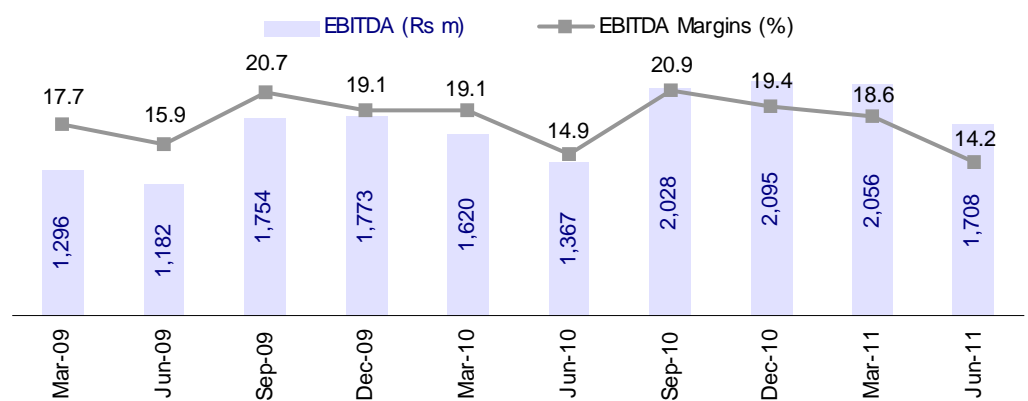
**Acquisition contribution to net sales growth 18%**

**Second consecutive quarter of single digit volume growth**



Source: Company/MOSL

**380bp decline in ad spends restricts EBITDA margin contraction**



Source: Company/MOSL

**Flat volumes in Dabur Amla, fall in shampoo sales hit volume growth**

- The 16.1% growth in hair oils was led by a 41.1% growth in Vatika hair oil, with Dabur Amla sales increasing by 9.5% (flat volume growth). DABUR's hair oil growth was significantly lower than Marico's 32% volume growth, led by product innovations and geographical expansion.
- Toothpaste growth was 14.1% with YoY market share increasing 80bp to 14.4%. Oral care increased by a 12.7% increase in sales.
- Skin care growth of 16.3% was led by 18.6% growth in the Fem portfolio, though Gulabari sales were subdued due to a high base effect.
- Home care grew 24.9% as all three brands reported healthy growth.
- Foods grew 31.5%, and were the highlight of the quarter with Real fruit juices growing 38.8% and Hommade growing by double digits.
- The CHD (Consumer Health Division) grew 11.4% with ethicals growing 13.8%.
- We believe price increases in the domestic portfolio are likely to follow in the coming quarters, which could impact future volume growth.

**Weak performance by shampoos, health supplements**

Category	Growth (%)	FY08	FY09	FY10	1QFY11	1HFY11	2QFY11	3QFY11	4QFY11	1QFY12
Hair Care		13.0	23.0	13.6	8.9	5.8	2.7	3.8	11.1	9.0
Health Supplements		14.6	11.0	20.4	43.0	36.2	29.4	12.7	20.7	0.0
Oral Care		15.0	5.0	11.5	20.2	15.3	10.4	9.4	8.9	12.7
Foods		19.0	23.0	20.0	21.2	21.3	21.4	42.0	30.1	31.5
Digestives		11.1	12.0	10.8	14.7	14.4	14.1	11.3	-3.8	7.8
Skin care		4.1	14.0	33.2	12.4	11.0	9.6	18.0	26.3	16.3
Home Care		10.3	10.0	3.3	31.5	37.4	43.3	24.2	31.1	24.9
IBD (organic)		25.5	39.9	26.3	28.7	23.3	17.9	14.2	9.9	12.5

Source: Company/MOSL

**Global margins stable, 12.5% organic revenue growth as Levant region faces pressure**

- DABUR's international business organic sales (55% of IBD) increased 12.5% in constant currency terms, impacted by political turmoil in Libya, Syria and Yemen. Egypt and GCC sales increased 30%, indicating strong recovery from economic unrest in the regions.
- Reported sales increased 99% as Hobi and Namaste were fully consolidated in 1QFY12. Hobi posted revenue of INR 341m and Namaste's sales were INR1,306m.
- Subsidiaries' margins were 14.5%, up 10bp YoY and 180bp QoQ. A rebound in sales growth in GCC and Egypt bodes well for margin recovery.
- Political unrest in the Levant countries are likely to keep IBD growth subdued over the next few quarters.

