

<b>INDUSTRY</b>	<b>FMCG</b>		
<b>CMP (as on 12 Dec 2013)</b>	<b>Rs 168</b>		
<b>Target Price</b>	<b>Rs 192</b>		
Nifty	6,237		
Sensex	20,926		
<b>KEY STOCK DATA</b>			
Bloomberg/Reuters	DABUR IN/DABU.BO		
No. of Shares (mn)	1,744		
MCap (Rs bn)/(US\$ mn)	293/4,742		
6m avg traded value (Rs mn)	298		
<b>STOCK PERFORMANCE (%)</b>			
<b>52 Week high / low</b>	<b>Rs 185/123</b>		
	<b>3M</b>	<b>6M</b>	<b>12M</b>
Absolute (%)	(1.1)	9.4	29.6
Relative (%)	(6.9)	(0.5)	21.5
<b>SHAREHOLDING PATTERN (%)</b>			
Promoters	68.63		
FIs & Local MFs	3.96		
FIIIs	20.71		
Public & Others	6.70		
Source : BSE			

## Bargain hunting

**Notwithstanding consistent performance and sector beating volume growth, Dabur has corrected ~10% in the two months post 2QFY14 results. There is a perceptible sector churn away from FMCG given high valuations and rising hope in select cyclicals.**

**The key growth driver for Dabur's domestic business is rural India (47% of domestic revenues). Dabur will continue to benefit from increased direct rural reach which more than doubled in the last two years. We remain confident of Dabur's ability to achieve 9-10% volume growth owing to (1) a good monsoon, (2) elections in May-14, (3) strong product pipeline.**

**Price hikes and a benign cost environment will help expand margins in forthcoming quarters. Also, Dabur is well set for growth in its global businesses.**

**Dabur is poised to deliver healthy volume growth over the next two years. The current correction offers an opportunity to invest in a differentiated category bouquet targeting a broad range of income and cultural profiles spanning both rural and urban India. We rollover our estimates to FY16 and assign a multiple of 26x (inline with Dabur's 3 year avg multiple) to arrive at a TP of Rs 192. Upgrade to BUY.**

### **Growth concern overemphasized**

- Despite challenging macro environment and cautious stance adopted by management since 4QFY13, Dabur has delivered resilient volume growth (4QFY13 : 12%; 1QFY14 : 9%; 2QFY14 : 10.7%). Furthermore, volume growth of 10.7% YoY outpaces peers (HUL 5%, Emami 6%, Colgate 10%).

- Elevated rural focus backed by differentiated, non-premium and diversified product portfolio augurs well to tackle the current urban led slowdown. We remain confident of Dabur's ability to achieve 9-10% volume growth owing to (1) a good monsoon, (2) elections in May-14 and (3) strong product pipeline. **Mgmt has indicated an 8-10% volume growth in 2HFY14.**
- Despite slowdown in urban markets, Real delivered 22% YoY growth in 2QFY14. Also, commencement of fruit juice manufacturing facility in Sri Lanka in 1QFY14 would aid in increasing Real juice penetration in South India (contribution is relatively less than rest of India).
- Post the recalibration of ORS brand, gradual expansion of Namaste products in Africa will benefit international business in FY14E. Bangladesh and Hobby (Turkey) provides further growth opportunities. We expect it to grow by 13-15% in constant currency term.

### **Valuations and view**

- As we roll forward to FY16E, we raise our TP to Rs 192 (26x FY16E) from Rs 182. Upgrade to BUY.

