

DABUR INDIA

Innovation led growth

We recently met the Dabur management to get the latest business update on the company. Key takeaways of our discussion are as follows:

■ Performance undeterred by weak monsoon

We met various distributors and stockists of FMCG companies in rural areas of North India and came back confident on sustained growth momentum in rural demand (20% of Dabur's total sales). Also, recent heavy rainfall in the North India has triggered an early demand for winter products like *Chyawanprash*.

■ New product launches aid growth momentum

Continuous focus on new product launches will help Dabur maintain its strong growth momentum. "*Total protect*", "*Vatika Almond Enriched hair oil*", "*Real Burrst*", "*UVEDA*" are all in various stages of rollouts.

■ Margin expansion to continue unabated

Dabur has a diversified raw material base with maize, edible oil and coconut oil contributing a sizeable portion. The company is likely to gain ~150-200bps in FY10 due to benign input costs scenario. However, increased A&P spend, due to new product launches, could limit margin expansion to ~100bps for FY10.

■ International and retail businesses on track

International business, constituting ~20% of the consolidated sales, is expected to grow ~25% in FY10. Also, losses in the retail business (currently 11 stores) are expected to come down to INR 100-120 mn (178mn in FY09).

■ Outlook and valuations: Positive; upgrade to 'BUY'

Given Dabur's continued focus on new product launches, benign commodity prices, consolidation of *Fem Care* and strong international performance, we upgrade our FY11E EPS by 2%. Since last 3.5 years, Dabur has traded at average one-year forward P/E of ~23x. The company has underperformed its peers over the past two months and is trading at 19.9x FY11E EPS, we believe valuations are compelling and offer an attractive entry point to the investors. We, thus, upgrade the stock to '**BUY**' from '**HOLD**', and rate it '**Sector Outperformer**' on a relative return basis (refer rating page for details).

September 15, 2009

Reuters : DABU.BO Bloomberg : DABUR IN

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underperformer

Note:
Please refer last page of the report for rating explanation

MARKET DATA

CMP	:	INR 128
52-week range (INR)	:	141 / 60
Share in issue (mn)	:	865.5
M cap (INR bn/USD mn)	:	110.2 / 2,262.4
Avg. Daily Vol. BSE ('000)	:	859.3

SHARE HOLDING PATTERN (%)

Promoters*	:	70.6
MFs, FIs & Banks	:	11.9
FIIIs	:	10.4
Others	:	7.1
* Promoters pledged shares (% of share in issue)	:	6.3

RELATIVE PERFORMANCE (%)

	Sensex	Stock	Stock over Sensex
1 month	5.2	4.0	(1.2)
3 months	9.0	11.0	2.0
12 months	19.8	41.8	21.9

Financials

Year to March	FY08	FY09	FY10E	FY11E
Revenues (INR mn)	23,597	28,044	33,302	38,322
Rev. growth (%)	15.6	18.8	18.7	15.1
EBITDA (INR mn)	4,037	4,661	6,006	7,082
Net profit (INR mn)	3,340	3,912	4,708	5,565
Shares outstanding (mn)	864	865	865	865
Diluted EPS (INR)	3.9	4.5	5.4	6.4
EPS growth (%)	18.2	16.9	20.5	18.2
Diluted P/E (x)	33.1	28.3	23.5	19.9
EV/EBITDA (x)	27.0	23.2	17.6	14.7
ROAE (%)	62.8	55.3	50.6	46.6

