1 November 2011

2QFY12 Results Update | Sector: Consumer

Dabur India

BSE SENSEX	S&P CNX
17,705	5,327
Bloomberg	DABUR IN
Equity Shares (m)	1,740.7
52-Week Range (INR)	122/87
1,6,12 Rel. Perf. (%)	-9/7/13
M.Cap. (INR b)	174.9
M.Cap. (USD b)	3.6

CMP: INR101 | **TP: INR90** | **Neutral**

YEAR END	NET SALES (RS M)	PAT (RS M)	EPS (RS)	EPS GR. (%)	P/E (X)	P/BV (X)	ROE (%)	ROCE (%)	EV/ SALES	EV/ EBITDA
03/10A	33,905	5,032	2.9	28.4	-	-	53.5	65.6	-	-
03/11A	40,774	5,684	3.3	13.2	30.8	12.6	40.9	36.9	4.4	23.6
03/12E	51,749	6,533	3.8	14.9	26.8	10.0	37.5	37.0	3.4	19.6
03/13E	59,449	7,864	4.5	20.4	22.2	8.1	36.4	38.8	2.9	16.3

- Dabur's 2QFY12 results are in line with our expectations. Adjusted PAT grew 8.4% to INR1,739m. Sales grew 30%, largely driven by consolidation of Namaste and Hobi acquisitions, which were absent in the base quarter.
- Volumes grew 10%, driven by 20% growth in the international business; domestic volumes were up just 5%, impacted by distribution realignment of the Consumer Care and Consumer Health divisions. The management expects domestic volume growth in 2HFY12 to be in high single digits.
- We believe that volume growth in the domestic business would remain under pressure, as the company faces stiff competition in key categories of Hair Oils, Skin Care, Shampoos and Oral Care. We note that Dabur faces aggressive pricing from players like Colgate (toothpaste), HUL and P&G (shampoo), and Marico (hair oil). This trend is unlikely to change, as these players have an eye on increasing market share.
- Inflation continues to be high. With inadequate price increases and expected step-up in ad spends, domestic margins are unlikely to rebound strongly in the medium term.
- The organic international business continues to perform well and we are positive on Dabur's organic forays in Africa, GCC, Egypt and SAARC. However, the recently acquired entities, Namaste and Hobi, are reporting sub-par growth. While margins of Hobi are 200-300bp lower than earlier indications, Namaste's margin expansion will be a function of localized production in Africa and higher volume growth. We remain concerned on the company's inorganic initiatives and rising debt (INR10b).
- The stock trades at 26.8x FY12E EPS of INR3.8 and 22.2x FY13E EPS of INR4.5. We maintain **Neutral**.

Quarterly Performance (Consolidated) (INR Million)

Y/E March	FY11				FY12				FY11	FY12E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Volume Growth (%)	17.0	13.5	10.0	9.3	8.6	10.0	10.5	11.5	12.7	10.0
Net Sales	9,165	9,728	10,800	11,082	12,046	12,623	13,500	13,580	40,774	51,749
YoY Change (%)	19.3	14.7	16.6	30.6	31.4	29.8	25.0	22.5	20.3	26.9
Total Exp	7,796	7,699	8,704	9,026	10,338	10,258	11,016	11,157	33,228	42,768
EBITDA	1,369	2,028	2,095	2,056	1,708	2,366	2,484	2,424	7,547	8,981
Margins (%)	14.9	20.9	19.4	18.6	14.2	18.7	18.4	17.8	18.5	17.4
YoY Growth (%)	18.1	15.6	18.2	27.0	24.7	16.6	18.5	17.9	20.0	19.0
Depreciation	145	190	233	249	211	217	250	275	816	953
Interest	36	46	54	159	126	172	150	157	303	605
Other Income	148	167	89	237	231	189	120	260	652	800
PBT	1,337	1,960	1,897	1,884	1,602	2,166	2,204	2,252	7,079	8,223
Tax	263	356	357	414	323	427	441	495	1,390	1,686
Rate (%)	19.7	18.2	18.8	22.0	20.1	19.7	20.0	22.0	19.6	20.5
Minority Interest	6	1	-4	0	2	0	1	1	3	4
Adjusted PAT	1,068	1,604	1,544	1,470	1,277	1,739	1,762	1,755	5,686	6,533
YoY Change (%)	19.5	15.2	12.1	10.3	19.6	8.4	14.1	19.4	13.6	15.0

E: MOSL Estimates

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2QFY12 results in line with expectations

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Consolidated segmental performance: Steep margin contraction in Consumer Care

