

## Dabur India Ltd.

HOLD  
CMP  
TP Rs110  
Rs107

27 July 2011

### Robust sales, disappointment on low EBITDA margin

Dabur reported robust sales growth of 32% to Rs12.1bn (PINCe 11.9bn) largely driven by recent acquisitions. Input price pressure was higher than our expectation and resulted into 480bps dip in gross margin. However, lower A&P and other expenses (% of sales) partially neutralised the RM pressure and translated into 133bps dip in EBITDA margin. EBITDA growth of 20% was maintained at net level to reach PAT at Rs1,279mn (PINCe Rs1,342mn).

In our opinion, 14.3% EBITDA margin is not healthy compared to Dabur's ~17-18% EBITDA margin band in last 5 years. Current EBITDA margin is lowest in past 20 quarters. However, we have observed previously ~300bps difference between Q1 and yearly EBITDA margin and expect the same improvement going forward. We maintain our Hold rating with TP of Rs107.

### Acquisition driven growth

Dabur's 32% sales growth was largely on the acquisitions excluding the same sales grew by 13.8%. Organic volume growth of 8.6% was not encouraging given Dabur's mid-teen volume growth history. Hobi and Namaste clocked Rs341mn and Rs1.3bn sales and contributed 13.5% of overall revenue for the quarter. We expect Hobi and Namaste to together contribute 13.2% of sales and 10.5% of EBITDA for FY13.

### Slower growth of Consumer Care Division

Consumer care division reported 13% growth which was slower compared to 19% and 30% growth in Q1FY11 and Q4FY11 respectively. It was largely due to slower growth of Dabur Chyawanprash and de-growth in Shampoo category. Marketing strategy of 40% extra on a one rupee sachet of Vatika shampoo has improved the category performance from Q4FY11. Management expects to post healthy Shampoo growth over the next 6 months. Food category maintained its high double digit growth and driving overall sales growth.

### VALUATIONS AND RECOMMENDATION

Dabur's strong presence in the domestic market through its robust portfolio and regular entrance in geographies enabled it to maintain its high growth momentum. We retain our 25x multiple on 12-month forward earnings and derive TP of RS107. The stock has outperformed the BSE FMCG by 13% over last 3months, make valuation expensive. We maintain our 'HOLD' rating.

### KEY FINANCIALS (Rs mn)

	FY09	FY10	FY11	FY12E	FY13E
Net Sales	28,054	33,914	40,774	52,181	60,382
YoY Gr. (%)	18.8	20.9	20.2	28.0	15.7
Op. Profits	4,803	6,383	7,544	9,413	10,656
Op. Marg. (%)	17.0	18.7	18.4	17.9	17.6
Adj. Net Profit	3,725	4,904	5,688	7,029	8,229
YoY Gr. (%)	14.2	31.6	16.0	23.6	17.1

### KEY RATIOS

Dil. EPS (Rs)	2.1	2.8	3.3	4.0	4.7
ROCE (%)	44.4	55.5	30.2	35.2	35.2
RoE (%)	45.5	52.4	40.9	37.2	32.8
PER (x)	51.6	39.2	33.8	27.4	23.4
EV/ Net Sales (x)	6.8	5.6	4.8	3.7	3.1
EV/EBDITA (x)	39.5	29.7	26.0	20.5	17.8

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### QUARTERLY SNAPSHOT (Rs mn)

	Quarter Ended		
	Dec-10	Mar-11	Jun-11
Net Sales	10,800	11,082	12,046
YoY Gr. (%)	16.6	30.6	31.4
Op. Profit	2,091	2,068	1,731
OPM (%)	19.2	18.5	14.3
Adj.Net Profit	1,544	1,470	1,279
YoY Gr. (%)	12.1	8.5	19.8

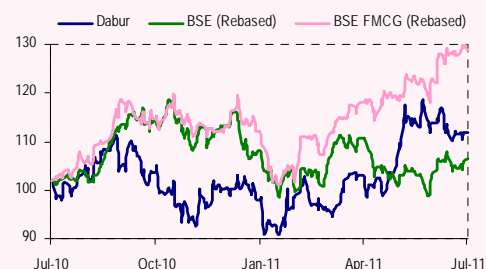
### STOCK DATA

Market cap	Rs19.2bn
Book Value per share	Rs8
Shares O/S (F.V. Rs1)	1,736mn
Free Float	21%
Avg. Trade Value (6 months)	Rs186mn
52 week High/Low	Rs122/87
Bloomberg Code	DABUR IN
Reuters Code	DABU.BO

