Narnolia™

# DABUR INDIA Ltd.

| | |
|---|---|
| Industry | Cons. Staples |
| Bloomberg | DABUR IN |
| BSE CODE | 500096 |

## Volume impacted by shifting of festive season and moderation in rural demand.

| RATING | ACCUMULATE |
|---|---|
| CMP | 385 |
| Price Target | 442 |
| Potential Upside | 15% |

| | |
|---|---|
| Rating Change | ↑ |
| Estimate Change | ↓ |
| Target Change | ↓ |

### Stock Info

| | |
|---|---|
| 52wk Range H/L | 491/313 |
| Mkt Capital (Rs Cr) | 68160 |
| Free float (%) | 32% |
| Avg. Vol 1M (,000) | 3118 |
| No. of Shares | 177 |
| Promoters Pledged % | NA |

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### Key Highlights -

- Dabur's number was below than our expectations, sales grew by 8% to Rs 2125cr( vs expec. Rs 2244 cr) while PAT grew by 4% to Rs 378 cr( vs expec. Rs 413cr).
- Domestic Volume growth for the quarter remained 8% impacted by shifting of festive season,moderation in rural growth and increased competitive intensity in Oral space.
- The company took price hike of 1.5% while promotions increased by 100 bps YoY in Q2FY19. Realization for this quarter was 0.5%.
- Decline in Gross margin by 75 bps largely remained inline to our estimates whereas company reported shrinkage in Ebitda margin by 22 bps (vs our expec of improv. of 46 bps) led by higher employee expenses. Ad expenses were lower due to shift of festivals in next quarter.
- International business grew by 7% in cc terms impacted by decline in the growth of GCC markets (by 7% YoY) due to consumption pressure and sharp decline in categories. Traction from Namaste was also not so encouraging considering lower base.

### 2Q FY19 Results-

Sales increased by 8% YoY led by growth in Home & Personal Care (HPC) and Healthcare which grew by 10% and 11% respectively in Q2FY19 while food business growth remained muted due to shifting of the festive season from Q2 to Q3. Oral care which used be one of the growth driver for the company grew by 4% impacted by decline in Babul's sales due to high competitive intensity at economy price points. Higher input prices led to shrinkage in gross margin by 75 bps and higher employee cost dented Ebitda margin by 22 bps. The company has increased its direct reach to target of 1 mn outlets in Mar-18.

### View and Valuation

Dabur has posted numbers below than our expectations; sales grew by 8% while PAT growth remained 4% impacted by lower margins. International business grew by 7% in cc terms impacted by weakness in the MENA region and currency headwinds. Growth was also impacted by shifting of festive season from Q2 to Q3.Going forward, we expect volume to recover led by festive season demand , revival in rural demand (led by higher MSP and government initiatives) and company's efforts on increasing direct reach while mild pressure in margin can be witnessed led by inflation in input prices. Considering weak Q2FY19 numbers and margin headwinds, we have reduced our sales and PAT estimates by 3%/4% and 6%/4% respectively and lower our target price to 442(42xFY20e's eps) from Rs 460 and recommend Accumulate.

### Key Risks to our rating and target

- Lower rural growth and sharp increase in the input prices.

| KEY FINANCIAL/VALUATIONS | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|
| Net Sales | 7869 | 7701 | 7748 | 8614 | 9821 |
| EBITDA | 1518 | 1509 | 1617 | 1766 | 2179 |
| EBIT | 1385 | 1366 | 1455 | 1594 | 1997 |
| PAT | 1251 | 1277 | 1354 | 1468 | 1853 |
| EPS (Rs) | 7 | 7 | 8 | 8 | 11 |
| EPS growth (%) | 17% | 2% | 6% | 8% | 26% |
| ROE (%) | 30% | 26% | 24% | 25% | 28% |
| ROCE (%) | 28% | 24% | 22% | 24% | 27% |
| BV | 24 | 28 | 32 | 33 | 38 |
| P/B (X) | 12 | 11 | 11 | 12 | 10 |
| P/E (x) | 39 | 43 | 48 | 46 | 37 |

