

# Dabur India Ltd.

Industry Con. Staples  
Bloomberg DABUR IN  
BSE CODE 50096

## Result in line, domestic volume beats the estimates

<b>RATING</b>	<b>HOLD</b>
<b>CMP</b>	<b>452</b>
<b>Price Target</b>	<b>484</b>
<b>Potential Upside</b>	<b>7%</b>

<b>Rating Change</b>	
<b>Estimate Change</b>	
<b>Target Change</b>	

### Stock Info

52wk Range H/L	491/312
Mkt Capital (Rs Cr)	79801
Free float (%)	32%
Avg. Vol 1M (,000)	2725
No. of Shares (Cr)	177
Promoters Pledged %	NA

### Research Analyst

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### 3QFY19 Result update

- ❑ DABUR reported numbers in line with our estimates; posted robust sales growth of 12% to Rs.1299 Crs (vs expec. Rs.2132 Crs), backed by domestic FMCG growth of 15% while International Business (IB) grew by 3.4% with constant currency growth of around 1% on YoY basis.
- ❑ The company reported domestic FMCG volume growth of 12.4% backed by robust growth in major segments like; Health Supplements grew 13.8% on the back of double digit growth in Chyawanprash & Honey while Hair oil category grew by 23.6% with all round growth in all brands and market share gain.
- ❑ Company's growth in International Business was impacted by subdued performance of MENA markets and adverse currency movement.
- ❑ Gross Margin declined by 229 bps to 49.3% due to high crude oil prices while company managed to minimize the EBITDA decline by taking cost efficiency measures and reducing advertising exp., it declined by 27 bps to 20.3%.
- ❑ Ad. Exp. & Other Exp. declined by 133 bps & 108 bps to 8% & 10% respectively, while Employee Exp. increased by 39 bps to 10.8%, due to ESOP.
- ❑ Company reported PAT growth of 10% to Rs.367 Crs (vs expec. Rs.364 Crs), backed by robust sales growth and company's measures of maintaining EBITDA margins.

### View and Valuation

Dabur's number for Q3FY19 remained in line with our estimates, sales were up by 12% YoY to Rs 2199 cr(expec. Rs 2132 cr) while PAT grew by 10% to Rs 367 cr (expec. Rs 364 cr). Major outperformance came in domestic volume growth which grew by 12% (expec. 8%) whereas pricing growth remained ~3% in Q3FY19. International business impacted by subdued performance of MENA region and adverse currency movement, up by 3.4%. Going forward, we expect better domestic volume for Dabur led by improvement in rural demand (contributes ~45% of revenue), expansion of distribution reach backed by project Buniyaad and new innovative launches. Correction in crude and cost efficiency measures is expected to improve margins from Q4FY19 onwards. Marked difference in management commentary in Q3FY19, from moderation in rural demand (concall Q2FY19) to better growth prospects in medium-term from domestic market, especially for rural led by fiscal stimulus gives us comfort. Taking account of strong visibility of rural demand at least for the medium- terms we have tweaked our multiple higher from 42 to 45 and accordingly we have increased our target price from Rs 442 to 484(45x FY20e's eps). We maintain our HOLD rating on Dabur.

### Key Risks to our rating and target

- ❑ Sharp Increase in Crude oil prices.
- ❑ High currency volatility.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	7869	7701	7748	8644	9835
EBITDA	1518	1509	1617	1807	2231
EBIT	1385	1366	1455	1635	2049
PAT	1251	1277	1354	1505	1895
EPS (Rs)	7	7	8	9	11
EPS growth (%)	17%	2%	6%	11%	26%
ROE (%)	30%	26%	24%	26%	28%
ROCE (%)	28%	24%	22%	25%	28%
BV	24	28	32	33	38
P/B (X)	11.6	11.2	11.5	13.5	11.8
P/E (x)	38.7	42.6	48.4	52.9	42.0