### **FINANCIAL SUMMARY**

Particulars (Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Net Sales	53,054	61,761	70,110	80,661	93,194
Growth (%)	29.3	16.4	13.5	15.0	15.5
EBIDTA	8,902	10,298	12,178	14,250	16,649
EBIDTA margin (%)	16.8	16.7	17.4	17.7	17.9
APAT	6,449	7,680	9,204	10,928	12,939
EPS (Rs.)	3.68	4.38	5.25	6.24	7.38
P/E (x)	45.6	38.3	32.0	26.9	22.7
EV/EBITDA	33.1	28.5	23.8	20.0	16.7
RoE (%)	41.5	40.0	38.3	36.4	34.8

Source : Company, HDFC sec Inst Research

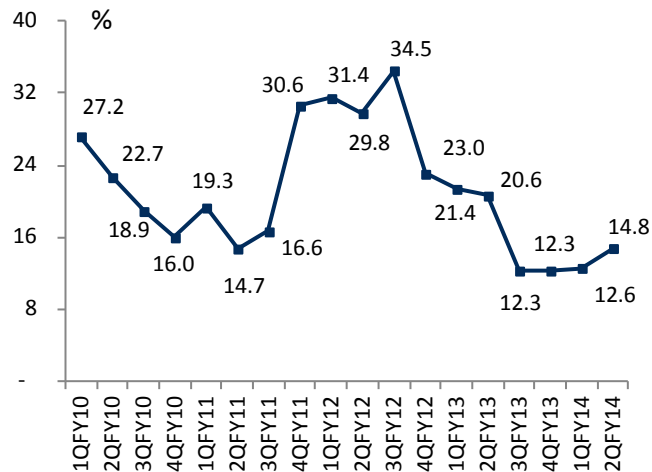
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**We expect domestic FMCG business to deliver 14% CAGR over the next three years**

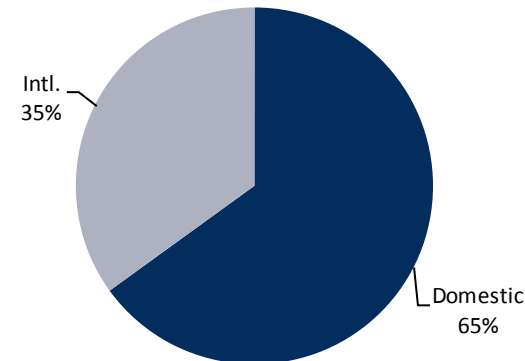
**We expect the international business to grow by 13-15% in constant currency term. Current rupee depreciation to further bolster growth in near term**

