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NSE Code: DABUR

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Bloomberg Code: DABUR:IN

Dabur India Ltd (DIL) is a leading Indian consumer goods company with interests in Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. The company operates through its major strategic business units (SBU) - Consumer Care Business and International Business Division (IBD). DIL has around 17 ultra-modern manufacturing units spread around the globe and its products are marketed in more than 60 countries. It has a wide and deep market penetration with 50 C&F agents, more than 5000 distributors and over 3.4 mn retail outlets all over India.

Investor's Rationale

DIL is one of India's leading FMCG company having significant presence in the global market through its products across 60 countries. The company's overseas revenue accounts for over 30% of the total turnover.

The company witnessed 12.5% YoY increase in its consolidated net sales at ₹15,437 crore in Q4FY'13 backed by strong growth on domestic and international front. DIL's domestic FMCG business rose more than 15% YoY, driven by a volume growth of over 12% YoY, which reflects highest volume growth in 11 straight quarters. Further, international business also recorded a robust growth of 11.6% YoY.

DIL reported a strong growth on segmental front in Q4FY'13. Its health supplements business registered a growth of 22.6% YoY driven by robust growth in Dabur Glucose & Dabur Honey sales while the OTC Health Care business reported a 17% YoY growth. Moreover, its Perfumed Hair Oil business grew 13% backed by rise in Dabur Amla Hair Oil sales. While, shampoo business of the company grew by 29% YoY, Home Care business reported a 33% YoY growth. Toothpaste and foods category grew 16% and 23%, respectively.

The company is doing well on international front as the acquisitions of Hobi Group and Namaste Laboratories, LLC by the company, during FY'12, has given access to new and complimentary products, thereby increasing the growth potential for the company. Post-acquisition of these companies, DIL has performed reasonable well, which can be seen by the double digit growth in its revenue.

DIL is expanding its rural distribution network to grow ahead of the industry rate. Rural India accounts for 45-50% of DIL's domestic sales and is a very strong driver for growth for the company. DIL has undertaken Project Double aimed at doubling the direct distribution reach in rural markets, customize trade promotions and to provide focused servicing through a dedicated sales team in these markets. The efforts in increasing rural reach have resulted in greater penetration in rural availability across categories.

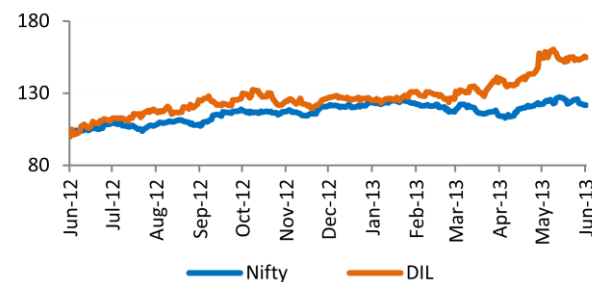
Market Data

Rating	BUY
CMP (₹)	157.1
Target (₹)	180
Potential Upside	~15.0%
Duration	Long Term
Face Value (₹)	1
52 week H/L (₹)	165.7/100.6
Adj. all time High (₹)	159.2
Decline from 52WH (%)	(5.2)
Rise from 52WL (%)	56.2
Beta	0.2
Mkt. Cap (₹ bn)	275.6
Enterprise Value (₹ bn)	274.2

Fiscal Year Ended

Y/E	FY12A	FY13A	FY14E	FY15E
Revenue (₹ bn)	53.1	61.8	72.2	8.4
EBITDA (₹ bn)	8.9	10.3	12.3	1.4
Net Profit (₹ bn)	6.4	7.6	9.2	10.7
Adj EPS (₹)	3.7	4.4	5.3	6.1
P/E (x)	42.4	35.9	29.8	25.6
P/BV (x)	15.9	12.9	10.1	8.4
EV/EBITDA (x)	31.1	26.6	22.2	18.9
ROCE (%)	29.4	33.2	34.9	36.0
ROE (%)	37.6	35.9	34.0	32.6

One year Price Chart



Shareholding Pattern

Shareholding Pattern	Mar'13	Dec'12	Diff.
Promoters	68.66	68.66	-
FII	20.24	19.60	0.64
DII	4.25	5.12	(0.87)
Others	6.85	6.62	0.23

DIL operates through two business units, namely Consumer Care Division (CCD) and International Business Division (IBD).

DIL has a total of 19 manufacturing units of which 12 are located in India while the rest are spread across various geographic regions.

