Dabur’s Q2FY13 numbers were in line our estimates as domestic volume was up 9% YoY (as against 5.0%, 8.0%, 9.5% and 11.6% YoY in Q2FY12, Q3FY12, and Q4FY12, Q1FY13 respectively). Key positives were: (i) gross margin expansion, (ii) continued revival in shampoo growth and (iii) a strong growth in skin care and home care. Key negatives were a decline in Canteen sales (by 17% YoY, other companies too have been impacted), muted growth in lower end of oral care (Babool), a slowdown in foods portfolio (on high base and festival timing) and a continued slowdown in Vatika (due to competitive pressures from coconut hair oils). We like Dabur’s renewed aggression in ad spends, product innovation (Thirty Plus, soft launch of coconut water, car fresheners and gel air fresheners) and investment in existing product range. Maintain ‘BUY’.

This report also contains Q2FY13 conference call highlights.

Robust growth; gross margin expands

Domestic business posted 18.6% YoY growth (15.3% growth in domestic FMCG business; rest export of guar), with a 9% volume growth. Gross margin expanded 112bps YoY to 50.7%. EBITDA margin was down 181bps YoY as ad spends were up 175bps YoY high other expenses high (up 97bps YoY), due to an expansion in distribution. PAT grew 16.4% YoY while profit margin declined 48bps YoY to 13.2%.

Robust growth across categories

The Consumer Care Division (CCD) posted a robust performance with a strong surge across categories; hair care registering 13.2% YoY growth (shampoos continued revival with 40.2% YoY growth), oral care by 7% YoY, health supplements 15.7% YoY, skin care by 24.8% YoY, home care 23% YoY, digestives 11.9% YoY and OTC & ethicals 22.6% YoY. Foods posted a growth of 18.1% YoY. International Business (IB) grew by 24.8% YoY.

Outlook and valuations: Positive; Maintain ‘BUY’

We like Dabur’s herbal positioning and aggression and expect the recent re-rating of the stock to sustain. The stock is trading at P/E of 30.0x and 25.1x on FY13E and FY14E, respectively. We maintain ‘BUY’ and rate the stock ‘Sector Outperformer’. 

<table>
<thead>
<tr>
<th>Financials</th>
<th>(INR mn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year to March</td>
<td>Q2FY13</td>
</tr>
<tr>
<td>Net sales</td>
<td>15,226</td>
</tr>
<tr>
<td>EBITDA</td>
<td>2,693</td>
</tr>
<tr>
<td>Net profit</td>
<td>2,024</td>
</tr>
<tr>
<td>Dil. EPS (INR)</td>
<td>1.2</td>
</tr>
<tr>
<td>Diluted P/E (x)</td>
<td>35.3</td>
</tr>
<tr>
<td>EV/EBITDA (x)</td>
<td>25.6</td>
</tr>
<tr>
<td>ROAE (%)</td>
<td>43.9</td>
</tr>
</tbody>
</table>
### Key conference call takeaways

- **Volume growth**: Dabur posted a 9% YoY volume growth in domestic business in Q2FY13 (8.6%, 5.0%, 8.0%, 9.5% and 11.6% YoY for Q1FY12, Q2FY12, Q3FY12, and Q4FY12, Q1FY13 respectively). The company clocked 10.5% YoY volume growth at the consolidated level and has guided for a volume growth of 8-12%; range is broad as price increase will be based on raw material inflation and can thus have an effect on volumes. Rural demand is doing better than urban (20% vs 10% sales growth). Rural has seen significant gross margin expansion (~450 bps YoY).

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**Source:** Company, Edelweiss research

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### Table 1: Segment-wise snapshot

