

Dabur

BSE SENSEX	S&P CNX
22,466	6,715
Bloomberg	DABUR IN
Equity Shares (m)	1,743.8
M.Cap. (INR b) / (USD b)	314.1/5.2
52-Week Range (INR)	190/143
1, 6, 12 Rel. Per (%)	-1/-8/5

Financials & Valuation (INR Million)

Y/E MAR	2014	2015E	2016E
Net Sales	70,732	82,768	96,007
EBITDA	11,419	13,966	16,094
Adj PAT	9,165	11,185	13,029
Adj.EPS	5.3	6.4	7.5
Gr. (%)	19.3	22.0	16.5
BV/Sh(INR)	15.3	18.5	22.2
RoE (%)	34.5	34.8	33.7
RoCE (%)	37.6	38.8	40.0
P/E (x)	33.8	27.7	23.8
P/BV (X)	11.6	9.6	8.0

CMP: INR178

TP: INR200

Downgrade to Neutral

- **In-line quarter:** Dabur's 4QFY14 results were in-line with expectation on the back of continued robust volume growth of 9.2% in domestic FMCG business (led by Consumer Care and Foods division) and 9.4% in the consolidated entity (est. 10%). Consolidated net sales grew 15.5% to INR17.7b (est. INR17.9b); EBITDA margin stood flat YoY at 16.4% (est. 16.6%). Ad spends and employee expenses expanded 40bp and 20bp respectively, while other expenses contracted 80bp. EBITDA grew 16.6% at INR2.9b (est. INR3b), while PAT grew 17.4% to INR2.35b (est. INR2.38b).
- **Domestic business** volume growth at 9.2% was driven by Health Supplements (up 18%), Digestives (23%), Foods (up 20%) and Oral Care (17%). Hair Care continued the downward trend and registered 6% sales growth due to weak Hair Oils performance. International business witnessed 20% sales growth (double digit constant currency growth).
- **Management call highlights:** a) DABUR has targeted revenue of INR125b in next four years. It has achieved its previous four year plan (FY10-14) on revenue target (INR70b crossed in FY14), while profit target of INR10b is missed, b) project Double has aided in maintaining the 8-10% volume growth trajectory in last two years when peers were underperforming, c) FY15 guidance: volume growth of 8-10% with challenging 1HFY15, back-ended margin expansion of 50bp.
- **Valuation and view:** Continued robust volume growth in a challenging macro environment is driven by investments in distribution infrastructure and is commendable in our view given the relatively muted performance of peers. Further distribution ramp-up in urban chemist channel and recovery in Namaste will help drive medium term earnings. DABUR offers one of the best earnings visibility, in our view. However, we believe the valuations at 27.7x FY15E EPS capture the positives adequately. We value DABUR at 26x FY16E EPS to arrive at our 12-month forward target price of INR200. Given the limited 12% upside to our target price, we downgrade our rating to **Neutral** and look for better entry opportunity.

Quarterly Performance (Consolidated)

Y/E March	FY13				FY14				(INR Million)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY13	FY14	FY14 4QE	Var. (%)
Volume Growth (%)	12.0	10.5	9.5	12.0	9.0	10.7	9.0		10.0	10.0	10.0	
Net Sales	14,620	15,226	16,307	15,311	16,511	17,488	19,043	17,690	61,464	70,732	17,912	-1.2%
YoY Change (%)	21.4	20.6	12.3	12.3	12.9	14.9	16.8	15.5	16.3	15.1	17.0	
Total Exp	12,576	12,674	13,740	12,708	14,156	14,250	16,117	14,790	51,698	59,313	14,934	-1.0%
EBITDA	2,044	2,552	2,567	2,487	2,355	3,238	2,925	2,901	9,650	11,419	2,978	-2.6%
Margins (%)	14.0	16.8	15.7	16.2	14.3	18.5	15.4	16.4	15.7	16.1	16.6	-23
YoY Growth (%)	14.9	5.5	13.4	11.2	15.2	26.9	14.0	16.6	11.2	2.8	19.7	
Depreciation	267	196	234	151	287	236	255	263	847	1,042	278	
Interest	213	149	78	150	133	200	72	137	589	542	121	
Other Income	356	292	327	340	420	280	390	437	1,316	1,527	407	7.4%
PBT	1,921	2,500	2,582	2,527	2,355	3,083	2,988	2,938	9,530	11,363	2,987	-1.7%
Tax	378	464	478	507	484	579	546	582	1,826	2,191	605	
Rate (%)	19.7	18.6	18.5	20.1	20.6	18.8	18.3	19.8	19.2	19.3	20.3	
Minority Interest	2	13	-6	15	10	6	-7	-2	24	7	2	
Adjusted PAT	1,541	2,023	2,111	2,005	1,860	2,498	2,435	2,353	7,680	9,165	2,380	-1.1%
YoY Change (%)	20.6	16.4	22.2	17.6	20.7	23.5	15.3	17.4	19.3	19.3	18.7	