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## 3QFY19 Results In line with expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	1,966	2,033	2,081	2,125	2,199	11.8%	3.5%	7,701	7,748	0.6%
Other Income	66	73	74	81	75	13.4%	-7.3%	298	305	2.3%
COGS	952	1,002	1,049	1,076	1,115	17.1%	3.7%	3,843	3,846	0.1%
Gross Margin	52%	51%	50%	49%	49%	-2.3%	-0.1%	50%	50%	0.3%
Employee Ex.	205	181	224	234	238	16.0%	1.4%	790	793	0.4%
Adv. Ex.	185	126	199	134	178	-3.9%	33.4%	-	-	0.0%
Other Expen.	205	181	224	234	238	16.0%	1.4%	1,560	1,492	-4.4%
EBITDA	404	485	386	451	445	10.4%	-1.2%	1,509	1,617	7.2%
EBITDA Mar.	21%	24%	19%	21%	20%	-0.3%	-1.0%	20%	21%	1.3%
Depreciation	40	43	43	43	45	10.9%	4.1%	143	162	13.5%
EBIT	363	443	343	408	401	10%	-1.8%	1,366	1,455	6.5%
Interest	13	13	15	16	17	27%	7.6%	54	53	-1.8%
PBT	416	503	402	473	459	10.3%	-3.0%	1,610	1,707	6.0%
Exceptional	-	-	-	-	-	0.0%	0.0%	-	15	-
Tax	83	105	72	96	92	10.9%	-3.9%	330	335	1.5%
PAT	333	397	329	378	367	10.3%	-2.7%	1,277	1,354	6.0%
PAT Margin	17%	20%	16%	18%	17%	-0.2%	-1.1%	17%	17%	0.9%

### Robust volume growth led by high growth across segments

Sales growth of 12% (expec. 8%) backed by domestic FMCG growth of 15% with volume growth of 12%. Healthcare segment grew by 15.9% with Chyawanprash growth of 10.0%, Dabur Honey 19.8% & Digestives 22.5%. Hair oil category grew by 23.6% with growth across all brands and market share gain. Shampoo category reported strong growth of 25.2% led by on ground activations and visibility drive. Oral care recorded growth of 10.0% with toothpastes growing at 11.1%. Red Toothpaste continued its growth momentum with a growth of 22.6% while Babool impacted by high competitive intensity at economy price points. International Business (IB) grew by 3.4% with constant currency growth of around 1% on YoY basis which remained lagged by subdued performance in MENA region and headwinds in currency.

### High input cost impacted gross margin

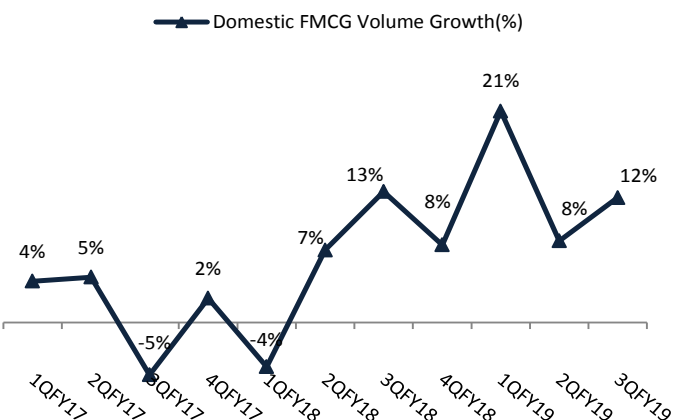
COGS increased from 48.4% in Q3 FY18 to 50.7% in Q3 FY19 due to adverse currency, movement, inflation in input prices and promotional costs which led to steep decline in gross margin by 229 bps to 49.3% YoY while company reported low shrinkage in EBITDA margin by 27 bps YoY backed by cost savings and efficiencies measures which minimized the impact of gross margin on it.

