

Industry	Consum. Staples
Bloomberg	DABUR IN
BSE CODE	500096

Sequential worsening of demand to hamper growth.

RATING **NEUTRAL**

CMP	478
Price Target	474
Potential Upside	-1%

Rating Change 

Estimate Change 

Target Change 

Stock Info

52wk Range H/L	506/357
Mkt Capital (Rs Cr)	88,132
Free float (%)	32%
Avg. Vol 1M (,000)	1516
No. of Shares (Cr)	177
Promoters Pledged %	NA

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3QFY20 Result Update

- ❑ Dabur's 3QFY20 numbers remained better than our expectation, Sales grew by 7% YoY to Rs 2353 cr(vs our expectation of Rs 2261 cr) on the back of domestic volume growth of 5.6% and International business Growth of 11.7%.
- ❑ Domestic volume growth was driven by Healthcare and Home & Personal Care (HPC) which grew by 10.7% and 3.5% to Rs 676 and 766 cr respectively. Foods business declined by 1.7% to Rs 205 cr.
- ❑ Healthcare growth was supported by Health Supplements, Digestives and OTC which grew by 12.2%, 15.9% and 5.5% respectively while Oral Care helped growth of HPC category.
- ❑ International Business grew by 12% in constant currency (CC) led by Egypt, Hobi, Nepal business which grew by 17.0%, 32.2% and 20.6% respectively.
- ❑ Benign commodity prices led to improvement in gross margin by 80 bps YoY to 50% while EBITDA margin shown improvement of 70 bps YoY to 20.9% largely driven by expansion in gross margin expansion and lower employee expenses as proportion of sales by 40 bps YoY.
- ❑ PAT for the quarter grew by 9% YoY to Rs 399 cr while provisioning of taxes declined by 3.51% YoY to 16.6%. PAT margin expanded by 25 bps YoY to 17%.

View and Valuation

Dabur has reported numbers better than our expectations, domestic volume grew by 5.6% despite general demand slowdown. Benign input prices led to expansion in gross margin which was invested back behind strengthening the brand. For Dabur rural growth remained stable ahead of the urban. Going ahead, increased distributions, launches of new products & lower unit packs (LUP) are expected to boost the growth although general demand slowdown to remain overhang considering sequential worsening of the demand scenario. On earning front, as expansion in gross margin will be invested back, so strong earning upgradation is also not possible in the near term. Currently, we have kept our sales and PAT estimates for FY20 and FY21 largely unchanged. We continue to value Dabur at 46 x of FY21's EPS and recommend Neutral (as there is no further upside) with the previous target price of Rs 474.

Key Risks to our rating and target

- ❑ Sharp recovery in rural growth.
- ❑ Further decline in the input prices.

Conso/Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	7701	7748	8533	9283	10405
EBITDA	1509	1617	1740	1929	2155
EBIT	1366	1455	1563	1717	1934
PAT	1277	1354	1442	1570	1829
EPS (Rs)	7	8	8	9	10
EPS growth (%)	2%	6%	6%	9%	17%
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	13.3	11.7
P/E (x)	42.6	48.4	46.9	53.9	46.1

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3QFY20 Results

Better than our estimates

Conso/Fig in Rs Cr

Financials	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	2,199	2,128	2,273	2,212	2,353	7.0%	6.4%	7,748	8,533	10.1%
Other Income	75	66	73	82	74	-1.0%	-9.0%	305	296	-3.0%
COGS	1,115	1,069	1,148	1,088	1,174	5.3%	7.9%	3,846	4,309	12.0%
Gross Margin	49%	50%	50%	51%	50%	0.8%	-0.7%	50%	50%	-0.9%
Empl. Cost	238	242	231	242	245	3.0%	1.3%	793	938	18.3%
Adv. Expenses	178	98	202	144	203	14.3%	41.1%	607	608	0.3%
Other Exp.	223	262	234	248	237	6.5%	-4.4%	885	938	6.0%
EBITDA	445	457	458	490	493	10.7%	0.7%	1,617	1,740	7.6%
EBITDA Mar.	20%	21%	20%	22%	21%	0.7%	-1.2%	21%	20%	-0.5%
Depreciation	45	46	53	54	54	21.3%	-0.1%	162	177	9.1%
EBIT	401	411	405	435	439	9.5%	0.8%	1,455	1,563	7.4%
Interest	17	12	15	15	10	-37.3%	-31.2%	53	60	12.3%
PBT	459	465	463	502	502	9.5%	0.2%	1,707	1,799	5.4%
Excep. Item	-	75	20	40	20	-	-50.0%	15	75	418.2%
Tax	92	18	79	58	83	-9.6%	43.5%	335	279	-16.9%
PAT	367	371	364	404	399	8.6%	-1.2%	1,354	1,442	6.5%
PAT Margin	17%	17%	16%	18%	17%	0.3%	-1.3%	17%	17%	-0.6%