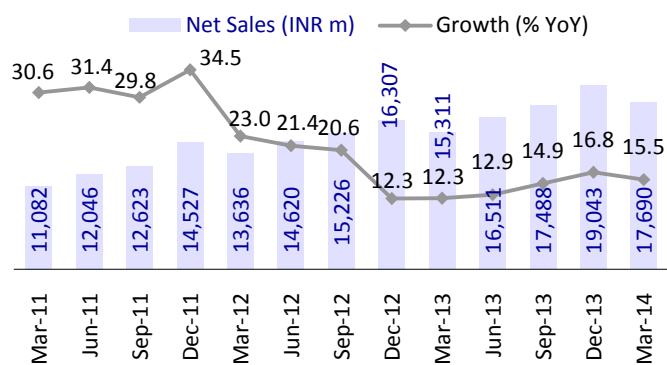
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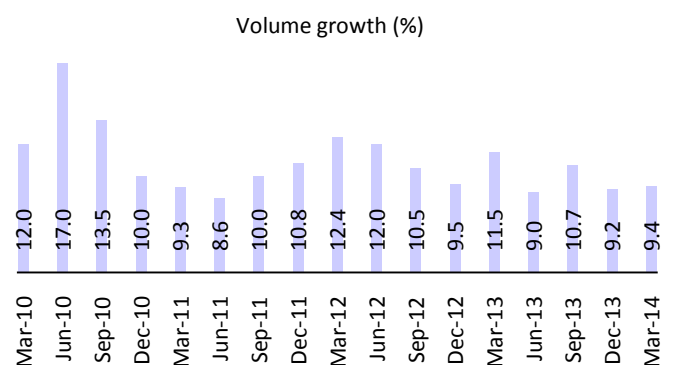
Investors are advised to refer through disclosures made at the end of the Research Report.

Results in-line; best-in-class volume delivery

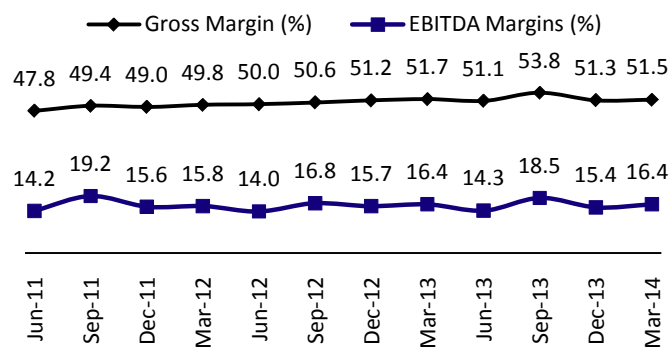
- Consolidated net sales grew 15.5% to INR17.7b led by 9.4% overall volume growth (domestic volume growth at 9.2%).
- Gross margin declined 20bps YoY to 51.5% while EBITDA margins stood flat YoY to 16.4% (est. 16.6%). Ad spends and employee expenses expanded 40bps and 20bps, respectively, while other expenses contracted 80bps. EBITDA grew 15.6% at INR 2.9b (est. INR 3b). The company posted recurring PAT growth of 16.6% to INR2.35b (est. INR2.38b).
- Standalone sales increased by 14%, with decline of 100bps in gross margins to 46.7%. EBITDA margin expanded 50bps YoY to 18.3% as ad-spends and staff costs declined 40bps and 60bps respectively. Operating leverage drove 50bps reduction in other expenses. EBITDA posted healthy 17.3% YoY growth to INR1.4b. Standalone PAT grew 17.7% to INR 1.8b
- Subsidiaries reported 19.4% increase in sales to INR5.2 b, with 110bps EBITDA margin contraction. Imputed subsidiary PAT is up 12.4% to INR 476mn.
- Consolidated FY14 highlights: Volume, Sales, EBITDA and PAT grew 10.5%, 15.1%, 18.1% and 19.1%, respectively.
- Standalone FY14 highlights: Sales, EBITDA and PAT grew 12.1%, 14.6% and 13.8%, respectively

