DABUR INDIA

INR 94

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Momentum continues

ACCUMULATE

March 18, 2009

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We recently met the management of Dabur India (Dabur) for understanding its business performance and future growth strategies. Key takeaways of our meeting are:

Volume growth to remain robust in FY10

Dabur had reported strong volume growth of 14% in the December quarter (one of the highest in the FMCG space). While this was an exceptionally strong performance, the company expects to achieve fairly robust volume growth in the coming quarters as well. Consumer Health Division (CHD) and international businesses are expected to grow faster than Consumer Care Division (CCD) business. The company is witnessing better growth in the rural segment compared to earlier times. Earlier, rural growth used to lag urban growth by ~200bps, which has now corrected with both growing at an equal rate according to the management. Lower rural penetration remains a growth opportunity and Dabur has tried to tap into this segment with low unit price products and special customer acquisition drives.

Modest improvement in margins likely

Dabur expects gross margins to improve by 100-200bps for FY10 owing to correction in prices of packaging material, and input materials. However, a part of this will be passed on to consumers in terms of product promotions. However, the company is unlikely to take a price cut. In terms of ASP spends, the company is likely to increase its ad budget by ~10-15% in spite of some softening in ad rates.

Retail losses to come down

Losses in Dabur's retail venture *NewU* are likely to decrease in Q4FY09 to ~INR 25 mn (from ~INR 56 mn in Q3FY09). Dabur plans to launch 15 new stores (smaller format and house more fast moving items of many brands) in FY10 and expects an overall loss of ~ INR 100-120 mn in FY10E. The company expects to break even in FY11 as a result of attainment of critical size, falling rentals, and better sourcing.

Outlook and valuations: Positive; maintain 'ACCUMULATE'

Dabur's performance has remained strong on the back of robust volume growth which has been supported by strength in CHD and international businesses. The expected lower retail losses and better margins due to correction in prices of input material bode well for the company. At CMP of INR 94, the stock is trading at P/E of 21.6x and 18.2x and EV/EBITDA of 17.6x and 14.4x our FY09E and FY10E, respectively. We expect 15.2% CAGR in earnings over FY08-11E. We maintain our **'ACCUMULATE'** recommendation with positive bias on it.

Financials

Year to March	**FY08**	**FY09E**	**FY10E**	**FY11E**
Revenues (INR mn)	23,597	27,365	32,614	37,052
Rev. growth (%)	*15.6*	*16.0*	*19.2*	*13.6*
EBITDA (INR mn)	4,037	4,548	5,490	6,257
Net profit (INR mn)	3,339	3,769	4,471	5,104
Shares outstanding (mn)	864	864	864	864
Diluted EPS (INR)	3.9	4.4	5.2	5.9
EPS growth (%)	*18.1*	*12.9*	*18.6*	*14.1*
Diluted P/E (x)	24.4	21.6	18.2	16.0
EV/EBITDA (x)	19.2	17.6	14.4	12.4
ROAE (%)	62.8	54.1	49.6	44.8

Reuters	:	DABU.BO
Bloomberg	:	DABUR IN

Market Data

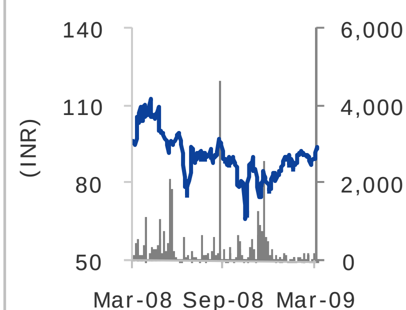
52-week range (INR)	:	115 / 60
Share in issue (mn)	:	865.1
M cap (INR bn/USD mn)	:	77.0 / 1,493.9
Avg. Daily Vol. BSE/NSE ('000)	:	807.5

Share Holding Pattern (%)

Promoters*	:	70.7
MFs, FIs & Banks	:	13.9
FIIs	:	8.5
Others	:	7.0
* *Promoters pledged shares (% of share in issue)*	:	*9.2*

Relative Performance (%)

	Sensex	**Stock**	**Stock over Sensex**
1 month	(1.7)	2.1	3.8
3 months	(12.0)	12.2	24.2
12 months	(40.1)	(2.1)	38.0



Broad-based growth likely to continue; no price cuts expected

Till now, Dabur has not seen any significant signs of down trading or slowdown. This has been because it took only a moderate price hike against a sharper price hike by some other FMCG players. Dabur had effected a moderate price hike (~4.5%, primarily in hair oil) during FY09 due to inflation in some of its key input materials. The company maintains that gaining volume growth and maintaining market share remains top priority. Company is beefing its distribution in South and West India which is expected to aid in higher volume growth.

