

DABUR INDIA LTD.

ACCUMULATE

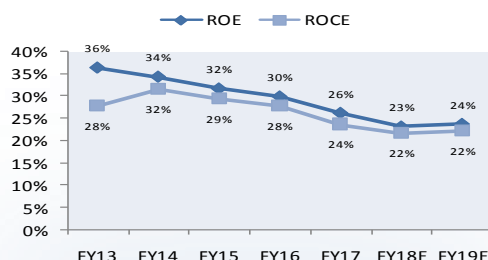
27-Feb-18

INDUSTRY - Con. Staples
BLOOMBERG - DABUR IN
BSE Code - 500096
NSE Code - DABUR
NIFTY - 10583

Company Data

CMP	332
Target Price	380
Upside	14%
52wk Range H/L	368/265
Mkt Capital (Rs Cr)	58,403
Av. Volume (,000)	1,267

RoE & ROCE

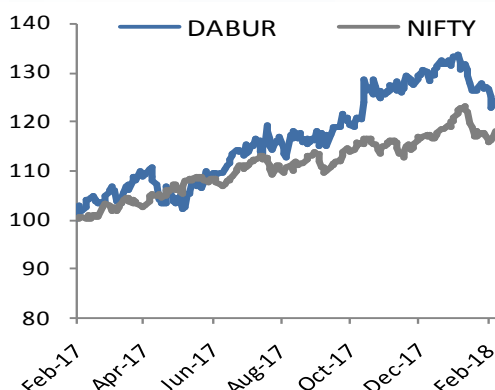


Shareholding patterns %

	3QFY18	2QFY18	1QFY18
Promoters	68	68	68
Public	32	32	32
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	(8.8)	(2.3)	25.1
Rel.to Nifty	(6.0)	(4.8)	5.9



Management meet update:

Recently, we had a meeting with Gagan Ahluwalia, Sr. General Manager-Corporate Affairs in Dabur in which she explained us company's future plans and recent developments. According to the Management, future growth will be driven by volume on account of the launch of lower unit packs (LUP) and cheaper version of hair oil like Dabur Sarso Amla Hair Oil. As far as domestic business is concern, Urban wholesale is still recovering while rural growth remains higher than urban. Margin has peaked out and it will be difficult to maintain it at current level, considering rising input prices. Some pricing action may be there in Q1FY19 as per inflationary situation. International business is on the path of recovery.

Heading towards better topline growth:

Dabur's nearly half of the revenue comes from rural market. Rural revenue has witnessed a growth of 23% in Q3FY18 although on the lower base. Rural growth has outpaced urban growth in Q3FY18. Going forward, management envisages better volume growth driven by LUP and distribution expansion in rural market. The company will add more feet on street and expand its project Buniyad's reach to more villages. Some volume market share gain is also expected. Cheaper version of hair oil like Sarson Amla and Anmol Coconut Oil to drive volume growth going

Recovery in International business:

GCC (Gulf Cooperation Countries) business had reported handsome growth of 20% in Q3FY18 backed by 34% growth in Saudi Arabia. According to management worse is over for GCC business and economy is firming up. Dabur's initiatives regarding restructuring of distribution, rising crude oil and government's decision to not removing subsidy augur well with Saudi Arabia business. For Dabur most of region have done well or on the path of recovery except North Africa and US. Management believes US market to turnaround shortly. For last 3-4 quarters, Dabur's international business was facing currency headwinds which had dampened the growth but due to anniversarization, growth is expected to be better in coming quarters.

May witness margin pressure:

Management believes that margin is at its highest level and going forward, it would not be easy to maintain it at current level. Rising crude and other input prices may put pressure on margin although management may take some pricing action in Q1FY19 which is limited to input price inflation. Management is more focused towards improvement in volume. Thrust on LUP and addition of feet on street will also hamper margin growth.

