Narnolia
Advance Strategy · Simple Solutions

DABUR INDIA LTD.

NEUTRAL

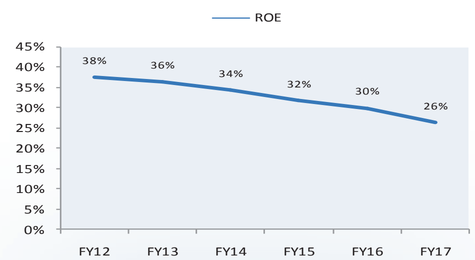
2-May-17

INDUSTRY -	Con. Staples
BSE Code -	500096
NSE Code -	DABUR
NIFTY -	9314

Company Data

CMP	285
Target Price	**NEUTRAL**
Previous Target Price	
Upside	
52wk Range H/L	320/259
Mkt Capital (Rs Cr)	50,045
Av. Volume (,000)	1,461

RoE

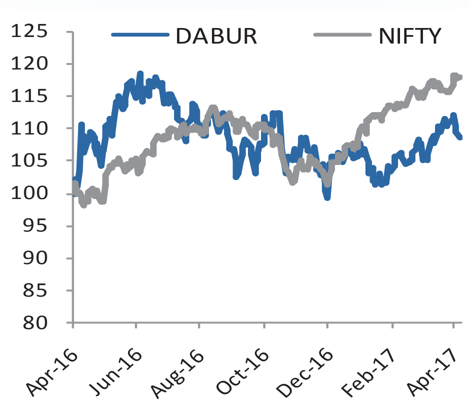


Shareholding patterns %

	4QFY17	3QFY17	2QFY17
Promoters	68	68	68
Public	32	32	32
Total	100	100	100

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	2.5	2.9	5.5
Rel.to Nifty	1.0	(4.0)	(13.2)



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Key Highlights of the Report:

- ☑ DABUR reported result below than our expectation. Sales declined by 5% YoY to Rs 1915 cr whereas our expectation was Rs 2070 cr.
- ☑ DABUR's gross margin declined by 163 bps to 49% but maintained operating margin led by lower employee, A&P and Other Expenses.
- ☑ International business declined by 4.5% in constant currency terms led by currency devaluation in Egypt, Turkey and Nigeria and Macro economic slowdown in MENA region.
- ☑ The company reported 2.4% overall volume growth for this quarter.
- ☑ Considering subdued International business growth which contributes approx. 25% of company's total revenue and expectation of contraction in margin going forward on the back of higher A&P expenses we are Neutral on this stock.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	7,827	7,869	7,701	8,615	9,808
EBITDA	1,316	1,518	1,509	1,612	1,845
EBIT	1,201	1,385	1,366	1,833	2,117
PAT	1,066	1,251	1,277	1,411	1,639
EPS (Rs)	6	7	7	8	9
EPS growth (%)	16%	17%	2%	11%	16%
ROE (%)	32%	30%	26%	26%	26%
ROCE (%)	34%	31%	26%	23%	24%
BV	19	24	28	32	38
P/B (X)	10.2	11.6	10.3	8.8	7.5
P/E (x)	32.0	38.8	39.3	35.5	30.6

RESULT REVIEW:

- ✓ DABUR's result for Q4FY17 is below than our expectations. Sales declined by 5% YoY to Rs 1915 cr from Rs 2010 cr.
- ✓ Gross margin declined by 163 bps YoY to 49% due to increase in material costs and adverse currency impact.
- ✓ EBITDA margin improved by 115 bps YoY to 21.8% from 20.7% led by lower employee, A&P and Other expenses.
- ✓ PAT margin improved by 91 bps YoY 17.4% from 16.5%.
- ✓ DABUR's PAT for this quarter remained flat. Reported PAT of Rs 333 cr (Vs Rs 331 cr in Q4FY16).

Quarterly Performance

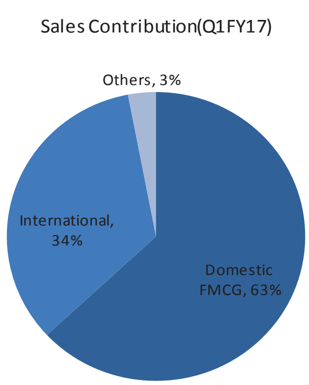
Financials	*4QFY16*	*1QFY17*	*2QFY17*	*3QFY17*	*4QFY17*	*YoY %*	*QoQ%*	*FY16*	*FY17*	*YoY %*
Net Sales	2,010	1,928	1,981	1,853	1,915	***-5%***	***3%***	7,869	7,701	***-2%***
Other Income	54	61	89	83	65	***21%***	***-22%***	217	298	***37%***
COGS	992	938	967	938	976	***-2%***	***4%***	3,850	3,843	***0%***
Ad & P Expenses	157	197	149	177	123	***-21%***	***-31%***			
Employee Cost	202	212	216	189	173	***-14%***	***-9%***	794	790	***-1%***
Other Expenses	245	234	240	214	225	***-8%***	***5%***	1,707	1,560	***-9%***
EBITDA	415	349	408	334	418	***1%***	***25%***	1,518	1,509	***-1%***
Depreciation	36	34	36	33	40	***11%***	***19%***	133	143	***7%***
Interest	13	12	17	14	12	***-12%***	***-16%***	48	54	***11%***
PBT	420	364	445	370	431	***3%***	***17%***	1,554	1,610	***4%***
Tax	87	70	87	75	98	***13%***	***30%***	300	330	***10%***
PAT	331	293	357	294	333	***0%***	***13%***	1,251	1,277	***2%***

