

DABUR

Volumes in revival mode; GST key monitorable

India Equity Research | Consumer Goods

Dabur India's (Dabur) Q4FY17 revenue (down 4.8% YoY) came in line, while EBITDA and PAT (flattish YoY) surpassed estimates led by better-than-expected margin. Despite strong base of 7% YoY, domestic volumes jumped 2.4% YoY (down 5.0% YoY in Q3FY17). Gross margin dipped by 163bps YoY, but EBITDA margin surged 115bps YoY led by 136bps YoY savings in ad spends and 100bps and 42bps YoY savings in staff and other expenses, respectively. Dabur gaining market shares in key categories—oral care, hair care, home care, skin, foods—is a positive and we envisage it to be key beneficiary of increasing herbal trend. Maintain 'BUY'.

Domestic business on recovery road; international operations tepid

Dabur's domestic business clocked overall growth of 0.1% YoY versus dip of 6.5% YoY in Q3FY17. While toothpaste, foods and health supplements jumped 9.0%, 7.9% and 5.0% YoY, respectively, growth in hair care, home care and OTC & ethicalicals dipped 4.0%, 6.5% and 4.0% YoY, respectively. However, **market share gains sustained—garnered 30bps in hair oil, 100bps in toothpaste, 70bps in air fresheners, 100bps in mosquito repellent creams and 300bps YoY in juices.** International business was impacted by currency devaluation in Egypt, Turkey & Nigeria and economic slowdown in MENA region—reported 4.5% YoY dip in constant currency growth (CCG; flattish in Q3FY17), though growth in local currency was strong.

Q4FY17 conference call: Key takeaways

GST will lead to destocking in Q1FY18—Dabur and distributors are largely ready for implementation, but lower down the chain preparedness is weak. The company's rural growth surpassed overall growth in Q4FY17. Dabur has started regaining some of the lost share in honey; it believes the worst is behind in terms of competition from Patanjali. Shampoo portfolio continued to remain under pressure due to impact on wholesale channel—**shifted Vatika to ayurvedic from current herbal positioning.**

Outlook and valuations: Positive; maintain 'BUY'

We expect recovery in volumes and premiumisation on back of new launches and ayurvedic focus. Uptick in rural spending and government's stimulus remain key triggers. The stock is trading at 29.8x FY19E EPS. We maintain 'BUY /SO' with a target price of INR327.

Financials

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17E	FY18E
Net sales	19,090	20,061	(4.8)	18,477	3.3	78,507	76,801	85,354
EBITDA	4,176	4,152	0.6	3,339	25.1	15,183	15,089	16,634
Adjusted Profit	3,331	3,315	0.5	2,938	13.4	12,512	12,769	14,472
Adj Dil. EPS (INR)	1.9	1.9	0.5	1.7	13.4	7.1	7.3	8.2
Diluted P/E (x)						40.4	39.5	34.9
EV/EBITDA (x)						33.2	33.4	29.9
ROAE (%)						33.2	28.3	27.5

EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperform
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Underweight

MARKET DATA (R: DABU.BO, B: DABUR IN)

CMP	: INR 287
Target Price	: INR 327
52-week range (INR)	: 320 / 259
Share in issue (mn)	: 1,761.5
M cap (INR bn/USD mn)	: 505 / 7,855
Avg. Daily Vol.BSE/NSE('000)	: 1,509.7

SHARE HOLDING PATTERN (%)

	Current	Q2FY17	Q1FY17
Promoters *	68.0	68.0	68.0
MF's, FI's & BK's	5.8	5.6	5.6
FII's	20.0	19.8	19.8
Others	6.2	6.5	6.6
* Promoters pledged shares (% of share in issue)			Nil

PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer goods Index
1 month	4.3	2.2	2.1
3 months	3.4	7.7	9.8
12 months	6.3	18.6	22.4

Abneesh Roy
+91 22 6620 3141
abneesh.roy@edelweissfin.com

Tanmay Sharma, CFA
+91 22 4040 7586
tanmay.sharma@edelweissfin.com

Alok Shah
+91 22 6620 3040
alok.shah@edelweissfin.com

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Table 1: Segment-wise snapshot

Segment	Growth Y-o-Y(%)	Key takeaways Q4FY17
Domestic Vol.	2.4	
Hair Care	(4.2)	<ul style="list-style-type: none"> Hair Care reported a decline of ~4% on a high base of ~6% growth last year Initial response for Brahmi Amla has been very encouraging and the brand clocked strong double digit growth in Q4FY17 Almond Hair Oil reported double digit growth led by good growth in Modern Trade and focus on enhancing visibility in South markets Sarson Amla Hair oil performed well driven by good demand for economy hair oils Market share as reported by Nielsen showed improvement of 30 bps in Hair Oils
Health supplement	5.0	<ul style="list-style-type: none"> Health supplements registered 5% growth in Q4FY17 led by strong growth in Chyawanprash Honey portfolio further strengthened with launch of 'Honey Tulsi'. Honey Range now comprises of Dabur Honey, Squeezy Pack, Honey Fruit Spreads, Honey Tulsi and Ginger Variants
Foods	7.9	<ul style="list-style-type: none"> Beverages clocked 10% growth in Q4FY17 Kids engagement, Distribution expansion and occasion based advertising helped Real gain momentum Real Juices witnessed increase of 300 bps market share YOY Leveraging MT and E-commerce has been instrumental in driving brand sales Real JuC launched to enter the Fruit Drinks market – Initial launch of mango flavor received good response
Oral Care	3.6	<ul style="list-style-type: none"> Toothpaste category reported growth of 9% in Q4FY17 Red toothpaste and Meswak reported strong growth led by brand investments and activations Innovation continued with the launch of Red Gel Toothpaste- First of its kind Ayurvedic Toothpaste in a Gel format Market share in toothpaste segment increased by 100 bps yoy "Proof Hai TVC" received positive response validating consumer's belief in "Science Based Ayurveda"
Digestive	(5.1)	<ul style="list-style-type: none"> Digestives posted around 5% decline this quarter Hajmola Tablet recorded good growth however candy sales were subdued Glucose brand clocked good sales led by activations such as 'Ab Daudega Hindustan'
Skin Care	(0.6)	<ul style="list-style-type: none"> Skin Care post flattish growth during the quarter. Gulabari clocked high single digit growth driven by modern trade activations and relevant promotional inputs Innovations planned in Oxy, Gulabari and Fem brands
Home Care	(6.5)	<ul style="list-style-type: none"> Home Care being more discretionary in nature declined by 6.5% Deferment of institutional orders and high base impacted Odomos Dabur gained volume market share by 70bps in Air fresheners and 100 bps in Mosquito Repellent Creams YOY
OTC & Ethicals	(4.0)	<ul style="list-style-type: none"> OTC & Ethicals portfolio posted decline of 4% mainly due to sluggish OTC sales Ethicals range clocked low single digit growth driven by Doctor detailing and sampling initiatives Dabur Restorative Woman tonic has been recently launched in the medical detailing channel
International division	(4.5)	<ul style="list-style-type: none"> International Business posted 4.5% decline in constant currency terms 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 was 19% and Nepal and Turkey recorded 16% growth in Local currency GCC markets like Saudi & UAE were under pressure due to macro-economic headwinds However market shares in most categories & countries remained stable to increasing