### PERFORMANCE (%)

	1M	3M	12M
Absolute	(1.6)	8.7	9.9
Relative	(4.9)	12.8	5.0

### RELATIVE PERFORMANCE



**Exhibit 1 - Q1FY12 Earning Summary (Rs mn)**

Quarter Ended (Rs mn)	Q1FY11	Q1FY12	YoY Gr%	Q4FY11	QoQ Gr%	FY10	FY11	YoY Gr%	PINC Comments
<b>Net Sales</b>	9,165	12,046	31.4	11,082	8.7	33,910	40,774	20.2	Excluding sales of Hobi Kozmetic and Namaste, net sales grew by 14%
<i>YoY Gr%</i>	19.3%	31.4%		30.6%		20.9%	20.2%		
Other Operating Income	86	80	(7.8)	74	7.6	246	330	34.3	
<b>Total Income</b>	9,251	12,125	31.1	11,156	8.7	34,156	41,104	20.3	
<i>YoY Gr%</i>	19.7%	31.1%		30.0%		20.7%	20.3%		
<b>Total RM</b>	4,346	6,290	44.7	4,890	28.6	15,488	19,053	23.0	Input price pressure continue for this quarter also
<i>YoY Gr%</i>	20.0%	44.7%		27.2%		12.5%	23.0%		
<b>Gross Profit</b>	4,905	5,836	19.0	6,266	(6.9)	18,668	22,052	18.1	
<i>YoY Gr%</i>	19.4%	19.0%		32.2%		28.3%	18.1%		
<i>Gross Margin (%)</i>	53.0%	48.1%	-489bps	56.2%	-804bps	54.7%	53.6%	-101bps	RM growth was higher than our expectation and resulted in gross margin decline
<i>Expansion (bps)</i>	-11bps	-489bps		95bps		327bps	-101bps		
Employee Expenses	728	951	30.7	915	4.0	2,844	3,222	13.3	Maintained at -8% of sales
<i>YoY Gr%</i>	14.3%	30.7%		21.3%		21.2%	13.3%		
<i>% of sales</i>	7.9%	7.8%	-2bps	8.2%	-35bps	8.3%	7.8%	-49bps	
<i>Expansion (bps)</i>	-37bps	-2bps		-59bps		4bps	0.0%		
SG&A	1,507	1,515	0.5	1,274	18.9	4,933	5,346	8.4	A substantial cut down in SG&A was to protect the profitability
<i>YoY Gr%</i>	22.9%	0.5%		10.2%		43.7%	8.4%		
<i>% of sales</i>	16.3%	12.5%	-380bps	11.4%	107bps	14.4%	13.0%	-144bps	
<i>Expansion (bps)</i>	43bps	-380bps		-205bps		232bps	-144bps		
Provisions & Write Offs	10	57	472.7	62	(8.4)	59	192	224.8	
<i>YoY Gr%</i>	-24.4%	472.7%		243.9%		35.2%	224.8%		
<i>% of sales</i>	0.1%	0.5%	36bps	0.6%	-9bps	0.2%	0.5%	29bps	
Other Expenses	1,216	1,583	30.1	1,947	(18.7)	4,338	5,607	29.2	Were stable at 13% of sales
<i>YoY Gr%</i>	17.3%	30.1%		75.0%		13.9%	29.2%		
<i>% of sales</i>	13.1%	13.1%	-10bps	17.5%	-440bps	12.7%	13.6%	94bps	
<i>Expansion (bps)</i>	-27bps	-10bps		449bps		-75bps	94bps		
<b>Total Expenditures</b>	7,807	10,395	33.1	9,088	14.4	27,663	33,420	20.8	
<b>EBITDA</b>	1,444	1,731	19.9	2,068	(16.3)	6,493	7,685	18.4	14.3% EBITDA margin was lowest in last 20 quarters
<i>YoY Gr%</i>	20.9%	19.9%		21.8%		32.1%	18.4%		
<i>EBITDA Margin %</i>	15.6%	14.3%	-133bps	18.5%	-427bps	19.0%	18.7%	-31bps	A jump in other expenses resulted in EBITDA margin decline
<i>Expansion (bps)</i>	16bps	-133bps		-125bps		165bps	-31bps		
Other Income	36	151	325.0	163	(7.1)	172	285	65.2	
Depreciation	135	154	14.2	187	(17.9)	504	624	23.9	Acquisition impact
<b>EBIT</b>	1,345	1,728	28.5	2,043	(15.4)	6,161	7,345	19.2	
<i>YoY Gr%</i>	21.2%	28.5%		26.5%		31.6%	19.2%		
<i>EBIT Margin %</i>	14.5%	14.3%	-28bps	18.3%	-407bps	18.0%	17.9%	-17bps	
Interest	8	126	1,519.2	159	(20.6)	153	267	74.8	Large debt in books to acquire Hobi and Namaste
<b>PBT</b>	1,337	1,602	19.8	1,884	(15.0)	6,009	7,079	17.8	
Total Tax	263	323	22.7	414	(22.1)	984	1,390	41.3	
<i>Effective tax rate %</i>	19.7%	20.1%	47bps	22.0%	-184bps	16.4%	19.6%	327bps	Met the year guidance
<b>Reported PAT</b>	1,068	1,279	19.8	1,470	(13.0)	5,017	5,686	13.3	
<i>YoY Gr%</i>	19.3%	19.8%		8.5%		28.2%	13.3%		
Diluted EPS (Adjusted)	0.61	0.73	19.8	0.84	(13.0)	2.88	3.27	13.3	
<i>YoY Gr%</i>	19.3%	19.8%		8.5%		28.2%	13.3%		

