Dabur India DABUR IN

BUY

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NOMURA STRUCTURED FINANCE SERVICES PRIVATE LIMITED, INDIA

RESULTS FIRST LOOK

Dabur reported Q2FY12 numbers which were in line with our estimates both at the top line and bottom line. Revenue growth was strong, led by integration of acquisitions, although volume growth subdued at 5% during the quarter. The company attributed slow volume growth development during the quarter to a distribution restructuring exercise, although it expects H2 performance to see a marked improvement. We would be buyers at current levels ahead of the improvement in H2FY12.

Price target: 116.0 INR | Price (31 Oct 2011): 101.3 INR

Research analyst: Manish Jain | +91 22 4037 4186 | manish.jain@nomura.com
Research analyst: Anup Sudhendranath | +91 22 4037 5406 | anup.sudhendranath@nomura.com

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Inline Q2, but guidance for H2 to be much better

- **Earnings vs. our Forecast:** **IN LINE**

Likely Impact:

- **Earnings Estimates:** **NO CHANGE**
- **Dividend Estimates:** **NO CHANGE**
- **Price Target:** **NO CHANGE**
- **Long-term View:** **CONFIRMED**

Key highlights of Dabur's Q2FY12 results

- Net sales for the quarter were +29.8% to Rs. 12.6bn vs. the comparable quarter last year. Volume growth for the organic business was ~5% during the quarter with value growth in the domestic business at 11%.
- EBITDA came in at Rs. 2.37bn vs. Rs. 2.03bn last year, up 16.6% on a y-y basis. However margins were weaker in this quarter at 18.7% vs. 20.9% last year and 14.2% in the June ’11 quarter.
- Margins were impacted by higher material costs, with material prices as a percentage of sales rising to 50% in this quarter vs. 47.1% last year. This was partly mitigated by lower A&P spends as a percentage of sales which was at 10.1% in the quarter vs. 12.6% in Q1FY12.
- PAT came in at Rs. 1.74bn which was +8.4% on a y-y basis. This was in line with our estimate of Rs. 1.74bn.

Figure 1 – Dabur Q2FY12 results highlights

	Quarter ended				
(Rs. mn)	Sep-11	Sep-10	YoY % Chg	Jun-11	QoQ % Chg
Net Sales	**12,623**	**9,728**	**29.8**	**12,046**	**4.8**
EBIDTA	2,366	2,028	16.6	1,708	38.5
Other income	189	167	13.0	231	(18.1)
PBIDT	**2,555**	**2,196**	**16.3**	**1,939**	**31.8**
Depreciation	217	190	14.6	211	3.2
Interest	172	46	274.7	126	36.2
PBT	**2,166**	**1,960**	**10.5**	**1,602**	**35.2**
Tax	427	356	20.0	323	32.4
Minority Interest	(0)	0	N/A	2	N/A
Adjusted PAT	**1,739**	**1,604**	**8.4**	**1,277**	**36.1**

Extra ordinary income/ (exp.)	0	0	N/A	0	N/A
Reported PAT	**1,739**	**1,604**	**8.4**	**1,277**	**36.1**
No. of shares (mn)	**1,742**	**1,741**		**1,741**	
EBIDTA margins (%)	18.7	20.9		14.2	
PBIDT margins (%)	20.2	22.6		16.1	

Source: Company, Nomura Research

Segmental performance:

- Consumer care division registered a robust revenue growth of 20.3% in Q2FY12, which was driven by volume as well as price actions. Margins though were under pressure, coming down by 574bps y-y.
  - Hair care grew by 15.9% during the quarter with Hair oils recorded a robust 26.6% growth during the quarter.
  - Amongst other divisions, oral care registered growth of 6% y-y in Q2FY12.
  - Home care growth was impacted by a decline in Odomos during the quarter.

- International business registered organic growth of 17.6% y-y. The acquired entities – Hobi and Namaste Laboratories — recorded revenues of Rs. 314mn and Rs. 1310mn respectively in Q2FY12.

- Food business recorded robust growth of 20.5% for Q1FY12 with Real fruit juices recording robust growth.

Figure 2 – Segmental revenue performance

	Quarter ended				
(Rs. mn)	**Sep-11**	**Sep-10**	**YoY % Chg**	**Jun-11**	**QoQ % Chg**
Consumer Care	10,003	8,313	20.3	10,270	(2.6)
Consumer Health	721	788	(8.4)	770	(6.3)
Foods	1,499	1,244	20.5	1,567	(4.4)
Retail	95	48	97.5	84	13.0
Others	380	200	89.9	242	56.9
Total	**12,697**	**10,592**	**19.9**	**12,933**	**(1.8)**

Source: Company, Nomura Research

Figure 3– Segmental profitability performance

	Quarter ended				
(%)	**Sep-11**	**Sep-10**	**YoY % Chg**	**Jun-11**	**QoQ % Chg**
Consumer Care	22.7	28.4	(574)	20.2	244
Consumer Health	28.4	20.7	775	24.0	441
Foods	22.2	21.9	34	15.8	641
Retail	(28.9)	(54.8)	n/a	(31.3)	n/a
Others	7.3	9.8	(248)	1.7	563
Total	**22.1**	**26.2**	**(407)**	**19.2**	**293**

Source: Company, Nomura Research

Feedback from conference call

- **Volume growth to pick up in H2**: Management said that Q2 volume growth was impacted severely by distribution changes, which are now fully done. This should ensure that H2 volume growth should come back to high single digit levels, from the 5% level during Q2. This will be a positive and we see the Q2 number as more of a blip, and longer term continue to expect company to deliver high single digit volume growth.