**Revenue growth trend**



Source: Company, HDFC sec Inst Research

**Domestic v/s international**



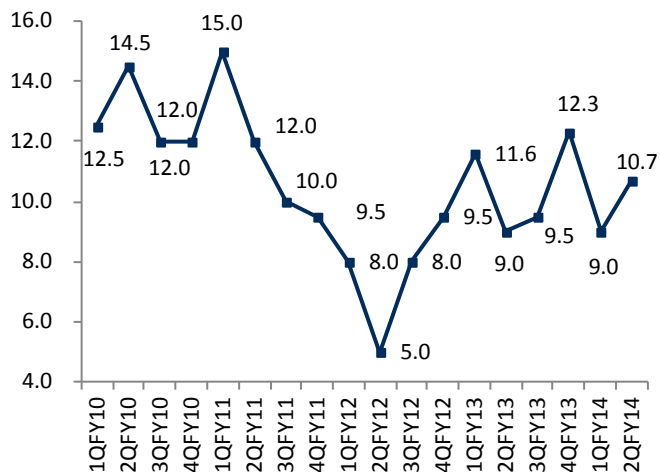
Source: Company, HDFC sec Inst Research

**Management retains domestic volume growth guidance of 8-10% in 2HFY14**

**Post 2QFY14, Dabur has undertaken price hikes in amla hair oil (3-5%) and honey (3-4%)**

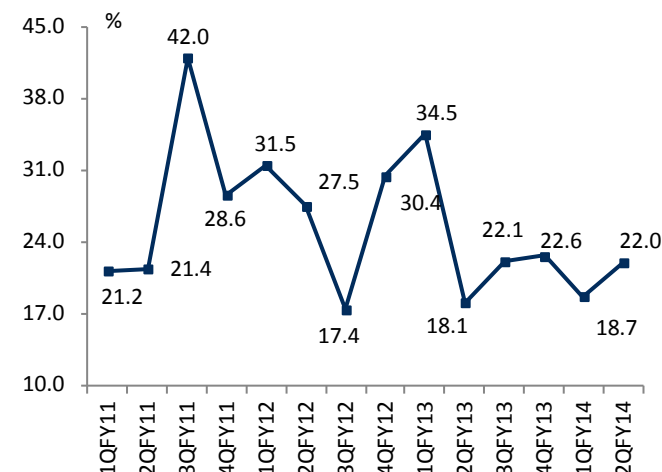
**Food business (fruit juice), despite being primarily urban product, witnessed strong 22% growth in 2QFY14**

**Domestic volume growth**



Source: Company, HDFC sec Inst Research

**Food consistent performer**



Source: Company, HDFC sec Inst Research

**Around 17% MRP reduction effected in Vatika and higher copra prices to bolster volumes in coconut hair oil**

**High margin Red Toothpaste and Meswak remains least impacted by the entry of P&G because of its differentiated positioning**

**Dabur has recently launched newer products in various categories – hair care, chawanprash, new juices and men’s bleach**

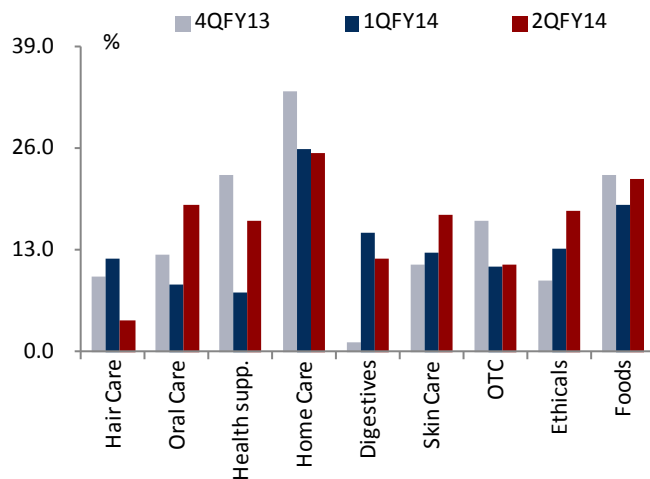
**We are enthused by its entry into milk shakes and packaged coconut water**

**Dabur’s constant focus on volume growth evident from sustained high ad spends**

**Price hike and benign cost environment will aid margins in forthcoming quarters**

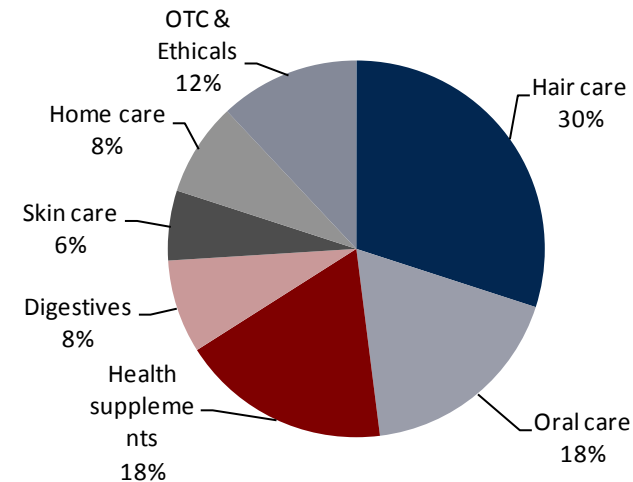
**We expect 70bps margin expansion in FY14E**