Hair oils: The rural push and on ground activities have boosted sales of *Dabur Amla*. It has not seen any decline in trend of use of hair oil (due to launch of hair gels) and believes that gels will remain a niche area and continue to remain a negligible part of users.

Shampoos: ITC has already gained ~2.5% market share in shampoos. However, Dabur's market share has not suffered due to this and has grown (from 5.1% to 6.4%). The launch of *Vatika Black Shine* has boosted performance.

Toothpaste: Dabur expects decent growth in the toothpaste segment in FY10. It has relaunched *Babool* at the price point of INR 10 and expects it to do well. However, it expects tooth powder to continue to remain flat as consumers uptrade to toothpastes.

Baby and skin care: Baby care products witnessed volumes growth of ~13% in 9mFY09 and the company expects them to grow at similar levels in FY10 as rural demand is buoyant. *Gulabari* has done well due to its positioning as a low priced product, especially in rural areas. Dabur will continue to launch new products and activate its existing products in Skin care segment.

Foods: In 9mFY09, Dabur saw a growth of modest 12% and expects to grow faster in FY10 on the back of new products and fine tuning of distribution. In the juices category, *Real* has done well. *Activ,* which is at the top end, has grown at a slower pace, primarily due to competition from lower priced players.

Health supplements: The company expects to see decent growth in this segment. It has signed up a new brand ambassador, MS Dhoni, for *Dabur Honey* and *Chyawanprash*.

New products: Dabur plans to launch a lower priced juice product to counter cheaper competition. This will be launched in Q1FY10 in the price range of INR 55-60 (compared to INR 75-85). *Dazzl* has done well and the company expects it to acquire higher scale in FY10 from the current levels of INR 50 mn. Dabur plans to introduce new products in CHD as well.

Table 1: Segment wise 9mFY09 performance

Segments	Y-o-Y growth (%)
Hair oils	19.7
Shampoos	32.2
Oral care	3.7
Health supplements	11.2
Digestives & confectionery	6.7
Baby & skin care	22.5
Home care	11.0
Foods	11.5

Source: Company, Edelweiss research

International business to maintain pace

High oil prices boosted demand in Middle East in the past year. Dabur captured this buoyancy by advertising on 'Middle East Broadcasting Channel' which has a good reach and allocated ~20% of its sales to ASP spends (compared to ~12% in the Indian business). It caters to both the local population and Indian diaspora in these countries. It expects to grow strongly in FY10 in spite of a massive slowdown in this region.

It has local manufacturing in most international regions it is present in. Dabur imports barely ~INR 700-800 mn (largely raw material for its juice business). Hence, the impact of rupee depreciation should be largely muted. However, rupee depreciation could add to the INR reported revenues from its international operations.

Fem Care acquisition to be completed by April or May

Dabur expects Fem Care acquisition to be over by April/May 2009. It will be consolidated after that in both quarterly and annual numbers. The company expects it to grow strongly and be accretive from FY11 while being neutral in FY10.

No major capital expenditure; tax rates to remain stable

Around 90% of Dabur's manufacturing is in house. It plans to set up a new factory at a capital expenditure of INR 1.5 bn (financed from internal accruals) in Baddi in FY10 which will take care of its future demand. The company currently has a low debt of INR 1.5 bn in its book. It expects tax rates to remain broadly in the range of ~13-14% over the next two years since it will continue to enjoy tax benefits from tax exempted locations.

