

Dabur India

ADD

Mixed performance; A&P investment continues

CMP: Rs131

Target Price: Rs135

Dabur's Q3 results were in line with our estimates — revenue was up 12.3% yoy to Rs16.3bn (vs. our estimate of Rs17.3bn), operating profit increased 18.9% yoy to Rs2.7bn (vs. our estimate of Rs2.8bn), and APAT grew 22.2% to Rs2.1bn – in line with our estimate. Domestic business' performance was satisfactory, though international business remained subdued. We have tweaked our FY13 and FY14 EPS estimates to Rs4.5 and Rs5. We maintain Add rating and TP at Rs135.

Satisfactory revenue growth in domestic business: The growth of 12% yoy in Dabur's revenue was driven by increase of 14% yoy in domestic business, though a growth of merely 9% yoy in international business restricted overall growth. The lower growth in international business can be attributed to revenue slowdown in Namaste, due to distribution restructuring in Africa and changeover in branding in the US.

Operating margin improves due to gross margin expansion: Operating margin expanded by 90 bps yoy to 16.8% (vs. our estimate of 16.6%), owing to decline of 220 bps yoy in input costs, partially offset by yoy increase of 50 bps and 80 bps in employee and advertising costs. APAT grew 22.2% yoy to Rs2.7 bn – in line with our estimate.

Mixed performance: At the segmental level, the performance was mixed – (1) Consumer care business – sales at Rs14.1 bn (+11.6%) and EBIT at Rs3.2 bn (+20.3%) (2) Foods business – sales at Rs1.6 bn (+20.6%) and EBIT at Rs182 mn (-16.7%) (3) Retail business – sales at Rs168 mn (+36.7%) and EBIT loss declined to Rs27 mn, as compared to a loss of Rs33 mn in Q3FY12 and (4) Others – sales at Rs354 mn (-4.0%) and EBIT at Rs1.3 mn (-96.4%).

Steady recovery in Shampoo and oral care: Shampoo business continued to exhibit a steady recovery, after the lacklustre performance in FY12, with sales up 29.6% yoy, on a favourable base, following the robust growth of 40.2% yoy in Q2. High media spends on Vatika and favourable base drove the segment's performance. Also, the growth of 14% yoy in oral care was a positive surprise, driven by premium offerings in Dabur Red and Meswak toothpaste.

KEY FINANCIALS				(Rs mn)
Y/E 31 March	2011	2012	2013E	2014E
Revenue	40,774	53,054	62,392	72,061
EBITDA	7,381	8,993	10,354	11,694
EBITDA margin (%)	18.1	17.0	16.6	16.2
PAT	5,686	6,449	7,778	8,785
FDEPS (Rs)	3.3	3.7	4.5	5.0
% growth	(43.4)	13.5	20.8	12.9
P/E (x)	40.0	35.3	29.2	25.9
RoCE avg (%)	27.2	28.7	28.8	28.2

Source: Company, BRICS Research

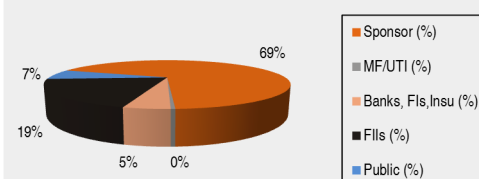
- Corporate development
- Earnings estimate change
- Target price change
- Rating change

KEY DATA

Bloomberg	DABUR IN
Reuters	DABU.BO
52-wk H/L (Rs)	140.0/92.0
6-m avg trd value	US\$2.8mn
Market cap	Rs227.5bn/US\$4.2bn
Shares o/s	1,742.9mn
Face value	Re1

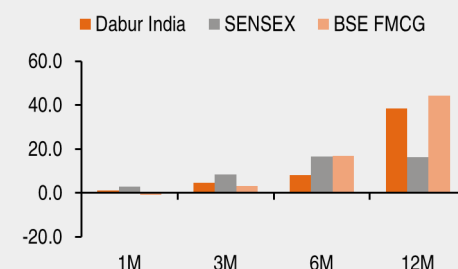
Source: Bloomberg

SHAREHOLDING (%)



Source: Ace equity

PRICE PERFORMANCE



Source: Bloomberg

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...However, digestives and hair oils remain a laggard: The digestive business recorded a decline of 5% yoy in Q3FY13, primarily due to an unfavourable base and significant price hikes taken during the quarter. The growth of merely 11% yoy in the hair oil business was a disappointment.