<table>
<thead>
<tr>
<th>Segment</th>
<th>Growth Y-o-Y(%)</th>
<th>Key takeaways Q2FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Domestic</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Hair Care</td>
<td>13.2</td>
<td>Hair oil saw moderated growth of 9.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Perfumed hair oils performed well; in Q2FY13 Priyanka Chopra was made the brand ambassador of Amla Hair Oil</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Coconut based oil faced marginal decline owing to higher price differential with competitors</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Shampoos revival continued with Vatika shampoos witnessing massive 40.2% YoY growth; Relaunched with new packaging and renamed 'Vatika Premium Naturals' range</td>
</tr>
<tr>
<td>Health supplement</td>
<td>15.7</td>
<td>Dabur Honey saw a strong growth across channels, regions and SKUs</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dabur Glucose witnessed strong growth (low base effect)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Chyawanprash grew in double digit; re-branding with new packaging and new campaign soon</td>
</tr>
<tr>
<td>Food</td>
<td>18.1</td>
<td>Real juices reported good growth; more variants and extension to flow in future in both Real and Activ range</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Culinary portfolio saw flattish growth</td>
</tr>
<tr>
<td>Oral Care</td>
<td>6.9</td>
<td>Toothpastes portfolio reported 10.2% YoY growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Premium toothpastes, Meswak and Dabur Red toothpaste, reported good growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>The discount brand (Babool) continued to remain under pressure; Dabur plans to improve margin profile and plans to launch value added variants</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Toothpowder declined marginously</td>
</tr>
<tr>
<td>Digestive</td>
<td>11.9</td>
<td>Hajmola saw double digit growth; new creatives and SKs planned</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Pudin Hara which was backed by packaging and media initiatives saw robust growth</td>
</tr>
<tr>
<td>Skin Care</td>
<td>24.8</td>
<td>Dabur Gulabari witnessed witnessed strong double digit growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Dabur plans to focus on Uveda going ahead; will launch new products and develop newer channels</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Fem portfolio grew handsomely by 27.7% largely driven by bleaches which have been re-launched in new packaging</td>
</tr>
<tr>
<td>Home Care</td>
<td>23.0</td>
<td>Odonil witnessed moderate growth as compared to earlier quarters; investment in innovation and A&amp;P to drive future growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Odomos reported good growth driven by activations and enhanced brand visibility</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Sanifresh saw robust growth due to restage</td>
</tr>
<tr>
<td>OTC &amp; Ethicals</td>
<td>22.6</td>
<td>OTC portfolio grew by 18% YoY; Lal Tail saw good growth</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Thirty Plus was re-launched during the quarter</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Ethicals portfolio grew by massive 32.4%</td>
</tr>
<tr>
<td>International division</td>
<td>24.8</td>
<td><strong>International business (IB) posted 24% YoY growth with 12% constant currency growth</strong></td>
</tr>
<tr>
<td></td>
<td></td>
<td>Key growth markets were GCC (grew 21% YoY), Nigeria (grew 20% YoY) and Egypt (grew 16% YoY)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Hobby business performed well with strong growth in domestic and overseas markets driven by investment in brands and distribution expansion</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Namaste business performance under pressure due to distribution restructuring and changeover in branding in US</td>
</tr>
</tbody>
</table>

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**Source:** Company, Edelweiss research
• **Rural reach:** Dabur’s double digit volume growth is expected to be on account of doubling of direct rural reach from 14,000 to 28,000 in 10 states (90% has been achieved; to be completed by December end). This expansion will help increase reach for juices, health care and skin care categories. Full results of this expansion will be visible in H2FY13.

• **Gross margin:** Gross margin expanded 112bps YoY to 50.7%. Domestic business margin expansion has been a mere 33bps YoY due to pressure from rupee depreciation and high prices of beverages, spices, condiments (at life high) and also honey and sugar. Company has tweaked guidance from 250bps YoY expansion to 150bps YoY expansion for FY13.

• **Domestic performance:** Domestic business contributed 67% to overall sales, up 15.3% YoY, led by 9% volume growth. CCB and foods contribution to domestic revenue is at 77% and 17%, respectively. CCB posted a healthy volume led growth; however, volumes were impacted due to CSD issue (contributing 7% to CCB revenues). The CSD issue has likely passed and H2FY13 is to witness flattish growth in CSD. CSD contributes 6% to overall domestic business with major exposure in hair oil (Amla), air fresheners, Chyawanprash and little exposure in oral care and foods.

• **Health supplements:** Health supplements contributed 18% to CCB revenue, growing at 15.7% YoY led by a strong growth in Dabur Honey and Glucose. Dabur Honey posted a strong growth across channels, regions and SKUs. Glucose posted a strong growth on a low base. Chyawanprash grew in double digits although major season is during winter; re-branding is to happen soon with new packaging and new campaign which will see a significant shift in positioning from medical to immunity driven. Dabur won infringement of copyright packaging of its ‘Shilajit Gold’ range of products case against Baidyanath Ayurved. This range has been doing exceptionally well.

• **Digestives:** This business contributed 8% to CCB revenue; grew 11.9% YoY led by a double digit growth in Hajmola; new creatives and SKUs have been planned for the Hajmola franchise. Pudin Hara and Isabgol, which were earlier classified under OTC category, have been shifted to Digestives; Lal Tail has been reclassified into OTC from Digestives. Pudin Hara, which was backed by packaging and media initiatives, saw robust growth.

