

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	DABU.BO		
Bloomberg code	DABUR IN		
Market cap. (US\$ mn)	2,857		
6M avg. daily turnover (US\$ mn)	2.7		
Issued shares (mn)	866		
Target price (Rs)	164		

Performance (%) 1M 3M 12M

Absolute	7	17	112
Relative	6	7	9

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	5.7	6.8
+/- (%)	26.8	19.0
PER (x)	26.5	22.3
PBV (x)	12.3	9.5
Dividend/Yield (%)	1.6	1.8
EV/Sales (x)	3.8	3.2
EV/EBITDA (x)	20.2	16.8

Major shareholders (%)

Promoters	70
FII's	12
MF's	2
BFSI's	9
Public & Others	7

Financial highlights

(Rs. mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	6,912	8,480	22.7	12,951	15,907	22.8	28,054	34,063	21.4	39,819	16.9
EBITDA	1,248	1,754	40.6	2,119	2,937	38.6	4,705	6,370	35.4	7,521	18.1
EBITDA Margin (%)	18.1	20.7	-	16.4	18.5	-	16.8	18.7	-	18.9	-
Other Income	145	107	(26.0)	265	186	(29.9)	468	343	(26.8)	396	15.4
Interest	(40)	(33)	(16.7)	80	70	(12.8)	(232)	(253)	9.2	(232)	(8.3)
Depreciation	(106)	(125)	18.4	206	235	14.0	(449)	(487)	8.7	(566)	16.2
PBT	1,230	1,690	37.3	2,064	2,790	35.2	4,449	5,972	34.3	7,118	19.2
Tax	(156)	(287)	83.9	283	477	68.8	(540)	(1,015)	87.9	(1,210)	19.2
Minority Interest	(4)	11	(368.3)	(3)	7	(331.3)	4	5	14.8	5	15.0
Reported PAT	1,074	1,402	30.6	1,782	2,313	29.8	3,908	4,957	26.8	5,908	19.2
Adj. PAT	1,078	1,391	29.0	1,785	2,305	29.2	3,912	4,962	26.8	5,913	19.2
EPS (Rs.)	1.2	1.6	28.9	2.1	2.7	29.2	4.5	5.7	26.8	6.8	19.0

Dabur India

Maintain Outperformer

Price: Rs 152

BSE Index: 16,741

26 October 2009

2QFY10 Result – Impressive volume and margin growth

Dabur India results were above our expectations registering 23% growth in net sales at Rs 8.5 bn and 29% growth in reported PAT at Rs 1.4 bn. Sales growth was led by a strong 17% volume growth (including Fem Care). Decline in input costs led to a 370 bps expansion in gross margins to 55%. Despite higher ad spends, which increased by 54%, EBITDA margin improved by 260 bps to 20.7% in 2QFY10 driving EBITDA growth of 41%. Higher tax rate due to increase in MAT restricted PAT growth at 29%.

The management of the company has decided to issue the Dabur India shares of Re 1 face value, to the remaining shareholders of Fem Care Pharma Ltd. in the ratio of 1:5. This will lead to the issuance of 1.4 mn shares of Re 1 face value for the 0.28 mn shares of Fem Care Pharma Ltd.

The company continues to report impressive volume growth backed by strong performance of its core brands and new product launches. With Fem acquisition, Dabur is now present across mass and premium segment skin care products through Gulabari, Uveda and Fem Care brands. The skin care category is expected to witness strong growth as Dabur integrates the distribution network and leverages the strong Fem Care brand equity. Investment in new launches will continue and A&P is expected to remain high during the FY10-11E period. Though margins expansion will be lower from 4QFY09 onwards, with its strong rural presence driving double-digit volume growth across categories, we expect the company to post strong earnings in the coming quarters. We have revised our earning estimates upwards by 6.3% and 6.9% for FY10E and FY11E, respectively, to factor in the strong volume growth and margin expansion. We maintain our Outperformer rating on the stock with a revised target price of Rs 164 (revised from Rs 144) based on 24x (increased from 22.5x) FY11E EPS.

