

Dabur India Ltd - BUY

CMP Rs165, Target Rs182

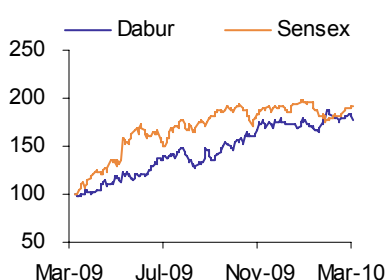
Sector: FMCG	
Sensex:	17,519
CMP (Rs):	165
Target price (Rs):	182
Upside (%):	10.5
52 Week h/l (Rs):	180 / 92
Market cap (Rscr) :	14,251
6m Avg vol ('000Nos):	814
No of o/s shares (mn):	866
FV (Re):	1
Bloomberg code:	DABUR IB
Reuters code:	DABU.BO
BSE code:	500096
NSE code:	DABUR

Prices as on 18 Mar, 2010

Shareholding pattern	
December '09	(%)
Promoters	69.1
Institutions	23.8
Non promoter corp hold	1.4
Public & others	5.6

Performance rel. to sensx			
(%)	1m	3m	1yr
Dabur	(9.9)	(3.5)	(20.4)
Marico	1.0	1.9	(17.1)
Colgate	(4.4)	3.5	(30.4)
HUL	(14.1)	(19.3)	(98.1)

Share price trend



Our interaction with the management of Dabur India Ltd (Dabur) provides assurance that the company is well on track to achieve a healthy revenue growth of ~18-20% in the coming years. The growth will be primarily volume-driven given the strong growth momentum in its domestic as well as international business. The management expects its international business to grow at ~20-25% and contribute ~25% to revenues over the next 2-3 years.

With ~40% revenues coming from rural markets; the increased Government focus on the development of rural markets augurs well for Dabur. The excise duty roll-back will not have a major impact on Dabur's revenues as ~80% of its production comes from the excise-free locations. We expect Dabur to witness revenue and earnings CAGR of 19.7% and 21.9% respectively over FY09-12. Maintain BUY with a one-year price target of Rs182.

Well-diversified portfolio

Dabur has one of the most diverse FMCG portfolios after Hindustan Unilever with four flagship brands - Dabur as the master brand for natural healthcare products, Vatika for premium personal care, Hajmola for digestives and Real for fruit-based beverages. This gives Dabur an edge over competitors. Dabur consistently focuses on expanding its brand portfolio either through launch of innovative brands or suitable acquisitions. The Fem Care acquisition (~4-5% revenue contribution in FY10E) is expected to strengthen its foothold in the skin-care market while, the ayurvedic skincare brand 'Uveda' is likely to emerge as another growth driver over the next 2-3 years.

International business growth on track

Dabur is steadily expanding its overseas presence. The two well-established brands - Dabur and Vatika have helped Dabur record strong volume growth across regions. The ayurvedic skincare brand Uveda, Fem Care acquisition, new Total Protect shampoo, malted drinks and light hair oil are expected to fuel further growth. The management expects this business to record ~20-25% growth and its revenue contribution to increase from current ~18% to ~25% over the next 2-3 years.

Valuation summary

Y/e 31 Dec (Rs m)	FY09	FY10E	FY11E	FY12E
Revenues	28,054	34,075	40,625	48,082
yoy growth (%)	18.8	21.5	19.2	18.4
Operating profit	4,661	6,362	7,658	9,087
OPM (%)	16.6	18.7	18.9	18.9
Reported PAT	3,912	4,949	5,886	7,008
yoy growth (%)	3,912	4,949	5,886	7,008
EPS (Rs)	4.5	5.7	6.8	8.1
P/E (x)	36.4	28.8	24.2	20.4
Price/Book (x)	17.6	13.6	10.7	8.5
EV/EBITDA (x)	30.7	22.5	18.7	15.7
Debt/Equity (x)	0.3	0.2	0.2	0.2
RoE (%)	55.3	53.2	49.3	46.4
RoCE (%)	51.8	51.1	50.5	49.3