Sales in line with estimates

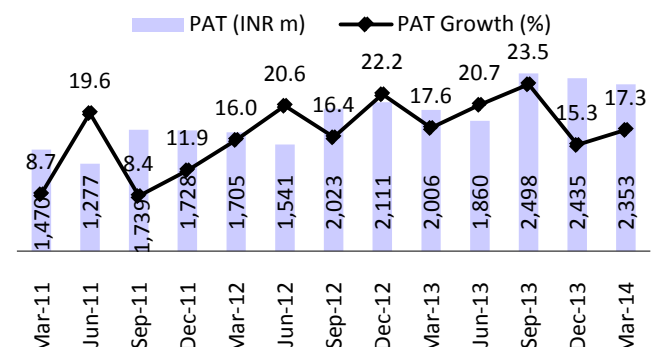
Source: Company, MOSL

Volume growth continues to outperform peers

Source: Company, MOSL

EBITDA margin remained flat YoY

Source: Company, MOSL

PAT came in line

Source: Company, MOSL

Domestic business: Health Supplement, Foods and Oral Care outperform; Hair Oil remains weak

- Domestic business has reported 14% sales growth with underlying volume growth of 9.2%. Growth was driven by strong performance in Health Supplements (17.6%) on the back of Chawanprash and Honey.
- Foods division continues its robust growth trajectory with 19.9% YoY growth on the base of 19.4% growth. Benign RM, stronger rupee and price hikes have driven margin improvement (up 180bps to 17.4% during 4Q).
- Hair Care posted anemic 5.8% growth impacted by weak trends in Hair Oils category. Ex-institutional hair oil grew 7.6%. Management indicated about category slowdown due to rising penetration levels and category growth could be high single digits in the near term as against earlier double digit levels. However Shampoos posted solid 19% growth.
- Oral Care registered strong 17.4% YoY growth led by strong performance in Toothpastes which posted 21% growth. Dabur is witnessing portfolio premiumization in Oral care as Red and Meswak are outgrowing Babool and Red Toothpowder (high single digit growth in Toothpowder). Consequently, Oral care margins have increased. The company has changed its A&P mix with increased focus towards advertising (pull strategy) in Toothpaste.
- Skin care grew by 10.0% led by double digit growth in Gulabari and Fem bleaches. Home care registered 13% YoY growth primarily driven by Odonil (double digit growth) while Odomos was impacted by lower institutional sales.
- OTC and Ethicals grew 10.9% driven by strong growth in Ethicals portfolio. Digestives delivered robust 23.2% growth.
- **Project CORE:** Project DOUBLE (doubled its rural coverage from 15k villages to 38k villages in two years) has helped in maintaining the 8-10% volume growth trajectory in last two years when the peers were facing challenges on volume growth. Now Dabur is implementing Project CORE to increase its distribution reach in urban chemist outlets in 150 towns. It has already increased the reach to 53k outlets from 33k in 2QFY14 and it targets to reach about 75k chemists (currently total direct chemist outlet reach stands at 0.2m). This will be supplemented by new launches in the portfolio and brand investments to drive better margin leverage. This should also help in maintaining the overall volume growth trajectory at 8-10% levels.

