

### No cheer as headwinds continues

Dabur's 4QFY17 revenues came below our expectation, albeit, APAT was in-line. The domestic business posted below estimated revenue performance primarily due to lower than estimated volume growth. Mere 2.4% volume growth in the domestic business implies that there's still pinch of the demonetization. GM contracted 160bps, but the reduction in other operating expenses helped the operating margin expand. Though media spends declined significantly during the quarter, we expect it to increase in the ensuing quarters to support volume growth. We believe that the operating margins have peaked out and would start tapering off with an increase in commodity price and increasing competition. We are not optimistic on the performance of the stock until assurance of better monsoon for the coming season. Valuing at 34x FY19E EPS to arrive at a TP of ₹292. Downgrade to SELL.

### Volume growth not yet normalised

The slowdown in rural demand owing to demonetisation and increasing competitive intensity continues to pressurize volume growth during the quarter. In addition, key categories like Digestives, OTC, Hair care and Home care posted negative growths. We believe that going forward blended volume growth may revive in high single-digit in the event of revival in rural demand on the back of normal monsoon and gov stimulus.

### Margins are peaking out

The company reported almost peak EBITDA margins considering lower employee and media spends. However, the recent surge in commodity prices and volume growth pressure would increase overall operational cost for the company. Considering this in the light of accelerating competition, we believe that overall profitability for the company would remain under pressure in the ensuing quarters.

### Disappointed IB performance

IB reported 4.5% de-growth on CC. Devaluation of EGP (~55%), Lira (~20%) and Naira (~36%) resulted in a sales decline. The slowdown in GCC markets (UAE & Saudi) witnessed pressures due to macroeconomic headwinds. However, market share in most of the geographies remained stable during the quarter.

### Q4FY17 Result (₹Mn)

Particulars	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
<b>Total Revenue</b>	<b>19,147</b>	<b>20,101</b>	<b>(4.7)</b>	<b>18,529</b>	<b>3.3</b>
<b>Total Expenditure</b>	<b>14,971</b>	<b>15,949</b>	<b>(6.1)</b>	<b>15,190</b>	<b>(1.4)</b>
<b>PBIDT (Excl OI)</b>	<b>4,176</b>	<b>4,152</b>	<b>0.6</b>	<b>3,339</b>	<b>25.1</b>
Depreciation	395	358	10.6	333	18.9
<b>EBIT</b>	<b>4,431</b>	<b>4,333</b>	<b>2.3</b>	<b>3,837</b>	<b>15.5</b>
Interest	117	132	(11.6)	139	(16.4)
<b>PBT</b>	<b>4,314</b>	<b>4,201</b>	<b>2.7</b>	<b>3,697</b>	<b>16.7</b>
Tax	977	868	12.5	753	29.8
<b>Profit After Tax</b>	<b>3,337</b>	<b>3,333</b>	<b>0.1</b>	<b>2,945</b>	<b>13.3</b>
<b>APAT (After MI)</b>	<b>3,331</b>	<b>3,315</b>	<b>0.5</b>	<b>2,938</b>	<b>13.4</b>
<b>RPAT (After OCI)</b>	<b>3,076</b>	<b>3,179</b>	<b>(3.2)</b>	<b>1,610</b>	<b>91.0</b>
			bps		bps
Gross Profit (%)	49.0	50.6	(160)	49.4	(30)
Employee Exp (%)	9.0	10.0	(100)	10.2	(120)
Ad spends (%)	6.4	7.8	(140)	9.6	(310)
Other Exp (%)	11.7	12.2	(40)	11.6	20
EBITDA (%)	21.8	20.7	120	18.0	380
PAT (%) Adj	17.4	16.5	90	15.9	150

CMP	₹287
Target / Upside	₹292/2%
BSE Sensex	30,018
NSE Nifty	9,333

### Scrip Details

Equity / FV	₹1,759/₹1/-
Market Cap	₹504bn
	USD 7.8bn
52 week High/Low	₹320/259
Avg. Volume (no)	1,244,842
NSE Symbol	DABUR
Bloomberg Code	DABUR IN