• **OTC and Ethicals:** This business contributed 12% to CCB revenue; grew 22.6% YoY. OTC portfolio (64%) posted 18% YoY growth with Lal Tail posting strong growth. Ethicals (36%) grew at a massive 32.4% YoY. Thirty Plus was re-launched during Q2FY13.

• **Hair oils:** The category grew at 9.1% YoY; perfumed oils performed well with 16.3% YoY growth. The company has recently re-launched its *Amla hair oil* in a new youthful and modern look and new positioning of *Mazbooti bhi, Khubsoorti bhi*; it has roped in Priyanka Chopra as the brand’s face. Coconut based oil faced marginal decline owing to higher price differential with competitors. Almond Hair oil performed satisfactorily (category growing ahead of any other category in oils).

• **Shampoos:** Shampoos continued on its revival track, clocking growth of 40.2% YoY. The segment is witnessing hardening in prices which has led to margin erosion (however, better YoY). The company has increased prices significantly in bottles, though value pack (INR1) remains untouched as it is a major factor driving growth.

• **Home care:** This segment contributing 7% to CCB revenue posted 23% YoY growth, driven by Odomos reporting good growth driven by activations and enhanced brand
visibility. Sanifresh posted robust growth due to restage. Odonil registered moderate growth.

- **Skin care**: Skin Care grew 24.8% YoY. Dabur Gulabari (largely a winter product) witnessed good performance with a double digit growth. Fem portfolio grew handsomely by 27.7% YoY and gained market share in bleach. Dabur plans to focus on Uveda going ahead; will launch new products and develop newer channels (currently only on ground support); it has a long gestation period before mass launch (likely in early FY14).

- **Oral care**: Oral care grew 6.9% YoY. Toothpastes grew 10.2% YoY in premium segment with Meswak and Dabur Red toothpaste, reporting good growth. The discount brand (Babool) continued to remain under pressure. The company has been focusing on improving margins rather than volumes in lower end of toothpaste segment (Babool and toothpowder). Dabur plans to add value to Babool by offering specialized offerings. Dabur Red toothpowder posted marginal decline in growth.

- **Foods**: Foods business posted moderate growth of 18.1% due to seasonal impact, base effect and delayed festive season. However, juices continued to gain market share and reported good growth in both Real and Active range. Culinary portfolio posted flattish growth. The company plans to launch value added products in beverages in Q3FY13. Margin pressure in foods business is likely to continue owing to rupee depreciation (70% of contents in juices are imported); volumes will continue to drive growth.

- **H&B stores**: The retail venture is posting ~INR100-120mn loss every year. Dabur had invested ~INR700mn in H&B which contributes ~0.8% to consolidated sales. Currently, there are 47 such stores which the company plans to increase to 100 over the long term.

- **Debt**: Dabur is net cash positive. Dabur has debt of INR 9322mn on its books largely low cost foreign currency debt. The cost of debt is 2.5-3.0% with 4-5 year repayment cycle. It has cash and cash equivalents of ~INR9650mn.

- **Tax rate**: Tax rate has been lower in Q2FY13 owing to higher international profits where tax is lower and also due to deferred tax of previous years. Tax rate is likely to be 19-20% for FY13E.

- **New launches**: Dabur is test marketing coconut water in Punjab under the Activ brand; product is premium priced at INR30 per 200ml. It is also test marketing car fresheners and gel air fresheners in select markets.

- **International business**: International business (IB) posted 24.8% YoY growth with 16% constant currency growth. Key growth markets were GCC (grew 21% YoY), Nigeria (grew 20% YoY) and Egypt (grew 16% YoY) with good growth momentum seen in GCC and Nigerian markets; growth in Egypt though robust has slowed from earlier 20-25% range. Shampoos, hair cream and toothpaste were key growth categories. Margin profile of existing business is better than newly acquired businesses. Syria business (~INR200mn with good profitability) has not been performing well. MENA region has seen dramatic expansion in gross margin.

Namaste is facing slowdown owing to changeover in branding in US (relaunch of brand from “organic route stimulator” to “ORS” leading to pipeline issues—company drying up old stock before new products enter the market; reason being organic word registered in other countries which will pose problem to enter these geographies, mainly South Africa) and distribution restructuring in Africa.
Hobby business performed well with strong growth in domestic and overseas markets driven by investment in brands and distribution expansion

- Ranked 53rd in Top 100 Beauty Companies by WWD: In latest ranking, Dabur earned the honour of being the only Indian company to make it to ‘WWD Beauty Inc.’s Top 100 2012’. The company was ranked 53rd amongst the world’s top 100 beauty companies, moving up nine places from 62nd position in 2011. Its strong beauty portfolio (a mix of skin and hair care products) comprising Dabur Amla, Organic Root Stimulator, Fem, Gulabari, Uveda, New Era, Vatika, and Hobby business helped achieve this milestone.

