

**BUY**

TP: INR 195.00

▲ 15.4%

## Dabur India

DABUR IN

### Stock correction offers attractive entry point – BUY

We like Dabur for (a) volume growth that's amongst the best in industry (~10% for the past 7-8 quarters), (b) robust 250bps margin expansion expected over FY13-FY16 led by stronger gross margins as well as operating leverage, and supporting a 20% earnings CAGR, (c) ongoing recovery in international business growth/margins, and (d) reasonable valuations (post ~10% correction from its peak) at 26.2x/22.1x FY15/FY16 earnings. Dabur is our preferred mid-cap Consumer Staples pick. Maintain BUY, Dec'14 TP Rs 195.

- ➔ **Revenue growth to remain in the mid-teens:** We expect Dabur to report a 15% revenue CAGR over FY13-FY16 supported by 9-10% volume growth in FY14/FY15. We are positive on the management's renewed thrust on new launches and rural distribution, along with higher A&P support for existing brands. After a weak FY12, the business began turning the corner in FY13 and should strengthen further in FY14/FY15. Dabur's rural growth has been outpacing urban growth rates (at 1.5x) and this is likely to continue, given the company's rural-focused mid-to-mass-end portfolio.
- ➔ **Margins to expand 250bps over FY13-FY16:** Dabur's EBITDA margins are projected to expand from 16.3% in FY13 to 18.9% in FY16, supporting adj. PAT growth of 20% over FY13-FY16. Margin gains will be led by gross margin improvement as RM inflation subsides (aided by stability in the INR), in conjunction with benefits from price hikes and stable A&P spends.
- ➔ **Maintain BUY:** Dabur is our preferred pick in the mid-cap Consumer Staples segment. We restate BUY and move over to a Dec'14 TP of Rs 195. Post the recent stock price correction (10% from peak and 7% underperformance to Sensex over the past three months), valuations are now attractive and hold limited downside from current levels. Key risks to our call: (a) further slowdown in consumption (more specifically rural consumption), and (b) input cost inflation resulting in lower-than-expected margin expansion.

#### Financial Highlights

| Y/E 31 Mar                    | FY12A  | FY13A  | FY14E  | FY15E  | FY16E  |
|-------------------------------|--------|--------|--------|--------|--------|
| Revenue (INR mln)             | 52,832 | 61,464 | 70,490 | 80,503 | 92,873 |
| EBITDA (INR mln)              | 8,679  | 10,000 | 12,362 | 14,809 | 17,558 |
| Adjusted net profit (INR mln) | 6,442  | 7,706  | 9,445  | 11,272 | 13,363 |
| Adjusted EPS (INR)            | 3.7    | 4.4    | 5.4    | 6.4    | 7.6    |
| Adjusted EPS growth (%)       | 9.6    | 19.6   | 22.6   | 19.3   | 18.6   |
| DPS (INR)                     | 1.1    | 1.3    | 1.6    | 1.9    | 2.2    |
| ROIC (%)                      | 34.5   | 35.8   | 41.9   | 50.5   | 57.1   |
| Adjusted ROAE (%)             | 41.5   | 40.1   | 39.3   | 37.4   | 35.7   |
| Adjusted P/E (x)              | 45.9   | 38.4   | 31.3   | 26.2   | 22.1   |
| EV/EBITDA (x)                 | 34.8   | 30.1   | 24.3   | 19.8   | 16.4   |
| P/BV (x)                      | 17.2   | 13.9   | 11.0   | 8.8    | 7.2    |

Source: Company, Factset, RCML Research

12 December 2013



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PRICE CLOSE (12 Dec 13)