Source: Company, Edelweiss research

Table 2: Segmentwise sales growth rate

Category growth rate (%)	Q1FY15	Q2FY15	Q3FY15	Q4FY15	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Hair Care	8.4	13.9	12.1	7.4	12.7	9.4	2.0	6.0	(3.3)	(4.6)	(22.8)	(4.0)
Oral Care	8.0	8.1	11.3	11.6	17.5	18.7	10.5	18.3	11.6	0.8	(5.1)	3.6
HealthSupplements	21.6	10.1	13.5	13.0	1.2	9.0	(7.1)	2.0	(1.1)	(5.6)	(14.5)	5.0
Digestives	11.3	12.3	11.6	11.0	1.7	1.6	(2.4)	6.5	(5.6)	(3.4)	(10.7)	(5.0)
Skin Care	4.4	9.7	4.0	16.6	5.2	2.2	9.5	(2.2)	(3.1)	6.6	(11.4)	(0.6)
Home Care	14.7	10.2	16.2	12.1	12.0	12.4	8.4	19.3	2.1	19.9	(5.2)	(6.5)
OTC & Ethicals	4.4	7.5	8.8	7.7	16.7	10.8	7.5	7.1	(10.1)	(0.7)	(11.7)	(4.0)
Food	21.6	29.0	11.8	19.6	15.5	2.4	(23.7)	11.7	4.3	15.2	52.2	7.9
International contribution to revenue	35.0	34.0	28.0	29.0	33.0	33.0	31.0	30.0	34.0	34.0	30.0	25.0
GCC	21.0	24.0	14.0	22.0	10.0	9.0	10.0	5.0	NA	NA	NA	NA
Egypt	28.0	28.0	29.0	21.0	NA	NA	7.0	27.0	NA	NA	NA	NA

Source: Company, Edelweiss research

Q4FY17 concall | Key takeaways

Business environment

- Demonetisation impacted domestic demand in the initial part of the quarter, but improved later led by significant improvement in rural demand.
- Trade channels have downstocked little more than downstocking seen in demonetization era on account of apprehension on GST rates. **Secondary sales in Q4FY17 is likely to have better than Q3FY17 levels.**
- **Rural growth surpassed urban growth. While urban general trade was stagnant, modern trade grew.**
- Additional rule of ceiling of INR0.2mn as per new income tax laws led to some crunch in wholesale channel which also affected sales. This rule has led to change in the wholesale business model. Compliance costs will rise owing to this rule. Trade channel margins will increase as compliance costs for the trade channel will jump. But it should not dent margins.
- Business environment continued to remain tough with significant headwinds due to currency devaluation (Egypt and North African markets) and economic turmoil in key geographies (Saudi Arabia).

GST

- **Currently, indirect tax rate at the company level is 16-18%. GST rate, if pegged at 18%, will benefit Dabur. However, rate above 18% will be negative for the company.**
- Rates are likely to be announced on May 18-19. If rates are announced 45 days before implementation, trade channels will be able to adjust.
- **Dabur anticipates distributors and wholesalers to request destocking. Distributors' request for compensation may not be met.**
- Dabur commenced preparations a year ago and hence the company is perfectly poised for smooth implementation.
- GST will lead to short-term disruptions due to down stocking. Destocking will need to be seen in light of GST rates.
- Rising risk if scrutiny will also lead to some trade imbalance in the short term.
- **The company does not expect anti-profiteering to hamper its business model significantly since there may not be significant difference in rates.**

- The company expects down stocking in Q1FY18 and up-stocking in Q2FY18, but this up-stocking may not be quick.
- Demand will hinge on off take by consumers. If the wholesale channel is stuck, then cash and carry may fill the void.

Overall growth

- Domestic volumes jumped 2.4% YoY. Overall value growth was 0.7% YoY in the domestic business.
- **Dabur is targeting 5-10% volume growth in FY18. This growth will be slightly back-ended.**
- **Overall growth was flattish in constant currency owing to currency devaluation.**
- The company effected marginal price hike in toothpaste, home care and chyawanprash. **Whole pricing change is expected post GST. A few companies are hiking prices now to avoid the anti-profiteering regime under GST.**
- Increase in infrastructure spending, rise in digital modes of advertisement should boost sales.
- International business declined due to economic slowdown in GCC markets and currency impact.
- Going forward, price hikes will be more to maintain margins and to nullify impact of inflation.

Margins

- Gross margins impacted by higher raw material prices and adverse currency impact.
- Employee expenses fell 100bps YoY on account of reduction in variable payouts.
- Cost control in overheads led to lower other expenses.

Oral care

- Toothpaste category grew 9% in Q4FY17. Red toothpaste and Meswak reported strong spurt led by brand investments and activations.
- **Market share in toothpaste segment increased 100bps YoY.**
- Launched Red Toothpaste in gel format.

Hair care

- Hair care declined 4% YoY on a base of ~6% growth last year.
- Hair oil category slipped 3%. Hair oil category, excluding amla category, is INR3.5bn. Sarso, Amla, Vatika are an >INR1bn brand; Almond is sub-INR0.5bn brand.
- Initial response for Brahmi Amla has been encouraging and the brand clocked strong double digit growth in Q4FY17.
- Almond Hair Oil reported double digit growth led by good growth in modern trade and focus on enhancing visibility in South markets.
- Sarson Amla Hair Oil performed well, driven by good demand for economy hair oils.
- **Market share, as reported by Nielsen, improved 30bps in hair oils.**

- Shampoo category continued to see some stress. With respect to Dabur Vatika, natural as a proposition has become more generic. Strategy is now to move Dabur Vatika as an ayurvedic product. Its market share is ~5.0-5.3%. This category is decently profitable.

