

Dabur's reported Q2FY14 results were ahead of ours and consensus estimates. The growth was driven by strong growth in the international business and volume driven growth in the domestic business. Gross margins expanded significantly and the management continues to remain optimistic on margins in the forthcoming quarters. We maintain our Buy recommendation and marginally upgrade our target price of the stock. The key takeaways of the results and the conference call are as follows:

Volume led domestic FMCG revenue growth of 14.4% YoY: The Company reported a domestic FMCG volume growth of 10.7% YoY and price growth of 3.7% YoY. Price growth for the quarter included a carryover price growth of 2.5% YoY and price hike of 1.2% initiated during the quarter. The domestic business growth for the quarter was driven by sharp growth in Oral care (c.18% to the domestic business), Home care (c.8%), Skin care (c.6%) and Health supplements (c.18%) segments which grew by 18.7% YoY, 25.3% YoY, 17.4% YoY and 16.8% YoY respectively. In spite of its discretionary status, the Foods segment growth rate improved sequentially to 22% YoY, led by gains in rural markets and product innovations. The largest category Hair Care (c.30%) grew by 4% YoY. The category growth was impacted by high base effect and price deflation in the Dabur Vatika coconut hair oil brand. Growth in the heavy hair oil segment continues to be slow. However, growth in the light hair oil space continues to be robust. The management has guided for launch of 2 new light hair oil products in the next 6 months in a bid to improve diversify the hair oil business and improve growth rates.

International business reports robust growth: The international business grew by 25.8% YoY with a constant currency growth of 13.8% YoY. The Namaste business reported double digit growth in dollar terms and Hobi registered double digit growth. The organic growth in the MENA region continued to remain strong.

Sharp expansion in gross margins; Outlook continues to be optimistic: The gross margins expanded by 330bps YoY helped by benign input costs in the international markets. The management indicated that they continue to expect gross margins to expand in H2FY14 notwithstanding the sharp depreciation of INR. The management indicated that there is enough room to hike prices and gross margins can expand based on the price hikes.

Strongest EBIDTA growth in last 9 quarters: EBIDTA grew by 27% YoY for the quarter and EBIDTA margins expanded by 170bps YoY primarily helped by gross margin expansion. Advertising expenses grew by 26% YoY to 13% of Sales and increased by 110bps YoY. We believe EBIDTA margins have nearly peaked out in the near term but EBIDTA growth will continue to remain robust driven by gross margin expansion and volume growth.

Revision of estimates and Maintain Rating: We have marginally revised our earnings estimates upwards for FY14E and FY15E by 3% respectively. We maintain our Buy rating valuing the company at 30x FY15E earnings at Rs 200.

BUY

DABUR IN | CMP RS 176

TARGET RS 200 (+14%)

Company Data

O/S SHARES (MN) :	1744
MARKET CAP (RSBN) :	306
MARKET CAP (USDBN) :	5.0
52 - WK HI/LO (RS) :	174 / 115
LIQUIDITY 3M (USDMN) :	3.8
FACE VALUE (RS) :	1

Share Holding Pattern, %

PROMOTERS :	68.7
FII / NRI :	20.6
FI / MF :	4.3
NON PROMOTER CORP. HOLDINGS :	1.4
PUBLIC & OTHERS :	5.1

Price Performance, %

	1mth	3mth	1yr
ABS	3.3	2.7	35.3
REL TO BSE	-0.9	-1.4	24.9

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY13	FY14E	FY15E
Net Sales	61,464	70,891	82,186
Ebidta	10,295	12,338	15,039
Net Profit	7,700	9,443	11,657
EPS, Rs	4.4	5.4	6.7
PER, X	39.7	32.4	26.2
EV/EBIDTA, x	30.4	25.0	20.1
EV/Net Sales, x	5.1	4.4	3.7
ROE, %	36.2	33.5	33.2
Debt/Equity, %	59.2	40.9	32.8

Source: PhillipCapital India Research Est.

