

Company Focus

28 July 2008 | 9 pages

Dabur India (DABU.BO)

 Estimate change
 Results

Hold: 1Q Impacted by Input Cost Pressures

- 1Q below expectations** — Recurring PAT rose +14% Y/Y, trailing 16% Y/Y revenue growth (mix of c11% volume growth and ~5% average increase in prices). The variance was attributed to higher material costs (gross margins declined to 50.3%, contraction of 83bps Y/Y, down 358bps QoQ).
- EBITDA margins disappoint** — Margins declined to 14.4%, down 78bps Y/Y with advertising & staff costs rising c18% Y/Y (reflect retail initiatives). Moreover, input cost pressures continue. A number of product roll-outs and re-launches are planned in the coming quarter, which augurs well for revenue growth – though we expect margin pressure to continue.
- Aggressive investments in retail continue** — At present, there are 7 'NewU' outlets – management has a target roll out of 12-13 by end FY09e. We had forecast 57 outlets by FY10e. The trajectory of investments appears to have declined somewhat, given higher rental rates. A total investment of Rs1.4bn is envisaged for the retail initiative over the next 3 years.
- International operations** — International business (c18% of overall revenues) grew at a healthy 40% (on a small base). We believe international business is a long term growth driver, led by Egypt, GCC and other African markets.
- Reiterate Hold (2L)** — Key downside risks are input cost pressures, and higher than forecast losses in the retail initiative.

Hold/Low Risk	2L
Price (28 Jul 08)	Rs92.75
Target price	Rs97.00
Expected share price return	4.6%
Expected dividend yield	1.9%
Expected total return	6.5%
Market Cap	Rs80,225M US\$1,903M

Price Performance (RIC: DABU.BO, BB: DABUR IN)



Statistical Abstract

Year to	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
31 Mar							
2007A	2,830	3.28	-49.2	28.3	16.7	58.0	1.5
2008A	3,339	3.86	17.8	24.0	13.0	60.9	1.6
2009E	3,773	4.37	13.0	21.2	10.1	53.6	1.9
2010E	4,569	5.29	21.1	17.5	7.8	50.1	2.3
2011E	5,461	6.32	19.5	14.7	6.1	46.3	2.7

Source: Powered by dataCentral

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Fiscal year end 31-Mar	2007	2008	2009E	2010E	2011E
Valuation Ratios					
P/E adjusted (x)	28.3	24.0	21.2	17.5	14.7
EV/EBITDA adjusted (x)	23.2	19.8	17.7	14.7	12.3
P/BV (x)	16.7	13.0	10.1	7.8	6.1
Dividend yield (%)	1.5	1.6	1.9	2.3	2.7
Per Share Data (Rs)					
EPS adjusted	3.28	3.86	4.37	5.29	6.32
EPS reported	3.28	3.86	4.37	5.29	6.32
BVPS	5.56	7.15	9.14	11.96	15.32
DPS	1.42	1.50	1.75	2.12	2.53
Profit & Loss (RsM)					
Net sales	20,431	23,611	27,298	31,443	36,486
Operating expenses	-17,277	-19,882	-23,162	-26,451	-30,526
EBIT	3,154	3,729	4,136	4,992	5,959
Net interest expense	-154	-168	-139	-139	-139
Non-operating/exceptionals	194	283	343	403	463
Pre-tax profit	3,195	3,845	4,340	5,257	6,284
Tax	-373	-507	-572	-693	-828
Extraord./Min.Int./Pref.div.	9	1	5	5	5
Reported net income	2,830	3,339	3,773	4,569	5,461
Adjusted earnings	2,830	3,339	3,773	4,569	5,461
Adjusted EBITDA	3,497	4,093	4,571	5,448	6,447
Growth Rates (%)					
Sales	9.5	15.6	15.6	15.2	16.0
EBIT adjusted	-22.5	18.2	10.9	20.7	19.4
EBITDA adjusted	-19.4	17.0	11.7	19.2	18.3
EPS adjusted	-49.2	17.8	13.0	21.1	19.5
Cash Flow (RsM)					
Operating cash flow	1,940	5,181	4,206	4,713	5,309
Depreciation/amortization	343	364	435	456	487
Net working capital	-1,440	1,628	2	-306	-634
Investing cash flow	604	-2,455	-1,270	-1,512	-1,474
Capital expenditure	0	-1,225	-1,270	-1,512	-1,474
Acquisitions/disposals	-386	-1,230	0	0	0
Financing cash flow	-2,450	-2,567	-2,048	-2,138	-2,556
Borrowings	556	-607	0	0	0
Dividends paid	-1,393	-1,516	-1,766	-2,138	-2,556
Change in cash	95	159	888	1,063	1,279
Balance Sheet (RsM)					
Total assets	11,201	14,568	17,324	20,903	24,994
Cash & cash equivalent	607	766	1,653	2,717	3,996
Accounts receivable	1,420	1,723	2,019	2,412	2,899
Net fixed assets	3,792	4,653	5,487	6,543	7,530
Total liabilities	6,361	8,345	9,381	10,534	11,725
Accounts payable	3,387	4,409	5,251	6,145	7,051
Total Debt	1,599	992	992	992	992
Shareholders' funds	4,840	6,223	7,944	10,369	13,270
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	17.1	17.3	16.7	17.3	17.7
ROE adjusted	58.0	60.9	53.6	50.1	46.3
ROIC adjusted	45.3	49.5	47.2	48.4	48.2
Net debt to equity	20.5	3.6	-8.3	-16.6	-22.6
Total debt to capital	24.8	13.7	11.1	8.7	7.0