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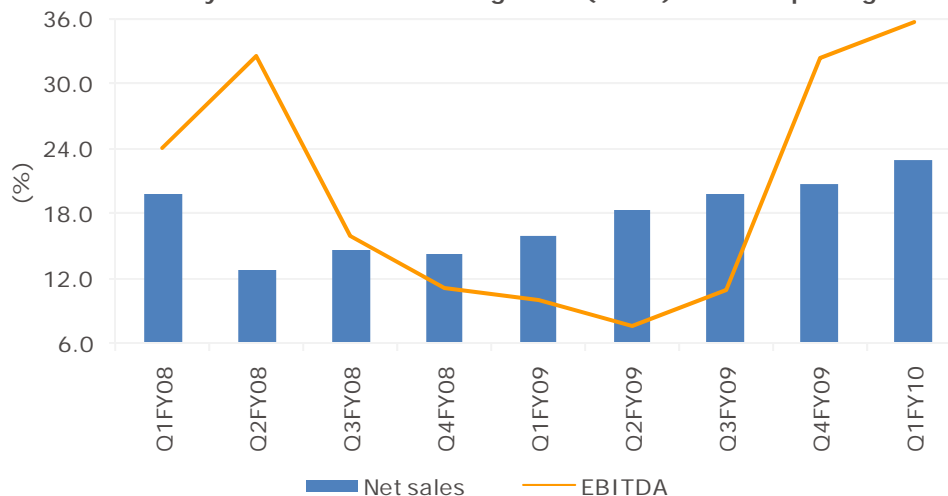
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■ **New product launches aid growth momentum**

Continuous focus on new product launches will help Dabur maintain its strong growth momentum. "Total protect" – ayurvedic based shampoo, "Vatika Almond Enriched hair oil", "Real Burrst - new drinks brand" (national rollout in next few quarters), "UVEDA" – ayurvedic skin care range" are all in various stages of rollouts. Further, the company has not taken any meaningful price hike in FY10, and expects spillover effect of 200-300bps (from price hike undertaken in FY09) to come in the current fiscal.



Chart 1: Quarterly net sales and EBITDA growth (Y-o-Y) - On an upswing

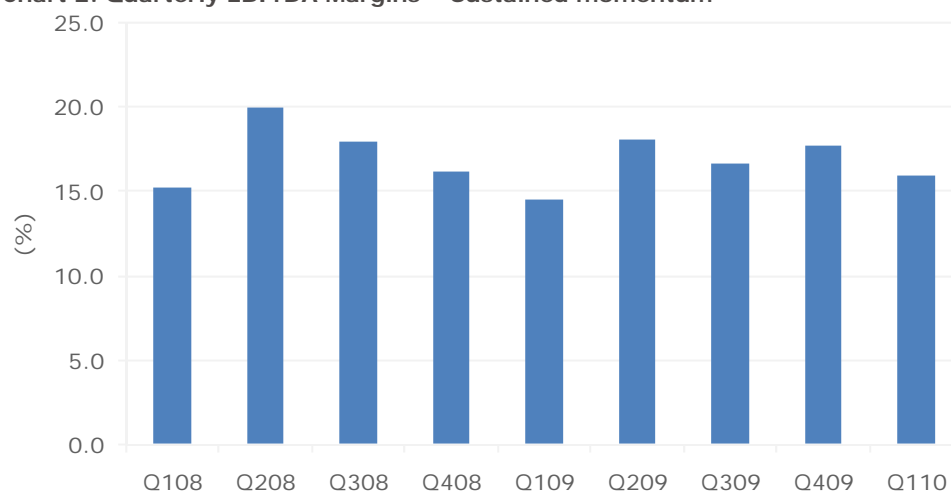


Source: Company, Edelweiss research

■ **Margin expansion to continue unabated**

Dabur has a diversified raw material base with maize, edible oil and coconut oil contributing a sizeable portion. Dabur is likely to gain ~150-200bps in FY10 due to benign input costs scenario. However, increased A&P spend, due to new product launches, could limit this margin expansion to ~100bps for FY10.