Segment wise sales breakup

Y/E March						(INR M)
Segments	FY14	FY13	% Chg	4QFY14	4QFY13	% Chg
Health Supplements	8,397	7,212	16.4	2,012	1,711	17.6
Digestives	2,860	2,440	17.2	817	663	23.2
OTC & Ethicals	4,431	3,963	11.8	1,141	1,029	10.9
HAIR CARE	10,717	10,007	7.1	2,905	2,745	5.8
Home Care	2,782	2,322	19.8	678	601	12.8
Oral Care	6,491	5,705	13.8	1,702	1,450	17.4
Skin Care	2,441	2,156	13.2	583	530	10.0
Consumer Care	38,119	33,805	12.8	9,838	8,729	12.7
Foods	7,989	6,675	19.7	2,074	1,719	20.7
Domestic – FMCG	46,108	40,480	13.9	11,912	10,448	14.0
Others	2,080	2,587	-19.6	496	488	1.6
Domestic – Total	48,188	43,067	11.9	12,408	10,936	13.5
Retail	717	599	19.7	191	158	20.9
International – Total (incl. acquisitions)	22,424	18,338	22.3	5,258	4,395	19.6
Total	71,329	62,004	15.0	17,857	15,489	15.3

Source: Company, MOSL

Category wise performance

Category Growth (%)	1QFY12	2QFY12	3QFY12	4QFY12	1QFY13	2QFY13	3QFY13	4QFY13	1QFY14	2QFY14	3QFY14	4QFY14
Hair Care	9.0	15.9	19.6	19.8	10.4	13.2	13.9	9.6	11.8	4.0	6.9	5.8
Health Supplements	0.0	7.8	13.5	10.9	18.0	15.7	12.0	22.6	7.5	12.7	19.5	17.6
Oral Care	12.7	6.0	11.6	7.7	8.1	7.0	13.6	12.3	8.6	18.7	10.4	17.4
Foods	31.5	27.5	17.4	30.4	34.5	18.1	22.1	22.6	18.7	22.0	17.6	20.7
Digestives	7.8	3.8	19.3	19.4	9.8	11.9	-5.4	1.3	15.0	12.0	17.7	23.2
Skin care	16.3	0.0	4.9	17.6	13.3	24.8	15.7	11.1	13.0	17.5	13.4	10.0
Home Care	24.9	0.5	18.0	18.0	14.4	23.0	30.5	33.3	26.0	25.1	16.0	12.8
IBD (organic)	12.5	22.8	37.8	45.8	24.0	24.8	9.0	19.7	18.5	25.8	29.0	20.0

Source: Company, MOSL

IBD (30% of consolidated sales) grows 20%: margins decline 110bps

- International business grew 20% (double digit constant currency growth). Growth was driven by GCC (17%), Egypt (20%), Levant (32%) and North Africa (21%).
- Namaste: Non-US business currently contributes 32% of Namaste operations (vs.26% in FY13). Management is targeting 500bps incrementally higher share from non-US geographies every year for next four years to reach 50:50 US: Non-US salience.
- Gross margin improved 120 bps while EBITDA margins declined 110bps for subsidiaries (estimated as difference between consol and standalone entity). This was driven by higher ad-pro investments which went up 200bps.
- Dabur is guiding for convergence of international margins with domestic in the medium term, primarily driven by better operating leverage.

Valuation and view

- Dabur's consistent volume growth delivery in a challenging macro backdrop is commendable given the relatively muted volume performance of its peers.
- Investments behind distribution and portfolio expansion have yielded rich dividends, in our view.
- Portfolio tilt towards mass to mid market brands will ensure Dabur deals with the slowdown in a better fashion vs. its peers. Further distribution ramp up in Urban Chemist channel and recovery in Namaste will help drive medium term earnings.
- Dabur offers one of the best earnings visibility in our view. However, valuations at 27.7x FY15 EPS capture the positives adequately, we believe.
- We value Dabur at 26x FY16 EPS to arrive at our 12 month forward target price of INR 200.
- Given the limited 12% upside to our target price, we downgrade our rating to Neutral and look for better entry opportunity.