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1QFY09 Results Review

Result Highlights:

Recurring PAT rose 14%Y/Y. We had estimated 19% growth.

Healthy revenue growth of c16%, driven by volume growth (+11%) and c5% price inflation.

Margins contraction of 78bps to 14.4%, adversely impacted by rising input costs and due to investments in retail venture.

Gross margins have contracted 83bps Y/Y.

Figure 1. Dabur: 1QFY09 Consolidated Results (Rupees in Million, Percent)

	1QFY08	1QFY09	% YoY
Gross Sales from Operations	5,303.7	6,123.9	15.5
Excise Duty	-95.7	-84.1	-12.1
Net Sales	5,208.0	6,039.8	16.0
Total Expenses	-4,415.8	-5,168.4	17.0
EBITDA	792.2	871.4	10.0
<i>EBITDA Margin (%)</i>	<i>15.2</i>	<i>14.4</i>	<i>-78 bps</i>
Interest	-46.7	-40.3	-13.7
Depreciation & Amortisation	-101.6	-116.6	14.8
Other Income	77.1	119.7	55.3
PBT	721.0	834.2	15.7
Tax	-100.2	-126.8	26.5
<i>Tax Rate (%)</i>	<i>13.9</i>	<i>15.2</i>	<i>130 bps</i>
Net Profit	620.8	707.4	13.9
<i>PAT Margin (%)</i>	<i>11.9</i>	<i>11.7</i>	<i>-21 bps</i>
Exceptional items	0.0	0.0	nm
Minority Interest	1.4	-0.9	-164.3
Net Profit After Minorities	622.2	706.5	13.5
Key Costs			
Raw Material Cost	2,545.3	3,001.7	17.9
<i>% of Sales</i>	<i>48.9</i>	<i>49.7</i>	<i>83 bps</i>
Advertising Cost	690.6	814.4	17.9
<i>% of Sales</i>	<i>13.3</i>	<i>13.5</i>	<i>22 bps</i>
Staff Cost	447.8	531.5	18.7
<i>% of Sales</i>	<i>8.6</i>	<i>8.8</i>	<i>20 bps</i>
Other Expenditure	732.1	820.8	12.1
<i>% of Sales</i>	<i>14.1</i>	<i>13.6</i>	<i>-47 bps</i>

Source: Company Reports

Figure 2. Dabur (Consolidated): 1QFY09 Segmental Details (Rupees in Million, Percent)

Segment Revenue	1QFY08	1QFY09	% YoY
Consumer Care Business	4,141.1	4,693.7	13.3
<i>% of sales</i>	<i>79.5</i>	<i>77.7</i>	<i>-180 bps</i>
Consumer Health Business	321.2	401.2	24.9
<i>% of sales</i>	<i>6.2</i>	<i>6.6</i>	<i>48 bps</i>
Foods Business	726.7	838.6	15.4
<i>% of sales</i>	<i>14.0</i>	<i>13.9</i>	<i>-7 bps</i>
Retail	0.0	10.6	nm
<i>% of sales</i>	<i>0.0</i>	<i>0.2</i>	<i>18 bps</i>
Others	114.7	179.8	56.8
<i>% of sales</i>	<i>2.2</i>	<i>3.0</i>	<i>77 bps</i>
Segment Result	1QFY08	1QFY09	% YoY
Consumer Care Business	1,033.7	1,142.9	10.6
Consumer Health Business	88.1	99.7	13.2
Foods Business	101.7	115.9	14.0
Retail	-1.6	-48.7	nm
Others	9.8	8.0	-18.4
Segment EBIT Margin(%)	1QFY08	1QFY09	% YoY
<i>Consumer Care Business</i>	<i>25.0</i>	<i>24.3</i>	<i>-61 bps</i>
<i>Consumer Health Business</i>	<i>27.4</i>	<i>24.9</i>	<i>-258 bps</i>
<i>Foods Business</i>	<i>14.0</i>	<i>13.8</i>	<i>-17 bps</i>
<i>Retail</i>		<i>-459.4</i>	<i>nm</i>
<i>Others</i>	<i>8.5</i>	<i>4.4</i>	<i>-409 bps</i>