- **Pricing impact in H2**: Company had 4-5% price realization in Q2FY12, along with 5% volume growth. Company has taken further price increases during Q2, which should help the company deliver 6-7% pricing benefit for FY12. This along with the pick up in volume growth should ensure that revenue growth remains robust for the rest of FY12.

- **International business on track**: Management was confident that the strong growth witnessed in the international business, which grew by 23% during the quarter excluding the acquisitions, is likely to continue. Growth in constant currency terms was 26% during the quarter, with margin performance in the international business as a whole better. Margin pressures in the international business are also much lesser than the domestic business.

- **Input costs have stabilized**: Management said that input costs have largely been stable now and have likely peaked in the short term. This will be a key positive in H2, when gross margin pressures are likely to ease, giving company the lever to raise A&P spends. In the long term, company remains cautious on input cost inflation and the situation remains volatile.

- **A&P levels to rise**: Management said that the drop in A&P levels this quarter to 10.1% was partly on account of disruptions caused due to restructuring of the distribution network. Company expects this number to pick up significantly in H2FY12 as the company invests more behind brand support and promotions as well as on new product launches in Q3FY12. Longer term, the company expects to operate at 12-13% levels, which is where we believe A&P levels will settle in FY12 as well. This is a positive as growth in some of the categories has slowed down and will benefit from a rise in A&P spend. Company identified Hair Oils, beverages and health supplements as the categories where A&P spends will be stepped up.

- **Acquisition performance stable**: Performance of acquisitions during the quarter was satisfactory according to management. Both Hobi and Namaste recorded strong revenue growth, and margins were largely stable during the quarter. Hobi had margins of 10.5% during the quarter, while Namaste had margins of 13.5%. Both these acquisitions are performing ahead of management expectations at this time.

- **Distribution changes**: Company has now put into place changes in the distribution structure with the consumer health division merging with consumer care division. Although this has caused an impact on both top line and bottom line this quarter, the company believes it is now much better placed in terms of having a robust distribution structure in place for the longer term. During the quarter, the impact on overheads on account of this change was to the tune of Rs. 200mn.

- **Debt position comfortable**: The company has total debt outstanding of Rs. 10bn as at the end of Q2FY12 and had a cash balance of Rs. 4-5bn. Company has no repayment schedules coming up before the start of March 2012. Debt position remains comfortable with average interest rates in the range of 2-2.5% for the entire debt on the books.

Overall, while Q2FY12 performance was in line with our expectation, slow volume growth was a disappointment. However, this was impacted by one off factors during the quarter, which will reverse in H2FY12. Company expects H2 performance to be much better than Q2FY12 and with input costs now stable, A&P spend likely to rise and volume growth pick up imminent, we remain positive on Dabur at these levels.

Valuation Methodology and Investment Risks: Please see below

Note: Ratings and Price Targets are as of the date of the most recently published report (http://go.nomuranow.com/research/globalresearchportal) rather than the date of this email.

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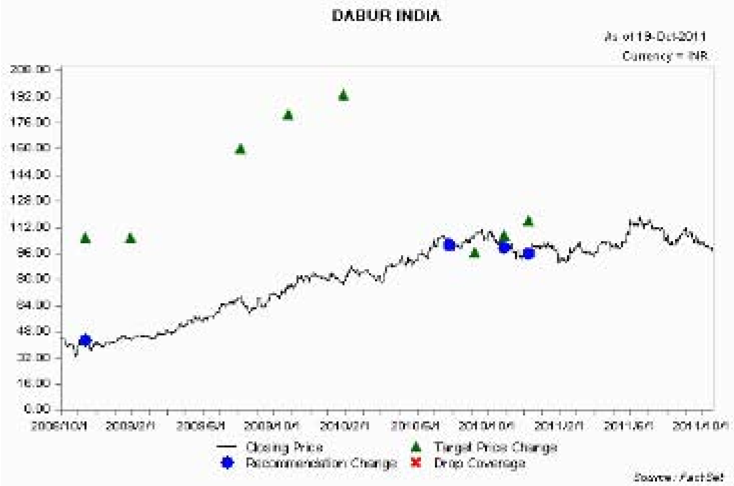
Issuer name	Ticker	Price	Price date	Stock rating	Disclosures
Dabur India	DABUR IN	101.3 INR	31 Oct 2011	Buy	

Previous Rating

Issuer name	Previous Rating	Date of change
Dabur India	Neutral	09 Dec 2010

Dabur India (DABUR IN) **101.3 INR (31 Oct 2011)** Buy

Rating and target price chart (three year history)



Date	Rating	Target price	Closing price
09-Dec-2010		116.00	96.15
09-Dec-2010	Buy		96.15
28-Oct-2010		107.00	99.70
28-Oct-2010	Neutral		99.70
08-Sep-2010		96.50	107.60
27-Jul-2010	Reduce		101.50
28-Jan-2010		193.00	78.80
26-Oct-2009		181.00	77.20
05-Aug-2009		160.00	69.95
30-Jan-2009		106.00	44.00
12-Nov-2008		106.00	42.62
12-Nov-2008	Buy		42.62

For explanation of ratings refer to the stock rating keys located after chart(s)

Valuation Methodology We value Dabur at 24x our average FY12F and FY13F EPS of INR4.8.

Risks that may impede the achievement of the target price Risk to our estimates could come from a faster-than-expected rise in commodity costs.

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Nomura Structured Finance Services Private Limited, India Tel: 91 22 3053 2345

Nomura, 9th Flr, Hiranandani Business Park
Powai, Mumbai – 400076, INDIA Fax: 91 22 3053 2111

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