INR 169.05

MARKET CAP

INR 2,94,792 mln

USD 4,825 mln

SHARES O/S

1,742.0 mln

FREE FLOAT

31.3%

3M AVG DAILY VOLUME./VALUE

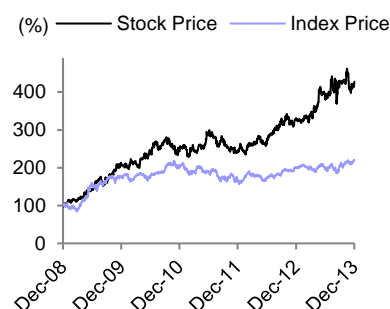
0.1 mln/ USD 0.3 mln

52 WK HIGH

INR 184.90

52 WK LOW

INR 124.45



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**Dabur India**

DABUR IN

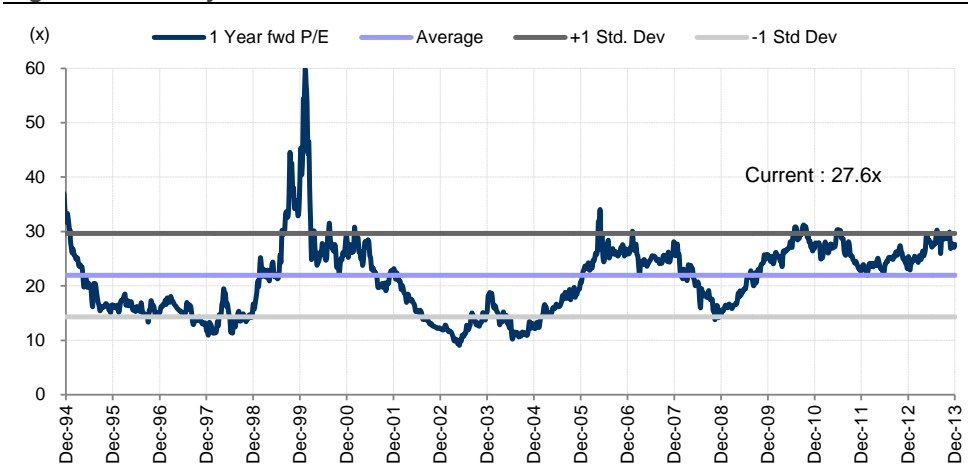


**Company Update**

**INDIA**

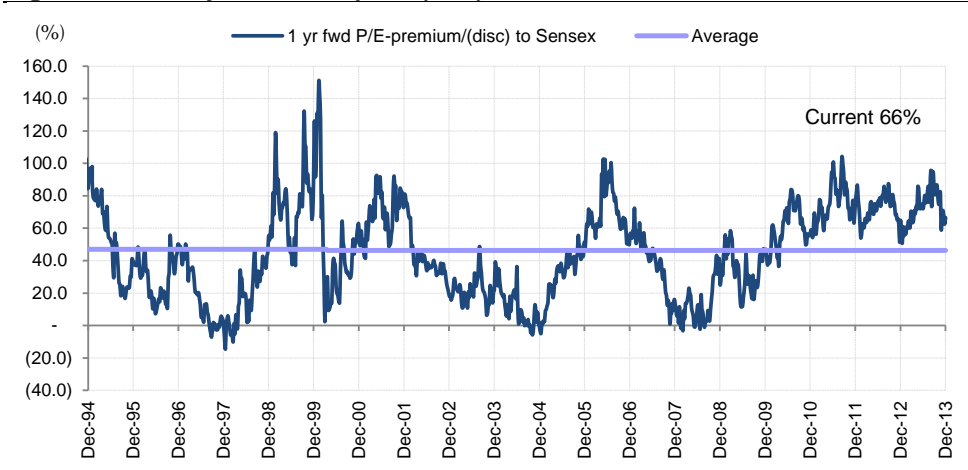
CONSUMER STAPLES

**Fig 1 - Dabur – 1-year fwd P/E**



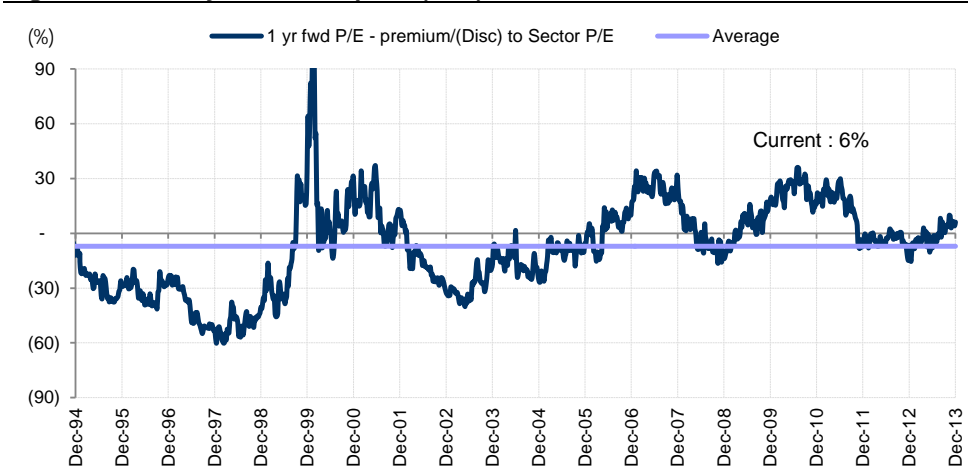
Source: RCML Research, Bloomberg

**Fig 2 - Dabur – 1-year fwd P/E prem/(disc) to Sensex**



Source: RCML Research, Bloomberg

**Fig 3 - Dabur – 1-year fwd P/E prem/(disc) to Sector P/E**



Source: RCML Research, Bloomberg

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**Per Share Data**

| Y/E 31 Mar (INR) | FY12A | FY13A | FY14E | FY15E | FY16E |
|------------------|-------|-------|-------|-------|-------|
| Reported EPS     | 3.7   | 4.4   | 5.4   | 6.4   | 7.6   |
| Adjusted EPS     | 3.7   | 4.4   | 5.4   | 6.4   | 7.6   |
| DPS              | 1.1   | 1.3   | 1.6   | 1.9   | 2.2   |
| BVPS             | 9.8   | 12.1  | 15.3  | 19.1  | 23.6  |

**Valuation Ratios**

| Y/E 31 Mar (x) | FY12A | FY13A | FY14E | FY15E | FY16E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales       | 5.7   | 4.9   | 4.3   | 3.6   | 3.1   |
| EV/EBITDA      | 34.8  | 30.1  | 24.3  | 19.8  | 16.4  |
| Adjusted P/E   | 45.9  | 38.4  | 31.3  | 26.2  | 22.1  |
| P/BV           | 17.2  | 13.9  | 11.0  | 8.8   | 7.2   |

**Financial Ratios**

| Y/E 31 Mar                                    | FY12A | FY13A | FY14E | FY15E | FY16E |
|---|-------|-------|-------|-------|-------|
| <b>Profitability &amp; Return Ratios (%)</b>  |       |       |       |       |       |