## 2Q FY 19 Results
## Below than the estimates

| Financials | 2QFY18 | 3QFY18 | 4QFY18 | 1QFY19 | 2QFY19 | YoY % | QoQ% | FY17 | FY18 | YoY % |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,959 | 1,966 | 2,033 | 2,081 | 2,125 | 8.5% | 2.1% | 7,701 | 7,748 | 0.6% |
| Other Income | 84 | 66 | 73 | 74 | 81 | -3.7% | 10.3% | 298 | 305 | 2.3% |
| COGS | 977 | 952 | 1,002 | 1,049 | 1,076 | 10.1% | 2.6% | 3,843 | 3,846 | 0.1% |
| Gross Margin | 50% | 52% | 51% | 50% | 49% | -0.7% | -0.2% | 50% | 50% | 0.3% |
| Employ. Cost | 204 | 205 | 181 | 224 | 234 | 15.0% | 4.6% | 790 | 793 | 0.4% |
| Other Expen. | 358 | 406 | 365 | 422 | 364 | 1.7% | -13.7% | 1,560 | 1,492 | -4.4% |
| EBITDA | 420 | 404 | 485 | 386 | 451 | 7.4% | 16.8% | 1,509 | 1,617 | 7.2% |
| EBITDA Mar. | 21% | 21% | 24% | 19% | 21% | -0.2% | 2.7% | 20% | 21% | 1.3% |
| Depreciation | 40 | 40 | 43 | 43 | 43 | 7.5% | 0.9% | 143 | 162 | 13.5% |
| EBIT | 380 | 363 | 443 | 343 | 408 | 7.3% | 18.7% | 1,366 | 1,455 | 6.5% |
| Interest | 13 | 13 | 13 | 15 | 16 | 16.8% | 4.6% | 54 | 53 | -1.8% |
| PBT | 451 | 416 | 503 | 402 | 473 | 5.0% | 17.7% | 1,610 | 1,707 | 6.0% |
| Exceptional Item | - | - | - | - | - | - | - | - | 15 | - |
| Tax | 88 | 83 | 105 | 72 | 96 | 9.3% | 32.9% | 330 | 335 | 1.5% |
| PAT | 363 | 333 | 397 | 329 | 378 | 4.0% | 14.7% | 1,277 | 1,354 | 6.0% |
| PAT Margin | 19% | 17% | 20% | 16% | 18% | -0.8% | 2.0% | 17% | 17% | 1% |

### Shift of festivals and moderation in rural demand impacted sales

Sales increased by 8% YoY led by growth in Home & Personal Care (HPC) and Healthcare which grew by 10% and 11% respectively in Q2FY19 while food business growth remained muted due to shifting of the festive season from Q2 to Q3. Oral care which used be one of the growth driver for the company grew by 4% impacted by decline in Babul's sales due to high competitive intensity at economy price points. The company is witnessing moderation in rural demand. While rural continues to grow ahead of the urban but not in teens.Higher competition has led sharp decline in Babul's growth, while Red and Miswak franchisee continues to grow. Hair oil category grew by 11.1% with gain in market share of 120 bps. Rise in distribution reach has supported Dabur in clocking 8% volume growth. International business grew by 7% in cc terms continues to face headwinds related to currency.

### Higher input prices, promotions and incentives impacted margins

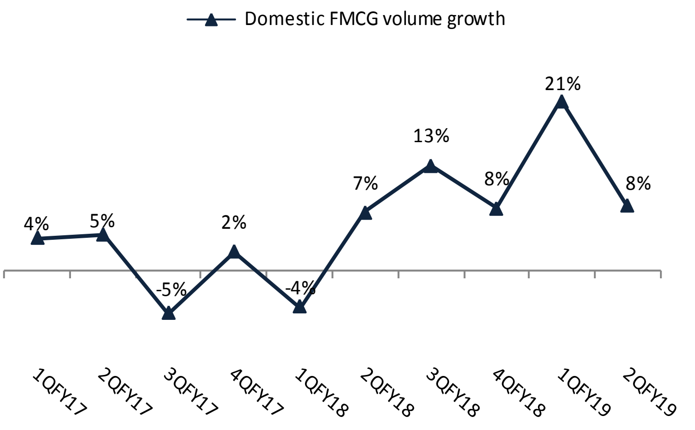
Decline in Gross margin by 75 bps largely remained inline to our estimates whereas company reported shrinkage in Ebitda margin by 22 bps (vs our expec of improv. of 46 bps) led by higher employee expenses. Ad expenses were down due to shift of festivals in next quarter. Higher input prices led to shrinkage in gross margin by 75 bps and higher employee cost dented Ebitda margin by 22 bps. Higher promotions(for domestic), incentives(MENA) given to retailers and Cost related to expansion of direct reach have impacted the Ebitda margin.

