1 December 2011 | 8 pages

Dabur India (DABU.BO)

■ Company Update

Alert: CEO Meeting Notes

- **Domestic revenues improve sequentially; but margin pressures continue** — After a muted 2QFY12 (partially impacted by the distribution re-jig), domestic revenue growth outlook appears to be better in 3Q. Gross margin contraction is likely to moderate on YoY basis given the calibrated price hikes. However, A&P is expected to pick up substantially (declined by ~20% Y/Y in 1H), weighing on overall EBITDA margins. Mgmt believes domestic revenue growth in the mid teens is possible over the medium term, driven by pricing, as the volume growth trends will likely moderate. Mgmt notes that rural demand is steady, while profitability is lower than urban India.
- **Distribution restructuring** — a) Mgmt expects benefits of the realignment in the distribution system for skin care (Fem) and OTC & ethicals to be visible 2HFY12 onwards. b) Further, in line with its rural growth initiatives, mgmt plans to extend the pilot 'reach enhancement' programs undertaken in UP & Maharashtra nationally over 1HCY12 – with an expected payback in about 2 years. The enhanced distribution will limit the dependence on the wholesale channel to push Dabur products as well as provides an opportunity to push the lower end brands / SKUs effectively. In the last three months, the company has increased no of sub-stockists in UP from 1600 to 4300.
- **Rupee depreciation adds to near-term margin pressures** — Mgmt notes that it has INR exposure of ~US$75-80m directly, as it imports fruit concentrates and indirectly through imported packaging & input costs. The company has limited covers on the inventory – expects a negative impact of ~Rs60-80m in 3QFY12 results.
- **Innovations to pick up** — The pace of innovations is expected to pick up after 3-4 quiet Qs focusing on the three key categories - health care, personal care and beverages. Mgmt noted that it will focus on innovations targeting the modern trade channels – could get some of Dabur International products suitable for organized retail.
- **Steady international business** — International businesses are key to overall growth – contributes ~30% of revenues vs ~18% / 22% in FY10/11. Performance has been mixed – GCC, Egypt and Nigeria are driving overall growth; while political uncertainties in North Africa & Levant are a drag. Integration of Hobi / Namaste acquisitions are on track – growth rates of their products have been good outside Turkey / US. Overall, margins are lower than the consolidated entity given the investments in Africa and adverse currency movements – but are likely to improve in the medium term as Dabur increases local manufacturing in Africa / GCC and as the businesses garner scale.
- **Reiterate Neutral** — Growth rates have moderated in the core businesses with margin pressures likely to continue. Intensifying competition with challenging pricing dynamics in some segments are likely to prevent a meaningful re-rating at this juncture.

Neutral	**2**
Price (01 Dec 11)	Rs94.60
Target price	Rs108.00
Expected share price return	14.2%
Expected dividend yield	1.3%
Expected total return	**15.5%**
Market Cap	Rs164,802M
	US$3,161M

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

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See Appendix A-1 for Analyst Certification, Important Disclosures and non-US research analyst disclosures.

- Additional takeaways – continued from Page 1:

- **Hair oils drive overall hair care growth, Shampoos continues to be a drag** — a) Double digit growth in the hair oil portfolio (~15% of consolidated revenues) continues, on the back of higher pricing & volumes, driven by market share gains and new launches including the recent light almond hair oil launch. b) Disruptive competitive in shampoos (2-3% of consolidated revenues) continues to impact revenues / margins – however, mgmt believes that there are some early signs that the competitive intensity has peaked.

- **Updates on the other key domestic categories** — a) ~20-25% growth in juices (~8-9% of consolidated revenues) are likely to continue as the products are well received in semi-urban and rural India. Mgmt believes that the growth could be higher if it expands capacity. b) Skin care (~4% of consolidated revenues) growth will more calibrated, driven primarily by Fem. c) There is high competitive intensity in oral care (~4% of consolidated revenues) - price hikes taken by the industry are inadequate given the extent of input cost increases. d) Home care (~4% of consolidated revenues) focus will remain on the non-commoditized businesses - air fresheners and mosquito repellants.

- **Focus on modern trade** — Management noted that modern trade accounts for ~8% of revenues, where the company has similar market shares as general trade in most categories (with the notable exception in beverages). While the margin profile between modern and general trade are largely similar, the working capital cycle is longer – about a 3 week tie up in modern trade v/s. 1week in the general trade.

- **Retail business expansion continues** — The company now has 53 H&B stores and mgmt reiterated its plan to take the store count to around 100, capping losses at Rs100-120m.

