

Industry
Bloomberg
BSE CODE

Consum. Staples
DABUR IN
500096

Strong numbers amid slowdown across market

1QFY20 Result Update

- DABUR posted numbers above our expectations, reporting Sales growth of 9.3% YoY to Rs 2273 cr (vs expect. Rs 2049 cr) on back of value growth of 11% in Domestic business & 7.7% growth in constant currency(cc) terms in International business (IB).
- The company's domestic volume grew by 9.6% led by company's focus on distribution expansion, investment on power brand and aggressive launches of lower unit packs (LUP).
- Gross margin contracted by 9 bps YoY to 49.5% YoY, almost flattish due to stable input material cost and change in product mix while EBITDA margin remained at 20.1% YoY, expanded by 157 bps on account of decline in employee(due to writing back of Esop provisioning), advertisement(rationalization) & other expenses (as % of sales) by 59 bps, 67 bps and 40 bps respectively.
- PAT stood at Rs 364 cr (vs expect. Rs 322 cr) depicting a growth of 10.2% YoY led by strong revenue growth and improved margins. PAT margin expanded by 18 bps YoY to 16% impacted by provision of impairment in the value of treasury investment due to rating downgrade and flat other income.
- The company made treasury investment in DHFL, as of now no loss is identified but still company made provision of 40% (Rs 20 cr), shown as exceptional item in 1QFY20.

View and Valuation

Dabur has reported numbers much better than our expectations; sales grew by 9% YoY to Rs 2273 cr (vs expect. Rs 2049 cr) with strong domestic volume growth of 9.6% despite higher base of 21% and sequential slowdown across market. The company's PAT grew by 10% YoY to Rs 364 cr (vs expect. Rs 322 cr). Going forward, distribution expansion across market, focused strategies regarding power brands and aggressive launches of new products & lower unit packs (LUP) are expected to boost the growth although sequential slowdown in rural and performance of monsoon will be thing to watch out for. Margin is expected to remain stable on the back of change in product mix and lower crude outlook. Considering company's strong new products pipeline, aggressive distribution expansion and focus on power brand, we have increased our sales estimates for FY20/FY21e by 2%/4% while factoring stable margin going ahead, we have increased our PAT estimates by 3%/5%. We now value Dabur at 42x(lowered multiple considering apprehension regarding monsoon and tapering of rural growth) of FY21e eps (rolling over from FY20e) and remain neutral with the target price of 432 (earlier390).

Key Risks to our rating and target

- Tapering of rural growth.
- Sharp increase in crude oil prices.

RATING	NEUTRAL
CMP	421
Price Target	432
Potential Upside	3%

Rating Change	↔
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	491/357
Mkt Capital (Rs Cr)	74393
Free float (%)	32%
Avg. Vol 1M (,000)	2348
No. of Shares (Crs)	177
Promoters Pledged %	NA

RESEARCH ANALYST

RAJEEV ANAND

rajeev.anand@narnolia.com
+91-22-62701229

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7701	7748	8533	9442	10626
EBITDA	1509	1617	1740	1927	2167
EBIT	1366	1455	1563	1715	1947
PAT	1277	1354	1442	1572	1816
EPS (Rs)	7	8	8	9	10
EPS growth (%)	2%	6%	6%	9%	16%
ROE (%)	26%	24%	26%	25%	25%
ROCE (%)	24%	22%	25%	25%	25%
BV	28	32	32	36	41
P/B (X)	11.2	11.5	12.0	11.7	10.3
P/E (x)	42.6	48.4	46.8	47.3	40.9

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd. does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