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Quarterly Results

Rs mn	Q2FY14	Q1FY14	QoQ %	Q2FY13	YoY %
Net sales	17,488	16,511	5.92	15,226	14.86
Growth, %	14.86	12.94		20.62	
Total income	17,542	16,565	5.90	15,275	14.84
Gross Profit	9,416	8,437	11.60	7,701	22.27
Growth, %	22.27	15.53		23.39	
Margin, %	53.84	51.10		50.58	
Advertising Expenses	2,275	2,542	-10.53	1,808	25.80
as % of Net sales	13.01	15.40		11.87	
Operating expenses	3,903	3,541	10.24	3,341	16.82
EBITDA	3,238	2,355	37.54	2,552	26.89
Growth, %	26.89	15.20		5.52	
Margin, %	18.52	14.26		16.76	
Depreciation	235.90	287.10	-17.83	195.60	20.60
EBIT	3,003	2,068	45.22	2,357	27.41
Margin, %	17.17	12.52		15.48	
Interest paid	199.70	133.00	50.15	148.80	34.21
Other Non-Operating Income	279.80	420.10	-33.40	292.30	-4.28
Pre-tax profit	3,083	2,355	30.92	2,500	23.30
Tax provided	579	484	19.48	464.20	24.62
Minority Interest	-5.80	-10.30		12.90	
PC Net Profit	2,498	1,860	34.31	2,049	21.95
Reported PAT	2,498	1,860	34.31	2,049	21.95
Growth, %	21.22	21.22		17.12	
Margin, %	14.29	11.27		13.46	
Extraordinary items: Gains/(Losses)					
Adj Fully Diluted EPS, Rs	1.43	1.07		1.18	21.79