India's largest Ayurvedic medicine manufacturer

Dabur India Ltd (DIL), India's largest Ayurvedic medicine manufacturer, was founded in 1885. The company operates in key consumer products categories including hair care, oral care, health care, skin care, home care and food. Its FMCG portfolio includes five flagship brands, namely, DIL as the master brand for natural healthcare products, Vatika for premium personal care, Hajmola for digestives, Real for fruit juices and beverages and Fem for fairness bleaches and skin care products.

The company operates through two business units, namely Consumer Care Division (CCD) and International Business Division (IBD). The CCD business is divided into four key portfolios: healthcare, personal care, home care and foods. The IBD business includes brands, such as DIL Amla and Vatika.

DIL has a wide distribution network, covering over 2.8 mn retail outlets with a high penetration in both urban and rural markets. Moreover, it has a total of 19 manufacturing units of which 12 are located in India while the rest are spread across various geographic regions. Internationally, DIL has its footprints in Dubai, Sharjah, Ras-al-Khaimah, Egypt, Nigeria, Nepal and Bangladesh. Their products have a huge presence in the overseas markets and are available in over 60 countries across the globe. Their brands are highly popular in the Middle East, SAARC countries, Africa, US, Europe and Russia. It was reported that DIL's international business grew by 17.1% YoY in FY'13.

For FY'13, DIL posted a robust growth driven by strong growth across key categories such as health supplements, hair care, food and home care. It was reported that net profit of the company increased by 18.37% YoY to ₹7,630 mn, while revenues were reported to be up by 16.3% YoY to ₹61,460 mn.

Presence in FMCG Categories

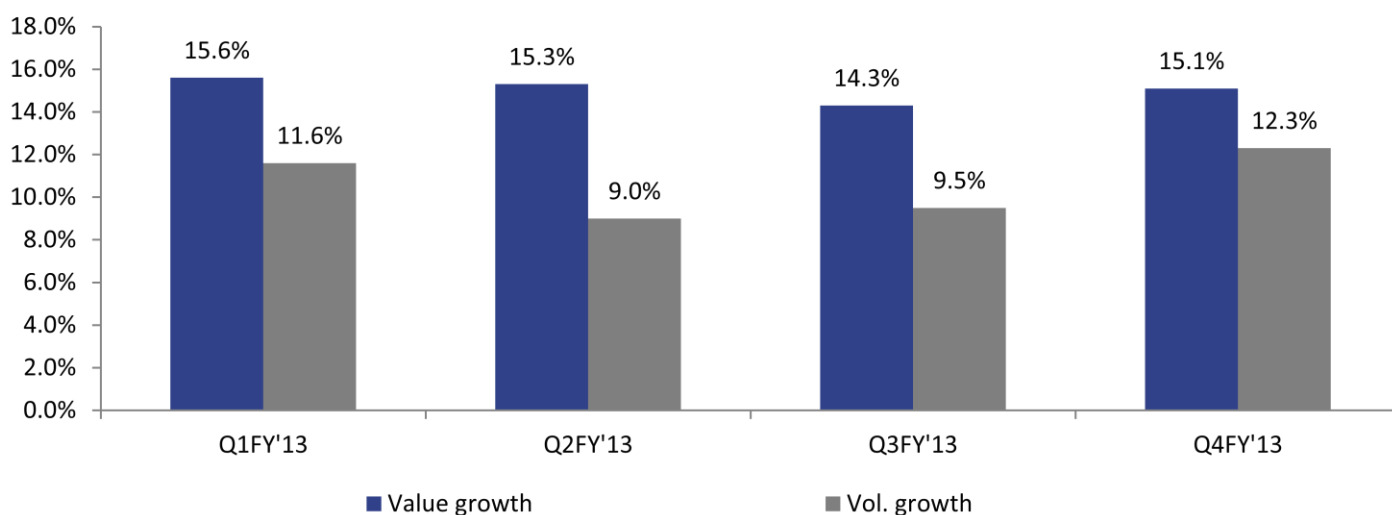
Category	Position	Market share	Key Brands
Hair Care	3	12%	Dabur Amla hair Oil, Vatika hair oil & Vatika Shampoos
Oral Care	3	13%	Red toothpaste, Babool, Meswak, Red toothpowder
Ayurvedic Tonics	1	67%	Dabur Chyawanprash
Digestives	1	56%	Hajmola
Fruit Juices	1	52%	Real Fruit Juices, Real Activ
Honey	1	50%	Dabur Honey
Glucose	2	25%	Dabur Glucose
Skin Care Bleaches)	1	50%	Fem

With the launch of Real Activ Drinking Yoghurt, DIL aim not only to expand the Real Activ brand but also give its consumers more choices to make their modern hectic lifestyle healthier.