| EBITDA margin                                 | 16.4  | 16.3  | 17.5  | 18.4  | 18.9  |
| EBIT margin                                   | 14.5  | 14.4  | 15.7  | 16.4  | 17.0  |
| Adjusted profit margin                        | 12.2  | 12.5  | 13.4  | 14.0  | 14.4  |
| Adjusted ROAE                                 | 41.5  | 40.1  | 39.3  | 37.4  | 35.7  |
| ROCE  | 23.8  | 23.6  | 24.4  | 24.8  | 25.2  |
| <b>YoY Growth (%)</b>                         |       |       |       |       |       |
| Revenue                                       | 29.6  | 16.3  | 14.7  | 14.2  | 15.4  |
| EBITDA  | 15.0  | 15.2  | 23.6  | 19.8  | 18.6  |
| Adjusted EPS                                  | 9.6   | 19.6  | 22.6  | 19.3  | 18.6  |
| Invested capital                              | 6.7   | 15.0  | (6.0) | 3.6   | 7.4   |
| <b>Working Capital &amp; Liquidity Ratios</b> |       |       |       |       |       |
| Receivables (days)                            | 28    | 28    | 28    | 28    | 28    |
| Inventory (days)                              | 104   | 101   | 96    | 96    | 94    |
| Payables (days)                               | 70    | 76    | 79    | 80    | 80    |
| Current ratio (x)                             | 1.3   | 1.7   | 1.5   | 1.7   | 1.8   |
| Quick ratio (x)                               | 0.2   | 0.4   | 0.6   | 0.7   | 0.8   |
| <b>Turnover &amp; Leverage Ratios (x)</b>     |       |       |       |       |       |
| Gross asset turnover                          | 2.6   | 2.9   | 3.0   | 2.9   | 3.0   |
| Total asset turnover                          | 1.2   | 1.3   | 1.3   | 1.2   | 1.2   |
| Net interest coverage ratio                   | 14.2  | 15.1  | 19.3  | 22.9  | 24.9  |
| Adjusted debt/equity                          | 0.4   | 0.3   | 0.0   | (0.2) | (0.3) |