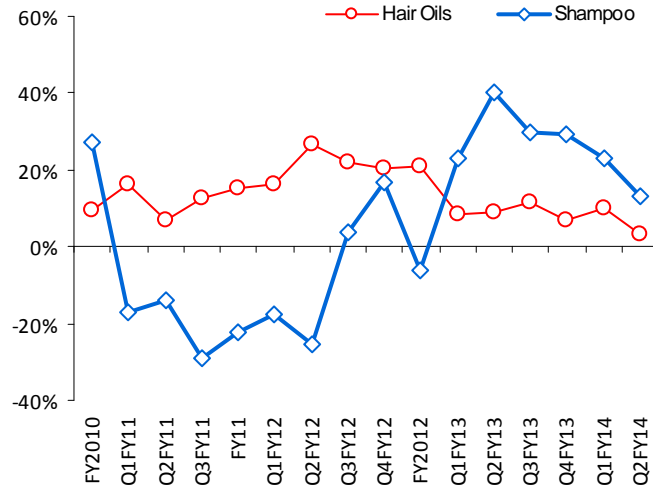
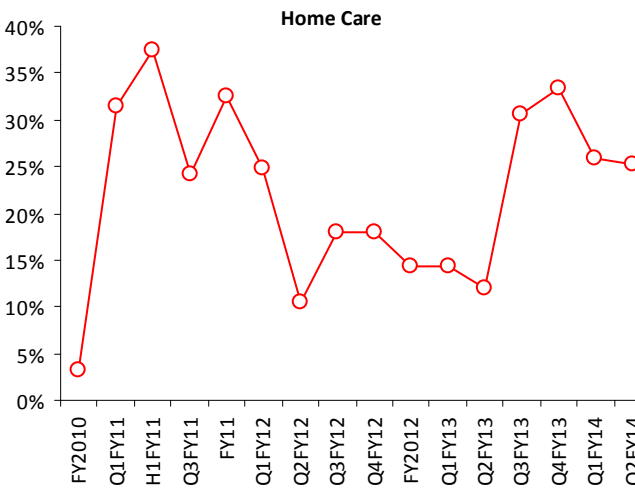
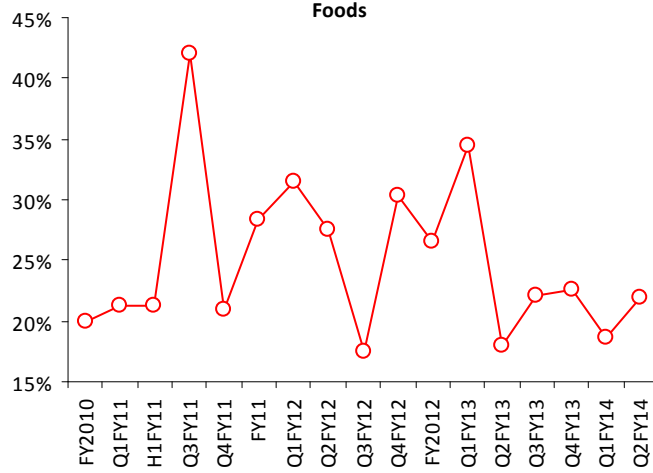
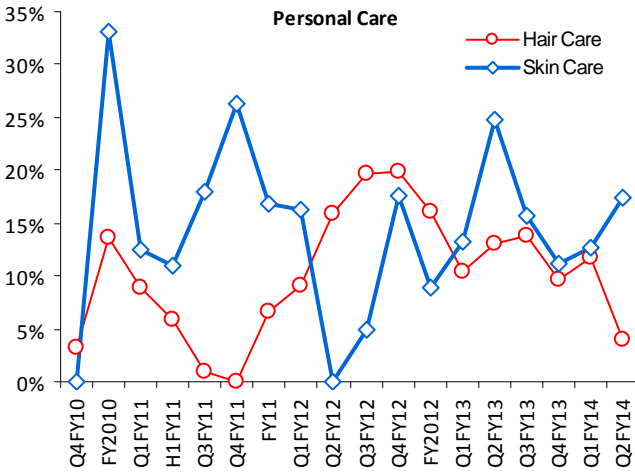
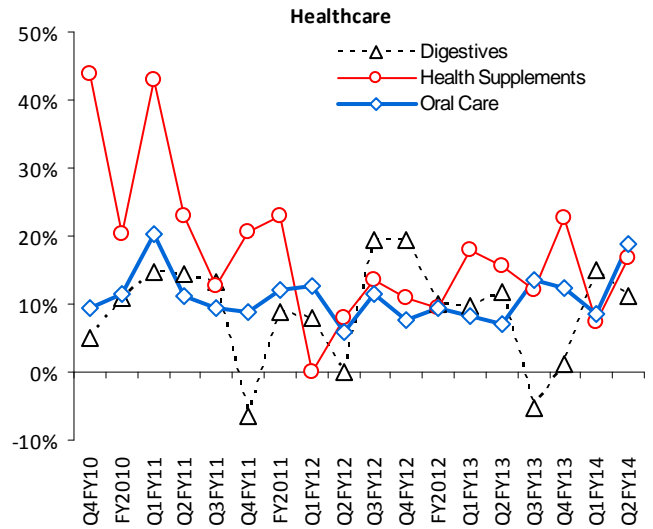
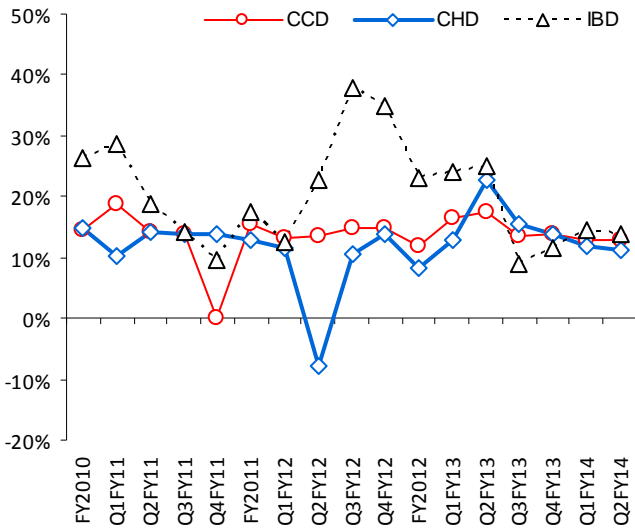
Source: Company, PhillipCapital India Research