Chart 2: Quarterly EBITDA Margins – Sustained momentum

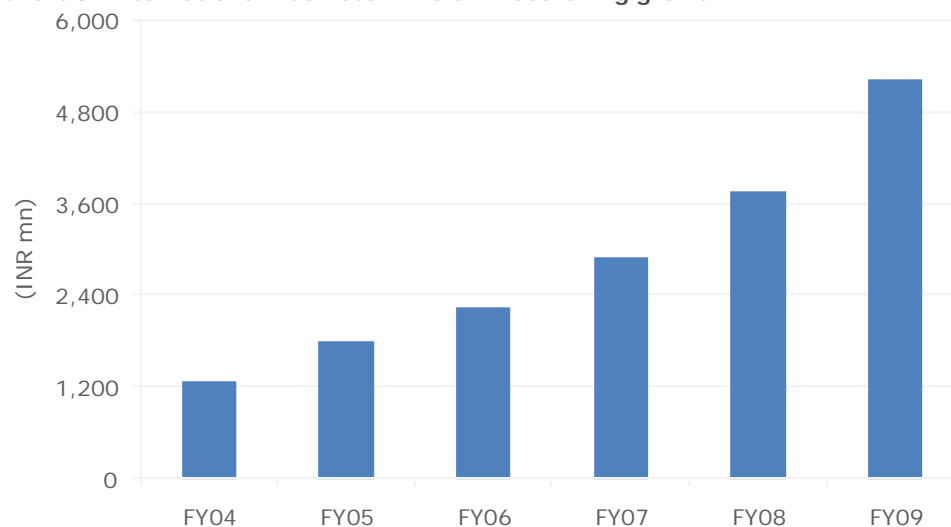


Source: Company, Edelweiss research

- **International and retail businesses on track**

International business, constituting ~20% of the consolidated sales, is expected to grow ~25% in FY10. Also, losses in the retail business (currently 11 stores) are expected to come down to INR 100-120 mn in FY10 due to smaller store format, reduced back-end and shift to revenue sharing lease rentals (~12%) format. Dabur expects to add 10-15 new stores in the current year.

Chart 3: International Business Division – Scorching growth



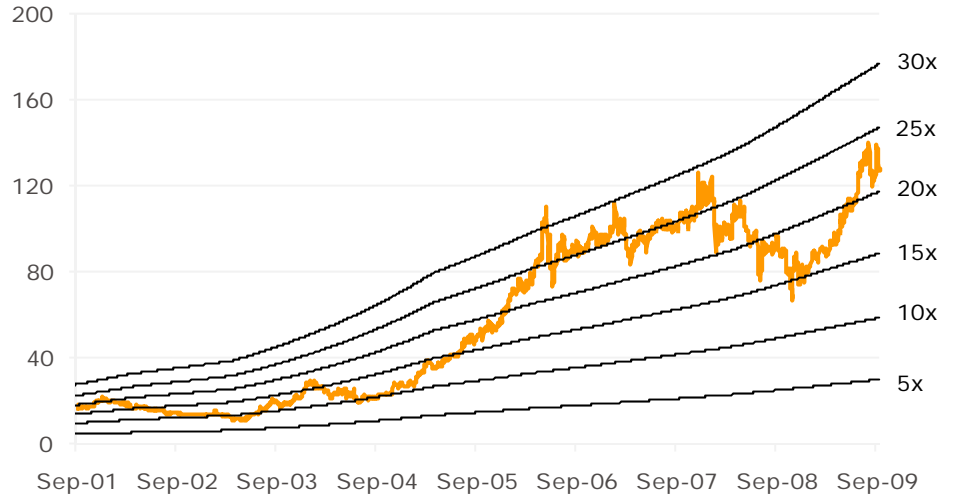
Source: Company, Edelweiss research

- **Outlook and valuations: Positive; upgrade to 'BUY'**

Given Dabur's continued focus on new product launches, benign commodity prices, consolidation of *Fem Care* and strong international performance, we upgrade our FY11E EPS by 2%. At CMP of INR 128, the stock is trading at P/E of 23.5x and 19.9x and EV/EBITDA of 17.6x and 14.7x our FY10E and FY11E earnings, respectively. Since 3.5 years, Dabur has traded at average one-year forward P/E of ~23x. Given the fact that the company has underperformed its peers in the past two months and is trading at 19.9x FY11E EPS, we believe valuations are attractive and present a good entry point in

the stock. We, thus, upgrade the stock to 'BUY' from 'HOLD', and rate it 'Sector Outperformer' on a relative return basis (refer rating page for details).