Concall Highlight

- Demand of FMCG product has seen further deceleration in this quarter. No improvement is liquidity situation.
- Rural growth remained stable. Rural grew 400 bps above than urban for Dabur.
- Consolidated Sales were up by 7% led by India FMCG business which grew by 5.6% in value and volume terms. International business reported a growth of 12% in cc terms.
- Operating margin of international business improved due to by soft commodity prices and the benefits of operating leverage. International business witnessed broad based growth in this quarter.
- Going forward, mid to high single digit growth from International business is sustainable.
- Health supplement portfolio grew by 12.2% led by strong growth in Chyawanprash.
- Digestives grew by 15.9% driven by strong performance of Hajmola and Pudín Hara. The company has launched Hajmola Chatpati Hing in this quarter which is received well by the market.
- E-commerce has grown by 93% YoY which led to its contribution to total sales ~2.9%.
- MT grew at rate 10%.
- Rural reach is now 51511 villages, an increase of 17% over last year. The management is committed to expand it to 60000 villages by the end of next fiscal.
- Volume growth is expected to remain mid to high single digit from India business in this fiscal.
- Exceptional item: Rs 20 cr provision was made on account of impairment of treasury investment due to rating downgrade.
- The company is premiumizing juice portfolio by launching Real Aloe Vera premium juice at Rs 110.
- To get growth in hair oil, the company has launched brands in Rs 10-20 price point which is doing well. The company also plans to launches few products in the premium end of the market.
- The company expect to maintain margin, any expansion in gross margin will be invested back. The company is covered till fourth quarter in terms of input prices.
- Management see's slowdown to persist for at least another two quarters. No green shoot visible in the months of Jan till date.
- The company is focused towards market share gain and volume improvement.
- The company has direct reach of 1.19 mn outlets currently and it targets to close year by reaching 1.2 mn outlets in the current fiscal.

Exhibit: Domestic FMCG Volume Growth %

Health Supplements(up by 12.2%) and Digestives(up by 15.9%)supported the domestic volume .

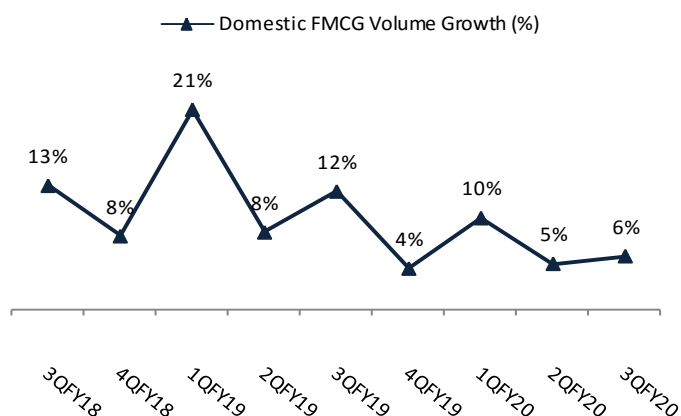


Exhibit: Sales and Sales Growth %

Con. Sales were up by 7% led by India FMCG business which grew by 5.6% & Ib which grew by 12% in cc terms.

