

Dabur

Rs94

NEUTRAL

RESULT NOTE

Mkt Cap: Rs162bn; US\$3.5bn

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Result: Q3FY11

Comment: Shampoo business declines 30% !

Key valuation metrics

Year to March 31	Net revenues	yoy chg (%)	Net Profit	EPS	yoy chg (%)	EV/EBITDA	PER (x)
FY08	23,612	15.6	3,328	1.9	17.4	39.4	49.1
FY09	28,317	19.9	3,866	2.2	16.3	32.9	42.2
FY10E	33,897	19.7	5,004	2.9	29.6	24.2	32.6
FY11E	41,061	21.1	5,972	3.4	19.1	19.1	27.4
FY12E	51,211	24.7	8,019	4.6	34.3	13.9	20.4

Numbers are adjusted for 1:1 bonus issue

Key highlights for Q3FY11 and discussion with management

- Dabur India (Dabur) has reported revenue growth of 16.8% at Rs10.9bn (in line with estimates), EBITDA of Rs2.16bn (estimates of Rs2.27bn) and PAT growth of 11.8% at Rs1.54bn (estimates of Rs1.73bn)
- Revenue growth during the quarter has been driven by a 13 % volume growth(11% organic). While domestic CCD business reported growth of 13.8%, CHD business grew by 13.8% and International operations ex Hobi grew by 14.2% (19.2% in same currency)
- Raw material prices have moved up sharply resulting in a gross margin erosion of 290bps to 51.9%. We expect this increase to be largely in LLP and packaging materials. However EBITDA margins have increased by 40 bps to 19.9%. This margin expansion is coming behind lower A&P spends at 12.4% (as against 14.5% in Q3FY10) lower employee cost at 7.4% (as against 7.9% in Q3FY10) and lower other expenditure at 12.2% as against 13% in Q3FY10.
- Consumer Care division (Rs7.8bn of sales) growth was driven by 24.2% in Homecare and 42% in Foods. Haircare, the biggest category (~20% of the overall sales) reported a disappointing growth at 3.8%, while oral care and skincare have reported a growth of 9.4% and 18% respectively.
- Haircare witnessed poor growth due to a massive 30% decline in shampoos with HUL upping its ante with high ASP spends and aggressive pricing in the sachets market (70% of Dabur's shampoo sales comes from sachets). While the management indicated in the previous quarter that revival of shampoos is a key focus area, we are yet to see any signs.
- Home Care category continues to show a strong recovery with ~24.2% growth rate in Q3FY11 taking overall 9MFY11 growth rates to 33.1%. Odonil grew by 53.1% in Q3FY11 post relaunch. Odomos was flattish for Q3FY11 but has grown 24.2% in 9MFY11 on the back of malaria and dengue due to extended monsoons and Odomos oil for rural markets.

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- ◆ Consumer Health Division (Rs750m of sales) has reported a growth of ~14% for Q3FY11. During the quarter, Dabur launched Honitus day and Night tablets (for Cold and Flu relief) and Dabur Nutri-go-health supplement for men and women.
- ◆ International Business ex Hobi reported a 14.2% growth at Rs2bn. For 9MFY11, Egypt grew by 41%, Nigeria grew by 34%, GCC grew by 21%, North Africa grew by 50%, and Levanta grew by 34%.
- ◆ Effective tax rates increased from 16.4% to 18.8%, slightly ahead of estimates at 18%. We expect full year tax rates to hover around 18.5% for FY11.
- ◆ Namaste Laboratories acquisition has been completed and financials will be consolidated from Q4FY11.