**Category-wise growth**

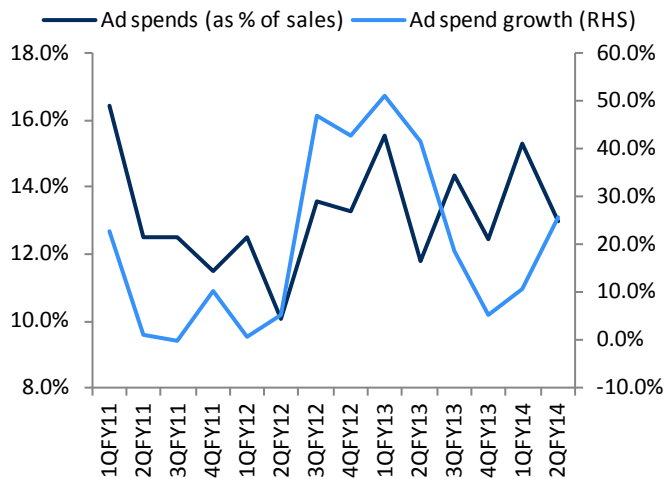


Source: Company, HDFC sec Inst Research

**Consumer care: category contribution in 1HFY14**

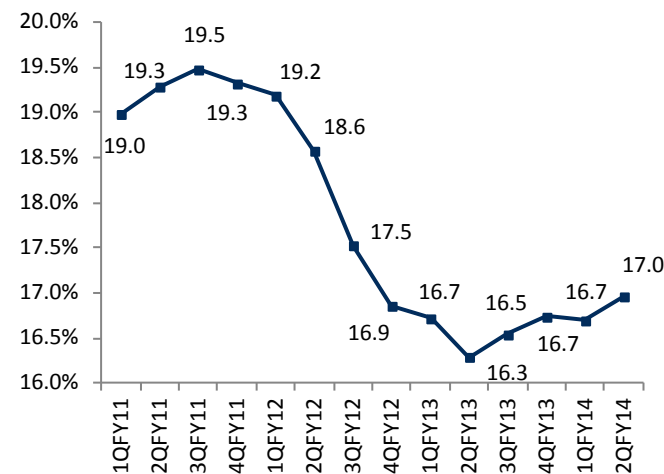


**Ad spends**



Source: Company, HDFC sec Inst Research

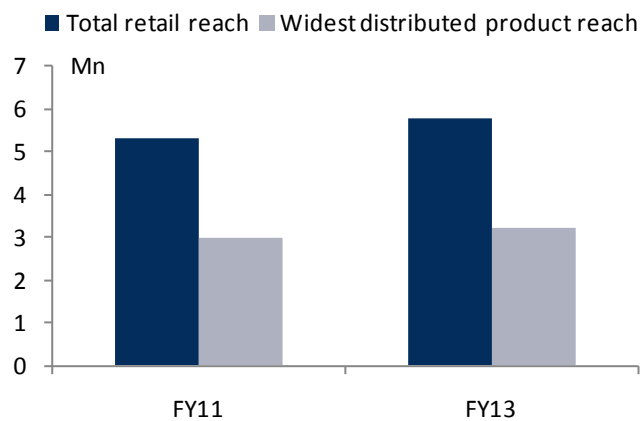
**EBITDA margin (4 qtr moving avg)**



Source: Company, HDFC sec Inst Research

**Dabur has 5.8 mn retail outlet reach in India (widest distributed product for Dabur reaches 3.2mn outlets)**

**Jump in distribution**



Source: Company, HDFC sec Inst Research

**DIVERSIFIED PORTFOLIO; DOMINANT MARKET SHARE**

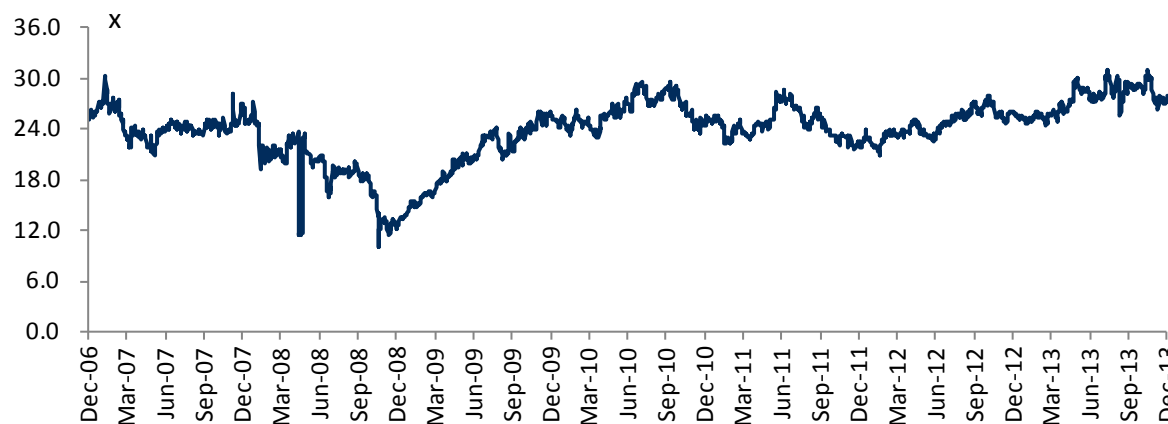
Category	Position	Market Share	Key brands
Hair Care	3	12%	Dabur Amla hair oil, Vatika Hair oil & Vatika Shampoos
Oral Care	3	13%	Red toothpaste, Babool, Meswak, red Toothpowder
Ayurvedic Tonics	1	67%	Dabur Chyawanprash
Digestives	1	56%	Hajmola
Fruit Juices	1	52%	Real Fruit Juices, Real Active
Honey	1	50%	Dabur Honey
Glucose	2	25%	Dabur Glucose
Skin Care (Bleaches)	1	50%	Fem