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	FY09E	FY10E	FY11E
Gross revenues	20,784	23,949	27,837	33,153	37,660
Excise duties	371	352	472	540	608
Net revenues	20,413	23,597	27,365	32,614	37,052
Cost of materials	9,711	11,010	12,862	15,150	17,249
Gross profit	10,702	12,587	14,503	17,464	19,803
Employee costs	1,667	1,993	2,309	2,840	3,174
Advertisement & sales costs	2,559	2,955	3,489	4,226	4,797
Other general expenditure	3,045	3,602	4,157	4,907	5,575
EBITDA	3,432	4,037	4,548	5,490	6,257
Depreciation	343	364	420	504	601
EBIT	3,090	3,672	4,128	4,986	5,656
Other income	255	339	401	396	399
EBIT incl. other income	3,345	4,012	4,529	5,382	6,055
Net interest	150	167	157	174	148
PBT	3,195	3,844	4,372	5,209	5,907
Provision for taxation	373	507	603	737	804
Core PAT	2,822	3,338	3,769	4,471	5,104
Profit after tax	2,822	3,338	3,769	4,471	5,104
Minority interest	(9)	(1)	-	-	-
Profit after tax after minority interest	2,831	3,339	3,769	4,471	5,104
Equity shares outstanding (mn)	863	864	864	864	864
EPS (INR) basic	3.3	3.9	4.4	5.2	5.9
Diluted shares (mn)	863	864	864	864	864
EPS (INR) fully diluted	3.3	3.9	4.4	5.2	5.9
CEPS (INR)	3.7	4.3	4.8	5.8	6.6
DPS	1.4	1.5	1.9	2.2	2.5
Dividend payout ratio (%)	49.3	45.4	50.5	50.5	50.5

Common size metrics

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Cost of materials	47.6	46.7	47.0	46.5	46.6
Employee costs	8.2	8.4	8.4	8.7	8.6
Advertising & sales costs	12.5	12.5	12.8	13.0	12.9
Other general expenditure	14.9	15.3	15.2	15.0	15.0
Depreciation	1.7	1.5	1.5	1.5	1.6
Net interest expenditure	0.7	0.7	0.6	0.5	0.4
EBITDA margin	16.8	17.1	16.6	16.8	16.9
EBIT margin	15.1	15.6	15.1	15.3	15.3
Net profit margin	13.8	14.1	13.8	13.7	13.8

Growth metrics

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Revenues	18.5	15.6	16.0	19.2	13.6
EBITDA	19.8	17.6	12.7	20.7	14.0
PBT	24.5	20.3	13.7	19.1	13.4
Net profit	32.2	18.0	12.9	18.6	14.1
EPS	24.5	18.1	12.9	18.6	14.1

Balance sheet (INR mn)

As on 31st March	FY07	FY08	FY09E	FY10E	FY11E
Share capital	863	864	864	864	864
Reserves	3,933	5,312	7,178	9,392	11,920
Shareholders' funds	4,796	6,176	8,042	10,257	12,784
Secured loans	1,204	976	976	976	976
Unsecured loans	395	16	16	16	16
Borrowings	1,599	992	992	992	992
Minority interests	45	48	48	48	48
Deferred tax (net)	245	33	33	33	33
Sources of funds	**6,684**	**7,248**	**9,114**	**11,328**	**13,856**
Gross block	6,172	7,297	10,175	11,540	12,732
Less depreciation	2,381	2,644	3,064	3,568	4,169
Net fixed assets	3,792	4,653	7,111	7,971	8,563
Investments	807	2,037	837	837	837
Current assets	6,405	7,739	8,056	9,886	12,325
Inventories	2,571	3,025	3,316	3,800	4,332
Sundry debtors	1,420	1,723	1,712	1,962	2,236
Cash and bank balance	607	766	803	1,899	3,531
Loans and advances	1,807	2,225	2,225	2,225	2,225
Current liabilities	4,518	7,321	7,030	7,506	8,009
Liabilities	3,615	4,580	4,289	4,765	5,268
Provisions	902	2,741	2,741	2,741	2,741
Working capital	1,887	418	1,027	2,380	4,316
Misc expenditure	198	140	140	140	140
Uses of funds	**6,684**	**7,248**	**9,114**	**11,328**	**13,856**
BV (INR)	5.3	7.0	9.1	11.7	14.6

Cash flow statement (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Net profit	2,831	3,339	3,769	4,471	5,104
Depreciation	343	364	420	504	601
Deferred tax	(14)	8	0	0	0
Others	634	(1,406)	0	(0)	(0)
Gross cash flow	3,794	2,305	4,189	4,976	5,705
Less: Changes in WC	1,440	(1,628)	571	257	304
Operating cash flow	2,354	3,933	3,617	4,719	5,401
Less: Capex	(990)	1,225	2,878	1,365	1,193
Free cash flow	**3,344**	**2,708**	**739**	**3,353**	**4,208**