Better than estimates

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,081	2,125	2,199	2,128	2,273	9.3%	6.8%	7,748	8,533	10.1%
Other Income	74	81	75	66	73	-0.5%	10.9%	305	296	-3.0%
COGS	1,049	1,076	1,115	1,069	1,148	9.5%	7.3%	3,846	4,309	12.0%
Gross Margin	50%	49%	49%	50%	50%	-0.1%	-0.2%	50%	50%	-0.9%
Empl. Cost	224	234	238	242	231	3.2%	-4.3%	793	938	18.3%
Adv. Expenses	199	134	178	98	202	1.6%	106.7%	607	608	0.3%
Other Exp.	223	230	223	262	234	5.2%	-10.5%	885	938	6.0%
EBITDA	386	451	445	457	458	18.5%	0.1%	1,617	1,740	7.6%
EBITDA Mar.	19%	21%	20%	21%	20%	1.6%	-1.4%	21%	20%	-0.5%
Depreciation	43	43	45	46	53	23.4%	14.1%	162	177	9.1%
EBIT	343	408	401	411	405	17.9%	-1.5%	1,455	1,563	7.4%
Interest	15	16	17	12	15	2.5%	23.0%	53	60	12.3%
PBT	402	473	459	465	463	15.1%	-0.4%	1,707	1,799	5.4%
Excep. Item	-	-	-	75	20	-	-73.5%	15	75	418.2%
Tax	72	96	92	18	79	9.9%	346.7%	335	279	-16.9%
PAT	330	378	367	371	364	10.2%	-2.1%	1,354	1,442	6.5%
PAT Margin	16%	18%	17%	17%	16%	0.1%	-1.5%	17%	17%	-0.6%

Strong growth across all categories; Food Business remained laggards

Healthcare business grew 17.8% backed by strong growth in all sub categories: Health Supplements, Digestives, OTC & Ethicals grew by 20%, 18%, 13% & 16% respectively. Home and Personal Care (HPC) had growth to 11.7%. Under this, Shampoos & Post Wash, Hair Oils, Oral Care, Home Care and Skin & Salon grew by 11%, 12%, 11%, 11% and 12% respectively. Food business grew by 1.5% wherein beverages & culinary reported growth of 1% & 12% respectively impacted by slower category growth and competition from dairy beverages.

New launches: Babool Ayurvedic Toothpaste with attractive price points, Real Mixed Berries, Real Fruit ORS, Real Koolerz Mango(with new INR 10 SKU) are the various launches done by the company in 1QFY20. Fem Hair Removing Cream was re-launched in the quarter.

Reported steady gross margin & improved EBITDA margin

Stable material cost and change in product mix led to flattish (9 bps decline) gross margin at 49.5%. EBITDA saw an expansion of 157 bps to 20.1% led by decline in employee exp., advertisement expenses & other expenses (all as % of sales) by 59 bps, 67 bps and 40 bps respectively on account cost rationalization, writing back Esop prov. & lease account. change.

Concall Highlights

- Volume growth is expected to remain mid to high single digit for FY20.
- Operating margin targeted to remain at 20% in FY20. Any benefit above that would be plough back to business for creating future growth drivers.
- In 1QFY20, company took price hike of 1.4%. Going ahead, no inflationary pressure as covered till Oct - Nov, price increase is not expected beyond 2%.
- Capex for FY20 is expected to be in the range of ~Rs 250-300 cr.
- The company is 2 quarters away to start with its major innovations.
- Meswak: Work yet to be done, revival expected in 2QFY20.
- Staff cost (FY20) is expected to be around 8-9% of sales going forward.
- Excluding impact of IND-As 116, operating margin improved by 117 bps YoY.
- The company continues to maintain inventory level of 18-20 days.
- The company is expected to see some revival in the MENA (contribution ~50% to IB) market with improvement in market share on the back of trade schemes. By the completion of the year, comparable base will lead to improvement in margins.
- America business is also expected to improve going ahead. Bangladesh is still struggling bit; huge potential for growth; company will continue to invest.
- Turkey: The impact of currency devaluation will continue for another 3 months, presently business is growing at 40%.
- Overall IB outlook: The Company will be able to sustain growth in IB while minor improvement in margin is expected.
- IB strategy: Consolidating current categories & getting back to growth on those before any further investments for newer categories.
- Company is investing on capex to enable it to launch smaller SKU's to straddle rural route to market.