Change in Estimates

(Rs mn)	Earlier estimates		Revised estimates		Upgrade/(downgrade) (%)	
	FY14E	FY15E	FY14E	FY15E	FY14E	FY15E
Net Sales	70,759	82,028	70,891	82,186	0.2%	0.2%
EBITDA	12,125	14,454	12,024	14,657	-0.8%	1.4%
<i>EBITDA margin (%)</i>	<i>17.1</i>	<i>17.6</i>	<i>17.0</i>	<i>17.8</i>	<i>(17)</i>	<i>21</i>
PBT	11,882	14,348	11,779	14,756	-0.9%	2.8%
Adj PAT	9,399	11,335	9,443	11,657	0.5%	2.8%
<i>Adj PAT margin (%)</i>	<i>13.3</i>	<i>13.8</i>	<i>13.3</i>	<i>14.2</i>	<i>4</i>	<i>37</i>
Adj EPS (Rs)	5.39	6.50	5.45	6.73	1.2%	3.5%

Source: PhillipCapital India Research Estimates

Segment Growth YoY %



Source: World Bank, Company, PhillipCapital India Research

Q2FY14 Operating Performance Summary

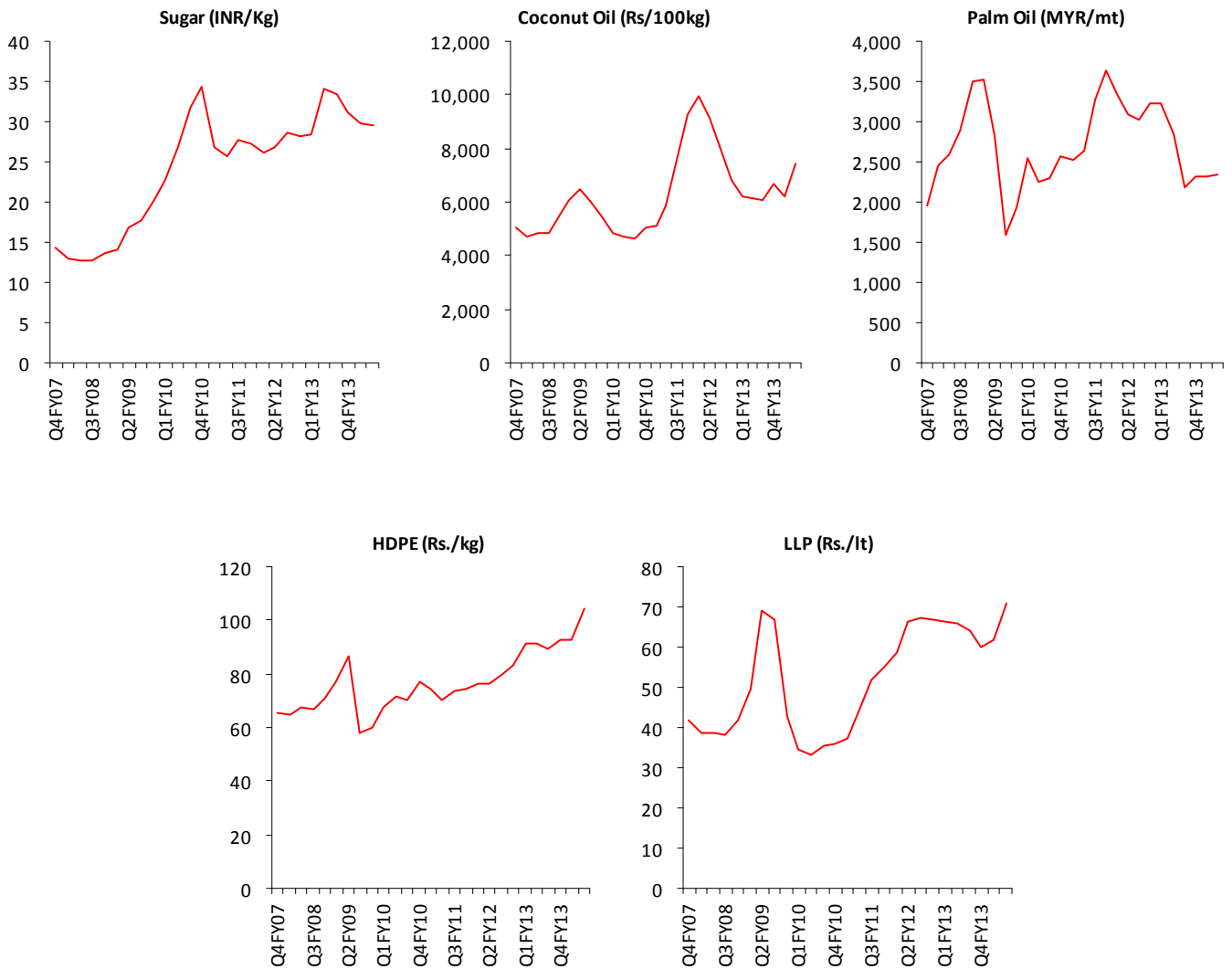
Domestic Business	Summary	Comments
Business Performance in Q2FY14	- Value growth at 14.4% YoY led by Foods, Health Supplements, Oral Care, Home Care and Skin Care	- Reported domestic value growth was largely in line with our expectations of ~14% YoY. Sharp recovery in growth rates for Oral Care is a positive surprise. Foods, Home care have sustained momentum
	- Domestic Volume growth at 10.7% YoY, ahead of our estimates of 10% YoY and that of consensus at 8 -9% YoY	- Volume growth has registered sequential improvement from 9% YoY reported in Q1FY14. Volume growth improvement has primarily been broad based except for the Hair oil category which reported sluggish growth. Rural market growth continues to outperform the urban sector
	- Domestic price growth at 3.7% YoY	- Of the price growth 2.7% YoY is carryover price and 1.2% misprice hike undertaken in Q2FY14 . YTD the company has exercised price hike of 2.5% YoY. The pricing growth has been instrumental in mitigating impact of input inflation
Segment wise Revenue and growth details	- Food segment growth robust at 22% YoY	- Foods segment growth recovered to 20%+ levels which is a positive sign, considering the segment is discretionary. As per the management Food business gained saliency in the rural markets. However pressure on profitability persists, with EBIT degrowth of 1.5% YoY and EBIT margin contraction of 285 bps YoY to 16.2%. The management has undertaken certain judicious price hikes, however inflationary impact remains elevated on account of food inflation and rupee depreciation. The company has undertaken a number of product innovations in the Beverage segment and is currently test marketing milk shakes under the Real brand in Delhi and Punjab.
	- Hair Care segment reported growth of 4% YoY, Shampoos grew by 13% YoY. We estimate overall hair oil growth at 2.5 - 3% YoY	- Shampoo business growth rates slowed down on account of high base effect. Shampoo is now the most highly distributed product for Dabur with a market reach of 5.5 mn outlets. Shampoo growth has remained ahead of the market and has gained from the expansion in rural distribution. As growth rates in heavy oil have slowed down, the company is eyeing 2 new product launches in the light hair oil category in H2FY14