Dabur, riding on Ayurveda positioning, competes against some of the top brands (in top 100) in the Indian beauty space. We appreciate the company’s herbal-based presence in the domestic beauty space and are enthused by its recognition on a global platform against biggies like L’Oreal, P&G and Unilever.

- Mr. S Raghunathan, Chief Financial Officer of the company resigned from the services of the company w.e.f. September 15, 2012.

**Outlook and valuations: Positive; Maintain ‘BUY’**

We like Dabur’s renewed aggression in ad spends, product innovation (Thirty plus, soft launches in coconut water, car fresheners and gel air fresheners) and investment in existing product range. The stock is trading at P/E of 30.0x and 25.1x on FY13E and FY14E, respectively. We assign a FY14 target multiple of 29x (against earlier multiple of 28x due to increasing focus on innovation and brand support) revising our target price from INR140 to INR146. We maintain ‘BUY’ and rate the stock ‘Sector Outperformer’ on relative return basis.

**Fig. 1: Re-launch of Amla hair oil - Mazbooti bhi, Khubsoorti bhi**

Source: Company
<table>
<thead>
<tr>
<th>Year to March</th>
<th>Revenues (INR mn)</th>
<th>Q2FY13</th>
<th>Q2FY12</th>
<th>% growth Y-o-Y</th>
<th>Q1FY13</th>
<th>% growth Q-o-Q</th>
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</thead>
<tbody>
<tr>
<td>Consumer care business</td>
<td>12,638</td>
<td>10,666</td>
<td>18.5</td>
<td>11,748</td>
<td>7.6</td>
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<tr>
<td>Foods business</td>
<td>1,758</td>
<td>1,483</td>
<td>18.5</td>
<td>2,115</td>
<td>(16.9)</td>
<td></td>
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<tr>
<td>Retail business</td>
<td>141</td>
<td>95</td>
<td>48.8</td>
<td>133</td>
<td>6.3</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>690</td>
<td>380</td>
<td>81.7</td>
<td>624</td>
<td>10.6</td>
<td></td>
</tr>
<tr>
<td>Gross income (Excl other income)</td>
<td>15,226</td>
<td>12,623</td>
<td>20.6</td>
<td>14,620</td>
<td>4.1</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Year to March</th>
<th>PBIT (INR mn)</th>
<th>Q2FY13</th>
<th>Q2FY12</th>
<th>% growth Y-o-Y</th>
<th>Q1FY13</th>
<th>% growth Q-o-Q</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consumer care business</td>
<td>2,897</td>
<td>2,401</td>
<td>20.7</td>
<td>2,397</td>
<td>20.8</td>
<td></td>
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<tr>
<td>Foods business</td>
<td>334</td>
<td>333</td>
<td>0.2</td>
<td>334</td>
<td>(0.1)</td>
<td></td>
</tr>
<tr>
<td>Retail business</td>
<td>(30)</td>
<td>(27)</td>
<td>NM</td>
<td>(24)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>84</td>
<td>28</td>
<td>202.5</td>
<td>44</td>
<td>92.4</td>
<td></td>
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<tr>
<td>PBIT</td>
<td>3,284</td>
<td>2,734</td>
<td>20.1</td>
<td>2,751</td>
<td>19.4</td>
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</table>

<table>
<thead>
<tr>
<th>Year to March - Margin</th>
<th>Consumer care business</th>
<th>22.9</th>
<th>22.5</th>
<th>41</th>
<th>20.4</th>
<th>251</th>
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<tbody>
<tr>
<td>Foods business</td>
<td>19.0</td>
<td>22.5</td>
<td>(347)</td>
<td>15.8</td>
<td>320</td>
<td></td>
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<tr>
<td>Retail business</td>
<td>(21.3)</td>
<td>(28.9)</td>
<td>NM</td>
<td>(18.1)</td>
<td>NM</td>
<td></td>
</tr>
<tr>
<td>Others</td>
<td>12.2</td>
<td>7.3</td>
<td>487</td>
<td>7.0</td>
<td>519</td>
<td></td>
</tr>
<tr>
<td>Margin</td>
<td>21.6</td>
<td>21.7</td>
<td>(9)</td>
<td>18.8</td>
<td>275</td>
<td></td>
</tr>
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</table>