Y/E March	2QFY12	2QFY11	% Chg	1HFY12	1HFY11	% Chg
Net Sales (INR m)	**12,697**	**9,805**	**29.5**	**24,860**	**19,048**	**30.5**
Consumer Care	10,724	8,313	29.0	20,994	16,048	30.8
Foods	1,499	1,244	20.5	3,066	2,561	19.7
Retail	95	48	97.5	179	80	122.5
Others	380	200	90.0	621	360	72.6
EBIT (INR m)	**2,806**	**2,569**	**9.3**	**5,138**	**4,562**	**12.6**
Consumer Care	2,473	2,301	7.5	4,579	4,083	12.2
Foods	333	272	22.4	581	503	15.5
Retail	-27	-26	4.2	-54	-49	10.3
Others	28	22	26.4	32	24	31.3
EBIT Margin (%)	**22.1**	**26.2**	**-4.1**	**20.7**	**23.9**	**-3.3**
Consumer Care	23.1	27.7	-4.6	21.8	25.4	-3.6
Foods	22.2	21.9	0.3	18.9	19.6	-0.7
Retail	-28.9	-54.8	25.9	-30.1	-60.6	30.6
Others	7.3	11.0	-3.7	5.1	6.8	-1.6

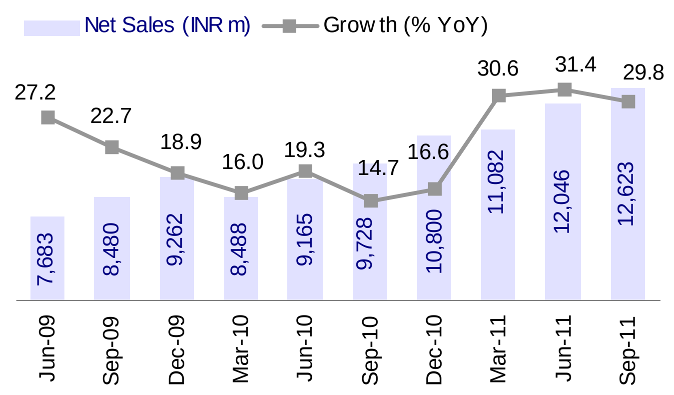
Source: Company/MOSL

Standalone PAT up 10%, led by higher other income

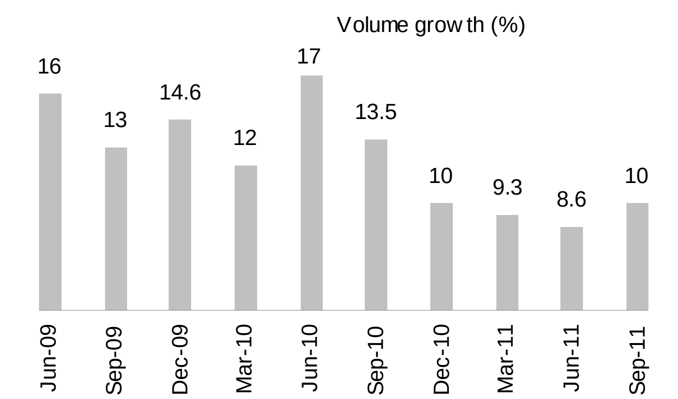
- Consolidated net sales grew 29.8%, of which 17% was acquisition driven. Consolidated volume growth was 10%, driven by 20% growth in the international business. Gross margin contracted 290bp to 50%; steep inflation and lag in price increases continued to impact profitability. 240bp decline in advertising spends restricted EBITDA margin contraction to 210bp at 18.7%. Higher other income (up 15%) led to 8.4% PAT growth to INR1,739m.

- Domestic sales grew 10% to INR8.8b; volume growth was lower at 5%, as primary sales were impacted by a distribution restructuring exercise across the Consumer Care and Consumer Health divisions. Gross margin contracted 250bp to 47.8%, 360bp reduction in ad spends (23.4% absolute decline) restricted EBITDA margin contraction to 90bp at 19.5%. EBITDA grew just 5.1%. 50% growth in other income enabled adjusted PAT growth of 9.9% to INR1,387m.