Segmental performance

Consumer care division (CCD) (67% of revenues excluding international) continued to post a strong growth of 17% (volume growth of 15%) during the quarter, led by a strong growth of 21.5% in hair care, 23.5% in health supplements and 21.9% growth in skin care and baby oil categories. The lower input costs and better operational efficiencies led to an EBIT margin improvement of 230 bps at 28.7%.

- Strong growth in hair care was led by a 14.7% growth in hair oils and a robust 46% growth in Vatika shampoos. During 1HFY10, Dabur Amla franchise reported a growth of 13.5% and Anmol coconut oil grew strongly by 34.8% supported by the increased promotional activities. Vatika Smooth & Silky variant led the strong growth in the shampoos, leading to an increased market share of 7.3% in 2QFY10 (6.3% two quarters back). Vatika range of hair oils reported growth of 15.7% during 1HFY10.
- Though toothpaste recorded strong growth of 11%, the oral care category grew only by 5.5%, due to the continued decline in toothpowder sales in 2QFY10. The company has entered into the gel toothpaste segment by launching Babool Mint fresh during 2QFY10, under the economy priced Babool franchise which has registered the growth of 15% in 1HFY10. The growth in the toothpaste category was driven by a strong growth of 16.7% in Dabur Red toothpaste and a robust 23.4% growth in Meswak toothpaste during 1HFY10.
- Health supplements category grew by healthy 23.5% during the quarter and by 20.6% during 1HFY10, led by strong growth across Dabur glucose and honey. Dabur Chayawanprash, exploiting the opportunity of swine flu scare in the country, grew by 12.4% during the quarter.
- Digestive category grew by 11.5% in 2QFY10 led by the strong growth of 15% in Hajmola candies supported by the new brand positioning exercise.
- Home care division reported a growth of 8.5% during the quarter with Odomos and Odopic performing well. Odonil growth continued to slide and has registered the decline of 3.2% for 1HFY10. Sanifresh, which has outperformed the category in 1QFY10, has reported the growth of 24.7% for the 1HFY10.
- The enhanced retail visibility and promotion activities resulted in the strong 21.9% growth of the skin care category during 2QFY10. With the strong growth of Gulabari franchise, launch of 'Uveda' brand, a new ayurvedic skin care product, and integration of Fem Care distribution network, we expect strong growth from the division in the future.
- Foods division witnessed a strong performance with a 24% growth during the quarter led by strong growth in the Real franchise and its culinary range. PBIT margin of the division improved by 530 bps to 22.1%, largely due to improved margins in Nepal.
- The current quarter revenues, upon consolidation, include Rs 295 mn revenues from Fem Care Pharma, which recorded 24.2% growth driven by the 29.6% growth in bleaches and hair removing creams. Dabur has planned to invest more to increase the visibility of Fem Care portfolio and to gain benefits of its parlours distribution network for Dabur's skin care products.

Consumer Health Division (CHD) registered a growth of 17.7% for the quarter and 15.1% for the 1HFY10, mainly driven by the strong growth in its OTC products and ethical portfolio. Pudina hara, Janam Ghunti, Hingoli, Sat Isabgol and gripe water, which have been transferred to CHD from CCD for improved distribution focus, have together registered the strong growth of 22.5% for 1HFY10. However, PBIT margins of the division declined by 430 bps due to higher input costs and A&P spends.

International Business Division (IBD) continued to witness a robust growth and reported a 27.5% growth during the quarter led by strong performance in GCC, Egypt, and South Asia markets and favourable foreign currency movement. Growth was driven by a volume growth of 16%, price of 3% and 9% currency gains.

Retail Division has posted a growth of 43.9% in revenues. Scaling down expansions and shifting to a revenue sharing model has helped reduce losses from retail division from Rs 52 mn in 2QFY09 to Rs 20 mn this quarter.

Amalgamation of Fem Care with Dabur India

Under the scheme of amalgamation of Fem Care Pharma with Dabur India Ltd. (DIL), the management of the company has decided to issue and allot shares of Dabur India of the face value of Re 1 each to the shareholders of Fem Care Pharma in the ratio of 1:5. Dabur India holds 92.15% (3.25 mn shares) stake in Fem Care and the amalgamation will lead to an additional equity issuance of 1.4 mn shares (face value Re 1) of Dabur India for the remaining 7.85% (0.28 mn shares) shareholders.