Source: Company, India Infoline Research

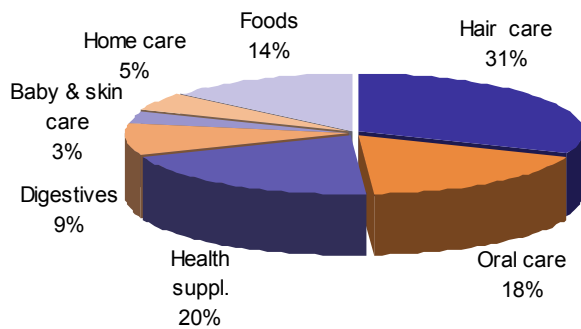
Dabur: Business Structure

Dabur operates through three focused Strategic Business Units -

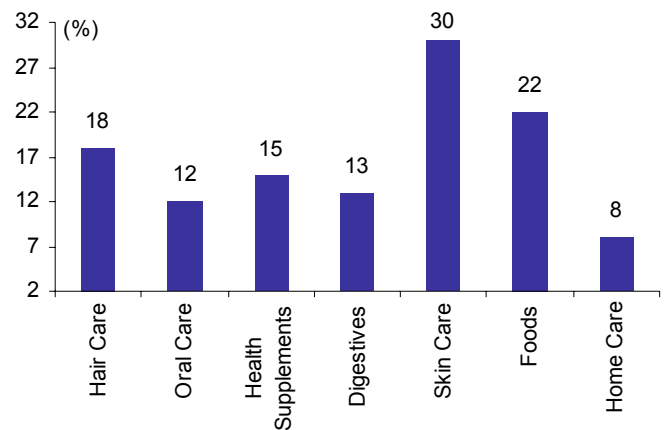
Business Unit	Description	Revenue share
Consumer Care Division	FMCG portfolio comprising four distinct businesses: Personal Care Health Care Home Care Foods	72%*
Consumer Health Division	Range of ethical and OTC products that deliver the age-old benefits of Ayurveda in modern ready-to-use formats	8%
International Business	Caters to the health & personal care needs of customers across different international markets spanning Middle East, North & West Africa, EU and US through its brands Dabur and Vatika	18%

Source: Company *including Fem Care

Consumer Care Division (CCD) break-up



Category-wise performance - 9M FY10



Source: Company, India Infoline Research

Key brands and market shares

Category	Position	Market Share	Key Brands
Hair Care	3	12%	Dabur Amla hair Oil, Vatika hair oil & Vatika Shampoos
Oral Care	3	13%	Red toothpaste, Babool, Meswak, Red toothpowder
Skin Care	3	7%	Dabur Gulabari, Fem, Dabur Uveda
Chyawanprash	1	60%	Dabur Chyawanprash
Digestives	1	55%	Hajmola
Fruit Juices	1	50%	Real Fruit Juices, Real Activ

Source: Company

Retail venture likely to break-even in FY12

The management team of Dabur's retail venture (newU) has undergone a revamp (including the CEO) and the management is confident about the business model being stabilized in the current format. During 9M FY10, this venture reported revenues of Rs68mn and a loss of Rs71mn. The management expects to end the current fiscal with revenues of ~Rs80mn and register ~Rs150mn revenues in FY11. Till date, Dabur has opened 12 newU stores and expects to end the year with 15-20 stores depending on the response for the new stores. This venture is expected to report a loss of ~Rs100mn in FY10. The management expects the loss to reduce to ~Rs40mn in FY11 and the venture to break-even in FY12.

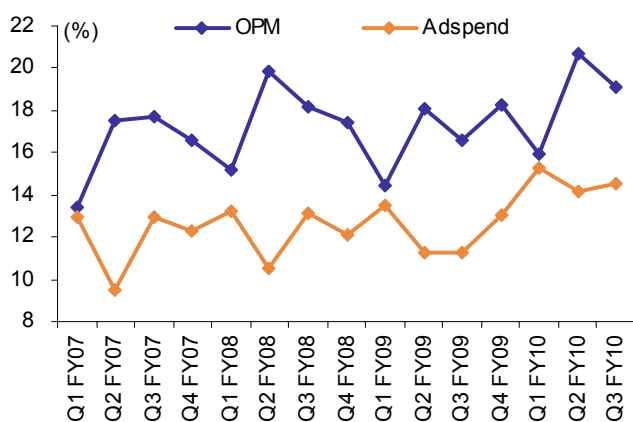
Management expects the retail venture to register ~Rs80mn revenues in FY10 and ~Rs150mn in FY11