Contribution of acquisitions to net sales growth at 17%

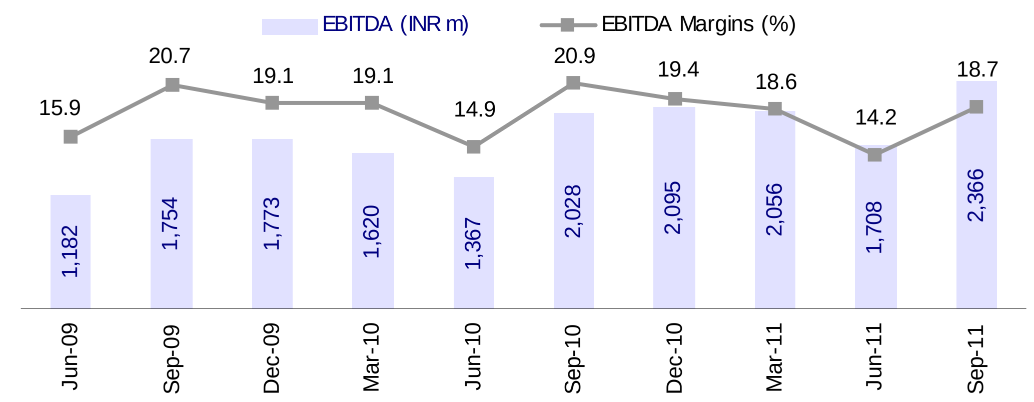


International business boosts volume growth in 2Q



Source: Company/MOSL

240bp decline in ad spends restricts EBITDA margin contraction



Source: Company/MOSL

Distribution realignment, continued pressure in Shampoos impact performance

- The strong 26.6% growth in Hair Oils was led by 10.7% volume growth and price increases taken across the portfolio. *Vatika* and *Amla Hair* Oil recorded strong growth and QoQ market share gains.
- Shampoos declined by 25%, as continued competitive intensity took its toll on the segment.
- Toothpaste growth was lower at 7.8% due to supply dislocation for *Dabur Red* for the entire month of July. Overall, Oral Care grew by 6%; the management expects growth to pick up from 3Q, with supply-side issues having been addressed.

- Distribution realignment impacted Skin Care growth, with sales increasing 7.2%. Fem bleaches recorded flat growth; the *Uveda* portfolio was expanded with a new product and increased presence.
- Home Care grew 0.5% due to steep decline in *Odomos* sales, which were impacted due to high base and delay in institutional sales.
- Foods continued to be the best performing segment, with 27.5% growth, as consumer up-trading boosted growth. The company is investing in a fruit juice facility in Sri Lanka, which will also help penetrate into the South Indian market.
- OTC and Ethicals contacted by 5.9% and 11.6% respectively, impacted significantly by the distribution realignment.
- The management expects volume growth to pick up to high single digits from 3Q and the benefits of the distribution realignment to accrue from 4QFY12. The cost for this exercise will be ~INR200m, which will be spread across four quarters.
- The company plans to increase its innovation pipeline by introducing products in Hair Oils, Beverages, Health Supplements and other categories in the next few quarters. Ad spends are likely to return to normalized levels of 12-13% from 3Q.

IBD and Foods drive overall growth

Category Growth (%)	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Hair Care	8.9	2.7	3.8	11.1	9.0	15.9
Health Supplements	43.0	29.4	12.7	20.7	0.0	7.8
Oral Care	20.2	10.4	9.4	8.9	12.7	6.0
Foods	21.2	21.4	42.0	30.1	31.5	27.5
Digestives	14.7	14.1	11.3	-3.8	7.8	3.8
Skin care	12.4	9.6	18.0	26.3	16.3	0.0
Home Care	31.5	43.3	24.2	31.1	24.9	0.5
IBD (organic)	28.7	17.9	14.2	9.9	12.5	22.8

Source: Company/MOSL

International business organic revenue up 22.8%

- International business organic sales (55% of IBD) increased by 22.8% in INR terms and 26% in constant currency terms; growth was largely volume-led. Volumes increased by 20%, led by 27% growth in Egypt and GCC and 36% growth in Nigeria.
- Reported sales increased 2.2x, as Hobi and Namaste were fully consolidated in 2QFY12. Hobi posted revenue of INR314m while Namaste posted sales of INR1,310m.
- Subsidiary margins at 16.6% decreased 550bp YoY due to lower margins in Namaste (13-14%) and Hobi (10-12%).
- Strong growth in the international business is encouraging; however, the lower rates of growth in Namaste and Hobi are a matter of concern and could pull down international growth rates once they are consolidated in the base.

Inorganic initiatives, rising debt concerning; maintain Neutral

- We believe that volume growth in the domestic business would remain under pressure, as the company faces stiff competition in key categories of Hair Oils, Skin Care, Shampoos and Oral Care. Inflation continues to be high. With inadequate price increases and expected step-up in ad spends, domestic margins are unlikely to rebound strongly in the medium term.