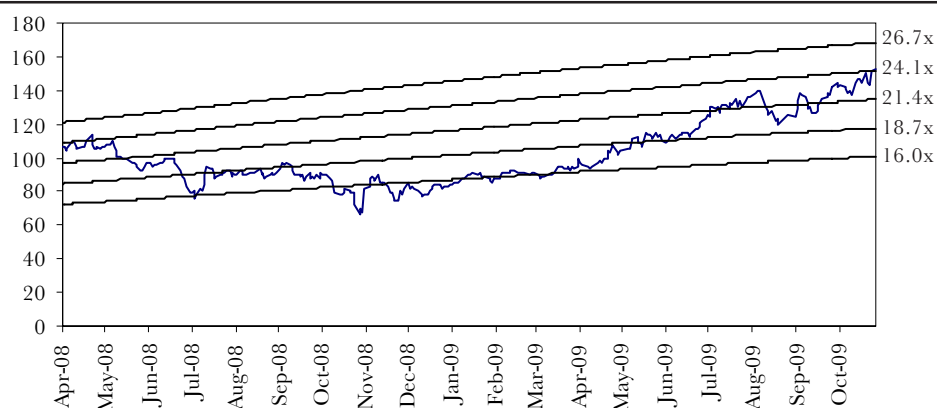
Revised estimates

(Rs mn)	FY10E			FY11E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Revenues	34,063	34,063	0.0	39,819	39,819	0.0
EBITDA	6,014	6,370	5.9	7,064	7,521	6.5
PAT	4,666	4,962	6	5,534	5,913	6.9
EPS (Rs)	5.4	5.7	6.3	6.4	6.8	6.9

Segmental performance

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)
Segmental revenue						
Consumer care division	5,355	6,538	22.1	9,880	12,178	23.3
Consumer health division	588	686	16.6	1,158	1,313	13.5
Foods	851	1,071	25.9	1,689	2,136	26.4
Retail	16	23	45.5	26	40	50.6
Others	175	232	32.5	355	364	2.5
Total	6,985	8,551	22.4	13,108	16,031	22.3
Segment results (PBIT)						
Consumer care division	1,414	1,878	32.8	2,512	3,246	29.2
Consumer health division	183	183	0.2	327.2	346.3	5.8
Foods	143	236	64.9	259.2	373.7	44.2
Retail	(52)	(20)	(62.6)	(101.1)	(47.2)	(53.3)
Others	3	26	735.5	11	31.7	188.2
Total	1,690	2,303	36.2	3,008	3,950	31.3
Segmental margins (%)						
Consumer care division	26.4	28.7	–	25.4	26.7	–
Consumer health division	31.0	26.7	–	28.3	26.4	–
Foods	16.8	22.1	–	15.3	17.5	–
Retail	NA	NA	–	NA	NA	–
Others	1.8	11.1	–	3.1	8.7	–
Total	24.2	26.9	–	22.9	24.6	–

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net Sales	23,611	28,054	34,063	39,819
<i>Growth (%)</i>	<i>15.6</i>	<i>18.8</i>	<i>21.4</i>	<i>16.9</i>
Operating Expenses	(19,574)	(23,394)	(27,693)	(32,298)
Operating Profit	4,037	4,661	6,370	7,521
EBITDA	4,037	4,661	6,370	7,521
<i>Growth (%)</i>	<i>17.6</i>	<i>15.5</i>	<i>36.7</i>	<i>18.1</i>
Depreciation	(364)	(449)	(487)	(566)
Other Income	340	468	343	396
EBIT	4,012	4,681	6,226	7,350
Interest Paid	(168)	(232)	(253)	(232)
Pre-tax profit	3,844	4,448	5,972	7,118
(before non-recurring items)				
Pre-tax profit	3,844	4,448	5,972	7,118
(after non recurring items)				
Tax (current + deferred)	(507)	(540)	(1,015)	(1,210)
Net Profit	3,338	3,908	4,957	5,908
Prior period adjustments	(10)	(7)	0	0
Minority interests	1	4	5	5
Reported Pat	3,329	3,905	4,962	5,913
Adjusted net profit	3,339	3,912	4,962	5,913
<i>Growth (%)</i>	<i>18.0</i>	<i>17.2</i>	<i>26.8</i>	<i>19.2</i>