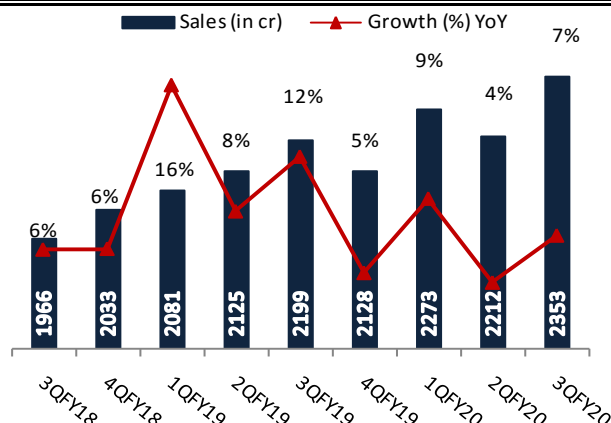


Exhibit: Gross and EBITDA Margin %

Benign commodity prices led to improvement in gross margin by 80 bps YoY.

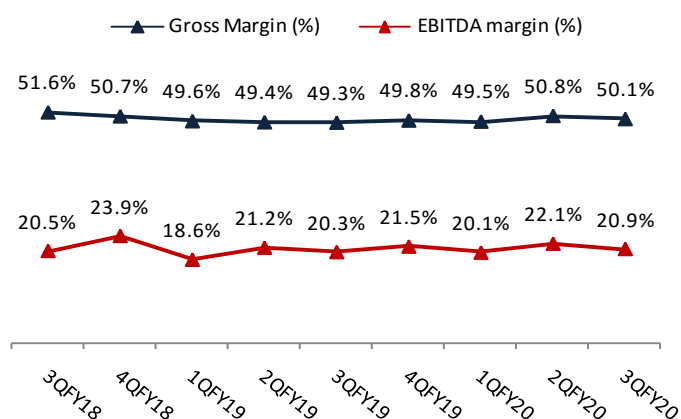


Exhibit: Trend in Expenses %

Improvement in gross margin was invested back behind the brands in terms of higher ad expenses.

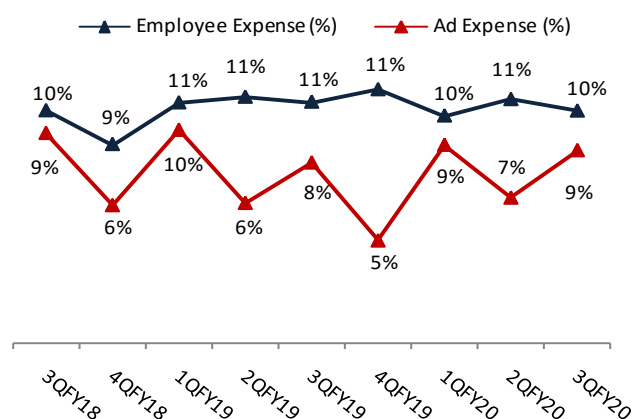
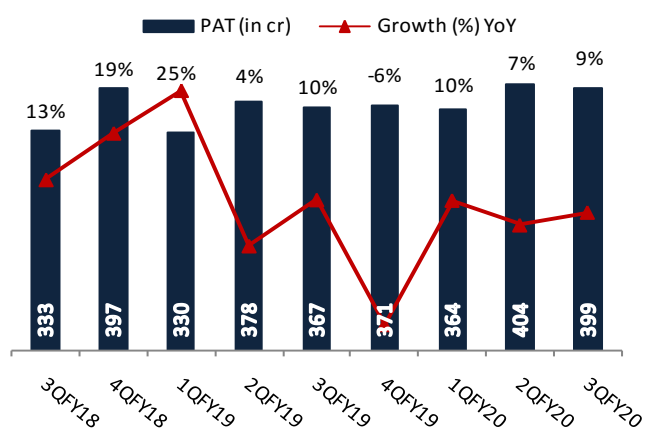


Exhibit: PAT and PAT Growth %

PAT for the quarter grew by 9% YoY to Rs 399 cr while provisioning of taxes declined by 3.51% YoY to 16.6%.