### Concall Highlights

- Rural growth has moderated but remains stable and grew ahead of urban demand by 1.5% in this quarter.
- Modern trade continues to grow strongly at the rate above 25%. General trade growth remained one third of modern trade.
- As per the Management Patanjali still remains its competitor in oral care while the company has managed to get back its share in Honey and Chayanprash. Competitive intensity from Patanjali has slightly subsided in Honey.
- First priority of the company is to maintain and increase market share with volume growth. Little dent in margin is tolerable for the company.
- The Management expects double digit volume growth for FY19.
- The Company under took a price hike to the extent of 1.5% in 2QFY19 while increased promotion by 100 bps in comparison to previous quarter. It has further taken price hike in the range of 1-1.5%, hence total pricing growth remained in the range of 2-2.5%.
- Babul has grown much lower than previous year due to high competitive intensity in lower unit segment. However company is confident of clocking growth above the category growth in Oral care led by Dabur red and Miswak franchisee. The company is also taking corrective steps to bring back Babul growth.
- Underlying demand growth will dictate new launches in FY19.
- The Branded OTC business is showing strong traction. The Management expects strong growth from Health care going forwards.

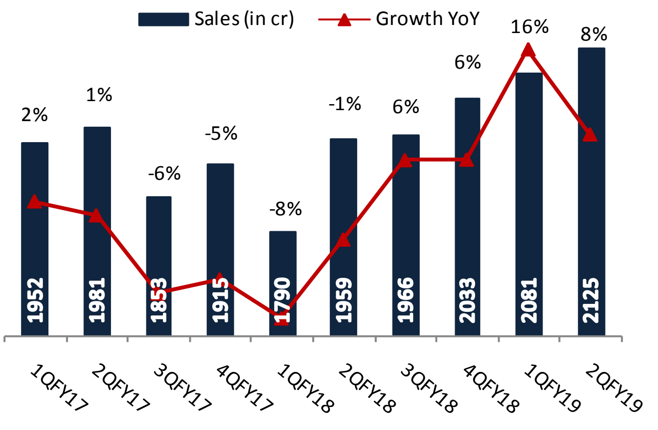
### Exhibit: Domestic FMCG Volume Growth(%)

*Domestic Volume growth for the quarter remained 8% impacted by shifting of festive season.*



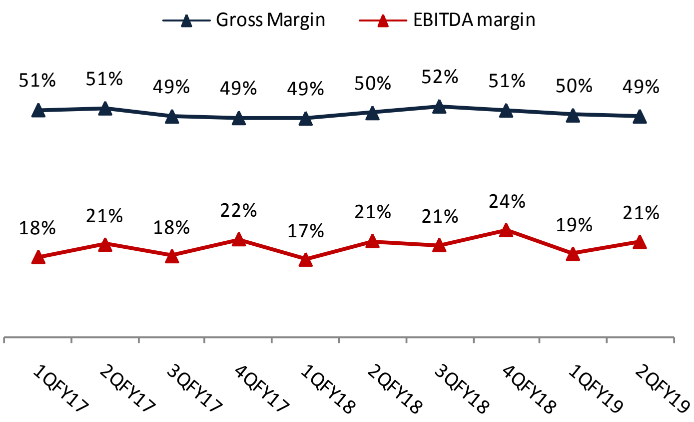

### Exhibit: Sales and Sales Growth

*Dabur's number was below than our expectation, sales grew by 8% to Rs 2125cr( vs expec. Rs 2244 cr)*