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	9,765	10,744	14,526	18,394
Cash & Marketable Securities	2,792	2,720	4,757	6,957
Other Current Assets	6,973	8,024	9,769	11,436
Investments	11	2,234	186	186
Net fixed assets	4,653	5,592	9,058	9,683
Other non-current assets	240	235	235	235
Total assets	14,669	18,805	24,005	28,498
Current Liabilities	7,321	8,076	11,027	12,680
Total debt	992	2,276	1,971	1,671
Other non-current liabilities	273	305	305	305
Total Liabilities	8,585	10,657	13,303	14,657
Share capital	864	865	864	864
Reserves & Surplus	5,312	7,323	9,872	13,006
Less : Misc. Expenditure	(140.0)	(86.0)	(80.0)	(74.0)
Shareholders' funds	6,036	8,102	10,656	13,795
Minorities interests	48	46	46	46
Total equity & liabilities	14,669	18,805	24,005	28,498
Capital Employed	7,348	10,728	12,978	15,817

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	3,844	4,448	5,972	7,118
Depreciation	(364)	(449)	(487)	(566)
Chg in working capital	452	(919)	(688)	(562)
Total tax paid	(301)	(133)	(540)	(1015)
Other operating activities	(10)	(7)	0	
Cash flow from Oper. (a)	4,350	3,838	5,232	6,106
Capital expenditure	(1,124)	(1,289)	(3,882)	(1100)
Chg in investments	(1,230)	(1,432)	1,740	(309)
Others	(42)	(46)	(66)	(86)
Cash flow from Inv. (b)	(2,397)	(2,767)	(2,208)	(1494)
Free cash flow (a+b)	1,954	1,071	3,024	4,612
Equity raised / (repaid)	52	54	(1)	0
Debt raised / (repaid)	(607)	1,284	(304)	(300)
Dividend (incl tax.)	(758)	(1,517)	(1,008)	(2426)
Cash flow from fin. (c)	(1,795)	(352)	(1,295)	(2721)
Net chg in cash (a + b + c)	159	719	1,728	1,891

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs.)	3.9	4.5	5.7	6.8
Growth	17.8	17.2	26.8	19.0
Book NAV/Share (Rs)	7.0	9.4	12.4	16.0
Dividend/Share (Rs)	1.5	1.8	2.4	2.7
Dividend payout ratio	45.4	45.3	48.9	47.0
Tax	13.2	12.1	17.0	17.0
EBITDA margin	17.1	16.6	18.7	18.9
EBIT margin	17.0	16.7	18.3	18.5
RoCE	57.9	51.8	52.5	51.1
Net debt / Equity	(29.6)	(5.4)	(26.0)	(38.2)

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	39.4	33.6	26.5	22.3
PCE	35.5	30.2	24.1	20.3
Price/Book	21.6	16.1	12.3	9.5
Yield (%)	1.0	1.2	1.6	1.8
EV/Net sales	5.6	4.7	3.8	3.2
EV/EBITDA	32.6	28.1	20.2	16.8

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	14.1	13.9	14.6	14.9
Asset turnover	1.8	1.7	1.6	1.5
Leverage factor	2.4	2.4	2.3	2.1
Return on equity (%)	62.3	55	52.6	48.2

Ankit Jain
ankit.jain@bksec.com
+91 -120-460 5618

Ashit Desai
ashit.desai@bksec.com
+91-22-4031 7132

Analyst Declaration: We, Ankit Jain & Ashit Desai, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
 2. **OUTPERFORMER:** 0 to +25%
 3. **UNDERPERFORMER:** 0 to -25%
 4. **SELL:** Potential downside of < -25% (absolute returns)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg., 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.