	- Oral Care segment growth sharply recovers to 18.7% YoY, Toothpowder segment arrests decline and reports growth of 25.3% YoY	- Perfumed hair oil reported growth of 6.5% YoY. We estimate the overall hair oil business to have reported a growth of 2.5 - 3% YoY. The difference in the growth rates continue to be on account of negative growth in the coconut hair oil business. The company has exercised price cuts in the Vatika coconut hair oil brand in a bid to improve volume growth. Hair oil business growth was also impacted on account of slowdown in the hair oil category
	- Health Supplements reported growth of 16.8% YoY	- Dabur reported double digit volume growth in the Toothpaste portfolio. The product mix has improved with higher contribution from premium brands. Meswak and Dabur Red have reported market share gain. Babool brand growth remains muted. Toothpowder segment reported sharp growth of 25.3% YoY on account of certain promotional activation programs. The management has stated that toothpowder growth is not sustainable at these levels, however the decline has been arrested. The company is not facing competitive pressure to the degree as prevalent in the market on account of its differentiated product positioning
	- Digestive segment reported growth of 11.8% YoY	- Growth was primarily driven by Dabur Honey brand. Initial off takes in the key winter brand Dabur Chywanprash have been encouraging.
	- Home Care sustained robust growth momentum of 25.3% YoY	- Hajmola franchise performed well. New variants have been well received. Pudim Hara reported good performance on the back of media support
	- OTC & Ethicals reported growth of 11.2% YoY.	- Home Care business continues to remain on a strong foothold with a robust growth of 25% YoY. Odonil brand was the key growth driver. Sanifresh has also maintained growth trajectory
	- Skin Care reported growth of 17.4% YoY. Fem portfolio reported good performance	- Segment growth was driven by Ethicals at 18.1% YoY. The Ethicals portfolio was relaunched during the quarter with innovative packaging
		- Fem bleaches continued to perform well and registered market share gains. The Saka mens bleach brand was relaunched as OxyLife for men. Gulabari reported robust growth led by new marketing campaigns
	Headwinds	- Sluggish market demand continues to be of key concern
- INR depreciation stoking inflation in crude related inputs		- The recent sharp depreciation in INR is stoking inflation in crude related inputs like LLP, HDPE. As per the management, the company is well placed to mitigate the input cost pressure led by judicious price hikes, benign inflation in the international business, the recent correction in crude and appreciation in INR are added drivers
		- Monsoon is expected to be a key demand driver in the rural markets in the near term. Dabur has one of the highest exposures to the rural markets; the company has also expanded distribution presence in the rural markets. Hence
Tailwinds	- Demand in rural market to support growth	