### Concall Highlights

- Rural outgrowing urban by 2% and it is expected grow even better going forward led by improvement in rural demand backed by government initiatives.
- Impact of recently declared budget (01 Feb19) will lead positive trends in rural India. Various initiatives taken would be strong lever for driving sustained FMCG growth in times to come. Consumption space is poised to have robust volume growth.
- Domestic is expected to grow higher than International Business (IB) in coming few quarters. It would be in ratio of 75:25 (domestic to IB).
- Honitus & Shilajit were standout performers for the 9 months in FY19, led by company's investment in both brands. Pudina Hara & Hajmola were also the good performers for the year. OTC is expected to be the best performer in next year.
- Going forward company would increase the ad spends & decrease promotional to some extent.
- Gross margin contracted because of higher priced input bought in previous quarter (1Q & 2QFY19), gross margin is expected to come back to previous levels in Q4.
- ESOP cost would be inline in next year as compared to this year.
- In IB – strong growth prospect is expected in medium term to long term view. Company expects better growth from IB from 2QFY20 onwards.
- Namaste had nearly no sales from EU as it was facing issues related to prices with distributors. Couple of quarters is required for EU to stabilize.
- GCC which is 30-35% of IB, declined by 12%. While, secondary growth is strong but overall category growth has declined in GCC, mgmt. expects sharp comeback of GCC business in coming quarters.
- Turkey could emerge as one big growth driver, once the translation's negative impact is over.

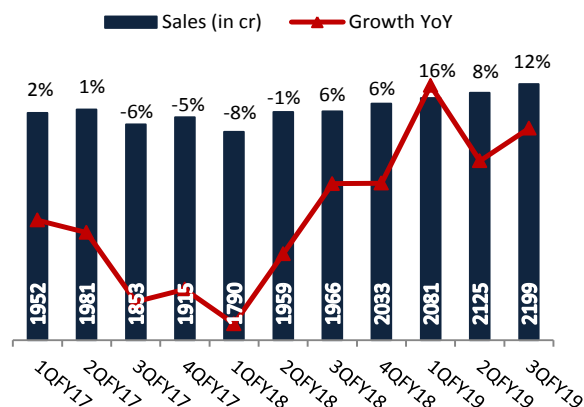
## Exhibit: Domestic FMCG Volume Growth

Witnessed robust volume growth in all segments wherein Healthcare, HPC and Foods clocked double digit growth.



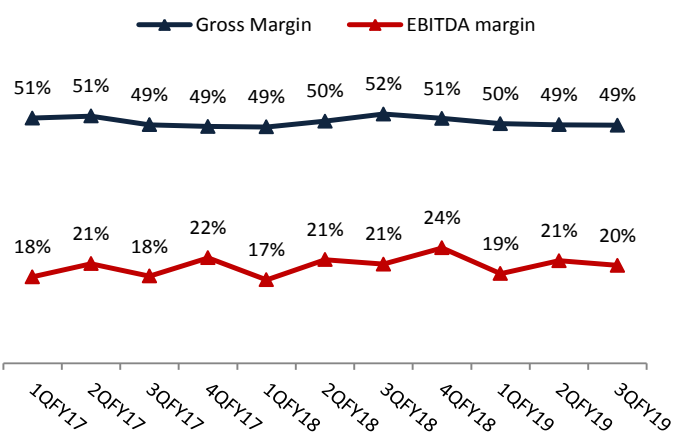
## Exhibit: Sales and Sales Growth

Dabur's number for Q3FY19 remained in line, sales were up by 12% YoY led by domestic vol. growth of 12%.



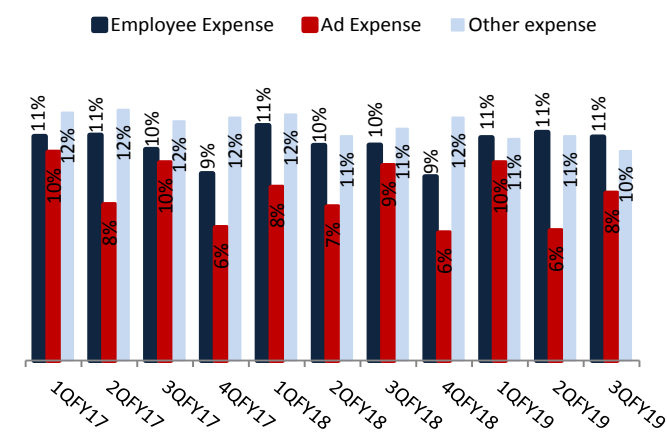
## Exhibit: Gross and EBITDA Margin

GM declined by 229 bps YoY led by adverse currency, input inflation and higher promotional cost.