The company plans to effect price hikes in Q2 FY11

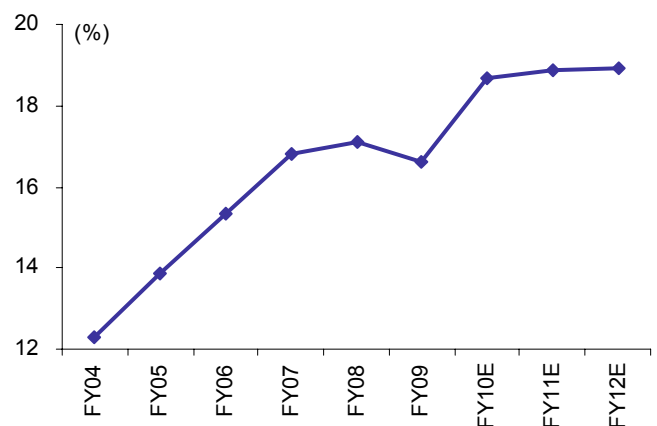
Will maintain operating margins at ~19%

Dabur witnessed a healthy ~230bps yoy expansion in operating margins in 9M FY10 led by lower raw material prices (except honey and sugar) and an improved sales mix (increasing contribution from skin care, foods and hair oil). The company re-invested part of the raw material cost savings in adspend to support its new launches/re-launches and going forward plans to maintain the adspend to sales ratio at ~14%. In case of any sharp increase in input prices, the company will use its pricing power to mitigate the impact (price hikes likely in Q2 FY11). We expect operating margins to remain stable over the next two years. Any cut-back in adspend, a sharp reduction in losses from retail venture or improvement in Fem Care margins will further fuel margins.

Quarterly trend in OPM and adspend

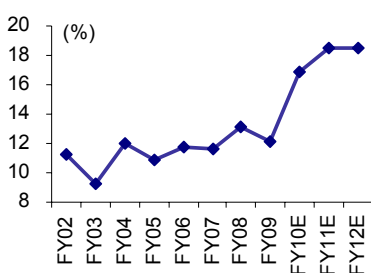


Trend in operating margins



Source: Company, India Infoline Research

Trend in effective tax rate



Source: Company, India Infoline Research

Effective tax rate to increase to ~19% in FY11

With the increase in MAT rates, the management expects its effective tax rate to increase to ~19% in FY11 and FY12. Dabur has set up two new plants (for all products) in Baddi and Uttaranchal, which will be commissioned from March 31, 2010. With these plants becoming operational, we expect the share of revenues from tax-free locations to increase further, which will help the company mitigate the higher MAT impact.

Revenue break-up



Source: Company, India Infoline Research

Maintain Buy with a revised price target of Rs182

Dabur has a unique mix of seven diverse growth engines in the FMCG space, which have a potential of delivering strong revenue growth. The company is confident of maintaining a healthy revenue growth of ~18-20% in the coming years led by a strong growth in the domestic as well as international business. Dabur plans to scale up its presence in the shampoo and skin-care categories (to make substantial investments behind the Fem Care brands) and widen its OTC portfolio, which is currently very small.

We expect Dabur to witness 19.7% CAGR in revenues and 21.5% CAGR in net profit over FY09-12. We have marginally tweaked our earnings estimates for FY11 and FY12 by 1.5% and 1.3% respectively to factor in higher MAT rate impact. At the current market price of Rs165, the stock is trading at 20.4x FY12E EPS of Rs8.1. We maintain BUY with a revised one-year price target of Rs182 (earlier Rs176).

Dabur's expansion strategy

Strengthening new Categories	Targeting Inorganic opportunities
Skin Care: Ayurvedic skin care range under a new brand launched; Acquisition of Fem	Market Entry : Acquisitions critical for building scale in existing categories & markets
OTC Healthcare : Leveraging Ayurveda knowledge for a range of OTC herbal products	Synergies : Should be synergistic and make a good strategic fit
Fruit Drinks: Entry into the fast growing fruit drinks category leveraging the Real franchise	Geographies : Opportunities in focus markets
Strong innovation programme	Expanding across geographies
Contribution : New products to contribute 5-6% of revenues	Overseas markets : 20% of overall company; target to sustain higher growth rates
Focus Categories : New product activations planned up in all categories	South India : Increased contribution from 7% to 12% ; Continued focus on the relevant portfolio to grow contribution
Renovation : Periodic brand renovations to keep older products salient	

Source: Company, India Infoline Research

Financials

Income statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Revenue	28,054	34,075	40,625	48,082
Operating profit	4,661	6,362	7,658	9,087
Depreciation	(449)	(553)	(635)	(734)
Interest expense	(232)	(159)	(201)	(265)
Other income	468	300	395	510
Profit before tax	4,448	5,950	7,217	8,599
Taxes	(540)	(1,005)	(1,335)	(1,595)
Minorities & other	4	4	4	4
Adj. profit	3,912	4,949	5,886	7,008
Exceptional items	0	0	0	0
Net profit	3,912	4,949	5,886	7,008