Our liking for Dabur has been on the back of diverse FMCG portfolio after HUL, sustained double digit volume growth, low sensitivity to any single commodity price movement and ability to scale up mid size acquisitions. Dabur has in its kitty a spate of high growth drivers in the forms of foods, skin care, oral care and international operations, thereby promising a sustained double digit growth. However the negligible growth in the haircare segment (~20% of revenues) for the third consecutive quarter(led by a 30% degrowth in shampoos in light of strong competition) and increasing dependence on international operations for growth worries us. If the domestic business remains sluggish(only 11% volume growth) and dependence on international operations for growth only increases(already more than 25% of revenues), we see scope for a de-rating of the business and valuations converging with other globally diversified players like Tata Global Beverages. . With lower than expected EBITDA margins in Q3FY11, we downgrade earnings by 3% for FY11 but upgrade FY12 earnings by 9% to reflect the impact of Namaste Laboratories acquisition. Maintain Neutral.

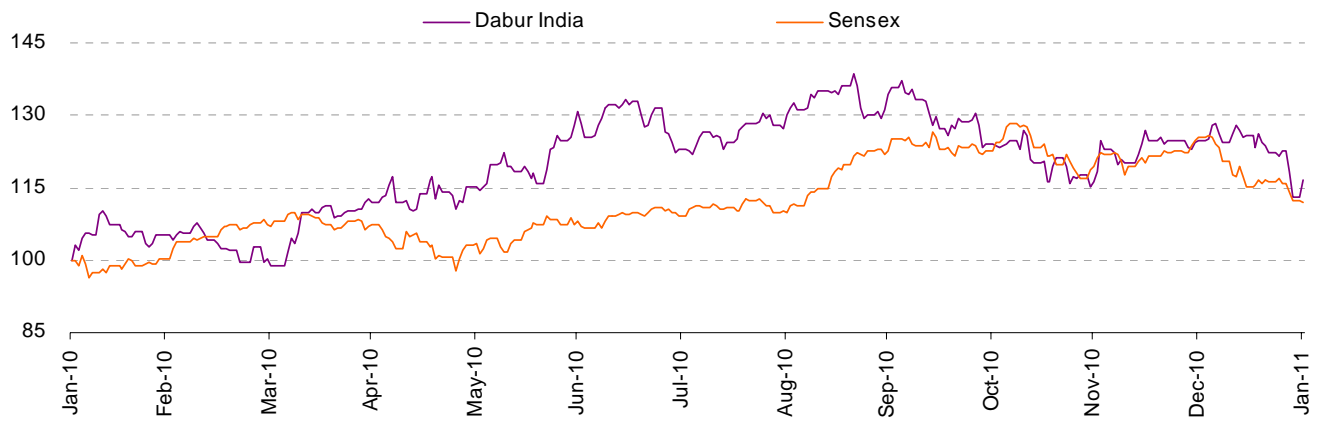
Segmental growth

(%)	Q3FY11
CCD	13.8
Hair Care	3.8
Oral Care	9.4
Health Supplements	12.7
Digestives	11.3
Skin Care	18.0
Home care	24.2
Foods	41.9
CHD	13.8
IBD (ex Hobi)	14.2

Quarterly results

Quarterly results (Rs Mn)	Q3FY10	Q4FY10	FY10	Q1FY11	Q2FY11	Q3FY11	FY11E	FY12E
Net Sales	9,302	8,584	33,897	9,251	9,828	10,869	41,061	51,211
% yoy	18.6	16.6	19.7	19.7	15.1	16.8	21.1	24.7
EBITDA	1,813	1,715	6,585	1,454	2,129	2,165	8,121	10,712
EBITDA (%)	19.5	20.0	19.4	15.7	21.7	19.9	19.8	20.9
Net interest	37	25	160	8	46	54	167	201
Depreciation	146	149	564	145	190	233	767	824
Other Income	19	48	147	36	67	20	141	127
Profit before Tax	1,650	1,590	6,008	1,337	1,960	1,897	7,327	9,815
Tax	271	236	1,003	263	356	357	1,356	1,796
Minority Interest	(1)	0	8	0	1	0	0	0
Profit After Tax	1,378	1,354	5,013	1,074	1,605	1,541	5,972	8,019
% yoy	27.0	29.8	29.6	20.0	15.3	11.8	19.1	34.3

Relative price performance



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