**DuPont Analysis**

| Y/E 31 Mar (%)                  | FY12A | FY13A | FY14E | FY15E | FY16E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net income/PBT)     | 81.5  | 80.8  | 78.5  | 78.5  | 78.5  |
| Interest burden (PBT/EBIT)      | 103.4 | 107.4 | 108.4 | 108.8 | 108.1 |
| EBIT margin (EBIT/Revenue)      | 14.5  | 14.4  | 15.7  | 16.4  | 17.0  |
| Asset turnover (Revenue/Avg TA) | 124.3 | 132.3 | 129.8 | 120.6 | 119.0 |
| Leverage (Avg TA/Avg equities)  | 273.4 | 242.0 | 226.0 | 221.6 | 208.7 |
| Adjusted ROAE                   | 41.5  | 40.1  | 39.3  | 37.4  | 35.7  |

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Company Update

INDIA

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**Income Statement**

| Y/E 31 Mar (INR mln)           | FY12A         | FY13A         | FY14E         | FY15E         | FY16E         |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| <b>Total revenue</b>           | <b>52,832</b> | <b>61,464</b> | <b>70,490</b> | <b>80,503</b> | <b>92,873</b> |
| EBITDA                         | 8,679         | 10,000        | 12,362        | 14,809        | 17,558        |
| EBIT                           | 7,647         | 8,876         | 11,102        | 13,203        | 15,752        |
| Net interest income/(expenses) | (538)         | (589)         | (576)         | (576)         | (633)         |
| Other income/(expenses)        | 797           | 1,245         | 1,505         | 1,731         | 1,904         |
| Exceptional items              | 0             | 0             | 0             | 0             | 0             |
| EBT                            | 7,905         | 9,532         | 12,031        | 14,359        | 17,024        |
| Income taxes                   | (1,463)       | (1,826)       | (2,587)       | (3,087)       | (3,660)       |
| Extraordinary items            | 0             | 0             | 0             | 0             | 0             |
| Min. int./Inc. from associates | 8             | 0             | 0             | 0             | 0             |
| <b>Reported net profit</b>     | <b>6,450</b>  | <b>7,706</b>  | <b>9,445</b>  | <b>11,272</b> | <b>13,363</b> |
| Adjustments                    | (8)           | 0             | 0             | 0             | 0             |
| <b>Adjusted net profit</b>     | <b>6,442</b>  | <b>7,706</b>  | <b>9,445</b>  | <b>11,272</b> | <b>13,363</b> |