Chart 4: One-year forward P/E



Source: Company, Edelweiss research

- **Company Description**

Dabur has three divisions in India apart from its international operations. Consumer care division (CCD) offers a wide range of products in hair care, oral care, health supplements, digestives and candies, and baby and skin care products, based on ayurveda. The consumer health division (CHD) includes over-the-counter (OTC) products, Asavs, and branded ethical, and classic products. The third division, Dabur Foods Ltd produces fruit juices, cooking pastes, sauces, and items for institutional food purchases. Dabur is unique among its FMCG peers because of its positioning as an Indian company whose products are derived from exotic sources such as ancient ayurvedic texts and natural ingredients such as herbs.

The company has various brand leaders in different market segments - Dabur Chyawanprash, a health tonic, and Hajmola - a digestive tablet. Real, launched during 1996-97, has also successfully carved its niche in the market.

- **Investment Theme**

Dabur's broad product portfolio provides the best play on Indian FMCG spend by virtue of its strong presence in less penetrated and high growth categories. Dabur's positioning on the 'health and wellness' platform, backed by its ANH (ayurvedic/natural/herbal) image is very progressive. This, combined with its demonstrated ability to create new categories and sub-categories, makes it best-placed to capture lifestyle changes-led growth in the FMCG space. Dabur has also demonstrated its ability to make and integrate smart acquisitions (Balsara) that complement its product portfolio and thereby drive inorganic growth. Improvement in margins of foods and international businesses are expected to result in improvement in margins for the consolidated operations.

- **Key Risks**

A slowdown in rural demand due to lower government spending or a monsoon failure could impact Dabur's revenues significantly. The company's products such as Dabur Chyawanprash and Dabur Lal Tail are prominently sold in the rural areas, and hence, depend on growth in rural demand.

Further, Ayush, the Ayurvedic Association of India, has recently declared strict adherence to ayurvedic norms; the body asked many companies to change the formulation of Chyawanprash. Any such changes in future could dampen the sales, especially during the change of formulation, when the product is taken off the shelf.

Financial Statements

Income statement					(INR mn)
Year to March	FY07	FY08	FY09	FY10E	FY11E
Net revenues	20,413	23,597	28,044	33,302	38,322
Cost of materials	9,711	11,154	13,762	15,668	17,927
Gross profit	10,702	12,443	14,282	17,634	20,395
Employee costs	1,667	1,993	2,347	2,770	3,149
Advertisement & sales costs	2,559	2,955	3,433	4,329	4,905
Other general expenditure	3,045	3,458	3,842	4,528	5,259
EBITDA	3,432	4,037	4,661	6,006	7,082
Depreciation	343	364	449	544	617
EBIT	3,090	3,672	4,212	5,462	6,465
Other income	255	340	468	489	491
EBIT incl. other income	3,345	4,012	4,681	5,951	6,955
Net interest	150	167	232	194	178
PBT	3,195	3,845	4,448	5,757	6,777
Provision for taxation	373	507	540	1,049	1,212
Core PAT	2,822	3,339	3,908	4,708	5,565
Profit after tax	2,822	3,339	3,908	4,708	5,565
Minority interest	(9)	(1)	(4)	-	-
Profit after tax after minority interest	2,831	3,340	3,912	4,708	5,565
Equity shares outstanding (mn)	863	864	865	865	865
EPS (INR) basic	3.3	3.9	4.5	5.4	6.4
Diluted shares (mn)	863	864	865	865	865
EPS (INR) fully diluted	3.3	3.9	4.5	5.4	6.4
CEPS (INR)	3.7	4.3	5.0	6.1	7.1
DPS	1.4	1.5	1.8	2.1	2.4
Dividend payout ratio (%)	49.3	45.4	45.3	44.5	44.5