Expansion across its various businesses

DIL has expanded its packaged food business by entering into the dairy segment by extending the Real brand of juices into yogurt drinks as it bets on the growth in the functional beverage space in India. The company has launched its new fruit juice-based drinking yoghurts under the Real Activ brand. Real Activ Drinking Yoghurt is a highly differentiated product as compared to the other flavored yoghurts available in the market as it is a mix of fruit juices and yoghurt and comes in a drinkable format. Unlike most other Yoghurt products available in the market, this product does not require cold storage facility. Dabur has been operating the 100% fruit juice market with its brand Real Activ range of fruit and vegetable juices with no added sugar & preservatives. Real has always been at the forefront of innovation. The company has pioneered the concept of packaged fruit juices in India and was also the first to introduce 100% fruit juices and fruit-vegetable juices. The company has expanded the category with India's first fruit fiber beverage Real Activ Fiber+. With the growing level of health awareness in India, there has been a spurt in demand for healthy functional foods. With the launch of Real Activ Drinking Yoghurt, DIL aims to not only expand the Real Activ brand but also give its consumers more choices to make their modern hectic lifestyle healthier. Moreover, DIL has expanded its oral care portfolio with the launch of Dabur Super Babool+Salt Power Toothpaste, which will also help it in generating more revenues.

Domestic FMCG Sales Value and Volume Growth Rate YoY (in %)



The company witnessed a 12.5% YOY rise in revenue, in Q4FY'13.

Moderate growth in Q4FY'13 led higher revenue from international and domestic businesses

DIL reported 12.5% YoY growth in its Q4FY'13 consolidated net sales at ₹15,437 mn, supported by healthy growth across domestic and international business segments. DIL's domestic FMCG business reported an over 15% YoY growth during the quarter, driven by a volume growth of over 12% YoY, which reflects highest volume growth in 11 straight quarters. The company's international business also emerged as a key growth driver, recording a robust 11.6% YoY growth.

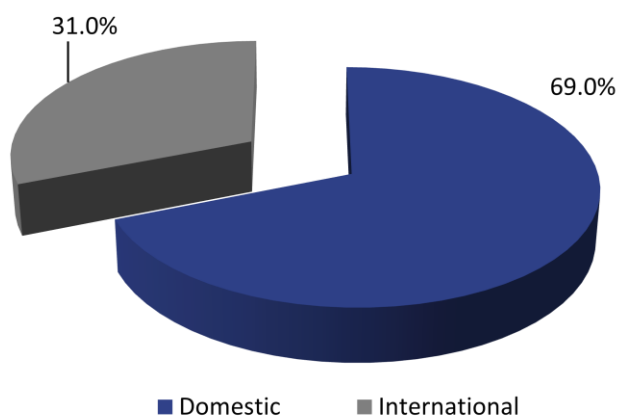
Operational efficiency supported net profitability growth: DIL's OPM increased by 80 bps to 17.7% due to fall in raw material cost by 430 bps to 39.83% and advertisement & publicity by

OPM increased by 80 bps to 17.7% due to fall in raw material cost by 430 bps to 39.83% and advertisement & publicity by 101 bps to 12.0% of adjusted net sales.

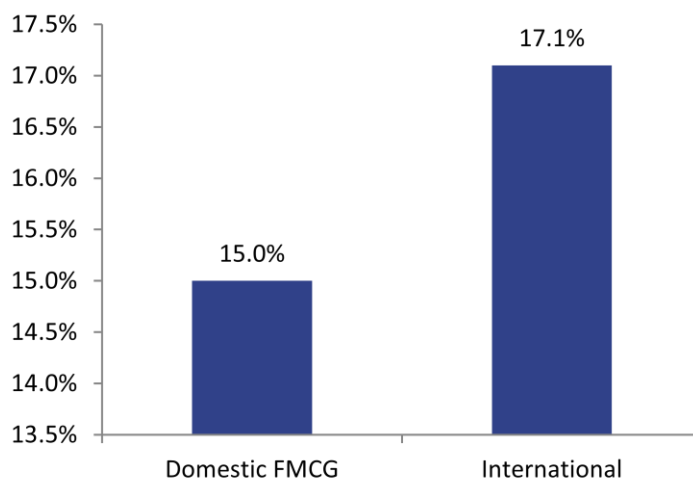
101 bps to 12.0% of adjusted net sales. However, there was rise in purchase of stock in trade by 310 bps to 9.6% of adjusted net sales. As a result, the operating profit has increased by 18% to ₹2,728 mn. Other income inclined by 102% to ₹229 mn. Interest outgo inclined by 162% to ₹149 mn followed by rise in tax expenses by 34% to ₹507 mn. After considering minority interest, the net profit jumped by 18% to ₹2,006 mn.