Home and skin care

- Home care declined 6.5% YoY.
- **Dabur gained 70bps volume market share in air fresheners and 100bps in mosquito repellent creams YoY.**
- Skin care posted flattish growth during the quarter. Gulabari clocked high single digit growth driven by modern trade activations and relevant promotional inputs.
- Plan is to increase retail presence for Gulabari and Fem.

Healthcare

- Health supplements grew 5% YoY in Q4FY17 led by strong spurt in Chyawanprash. Late winter boosted sales.
- Honey sales declined marginally. Value proposition such as giving more for same price is helping Dabur. Headroom for discounting is limited since honey prices have jumped. Competitive intensity is not significant in the honey category. Dabur has the ability to hold prices for the next 6-8 months since it has sufficient quantity of raw honey inventory. In Q1FY18 as well the company will not increase prices of honey.
- Honey portfolio further strengthened with launch of 'Honey Tulsi'.
- Digestives fell around 5% YoY in Q4FY17—Hajmola Tablet recorded good growth; however, candy sales were subdued.

OTC and ethicals

- OTC & ethicals portfolio declined 4% YoY primarily due to sluggish OTC sales.
- Ethicals range clocked low single digit growth driven by doctor detailing and sampling initiatives.

Foods

- Beverages grew 10% YoY in Q4FY17. Operating margins in juices slipped to 11% (14% earlier) owing to higher raw material cost. Dabur is targeting operating margin of 14%; however, it will depend on GST rates.
- **Real Juices gained 300bps market share YoY. Dabur's market share is sustainable till mid-50% level. The company's share in South is minuscule. The company could use the Sri Lanka factory to source for South market.**
- Coconut water is doing well. The company is planning to ramp up production. Demand spikes during epidemics.
- Kiwi spread etc., is restricted to modern trade channel. The company is not investing more in this product as of now. H2FY18 should see some investment in this product.
- New fruit drink brand Ju C was added and it has been gaining good traction.

Herbal space

- Damage by Patanjali, especially in honey, is over. Dabur has rebalanced value proposition. Toothpaste never faced headwinds, irrespective of Patanjali's entry. The company believes worst is behind in terms of competition from Patanjali.
- With a slew of product launches, the company expects sales to improve.

International business

- Growth was impacted on account of economic slowdown in Saudi Arabia, Dubai, Iraq & Libya and currency depreciation in Egyptian Pound, Naira and Turkish Lira.
- International business declined 4.5% YoY in constant currency.
- Currency devaluation of ~55% in Egyptian Pound, ~20% in Lira and ~36% in Naira. Total loss stood at INR790mn.
- Base anniversarisation likely in mid November 2017. Subsequently, political turmoil will need to be seen.
- Egypt, Nepal, Turkey and Bangladesh currencies appreciated 19%, 16%, 16% and 2%, respectively.
- The company is planning to continue to focus on more use of digital and A&P to revive sales.

Namaste

- Sluggish owing to slower international sales.
- Going forward, the company expects sales to ramp up.

New plant

- Dabur commissioned a new manufacturing facility in Tezpur, Assam, in March 2017. It has been set up at an investment of INR2.5bn. It is the company's largest production facility.
- Entire range of Dabur's ayurvedic medicines, health supplements, hair oils, shampoos, toothpastes, skin care and home care products will be manufactured in this plant.

Distribution

- Urban wholesale is still in bad shape on account of liquidity crunch and scrutiny cases. The wholesale channel will make a comeback once it becomes compliant with new laws. Wholesale trajectory has been improving with March better than February and so on. Super stockiest however are back.
- Wherever there was high proportion of north centric wholesale channel, the volume growth suffered.
- Direct reach is expected to improve by 20%. Wholesale channel is ~32-35%.

Ad spends and other expenses

- Ad spends in 3 buckets: media, trade promotions and consumer promotions.
- Significant curtailment in consumer promotion, slight curtailment in trade promotion and sharp rise in media spend can be expected.

- Directionally, the company cut back media spends in H2FY17, which will be back. But consumer promotions were already planned for H2FY17 and which continued even during demonetisation.
- **Break up of A&P: 40% for ad spends and 60% for promotions. In FY18, this proportion will switch i.e., 60% ad spends and 40% promotions.**
- **Promotions as % of sales have increased over the past few quarters.**
- Employee cost was lower largely owing to reduction in variable pay and stock options. Variable payout for management is annual. Employee strength reduced marginally.
- Dabur is working towards cost rationalization—in juice the company is working on distribution process and networking and at the company level it is on account of improved productivity and reduced incentives.

New plants

- Tezpur plant enjoys 56% excise exemption for 10 years. Plus under DT, it enjoys Sec 80IE benefit.
- Under GST, in the worst case the company will pay 70% tax.
- In the near term, the company will continue to pay MAT for the next few years.

Competition

- The INR is in comfortable zone so there should not be much strain on the juices segment since the concentrate is imported.
- Patanjali has expanded ayurvedic segment, especially in toothpaste and honey and this has led to changing dynamics of the ayurveda segment. This has also led to increase in market size. It is difficult to say if the size has plateaued. But it is sure that the proportion will not reduce. With increase in ayurvedic market size, not many people have benefitted. Players in the herbal space have not benefitted since herbal and ayurveda are different.

Inventory days

- Inventory days in Q3FY17 at 35-40 which are now at 25 days.

Others

- Dabur does not see any change in ayurvedic product w.r.t. rule of prescription based drugs for pharma companies.