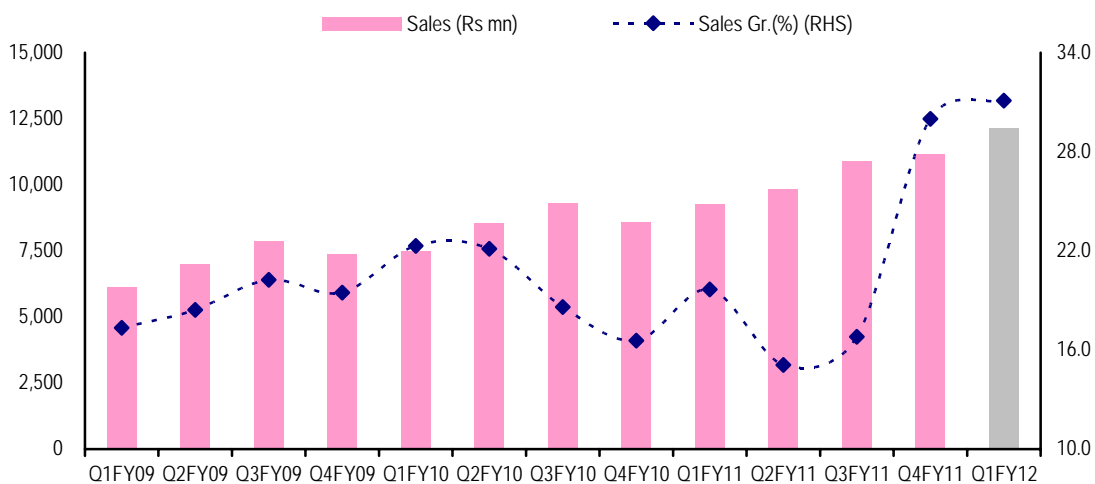
Source: Company, PINC Research

**Exhibit 2 - Q1FY12 Revenue Mix (Rs mn)**

Categories	Q1FY11	Q1FY12	Q4FY11	FY10	FY11	PINC Comments
Gross Sales	9,244	12,162	11,135	34,163	41,099	Organic sales growth was 13.8% for Q1FY12
YoY Gr%	19.5%	31.6%	30.2%	20.5%	20.3%	
<b>Consumer Care</b>						
Sales (Rs mn)	6,443	7,285	6,628	23,436	27,906	
YoY Gr%	19.3%	13.1%	29.8%	14.7%	15.4%	
% of net sales	69.7%	59.9%	59.5%	68.6%	67.9%	
<b>Sales contribution %</b>						
Hair Care	31.0%	29.9%	31.2%	31.5%	28.0%	Key brands are Dabur Amla, Anmol Coconut oil and Vatika hair oil & shampoos
Oral care	18.0%	17.9%	17.0%	18.2%	17.0%	Key brands are Babool, Dabur red tooth paste, Meswak
Health Supplements	16.0%	14.2%	16.8%	19.9%	20.0%	Key brands are Dabur honey, Dabur glucose and Dabur Chyawanprash
Digestive & Candies	7.0%	6.7%	8.0%	8.6%	8.0%	Key brand Hajmola
Baby oil & skin care	6.0%	6.2%	6.0%	2.4%	6.0%	Key brands are Gulabari and Dabur Lal tail
Home care	6.0%	6.6%	6.0%	5.2%	6.0%	Key brands are Sanifresh, Odomos, Odopic and Odonil
Foods	16.0%	18.6%	15.0%	14.3%	15.0%	Key brands are Real juices and Real franchise
<b>Sales (Rs mn)</b>						
Hair Care	1,997	2,177	2,069	7,382	7,814	Dabur Amla hair oil witnessed 9.5% growth in Q1FY12 while Vatika hair oil posted a strong growth of 41.1% and resulted in volume market gain. Shampoos continue to be under pressure and reported 19% contraction on YoY basis while on QoQ basis improved by 13.5%.
YoY Gr%	8.9%	9.0%	8.0%	13.6%	6.7%	
Oral care	1,160	1,307	1,127	4,265	4,744	Oral care reported 12.7% growth in Q1FY12 on 14% growth in toothpastes
YoY Gr%	20.2%	12.7%	5.3%	11.5%	12.1%	
Health Supplements	1,031	1,031	1,113	4,664	5,581	Dabur Chyawanprash displayed moderate growth due to off season while Dabur Glucose expanded market share to 24.1% v/s 22.9% in Q1FY11
YoY Gr%	42.8%	0.0%	20.7%	20.0%	23.0%	
Digestive & Candies	451	486	530	2,015	2,232	Category continue to grow slowly
YoY Gr%	14.7%	7.8%	3.4%	10.8%	8.9%	
Skin Care & Baby oil	387	450	398	562	1,674	Strong FEM performance improved the overall growth for the category
YoY Gr%	12.4%	16.3%	26.3%	33.2%	16.8%	
Home care	387	483	398	1,219	1,674	Maintained high value growth
YoY Gr%	31.5%	24.9%	35.0%	3.3%	32.5%	
Foods	1,031	1,356	994	3,351	4,186	Real maintained its high growth and grew by 39%
YoY Gr%	21.2%	31.5%	25.0%	20.0%	28.3%	
<b>Consumer Health</b>						
Sales (Rs mn)	693	771	778	2,767	3,082	Ethical grew by 13.8% while OTC displayed 10.1% growth
YoY Gr%	10.2%	11.2%	13.9%	15.0%	13.0%	
% of net sales	7.5%	6.3%	7.0%	8.1%	7.5%	
<b>International Business</b>						
Largely acquisition driven growth						
Sales (Rs mn)	1,923	3,783	3,232	6,081	8,918	Organic growth of 12.5% was not attractive given the past track record of high growth
YoY Gr%	28.7%	96.7%	138.7%	26.3%	46.3%	Strong volume growth with better performance in key geographies like GCC (30%), Egypt (30%) and Nigeria (33%)
% of net sales	20.8%	31.1%	29.0%	17.8%	21.7%	
<b>Others</b>						
Sales (Rs mn)	194	328	533	957	1,192	
YoY Gr%	0.1%	69.2%	20.1%	139.3%	24.6%	
% of net sales	2.1%	2.7%	4.8%	2.8%	2.9%	

