

Dabur India

BSE SENSEX	S&P CNX	CMP: INR94	TP: INR95	Neutral						
17,194	5,199									
Bloomberg	DABUR IN									
Equity Shares (m)	1,740.7									
52-Week Range (INR)	122/87									
1,6,12 Rel. Perf. (%)	-17/-6/6									
M.Cap. (INR b)	163.6									
M.Cap. (USD b)	3.3									
Year End	Net Sales (INR m)	PAT (INR m)	EPS (INR)	EPS Gr. (%)	P/E (X)	P/BV (X)	RoE (%)	RoCE (%)	EV/ Sales	EV/ EBITDA
03/11A	40,774	5,684	3.3	13.2	28.8	11.8	40.9	36.9	4.1	22.1
03/12E	52,628	6,334	3.6	11.4	25.8	9.4	36.5	36.8	3.1	19.4
03/13E	59,897	7,609	4.4	20.1	21.5	7.7	35.6	37.5	2.7	16.0
03/14E	68,170	9,105	5.2	19.7	18.0	6.3	35.1	39.4	2.3	13.3

In-line results; domestic volume growth and margin headwinds clearly visible; inorganic international foray yet to impress

- Dabur India's 3QFY12 results were in line with estimates; adjusted PAT came in at INR1,728m, a growth of 11.9%; the 34.5% sales growth was a mix of volume, price hikes and currency gains.
- Volume growth at 10.8% was driven by 20%+ volume growth in the international business; domestic volume growth at 8% improved from 1HFY12.
- We expect distribution realignment benefits to boost volumes temporarily; however, it is a key theme across players and may not result in a long-term competitive advantage for Dabur. Dabur is facing aggression on the pricing and promotion front from various players; the trend is unlikely to change as players vie for higher market share.
- With input cost inflation persisting, and Dabur's inability and unwillingness to pass on cost increases, margins are likely to remain compressed.
- We note that coming quarters have a low base of ad spends; as Dabur plans to increase ad spends to 12-13% levels, this could further weaken margins.
- Although organic international business margins will improve in coming quarters, we remain concerned on margin expansion in Hobi and Namaste.
- We marginally lower our estimates for FY12 to account for weaker margins. Our FY13 estimates remain largely unchanged. Dabur has underperformed the consumer universe and we expect the trend to sustain given poor visibility of margins.
- The stock trades at 25.8x FY12E and 21.5x FY13E EPS of INR 3.6 and INR 4.4, respectively. We remain **Neutral**.

Quarterly Performance (Consolidated)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE		
Volume Growth (%)	17.0	13.5	10.0	9.3	8.6	10.0	10.8	10.0	12.7	10.0
Net Sales	9,165	9,728	10,800	11,082	12,046	12,623	14,527	13,432	40,774	52,628
YoY Change (%)	19.3	14.7	16.6	30.6	31.4	29.8	34.5	21.2	20.3	29.1
Total Exp	7,796	7,697	8,704	9,026	10,338	10,258	12,312	11,216	33,228	44,124
EBITDA	1,369	2,031	2,095	2,056	1,708	2,366	2,215	2,216	7,547	8,504
Margins (%)	14.9	20.9	19.4	18.6	14.2	18.7	15.2	16.5	18.5	16.2
YoY Growth (%)	18.1	15.8	18.2	27.0	24.7	16.5	5.7	7.8	20.0	12.7
Depreciation	145	190	233	249	211	217	208	218	816	854
Interest	36	46	54	159	126	172	183	170	303	651
Other Income	148	165	89	237	231	189	231	243	652	894
PBT	1,337	1,960	1,897	1,884	1,602	2,166	2,055	2,071	7,079	7,893
Tax	263	356	357	414	323	427	337	469	1,390	1,555
Rate (%)	19.7	18.2	18.8	22.0	20.1	19.7	16.4	22.6	19.6	19.7
Minority Interest	6	1	-4	0	2	0	-10	1	3	5
Adjusted PAT	1,068	1,604	1,544	1,470	1,277	1,739	1,728	1,602	5,686	6,334
YoY Change (%)	19.5	15.2	12.1	10.3	19.6	8.4	11.9	8.9	13.6	11.5