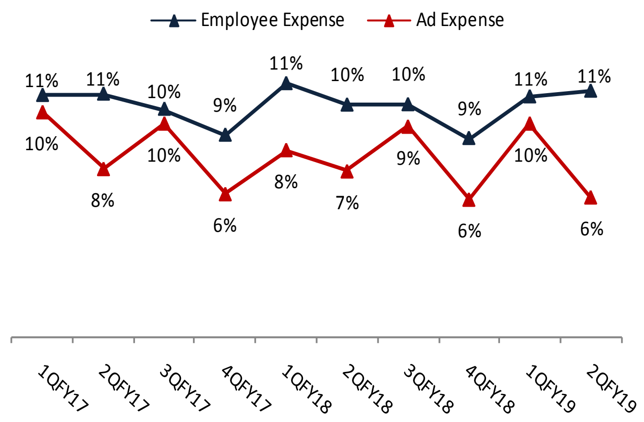

### Exhibit: Gross and EBITDA Margin

*Higher input prices led to shrinkage in gross margin by 75 bps and higher empl. cost dented Ebitda margin by 22 bps.*



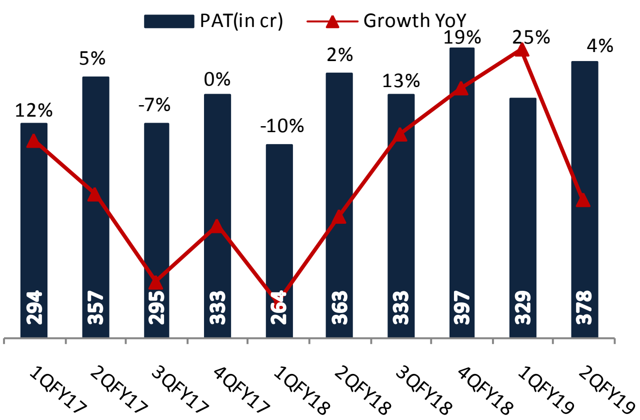

### Exhibit: Employee and Ad & P expense

*Ad expense were lower this quarter due to shifting of festive season from Q2 to Q3.*



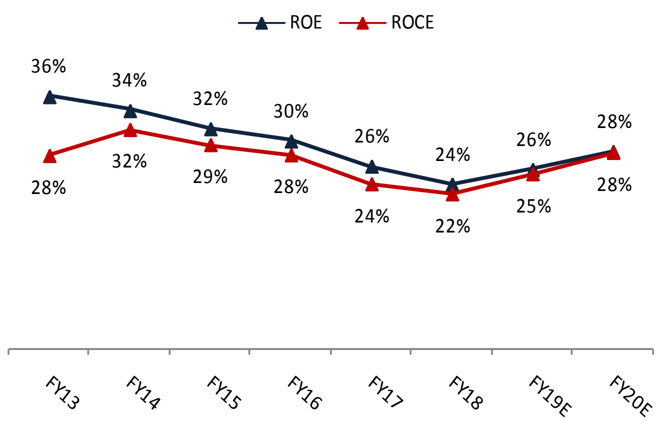

### Exhibit: PAT and PAT Growth

*PAT grew by 4% to Rs 378 cr( vs expec. Rs 413cr)due to shrinkage in operating margin.*




### Exhibit: Return on Equity

*We expect ROE to improve for Dabur going forward by 123 and 256 bps in FY19e and FY20e respectively.*