Source: Company, Edelweiss research
### Table 3: Standalone performance Q2FY13

<table>
<thead>
<tr>
<th>P&amp;L - standalone (INR mn)</th>
<th>Q2FY13</th>
<th>Q2FY12</th>
<th>YoY % Change</th>
<th>Q1FY13</th>
<th>QoQ % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales/income from operations</td>
<td>10,386</td>
<td>8,755</td>
<td>18.6</td>
<td>10,127</td>
<td>2.6</td>
</tr>
<tr>
<td>Other operating income</td>
<td>42</td>
<td>35</td>
<td>19.8</td>
<td>48</td>
<td>(12.1)</td>
</tr>
<tr>
<td>Total income from operations</td>
<td>10,428</td>
<td>8,790</td>
<td>18.6</td>
<td>10,175</td>
<td>2.5</td>
</tr>
<tr>
<td>Cost of materials consumed</td>
<td>3,820</td>
<td>3,720</td>
<td>2.7</td>
<td>3,919</td>
<td>(2.5)</td>
</tr>
<tr>
<td>Purchased of stock-in-trade</td>
<td>1,529</td>
<td>1,572</td>
<td>(2.8)</td>
<td>1,660</td>
<td>(7.9)</td>
</tr>
<tr>
<td>Changes in inventories of finished goods, WIP and stock in trade</td>
<td>163</td>
<td>(617)</td>
<td>NM</td>
<td>(69)</td>
<td>NM</td>
</tr>
<tr>
<td>Advertising &amp; publicity</td>
<td>1,031</td>
<td>725</td>
<td>42.3</td>
<td>1,319</td>
<td>(21.8)</td>
</tr>
<tr>
<td>Employee benefits expenses</td>
<td>710</td>
<td>616</td>
<td>15.2</td>
<td>646</td>
<td>10.1</td>
</tr>
<tr>
<td>Other expenses</td>
<td>1,180</td>
<td>965</td>
<td>22.2</td>
<td>1,207</td>
<td>(2.3)</td>
</tr>
<tr>
<td>Total expenses</td>
<td>8,433</td>
<td>6,981</td>
<td>20.8</td>
<td>8,682</td>
<td>(2.9)</td>
</tr>
<tr>
<td>EBITDA</td>
<td>1,995</td>
<td>1,809</td>
<td>10.3</td>
<td>1,493</td>
<td>33.6</td>
</tr>
<tr>
<td>Other income</td>
<td>216</td>
<td>127</td>
<td>70.9</td>
<td>216</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortisation expense</td>
<td>166</td>
<td>159</td>
<td>4.4</td>
<td>179</td>
<td>(7.2)</td>
</tr>
<tr>
<td>Finance costs</td>
<td>90</td>
<td>14</td>
<td>548.6</td>
<td>17</td>
<td>429.6</td>
</tr>
<tr>
<td>PBT</td>
<td>1,955</td>
<td>1,762</td>
<td>10.9</td>
<td>1,513</td>
<td>29.2</td>
</tr>
<tr>
<td>Tax expense</td>
<td>405</td>
<td>376</td>
<td>7.9</td>
<td>324</td>
<td>25.1</td>
</tr>
<tr>
<td>PAT</td>
<td>1,550</td>
<td>1,387</td>
<td>11.8</td>
<td>1,189</td>
<td>30.3</td>
</tr>
</tbody>
</table>

**As % of net sales**

<table>
<thead>
<tr>
<th></th>
<th>Q2FY13</th>
<th>Q2FY12</th>
<th></th>
<th>Q1FY13</th>
<th></th>
<th>QoQ % Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>COGS</td>
<td>52.9</td>
<td>53.2</td>
<td>54.1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Advertising &amp; publicity</td>
<td>9.9</td>
<td>8.2</td>
<td>13.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Staff costs</td>
<td>6.8</td>
<td>7.0</td>
<td>6.3</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other expenditure</td>
<td>11.3</td>
<td>11.0</td>
<td>11.9</td>
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</table>

*Source: Company, Edelweiss research*
Consumer Goods

Chart 1: H1FY13 sales contribution

- Domestic: 67%
- International: 33%

Chart 2: Q2FY13 YoY sales growth rates

- Domestic: 15.3%
- International: 24.8%

Chart 3: H1FY13 Domestic sales split

- Consumer care: 77%
- Foods: 17%
- Others: 6%

Chart 4: Q2FY13 Consumer care—Category contribution

- Hair care: 31%
- Oral care: 18%
- Health supplements: 18%
- Digestives: 8%
- Skin care: 6%
- Home care: 7%
- OTC & Ethicals: 11%