		we expect Dabur to continue to benefit from the buoyant rural demand
	- Healthy brand spends and pipeline of product innovations to aid growth trends	- Dabur has been active in the market with new variant and category forays in the past 6 months. The company has also maintained level of healthy ad spends to support core brands and provide necessary media support to the new launches. Dabur is expected to maintain healthy brand spends in the forthcoming quarters and maintain pace of product innovations
Management Guidance		Dabur has been judicious in its price hikes carefully weighing the impact of pricing on volume. Currently the company has worked a favourable mix of pricing which is not expected to negatively impact volume growth and is expected to aid margins
	- Pricing growth at ~4% YoY	- The management seems reasonably confident of achieving gross margin expansion in H2FY14. Pricing growth, soft inflation in key geographies, rupee and crude correcting from peak levels are expected to support expansionary trend
	- Gross margins to expand in H2FY14, quantum being lower than H1FY14	- With the current context of intense media pressure, Dabur is expected to maintain healthy Ad spends. However, considering its expansive product portfolio we expect Dabur to rationalise its market spends to realise healthy return on investment
	- Ad to sales ratio to be healthy and defines by market dynamics	
Our expectations		- We maintain our volume and pricing growth estimates at 10% YoY and 4% YoY respectively. We estimate Dabur to report double digit volume growth in H2FY14.
	- Maintain domestic business growth estimates at 14% YoY and 15% YoY respectively for FY14E and FY15E	
	- Gross margins to expand by 170 bps YoY and EBITDA margins to expand by 70 bps YoY respectively	- As Dabur is well placed to mitigate rising input cost pressures, we expect gross margins to expand by 100 bps YoY in H2FY14. We expect input cost savings to realise 70 bps expansion in EBITDA margins in H2FY14