Focus on scaling up the product portfolio:

The company has launched Real Mocktails, Odomos Fabric Roll-On, Sani Fresh Bathroom Cleaner and GlycoDab tablets in Q3FY18. It will keep momentum going. Presently category expansion is not in the management's list but within category, launches will keep happening. Primary focus of management will remain scaling up the product portfolio.

RAJEEV ANAND
rajeev.anand@narnolia.com

Dabur's management meet key takeaways:

- ✓ After GST, things are stabilizing.
- ✓ Urban wholesale is still not fully recovered.
- ✓ Rural growth was better than urban in Q3FY18.
- ✓ Dabur is heading towards better growth going ahead.
- ✓ Focus on volume improvement led by LUP's and cheaper version of oil like Dabur Sarso Amla Hair Oil.
- ✓ Margin is at the peak and not easy to maintain it at this level going forwards. May take price hike in Q1FY19 keeping eye on inflation in key input prices.
- ✓ Distributors to wholesale margin is 1-2%.
- ✓ Current direct reach of Dabur is 1mn outlets and its ratio is 60:40(Urban:rural).
- ✓ In hair oil segment, there is little room left for market share gain. 2011-12 was the best year for hair oil in terms of shift of market share from unorganized to organized.
- ✓ Hair oil is a rural phenomenon. Witnessing down trading in it.
- ✓ Goodwill write off in the range of Rs 211 cr was due to write-off related to Namaste and Hobi business. Change from IGAAP to IND-AS gave room for writing off goodwill.
- ✓ In international business, US is not performing well but company expects it to turnaround going ahead.
- ✓ GCC business: worst is over, economy is firming up. Government is not removing subsidy.
- ✓ Company's Policy related to subsidiary: no interference in subsidiary financing.
- ✓ Company took long term debt of Rs 201 cr in its standalone balance sheet which is a normal phenomenon for taking benefits of arbitrage of interest rate differences.
- ✓ Expected Capex: Rs 250-300 cr in FY19 as well as FY20.
- ✓ Present market share: Honey~43% and Chyawanprash~62%. The company will hike its investment in Chyawanprash in Sept.-Oct of FY19 by increasing A&P spends.
- ✓ Effective Tax rate for FY19&FY20: 20%.
- ✓ Maintain Stable Dividend payout: ~40%, no buybacks.
- ✓ Management is interested in the acquisition of domestic company but valuation is not comfortable.
- ✓ Ayurvedic and aligned portfolio is ~70% of total revenue.

View and Valuation:

Dabur's sales and PAT have grown at the CAGR of 11% and 14% over last 6 years. If we take CAGR of last three years than its sales grew at the CAGR of 3%(If we adjust GST and other tax related issues than sales CAGR would be ~6%) while PAT by 12%. Last two years remained challenging for Dabur due to Nepal issue, demonetization, devaluation of currency, geopolitical headwinds and GST. While in this period margin kept expanding led by lower input prices.

Going forward we expect topline growth to come back led by stronger volume growth from rural market on account of higher MSP, government rural initiatives, increasing salience of LUP and expansion of direct reach. Strong growth in Honey and regaining of lost market gives us confidence regarding management initiatives. New product launches will further add to the volume. International business is expected to do better on the back of GCC and Egypt revival.

While margin may be slightly lower keeping view of rising input prices and increase in salience of LUP in product mix but management stance to take up pricing in line with input inflation gives us confidence of lower margin deterioration going forward. We expect improvement in International business margin led by improvement in Namaste and sub-Saharan Africa margin. Considering demand revival from rural and better traction from International business going forward, we are getting positive on Dabur. We value it at 44 times of FY19's expected EPS and recommend ACCUMULATE with the target price of Rs 380.