E: MOSL Estimates

- Dabur India 3QFY12 results are in line with estimates with Adj PAT growth of 11.9% at INR 1,728m; 34.5% sales growth was a mix of volume growth, price increases, and currency gains.
- Volume growth at 10.8% was driven by 20%+ volume growth in the international business; domestic volume growth at 8% improved from 1HFY12.
- We expect distribution realignment benefits to boost volumes for once; however, it is a key theme across players and may not result in a long-term competitive advantage for Dabur. We note that Dabur is facing aggression on the pricing and promotion front from players like Colgate (toothpaste), HUL & P&G (shampoo), Marico (hair oils); the trend is unlikely to change as these players eye higher market share.
- Management stated that the "cost of regaining lost market share is far higher than regaining margins" and so it would rather focus on volume growth and market shares than near term margins. With input cost inflation persisting and DABUR's inability and unwillingness to pass on cost increases, margin pressure is likely to increase further.
- We note that coming quarters have a low base of ad spends; as DABUR plans to increase ad spends to 12-13% levels, this could further dampen margins.
- International business margins have nosedived in 3Q due to lower margins in new acquisitions and exceptionally high margins in base quarters for organic international business. Although organic business margins will improve in coming quarters, we remain concerned on margin expansion in Hobi and Namaste.

Dabur Consolidated segmental: Steep margin contraction in Consumer care

Year Ended March	3QFY12	3QFY11	% Chg	9MFY12	9MFY11	% Chg
Net Sales (INR m)	14,626	10,878	34.5	39,486	29,926	31.9
Consumer Care	12,760	9,481	34.6	33,754	25,528	32.2
Foods	1,375	1,124	22.4	4,441	3,684	20.5
Retail	123	58	112.3	301	138	118.3
Others	369	216	70.8	990	576	71.9
EBIT (INR m)	2,909	2,654	9.6	8,048	7,211	11.6
Consumer Care	2,689	2,475	8.6	7,268	6,558	10.8
Foods	218	196	11.3	798	698	14.3
Retail	(33)	(20)	64.9	(87)	(69)	26.5
Others	36	4	934.3	68	24	189.8
EBIT Margin %						
Consumer Care	21.1	26.1	-5.0	21.5	25.7	-4.2
Foods	15.8	17.4	-1.6	18.0	19.0	-1.0
Retail	(27.2)	(35.0)	7.8	(28.9)	(49.9)	21.0
Others	9.8	1.6	8.2	6.9	4.1	2.8

Source: Company/MOSL

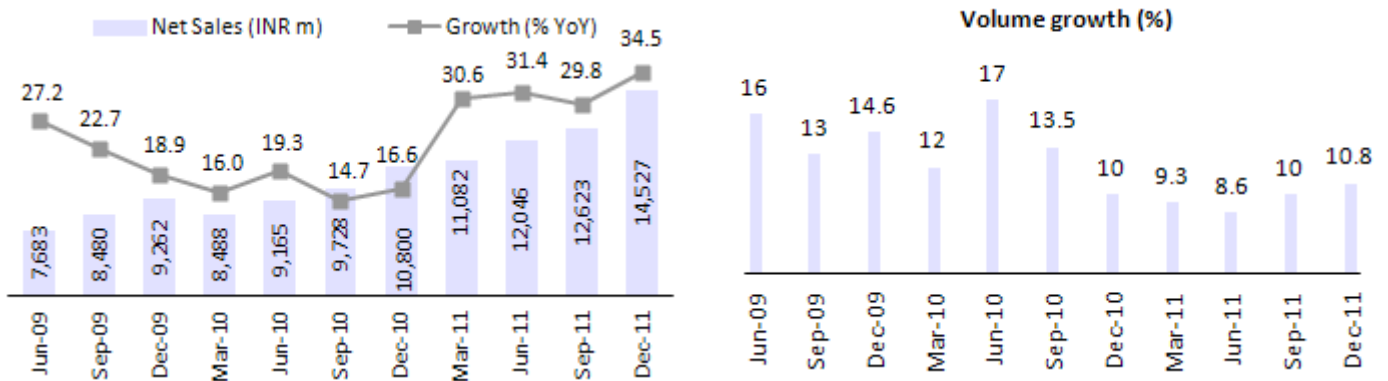
Volume growth at 10.8%; Standalone EBIDTA up 5%; PAT up 15% led by higher other income and lower tax rate