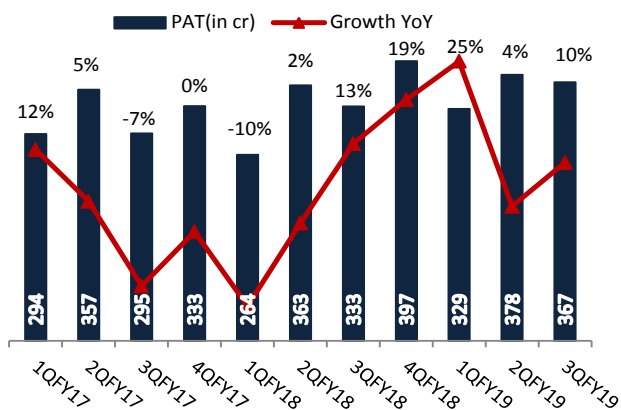
## Exhibit: Trend in Expenses

Ad. Exp. & Other Exp declined backed by cost efficiency measures while Empl. Exp increased due to ESOP.



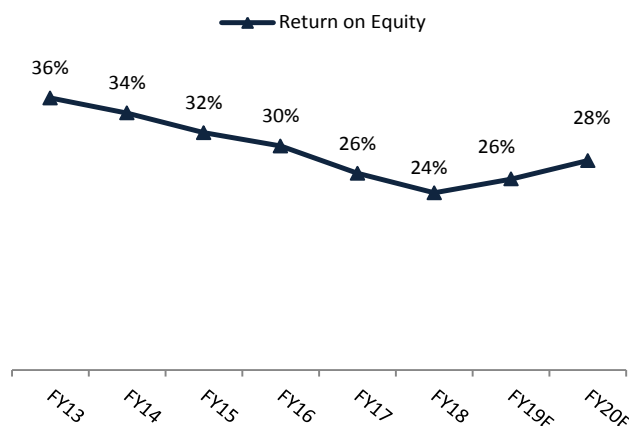
## Exhibit: PAT and PAT Growth

Strong PAT growth led by robust sales growth and company's measures of maintaining EBITDA margins.



## Exhibit: Return on equity

ROE is expected to improve by 184 bps & 247 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	5,708	6,580
<b>Networth</b>	<b>2,095</b>	<b>2,656</b>	<b>3,354</b>	<b>4,171</b>	<b>4,847</b>	<b>5,707</b>	<b>5,884</b>	<b>6,756</b>
Debt	1,151	708	734	792	912	829	680	605
Other Non Current Liab	85	86	105	144	165	170	185	200
<b>Total Capital Employed</b>	<b>3,247</b>	<b>3,364</b>	<b>4,088</b>	<b>4,963</b>	<b>5,759</b>	<b>6,535</b>	<b>6,564</b>	<b>7,361</b>
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
<b>Non Current Assets</b>	<b>2,019</b>	<b>2,324</b>	<b>3,376</b>	<b>3,717</b>	<b>4,614</b>	<b>5,262</b>	<b>5,347</b>	<b>6,032</b>
Inventory	844	973	973	1,097	1,107	1,256	1,401	1,595
Debtors	484	675	711	809	650	706	788	896
Cash & Bank	362	519	276	220	305	306	291	361
Other Current Assets	59	42	86	309	280	391	436	496
<b>Current Assets</b>	<b>2,689</b>	<b>2,988</b>	<b>2,731</b>	<b>3,216</b>	<b>3,116</b>	<b>3,440</b>	<b>3,629</b>	<b>4,062</b>
Creditors	717	1,097	1,096	1,330	1,303	1,410	1,573	1,790
Provisions	215	270	256	92	92	107	120	136
Other Current Liabilities	433	479	544	232	175	173	193	220
<b>Curr Liabilities</b>	<b>1,365</b>	<b>1,846</b>	<b>1,896</b>	<b>1,805</b>	<b>1,782</b>	<b>1,970</b>	<b>2,198</b>	<b>2,501</b>
<b>Net Current Assets</b>	<b>1,324</b>	<b>1,142</b>	<b>835</b>	<b>1,411</b>	<b>1,334</b>	<b>1,470</b>	<b>1,432</b>	<b>1,561</b>
<b>Total Assets</b>	<b>4,709</b>	<b>5,312</b>	<b>6,106</b>	<b>6,932</b>	<b>7,731</b>	<b>8,702</b>	<b>8,976</b>	<b>10,094</b>