Financials Snap Shot

Income Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	7,869	7,701	7,750	8,696
Change (%)	1%	-2%	1%	12%
Other Operating Income				
EBITDA	1,518	1,509	1,557	1,758
Change (%)	15%	-1%	3%	13%
Margin (%)	19%	20%	20%	20%
Dep & Amortization	133	143	158	177
EBIT	1,385	1,366	1,398	1,581
Interest & other finance cost	48	54	52	49
Other Income	217	298	296	375
EBT	1,554	1,610	1,642	1,907
Exceptional Item	-	-	15	-
Tax	300	330	326	383
Minority Int & P/L share of Ass.	3	3	3	3
Reported PAT	1,251	1,277	1,298	1,521
Adjusted PAT	1,251	1,277	1,286	1,521
Change (%)	17%	2%	1%	18%
Margin(%)	16%	17%	17%	17%

Balance Sheet				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	176	176	176	176
Reserves	3,995	4,671	5,394	6,195
Networth	4,171	4,847	5,570	6,371
Debt	792	912	857	749
Other Non Current Liab	144	165	180	195
Total Capital Employed	4,963	5,759	6,426	7,120
Net Fixed Assets (incl CWIP)	1,773	2,000	2,123	2,108
Non Current Investments	1,881	2,499	3,099	3,699
Other Non Current Assets	1,836	2,115	2,238	2,222
Non Current Assets	3,717	4,614	5,338	5,922
Inventory	1,097	1,107	1,114	1,250
Debtors	809	650	654	734
Cash & Bank	220	305	265	357
Other Current Assets	309	280	281	316
Current Assets	3,216	3,116	3,090	3,435
Creditors	1,330	1,303	1,311	1,471
Provisions	92	92	92	104
Other Current Liabilities	232	175	177	198
Curr Liabilities	1,805	1,782	1,793	2,012
Net Current Assets	1,411	1,334	1,297	1,423
Total Assets	6,932	7,731	8,427	9,357

Key Ratios				
Y/E March	FY16	FY17	FY18E	FY19E
ROE	30%	26%	23%	24%
ROCE	28%	24%	22%	22%
Asset Turnover	1.1	1.0	0.9	0.9
Debtor Days	38	31	31	31
Inventory Days	51	52	52	52
Payable Days	62	62	62	62
Interest Coverage	29	25	27	33
P/E	39	43	45	38
Price / Book Value	12	11	10	9
EV/EBITDA	32	36	38	33
FCF per Share	6	4	7	9
Dividend Yield	0.7%	0.7%	0.8%	1.0%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
Volume growth	5%	1%	6%	11%
Pricing growth	2%	-2%	3%	5%

Cash Flow Statement				
Rs in Crores				
Y/E March	FY16	FY17	FY18E	FY19E
PBT	1,554	1,610	1,639	1,904
(inc)/Dec in Working Capital	(75)	87	13	(11)
Non Cash Op Exp	132	47	158	177
Interest Paid (+)	26	31	52	49
Tax Paid	(281)	(322)	(326)	(383)
others	(169)	(216)	-	-
CF from Op. Activities	1,187	1,237	1,536	1,736
(inc)/Dec in FA & CWIP	(189)	(486)	(281)	(161)
Free Cashflow	998	751	1,255	1,575
(Pur)/Sale of Investment	(688)	(511)	(600)	(600)
others	147	180	3	3
CF from Inv. Activities	(730)	(817)	(878)	(758)
inc/(dec) in NW	17	15	-	-
inc/(dec) in Debt	71	168	(55)	(108)
Interest Paid	(40)	(45)	(52)	(49)
Dividend Paid (inc tax)	(423)	(477)	(545)	(730)
others				
CF from Fin. Activities	(374)	(339)	(652)	(887)
Inc(Dec) in Cash	82	81	5	91
Add: Opening Balance	(47)	35	305	265
Closing Balance	35	116	310	357



Narnolia Securities Ltd

201 | 2nd Floor | Marble Arch Building | 236B-AJC Bose
Road | Kolkata-700 020 , Ph : 033-40501500

email: narnolia@narnolia.com,

website : www.narnolia.com

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