Cash flow metric (INR mn)

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Operating cash flow	2,354	3,933	3,617	4,719	5,401
Financing cash flow	(1,472)	(1,402)	(1,910)	(2,271)	(2,603)
Investing cash flow	(787)	(2,372)	(1,670)	(1,352)	(1,166)
Net cash flow	95	159	37	1,096	1,632
Capex	990	(1,225)	(2,878)	(1,365)	(1,193)
Dividends paid	(1,768)	(665)	(1,626)	(1,929)	(2,202)
Share issuance / (buyback)	2	1	0	0	0

Ratios

Year to March	FY07	FY08	FY09E	FY10E	FY11E
ROAE	61.3	62.8	54.1	49.6	44.8
ROACE	52.9	66.2	61.2	53.1	48.1
Debtor days	19	24	23	21	21
Inventory days	88	93	90	86	86
Payable days	167	196	204	175	164
Current ratio	1.4	1.1	1.1	1.3	1.5
Debt/EBITDA	0.5	0.2	0.2	0.2	0.2
Cash conversion cycle days	(59)	(79)	(91)	(69)	(57)
Debt/Equity	0.3	0.2	0.1	0.1	0.1
Adjusted debt/equity	0.3	0.2	0.1	0.1	0.1
Interest coverage *(x)*	20.6	21.9	26.3	28.7	38.2

Operating ratios

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Total asset turnover	3.2	3.4	3.3	3.2	2.9
Fixed asset turnover	4.6	5.6	4.7	4.3	4.5
Equity turnover	4.2	4.3	3.8	3.6	3.2

Du pont analysis

Year to March	FY07	FY08	FY09E	FY10E	FY11E
NP margin (%)	13.9	14.2	13.8	13.7	13.8
Total assets turnover	3.2	3.4	3.3	3.2	2.9
Leverage multiplier	1.4	1.3	1.2	1.1	1.1
ROAE (%)	61.3	62.8	54.1	49.6	44.8

Valuation parameters

Year to March	FY07	FY08	FY09E	FY10E	FY11E
Diluted EPS (INR)	3.3	3.9	4.4	5.2	5.9
Y-o-Y growth (%)	*24.5*	*18.1*	*12.9*	*18.6*	*14.1*
CEPS (INR)	3.7	4.3	4.8	5.8	6.6
Diluted P/E *(x)*	28.8	24.4	21.6	18.2	16.0
Price/BV *(x)*	17.7	13.5	10.3	8.1	6.4
EV/Sales *(x)*	4.0	3.3	2.9	2.4	2.1
EV/EBITDA *(x)*	23.5	19.2	17.6	14.4	12.4
Dividend yield (%)	1.5	1.6	2.0	2.4	2.7

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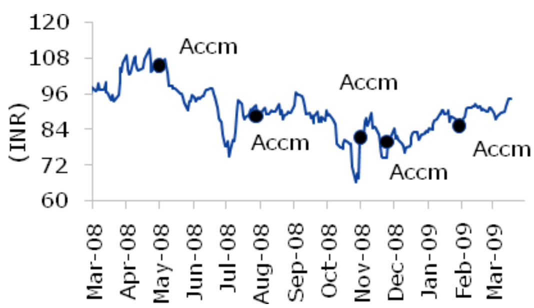
Coverage group(s) of stocks by primary analyst(s): FMCG

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

Dabur India



Recent Research

Date	Company	Title	Price (INR)	Recos
09-Mar-09	**Nestle**	Gross margin delights; *Result Update*	1,431	Accum.
03-Mar-09	**Hindustan Unilever**	Building its defences; *Visit Note*	242	Accum.
27-Feb-09	**Asian Paints**	Slow, but steady; *Visit Note*	786	Accum.
03-Feb-09	**FMCG**	Good days to continue; *Sector Update*		

Distribution of Ratings / Market Cap

Edelweiss Research Coverage Universe

	Buy	Accumulate	Reduce	Sell	Total
Rating Distribution*	74	63	30	10	182

* 4 stocks under review / 1 rating withheld

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	68	46	68

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 20% over a 12-month period
Accumulate	appreciate up to 20% over a 12-month period
Reduce	depreciate up to 10% over a 12-month period
Sell	depreciate more than 10% over a 12-month period