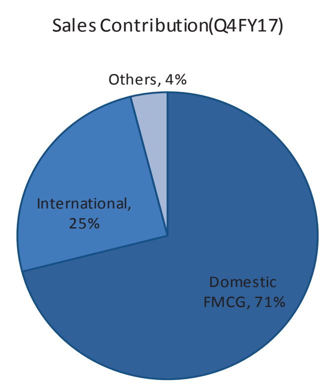
International business declined by 4.5% in cc term.

Expect subdued growth due to pressure on International Business going forward.

- ✓ International business declined by 4.5% in constant currency terms led by currency devaluation in Egypt, Turkey and Nigeria and Macro economic slowdown in MENA region.
- ✓ Severe currency devaluation of ~55% in Egyptian Pound, ~20% in LIRA and ~36% in Naira led to translation loss in the international business
- ✓ Local currency growth for Egypt remained 19% while Nepal and Turkey recorded local currency growth of 16% in Q4FY17.
- ✓ Bangladesh recorded local currency growth of 2% in Q4FY17.
- ✓ The company is facing headwinds in Saudi & UAE market. We expect it to remain for at least one year. Although company has indicated that market shares in most categories & countries remained stable to increasing but we remain bearish on overall International business considering slower MENA region growth going forward.

Contribution from International business in total revenue declined from 34% to 25%.

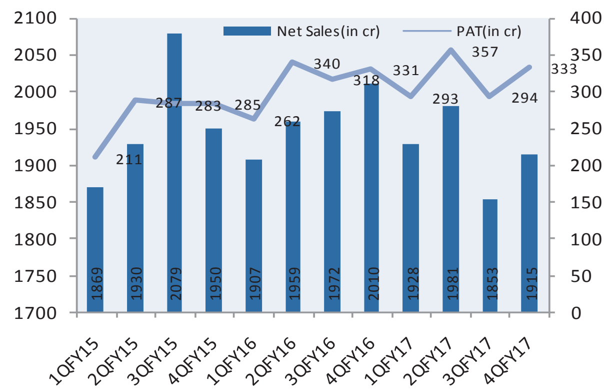




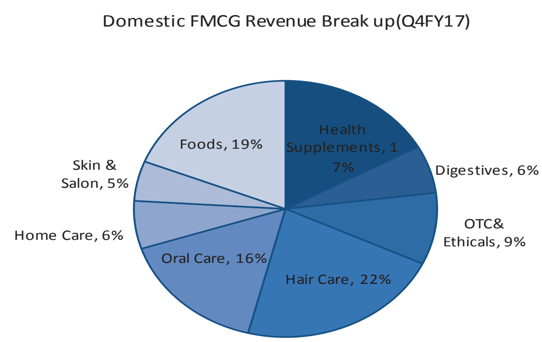
Margin %	4QFY16	1QFY17	2QFY17	3QFY17	4QFY17	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	50.6%	51.4%	51.2%	49.4%	49.0%	-1.6%	-0.3%	51.1%	50.1%	-1.0%
EBITDA Margin	20.7%	18.1%	20.6%	18.0%	21.8%	1.2%	3.8%	19.3%	19.6%	0.3%
PAT Margin	16.5%	15.2%	18.0%	15.9%	17.4%	0.9%	1.5%	15.9%	16.6%	0.7%

- ✓ Gross margin declined by 168 bps YoY and 34 bps QoQ led by increase in material costs and adverse currency impact.
- ✓ EBITDA margin improved by 115 bps YoY and 379 bps QoQ on the back of lower employee expense (down by 100bps) ,AD&P expense (down by 136 bps) and Other expense(down by 42 bps).
- ✓ PAT margin improved by 91 bps YoY and 154 bps QoQ in Q4FY17.

Sales and PAT (in cr.)



Domestic FMCG Revenue Break Up



Translation loss remained Rs 79 cr in Q4FY17.