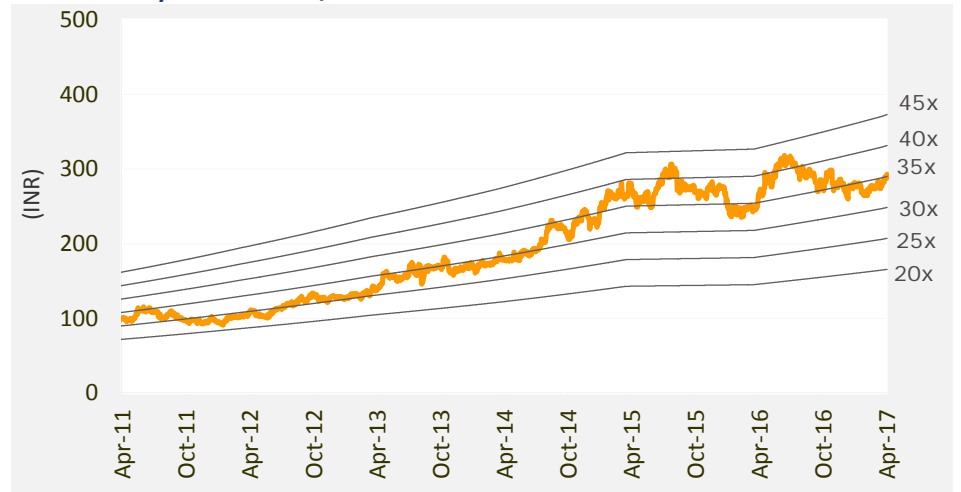
Outlook and valuations: Positive; maintain 'BUY'

Dabur is set to benefit from recovery in rural growth (aided by rural-centric initiatives announced in Budget), which contributes ~45% to total sales, and a good monsoon. Initially, Patanjali's entry had intensified competition for Dabur. However, now the company has stopped losing market share and the competitive intensity has also waned. To capitalise on this, the company will be launching ayurvedic-based products in categories such as oral care, hair care, health supplements, etc., which is envisaged to spur overall growth. Dabur has countered rising competition by enhancing its promotional spending, which has helped wrest back market share, though the company will now reduce its promotion spend and focus more on media spends, which is a superior strategy and will increase overall visibility of brands. The focus on bolstering its innovation pipeline, especially in natural segment, and

premiumising the same will not only help the company gain share in naturals and ayurveda, but also aid margin improvement. The focus on OTC & ethicals, health supplements and foods businesses, further bolstered by *Project CORE* will play a key role in driving premiumisation for Dabur. *Project LEAD* and rising coverage of doctors will boost healthcare products. International business is expected to improve led by recovery in *Namaste* business, though overall geopolitical conditions in the Middle East need to be closely monitored.

We assign target multiple of 34.0x FY19E EPS to arrive at a target price of INR327. We maintain 'BUY' recommendation and rate the stock 'Sector Outperformer'.

Chart 1: One year forward P/E band



Source: Edelweiss research

Table 3: Consolidated segmental performance

Year to March - Revenues (INR mn)	Q4FY17	Q4FY16	% growth Y-o-Y	Q3FY17	% growth Q-o-Q
Consumer care business	15,508	16,638	(6.8)	15,625	(0.7)
Foods business	2,980	2,755	8.2	2,191	36.0
Retail business	308	298	3.2	355	(13.4)
Others	294	370	(20.7)	305	(3.8)
Gross income (Excl other income)	19,090	20,061	(4.8)	18,477	3.3
Year to March - PBIT (INR mn)					
Consumer care business	3,773	4,130	(8.6)	3,835	(1.6)
Foods business	454	439	3.6	187	142.6
Retail business	2	(3)	NM	2	NM
Others	10	5	86.8	3	191.2
PBIT	4,239	4,571	(7.3)	4,027	5.2
Year to March - Margin					
Consumer care business	24.3	24.8	(50)	24.5	(21.8)
Foods business	15.2	15.9	(67)	8.5	669.6
Retail business	0.6	(1.0)	NM	0.5	NM
Others	3.4	1.4	194	1.1	225.8
Margin	22.2	22.8	(58)	21.8	40.6

Source: Company, Edelweiss research

Table 4: Standalone segmental performance

Year to March - Revenues (INR mn)	Q4FY17	Q4FY16	% growth Y-o-Y	Q3FY17	% growth Q-o-Q
Consumer care business	11,387	11,492	(0.9)	10,478	8.7
Foods business	2,634	2,442	7.9	2,036	29.4
Others	297	371	(19.9)	298	(0.3)
Gross income (Excl other income)	14,318	14,305	0.1	12,812	11.8
Year to March - PBIT (INR mn)					
Consumer care business	3,434	3,592	(4.4)	3,048	12.7
Foods business	306	341	(10.2)	114	167.7
Others	12	6	114.5	3	268.8
PBIT	3,752	3,938	(4.7)	3,166	18.5
Year to March - Margin					
Consumer care business	30.2	31.3	(110)	29.1	106.6
Foods business	11.6	14.0	(233)	5.6	600.5
Others	4.0	1.5	249	1.1	289.9
Margin	26.2	27.5	(132)	24.7	149.5

Source: Company, Edelweiss research

Table 5: Standalone P&L

(INR mn)	Q4FY17	Q4FY16	YoY % Change	Q3FY17	QoQ % Change
Total income from operations	14,348	14,330	0.1	12,840	11.7
Cost of materials consumed	7,715	7,543	2.3	6,964	10.8
Advertising & publicity	775	827	(6.3)	1,116	(30.6)
Employee benefits expenses	890	1,051	(15.3)	1,056	(15.8)
Other expenses	1,384	1,467	(5.7)	1,273	8.8
Total expenses	10,763	10,888	(1.1)	10,409	3.4
EBITDA	3,585	3,442	4.1	2,431	47.5
Other income	600	481	24.9	757	(20.7)
Depreciation and amortisation expense	213	201	6.3	180	18.2
Finance costs	50	30	64.5	39	26.3
PBT	3,922	3,692	6.2	2,969	32.1
Tax expense	900	821	9.7	679	32.6
PAT before exceptional	3,022	2,871	5.3	2,290	32.0
Exceptional	-	-	NM	-	NM
PAT	3,022	2,871	5.3	2,290	32.0
As % of net sales					
COGS	53.8	52.6	113	54.2	(47.1)
Advertising & publicity	5.4	5.8	(37)	8.7	(329.1)
Staff costs	6.2	7.3	(113)	8.2	(202.5)
Other expenditure	9.6	10.2	(59)	9.9	(26.4)
EBITDA	25.0	24.0	96	18.9	605.0
PBT	27.3	25.8	157	23.1	421.6
Net profit	21.1	20.0	103	17.8	322.8
Tax rate	22.9	22.2	72	22.9	9.0