Source: Company, PINC Research

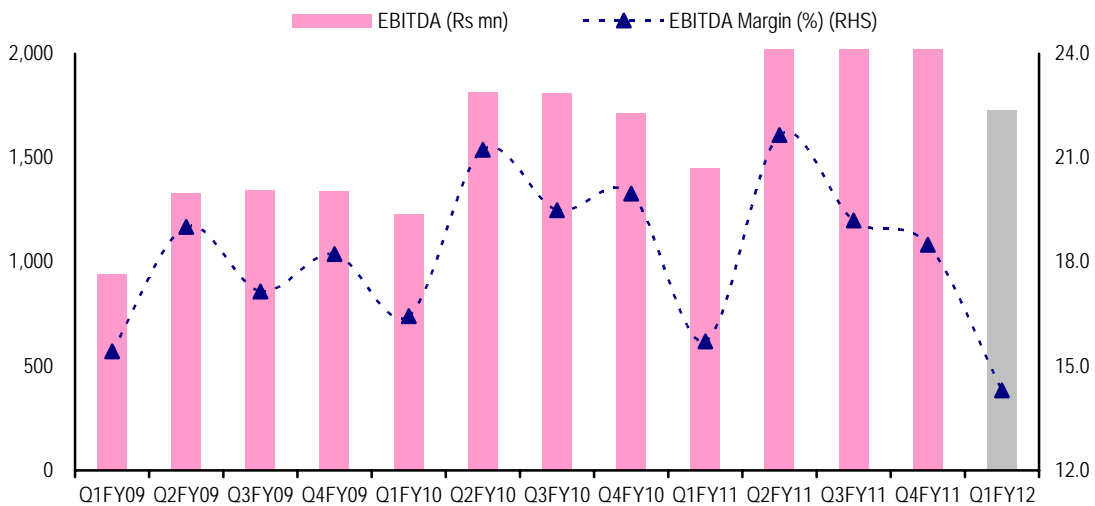
**Exhibit 3 - Quarterly Sales (Rs mn) and Sales Growth (%)**



*Dabur has consistently improved the size through organic and inorganic route...*