Branding remains high and helps sustain volume growth: Dabur continued to incur high A&P spends in order to maintain the momentum in volume growth. In Q3FY13, the company's A&P spend increased by 80bps yoy to 14.4%, which partly restricted the margin expansion, but helped it achieve a volume growth of ~9.5% yoy. The volume growth was marginally lower than our estimate of +10%, but was still satisfactory in comparison to that of its peers. We believe Dabur's A&P spend will remain high and continue to drive its volumes.

Maintain Add and target price at Rs135: We have revised our FY13 and FY14 earnings estimates to Rs4.5 and Rs5.0. Nevertheless, we have maintained our target price at Rs135, valuing Dabur at 26.5x FY14. Retain Add.

Exhibit 1: APAT in line with estimate

In Rs Mn	Dec 2012A	Dec 2012E	Variation	Sep 2012A	qoq growth	Dec 2011A	% yoy growth
Revenue	16,360	17,437	-6.2%	15,275	7.1%	14,573	12.3%
EBITDA	2,745	2,897	-5.2%	2693.4	1.9%	2309.4	18.9%
OPM (%)	16.8%	16.6%	20 bps	17.6%	-80 bps	15.8%	90 bps
PAT	2,111	2,169	-2.7%	2022.9	4.4%	1728.2	22.2%
EPS	1.2	1.2	-2.1%	1.2	4.4%	1.0	22.2%

Source: BRICS Research

Exhibit 2: Revising estimates to factor in performance in Q3FY13

In Rs Mn	Old Estimates		New Estimates		% Change	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Revenue	60,596	68,879	62,392	72,061	3.0%	4.6%
EBITDA	9,813	11,252	10,354	11,694	5.5%	3.9%
OPM (%)	16.2%	16.3%	16.6%	16.2%	40 bps	-10 bps
PAT	7,537	8,678	7,782	8,789	3.2%	1.3%
EPS	4.3	5.0	4.5	5.0	3.2%	1.3%

Source: BRICS Research

Exhibit 3: Q3FY13 consolidated results

In Rs Mn	Q3FY13	Q3FY12	YoY Growth	Q2FY13	QoQ Growth
Net Sales	16359.8	14572.8	12.3%	15275.2	7.1%
Expenditure	13614.7	12263.4	11.0%	12581.8	8.2%
Material Cost	7953.6	7404	7.4%	7524.6	5.7%
% of Sales	48.6%	50.8%	-220 bps	49.3%	-60 bps
Employee Expenses	1229.5	1025.4	19.9%	1211.8	1.5%
% of Sales	7.5%	7.0%	50 bps	7.9%	-40 bps
Advertising & Publicity	2350.5	1982.4	18.6%	1808	30.0%
% of Sales	14.4%	13.6%	80 bps	11.8%	250 bps
Other Expenses	2081.1	1851.6	12.4%	2037.4	2.1%
% of Sales	12.7%	12.7%	0 bps	13.3%	-60 bps
Operating Profit	2745.1	2309.4	18.9%	2693.4	1.9%
EBIDTA (%)	16.8%	15.8%	90 bps	17.6%	-90 bps
Other Income	220.3	167.1	31.8%	225.6	-2.3%
Interest	77.8	182.9	-57.5%	148.8	-47.7%
Depreciation	305.2	238.5	28.0%	270.2	13.0%
PBT	2582.4	2055.1	25.7%	2500	3.3%
Tax	477.5	336.9	41.7%	464.2	2.9%
Minority Interest	6.2	10	-38.0%	-12.9	-148.1%
APAT	2111.1	1728.2	22.2%	2022.9	4.4%
PAT (%)	12.9%	11.9%	100 bps	13.2%	-30 bps
RPAT	2111.1	1728.2	22.2%	2023.7	4.3%
RPAT (%)	12.9%	11.9%	100 bps	13.2%	-30 bps
Adj EPS	1.2	1.0	22.2%	1.2	4.4%
Rep EPS	1.2	1.0	22.2%	1.2	4.3%