### Shareholding Pattern Mar'17(%)

Promoters	68.0
MF/Banks/FIs	5.8
FIIIs	20.3
Public / Others	5.9

### Valuation (x)

	FY17E	FY18E	FY19E
P/E	39.5	36.9	33.5
EV/EBITDA	31.7	29.0	25.6
ROE	28.4	25.9	24.7
ROCE	30.6	28.8	28.1

### Estimates (₹mn)

	FY17E	FY18E	FY19E
Net Sales	77,014	83,681	93,678
EBITDA	15,089	16,231	17,999
PAT	12,769	13,657	15,045
EPS	7.3	7.8	8.6

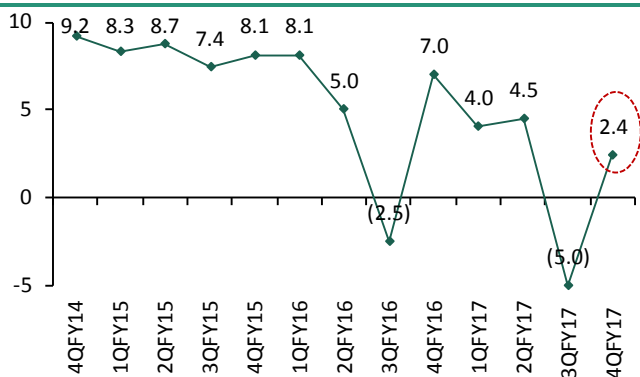
Sr. Analyst: Sachin Bobade  
Tel: +9122 4096 9731

E-mail: sachinb@dolatcapital.com

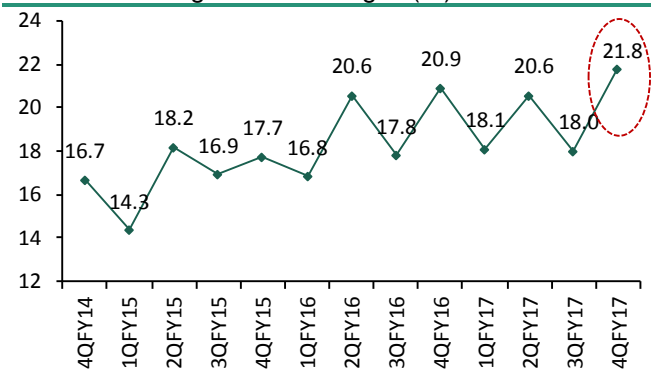
**Exhibit 1: Segmental performance (₹ mn)**

Particulars	Q4FY17	Q4FY16	YoY%	Q3FY17	QoQ%
<b>Consumer Care</b>					
Revenue	15,508	16,406	(5.5)	15,625	(0.7)
EBIT	3,773	4,130	(8.6)	3,835	(1.6)
EBIT Margin %	24.3	25.2	-80bps	24.5	-20bps
<b>Foods</b>					
Revenue	2,980	2,726	9.3	2,191	36.0
EBIT	454	439	3.6	187	142.6
EBIT Margin %	15.2	16.1	-80bps	8.5	670bps
<b>Retail</b>					
Revenue	308	298	3.2	355	(13.4)
EBIT	2	(3)	(154.8)	2	6.3
EBIT Margin %	0.6	(1.0)	160bps	0.5	10bps
<b>Others</b>					
Revenue	294	370	(20.7)	305	(3.8)
EBIT	10	5	83.3	3	191.2
EBIT Margin %	3.4	1.5	190bps	1.1	230bps
<b>Total</b>					
Revenue	19,090	19,800	(3.6)	18,477	3.3
EBIT	4,239	4,571	(7.3)	4,027	5.2
EBIT Margin %	22.2	23.1	-90bps	21.8	40bps