Source: Company, PINC Research

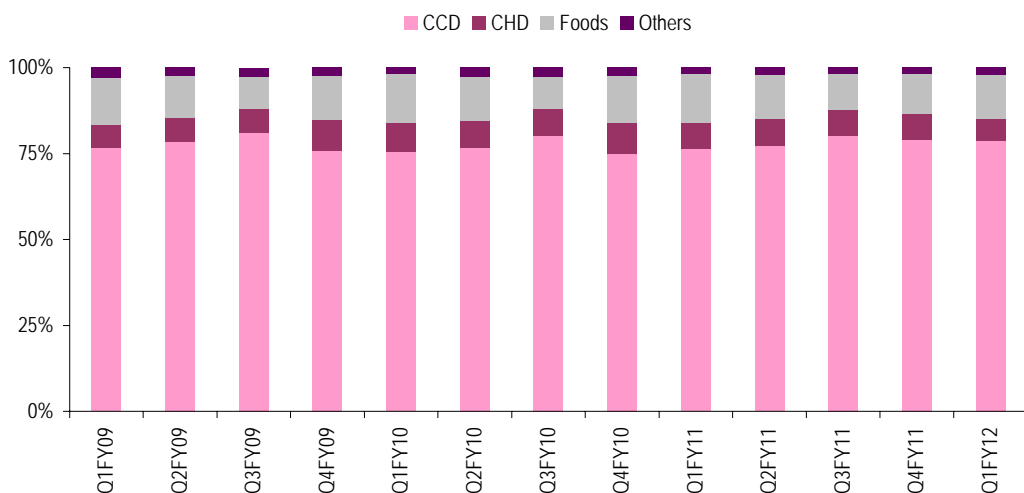
**Exhibit 4 - EBITDA (Rs mn) and EBITDA Margin (%)**



*Lowest EBITDA margin in past 20 quarters...*

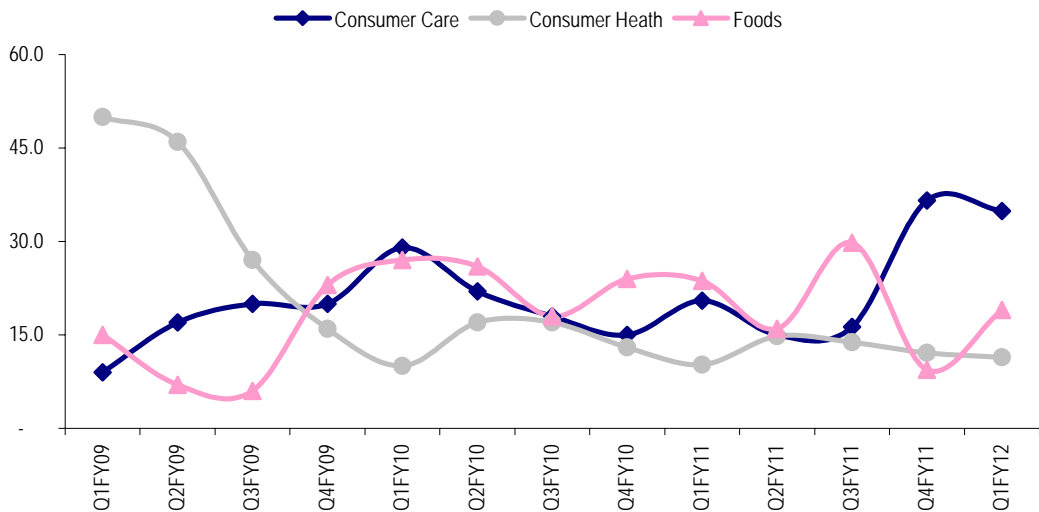
Source: Company, PINC Research

**Exhibit 5 - Revenue Mix (%)**



Source: Company, PINC Research

**Exhibit 6 - Category Growth (%)**

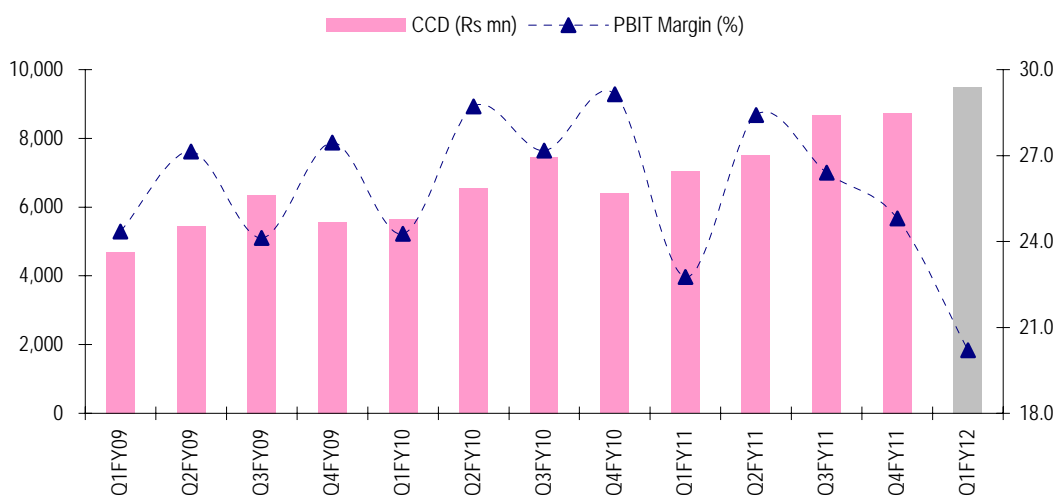


Source: Company, PINC Research

*Higher international traction helped consumer care division to maintain strong growth ...*