## Financial Details

### Balance Sheet

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| Share Capital | 174 | 174 | 176 | 176 | 176 | 176 | 176 | 176 |
| *Reserves* | 1,921 | 2,482 | 3,178 | 3,995 | 4,671 | 5,530 | 5,704 | 6,556 |
| ***Networth*** | 2,095 | 2,656 | 3,354 | 4,171 | 4,847 | 5,707 | 5,880 | 6,732 |
| Debt | 1,151 | 708 | 734 | 792 | 912 | 829 | 680 | 605 |
| Other Non Current Liab | 85 | 86 | 105 | 144 | 165 | 170 | 185 | 200 |
| ***Total Capital Employed*** | 3,247 | 3,364 | 4,088 | 4,963 | 5,759 | 6,535 | 6,560 | 7,337 |
| *Net Fixed Assets (incl CWIP)* | 1,674 | 1,789 | 1,927 | 1,773 | 2,000 | 2,070 | 2,175 | 2,260 |
| *Non Current Investments* | 163 | 493 | 1,407 | 1,881 | 2,499 | 3,092 | 3,092 | 3,692 |
| *Other Non Current Assets* | 1,856 | 1,831 | 1,968 | 1,836 | 2,115 | 2,170 | 2,255 | 2,340 |
| **Non Current Assets** | 2,019 | 2,324 | 3,376 | 3,717 | 4,614 | 5,262 | 5,347 | 6,032 |
| Inventory | 844 | 973 | 973 | 1,097 | 1,107 | 1,256 | 1,397 | 1,592 |
| Debtors | 484 | 675 | 711 | 809 | 650 | 706 | 785 | 895 |
| Cash & Bank | 362 | 519 | 276 | 220 | 305 | 306 | 288 | 338 |
| Other Current Assets | 59 | 42 | 86 | 309 | 280 | 391 | 435 | 496 |
| ***Current Assets*** | 2,689 | 2,988 | 2,731 | 3,216 | 3,116 | 3,440 | 3,617 | 4,035 |
| Creditors | 717 | 1,097 | 1,096 | 1,330 | 1,303 | 1,410 | 1,568 | 1,788 |
| *Provisions* | 215 | 270 | 256 | 92 | 92 | 107 | 119 | 136 |
| Other Current Liabilities | 433 | 479 | 544 | 232 | 175 | 173 | 192 | 219 |
| ***Curr Liabilities*** | 1,365 | 1,846 | 1,896 | 1,805 | 1,782 | 1,970 | 2,190 | 2,497 |
| **Net Current Assets** | 1,324 | 1,142 | 835 | 1,411 | 1,334 | 1,470 | 1,427 | 1,538 |
| **Total Assets** | 4,709 | 5,312 | 6,106 | 6,932 | 7,731 | 8,702 | 8,964 | 10,067 |

### Income Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| **Revenue from Operation** | **6,169** | **7,075** | **7,827** | **7,869** | **7,701** | **7,748** | **8,614** | **9,821** |
| Change (%) | | 15% | 11% | 1% | -2% | 1% | 11% | 14% |
| | | | | | | | | |
| ***EBITDA*** | **988** | **1,160** | **1,316** | **1,518** | **1,509** | **1,617** | **1,766** | **2,179** |
| Change (%) | | 17% | 14% | 15% | -1% | 7% | 9% | 23% |
| *Margin (%)* | 16% | 16% | 17% | 19% | 20% | 21% | 20% | 22% |
| *Depr & Amor.* | 85 | 97 | 115 | 133 | 143 | 162 | 172 | 182 |
| ***EBIT*** | **903** | **1,062** | **1,201** | **1,385** | **1,366** | **1,455** | **1,594** | **1,997** |
| *Int. & other fin. Cost* | 59 | 54 | 40 | 48 | 54 | 53 | 62 | 46 |
| Other Income | 109 | 128 | 158 | 217 | 298 | 305 | 307 | 372 |
| ***EBT*** | **953** | **1,136** | **1,319** | **1,554** | **1,610** | **1,707** | **1,839** | **2,322** |
| *Exp Item* | 5 | 1 | - | - | - | 15 | - | - |
| *Tax* | 183 | 219 | 251 | 300 | 330 | 335 | 368 | 466 |
| Minority Int & P/L share of Ass. | 2 | 3 | 3 | 3 | 3 | 3 | 3 | 3 |
| *Reported PAT* | 763 | 914 | 1,066 | 1,251 | 1,277 | 1,354 | 1,468 | 1,853 |
| **Adjusted PAT** | **760** | **913** | **1,066** | **1,251** | **1,277** | **1,342** | **1,468** | **1,853** |
| *Change (%)* | | 20% | 17% | 17% | 2% | 6% | 8% | 26% |
| Margin(%) | 12% | 13% | 14% | 16% | 17% | 17% | 17% | 19% |