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- The stock trades at 26.8x FY12E EPS of INR3.8 and 22.2x FY13E EPS of INR4.5. We maintain **Neutral**.

Dabur India: an investment profile

Company description

Dabur India is the second largest FMCG company in India in terms of product portfolio. It is a market leader in the Chyawanprash category and is increasing its presence in other traditional categories like Hair Care, Oral Care, Home Care and Foods. Dabur's acquisition of Fem Care has given it a strategic presence in the high potential Skin Care segment.

Key investment arguments

- Strong herbal positioning with little competition from MNCs in categories like Hair Oils, CHD, Health Supplements, etc.
- Dabur has the second broadest product portfolio (after HUL) with presence in high potential categories like Skin Care, Hair Care, Oral Care and Health Supplements.
- The company is likely to be under MAT for the next 7-8 years, resulting in huge tax savings.

Key investment risks

- Dabur has witnessed continued deceleration in standalone sales over the past three quarters and has been highly dependant on international business for its PAT growth.
- We believe that Dabur will face rising competitive intensity in some of its key business segments: (1) Toothpaste (likely entry of P&G), (2) Hair Oils (aggressive strategy of Marico and Emami), (3) Shampoos (aggressive strategy of P&G, HUL, Garnier, etc, resulting in squeezed sales growth and margins), and (4) Skin Care (rising focus of MNCs on the mass to mid premium segment).

Recent developments

- Dabur has taken price increase of 4.5% in 1HFY12 to offset input cost pressure.
- Dabur has completed the acquisition of Namaste group and the business is being consolidated from 4QFY11 onwards.

Valuation and view

- We estimate EPS at INR3.8 for FY12 and INR4.5 for FY13, implying a PAT CAGR of 18% over FY11-13.
- The stock trades at 26.8x FY12E and 22.2x FY13E EPS. Maintain **Neutral**.

Sector view

- We have a cautious view on the sector given the slower income growth in the economy, which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressure and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer term prospects appear bright, given rising incomes and low penetration.

Comparative valuations

		Dabur	Marico	GCPL
P/E (x)	FY12E	26.8	29.0	26.0
	FY13E	22.2	24.1	20.6
P/BV (x)	FY12E	10.0	8.5	6.8
	FY13E	8.1	6.5	5.8
EV/Sales (x)	FY12E	3.4	2.5	3.4
	FY13E	2.9	2.1	2.7
EV/EBITDA (x)	FY12E	19.6	19.6	20.6
	FY13E	16.3	16.1	16.0

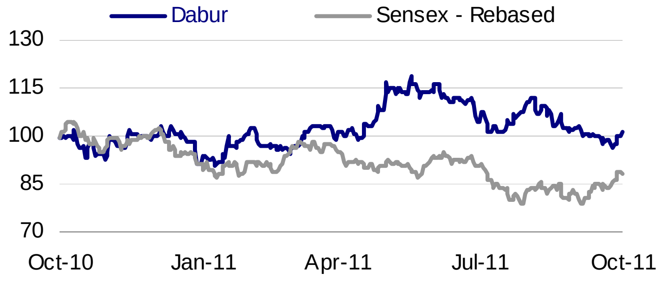
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY12	3.8	3.9	-1.7
FY13	4.5	4.6	-2.9

Target Price and Recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
101	90	-10.1	Neutral

Stock performance (1 year)



Shareholding pattern (%)

	Sep-11	Jun-11	Sep-10
Promoter	68.7	68.7	68.7
Domestic Inst	5.5	5.8	8.1
Foreign	19.5	19.2	16.7
Others	6.3	6.2	6.5

Financials and Valuation

Income Statement				(INR Million)
Y/E March	**2010**	**2011**	**2012E**	**2013E**
Net Sales	**33,905**	**40,774**	**51,749**	**59,449**
Change (%)	20.9	20.3	26.9	14.9
Total Expenditure	27,613	33,228	42,768	48,876
EBITDA	**6,292**	**7,547**	**8,981**	**10,573**
Change (%)	33.7	19.9	19.0	17.7
Margin (%)	18.6	18.5	17.4	17.8
Depreciation	562	816	953	996
Int. and Fin. Charges	202	303	605	572
Other Income - Recurring	482	652	800	909
Profit before Taxes	**6,010**	**7,079**	**8,223**	**9,914**
Change (%)	35.1	17.8	16.2	20.6
Margin (%)	17.7	17.4	15.9	16.7
Tax	956	1,332	1,603	1,943
Deferred Tax	49	60	82	99
Tax Rate (%)	-16.7	19.7	20.5	20.6
Profit after Taxes	**5,005**	**5,687**	**6,537**	**7,872**
Change (%)	28.9	13.6	15.0	20.4
Margin (%)	14.8	13.9	12.6	13.2
Minority Interest	-8	3	4	8
Adjusted PAT	**5,013**	**5,684**	**6,533**	**7,864**
Exceptional Items	20	0	0	0
Reported PAT	**5,033**	**5,684**	**6,533**	**7,864**