**Exhibit 7 - Performance of Consumer Care Business**

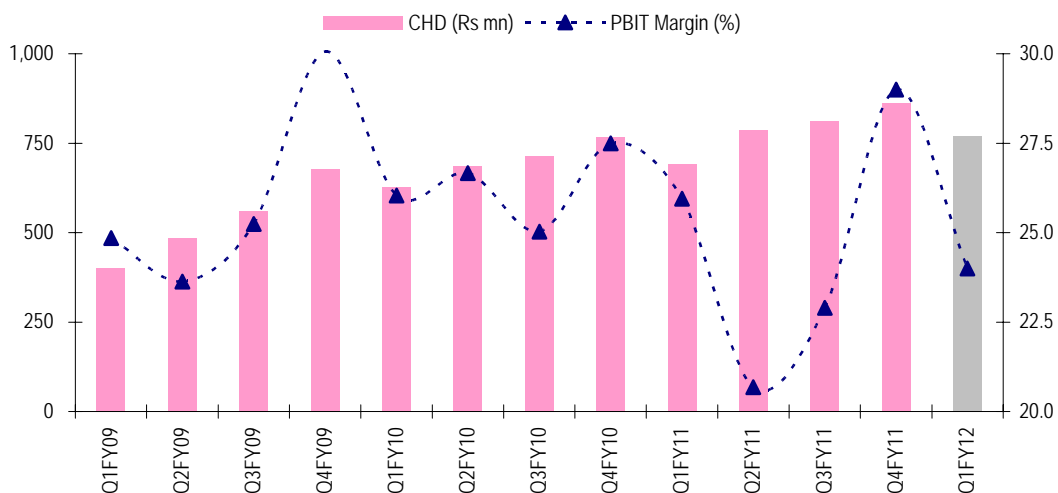
*Recently acquired low margin business impacted PBIT margin in past two quarters...*