INTERNATIONAL BUSINESS	SUMMARY	COMMENTS
Business Performance in Q2FY14	- Reported growth of 25.8% YoY, in constant currency terms growth is 13.8% YoY primarily led by volumes	- Volume growth robust at 10%+ YoY led by main geographies of MENA and Bangladesh - Namaste and Hobi have reported double digit growth in constant currency terms. Recovery in Namaste business growth is in line with expectations - Gross margin improvement in the international business is one of the primary drivers for the sharp 330 bps gross margin expansion reported by Dabur in the consolidated business
Our expectations	- Marginally increased organic IBD revenue growth estimates to 22% from the earlier 20% YoY in FY14, accounting for currency benefit - Maintain estimates for Namaste and Hobi business at 20% YoY respectively	- We expect organic IBD business to maintain traction in H2FY14 led by strong volume growth - We expect recovery in Namaste business to sustain benefited by low base effect.

Source: Company, PhillipCapital India Research

Raw Material Price Trend



Source: World Bank, Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Net sales	52,838	61,464	70,891	82,186
Growth, %	30	16	15	16
Other income	218	294	314	383
Total income	53,057	61,758	71,205	82,569
Raw material expenses	-26,922	-30,194	-33,688	-39,129
Other Operating expenses	-17,228	-21,270	-25,180	-28,401
EBITDA (Core)	8,906	10,295	12,338	15,039
Growth, %	11.3	15.6	19.8	21.9
Margin, %	16.9	16.7	17.4	18.3
Depreciation	-1,032	-1,124	-1,006	-1,023
EBIT	7,874	9,171	11,332	14,016
Growth, %	11.3	15.6	19.8	21.9
Margin, %	16.9	16.7	17.4	18.3
Interest paid	-538	-589	-685	-599
Other Non-Operating Income	574	945	1,131	1,339
Pre-tax profit	7,910	9,527	11,779	14,756
Tax provided	-1,464	-1,826	-2,336	-3,099
Profit after tax	6,446	7,700	9,443	11,657
Net Profit	6,454	7,651	9,443	11,657
Growth, %	13.5	19.3	22.6	23.4
Net Profit (adjusted)	6,454	7,700	9,443	11,657
Unadj. shares (m)	1,738	1,738	1,738	1,738
Wtd avg shares (m)	1,738	1,738	1,738	1,738

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Cash & bank	4,184	5,128	8,547	14,512
Debtors	4,617	4,841	5,206	5,598
Inventory	8,239	8,439	9,255	10,327
Loans & advances	3,458	5,893	6,482	6,893
Total current assets	20,498	24,301	29,489	37,330
Investments	4,825	6,319	6,319	6,319
Gross fixed assets	21,446	21,330	24,006	25,906
Less: Depreciation	-5,033	-5,510	-6,447	-7,470
Add: Capital WIP	268	926	926	926
Net fixed assets	16,680	16,745	18,485	19,362
Total assets	42,243	47,602	54,767	63,758
Current liabilities	13,355	13,060	14,397	16,231
Total current liabilities	13,355	13,060	14,397	16,231
Non-current liabilities	11,689	13,177	12,114	12,387
Total liabilities	25,044	26,237	26,511	28,618
Paid-up capital	1,742	1,743	1,743	1,743
Reserves & surplus	15,427	19,501	26,424	33,345
Shareholders' equity	17,200	21,364	28,256	35,140
Total equity & liabilities	42,243	47,601	54,767	63,758