Robust growth across segments: DIL's Health Supplements business grew 22.6% YoY during Q4FY'13, led by strong growth in Dabur Glucose & Dabur Honey while the OTC Health Care business reported a 17% YoY growth. Perfumed Hair Oil business grew by 13% YoY, while the Shampoo business grew by 29% YoY. The Home Care business reported a 33% YoY growth while the Toothpaste category closed the quarter with a 16% YoY growth. The Foods category riding on continued demand for its packaged juice reported a 23% YoY growth.

Sales Contribution in FY'13 (in %)



Domestic and International Sales Growth Rates



Note: International includes Namaste and Hobi

International business grew 11.6% and 17.1% in Q4FY'13 and in FY'13, respectively.

International business growing at a healthy rate

The company's international business continued its strong growth trajectory by posting 11.6% and 17.1% growth in Q4FY'13 and FY'13 respectively. Organic business performed well growing by 19.7% in Q4FY'13. Acquisitions of Hobi Group and Namaste Laboratories, LLC by the company, during FY'12, has given it access to new and complimentary products, thereby increased the growth potential for the company. With the acquisition of Hobi Group, DIL has extended its presence to Turkey. As part of the strategy to derive synergy benefits from Hobi with its existing international business, DIL has launched products out of the Hobi range in the Middle East and North African geographies and used their expertise in hair gels to launch Vatika Styling Hair Gels in some of these markets. Hobi business performed well driven by continued investment behind brands. Fem brand introduced in turkey to leverage Hobi's distribution network. Besides, post-acquisition of the US based Namaste Laboratories, LLC the company has posted notable performance by recording double digit growth in its revenue FY'12.

Currently, more than 65% of the company's revenue base comes from the Gulf Cooperation Council (GCC), Egypt, Yemen, Jordan, Syria, Lebanon, Morocco, Algeria, Libya, Sudan and Iraq.

The opening of new facility in Sri Lanka would mark a new mile stone as this would be the company's largest overseas venture to date.

Targets 20% turnover in Middle East

In a move to strengthen its footprints in the global market, DIL has expanded its portfolio in the Middle East region. The company has plans to launch new face care range, natural hair colour creme and an innovative deodorant range for teenagers in the region later in the current year. Currently, more than 65% of the company's revenue base comes from the Gulf Cooperation Council (GCC), Egypt, Yemen, Jordan, Syria, Lebanon, Morocco, Algeria, Libya, Sudan and Iraq.

Moreover, DIL is planning to set up manufacturing facilities in North Africa in order to cater to Maghreb countries. Its international's business division contributes to around a third of its total turnover. Within the international business, Middle East and North Africa (MENA) account for 40% of its business. Therefore, the MENA region is a very important revenue generator for the company. DIL has said that the company's average growth has been in the range of 18 to 20% in the region, in the last two years or so and is expected to be on similar lines.

Largest foreign investment in Sri Lanka

DIL has invested \$16 mn on a manufacturing facility for packaged fruit-based beverage in Sri Lanka recently. The opening of this new facility would mark a new mile stone as this would be the company's largest overseas venture to date. The new facility, located in Mirigama, Gampaha, has a total capacity to produce 280,000 cases of fruit-based beverages every month. The new plant, Dabur Lanka was initiated after signing an agreement with the Board of Investment of Sri Lanka (BOI) in September, 2011 and the main objective of the facility is to produce fruit juice for their signature brand "Real" for exporting to South India and other countries. The company expects high growth to continue as the new facility will augment the production capacity for fruit-based beverages and will meet the growing demand for its products.