Exhibit: Domestic FMCG Volume Growth %

Domestic FMCG posted volume growth of 9.6% led by well executed distribution expansion and LUP's.

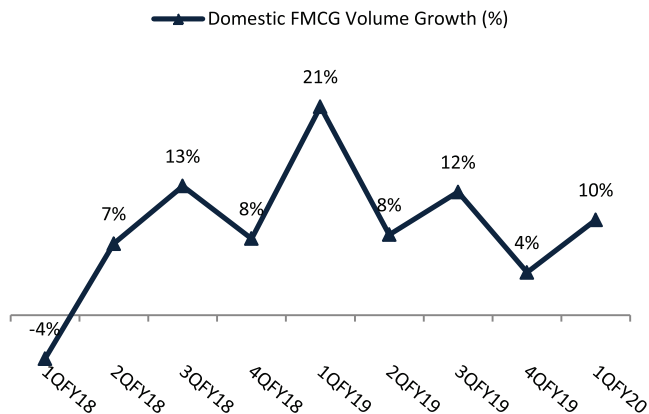


Exhibit: Gross and EBITDA Margin %

GM contracted by 9 bps to 49.5% YoY while EBITDA m. was at 20.1% YoY, up by 157 bps YoY.

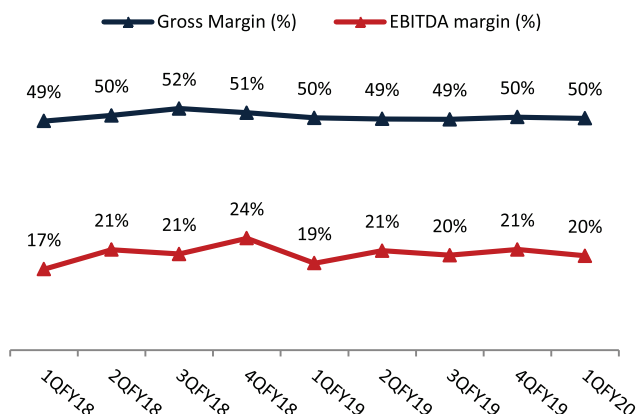


Exhibit: PAT and PAT Growth %

Consolidated PAT increased by 10.2%YoY backed by strong revenue growth and improved EBITDA margins.

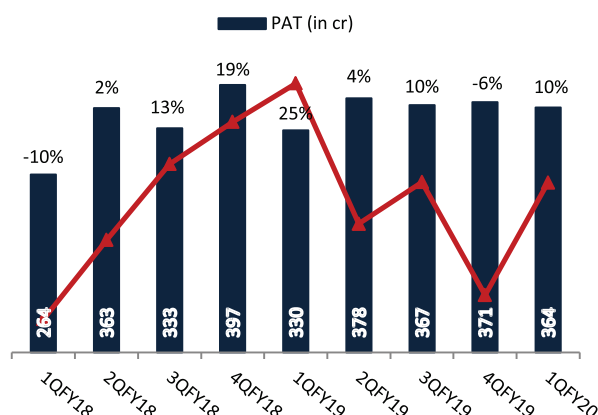


Exhibit: Sales and Sales Growth %

Consolidated revenue grew by 9.3% backed by growth in Domestic FMCG was 11% & Int. Busi. growth of 7.7 cc.

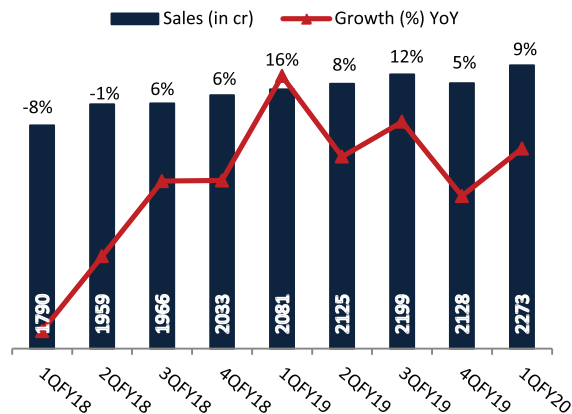


Exhibit: Trend in Expenses %

cost rationalization, writing back Esop prov. & lease account. change led to lower ad & employee & other exp.