Balance sheet

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Equity capital	865	866	866	866
Reserves	7,237	9,653	12,500	15,962
Net worth	8,102	10,519	13,366	16,828
Minority interest	46	46	46	46
Debt	2,276	2,333	2,458	2,603
Def. tax liab (net)	305	305	305	305
Total liabilities	10,728	13,203	16,175	19,782
Fixed assets	5,592	6,988	8,354	9,620
Investments	3,470	4,470	5,670	7,270
Def. tax asset (net)	235	235	235	235
Net working cap.	(53)	(86)	(54)	102
Inventories	3,755	4,565	5,443	6,442
Sundry debtors	1,779	2,157	2,571	3,043
Other curr. assets	2,490	2,790	3,140	3,540
Sundry creditors	(4,758)	(5,779)	(6,889)	(8,154)
Other current liab.	(3,319)	(3,819)	(4,319)	(4,769)
Cash	1,484	1,595	1,970	2,555
Total assets	10,728	13,203	16,175	19,782

Cash flow statement

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Profit before tax	4,448	5,950	7,217	8,599
Depreciation	449	553	635	734
Tax paid	(540)	(1,005)	(1,335)	(1,595)
Working capital Δ	(295)	33	(31)	(156)
Op. cashflow	4,062	5,531	6,485	7,581
Capital exp.	(1,388)	(1,950)	(2,000)	(2,000)
Free cash flow	2,674	3,581	4,485	5,581
Equity raised	(76)	1	-	0
Investments	(1,432)	(1,000)	(1,200)	(1,600)
Debt fin./disposal	1,284	57	125	145
Dividends paid	(1,771)	(2,532)	(3,039)	(3,545)
Other items	39	4	4	4
Net Δ in cash	719	111	375	585

Key ratios

Y/e 31 Mar	FY09	FY10E	FY11E	FY12E
Growth matrix (%)				
Revenue growth	18.8	21.5	19.2	18.4
Op profit growth	15.5	36.5	20.4	18.7
EBIT growth	16.7	30.5	21.4	19.5
Net profit growth	17.2	26.5	18.9	19.1

Profitability ratios (%)

OPM	16.6	18.7	18.9	18.9
EBIT margin	16.7	17.9	18.3	18.4
Net profit margin	13.9	14.5	14.5	14.6
RoCE	51.8	51.1	50.5	49.3
RoNW	55.3	53.2	49.3	46.4
RoA	23.4	23.8	23.5	23.3

Per share ratios

EPS	4.5	5.7	6.8	8.1
Dividend per share	1.8	2.5	3.0	3.5
Cash EPS	5.0	6.4	7.5	8.9
BV per share	9.4	12.1	15.4	19.4

Valuation ratios (x)

P/E	36.4	28.8	24.2	20.4
P/CEPS	32.7	25.9	21.9	18.4
P/B	17.6	13.6	10.7	8.5
EV/EBIDTA	30.7	22.5	18.7	15.7

Payout (%)

Dividend payout	45.3	51.2	51.6	50.6
Tax payout	12.1	16.9	18.5	18.6

Liquidity ratios

Debtor days	23	23	23	23
Inventory days	49	49	49	49
Creditor days	62	62	62	62

Leverage ratios

Interest coverage	20.2	38.5	36.9	33.4
Net debt / equity	0.1	0.1	0.0	0.0
Net debt / op. profit	0.2	0.1	0.1	0.0

Du-Pont Analysis

Y/e 31 Mar (Rs m)	FY09	FY10E	FY11E	FY12E
Tax burden (x)	0.88	0.83	0.82	0.81
Interest burden (x)	0.95	0.97	0.97	0.97
EBIT margin (x)	0.17	0.18	0.18	0.18
Asset turnover (x)	1.68	1.64	1.62	1.60
Fin. leverage (x)	2.37	2.23	2.10	1.99

RoE (%)	55.3	53.2	49.3	46.4
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Recommendation parameters for fundamental reports:

Buy – Absolute return of over +10%

Market Performer – Absolute return between -10% to +10%

Sell – Absolute return below -10%

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India Infoline Ltd. One India Bull Center, Jupiter Mill Compound, 841, Senapati Bapat Marg, Nr, Elphinstone Road, Lower Parel (W), Mumbai 400 013.

For Research related queries, write to: Amar Ambani at amar@indiainfoline.com or research@indiainfoline.com
For Sales and Account related information, write to customer care: info@5pmail.com or call on 91-22 4007 1000