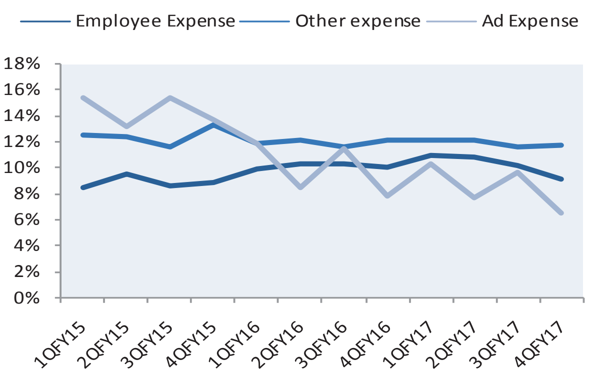
Concall Highlights(Q4FY17):

- ✓ Rural market is showing signs of revival.
- ✓ New Launches: Red Gel Toothpaste Launched, Dabur Woman Restorative Tonic.
- ✓ Media Spend: Expects sharp increase especially 2nd half of FY18.
- ✓ International business: Translation loss remained Rs 79 Cr in Q4FY17.
- ✓ If tax differential will be less in GST than chances of de-stocking will be less.
- ✓ Secondary sales is much higher than primary sales in this quarter.
- ✓ The company will curtail its promotions sharply going forward in FY18.
- ✓ Tax rate: Under MAT for some more time.
- ✓ Tezpur plant: Tezpur plant commissioned in March'17.Excise duty benefit and 80i benefits will remain for next 10 years.
- ✓ Market share in toothpaste segment increased by 100 bps yoy.
- ✓ Dabur gained volume market share by 70bps in Air fresheners and 100 bps in Mosquito Repellant Creams YOY.
- ✓ International business: Pressure in MENA region will remain for whole year.
- ✓ Pricing action: The Company will take price hike only to maintain margin.
- ✓ OTC remained subdued.
- ✓ The company has inventory of 6-8 months of low priced raw honey. Company will not increase prices in Q1FY18.

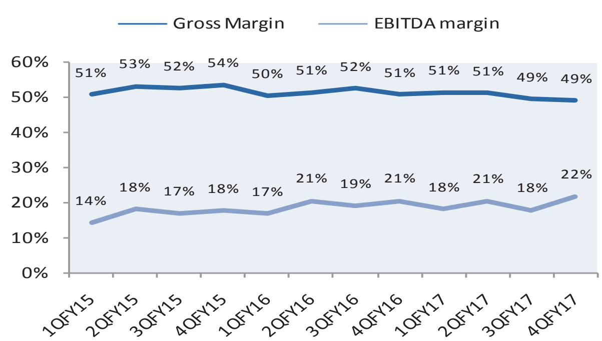
Investment Arguments:

- ✓ **Innovation and new product launches:** The company has long history of products innovation and new products launches. It had launched Amla Naturals in last quarter which has very encouraging response. Recently DABUR has launched: Red Gel Toothpaste and Woman Restorative Tonic.
- ✓ **Strong Ayurvedic portfolio:** The Company has strong Ayurvedic product portfolio and we expect DABUR will be ultimate beneficiary in the long run of Patanjali initiatives of expending awareness about ayurvedic products and its uses.
- ✓ **Strong financials:** DABUR is one of the best companies in our FMCG basket. The company's sales grew at the CAGR of 15% and PAT of 17% for last five years. It maintained average ROE of 34% for last five years.

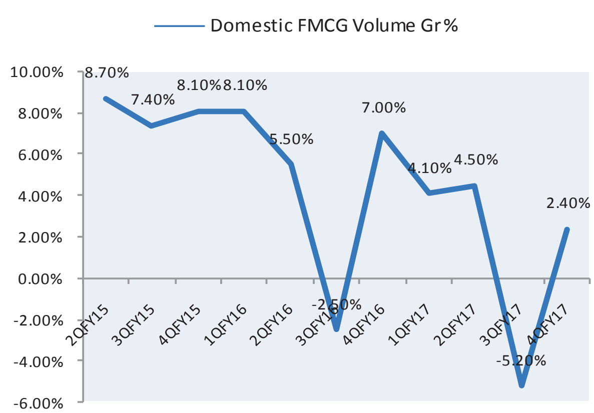
Expect media spending to increase sharply



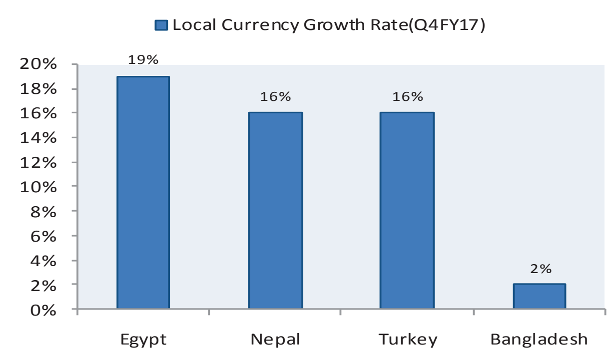
Expect contraction in margin going forward



Domestic FMCG Volume growth



Local Currency Growth Rate



View & Valuation

The company is facing headwinds in the international market which contributes approx. 25% of the total revenue. We expect it to continue for at least next four quarters. Secondly company's management has indicated that going forward they will increase their media spending sharply which may impact its margin going forward as in this competitive environment it will be slightly tough to increase prices. **Considering subdued International business growth and expectation of contraction in margin going forward on the back of higher Ad expenses we are Neutral on this stock.**