Source: BRICS Research, Company

Financial summary

Income statement					Balance sheet				
(Rs mn)					(Rs mn)				
Y/E 31 March	2011	2012	2013E	2014E		2011	2012	2013E	2014E
Revenue	40,774	53,054	62,392	72,061	Net fixed assets	15,417	15,385	15,241	15,038
Revenue growth (%)	20.3	30.1	17.6	15.5	Investments	4,274	4,274	4,274	4,274
Operating exp	33,393	44,061	52,038	60,367	Current assets	18,525	23,233	30,301	38,100
EBITDA	7,381	8,993	10,354	11,694	Inventories	7,085	6,219	7,365	8,557
EBITDA margin (%)	18.1	17.0	16.6	16.2	Sundry debtors	3,555	2,686	3,181	3,695
Depreciation	624	1,032	1,144	1,203	Cash & bank balance	2,724	8,805	13,496	19,081
EBIT	6,757	7,961	9,210	10,491	Loans & advances	5,161	5,523	6,258	6,767
MTM profit / (loss)	—	—	—	—	Other current assets	—	—	—	—
Other income	611	482	904	904	Total assets	39,440	44,116	51,039	58,635
Interest paid	303	538	527	527	Net worth	12,170	15,069	19,298	24,533
PBT	7,065	7,905	9,587	10,868	Share capital	1,741	1,741	1,741	1,741
Tax	1,390	1,464	1,805	2,079	Reserves & surplus	10,430	13,329	17,557	22,793
PAT	5,686	6,449	7,778	8,785	Minority interest	41	44	47	50
Minority interest	3	(8)	3	3	Total debt	10,510	10,510	10,510	10,510
EO income	14	—	—	—	Secured loans	9,909	9,909	9,909	9,909
APAT	5,672	6,449	7,778	8,785	Unsecured loans	601	601	601	601
PAT growth (%)	13.4	13.4	20.6	12.9	Current liabilities & prov	14,576	16,360	19,052	21,410
Shares o/s (mn)	1,743	1,743	1,743	1,743	Current liabilities	7,141	8,535	10,061	11,668
Fully diluted o/s shrs (mn)	1,959	1,959	1,959	1,959	Provisions	7,435	7,825	8,991	9,742
FDEPS (Rs) recurring	3.3	3.7	4.5	5.0	Net deferred tax liab	402	402	402	402
					Total liabilities	39,440	44,116	51,039	58,635
Cash flow statement					Key ratios				
(Rs mn)					Y/E 31 March				
Y/E 31 March	2011	2012	2013E	2014E	2011	2012	2013E	2014E	
PBT	7,065	7,905	9,587	10,868	Valuation ratios				
Depreciation	624	1,032	1,144	1,203	PE (x)	40.0	35.3	29.2	
Amortisation	—	—	—	—	CEPS (Rs)	3.6	4.3	5.1	
Interest paid	303	538	527	527	PCE (x)	36.1	30.4	25.5	
Tax paid	1,390	1,464	1,805	2,079	BVPS (Rs)	7	9	11	
Chg in working capital	(1,346)	3,157	316	143	Price/Book (x)	18.7	15.1	11.8	
Int/div in other income	—	—	—	—	EV/EBITDA (x)	31.9	25.5	21.7	
Other operations	63	—	—	—	EV/Revenue (x)	5.8	4.3	3.6	
CF from operations (a)	5,170	10,630	9,241	10,135	Dividend yield (%)	1.6	1.6	1.6	
Capital expenditure	(9,260)	(1,000)	(1,000)	(1,000)	Cash flow yield (%)	(2.5)	4.2	3.6	
Chg in investments	(1,538)	—	—	—	Performance ratios				
Other investing act	—	—	—	—	Raw material to sales (%)	46.7	50.6	48.7	
Int/div in other income	—	—	—	—	SGA to sales (%)	23.5	20.4	23.9	
CF from investments (b)	(10,798)	(1,000)	(1,000)	(1,000)	Effective tax rate (%)	19.7	18.5	18.8	
Free cash flow (a+b)	(5,628)	9,630	8,241	9,135	PAT margin (%)	13.9	12.2	12.5	
Equity raised/(repaid)	—	—	—	—	DPS (Rs)	2.0	2.0	2.0	
Debt raised/(repaid)	8,705	—	—	—	Dividend payout ratio (%)	63	55	46	
Interest paid	303	538	527	527	Return ratios				
Dividend (incl tax)	(2,277)	(3,550)	(3,550)	(3,550)	RoE avg (%)	54.9	47.3	45.3	
Other fin activities	1	—	—	—	RoCE avg (%)	27.2	28.7	28.8	
CF from financing (c)	6,429	(3,550)	(3,550)	(3,550)	Fixed asset turnover (x)	3.7	3.4	4.1	
Net chg in cash (a+b+c)	801	6,080	4,691	5,585	Working capital ratios				
Opening balance	1,923	2,724	8,805	13,496	Inventory (days)	51	46	40	
Closing balance	2,724	8,805	13,496	19,081	Payable (days)	40	37	34	
					Receivable (days)	32	18	19	
					Working capital (days)	43	27	24	
					Leverage ratios				
					Interest cost (%)	4.9	5.1	5.0	
					Net debt/equity (x)	0.6	0.1	(0.2)	
					Interest coverage (x)	22.3	14.8	17.5	

BRICS RECOMMENDATION SCALE

BUY:	More than 15% upside
ADD:	Upside up to 15% (between 0% and 15%)
REDUCE:	Downside up to 15% (between 0% and -15%)
SELL:	More than 15% downside

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