**Adspend cuts unsustainable, organic growth outlook challenging; Neutral**

- The standalone business continues to face headwinds due to (1) rising competitive intensity in key categories like shampoos, skin care and hair oils, (2) continued pressure on margins due to an inflationary input cost environment and (3) inadequate price increases. Although DABUR tried to preserve margins by cutting adspends for the second consecutive quarter, lower adspends and promotions can impact brand salience in highly competitive categories.
- Organic growth in the global business improved from 4QFY11 levels but is moderate at 12.5%. We expect slow recovery given (1) unrest in Levant markets and (2) pricing restrictions in some geographies. Recovery in the Middle East/Africa and the successful integration of Hobi and Namaste will determine IBD's growth trajectory after 3QFY12.
- The stock trades at 29.4x FY12E and 24.6x FY13E EPS of INR 3.8 and INR 4.5.  
**Neutral.**

## Dabur India: an investment profile

### Company description

Dabur India (DABUR) is the second largest FMCG company in India, in terms of product portfolio and the market leader in the *Chyawanprash* category. It is increasing its presence in other traditional categories like hair care, oral care, household care and foods. Dabur's acquisition of Fem Care has given it a strategic presence in the high potential skin care segment.

### Key investment arguments

- Strong herbal positioning with little competition from MNC in categories like hair oil, CHD and health supplements.
- DABUR has the second broadest product portfolio (after HUL) with a presence in high potential categories like skin care, hair care, oral care and health supplements.
- DABUR is likely to be under MAT for 7-8 years, resulting in huge tax savings.

### Key investment risks

- Dabur has witnessed continued deceleration in standalone sales over the past three quarters and has been highly dependant on international business for PAT growth.
- We believe DABUR will face stiffer competition in some key business segments: (1) toothpaste (with the

likely entry of P&G), (2) hair oil (aggressive strategy by Marico and Emami), (3) shampoo (aggressive strategy by P&G, HUL and Garnier resulting in a squeeze in sales growth and margins) and (4) skin care (rising focus of MNCs on the mass to mid-premium segment).

### Recent developments

- DABUR increased prices by 3-4% in 1Q FY12 to offset input cost pressure.
- DABUR completed acquisition of the Namaste group and the business is being consolidated from 4QFY11.

### Valuation and view

- Our EPS estimate is INR3.8 for FY12 and INR4.5 for FY13, implying PAT CAGR of 18% over FY11-13.
- The stock trades at 28.2x FY12E of INR3.8 and 23.6x FY13E EPS of INR4.5. Maintain **Neutral**.

### Sector view

- We have a cautious view on the sector given slower income growth in the economy, which might impact volumes and profit margins.
- Companies with low competitive pressure and broad product portfolios will be able to better withstand a slowdown in a segment.
- Longer term prospects appear bright, given rising incomes and low penetration.

### Comparative valuations

		Dabur	Marico	GCPL
P/E (x)	FY12E	28.2	30.5	24.5
	FY13E	23.6	25.4	20.5
P/BV (x)	FY12E	11.6	8.9	7.4
	FY13E	9.2	6.8	6.3
EV/Sales (x)	FY12E	3.6	2.6	3.4
	FY13E	3.1	2.2	3.0
EV/EBITDA (x)	FY12E	20.2	20.6	19.0
	FY13E	17.2	17.0	15.5

### Shareholding pattern (%)

	Jun-11	Mar-11	Jun-10
Promoter	68.7	68.7	68.9
Domestic Inst	5.8	7.1	10.0
Foreign	19.2	17.7	15.3
Others	6.2	6.5	5.9