- **Consolidated net sales grew 34.5%**, of which 14.3% was acquisition driven. Consolidated volume growth was 10.8% with domestic volume growth at 8%.
- **Gross margins contracted 260bp to 49%** as steep inflation and lag in price increases continued to impact margins.
- **EBITDA margin declined sharply by 420bp to 15.2%** owing to higher ad expenses

(up 120bp) and other expenses (up70bp). EBITDA growth was 5.7% at INR2,215m (est INR2,461m). A 1.6x increase in other income and lower tax rate (down 240bp) boosted PAT growth to 11.9% at INR1,728m (est INR1,743m).

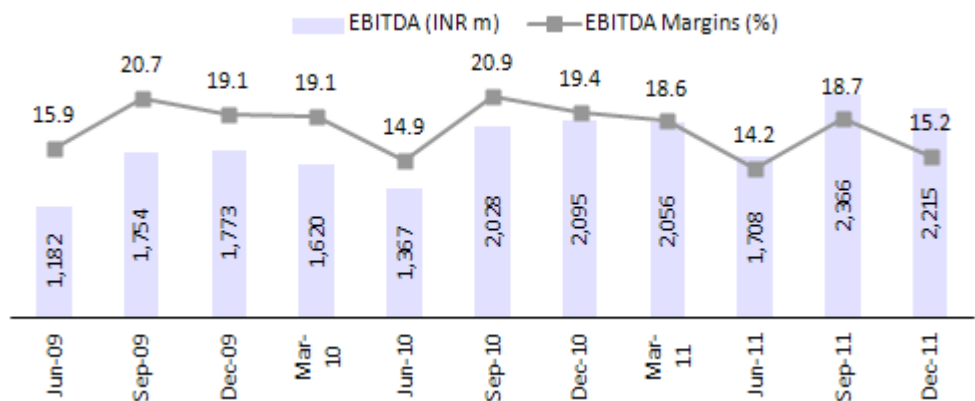
- **Domestic sales growth was 16.2% at INR 10.4b;** Gross margins contracted 250bp to 46.3%, EBITDA margin decline was restricted to 190bp at 17% due to lower other expenses (down 60bp)and staff costs (down 80bp) . EBITDA increased by only 4.7%; 58% growth in other income and 410bp decline in tax rate enabled Adj PAT growth of 15.1% at INR1,464m.

International business growth boost net sales growth to 34.5% Volume growth at 10.8% boosted by intl business performance



Source: Company/MOSL

420bp contraction in EBITDA margins as ad spends increase 110bp



Source: Company/MOSL

Domestic volume growth improves on back of hair oils and shampoos growth

- **Hair oils posted 22% growth** led by a healthy volume growth (likely in single digits) and price increases undertaken across portfolio; Vatika and Amla hair oil recorded strong growth and maintained market shares. Amla hair oil posted 20% growth, with volume growth being 10%. DABUR is satisfied with the performance of recent launch in almond hair oil and will roll it out across markets in the coming quarters.
- **Shampoos posted 4.1% growth** on a low base of steep double digit decline; we note that the segment has posted growth after 6 consecutive quarters of revenue decline.

- **Toothpastes grew 14.4%**; volume growth was disappointing at 3% though its main brands gained market share. Toothpowder sales increased 4.5%.
- **Skin care grew was only 5%**, impacted by distribution realignment, a delayed winter and higher humidity which impacted Gulabari cold cream sales. Management expects skin care growth to pick up in the coming quarters; Fem will remain cornerstone of growth in skin care.
- **Home care posted strong 18%** growth led by Odonil and recovery in Odomos growth in non institutional channels.
- **Foods growth of 17.4%** was the lowest in the last 7 quarters due to a high base (42% growth) and supply side constraints. Margins were impacted due to high cost of imports (INR depreciation); though margins are expected to improve, growth in fruit juices is likely to remain in the mid to high teens in the coming quarters.
- **OTC and ethicals grew by 14.4% and 4%**; the company plans to increase new launches to drive growth in the segment.
- **The management has clearly indicated that it will prefer volumes and market share over margins.** It has not been able to pass on the entire price increase required to cover input cost inflation and is not expected to increase prices in 4Q as well; we believe margins could remain under pressure if input cost inflation continues to persist.
- **DABUR has almost completed its distribution realignment** to integrate the CCD and CHD divisions and replace indirect reach with direct reach in rural markets. It expects the benefit of the same to flow through in terms of better volume growth from 4QFY12 onwards.