Chart 5: Consumer care—Category growth rate

Chart 6: H1FY13 International business growth rate

Source: Company, Edelweiss research
<table>
<thead>
<tr>
<th>Financial snapshot (INR mn)</th>
<th>Year to March</th>
<th>Q2FY13</th>
<th>Q2FY12</th>
<th>% Change</th>
<th>Q1FY13</th>
<th>% Change</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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As % of net revenues

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Company Description

Dabur has two divisions in India (post integration of consumer care division and consumer health division) apart from its international operations. Consumer care division (CCD) offers a wide range of products in hair care, oral care, health supplements, digestives and candies, baby and skin care products based on ayurveda, over-the-counter (OTC) products, Asavs, and branded ethical and classic products. CHD division has been merged with CCD to leverage distribution. The second division, Dabur Foods Ltd produces fruit juices, cooking pastes, sauces, and items for institutional food purchases. Dabur is unique among its Consumer Goods peers because of its positioning as an Indian company whose products are derived from exotic sources such as ancient ayurvedic texts and natural ingredients such as herbs.

The company has various brand leaders in different market segments - Dabur Chyawanprash, a health tonic, and Hajmola - a digestive tablet. Real, launched during 1996-97, has also successfully carved its niche in the market.

Investment Theme

Dabur’s broad product portfolio provides a good play on Indian FMCG spend by virtue of its strong presence in less penetrated and high growth categories. Dabur’s positioning on the ‘health and wellness’ platform, backed by its ANH (ayurvedic/natural/herbal) image is very progressive. This, combined with its demonstrated ability to create new categories and sub-categories, makes it well-placed to capture lifestyle changes-led growth in the FMCG space. Dabur has also demonstrated its ability to make and integrate smart acquisitions (Balsara) that complement its product portfolio and thereby drive inorganic growth. Improvement in margins of foods and international businesses are expected to result in improvement in margins for the consolidated operations.

Key Risks

A slowdown in rural demand due to lower government spending or a monsoon failure could impact Dabur’s revenues significantly. The company’s products such as Dabur Chyawanprash and Dabur Lal Tail are prominently sold in the rural areas, and hence, depend on growth in rural demand.

Further rise in competitive intensity in categories like Shampoo, Oral care, OTC and ethical may further put pressure on volumes.

Management bandwidth post acquisition in various international geographies is a concern.
## Financial Statements

### Key Assumptions

<table>
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<tr>
<th>Year to March</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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<td>GDP (Y-o-Y %)</td>
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<td>7.5</td>
<td>6.8</td>
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<td>USD/INR (Avg)</td>
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<td>45.6</td>
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<td><strong>Company -</strong></td>
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<td>Volume growth (% YoY)</td>
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<td>9.8</td>
<td>10.2</td>
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<td>5.1</td>
<td>6.9</td>
<td>7.6</td>
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### Income statement

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<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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<tbody>
<tr>
<td><strong>Net revenue</strong></td>
<td>33,905</td>
<td>40,774</td>
<td>52,832</td>
<td>62,395</td>
<td>72,720</td>
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<tr>
<td>Other operating income</td>
<td>238</td>
<td>271</td>
<td>223</td>
<td>256</td>
<td>294</td>
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<tr>
<td>Total operating income</td>
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### Common size metrics - as % of net revenues

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<th>Year to March</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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### Growth ratios (%)

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## Balance sheet

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<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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<td><strong>28,711</strong></td>
<td><strong>32,703</strong></td>
<td><strong>37,560</strong></td>
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<tr>
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<td><strong>28,711</strong></td>
<td><strong>32,703</strong></td>
<td><strong>37,560</strong></td>
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<tr>
<td>Book value per share (INR)</td>
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## Free cash flow

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<th></th>
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<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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<tr>
<td>Net profit</td>
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<td>5,686</td>
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<td>Add : Non cash charge</td>
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<td>952</td>
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<td>579</td>
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<td>Gross cash flow</td>
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<td>8,012</td>
<td>9,401</td>
<td>10,996</td>
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<tr>
<td>Less: Changes in WC</td>
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<td>312</td>
<td>443</td>
<td>609</td>
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<tr>
<td>Operating cash flow</td>
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<td>4,478</td>
<td>7,700</td>
<td>8,959</td>
<td>10,387</td>
</tr>
<tr>
<td>Less: Capex</td>
<td>1,865</td>
<td>9,480</td>
<td>2,108</td>
<td>2,382</td>
<td>1,450</td>
</tr>
<tr>
<td><strong>Free cash flow</strong></td>
<td><strong>3,991</strong></td>
<td><strong>(5,003)</strong></td>
<td><strong>5,592</strong></td>
<td><strong>6,576</strong></td>
<td><strong>8,937</strong></td>
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## Cash flow metrics