Common size metrics

Year to March	FY07	FY08	FY09	FY10E	FY11E
Cost of materials	47.6	47.3	49.1	47.0	46.8
Employee costs	8.2	8.4	8.4	8.3	8.2
Advertising & sales costs	12.5	12.5	12.2	13.0	12.8
Other general expenditure	14.9	14.7	13.7	13.6	13.7
Depreciation	1.7	1.5	1.6	1.6	1.6
Net interest expenditure	0.7	0.7	0.8	0.6	0.5
EBITDA margin	16.8	17.1	16.6	18.0	18.5
EBIT margin	15.1	15.6	15.0	16.4	16.9
Net profit margin	13.8	14.1	13.9	14.1	14.5

Growth metrics

Year to March	FY07	FY08	FY09	FY10E	FY11E
Revenues	18.5	15.6	18.8	18.7	15.1
EBITDA	19.8	17.6	15.5	28.9	17.9
PBT	24.5	20.3	15.7	29.4	17.7
Net profit	32.2	18.0	17.1	20.4	18.2
EPS	24.5	18.2	16.9	20.5	18.2

Balance sheet		(INR mn)				
As at 31st March	FY07	FY08	FY09	FY10E	FY11E	
Share capital	863	864	865	865	865	
Reserves	3,933	5,312	7,323	9,938	13,029	
Shareholders' funds	4,796	6,176	8,188	10,803	13,894	
Secured loans	1,204	976	957	957	957	
Unsecured loans	395	16	1,319	819	619	
Borrowings	1,599	992	2,276	1,776	1,576	
Minority interests	45	48	46	46	46	
Deferred tax (net)	245	33	70	70	70	
Sources of funds	6,684	7,248	10,579	12,694	15,585	
Gross block	6,172	7,297	8,585	10,157	11,410	
Less depreciation	2,381	2,644	2,993	3,538	4,155	
Net fixed assets	3,792	4,653	5,592	6,620	7,255	
Investments	807	2,037	3,470	3,470	3,470	
<i>Current assets</i>	6,405	7,739	9,508	11,441	14,218	
Inventories	2,571	3,025	3,755	3,933	4,537	
Sundry debtors	1,420	1,723	1,779	1,907	2,200	
Cash and bank balance	607	766	1,484	3,112	4,991	
Loans and advances	1,807	2,225	2,490	2,490	2,490	
Current liabilities	4,518	7,321	8,076	9,136	9,870	
Liabilities	3,615	4,580	4,817	5,876	6,610	
Provisions	902	2,741	3,260	3,260	3,260	
Working capital	1,887	418	1,432	2,306	4,349	
Uses of funds	6,684	7,248	10,579	12,694	15,585	
BV (INR)	5.3	7.0	9.4	12.1	15.5	

Cash flow statement		(INR mn)				
Year to March	FY07	FY08	FY09	FY10E	FY11E	
Net profit	2,831	3,340	3,912	4,708	5,565	
Depreciation	343	364	449	544	617	
Deferred tax	(14)	8	(26)	0	0	
Others	634	(1,407)	(389)	(4)	(4)	
Gross cash flow	3,794	2,305	3,946	5,248	6,178	
Less: Changes in WC	1,440	(1,628)	295	(753)	164	
Operating cash flow	2,354	3,932	3,651	6,002	6,014	
Less: Capex	(990)	1,225	1,388	1,572	1,252	
Free cash flow	3,344	2,707	2,264	4,429	4,762	

Cash flow metric		(INR mn)				
Year to March	FY07	FY08	FY09	FY10E	FY11E	
Operating cash flow	2,354	3,932	3,651	6,002	6,014	
Financing cash flow	(1,472)	(1,402)	(213)	(2,593)	(2,674)	
Investing cash flow	(787)	(2,372)	(2,511)	(1,572)	(1,252)	
NET CASH FLOW	95	158	927	1,836	2,088	
Capex	990	(1,225)	(1,388)	(1,572)	(1,252)	
Dividends paid	(1,768)	(665)	(1,297)	(1,789)	(2,115)	
Share issuance / (buyback)	2	1	1	0	0	