IBD and hair care drives overall growth

Category Growth (%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12	3QFY12
Hair Care	8.9	2.7	3.8	11.1	9.0	15.9	19.6
Health Supplements	43.0	29.4	12.7	20.7	0.0	7.8	13.5
Oral Care	20.2	10.4	9.4	8.9	12.7	6.0	11.6
Foods	21.2	21.4	42.0	30.1	31.5	27.5	17.4
Digestives	14.7	14.1	11.3	-3.8	7.8	3.8	19.3
Skin care	12.4	9.6	18.0	26.3	16.3	0.0	4.9
Home Care	31.5	43.3	24.2	31.1	24.9	0.5	18.0
IBD (organic)	28.7	17.9	14.2	9.9	12.5	22.8	37.8

Source: Company/MOSL

International margins collapse; 26.5% organic constant currency revenue growth led by GCC, Egypt and Nigeria

- International business organic sales (55% of IBD) increased by 37.8% in INR terms and 26.5% in constant currency terms; growth was largely led by volumes and was led by 27%, 25% and 33% constant currency growth in GCC, Egypt and Nigeria respectively.
- Reported sales increased 127% as Hobi and Namaste were fully consolidated in the current quarter. Hobi posted revenues of INR 405m (44% growth) while Namaste posted sales of INR 1485m (16% growth) respectively.
- Subsidiary margins at 10.7% decreased 1,130bp YoY due to 1) no price hikes in an environment of steep cost inflation, 2) steep inflation and lower margins in

Namaste (13-14%) and Hobi (low single digit). With price hikes now taken in the international business, company is targeting to sustain international margins in line with domestic margins in the coming quarters.

- Organic international growth remains strong; however continued margin pressures and lackluster profitability in recent acquisitions remains key concern.

Domestic volume growth and margin headwinds clearly visible; Inorganic international foray yet to impress; Neutral

- Volume growth scenario in the domestic market continues to be challenging; though we expect distribution realignment benefits to result in higher penetration for Dabur's products and boost volumes for once; we note that distribution expansion is a key theme across players and may not result in a key competitive advantage for Dabur. We note that Dabur is facing aggression on the pricing and promotion front from players like Colgate (Toothpaste), HUL & P&G (Shampoo), Marico (Hair Oils) and a number of players in skin care; the trend is unlikely to change as these players have an eye on increasing market share.
- The company has stated that it would rather focus on volume growth and market shares than maintaining near term margins. With input cost inflation persisting and its inability and unwillingness to pass on price increases in a competitive scenario, margins are likely to remain under pressure. We note that the next few quarters have a low base of ad spends and DABUR expects to increase ad spends to 12-13% levels in the coming quarters which could further hurt margins.
- The organic international business continues to perform well and we are positive on the company's organic forays in the Africa, GCC, Egypt and SAARC. However, margins have nosedived in the quarter and remain a cause for concern. Hobi, in spite of steep price hikes has posted low single digit margins; Namaste's margin expansion will be a function of increased presence in Africa and localized production. We remain concerned on the above 2 acquisitions as they are yet to show signs of improved performance.
- We marginally revise our estimates downwards for FY12 to account for lower margins and higher ad spends. Our FY13 estimates remain largely unchanged.
- The stock trades at 25.8x FY12E and 21.5x FY13E EPS of INR 3.6 and INR 4.4. Maintain **Neutral**.

Dabur India: an investment profile

Company description

Dabur India is the second largest FMCG company in India, in terms of Product portfolio. Dabur is a market leader in *Chyawanprash* category and is increasing its presence in other traditional categories like Hair Care, oral care, household care and foods. Dabur's acquisition of Fem Care 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, Health Supplements etc.
- Dabur has the second broadest product portfolio (after HUL) with presence in high potential categories like skin care, hair care, oral care and Health supplements.
- The company is likely to be under MAT for the next 7-8 years, resulting in huge tax savings.