Concall highlights

Macro & long term takeaways

- Urban recovery has not see much uptick from industry viewpoint.
- Dabur will see better performance due to higher investments in urban distribution infrastructure and also the shift in portfolio focus towards urban oriented products like Fruit Juice.
- **Four year target:** Topline target of INR125 bn in next four years. It has achieved its previous four year plan (FY10-14) on revenues (target of INR 70bn crossed in FY14) while profit target of INR 10b missed. Management has reset this target to INR 9bn which has been crossed with FY14 PAT of INR 9.2b.
- Project Double has helped to a great extent in maintaining the 8-10% volume growth trajectory in last two years when the peers were facing challenges on volume growth.

Guidance

- Volume growth guidance: 8-10% in 1HFY15. Will target 10-12% in 2HFY15.
- Margin guidance: 50bps gross and ebitda margin improvement in FY15 but do not see it happening in first half of FY15. 1HFY15 will be a challenge and margins will likely remain flat .
- Margin improvement in domestic business in the medium term will not be mix driven but more a function of operating leverage as relatively low margin Foods is outgrowing HPC.

Category-wise takeaways

- Consolidated revenue growth of 15.5%: Volume growth of 9.4%, price hike - 4.8% – 2% fresh price hike and rest carry over pricing of earlier quarters - Honey Odonil, Glucose and Fruit Juice saw hikes during the quarter.
- **Oral Care:** Toothpaste grew 21% with Red gaining market share.

- Blended Oral care margins have increased due to mix improvement (Babool and Red Toothpowder growing mid single digits). Increased the advertising and curtailed promotions.
- Contribution of Babool has come down from 50% to 35% in Dabur's Oral Care segment.
- **Hair Oil** market under pressure. Ex- institutional, Hair Oil grew 7.6%.
- Hair Oil : category going through slowdown due to rising penetration levels and realistic category growth could be high single digits as against earlier double digit levels tracked.
- Substantial relaunch of Amla Hair Oils is slated for 1QFY15.
- **Home Care:** Insect repellent business (Odomas) impacted due to postponement of institutional orders from 4Q to 1Q.
- **Health Supplements:** Chawanprash and Honey driving growth while Glucose had a bad year in FY14. New variants are driving growth (growing at 3x basic sku's)
- **Foods:** Benign RM, stronger rupee and price hikes have driven margin improvement (up 170bps during 4Q).
- Supply chain is a key entry barrier in Beverages. With shipping from Sri Lanka Dabur's product proposition in Southern market has improved.

Project CORE

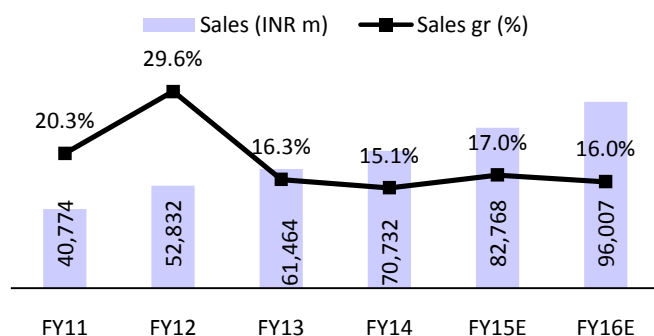
- Recruited 350 headcounts as part of project CORE. Coverage increased from 33k (Oct'13) to 53k (Mar'14) outlets. Targeting to take it to 75k outlets in the near term. Under CORE it is aiming for 150 towns.
- Total direct reach expanded to 2 lakh chemist outlets (this outlets are not under project Core, typically chemists from small towns).
- In the next four years, management expects Health Care (Health Supplements, OTC and Ethicals) portfolio to grow 1.4x of HPC portfolio.

International business

- Volatility in international margins should reduce going forward as Namaste has now stabilized.
- Namaste: Non-US business currently contributes 32% of Namaste operations. Management is targeting 500bps incrementally higher share from non-US geographies every year for next four years to reach 50:50.
- Expect strong double digit revenue growth in Namaste with improvement in profitability in FY15.
- Over the medium term, international profitability should improve and converge towards domestic profitability.