Source: Company, PhillipCapital India Research Estimates

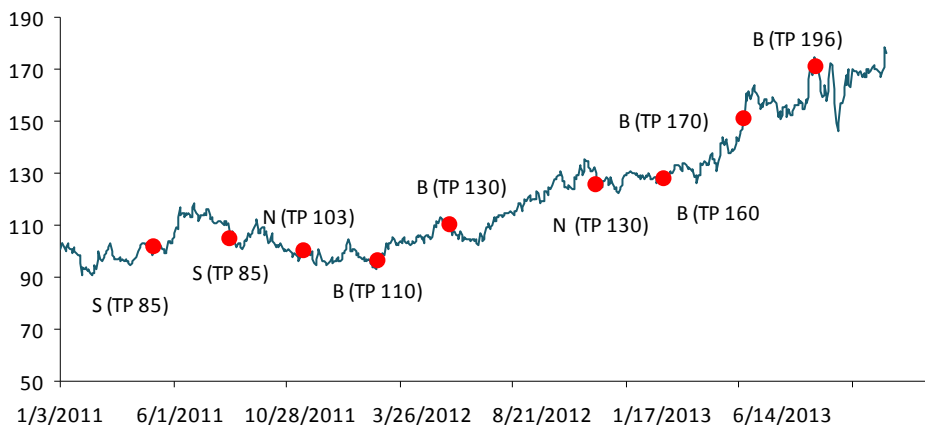
Cash Flow

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Pre-tax profit	7,910	9,527	11,779	14,756
Depreciation	1,032	1,124	1,006	1,023
Chg in working capital	-1,516	-3,076	-669	-43
Total tax paid	-1,490	-1,820	-2,336	-3,099
Other operating activities	-131	0	0	0
Cash flow from operating activities	5,805	5,755	9,780	12,638
Capital expenditure	-2,401	-1,189	-2,746	-1,900
Chg in investments	-629	-1,494	0	0
Cash flow from investing activities	-3,026	-2,683	-2,746	-1,900
Free cash flow	2,779	3,072	7,034	10,738
Equity raised/(repaid)	575	83	1,665	600
Debt raised/(repaid)	662	1,407	-1,063	0
Dividend (incl. tax)	-2,436	-2,840	-3,362	-4,205
Cash flow from financing activities	-1,201	-1,260	-2,790	-3,642
Net chg in cash	1,577	1,812	4,244	7,096

Valuation Ratios & Per Share Data

	FY12	FY13E	FY14E	FY15E
Per Share data				
EPS (INR)	3.7	4.4	5.4	6.7
Growth, %	13.5	19.3	22.6	23.4
Book NAV/share (INR)	9.9	12.2	16.2	20.2
FDEPS (INR)	3.7	4.4	5.4	6.7
CEPS (INR)	4.3	5.1	6.0	7.3
CFPS (INR)	3.1	2.8	5.1	6.7
DPS (INR)	1.2	1.4	1.7	2.2
Return ratios				
Return on assets (%)	16.8	18.0	19.3	20.3
Return on equity (%)	37.6	36.2	33.5	33.2
Return on capital employed (%)	25.7	25.5	26.4	27.4
Turnover ratios				
Asset turnover (x)	3.0	3.0	3.0	3.3
Sales/Total assets (x)	1.3	1.4	1.4	1.4
Sales/Net FA (x)	3.3	3.7	4.0	4.3
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Fixed capital/Sales (x)	0.8	0.7	0.6	0.5
Working capital days	20.4	36.3	33.7	29.3
Liquidity ratios				
Current ratio (x)	1.5	1.9	2.0	2.3
Quick ratio (x)	0.9	1.2	1.4	1.7
Interest cover (x)	14.6	15.6	16.6	23.4
Dividend cover (x)	3.1	3.2	3.2	3.1
Total debt/Equity (%)	65.1	59.2	40.9	32.8
Net debt/Equity (%)	40.7	35.1	10.5	(8.5)
Valuation				
PER (x)	47.4	39.7	32.4	26.2
Price/Book (x)	17.8	14.4	10.9	8.7
Yield (%)	0.7	0.8	1.0	1.2
EV/Net sales (x)	5.9	5.1	4.4	3.7
EV/EBITDA (x)	35.1	30.4	25.0	20.1
EV/EBIT (x)	35.1	30.4	25.0	20.1

Recommendation Chart



Source: PhillipCapital India Research

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