## Financial Details

### Key Ratios

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| ROE | 36% | 34% | 32% | 30% | 26% | 24% | 25% | 28% |
| ROCE | 28% | 32% | 29% | 28% | 24% | 22% | 24% | 27% |
| Asset Turnover | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 |
| Debtor Days | 29 | 35 | 33 | 38 | 31 | 33 | 33 | 33 |
| Inv Days | 50 | 50 | 45 | 51 | 52 | 59 | 59 | 59 |
| Payable Days | 42 | 57 | 51 | 62 | 62 | 66 | 66 | 66 |
| Int Coverage | 15 | 20 | 30 | 29 | 25 | 27 | 26 | 43 |
| P/E | 31 | 34 | 32 | 39 | 43 | 48 | 46 | 37 |
| Price / Book Value | 11 | 12 | 10 | 12 | 11 | 11 | 12 | 10 |
| *EV/EBITDA* | 24 | 27 | 26 | 32 | 36 | 41 | 38 | 31 |
| *FCF per Share* | 4 | 5 | 5 | 6 | 4 | 5 | 8 | 10 |
| *Div Yield* | 1% | 1% | 1% | 0% | 1% | 1% | 2% | 1% |

### Cash Flow Statement

| Y/E March | FY13 | FY14 | FY15 | FY16 | FY17 | FY18 | FY19E | FY20E |
|---|---|---|---|---|---|---|---|---|
| PBT | 948 | 1,136 | 1,319 | 1,554 | 1,610 | 1,693 | 1,836 | 2,319 |
| (inc)/Dec in Working Capital | 44 | 82 | (118) | (75) | 87 | (258) | 60 | (45) |
| Non Cash Op Exp | 84 | 126 | 153 | 132 | 47 | 180 | 172 | 182 |
| Int Paid (+) | 40 | 33 | 40 | 26 | 31 | 42 | 62 | 46 |
| Tax Paid | (169) | (186) | (230) | (281) | (322) | (325) | (368) | (466) |
| others | (77) | (92) | (117) | (169) | (216) | (242) | - | - |
| **CF from Op. Activities** | **870** | **1,098** | **1,047** | **1,187** | **1,237** | **1,089** | **1,762** | **2,037** |
| (inc)/Dec in FA & CWIP | (224) | (213) | (251) | (189) | (486) | (200) | (278) | (267) |
| Free Cashflow | 646 | 885 | 796 | 998 | 751 | 889 | 1,484 | 1,769 |
| (Pur)/Sale of Inv | (454) | 10 | (721) | (688) | (511) | (584) | - | (600) |
| others | 54 | 95 | 96 | 147 | 180 | 244 | 3 | 3 |
| **CF from Inv. Activities** | **(624)** | **(107)** | **(876)** | **(730)** | **(817)** | **(540)** | **(275)** | **(864)** |
| inc/(dec) in NW | 0 | 0 | 46 | 17 | 15 | - | - | - |
| inc/(dec) in Debt | 83 | (443) | 25 | 71 | 168 | (55) | (149) | (75) |
| Int. Paid | (34) | (34) | (26) | (40) | (45) | (43) | (62) | (46) |
| Div Paid (inc tax) | (283) | (326) | (462) | (423) | (477) | (477) | (1,295) | (1,000) |
| others | | | | | | | | |
| **CF from Fin. Activities** | **(234)** | **(804)** | **(417)** | **(374)** | **(339)** | **(574)** | **(1,505)** | **(1,122)** |
| Inc(Dec) in Cash | 12 | 187 | (246) | 82 | 81 | (26) | (18) | 50 |
| **Add: Opening Balance** | **112** | **123** | **313** | **(47)** | **35** | **116** | **306** | **288** |
| Closing Balance | 125 | 313 | 68 | 35 | 116 | 89 | 288 | 338 |

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**Disclosure of Interest Statement-**

| | |
|---|---|
| Analyst's ownership of the stocks mentioned in the Report | NIL |

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

*The name of the Company has been changed from "Microsec Capital Limited" to "Narnolia Financial Advisors Limited" pursuant to change of control. The change in name has been duly effected in the records of the Registrar of Companies (ROC). The application for fresh registration in the new name of "Narnolia Financial Advisors Limited" pursuant to change of control is under process with SEBI.

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