Air Freshners	1	40%	Odonil

Source: Company, HDFC sec Inst Research

**Taking cognizance of sector rotation away from FMCG, we value Dabur at 26x FY16 as against multiple of 28x (earlier est)**

**Our TP of Rs 192 is based on one year forward P/E multiple of 26x (inline with Dabur's 3 year average valuation multiple)**

**Dabur's one-year forward price band**



Source: Company, HDFC sec Inst Research

**ASSUMPTIONS**

Company Assumptions	FY12	FY13	FY14E	FY15E	FY16E
<b>SBU-wise Revenue growth (YoY %)</b>					
<b>Consumer Care</b>	11.3	13.3	11.6	13.2	13.1
Hair Care (Hair Oil + Shampoo)	14.5	13.3	8.1	12.1	11.0
Home Care	6.9	32.2	24.0	22.0	20.0
Skin Care	6.9	13.3	13.0	15.0	15.0
Oral Care	6.9	13.3	12.0	8.0	10.0
Health supplements	12.2	13.3	12.0	15.0	15.0
Digestives	6.9	(0.9)	12.0	10.0	10.0
OTC & Ethicals	16.1	13.3	11.0	15.0	15.0
<b>Foods</b>	28.5	24.5	18.0	22.0	20.0
<b>International Business</b>	80.9	17.2	15.5	15.8	18.0
COGS as % of sales	50.7	48.9	47.9	48.3	48.4
A&P as % of sales	12.4	13.6	13.4	13.2	13.0
EBITDA Margin	16.8	16.7	17.4	17.7	17.9