Key investment risks

- Dabur has witnessed continued deceleration in standalone sales over the past 3 quarters and has been highly dependant on international business for its PAT growth.
- We believe that will face rising competitive intensity in some of the key business segments; 1) Toothpaste (likely entry of P&G) 2) Hair Oils (aggressive strategy

of Marico and Emami) 3) Shampoo (aggressive strategy of P&G, HUL, Garnier etc resulting in squeeze in sales growth and margins) and 4) Skin care (rising focus of MNCs on the mass to mid premium segment).

Recent developments

- Dabur has taken price increase of 9% in 9mfy12 to offset the input cost pressure.
- Dabur has completed the acquisition of Namaste group and the business is being consolidated from 4QFY11 onwards.

Valuation and view

- Our EPS estimate stands at INR3.6 for FY12 and INR4.4 for FY13, implying a PAT CAGR of 15% over FY11-13E.
- The stock trades at 25.8x FY12E of INR3.6 and 21.5x FY13E EPS of INR4.4. Maintain **Neutral**.

Sector view

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

Comparative valuations

		Dabur	Marico	GCPL
P/E (x)	FY12E	25.8	28.4	25.9
	FY13E	21.5	23.5	20.4
P/BV (x)	FY12E	9.4	8.2	6.9
	FY13E	7.7	6.3	4.7
EV/Sales (x)	FY12E	3.1	2.4	3.4
	FY13E	2.7	2.0	2.7
EV/EBITDA (x)	FY12E	19.4	19.5	19.5
	FY13E	16.0	16.0	15.2

Shareholding pattern (%)

	Dec-11	Sep-11	Dec-10
Promoter	68.7	68.7	68.7
Domestic Inst	5.7	5.5	7.8
Foreign	19.5	19.5	16.8
Others	6.1	6.3	6.6

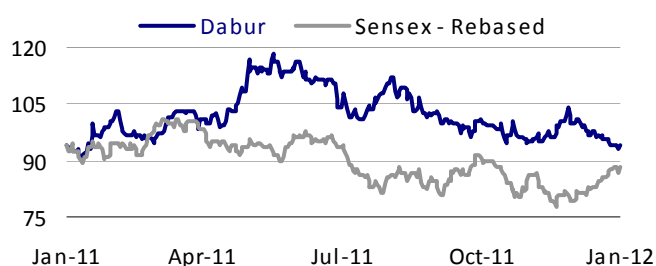
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	3.6	3.8	-3.9
FY13	4.4	4.5	-3.7

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
94	95	1.1	Neutral

Stock performance (1 year)



Financials and Valuation

Income Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Net Sales	28,054	33,905	40,774	52,628	59,897	
Change (%)	18.8	20.9	20.3	29.1	13.8	
Total Expenditure	23,350	27,613	33,228	44,124	49,770	
EBITDA	4,705	6,292	7,547	8,504	10,127	
Change (%)	14.9	33.7	19.9	12.7	19.1	
Margin (%)	16.8	18.6	18.5	16.2	16.9	
Depreciation	492	562	816	854	893	
Int. and Fin. Charges	232	202	303	651	620	
Other Income - Recu	467	482	652	894	967	
Profit before Taxes	4,447	6,010	7,079	7,893	9,581	
Change (%)	15.7	35.1	17.8	11.5	21.4	
Margin (%)	15.9	17.7	17.4	15.0	16.0	
Tax	499	956	1,332	1,484	1,868	
Deferred Tax	67	49	60	71	96	
Tax Rate (%)	-12.7	-16.7	19.7	19.7	20.5	
Profit after Taxes	3,882	5,005	5,687	6,338	7,617	
Change (%)	16.0	28.9	13.6	11.5	20.2	
Margin (%)	13.8	14.8	13.9	12.0	12.7	
Minority Interest	-4	-8	3	5	8	
Adjusted PAT	3,886	5,013	5,684	6,334	7,609	
Exceptional Items	4	20	0	0	0	
Reported PAT	3,890	5,033	5,684	6,334	7,609	