Source: Company, Edelweiss research

Chart 2: Sales contribution

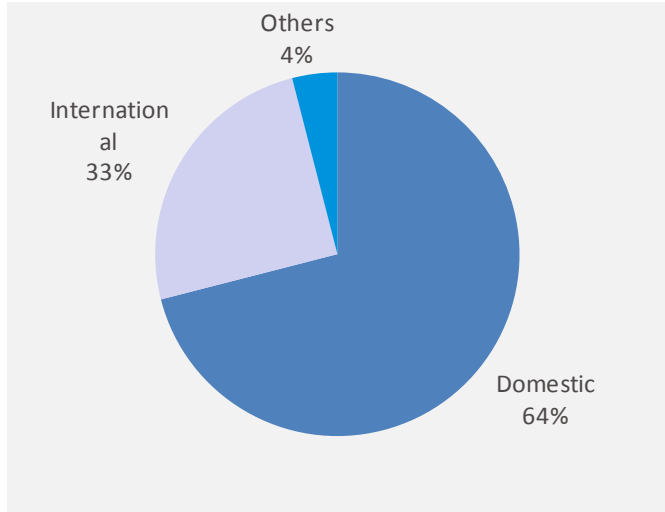


Chart 3: International business growth rate

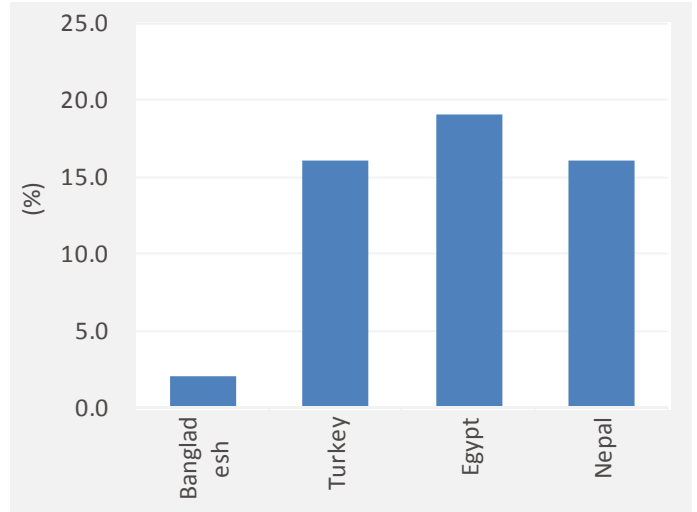


Chart 4: Category contribution

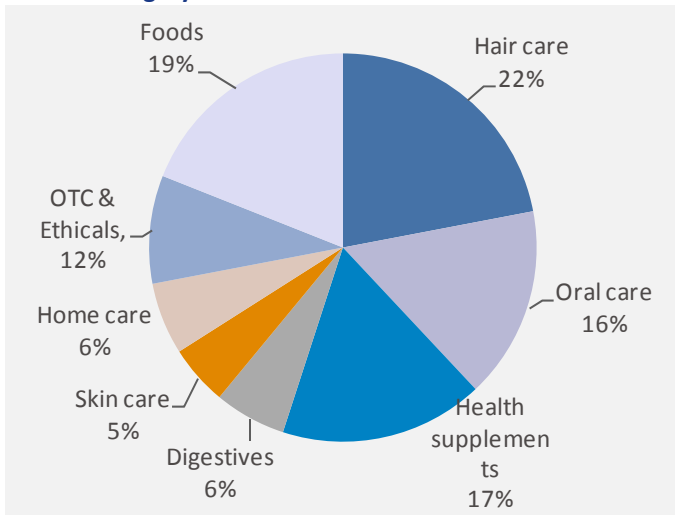


Chart 5: Category growth rates

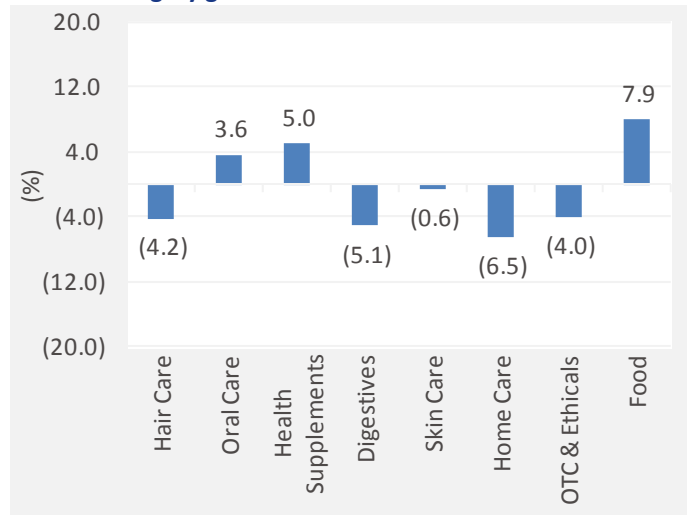
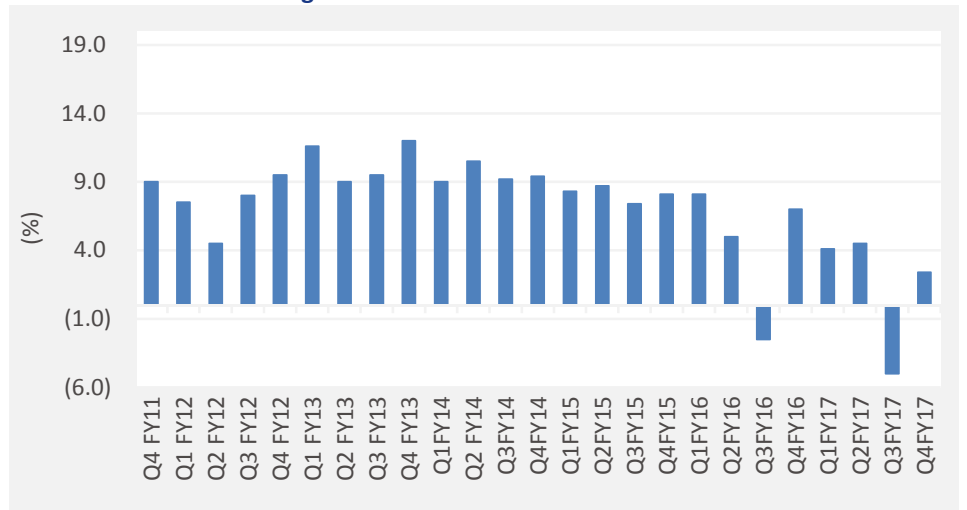