**Balance Sheet**

| Y/E 31 Mar (INR mln)                  | FY12A         | FY13A         | FY14E         | FY15E         | FY16E         |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables                     | 9,790         | 11,764        | 13,491        | 15,408        | 17,775        |
| Other current liabilities             | 0             | 0             | 0             | 0             | 0             |
| Provisions                            | 8,214         | 2,360         | 9,023         | 10,769        | 12,768        |
| Debt funds                            | 10,743        | 11,514        | 11,514        | 11,514        | 11,514        |
| Other liabilities                     | 0             | 0             | 0             | 0             | 0             |
| Equity capital                        | 1,742         | 1,743         | 1,743         | 1,743         | 1,743         |
| Reserves & surplus                    | 15,427        | 19,501        | 25,065        | 31,706        | 39,579        |
| Shareholders' fund                    | 17,169        | 21,244        | 26,808        | 33,449        | 41,322        |
| <b>Total liabilities and equities</b> | <b>45,949</b> | <b>47,002</b> | <b>60,957</b> | <b>71,260</b> | <b>83,499</b> |
| Cash and cash eq.                     | 4,484         | 5,128         | 12,624        | 18,536        | 24,855        |
| Accounts receivables                  | 4,617         | 4,841         | 5,794         | 6,617         | 7,633         |
| Inventories                           | 8,239         | 8,439         | 9,499         | 10,792        | 12,667        |
| Other current assets                  | 6,659         | 5,893         | 6,758         | 7,718         | 8,904         |
| Investments                           | 4,825         | 6,319         | 6,319         | 6,319         | 6,319         |
| Net fixed assets                      | 16,412        | 15,819        | 19,494        | 20,809        | 22,651        |
| CWIP                                  | 268           | 926           | 926           | 926           | 926           |
| Intangible assets                     | 0             | 0             | 0             | 0             | 0             |
| Deferred tax assets, net              | (274)         | (362)         | 190           | 190           | 190           |
| Other assets                          | 0             | 0             | 0             | 0             | 0             |
| <b>Total assets</b>                   | <b>45,949</b> | <b>47,002</b> | <b>61,603</b> | <b>71,906</b> | <b>84,145</b> |

**Cash Flow Statement**

| Y/E 31 Mar (INR mln)               | FY12A          | FY13A          | FY14E          | FY15E          | FY16E          |
|------------------------------------|----------------|----------------|----------------|----------------|----------------|
| Net income + Depreciation          | 7,482          | 8,830          | 10,705         | 12,877         | 15,169         |
| Interest expenses                  | 538            | 589            | 576            | 576            | 633            |
| Non-cash adjustments               | 0              | 0              | 0              | 0              | 0              |
| Changes in working capital         | (761)          | 184            | 1,276          | (524)          | (982)          |
| Other operating cash flows         | (214)          | (2,178)        | 3,590          | 1,377          | 1,550          |
| <b>Cash flow from operations</b>   | <b>7,046</b>   | <b>7,425</b>   | <b>16,148</b>  | <b>14,305</b>  | <b>16,371</b>  |
| Capital expenditures               | (2,242)        | (542)          | (4,936)        | (2,920)        | (3,648)        |
| Change in investments              | (550)          | (1,494)        | 0              | 0              | 0              |
| Other investing cash flows         | 487            | 0              | 0              | 0              | 0              |
| <b>Cash flow from investing</b>    | <b>(2,305)</b> | <b>(2,036)</b> | <b>(4,936)</b> | <b>(2,920)</b> | <b>(3,648)</b> |
| Equities issued                    | 1              | 1              | 0              | 0              | 0              |
| Debt raised/repaid                 | 726            | 770            | 0              | 0              | 0              |
| Interest expenses                  | (538)          | (589)          | (576)          | (576)          | (633)          |
| Dividends paid                     | (2,425)        | (4,201)        | (2,702)        | (4,322)        | (5,137)        |
| Other financing cash flows         | (521)          | (589)          | (576)          | (576)          | (633)          |
| <b>Cash flow from financing</b>    | <b>(2,758)</b> | <b>(4,608)</b> | <b>(3,853)</b> | <b>(5,473)</b> | <b>(6,403)</b> |
| <b>Changes in cash and cash eq</b> | <b>1,983</b>   | <b>781</b>     | <b>7,359</b>   | <b>5,912</b>   | <b>6,319</b>   |
| <b>Closing cash and cash eq</b>    | <b>4,484</b>   | <b>5,128</b>   | <b>12,624</b>  | <b>18,536</b>  | <b>24,855</b>  |

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|----------------|--|
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| Hold           | Between 15% and -5%                          |
| Sell           | Less than -5%                                |

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