Source: Company, HDFC sec Inst Research

**PEER VALUATIONS**

Company	CMP (Rs)	Mcap (Rs bn)	Diluted EPS (Rs)			P/E (x)			EV/EBITDA(x)			ROE (%)		
			FY13	FY14E	FY15E	FY13	FY14E	FY15E	FY13	FY14E	FY15	FY13	FY14E	FY15E
Asian Paints	498	526	11.6	13.4	16.4	42.9	37.2	30.3	27.1	22.6	18.4	36.3	34.4	35.1
Berger Paints	229	81	6.3	7.2	8.8	36.4	31.7	25.9	22.2	19.1	15.6	25.1	24.3	25.2
Colgate	1,270	169	36.5	36.8	43.3	34.8	34.5	29.3	25.6	25.1	21.0	107.4	93.5	93.7
<b>Dabur</b>	<b>168</b>	<b>302</b>	<b>4.4</b>	<b>5.3</b>	<b>6.2</b>	<b>38.3</b>	<b>32.0</b>	<b>26.9</b>	<b>28.5</b>	<b>23.8</b>	<b>20.0</b>	<b>40.0</b>	<b>38.3</b>	<b>36.4</b>
Emami	467	114	14.1	17.3	20.2	33.1	27.0	23.1	29.6	22.7	19.0	43.2	46.6	46.0
Godrej Consumer	834	282	19.6	22.7	28.5	42.5	36.7	29.2	30.5	25.4	20.3	20.2	19.9	21.8
Hindustan Unilever	563	1,289	14.9	16.8	18.7	37.8	33.5	30.1	28.0	25.0	21.5	98.5	107.2	90.3
ITC	317	2,538	9.6	11.2	13.3	33.1	28.3	23.8	21.7	18.4	15.5	36.6	37.3	40.1
Marico	210	134	5.6	6.9	8.1	37.3	30.2	25.9	22.4	19.7	16.1	23.2	25.4	29.7
Nestle*	5,000	553	110.8	119.8	137.8	45.1	41.7	36.3	26.2	22.8	19.9	69.5	56.6	51.9
Pidilite	295	147	8.3	9.9	12.1	35.6	29.8	24.3	24.5	19.7	16.1	28.4	27.7	28.4

Source: Company, HDFC sec Inst Research \* Dec end (FY15 represents CY14)

**INCOME STATEMENT**

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>Net Sales</b>	<b>53,054</b>	<b>61,761</b>	<b>70,110</b>	<b>80,661</b>	<b>93,194</b>
<b>Growth (%)</b>	<b>29.3</b>	<b>16.4</b>	<b>13.5</b>	<b>15.0</b>	<b>15.5</b>
Material Expenses	26,924	30,193	33,583	38,919	45,106
Employee Expenses	3,874	4,712	5,512	6,221	7,141
A&P Expenses	6,595	8,370	9,419	10,635	12,149
Other Operating Expenses	6,759	8,188	9,419	10,635	12,149
<b>EBIDTA</b>	<b>8,902</b>	<b>10,298</b>	<b>12,178</b>	<b>14,250</b>	<b>16,649</b>
<b>EBIDTA (%)</b>	<b>16.8</b>	<b>16.7</b>	<b>17.4</b>	<b>17.7</b>	<b>17.9</b>
<b>EBIDTA Growth (%)</b>	<b>11.3</b>	<b>15.7</b>	<b>18.3</b>	<b>17.0</b>	<b>16.8</b>
Other Income	574	945	1,202	1,405	1,659
Depreciation	1,032	1,124	1,170	1,250	1,329
EBIT	8,443	10,119	12,210	14,406	16,979
Interest	538	589	597	574	550
PBT	7,905	9,530	11,613	13,832	16,429
Tax	1,464	1,826	2,381	2,870	3,450
Minority Interest	8	(24)	(28)	(34)	(40)
Core PAT	6,449	7,680	9,204	10,928	12,939
Core PAT Growth (%)	13.4	19.1	19.8	18.7	18.4
EO items (net of tax)	-	(45.8)	-	-	-
<b>RPAT</b>	<b>6,449</b>	<b>7,634</b>	<b>9,204</b>	<b>10,928</b>	<b>12,939</b>
<b>RPAT Growth (%)</b>	<b>13.4</b>	<b>18.4</b>	<b>20.6</b>	<b>18.7</b>	<b>18.4</b>
<b>EPS</b>	<b>3.68</b>	<b>4.38</b>	<b>5.25</b>	<b>6.24</b>	<b>7.38</b>
<b>EPS Growth (%)</b>	<b>13.2</b>	<b>19.1</b>	<b>19.8</b>	<b>18.7</b>	<b>18.4</b>