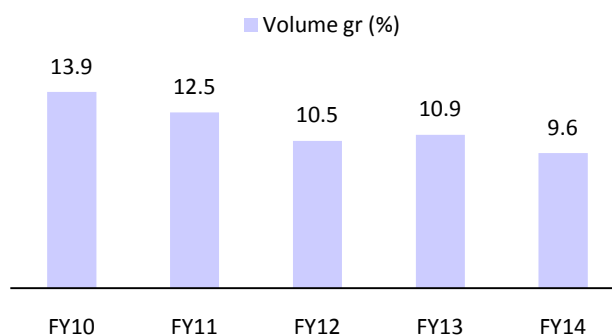
Story in Charts

Sales growth in high teens driven by diversified portfolio



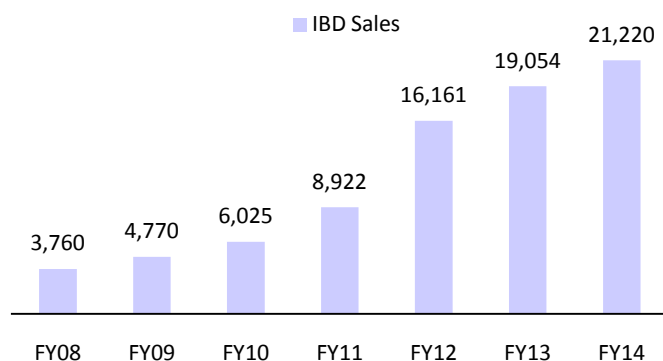
Source: Company, MOSL

Steady volume growth in high single digits



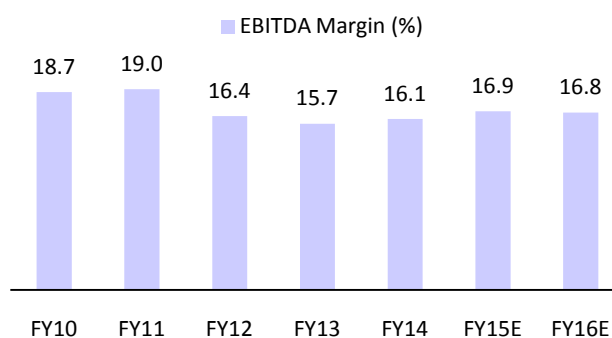
Source: Company, MOSL

IBD sales grew 5x in last 5 years



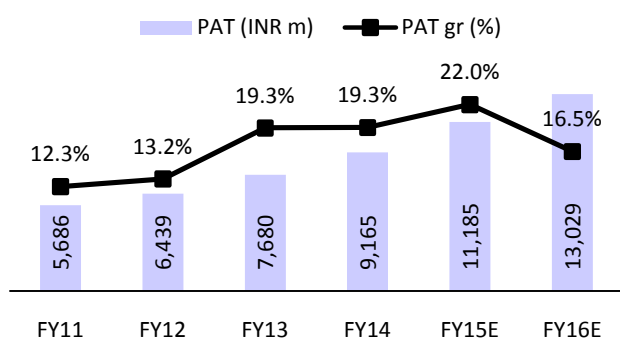
Source: Company, MOSL

Steady margin improvement driven by mix benefits



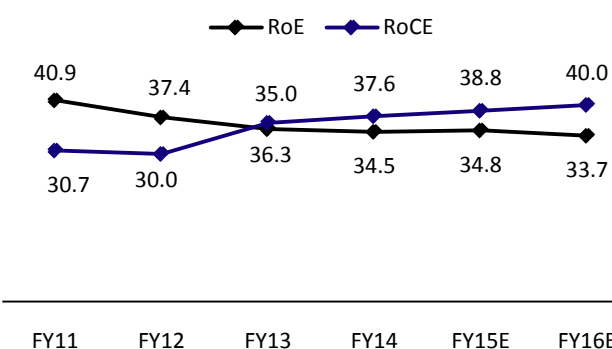
Source: Company, MOSL

PAT CAGR growth of 19.3% in FY14-16E



Source: Company, MOSL

RoE (x) and RoCE (x)



Source: Company, MOSL

Dabur: an investment profile

Company description

Dabur India is the second largest FMCG company in India, in terms of Product portfolio. Dabur is a market leader in Chyawanprash category and is increasing its presence in other traditional categories like Hair Care, oral care, household care and foods. Dabur's acquisition of Fem Care given it a strategic presence in the high potential skin care segment.