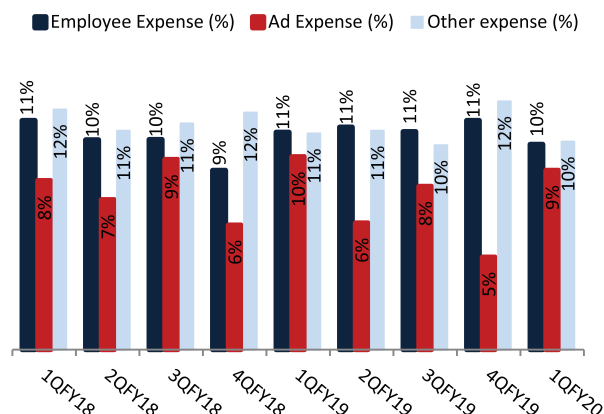
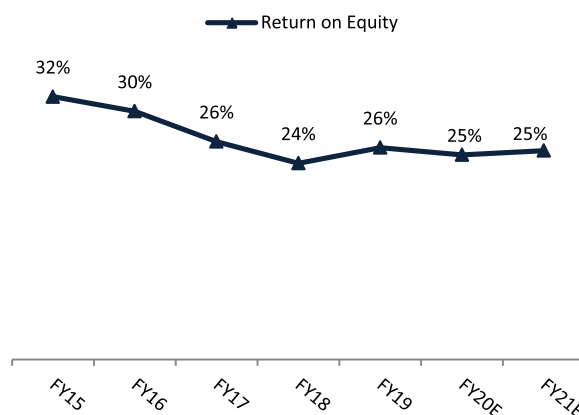


Exhibit: Return on equity (ROE) %

ROE is expected to be at 25% in FY20e, low by 87 bps YoY on account of investments behind brands.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	174	176	176	176	176	177	177	177
Reserves	2,482	3,178	3,995	4,671	5,530	5,455	6,178	7,014
Networth	2,656	3,354	4,171	4,847	5,707	5,632	6,355	7,190
Debt	708	734	792	912	829	524	524	524
Other Non Current Liab	86	105	144	165	170	87	102	117
Total Capital Employed	3,364	4,088	4,963	5,759	6,535	6,156	6,879	7,715
Net Fixed Assets (incl CWIP)	1,789	1,927	1,773	2,000	2,070	2,033	2,170	2,218
Non Current Investments	493	1,407	1,881	2,499	3,092	2,633	3,233	3,833
Other Non Current Assets	1,831	1,968	1,836	2,115	2,170	2,217	2,354	2,402
Non Current Assets	2,324	3,376	3,717	4,614	5,262	4,850	5,588	6,236
Inventory	973	973	1,097	1,107	1,256	1,301	1,439	1,620
Debtors	675	711	809	650	706	834	922	1,038
Cash & Bank	519	276	220	305	306	328	297	456
Other Current Assets	42	86	309	280	391	360	398	448
Current Assets	2,988	2,731	3,216	3,116	3,440	3,586	3,820	4,326
Creditors	1,097	1,096	1,330	1,303	1,410	1,455	1,610	1,812
Provisions	270	256	92	92	107	130	144	162
Other Current Liabilities	479	544	232	175	173	198	219	247
Curr Liabilities	1,846	1,896	1,805	1,782	1,970	2,162	2,392	2,692
Net Current Assets	1,142	835	1,411	1,334	1,470	1,424	1,428	1,634
Total Assets	5,312	6,106	6,932	7,731	8,702	8,437	9,408	10,562