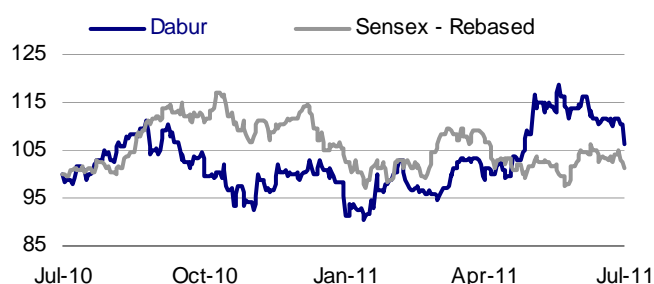
### EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	3.8	4.0	-4.2
FY13	4.5	4.7	-4.4

### Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
106	94	-11.0	Neutral

### Stock performance (1 year)



## Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
<b>Net Sales</b>	<b>28,054</b>	<b>33,905</b>	<b>40,774</b>	<b>51,043</b>	<b>57,961</b>	
Change (%)	18.8	20.9	20.3	25.2	13.6	
Total Expenditure	23,349	27,614	33,228	41,934	47,499	
<b>EBITDA</b>	<b>4,705</b>	<b>6,291</b>	<b>7,547</b>	<b>9,108</b>	<b>10,462</b>	
Change (%)	14.9	33.7	20.0	20.7	14.9	
Margin (%)	16.8	18.6	18.5	17.8	18.1	
Depreciation	-492	-562	-816	-994	-1,069	
Int. and Fin. Charges	-232	-202	-303	-412	-276	
Other Income - Recurring	467	482	652	571	779	
<b>Profit before Taxes</b>	<b>4,448</b>	<b>6,009</b>	<b>7,079</b>	<b>8,273</b>	<b>9,896</b>	
Change (%)	15.7	35.1	17.8	16.9	19.6	
Margin (%)	15.9	17.7	17.4	16.2	17.1	
Tax	-474	-1,005	-1,390	-1,615	-1,936	
Deferred Tax	-67			-83	-99	
Tax Rate (%)	12.2	16.7	19.6	20.5	20.6	
<b>Profit after Taxes</b>	<b>3,907</b>	<b>5,005</b>	<b>5,689</b>	<b>6,575</b>	<b>7,862</b>	
Change (%)	17.1	28.1	13.7	15.6	19.6	
Margin (%)	13.9	14.8	14.0	12.9	13.6	
Minority Interest	-4	-8	3	43	56	
<b>Adjusted PAT</b>	<b>3,912</b>	<b>5,013</b>	<b>5,686</b>	<b>6,532</b>	<b>7,806</b>	
Exceptional Items	4	20	0	0	0	
<b>Reported PAT</b>	<b>3,916</b>	<b>5,032</b>	<b>5,686</b>	<b>6,532</b>	<b>7,806</b>	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	865	869	1,740	1,738	1,738	
Reserves	7,323	8,485	12,170	14,116	18,244	
<b>Net Worth</b>	<b>8,188</b>	<b>9,354</b>	<b>13,910</b>	<b>15,854</b>	<b>19,982</b>	
Minority Interest	46	38	40	96	152	
Loans	2,276	1,793	10,510	3,800	3,100	
<b>Capital Employed</b>	<b>10,510</b>	<b>11,185</b>	<b>24,460</b>	<b>19,750</b>	<b>23,234</b>	
Gross Block	7,992	9,556	12,756	13,756	14,756	
Less: Accum. Depn.	-2,993	-3,391	-4,160	-5,155	-6,224	
<b>Net Fixed Assets</b>	<b>4,998</b>	<b>6,767</b>	<b>15,420</b>	<b>8,602</b>	<b>8,532</b>	
Goodwill	0	301	5,701	5,701	5,701	
Investments	3,470	2,641	4,270	3,000	6,000	
<b>Curr. Assets, L&amp;A</b>	<b>9,506</b>	<b>11,058</b>	<b>18,520</b>	<b>17,143</b>	<b>20,194</b>	
Inventory	3,755	4,262	7,090	6,010	7,033	
Account Receivables	1,779	1,198	3,550	3,354	4,099	
Cash and Bank Balance	1,484	1,923	2,720	1,494	1,553	
Others	2,488	3,674	5,160	6,286	7,508	