DIL's three pronged growth strategy



Expand

- Strengthening presence in existing categories and markets as well entering new geographies
- Maintain dominant share in categories where the company is category builders and expand market shares in other categories
- Calibrated international expansion – local manufacturing and supply chain to enhance flexibility / reduce response time to change in market demands

Innovate

- Strong focus on innovation. Have rolled out new variants & products which have contributed to around 5-6% of growth p.a.
- Renovation of existing products to respond to changing demands (Toothpowder to Toothpaste)

Acquire

- Acquisitions critical for building scale in existing categories & markets
- Should be synergistic and make a good strategic fit
- Target opportunities in the focus markets

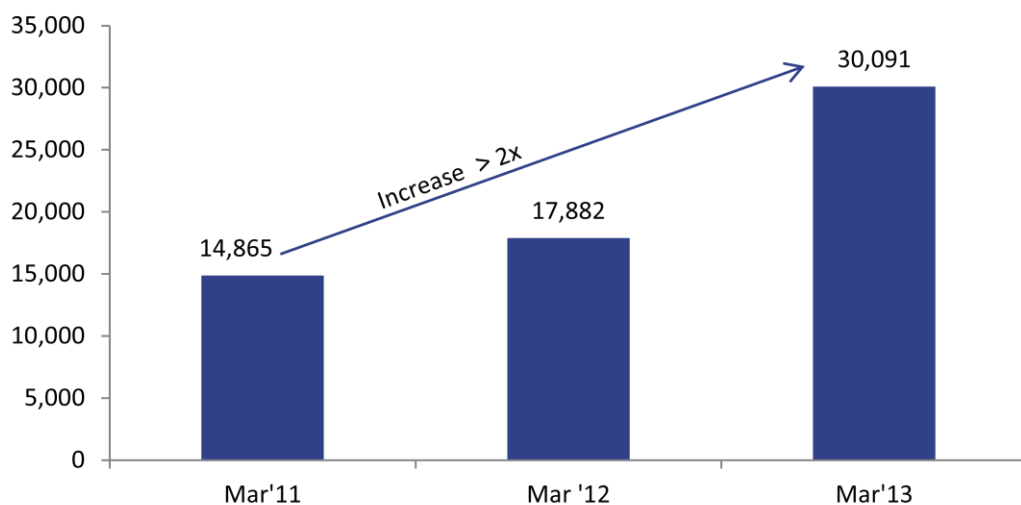
Rural India accounts for 45 to 50% of DIL's domestic sales and is a very strong driver for growth for the company.

Direct coverage increased from 14,865 villages in March 2011 to 30,091 villages in March 2013.

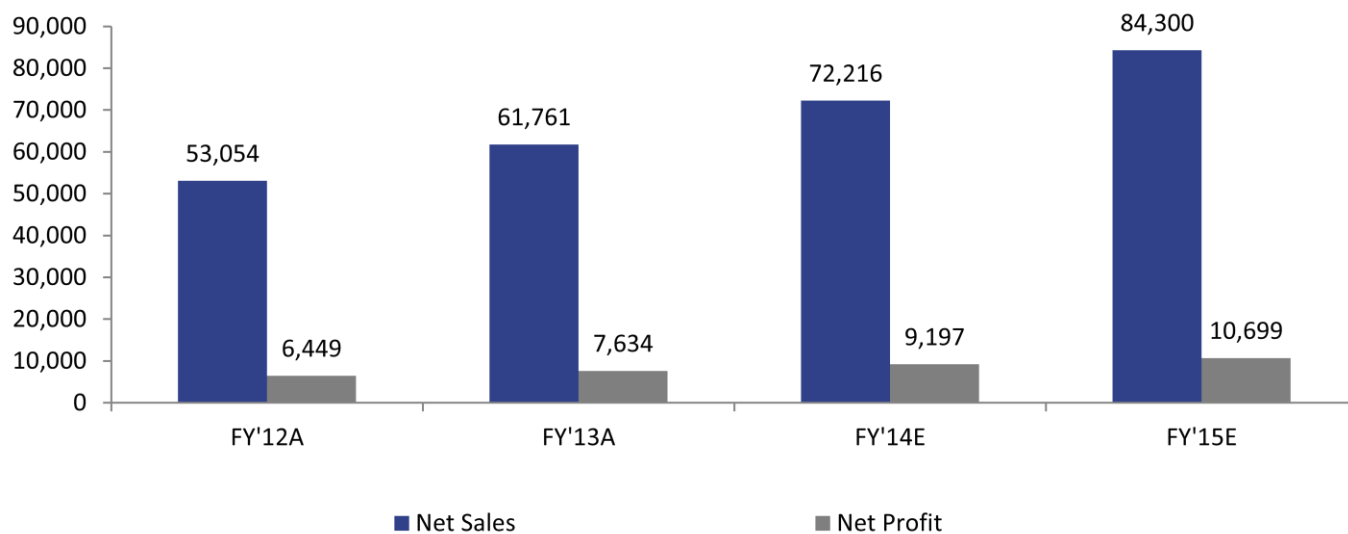
Sharpening focus on rural distribution – a strong driver for growth