Ratios

Year to March	FY07	FY08	FY09	FY10E	FY11E
ROAE	61.3	62.8	55.3	50.6	46.6
ROACE	52.9	66.2	68.4	66.9	60.6
Debtor days	19	24	23	20	20
Inventory days	88	92	90	90	86
Payable days	167	194	204	200	193
Current ratio	1.4	1.1	1.2	1.3	1.4
Debt/EBITDA	0.5	0.2	0.5	0.3	0.2
Cash conversion cycle days	(59)	(78)	(91)	(91)	(88)
Debt/Equity	0.3	0.2	0.3	0.2	0.1
Adjusted debt/equity	0.3	0.2	0.3	0.2	0.1
Interest coverage (x)	20.6	21.9	18.1	28.2	36.3

Operating ratios

Year to March	FY07	FY08	FY09	FY10E	FY11E
Total asset turnover	3.2	3.4	3.1	2.9	2.7
Fixed asset turnover	4.6	5.6	5.5	5.5	5.5
Equity turnover	4.2	4.3	3.9	3.5	3.1

Du pont analysis

Year to March	FY07	FY08	FY09	FY10E	FY11E
NP margin (%)	13.9	14.2	13.9	14.1	14.5
Total assets turnover	3.2	3.4	3.1	2.9	2.7
Leverage multiplier	1.4	1.3	1.3	1.3	1.2
ROAE (%)	61.3	62.8	55.3	50.6	46.6

Valuation parameters

Year to March	FY07	FY08	FY09	FY10E	FY11E
Diluted EPS (INR)	3.3	3.9	4.5	5.4	6.4
Y-o-Y growth (%)	24.5	18.2	16.9	20.5	18.2
CEPS (INR)	3.7	4.3	5.0	6.1	7.1
Diluted P/E (x)	39.1	33.1	28.3	23.5	19.9
Price/BV (x)	24.0	18.3	13.7	10.5	8.3
EV/Sales (x)	5.4	4.6	3.9	3.2	2.7
EV/EBITDA (x)	32.2	27.0	23.2	17.6	14.7
Dividend yield (%)	1.1	1.2	1.4	1.6	1.9



RATING & INTERPRETATION

Company	Absolute reco	Relative reco	Relative risk
Hindustan Unilever	Buy	SO	L
ITC	Buy	SO	L
Marico	Buy	SO	M
Godrej Consumer Products	Buy	SO	H
Nestle India	Hold	SU	L
Asian Paints	Hold	SU	M
Dabur	Buy	SO	M
Colgate Palmolive India	Reduce	SU	M

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

Edelweiss
Ideas create, values protect



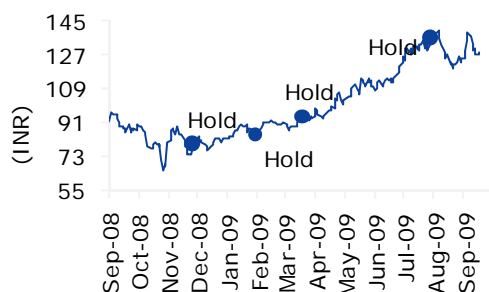
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Coverage group(s) of stocks by primary analyst(s): FMCG

Asian Paints, Colgate, Dabur, Godrej Consumer, Hindustan Lever, ITC, Marico and Nestle

Dabur



Recent Research

Date	Company	Title	Price (INR)	Recoms
07-Sep-09	Marico	Sustaining momentum; Visit Note	90	Buy
30-Jul-09	Nestle India	Growing steady; Result Update	2,073	Hold
29-Jul-09	Hindustan Unilever	Strong operating performance; Result Update	268	Buy
28-Jul-09	Dabur India	Gathering steam; Result Update	136	Hold

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	70	53	16	142
* 3 stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	89	38	15	

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