Key investment arguments

- Strong herbal positioning with little competition from MNC in categories like Hair Oil, 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.

Key investment risks

- Higher than anticipated ad spends could impact profitability adversely.
- We believe that will face rising competitive intensity in some of the key business segments; 1) Toothpaste (P&G has entered the category) 2) Hair Oils (aggressive strategy of Marico and Emami) 3) Shampoo (aggressive strategy of P&G, HUL, Garnier etc resulting in squeeze in sales growth and margins) and 4) Skin care (rising focus of MNCs on the mass to mid premium segment).

Recent developments

- Dabur has launched Vatika Enriched Coconut Oil with Hibiscus and Vatika Olive Oil Enriched Hair Oil.
- Project CORE to enhance distribution reach in urban chemist outlets launched.

Valuation and view

- Dabur trades at 27.7x FY15E EPS. Dabur's steady earnings growth trajectory underlined by healthy 8-12% volume growth coupled with its diversified RM basket (which shields it from dependence on a particular RM unlike its peers) provides good earnings visibility. Additionally, distribution enhancement initiatives like Project Core can provide modest upsides going forward. Revise **Neutral** with a TP of INR200 (27x FY16E).

Sector view

- We have a cautious view on the sector on back of inflationary tendency, volatile input cost environment and a possible slowdown in the rural economy.
- Companies with low competitive pressures and broad product portfolios will be able to better with stand any slowdown in a particular segment.
- Longer term prospects bright, given rising incomes and low penetration.

Comparative valuations

		Dabur	Marico	GCPL
P/E (x)	FY15E	27.7	25.9	28.6
	FY16E	23.8	21.6	23.4
P/BV (x)	FY15E	9.6	6.4	6.6
	FY16E	8.0	5.2	5.5
EV/Sales (x)	FY15E	3.7	2.4	3.2
	FY16E	3.1	2.0	2.7
EV/EBITDA (x)	FY15E	21.8	15.8	19.7
	FY16E	18.6	12.9	16.4

Shareholding pattern (%)

	Mar-14	Dec-13	Mar-13
Promoter	68.6	68.6	68.7
Domestic Inst	5.6	4.5	4.3
Foreign	19.5	20.3	20.6
Others	6.2	6.6	6.5

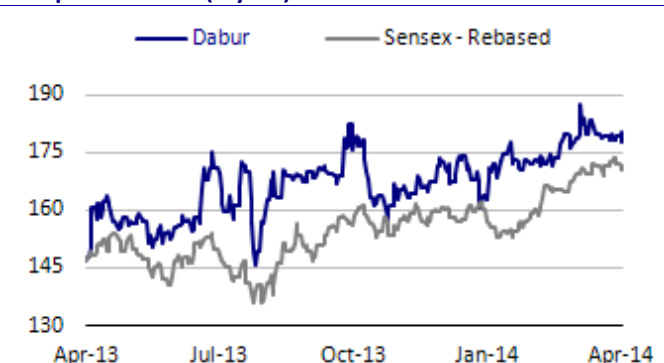
EPS: MOSL forecast v/s consensus (INR)

	MOSL Forecast	Consensus Forecast	Variation (%)
FY15	6.4	6.2	3.2
FY16	7.5	7.3	2.7

Target price and recommendation

Current Price (INR)	Target Price (INR)	Upside (%)	Reco.
178	200	12.5	Neutral

Stock performance (1-year)



Financials and valuation

Income statement		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
Net Sales	61,464	70,732	82,768	96,007	
Change (%)	16.3	15.1	17.0	16.0	
EBITDA	9,650	11,419	13,966	16,094	
EBITDA Margin (%)	15.7	16.1	16.9	16.8	
Depreciation	847	1,042	1,190	1,280	
EBIT	8,803	10,377	12,776	14,814	
Interest	-589	-542	-549	-531	
Other Income	1,316	1,527	1,787	2,047	
Extraordinary items	0	0	0	0	
PBT	9,530	11,363	14,015	16,330	
Tax	-1,826	-2,191	-2,817	-3,282	
Tax Rate (%)	-19.2	-19.3	-20.1	-20.1	
Min. Int. & Assoc. Share	24	7	13	19	
Reported PAT	7,680	9,165	11,185	13,029	
Adjusted PAT	7,680	9,165	11,185	13,029	
Change (%)	19.3	19.3	22.0	16.5	