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<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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</thead>
<tbody>
<tr>
<td><strong>Year to March</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating cash flow</td>
<td>5,857</td>
<td>4,478</td>
<td>7,700</td>
<td>8,959</td>
<td>10,387</td>
</tr>
<tr>
<td>Investing cash flow</td>
<td>(1,037)</td>
<td>(11,036)</td>
<td>(2,736)</td>
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<td>2,354</td>
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<td>(9,480)</td>
<td>(2,108)</td>
<td>(2,382)</td>
<td>(1,450)</td>
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<td>Dividends paid</td>
<td>(2,031)</td>
<td>(2,328)</td>
<td>(2,632)</td>
<td>(3,104)</td>
<td>(3,702)</td>
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<td>Share issuance/(buyback)</td>
<td>4</td>
<td>872</td>
<td>1</td>
<td>-</td>
<td>-</td>
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</table>
### Profitability & efficiency ratios

<table>
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<tr>
<th>Year to March</th>
<th>FY10</th>
<th>FY11</th>
<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROAE (%)</td>
<td>57.6</td>
<td>51.2</td>
<td>43.9</td>
<td>40.7</td>
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<td>36.6</td>
<td>36.6</td>
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<td>Inventory day</td>
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<td>51</td>
<td>53</td>
<td>53</td>
<td>53</td>
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<tr>
<td>Debtors days</td>
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<td>28</td>
<td>28</td>
<td>28</td>
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<tr>
<td>Payable days</td>
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<td>67</td>
<td>69</td>
<td>69</td>
<td>69</td>
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<tr>
<td>Cash conversion cycle (days)</td>
<td>(2)</td>
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<td>12</td>
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<td>Current ratio</td>
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<td>1.4</td>
<td>1.5</td>
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<td>Debt/EBITDA</td>
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<td>1.3</td>
<td>1.0</td>
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<tr>
<td>Debt/Equity</td>
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<td>0.5</td>
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<td>Adjusted debt/equity</td>
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<td>0.4</td>
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<td>Interest coverage</td>
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<td>24.2</td>
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### Operating ratios

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<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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<tbody>
<tr>
<td>Total asset turnover</td>
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<td>2.3</td>
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<td>2.0</td>
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<td>Fixed asset turnover</td>
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### Valuation parameters

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<th>FY12</th>
<th>FY13E</th>
<th>FY14E</th>
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</thead>
<tbody>
<tr>
<td>Diluted EPS (INR)</td>
<td>2.9</td>
<td>3.3</td>
<td>3.7</td>
<td>4.3</td>
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<td>Y-o-Y growth (%)</td>
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<td>12.7</td>
<td>13.0</td>
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<td>CEPS (INR)</td>
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<td>Price/BV (x)</td>
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<td>16.2</td>
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<td>EV/Sales (x)</td>
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<td>5.6</td>
<td>4.3</td>
<td>3.6</td>
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<td>EV/EBITDA (x)</td>
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<td>28.7</td>
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### Peer comparison valuation

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<th>Mcap (INR bn)</th>
<th>P/E (x) FY13E</th>
<th>P/E (x) FY14E</th>
<th>EV/EBITDA(x) FY13E</th>
<th>EV/EBITDA(x) FY14E</th>
<th>ROE (%) FY13E</th>
<th>ROE (%) FY14E</th>
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<td>Dabur</td>
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<td>Nestle*</td>
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<td>Consumer Goods - Mean</td>
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*CY numbers  
Source: Edelweiss research
## RATING & INTERPRETATION