During FY'12, the company has taken a major initiative, Project Double, to significantly increase the rural reach of its brands. Rural India accounts for 45 to 50% of DIL's domestic sales and is a very strong driver for growth for the company. Under the project, comprehensive benchmarking was done on rural coverage across 10 key states: Uttar Pradesh, Punjab, Rajasthan, Bihar, West Bengal, Assam, Orissa, Maharashtra, Madhya Pradesh and Karnataka, which contribute to around 72% of the rural FMCG potential. The project was aimed at doubling the direct distribution reach in rural markets, customize trade promotions and provide focused servicing through a dedicated sales team in these markets. The efforts in increasing rural reach have resulted in greater penetration in rural availability across categories. Following the success of this pilot initiative, the project is now being rolled out across all 10 states. Dabur will continue its rural thrust in the new fiscal too with greater investments being planned for the same.

Direct Village Coverage



Witnessed improved performance YoY (in ₹mn)



Balance Sheet (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Share Capital	1742	1,743	1,743	1,743
Reserve and surplus	15,430	19,501	25,323	31,043
Net Worth	17,172	21,244	27,065	32,786
Minority Interest	30	121	121	121
Long-term borrowings	7,272	5,399	3,780	2,646
Deferred tax liabilities	274	362	362	362
Other long-term liabilities	-	1	1	1
Long-term provisions	2,057	492	344	241
Capital Employed	26,805	27,619	31,673	36,157
Goodwill	7,827	6,214	6,214	6,214
Fixed assets	8,854	10,531	12,521	15,025
Long-term loans and advances	258	158	142	128
Non-current investments	893	1,305	1,566	1,879
Other non-current assets	1,019	3,127	5,574	6,689
Net Current Asset	7,954	6,284	5,656	6,222
Capital Deployed	26,805	27,619	31,673	36,157

Key Ratios (Consolidated)

Y/E	FY12A	FY13A	FY14E	FY15E
EBITDA Margin (%)	16.8	16.8	17.1	17.1
EBIT Margin (%)	14.9	14.9	15.4	15.5
NPM (%)	12.2	12.5	12.8	12.7
ROCE (%)	29.4	33.2	34.9	36.0
ROE (%)	37.6	35.9	34.0	32.6
Adj EPS (₹)	3.7	4.4	5.3	6.1
P/E (x)	42.4	35.9	29.8	25.6
BVPS (₹)	9.9	12.2	15.5	18.8
P/BVPS (x)	15.9	12.9	10.1	8.4
EV/Operating Income (x)	5.2	4.5	3.8	3.2
EV/EBITDA (x)	31.1	26.6	22.2	18.9
EV/EBIT (x)	35.2	29.9	24.6	20.9

Profit & Loss Account (Consolidated)

Y/E (₹mn)	FY12A	FY13A	FY14E	FY15E
Revenue	53,054	61,761	72,216	8,4300
Operating Expenses	44,153	51,463	59,939	69969
EBITDA	8,901	10,298	12,277	1,4331
Depreciation	1,032	1,124	1,214	1323
EBIT	7,869	9,174	11,063	13,008
Other Income	574	945	945	945
Interest	538	589	654	745
Exceptional Items	-	(47)	-	-
PBT	7,905	9,483	11,354	13,208
Tax	1,464	1,826	2,157	2,509
Extraordinary Items	-	1	-	-
Minority Interest	(8)	24	-	-
Net Profit	6,449	7,634	9,197	10,699
<i>NPM (%)</i>	<i>12.2</i>	<i>12.4</i>	<i>12.7</i>	<i>12.7</i>

Valuation and view

DIL has a unique mix of seven diverse growth engines in the FMCG space, which have a potential of delivering strong revenue growth. Its international business is expected to record 15% YoY growth in FY'14 led by Hobi and Namaste business. With the completion of business restructuring at Namaste, the management expects it to record ~15% (YoY) growth in FY'14 against 10% decline in FY'13. DIL is also likely to benefit from stable input prices and lower advertisement spending in FY'14. The management expects ~100-150bps expansion in gross margins in the next fiscal.

At a current market price (CMP) of ₹157.1, the stock trades at 29.8x FY14E and of 25.6x FY15E, earnings. We recommend 'BUY' with a target price of ₹180, which implies potential upside of 15.0% to the CMP from 1 year perspective..



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