Balance Sheet		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
Share Capital	865	869	1,741	1,741	1,741	
Reserves	7,323	8,485	12,170	15,605	19,629	
Net Worth	8,188	9,354	13,911	17,346	21,370	
Minority Interest	46	38	41	45	53	
Loans	2,276	1,793	10,510	10,500	10,500	
Capital Employed	10,510	11,185	24,462	27,891	31,923	
Gross Block	7,992	9,857	19,338	20,338	21,338	
Less: Accum. Depn.	-2,993	-3,391	-4,351	-5,124	-5,937	
Net Fixed Assets	4,998	6,466	14,987	15,213	15,401	
Capital WIP	593	301	430	500	300	
Investments	3,470	2,641	4,274	3,500	6,000	
Curr. Assets, L&A	9,508	11,058	18,525	24,830	28,784	
Inventory	3,755	4,262	7,085	9,296	10,529	
Account Receivables	1,779	1,198	3,555	4,356	4,957	
Cash and Bank Balan	1,484	1,923	2,724	5,399	6,317	
Others	2,490	3,674	5,161	5,780	6,980	
Curr. Liab. and Prov.	8,076	9,202	14,576	16,999	19,327	
Current Liabilities	4,817	4,669	7,141	8,839	10,042	
Provisions	3,260	4,533	7,435	8,159	9,285	
Net Current Assets	1,432	1,855	3,950	7,832	9,456	
Miscellaneous Expe	87	27	1,010	930	850	
Deferred Tax Liabilit	-70	-107	-189	-84	-84	
Application of Funds	10,511	11,184	24,462	27,891	31,923	

E: MOSL Estimates

Ratios						
Y/E March	2009	2010	2011	2012E	2013E	
Basic (Rs)						
EPS	2.2	2.9	3.3	3.6	4.4	
Cash EPS	3.9	5.1	2.8	3.1	3.9	
BV/Share	9.5	10.8	8.0	10.0	12.3	
DPS	0.9	1.0	1.2	1.4	1.8	
Payout %	39.0	34.6	35.2	39.2	40.3	
Valuation (x)						
P/E			28.8	25.8	21.5	
Cash P/E			33.6	29.9	24.4	
EV/Sales			4.1	3.1	2.7	
EV/EBITDA			22.1	19.4	16.0	
P/BV			11.8	9.4	7.7	
Dividend Yield (%)			1.2	1.5	1.9	
Return Ratios (%)						
RoE	47.4	53.5	40.9	36.5	35.6	
RoCE	53.9	65.6	36.9	36.8	37.5	
Working Capital Ratios						
Debtor (Days)	23	13	32	30	30	
Asset Turnover (x)	2.7	3.0	1.7	1.9	1.9	
Leverage Ratio						
Debt/Equity (x)	0.3	0.2	0.8	0.6	0.5	

Cash Flow Statement		(INR Million)				
Y/E March	2009	2010	2011	2012E	2013E	
OP/(loss) before Tax	5,197	6,854	8,363	9,358	11,020	
Int./Div. Received	467	482	652	894	967	
Depreciation and An	-492	-562	-816	-854	-893	
Interest Paid	232	202	303	651	620	
Direct Taxes Paid	499	956	1,332	1,484	1,868	
(Incr)/Decr in WC	-295	15	-1,293	-1,208	-706	
CF from Oper.	5,609	7,947	8,540	10,326	12,875	
Extraordinary Items	4	0	0	0	0	
(Incr)/Decr in FA	-1,288	-1,573	-9,610	-1,070	-800	
(Pur)/Sale of Investm	-1,432	829	-1,633	774	-2,500	
CF from Invest.	-2,717	-744	-11,243	-296	-3,300	
Issue of Shares	0	0	0	0	1	
(Incr)/Decr in Debt	1,284	-483	8,717	-10	0	
Dividend Paid	-757	-868	-2,002	-2,481	-3,069	
Others	-1,859	-2,647	-11,421	-347	-627	
CF from Fin. Act.	-1,332	-3,998	-4,706	-2,838	-3,695	
Incr/Decr of Cash	1,560	3,205	-7,408	7,192	5,880	
Add: Opening Balan	766	1,484	1,923	2,724	5,399	
Closing Balance	2,326	4,689	-5,485	9,917	11,279	

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Dabur India

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| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
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