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	7,075	7,827	7,869	7,701	7,748	8,533	9,442	10,626
Change (%)		11%	1%	-2%	1%	10%	11%	13%
EBITDA	1,160	1,316	1,518	1,509	1,617	1,740	1,927	2,167
Change (%)		14%	15%	-1%	7%	8%	11%	12%
Margin (%)	16%	17%	19%	20%	21%	20%	20%	20%
Depr & Amor.	97	115	133	143	162	177	212	220
EBIT	1,062	1,201	1,385	1,366	1,455	1,563	1,715	1,947
Int. & other fin. Cost	54	40	48	54	53	60	57	57
Other Income	128	158	217	298	305	296	327	377
EBT	1,136	1,319	1,554	1,610	1,707	1,799	1,985	2,267
Exp Item	1	-	-	-	15	75	20	-
Tax	219	251	300	330	335	279	389	447
Minority Int & P/L share of Ass.	3	3	3	3	3	4	4	4
Reported PAT	914	1,066	1,251	1,277	1,354	1,442	1,572	1,816
Adjusted PAT	915	1,066	1,251	1,277	1,366	1,506	1,588	1,816
Change (%)		17%	17%	2%	6%	7%	9%	16%
Margin(%)	13%	14%	16%	17%	17%	17%	17%	17%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	34%	32%	30%	26%	24%	26%	25%	25%
ROCE	32%	29%	28%	24%	22%	25%	25%	25%
Asset Turnover	1	1	1	1	1	1	1	1
Debtor Days	35	33	38	31	33	36	36	36
Inv Days	50	45	51	52	59	56	56	56
Payable Days	57	51	62	62	66	62	62	62
Int Coverage	20	30	29	25	27	26	30	34
P/E	34	32	39	43	48	47	47	41
Price / Book Value	12	10	12	11	11	12	12	10
EV/EBITDA	27	26	32	36	41	39	38	34
FCF per Share	5	5	6	4	5	9	8	10
Div Yield	1.0%	1.0%	0.0%	0.7%	0.6%	2.0%	1.0%	1.1%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,136	1,319	1,554	1,610	1,693	1,795	1,961	2,263
(inc)/Dec in Working Capital	82	(118)	(75)	87	(258)	(86)	(20)	(31)
Non Cash Op Exp	126	153	132	47	207	177	212	220
Int Paid (+)	33	40	26	31	42	60	57	57
Tax Paid	(186)	(230)	(281)	(322)	(325)	(279)	(389)	(447)
others	(92)	(117)	(169)	(216)	(271)	-	-	-
CF from Op. Activities	1,098	1,047	1,187	1,237	1,089	1,668	1,820	2,062
(inc)/Dec in FA & CWIP	(213)	(251)	(189)	(486)	(200)	(140)	(349)	(267)
Free Cashflow	885	796	998	751	889	1,527	1,472	1,794
(Pur)/Sale of Inv	10	(721)	(688)	(511)	(584)	458	(600)	(600)
others	95	96	147	180	244	(7)	3	3
CF from Inv. Activities	(107)	(876)	(730)	(817)	(540)	311	(946)	(864)
inc/(dec) in NW	0	46	17	15	-	-	-	-
inc/(dec) in Debt	(443)	25	71	168	(55)	(305)	-	-
Int. Paid	(34)	(26)	(40)	(45)	(43)	(60)	(57)	(57)
Div Paid (inc tax)	(326)	(462)	(423)	(477)	(477)	(1,592)	(849)	(981)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(804)	(417)	(374)	(339)	(574)	(1,956)	(906)	(1,038)
Inc(Dec) in Cash	190	(245)	82	81	(27)	22	(31)	159
Add: Opening Balance	123	313	(47)	35	116	306	328	297
Closing Balance	313	68	35	116	89	328	297	456

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may: (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions.; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

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.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AJC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerce Limited (Formerly Microsec Commerce Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions - including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.