Source: Company, PINC Research

**Exhibit 8 - Performance of Consumer Healthcare Business**

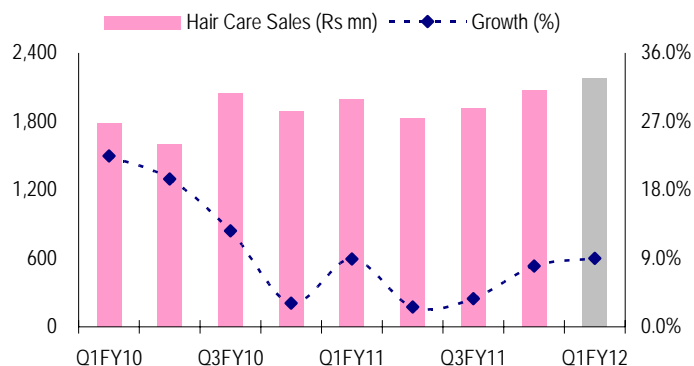
*Seasonality in sales and margin...*



Source: Company, PINC Research

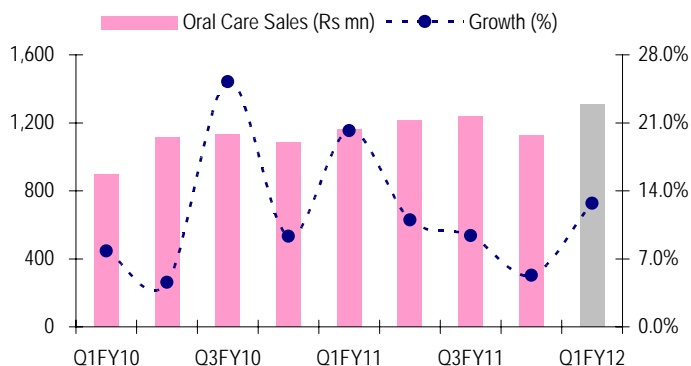
## Sub-segments of Consumer Care

**Exhibit 9 - Hair Care Performance**



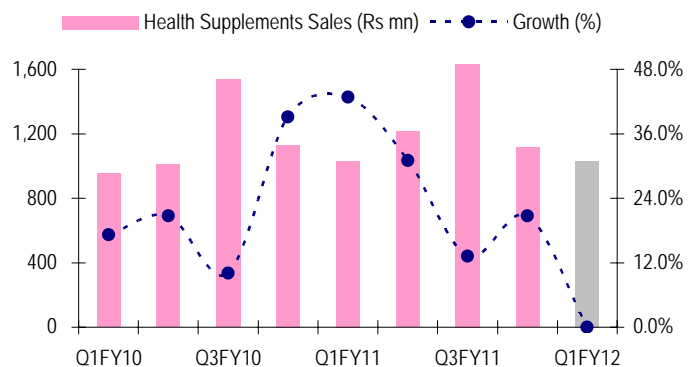
Source: Company, PINC Research

**Exhibit 10 - Oral Care Performance**



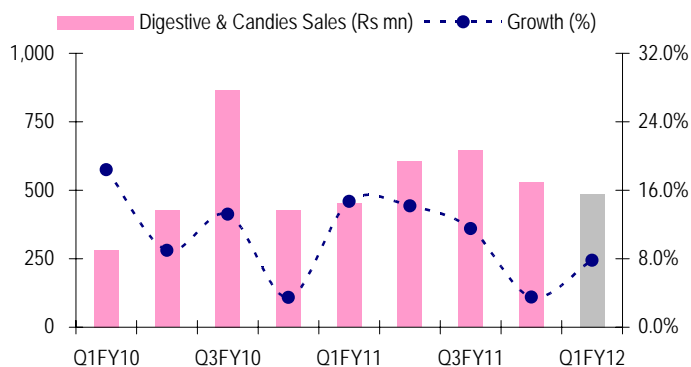
Source: Company, PINC Research

**Exhibit 11 - Health Supplements Performance**



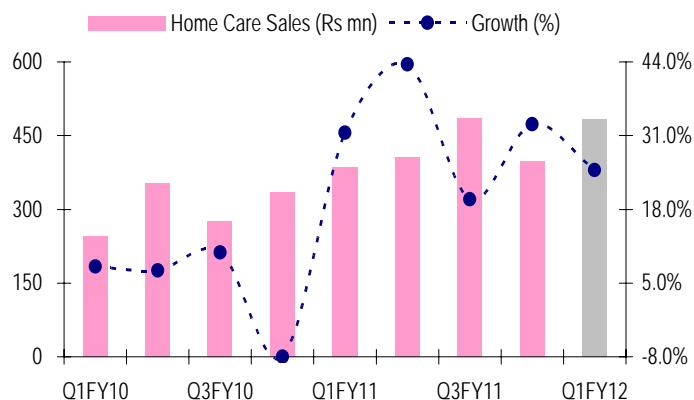
Source: Company, PINC Research

**Exhibit 12 - Digestive & Candies Performance**



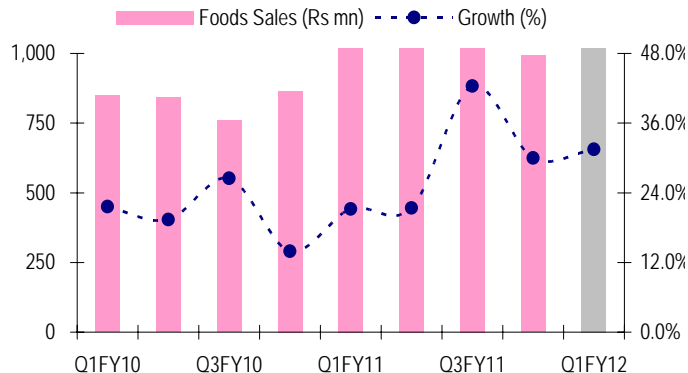
Source: Company, PINC Research

**Exhibit 13 - Home Care Performance**



Source: Company, PINC Research

**Exhibit 14 - Foods Performance**



Source: Company, PINC Research

**Year Ended March (Figures in Rs mn)**

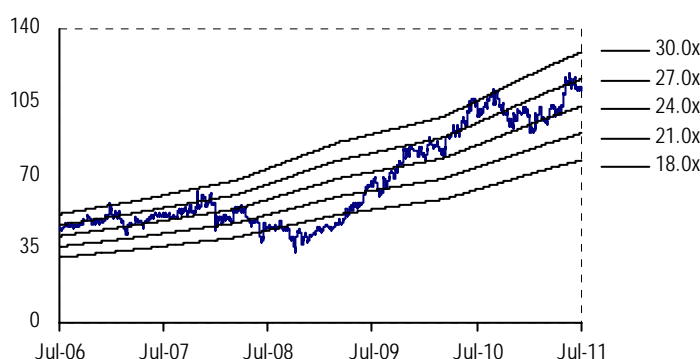
Income Statement	FY09	FY10	FY11	FY12E	FY13E
<b>Net Sales</b>	28,054	33,914	40,774	52,181	60,382
<i>Growth (%)</i>	18.8	20.9	20.2	28.0	15.7
Other operating income	142	142	187	261	302
<b>Total Revenue</b>	28,197	34,056	40,962	52,442	60,684
<i>YoY Gr%</i>	18.8	20.8	20.3	28.0	15.7
<b>EBITDA</b>	4,803	6,383	7,544	9,413	10,656
<i>YoY Gr%</i>	15.4	32.9	18.2	24.8	13.2
Other Income	326	331	465	617	733
Depreciation	449	503	624	719	817
Interest	232	202	303	521	281
<b>PBT</b>	4,449	6,009	7,081	8,791	10,290
Total tax	540	1,005	1,390	1,758	2,058
Minority Interest	(4)	(8)	3	3	3
<b>Reported PAT</b>	3,912	5,013	5,688	7,029	8,229
<b>Adjusted PAT</b>	3,725	4,904	5,688	7,029	8,229
<i>YoY Gr%</i>	14.2	31.6	16.0	23.6	17.1
<b>Diluted EPS</b>	2.1	2.8	3.3	4.0	4.7
<i>YoY Gr%</i>	14.2	31.6	16.0	23.6	17.1