Chart 6: Domestic volume growth



Financial snapshot

(INR mn)

Year to March	Q4FY17	Q4FY16	% change	Q3FY17	% change	FY16	FY17E	FY18E
Net revenues	19,090	20,061	(4.8)	18,477	3.3	78,507	76,801	85,354
Other operating income	57	40	43.1	52	9.0	181	213	256
Total operating Income	19,147	20,101	(4.7)	18,529	3.3	78,688	77,014	85,610
Staff costs	1,731	2,018	(14.2)	1,892	(8.5)	7,941	7,896	8,621
Cost of goods sold	9,762	9,920	(1.6)	9,383	4.0	38,496	38,432	42,773
Gross profit	9,385	10,180	(7.8)	9,146	2.6	40,192	38,582	42,837
Advt. sales & promotions	1,230	1,565	(21.4)	1,772	(30.6)	7,716	6,461	7,511
Other expenses	2,249	2,445	(8.0)	2,143	4.9	9,352	9,135	10,072
Total exp. (excl. cogs)	5,210	6,029	(13.6)	5,807	(10.3)	25,009	23,493	26,204
EBITDA	4,176	4,152	0.6	3,339	25.1	15,183	15,089	16,634
Depreciation	395	358	10.6	333	18.9	1,332	1,429	1,589
EBIT	3,780	3,794	(0.4)	3,006	25.7	13,851	13,661	15,045
Other income	650	539	20.7	831	(21.7)	2,172	2,984	3,540
Interest	117	132	(11.6)	139	(16.4)	485	540	459
Profit before tax	4,314	4,201	2.7	3,697	16.7	15,538	16,104	18,126
Provision for taxes	977	868	12.5	753	29.8	2,999	3,303	3,625
Minority interest	6	18	(65.7)	7	(15.1)	28	31	29
Reported net profit	3,331	3,315	0.5	2,938	13.4	12,512	12,769	14,472
Adjusted Profit	3,331	3,315	0.5	2,938	13.4	12,512	12,769	14,472
No. of shares (mn)	1,757	1,757		1,757		1,759	1,759	1,759
Diluted shares (mn)	1,757	1,757		1,757		1,759	1,759	1,759
Diluted EPS (INR)	1.9	1.9	0.5	1.7	13.4	7.1	7.3	8.2
Adjusted Diluted EPS	1.9	1.9	0.5	1.7	13.4	7.1	7.3	8.2
Diluted P/E (x)						40.4	39.5	34.9
EV/EBITDA (x)						33.2	33.4	29.9
ROAE (%)						33.2	28.3	27.5

As % of net revenues

COGS	51.0	49.4		50.6		48.9	49.9	50.0
Employee cost	9.0	10.0		10.2		10.1	10.3	10.1
Other expenses	11.7	12.2		11.6		11.9	11.9	11.8
Adv. & sales promotions	6.4	7.8		9.6		9.8	8.4	8.8
EBITDA	21.8	20.7		18.0		19.3	19.6	19.4
EBIT	19.7	18.9		16.2		17.6	17.7	17.6
PBT	22.5	20.9		20.0		19.7	20.9	21.2
Reported net profit	17.4	16.5		15.9		15.9	16.6	16.9
Tax rate	22.6	20.7		20.4		19.3	20.5	20.0

Company Description

Dabur has two divisions in India (Consumer care division and Foods division) apart from its international operations. Consumer care division (CCD) offers a wide range of products in hair care, oral care, health supplements, digestives and candies, baby and skin care products based on ayurveda, over-the-counter (OTC) products, Asavs, and branded ethical and classic products. CHD division has been merged with CCD to leverage distribution. The second division, Dabur Foods Ltd produces fruit juices, cooking pastes, sauces, and items for institutional food purchases. Dabur is well placed among its Consumer Goods peers because of its positioning as an Indian company whose products are derived from exotic sources such as ancient ayurvedic texts and natural ingredients such as herbs.

The company has various brand leaders in different market segments - Dabur Chyawanprash, a health tonic, and Hajmola - a digestive tablet. Real, launched during 1996-97, has also successfully become the leader in the market.

Investment Theme

Dabur's broad product portfolio provides a good play on Indian Consumer Goods spend by virtue of its strong presence in less penetrated and high growth categories. Dabur's positioning on the 'health and wellness' platform, backed by its ANH (ayurvedic/natural/herbal) image is very progressive. This, combined with its demonstrated ability to create new categories and sub-categories, makes it well-placed to capture lifestyle changes-led growth in the Consumer Goods space. Dabur has also demonstrated its ability to make and integrate smart acquisitions (Balsara) that complement its product portfolio and thereby drive inorganic growth. Improvement in margins of foods and international businesses are expected to result in improvement in margins for the consolidated operations.

Key Risks

A slowdown in rural demand due to lower government spending or monsoon failure could impact Dabur's revenues significantly.

Further rise in competitive intensity in categories like Shampoo, Oral care, hair oils, juice (ITC has come out with aggressive ads and national rollout) may put pressure on volumes.

Financial Statements

Key Assumptions

Year to March	FY16	FY17	FY18E	FY19E
Macro				
GDP(Y-o-Y %)	7.2	6.5	7.1	7.7
Inflation (Avg)	4.9	4.8	5.0	5.2
Repo rate (exit rate)	6.8	6.3	6.3	6.3
USD/INR (Avg)	65.0	67.5	67.0	67.0
Company				
Revenue growth (Y-o-Y %)				
Hair care	6.8	(7.8)	6.0	8.0
Health supplements	0.1	(4.6)	11.2	13.8
Oral care	16.2	315.0	12.0	15.0
Digestives	2.0	(6.3)	6.9	11.5
OTC and ethicals	9.7	(6.5)	12.0	14.3
Home care	12.9	4.1	12.0	16.0
Skin care	3.9	(2.4)	10.0	15.0
Foods	2.7	13.0	15.7	16.3
Volume growth (domestic)	3.0	2.0	6.0	8.0
Price change (domestic)	2.9	(3.0)	4.4	4.9
International bus growth	12.5	(5.8)	13.1	13.4
Excise (% Dom Sales)	1.0	1.0	1.0	1.0
COGS as % of sales (Con)	44.9	49.9	50.0	49.4
COGS as % of sales (std)	20.8	16.5	17.8	18.6
Staff costs (% of rev)	9.4	10.3	10.1	10.1
A&P as % of sales	14.7	8.4	8.8	8.8
Cocnut oil (% of COGS)	7.7	6.7	6.2	8.1
Paradichlorbenzene-%COGS	2.6	4.2	3.9	3.8
LLP(Dom) as % of COGS	5.2	5.5	5.6	7.0
Gold (Dom) as % of COGS	2.4	3.0	2.8	2.7
Sorbitol (as % of COGS)	2.5	3.6	3.4	3.2
Amla Green as % of COGS	0.6	1.2	1.1	1.1
Financial assumptions				
Tax rate (%)	19.4	20.5	20.0	20.0
Capex (INR mn)	2,393	4,473	2,929	3,000
Debtor days	33	31	30	30
Inventory days	99	105	100	99
Payable days	117	125	120	120
Cash conversion cycle	16	11	10	9
Int rate on debt (%)	5.4	6.7	6.0	5.6
Dep. (% gross block)	5.0	4.7	4.7	4.6
Dividend payout	38.0	38.0	38.0	38.0
Yield on cash	8.0	9.1	10.8	10.0