Financial Details

Balance Sheet

Conso/Fig in Rs Cr

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	6,177	7,019
Networth	2,656	3,354	4,171	4,847	5,707	5,632	6,354	7,196
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	7,720
Net Fixed Assets (incl CWIP)	1,789	1,927	1,773	2,000	2,070	2,033	2,213	2,271
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	2,397	2,456
Non Current Assets	2,324	3,376	3,717	4,614	5,262	4,850	5,630	6,289
Inventory	973	973	1,097	1,107	1,256	1,301	1,415	1,586
Debtors	675	711	809	650	706	834	907	1,016
Cash & Bank	519	276	220	305	306	328	260	417
Other Current Assets	42	86	309	280	391	360	391	438
Current Assets	2,988	2,731	3,216	3,116	3,440	3,586	3,737	4,222
Creditors	1,097	1,096	1,330	1,303	1,410	1,455	1,583	1,775
Provisions	270	256	92	92	107	130	142	159
Other Current Liabilities	479	544	232	175	173	198	216	242
Curr Liabilities	1,846	1,896	1,805	1,782	1,970	2,162	2,352	2,636
Net Current Assets	1,142	835	1,411	1,334	1,470	1,424	1,385	1,585
Total Assets	5,312	6,106	6,932	7,731	8,702	8,437	9,367	10,511

Income Statement

Conso/Fig in Rs Cr

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	9,283	10,405
Change (%)	15%	11%	1%	-2%	1%	10%	9%	12%
EBITDA	1,160	1,316	1,518	1,509	1,617	1,740	1,929	2,155
Change (%)	17%	14%	15%	-1%	7%	8%	11%	12%
Margin (%)	16%	17%	19%	20%	21%	20%	21%	21%
Depr & Amor.	97	115	133	143	162	177	212	220
EBIT	1,062	1,201	1,385	1,366	1,455	1,563	1,717	1,934
Int. & other fin. Cost	54	40	48	54	53	60	57	57
Other Income	128	158	217	298	305	296	325	375
EBT	1,136	1,319	1,554	1,610	1,707	1,799	1,984	2,252
Exp Item	1	-	-	-	15	75	80	-
Tax	219	251	300	330	335	279	330	419
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	1,570	1,829
Adjusted PAT	915	1,066	1,251	1,277	1,366	1,506	1,637	1,829
Change (%)	20%	17%	17%	2%	6%	7%	9%	16%
Margin(%)	13%	14%	16%	17%	17%	17%	17%	18%

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	54	46
Price / Book Value	12	10	12	11	11	12	13	12
EV/EBITDA	27	26	32	36	41	39	44	39
FCF per Share	5	5	6	4	5	7	8	10
Div Yield	1.0%	1.0%	0.0%	0.7%	0.6%	2.4%	0.8%	1.0%

Cash Flow Statement

Conso/Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	1,136	1,319	1,554	1,610	1,693	1,725	1,900	2,248
(inc)/Dec in Working Capital	82	(118)	(75)	87	(258)	(129)	(14)	(29)
Non Cash Op Exp	126	153	132	47	207	342	212	220
Int Paid (+)	33	40	26	31	42	49	57	57
Tax Paid	(186)	(230)	(281)	(322)	(325)	(351)	(330)	(419)
others	(92)	(117)	(169)	(216)	(271)	(252)	-	-
CF from Op. Activities	1,099	1,047	1,187	1,237	1,089	1,499	1,826	2,078
(inc)/Dec in FA & CWIP	(213)	(251)	(189)	(486)	(200)	(225)	(392)	(279)
Free Cashflow	886	796	998	751	889	1,274	1,434	1,799
(Pur)/Sale of Inv	10	(721)	(688)	(511)	(584)	317	(600)	(600)
others	95	96	147	180	244	244	3	3
CF from Inv. Activities	(107)	(876)	(730)	(817)	(540)	337	(989)	(876)
inc/(dec) in NW	0	46	17	15	-	0	-	-
inc/(dec) in Debt	(443)	25	71	168	(55)	(240)	-	-
Int. Paid	(34)	(26)	(40)	(45)	(43)	(52)	(57)	(57)
Div Paid (inc tax)	(326)	(462)	(423)	(477)	(477)	(1,597)	(848)	(988)
others								
CF from Fin. Activities	(804)	(417)	(374)	(339)	(574)	(1,888)	(905)	(1,045)
Inc(Dec) in Cash	191	(245)	82	81	(27)	(51)	(68)	157
Add: Opening Balance	123	313	(47)	35	116	89	328	260
Closing Balance	314	68	35	116	89	38	260	417

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