Cash Flow Statement	FY09	FY10	FY11	FY12E	FY13E
Pre-tax profit	4,449	6,009	7,079	8,791	10,290
Depreciation	449	503	624	719	817
Total tax paid	(396)	(1,045)	(1,250)	(1,758)	(2,058)
Chg in working capital	(947)	(394)	(1,346)	(1,126)	(2,314)
Other operating activities	(332)	(84)	(96)	-	-
<b>Cash flow from oper. (a)</b>	3,222	4,989	5,011	6,626	6,736
Capital expenditure	(1,287)	(1,340)	(9,260)	(1,850)	(1,850)
Chg in investments	(1,224)	(1,041)	(1,538)	-	-
Other investing activities	-	79	158	-	-
<b>Cash flow from inv. (b)</b>	(2,511)	(2,302)	(10,640)	(1,850)	(1,850)
<b>Free cash flow (a+b)</b>	712	2,687	(5,628)	4,776	4,886
Equity raised/(repaid)	1	3	1	0	0
Debt raised/(repaid)	1,303	(556)	8,705	(3,000)	(2,600)
Chg in Minorities int.	-	-	-	-	-
Dividend (incl. tax)	(1,297)	(1,520)	(1,952)	(2,037)	(2,037)
Other financing activities	-	(257)	(325)	-	-
<b>Cash flow from fin. (c)</b>	7	(2,331)	6,430	(5,037)	(4,637)
<b>Net chg in cash (a+b+c)</b>	719	357	801	(261)	250

Balance Sheet	FY09	FY10	FY11	FY12E	FY13E
Equity capital	865	869	1,741	1,741	1,741
Reserves & surplus	7,323	8,485	12,170	17,163	23,356
<b>Shareholders' funds</b>	8,188	9,354	13,911	18,904	25,096
Minorities interests	46	38	41	44	47
Total Debt	2,300	1,793	10,510	7,510	4,910
<b>Capital Employed</b>	10,534	11,185	24,462	26,458	30,054
Net fixed assets	5,592	6,767	15,417	16,548	17,581
Cash & Cash Eq.	1,484	1,923	2,720	2,640	2,889
Net other Current Assets	(29)	(68)	1,230	2,356	4,670
Investments + Misc. Exp	3,556	2,669	5,285	5,104	5,104
Net Deferred Tax Assets	(70)	(107)	(190)	(190)	(190)
<b>Total assets</b>	10,534	11,185	24,462	26,458	30,054

Key Ratios	FY09	FY10	FY11	FY12E	FY13E
OPM (%)	17.0	18.7	18.4	17.9	17.6
Net margin (%)	13.2	14.4	13.9	13.4	13.6
Dividend yield (%)	0.8	0.9	0.9	0.9	0.9
Net debt/Equity (x)	0.1	(0.0)	0.6	0.3	0.1
Net Working Capital (days)	(0.4)	(0.7)	11.0	16.5	28.2
ROCE (%)	44.4	55.5	30.2	35.2	35.2
RoE (%)	45.5	52.4	40.9	37.2	32.8
EV/Net sales (x)	6.8	5.6	4.8	3.7	3.1
EV/EBITDA (x)	39.5	29.7	26.0	20.5	17.8
PER (x)	51.6	39.2	33.8	27.4	23.4
PCE (x)	46.1	35.6	30.5	24.8	21.3
Price/Book (x)	23.5	20.6	13.8	10.2	7.7

**P/E Band**



Key Assumptions	FY09	FY10	FY11	FY12E	FY13E
Consumer Care Business Gr%	16.6	16.4	14.8	15.8	15.8
Consumer Health business Gr%	18.9	15.0	13.0	13.0	13.0
IBD Gr%	39.9	26.3	46.4	72.2	16.0
Packing cost (% of net sales)	15.9	15.3	16.4	16.0	16.2
EBITDA margin expansion (bps)	-50bps	171bps	-33bps	-47bps	-39bps
Effective tax rate (%)	12.1	16.7	19.6	20.0	20.0

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