Source: Company Reports

Earnings Revision Summary

Figure 3. Dabur (Consolidated): Earnings Revision Summary

Year to 31-Mar	Net Profit (Rs Mills.)			Diluted EPS (Rs)			Dividend Per Share (Rs)		
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg
2009E	3,863	3,773	-2.3%	4.47	4.37	-2.3%	1.6	1.7	11.6%
2010E	4,470	4,569	2.2%	5.17	5.29	2.2%	1.8	2.1	16.8%
2011E	nm	5,461	nm	nm	6.32	nm	nm	2.5	nm

Source: Citi Investment Research

Dabur India

Company description

Dabur India is a leading player in ayurveda-based (traditional science) products in India, with presence in the personal-care, health-care and pharmaceutical segments. The company has a niche in several FMCG categories.

Investment strategy

We rate Dabur shares as Hold / Low Risk (2L). We reckon that the stock price at current levels reflects Dabur's long-term secular growth prospects. Dabur is one of the best consumer businesses in India, deriving its competitive advantage from its niche position that is based on its herbal product portfolio. The company has strong brands covering personal care, oral care, health care and foods segments. All are based on Ayurvedic (ancient Indian herbal) formulations. Its niche position makes Dabur less susceptible to competition from multinational players like HUL and P&G, in our view. Growth rates for its business have picked up recently, with its core domestic business growing more than 15%. Additionally, the company has new growth drivers - foods and international businesses - that are growing rapidly (more than 25%). That said, the margin expansion trend should now reverse, with gross margins being pressured on account of rising input costs, and declining benefits from operating leverage. We expect new businesses will contribute meaningfully to margins only from FY11E onwards.

Valuation

We utilize a P/E methodology to value Dabur because it is a steady growth company and is unlikely to face extreme cyclicality or volatility in its earnings. Our target price of Rs97 is based on 20x September 09E P/E. We benchmark our target multiple against FMCG major HLL (which we value at 25x one-year forward earnings) and in line with peers like Marico. We believe a ~20% discount to HLL is merited, given its relative lack of scale, weaker market position and concentrated business profile. Over the past two years, the stock has traded between 20-28x one-year forward earnings, whilst its five-year average is 20x. We forecast a 17% EPS growth CAGR for F2008-11E for Dabur, which we believe should offer some downside support for the stock price.

Risks

We believe Dabur is a steady growth company. As such, our Low Risk rating is consistent with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The key downside risks to our target price include: (1) lower-than-expected sales growth in the event of rural demand not picking up; (2) emerging competition in Dabur's product segments, which could exert pricing pressure; and (3) changes in excise tax norms, which would negate the savings from new facilities in excise-exempt locations. Upside risks to our target price include: (1) better-than-expected sales growth due to good monsoons; and (2) Dabur may not pass on any excise benefits to consumers and might retain its entire savings if rural-led demand accelerates.

Appendix A-1

Analyst Certification

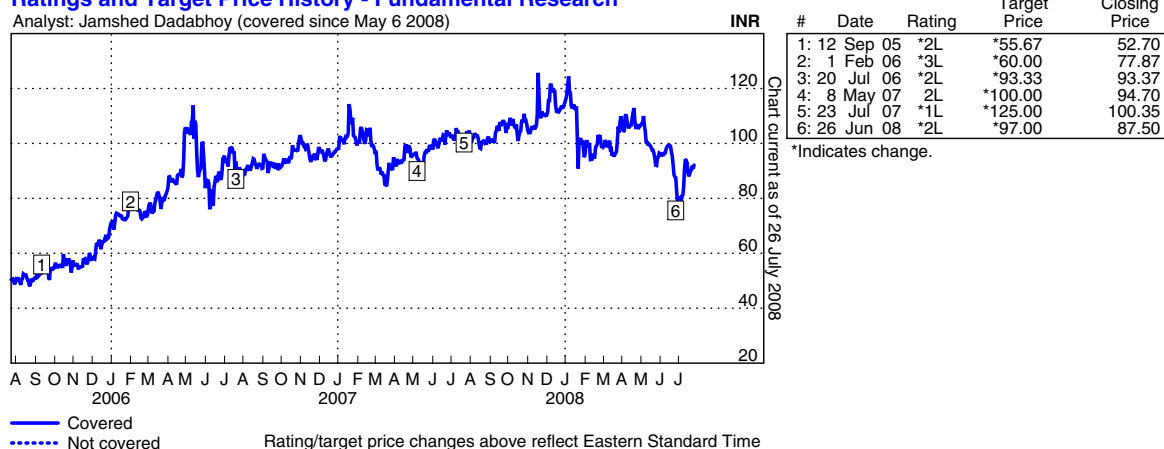
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Dabur India (DABU.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Jamshed Dadabhoy (covered since May 6 2008)



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