Figure 1. Dabur India (Consolidated) – Statistical Abstract

Year to 31-Mar	Net Profit (Rs Mn)	EPS (Rs)	EPS Growth (%)	P/E (x)	EV / EBITDA (x)	P / Book (x)	ROE (%)	ROCE (%)	Div. Yield (%)
2010	5,013	2.9	27.8%	32.7	26.1	17.5	53.6	55.5	1.1
2011	5,686	3.3	13.1%	29.0	22.9	11.8	40.9	30.7	1.2
2012E	6,218	3.6	9.3%	26.5	20.2	9.5	35.7	33.0	1.3
2013E	7,846	4.5	26.2%	21.0	16.4	7.5	35.6	37.8	1.7
2014E	9,363	5.4	19.3%	17.6	13.8	6.0	34.0	40.9	2.0

Source: Company Reports and CIRA Estimates

Dabur India

Valuation

We utilize a P/E methodology to value Dabur India because it is a steady growth company and is unlikely to face extreme cyclicality or volatility in its earnings. Our target price of Rs108 is based on 24x March13E P/E. Over the past five years, the stock has traded between 12-34x one-year forward earnings, while its historical average is ~24x. Our target multiple is in line with past five-year average. We forecast a 17% EPS growth CAGR for FY11-13E for Dabur, which we believe should offer some downside support for the stock price. However, current valuations of ~24-25x one-year forward P/E leave limited upside potential.

Risks

The key downside risks to our target price include: (1) lower-than-expected volume 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 better monsoons; and (2) beneficial currency movements may aid profitability in international business division and consolidated raw materials expenses.

Appendix A-1

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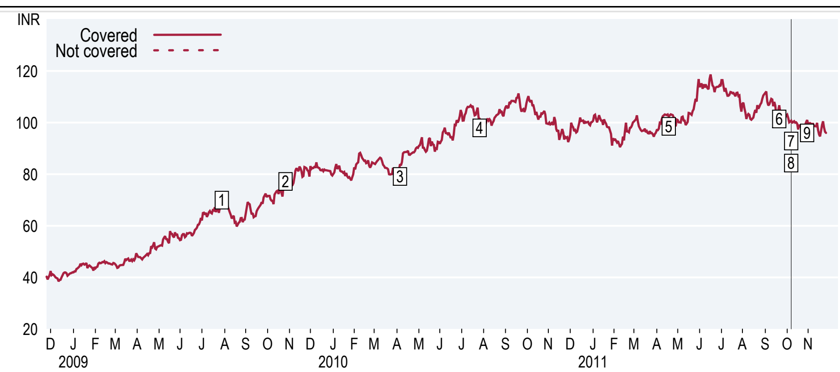
Dabur India (DABU.BO)

Ratings and Target Price History
Fundamental Research

Analyst: Jamshed Dadabhoy



	Date	Rating	Target Price	Closing Price
1	29-Jul-09	2L	*71.00	67.73
2	27-Oct-09	2L	*81.50	75.93
3	6-Apr-10	2L	*86.50	83.85
4	27-Jul-10	2L	*105.00	101.50
5	19-Apr-11	2L	*107.00	102.30
6	21-Sep-11	2L	*112.00	106.70
7	7-Oct-11	Stock rating system changed		
8	7-Oct-11	*2	112.00	100.75
9	31-Oct-11	2	*108.00	101.00

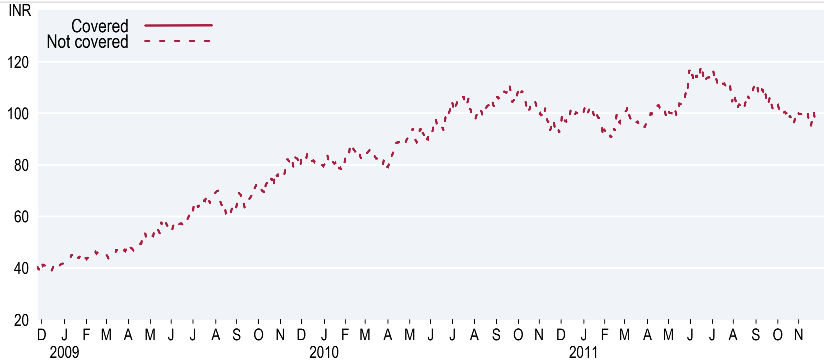
* Indicates change

Rating/target price changes above reflect Eastern Standard Time

Dabur India (DABU.BO)

Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Jamshed Dadabhoy



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Data current as of 10 Oct 2011	**Buy**	**Hold**	**Sell**	**Buy**	**Hold**	**Sell**
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