Income statement

(INR mn)

Year to March	FY16	FY17	FY18E	FY19E
Net revenue	78,507	76,801	85,354	96,655
Other Operating Income	181	213	256	307
Total operating income	78,688	77,014	85,610	96,963
Materials costs	38,496	38,432	42,773	47,932
Employee costs	7,941	7,896	8,621	9,762
Other Expenses	9,352	9,135	10,072	11,309
Ad. & sales costs	7,716	6,461	7,511	8,506
EBITDA	15,183	15,089	16,634	19,454
Depreciation	1,332	1,429	1,589	1,693
EBIT	13,851	13,661	15,045	17,762
Add: Other income	2,171.9	2,983.5	3,540.2	3,805.93
Less: Interest Expense	485	540	459	372
Profit Before Tax	15,538	16,104	18,126	21,195
Less: Provision for Tax	2,999	3,303	3,625	4,239
Less: Minority Interest	28	31	29	34
Reported Profit	12,512	12,769	14,472	16,922
Adjusted Profit	12,512	12,769	14,472	16,922
Shares o/s (mn)	1,759	1,759	1,759	1,759
Adjusted Basic EPS	7.1	7.3	8.2	9.6
Diluted shares o/s (mn)	1,759	1,759	1,759	1,759
Adjusted Diluted EPS	7.1	7.3	8.2	9.6
Adjusted Cash EPS	7.9	8.1	9.1	10.6
Dividend per share (DPS)	2.2	2.8	3.1	3.7
Dividend Payout Ratio(%)	38.1	38.0	38.0	38.0

Common size metrics

Year to March	FY16	FY17	FY18E	FY19E
Materials costs	48.9	49.9	50.0	49.4
Ad. & sales costs	9.8	8.4	8.8	8.8
EBITDA margins	19.3	19.6	19.4	20.1
Net Profit margins	16.0	16.7	17.0	17.5

Growth ratios (%)

Year to March	FY16	FY17	FY18E	FY19E
Revenues	8.1	(2.1)	11.2	13.3
EBITDA	15.4	(0.6)	10.2	17.0
Adjusted Profit	17.4	2.1	13.3	16.9

Consumer Goods

Balance sheet		(INR mn)			
As on 31st March	FY16	FY17	FY18E	FY19E	
Share capital	1,759	1,759	1,759	1,759	
Reserves & Surplus	39,842	46,767	54,615	63,793	
Shareholders' funds	41,601	48,526	56,375	65,552	
Minority Interest	217	248	277	311	
Short term borrowings	4,628	4,686	4,110	3,535	
Long term borrowings	3,415	3,457	3,032	2,608	
Total Borrowings	8,043	8,143	7,143	6,143	
Long Term Liabilities	509	509	509	509	
Def. Tax Liability (net)	765	765	765	765	
Sources of funds	51,134	58,191	65,068	73,280	
Gross Block	27,802	32,302	35,302	38,302	
Net Block	13,104	16,175	17,586	18,893	
Capital work in progress	448	421	350	350	
Intangible Assets	6,395	6,395	6,395	6,395	
Total Fixed Assets	19,947	22,991	24,331	25,639	
Non current investments	17,873	22,873	22,873	22,873	
Cash and Equivalents	9,569	9,907	15,186	21,571	
Inventories	10,965	11,056	11,719	13,001	
Sundry Debtors	8,097	6,541	7,036	7,970	
Loans & Advances	3,560	3,560	3,560	3,560	
Other Current Assets	1,193	1,193	1,193	1,193	
Current Assets (ex cash)	23,816	22,350	23,509	25,724	
Trade payable	13,302	13,162	14,062	15,758	
Other Current Liab	6,769	6,769	6,769	6,769	
Total Current Liab	20,071	19,931	20,831	22,527	
Net Curr Assets-ex cash	3,745	2,420	2,677	3,197	
Uses of funds	51,134	58,191	65,068	73,280	
BVPS (INR)	23.6	27.6	32.0	37.3	

Free cash flow		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Reported Profit	12,512	12,769	14,472	16,922	
Add: Depreciation	1,332	1,429	1,589	1,693	
Interest (Net of Tax)	391	429	367	298	
Others	(3,286)	142	121	108	
Less: Changes in WC	123	(1,325)	258	519	
Operating cash flow	10,826	16,095	16,291	18,502	
Less: Capex	2,393	4,473	2,929	3,000	
Free Cash Flow	8,432	11,622	13,362	15,502	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Dabur	7,855	34.9	29.8	29.9	25.2	27.5	27.7
Bajaj Corp	902	23.7	22.9	18.9	16.8	49.1	49.7
Colgate	4,384	38.5	33.9	24.5	21.4	55.4	53.4
Emami	3,738	42.2	31.9	23.5	18.8	31.2	34.1
Hindustan Unilever	31,483	41.8	36.0	28.7	24.7	103.3	107.2
ITC	52,553	27.1	23.3	17.6	14.9	31.1	31.2
Marico	6,330	41.5	35.6	28.1	24.2	36.3	35.7

Source: Edelweiss research

Cash flow metrics					
Year to March	FY16	FY17	FY18E	FY19E	
Operating cash flow	10,826	16,095	16,291	18,502	
Investing cash flow	(6,183)	(9,473)	(2,929)	(3,000)	
Financing cash flow	(3,949)	(6,285)	(8,082)	(9,117)	
Net cash Flow	694	337	5,280	6,385	
Capex	(2,393)	(4,473)	(2,929)	(3,000)	
Dividend paid	(4,764)	(5,844)	(6,624)	(7,745)	
Share issue/(buyback)	-	-	-	-	