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<th>Absolute reco</th>
<th>Relative reco</th>
<th>Relative risk</th>
<th>Company</th>
<th>Absolute reco</th>
<th>Relative reco</th>
<th>Relative Risk</th>
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<tbody>
<tr>
<td>Asian Paints</td>
<td>BUY</td>
<td>SP</td>
<td>M</td>
<td>Colgate</td>
<td>HOLD</td>
<td>SP</td>
<td>M</td>
</tr>
<tr>
<td>Dabur</td>
<td>BUY</td>
<td>SO</td>
<td>M</td>
<td>Emami</td>
<td>BUY</td>
<td>SP</td>
<td>H</td>
</tr>
<tr>
<td>GlaxoSmithKline Consumer Healthcare</td>
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<td>SP</td>
<td>M</td>
<td>Godrej Consumer</td>
<td>BUY</td>
<td>SO</td>
<td>H</td>
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<tr>
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<td>SO</td>
<td>L</td>
<td>ITC</td>
<td>BUY</td>
<td>SO</td>
<td>L</td>
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<td>HOLD</td>
<td>SU</td>
<td>H</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### ABSOLUTE RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Expected absolute returns over 12 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>More than 15%</td>
</tr>
<tr>
<td>Hold</td>
<td>Between 15% and - 5%</td>
</tr>
<tr>
<td>Reduce</td>
<td>Less than -5%</td>
</tr>
</tbody>
</table>

### RELATIVE RETURNS RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sector Outperformer (SO)</td>
<td>Stock return &gt; 1.25 x Sector return</td>
</tr>
<tr>
<td>Sector Performer (SP)</td>
<td>Stock return &gt; 0.75 x Sector return</td>
</tr>
<tr>
<td></td>
<td>Stock return &lt; 1.25 x Sector return</td>
</tr>
<tr>
<td>Sector Underperformer (SU)</td>
<td>Stock return &lt; 0.75 x Sector return</td>
</tr>
</tbody>
</table>

Sector return is market cap weighted average return for the coverage universe within the sector.

### RELATIVE RISK RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low (L)</td>
<td>Bottom 1/3rd percentile in the sector</td>
</tr>
<tr>
<td>Medium (M)</td>
<td>Middle 1/3rd percentile in the sector</td>
</tr>
<tr>
<td>High (H)</td>
<td>Top 1/3rd percentile in the sector</td>
</tr>
</tbody>
</table>

Risk ratings are based on Edelweiss risk model.

### SECTOR RATING

<table>
<thead>
<tr>
<th>Ratings</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overweight (OW)</td>
<td>Sector return &gt; 1.25 x Nifty return</td>
</tr>
<tr>
<td>Equalweight (EW)</td>
<td>Sector return &gt; 0.75 x Nifty return</td>
</tr>
<tr>
<td>Underweight (UW)</td>
<td>Sector return &lt; 1.25 x Nifty return</td>
</tr>
</tbody>
</table>
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Board: (91-22) 4009 4400, Email: research@edelcap.com

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**Coverage group(s) of stocks by primary analyst(s): Consumer Goods**
Asian Paints, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, GlaxoSmithKline Consumer Healthcare, United Spirits

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**Recent Research**

<table>
<thead>
<tr>
<th>Date</th>
<th>Company</th>
<th>Title</th>
<th>Price (INR)</th>
<th>Recos</th>
</tr>
</thead>
<tbody>
<tr>
<td>26-Oct-12</td>
<td>Procter &amp; Gamble</td>
<td>China disappoints, India robust; <em>Global Pulse</em></td>
<td></td>
<td></td>
</tr>
<tr>
<td>19-Oct-12</td>
<td>ITC</td>
<td>Sweet delight: Cigarette, FMCG whip up a surprise; <em>Result Update</em></td>
<td>298</td>
<td>Buy</td>
</tr>
<tr>
<td>15-Oct-12</td>
<td>GCPL</td>
<td>Creme colour offering to brighten hue; <em>EdelFlash</em></td>
<td>682</td>
<td>Buy</td>
</tr>
</tbody>
</table>

---

**Distribution of Ratings / Market Cap**

<table>
<thead>
<tr>
<th>Market Cap (INR)</th>
<th>Buy</th>
<th>Hold</th>
<th>Reduce</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>&gt; 50bn</td>
<td>114</td>
<td>58</td>
<td>14</td>
<td></td>
</tr>
<tr>
<td>Between 10bn and 50bn</td>
<td>53</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>&lt; 10bn</td>
<td>19</td>
<td></td>
<td></td>
<td>186</td>
</tr>
</tbody>
</table>

---

**Rating Interpretation**

<table>
<thead>
<tr>
<th>Rating</th>
<th>Expected to</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buy</td>
<td>appreciate more than 15% over a 12-month period</td>
</tr>
<tr>
<td>Hold</td>
<td>appreciate up to 15% over a 12-month period</td>
</tr>
<tr>
<td>Reduce</td>
<td>depreciate more than 5% over a 12-month period</td>
</tr>
</tbody>
</table>