### 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	8,644	9,835
Change (%)		15%	11%	1%	-2%	1%	12%	14%
<b>EBITDA</b>	<b>988</b>	<b>1,160</b>	<b>1,316</b>	<b>1,518</b>	<b>1,509</b>	<b>1,617</b>	<b>1,807</b>	<b>2,231</b>
Change (%)		17%	14%	15%	-1%	7%	12%	24%
Margin (%)	16%	16%	17%	19%	20%	21%	21%	23%
Depr & Amor.	85	97	115	133	143	162	172	182
<b>EBIT</b>	<b>903</b>	<b>1,062</b>	<b>1,201</b>	<b>1,385</b>	<b>1,366</b>	<b>1,455</b>	<b>1,635</b>	<b>2,049</b>
Int. & other fin. Cost	59	54	40	48	54	53	62	46
Other Income	109	128	158	217	298	305	307	373
<b>EBT</b>	<b>953</b>	<b>1,136</b>	<b>1,319</b>	<b>1,554</b>	<b>1,610</b>	<b>1,707</b>	<b>1,880</b>	<b>2,376</b>
Exp Item	5	1	-	-	-	15	-	-
Tax	183	219	251	300	330	335	372	477
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	1,505	1,895
<b>Adjusted PAT</b>	<b>760</b>	<b>913</b>	<b>1,066</b>	<b>1,251</b>	<b>1,277</b>	<b>1,342</b>	<b>1,505</b>	<b>1,895</b>
Change (%)		20%	17%	17%	2%	6%	11%	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%	26%	28%
ROCE	28%	32%	29%	28%	24%	22%	25%	28%
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	44
P/E	31	34	32	39	43	48	53	42
Price / Book Value	11	12	10	12	11	11	14	12
EV/EBITDA	24	27	26	32	36	41	44	36
FCF per Share	4	5	5	6	4	5	9	10
Div Yield	1%	1%	1%	0%	1%	1%	1%	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	1,877	2,372
(inc)/Dec in Working Capital	44	82	(118)	(75)	87	(258)	58	(44)
Non Cash Op Exp	84	126	153	132	47	207	172	182
Int Paid (+)	40	33	40	26	31	42	62	46
Tax Paid	(169)	(186)	(230)	(281)	(322)	(325)	(372)	(477)
others	(77)	(92)	(117)	(169)	(216)	(271)	-	-
<b>CF from Op. Activities</b>	<b>870</b>	<b>1,098</b>	<b>1,047</b>	<b>1,187</b>	<b>1,237</b>	<b>1,089</b>	<b>1,797</b>	<b>2,080</b>
(inc)/Dec in FA & CWIP	(224)	(213)	(251)	(189)	(486)	(200)	(278)	(267)
Free Cashflow	646	885	796	998	751	889	1,520	1,812
(Pur)/Sale of Inv	(454)	10	(721)	(688)	(511)	(584)	-	(600)
others	54	95	96	147	180	244	3	3
<b>CF from Inv. Activities</b>	<b>(624)</b>	<b>(107)</b>	<b>(876)</b>	<b>(730)</b>	<b>(817)</b>	<b>(540)</b>	<b>(275)</b>	<b>(864)</b>
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)	(1,327)	(1,023)
others								
<b>CF from Fin. Activities</b>	<b>(234)</b>	<b>(804)</b>	<b>(417)</b>	<b>(374)</b>	<b>(339)</b>	<b>(574)</b>	<b>(1,538)</b>	<b>(1,144)</b>
Inc(Dec) in Cash	13	190	(245)	82	81	(27)	(15)	71
<b>Add: Opening Balance</b>	<b>112</b>	<b>123</b>	<b>313</b>	<b>(47)</b>	<b>35</b>	<b>116</b>	<b>306</b>	<b>291</b>
Closing Balance	125	313	68	35	116	89	291	361

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