<b>Curr. Liab. and Prov.</b>	<b>8,076</b>	<b>9,202</b>	<b>14,570</b>	<b>14,908</b>	<b>17,404</b>	
Current Liabilities	4,817	4,669	7,140	7,641	8,702	
Provisions	3,260	4,533	7,430	7,266	8,702	
<b>Net Current Assets</b>	<b>1,430</b>	<b>1,855</b>	<b>3,950</b>	<b>2,236</b>	<b>2,790</b>	
Miscellaneous Expense	87	27	1,010	-5	-5	
Deferred Tax Liability	-70	-107	-190	-84	-84	
<b>Application of Funds</b>	<b>10,509</b>	<b>11,184</b>	<b>24,460</b>	<b>19,717</b>	<b>23,188</b>	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
<b>Basic (INR)</b>						
<b>EPS</b>	<b>2.3</b>	<b>2.9</b>	<b>3.3</b>	<b>3.8</b>	<b>4.5</b>	
Cash EPS	5.1	6.4	3.7	4.3	5.1	
BV/Share	9.5	10.8	8.0	9.1	11.5	
DPS	0.9	1.1	1.3	1.5	1.8	
Payout %	38.7	38.9	40.1	39.2	40.3	
<b>Valuation (x)</b>						
P/E	46.9	36.8	32.4	28.2	23.6	
Cash P/E	20.8	16.5	28.4	24.5	20.8	
EV/Sales	3.2	2.6	4.6	3.6	3.1	
EV/EBITDA	18.9	14.2	24.9	20.2	17.2	
P/BV	11.2	9.8	13.3	11.6	9.2	
Dividend Yield (%)	0.8	1.1	1.2	1.4	1.7	
<b>Return Ratios (%)</b>						
RoE	47.7	53.5	40.9	41.5	39.3	
RoCE	44.5	55.5	30.2	44.0	43.8	
<b>Working Capital Ratios</b>						
Debtor (Days)	23	13	32	24	26	
Asset Turnover (x)	2.7	3.0	1.7	2.6	2.5	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.3	0.2	0.8	0.2	0.2	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
OP/(loss) before Tax	4,213	5,729	6,731	8,114	9,393	
Int./Div. Received	467	482	652	571	779	
Depreciation and Amort.	492	562	816	994	1,069	
Interest Paid	-232	-202	-303	-412	-276	
Direct Taxes Paid	-474	-1,005	-1,390	-1,615	-1,936	
(Incr)/Decr in WC	-293	13	-1,298	488	-495	
<b>CF from Oper.</b>	<b>4,174</b>	<b>5,580</b>	<b>5,208</b>	<b>8,140</b>	<b>8,535</b>	
Extraordinary Items	4	-301	5,400	0	0	
(Incr)/Decr in FA	-695	-1,564	-3,200	-1,000	-1,000	
(Pur)/Sale of Investments	-1,432	829	-1,629	1,270	-3,000	
<b>CF from Invest.</b>	<b>-2,124</b>	<b>-1,037</b>	<b>571</b>	<b>270</b>	<b>-4,000</b>	
Issue of Shares	0	0	0	0	1	
(Incr)/Decr in Debt	1,284	-483	8,717	-6,710	-700	
Dividend Paid	-757	-974	-2,277	-2,559	-3,148	
Others	-1,859	-2,647	-11,421	-347	-627	
<b>CF from Fin. Act.</b>	<b>-1,332</b>	<b>-4,104</b>	<b>-4,981</b>	<b>-9,616</b>	<b>-4,474</b>	
<b>Incr/Decr of Cash</b>	<b>719</b>	<b>439</b>	<b>797</b>	<b>-1,206</b>	<b>62</b>	
Add: Opening Balance	766	1,484	1,923	2,720	1,494	
<b>Closing Balance</b>	<b>1,484</b>	<b>1,923</b>	<b>2,720</b>	<b>1,514</b>	<b>1,555</b>	

**N O T E S**

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