Balance Sheet				(INR Million)
Y/E March	**2010**	**2011**	**2012E**	**2013E**
Share Capital	869	1,741	1,741	1,741
Reserves	8,485	12,170	15,713	19,872
Net Worth	**9,354**	**13,911**	**17,454**	**21,612**
Minority Interest	38	41	45	53
Loans	1,793	10,510	11,500	10,500
Capital Employed	**11,185**	**24,462**	**28,999**	**32,165**
Gross Block	9,857	19,338	20,338	21,338
Less: Accum. Depn.	-3,391	-4,351	-5,204	-6,100
Net Fixed Assets	**6,466**	**14,987**	**15,134**	**15,238**
Capital WIP	301	430	500	300
Goodwill	0	0	0	0
Investments	2,641	4,274	4,500	6,000
Deferred Charges				
Curr. Assets, L&A	**11,058**	**18,525**	**25,243**	**29,392**
Inventory	4,262	7,085	9,141	10,450
Account Receivables	1,198	3,555	4,283	4,920
Cash and Bank Balance	1,923	2,724	5,725	6,857
Others	3,674	5,161	6,093	7,164
Curr. Liab. and Prov.	**9,202**	**14,576**	**17,205**	**19,491**
Current Libilities	4,669	7,141	8,692	9,967
Provisions	4,533	7,435	8,513	9,523
Net Current Assets	**1,855**	**3,950**	**8,038**	**9,901**
Miscelleneous Expense	27	1,010	910	810
Deferred Tax Liability	-107	-189	-84	-84
Application of Funds	**11,184**	**24,462**	**28,998**	**32,166**

E: MOSL Estimates

Ratios				
Y/E March	**2010**	**2011**	**2012E**	**2013E**
Basic (INR)				
EPS	**2.9**	**3.3**	**3.8**	**4.5**
Cash EPS	5.1	2.8	3.2	3.9
BV/Share	10.8	8.0	10.0	12.4
DPS	1.0	1.2	1.5	1.8
Payout %	34.6	35.2	39.2	40.3
Valuation (x)				
P/E		30.8	26.8	22.2
Cash P/E		35.9	31.4	25.5
EV/Sales		4.4	3.4	2.9
EV/EBITDA		23.6	19.6	16.3
P/BV		12.6	10.0	8.1
Dividend Yield (%)		1.1	1.5	1.8
Return Ratios (%)				
RoE	53.5	40.9	37.5	36.4
RoCE	65.6	36.9	37.0	38.8
Working Capital Ratios				
Debtor (Days)	13	32	30	30
Asset Turnover (x)	3.0	1.7	1.8	1.8
Leverage Ratio				
Debt/Equity (x)	0.2	0.8	0.7	0.5

Cash Flow Statement				(INR Million)
Y/E March	**2010**	**2011**	**2012E**	**2013E**
OP/(loss) before Tax	6,854	8,363	9,934	11,569
Int./Div. Received	482	652	800	909
Depreciation and Amort.	-562	-816	-953	-996
Interest Paid	202	303	605	572
Direct Taxes Paid	956	1,332	1,603	1,943
(Incr)/Decr in WC	15	-1,293	-1,088	-731
CF from Oper.	**7,947**	**8,540**	**10,902**	**13,266**
Extraordinary Items	0	0	0	0
(Incr)/Decr in FA	-1,573	-9,610	-1,070	-800
(Pur)/Sale of Investments	829	-1,633	-226	-1,500
CF from Invest.	**-744**	**-11,243**	**-1,296**	**-2,300**
Issue of Shares	0	0	0	1
(Incr)/Decr in Debt	-483	8,717	990	-1,000
Dividend Paid	-868	-2,002	-2,559	-3,171
Others	-5,413	-3,211	-5,037	-5,664
CF from Fin. Act.	**-6,764**	**3,504**	**-6,606**	**-9,834**
Incr/Decr of Cash	**439**	**802**	**3,001**	**1,132**
Add: Opening Balance	1,484	1,923	2,724	5,725
Closing Balance	**1,923**	**2,725**	**5,725**	**6,857**

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