Source : Company, HDFC sec Inst Research

**BALANCE SHEET**

(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
<b>SOURCES OF FUNDS</b>					
Share Capital	1,742	1,743	1,743	1,743	1,743
Reserves	15,430	19,501	25,028	31,590	39,359
<b>Total Shareholders Funds</b>	<b>17,172</b>	<b>21,244</b>	<b>26,770</b>	<b>33,333</b>	<b>41,102</b>
Minority Interest	30	121	149	183	223
Long Term Debt	7,272	5,399	5,434	5,209	4,759
Short Term Debt	3,901	7,177	6,642	6,367	5,817
<b>Total Debt</b>	<b>11,172</b>	<b>12,577</b>	<b>12,077</b>	<b>11,577</b>	<b>10,577</b>
Deferred Taxes	274	362	362	362	362
Long Term Provisions	2,057	492	492	492	492
<b>TOTAL SOURCES OF FUNDS</b>	<b>30,705</b>	<b>34,795</b>	<b>39,850</b>	<b>45,946</b>	<b>52,755</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	16,412	15,819	16,149	16,399	16,570
CWIP	268	926	300	300	300
Investments	4,825	6,319	6,319	6,319	6,319
LT Loans & Advances	258	158	158	158	158
Inventories	8,239	8,439	9,446	10,846	12,506
Trade Receivables	4,617	4,841	5,349	6,132	7,059
Cash & Equivalents	4,184	5,128	8,470	13,201	18,523
ST Loans & Advances	1,858	2,015	2,015	2,015	2,015
Other Current Assets	1,341	3,720	3,720	3,720	3,720
<b>Current Assets</b>	<b>20,240</b>	<b>24,143</b>	<b>29,001</b>	<b>35,914</b>	<b>43,824</b>
Trade Payables	4,768	7,443	6,950	8,017	9,289
Other Current Liabilities & Provisions	6,530	5,126	5,126	5,126	5,126
<b>Current Liabilities</b>	<b>11,298</b>	<b>12,569</b>	<b>12,076</b>	<b>13,144</b>	<b>14,415</b>
<b>Net current Assets</b>	<b>8,942</b>	<b>11,574</b>	<b>16,925</b>	<b>22,770</b>	<b>29,409</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>30,705</b>	<b>34,795</b>	<b>39,850</b>	<b>45,946</b>	<b>52,755</b>

Source : Company, HDFC sec Inst Research

**CASH FLOW STATEMENT**

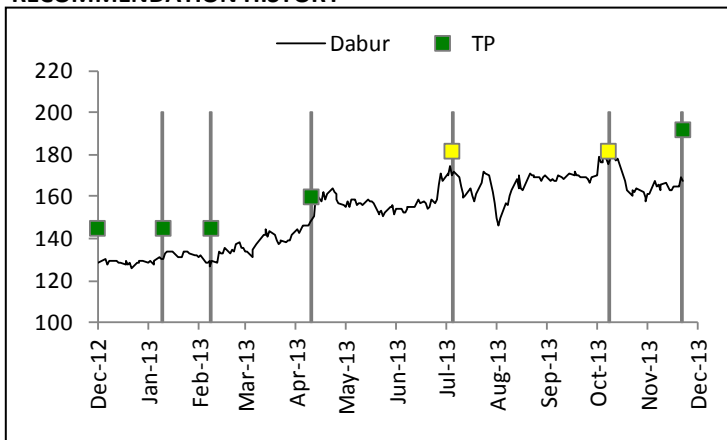
(Rs mn)	FY12	FY13	FY14E	FY15E	FY16E
Reported PAT	6,441	7,658	9,232	10,962	12,979
Non-operating & EO items	468	764	956	1,113	1,311
PAT from Operations	5,973	6,894	8,277	9,848	11,668
Interest, Dep & Others	(50)	(263.4)	1,768	1,823	1,879
Working Capital Change	(761)	859	(2,009)	(1,115)	(1,316)
<b>OPERATING CASH FLOW ( a )</b>	<b>5,163</b>	<b>7,490</b>	<b>8,035</b>	<b>10,557</b>	<b>12,231</b>
Capex	(2,242)	(2,238)	(874)	(1,500)	(1,500)
Free Cash Flow	2,921	5,252	7,161	9,057	10,731
Non-operating income	468	764	956	1,113	1,311
Investments & Others	(363)	(3,173)	-	-	-
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,137)</b>	<b>(4,647)</b>	<b>81</b>	<b>(387)</b>	<b>(189)</b>
Debt Issuance & Others	727	831	(500)	(500)	(1,000)
Interest	(287)	(341)	(597)	(574)	(550)
Dividend	(2,086)	(2,434)	(3,677)	(4,366)	(5,169)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1,646)</b>	<b>(1,944)</b>	<b>(4,774)</b>	<b>(5,440)</b>	<b>(6,719)</b>
Fx effect	-	-	-	-	-
EO items	-	46	-	-	-
<b>NET CASH FLOW (a+b+c)</b>	<b>1,380</b>	<b>944</b>	<b>3,342</b>	<b>4,731</b>	<b>5,322</b>
Closing Cash	4,184	5,128	8,470	13,201	18,523