Profitability and efficiency ratios

Year to March	FY16	FY17	FY18E	FY19E
ROAE (%)	33.2	28.3	27.5	27.7
ROACE (%)	34.4	31.2	30.8	31.8
Inventory Days	99	105	100	99
Debtors Days	33	31	30	30
Payable Days	117	125	120	120
Cash Conversion Cycle	16	11	10	9
Current Ratio	1.7	1.6	1.9	2.1
Debt/EBITDA (x)	0.5	0.5	0.4	0.3
Debt/Equity (x)	0.2	0.2	0.1	0.1
Interest Coverage Ratio	28.6	25.3	32.8	47.7

Operating ratios

Year to March	FY16	FY17	FY18E	FY19E
Total Asset Turnover	1.6	1.4	1.4	1.4
Fixed Asset Turnover	4.1	3.7	3.7	3.9
Equity Turnover	2.1	1.7	1.6	1.6

Valuation parameters

Year to March	FY16	FY17	FY18E	FY19E
Adj. Diluted EPS (INR)	7.1	7.3	8.2	9.6
Y-o-Y growth (%)	17.2	2.1	13.3	16.9
Adjusted Cash EPS (INR)	7.9	8.1	9.1	10.6
Diluted P/E (x)	40.3	39.5	34.9	29.8
P/B (x)	12.1	10.4	8.9	7.7
EV / Sales (x)	6.4	6.5	5.8	5.1
EV / EBITDA (x)	33.1	33.3	29.9	25.2
Dividend Yield (%)	0.8	1.0	1.1	1.3

Additional Data

Directors Data

Dr. Anand Burman	Chairman	Mr. Amit Burman	Vice Chairman
Mr. Saket Burman	Promoter Director	Mr. Mohit Burman	Promoter Director
Mr. P. D. Narang	Executive Director	Mr. Sunil Duggal	Executive Director, Chief Executive Officer
Mr. R. C. Bhargava	Independent Non-Executive Director	Mr. P. N. Vijay	Independent Non-Executive Director
Dr. S. Narayan	Independent Non-Executive Director	Dr. Ajay Dua	Independent Non-Executive Director
S. K. Bhattacharyya	Independent Non-Executive Director	Ms. Falguni Nayar	Independent Non-Executive Director

Auditors - M/s G. Basu & Co - Chartered Accountants; Internal Auditors: Price Waterhouse Coopers Pvt. Ltd

**as per last annual report*

Top 10 holdings

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	3.26	Commonwealth Bank Of Austr	1.84
Matthews Intl Capital Management	1.77	Blackrock	1.36
Vanguard Group	1.00	Harding Loevner LP	0.72
Prudential ICICI Asset Mgmt Co	0.65	Sun Life Financial Inc	0.45
Genesis Asset Managers LLP	0.44	Schroders Plc	0.35

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

**in last one year*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
07 Apr 2017	Ratna Commercial Enterprises Private Ltd	Buy	62603.00
06 Apr 2017	Ratna Commercial Enterprises Private Ltd	Buy	62603.00
05 Apr 2017	Ratna Commercial Enterprises Private Ltd	Buy	62603.00
03 Apr 2017	Ratna Commercial Enterprises Private Ltd	Buy	62603.00
27 Mar 2017	P D NARANG	Sell	40000.00

**in last one year*

Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative Risk
Asian Paints	BUY	SO	M	Bajaj Corp	HOLD	SU	H
Berger Paints	BUY	SO	L	Britannia Industries	BUY	SO	L
Colgate	HOLD	SP	M	Dabur	BUY	SO	M
Emami	BUY	SO	H	GlaxoSmithKline Consumer Healthcare	HOLD	SU	M
Godrej Consumer	BUY	SO	H	Hindustan Unilever	HOLD	SP	L
ITC	BUY	SO	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	HOLD	SP	H				

ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return



Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.

Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain

Head of Research

aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Consumer Goods

Asian Paints, Bajaj Corp, Berger Paints, Britannia Industries, Colgate, Dabur, Godrej Consumer, Emami, Hindustan Unilever, ITC, Marico, Nestle Ltd, Pidilite Industries, GlaxoSmithKline Consumer Healthcare, United Spirits

Recent Research

Date	Company	Title	Price (INR)	Recos
27-Apr-17	Consumer Goods	Prognosis: Sector Gauge; Sector Update		
24-Apr-17	Consumer Goods	Edel Pulse : Deconstructing GST and its implementation; Sector Update		
17-Apr-17	Bajaj Corp	Cagey quarter amid DeMon aftermath; Result Update	402	Hold

Distribution of Ratings / Market Cap

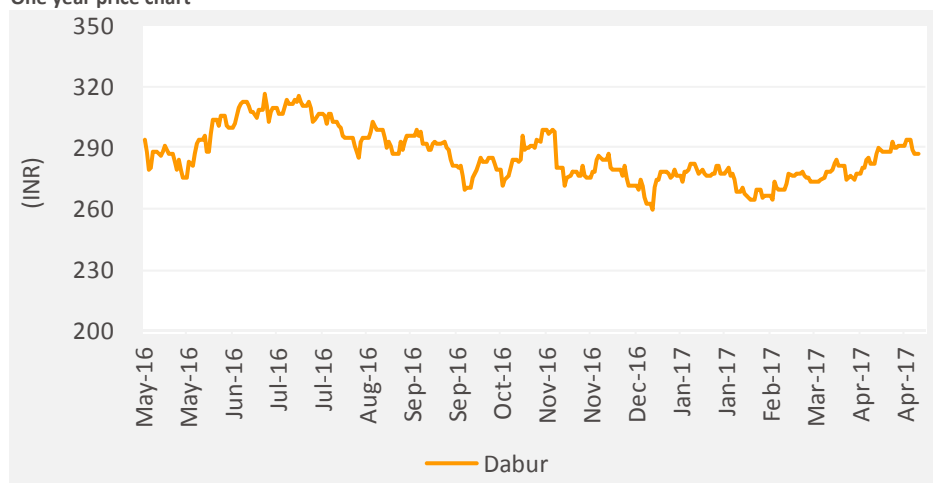
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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