Balance sheet		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
Share Capital	1,742	1,742	1,742	1,742	
Reserves	20,253	24,859	30,466	36,996	
Net Worth	21,995	26,601	32,208	38,738	
Debt	10,500	10,504	11,441	9,791	
Deferred Tax	-84	-84	-84	-84	
Total Capital Employed	32,536	37,156	43,713	48,612	
Gross Fixed Assets	15,596	17,596	19,596	21,596	
Less: Acc Depreciation	-6,110	-7,166	-8,356	-9,636	
Net Fixed Assets	9,486	10,430	11,240	11,960	
Capital WIP	350	433	433	433	
Investments	5,102	7,103	11,045	13,092	
Current Assets	23,859	27,740	32,829	38,132	
Inventory	7,704	8,860	10,311	11,960	
Debtors	5,103	5,878	6,856	7,953	
Cash & Bank	4,252	4,898	5,713	6,627	
Loans & Adv, Others	6,800	8,104	9,948	11,592	
Curr Liabs & Provns	14,026	16,314	19,599	22,769	
Curr. Liabilities	7,933	9,119	10,591	12,285	
Provisions	6,093	7,195	9,007	10,484	
Net Current Assets	9,832	11,426	13,230	15,362	
Total Assets	32,536	37,157	43,713	48,612	

E: MOSL Estimates

Ratios					
Y/E March	2013	2014	2015E	2016E	
Basic (INR)					
EPS	4.4	5.3	6.4	7.5	
Cash EPS	3.9	4.7	5.7	6.7	
Book Value	12.6	15.3	18.5	22.2	
DPS	1.8	2.3	2.7	3.2	
Payout (incl. Div. Tax.)	40.6	42.8	42.7	42.7	
Valuation(x)					
P/E	40.3	33.8	27.7	23.8	
Cash P/E	45.3	38.1	31.0	26.3	
Price / Book Value	14.1	11.6	9.6	8.0	
EV/Sales	5.1	4.4	3.7	3.1	
EV/EBITDA	32.2	27.0	21.8	18.6	
Dividend Yield (%)	1.0	1.3	1.5	1.8	
Profitability Ratios (%)					
RoE	35.0	34.5	34.8	33.7	
RoCE	36.3	37.6	38.8	40.0	
Turnover Ratios (%)					
Asset Turnover (x)	1.9	1.9	1.9	2.0	
Debtors (No. of Days)	30.3	30.3	30.2	30.2	
Leverage Ratios (%)					
Debt/Equity (x)	0.5	0.4	0.4	0.3	

Cash flow statement		(INR Million)			
Y/E March	2013	2014	2015E	2016E	
OP/(Loss) before Tax	10,498	12,461	15,156	17,374	
Depreciation	-847	-1,042	-1,190	-1,280	
Interest	727	985	1,239	1,516	
Direct Taxes Paid	1,826	2,191	2,733	3,184	
(Inc)/Dec in Wkg Cap	3,762	-948	-989	-1,218	
CF from Op. Activity	15,966	13,647	16,949	19,576	
(Inc)/Dec in FA & CWIP	-2,082	-2,083	-2,000	-2,000	
(Pur)/Sale of Invt	-277	-2,001	-3,942	-2,047	
CF from Inv. Activity	-2,359	-4,084	-5,942	-4,047	
Inc/(Dec) in Net Worth	1	2	2	2	
Inc / (Dec) in Debt	-7,310	4	937	-1,650	
Divd Paid (incl Tax)	-3,117	-3,921	-4,773	-5,559	
Others	-3,413	-5,003	-6,358	-7,408	
CF from Fin. Activity	-13,839	-8,918	-10,192	-14,615	
Inc/(Dec) in Cash	-233	646	815	914	
Add: Opening Balance	4,484	4,252	4,898	5,713	
Closing Balance	4,252	4,898	5,713	6,627	

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