Source : Company, HDFC sec Inst Research

**KEY RATIOS**

	FY12	FY13	FY14E	FY15E	FY16E
<b>PROFITABILITY (%)</b>					
GPM	49.3	51.1	52.1	51.8	51.6
EBITDA Margin	16.8	16.7	17.4	17.7	17.9
EBIT Margin	14.8	14.9	15.7	16.1	16.4
APAT Margin	12.2	12.4	13.1	13.5	13.9
RoE	41.5	40.0	38.3	36.4	34.8
Core RoCE	24.6	27.2	28.1	28.1	28.0
RoCE	22.5	24.9	25.9	26.5	27.1
<b>EFFICIENCY</b>					
Tax Rate (%)	18.5	19.2	20.5	20.8	21.0
Asset Turnover (x)	1.7	1.9	1.9	1.9	1.9
Inventory (days)	53	50	49	49	49
Debtors (days)	28	28	28	28	28
Payables (days)	39	36	36	36	37
Cash Conversion Cycle (days)	42	41	41	41	40
Debt/EBITDA (x)	1.3	1.2	1.0	0.8	0.6
Net D/E	0.1	0.1	(0.1)	(0.2)	(0.3)
Interest Coverage	14.6	15.6	18.4	22.7	27.9
<b>PER SHARE DATA</b>					
EPS (Rs/sh)	3.7	4.4	5.3	6.2	7.4
CEPS (Rs/sh)	4.3	5.1	6.0	7.0	8.2
BV (Rs/sh)	9.9	12.2	15.4	19.1	23.6
DPS (Rs/sh)	1.3	1.5	1.8	2.1	2.5
<b>VALUATION</b>					
P/E	45.6	38.3	32.0	26.9	22.7
P/BV	17.0	13.8	10.9	8.8	7.1
EV/EBITDA	33.1	28.5	23.8	20.0	16.7
OCF/EV (%)	1.8	2.6	2.8	3.7	4.4
FCF/EV (%)	1.0	1.8	2.5	3.2	3.9
FCFE/mkt cap (%)	1.0	1.8	2.4	3.1	3.7
Dividend Yield (%)	0.8	0.9	1.1	1.3	1.5

Source : Company, HDFC sec Inst Research

**RECOMMENDATION HISTORY**


Date	CMP	Reco	Target
21-Dec-12	128	OPF	145
30-Jan-13	130	OPF	145
28-Feb-13	126	OPF	145
1-May-13	148	OPF	160
25-Jul-13	171	NEU	182
29-Oct-13	176	NEU	182
12-Dec-13	168	BUY	192

**Rating Definitions**

- BUY** : Where the stock is expected to deliver more than 10% returns over the next 12 month period  
**NEUTRAL** : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period  
**SELL** : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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