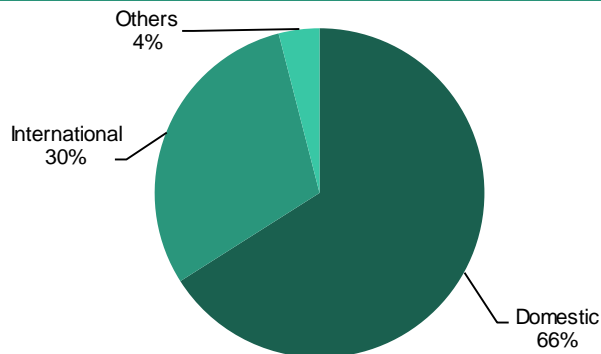
Source: Company, DART

**Exhibit 2: Volume Growth Trend**


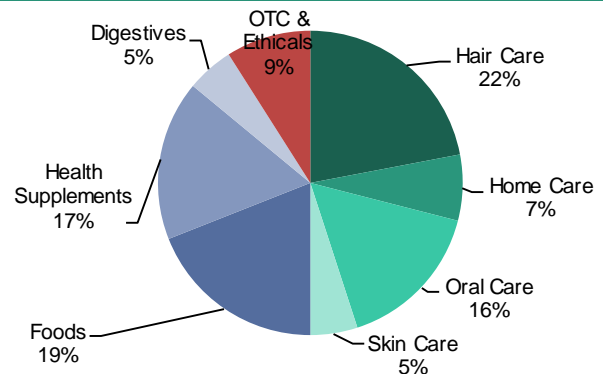
Source: Company, DART

**Exhibit 3: Strong EBITDA Margins(%)**


Source: Company, DART

**Exhibit 4: Revenue Contribution in Q4FY17**


Source: Company, DART

**Exhibit 5: Domestic FMCG Category Breakup**


Source: Company, DART

### Income Statement

Particulars (₹mn)	Mar16	Mar17P	Mar18E	Mar19E
<b>Net Sales</b>	<b>84,540</b>	<b>77,014</b>	<b>83,681</b>	<b>93,678</b>
Other income	2,192	2,984	3,171	3,374
Total Income	86,733	79,998	86,851	97,052
Total Expenditure	69,342	61,925	67,449	75,679
Operational / Direct Exp	37,970	38,432	42,192	47,639
Employee Expenses	7,948	7,896	8,569	9,636
Manufacturing Exp	3,788	3,355	3,635	4,110
Selling & Distribution Exp	15,545	9,616	10,322	11,464
Provisions & Write Offs	0	0	0	0
Admin Exp	4,092	2,627	2,731	2,829
<b>EBIDTA (Excl. OI)</b>	<b>15,198</b>	<b>15,089</b>	<b>16,231</b>	<b>17,999</b>
<b>EBIDTA (Incl. OI)</b>	<b>17,390</b>	<b>18,073</b>	<b>19,402</b>	<b>21,373</b>
Interest	544	540	540	540
<b>EBDT</b>	<b>16,847</b>	<b>17,533</b>	<b>18,862</b>	<b>20,833</b>
Depreciation	1,358	1,429	1,480	1,531
PBT& EO Items	15,489	16,104	17,382	19,302
Extra Ordinary Exps/(Inc)	0	0	0	0
Profit Before Tax	15,489	16,104	17,382	19,302
Tax	3,010	3,303	3,694	4,226
Net Profit	12,478	12,801	13,688	15,076
Minority Interest	27	31	31	31
Net Profit (After minority)	12,451	12,769	13,657	15,045
<b>Net Profit (Adj.)</b>	<b>12,451</b>	<b>12,769</b>	<b>13,657</b>	<b>15,045</b>

### Balance Sheet

Particulars (₹mn)	Mar16	Mar17P	Mar18E	Mar19E
<b>Sources of Funds</b>				
Equity Capital	1,759	1,759	1,759	1,759
Share Premium	1,664	1,664	1,664	1,664
Reserves	37,808	45,337	53,230	61,934
<b>Net Worth</b>	<b>41,231</b>	<b>48,760</b>	<b>56,653</b>	<b>65,357</b>
Minority Interest	250	281	312	344
Secured Loans	3,415	3,415	3,415	3,415
Unsecured Loans	4,497	4,497	4,497	4,497
<b>Loan Funds</b>	<b>7,912</b>	<b>7,912</b>	<b>7,912</b>	<b>7,912</b>
<b>Long Term Provision</b>	<b>509</b>	<b>509</b>	<b>509</b>	<b>509</b>
Deferred Tax Liability	765	765	765	765
<b>Total Capital Employed</b>	<b>50,667</b>	<b>58,227</b>	<b>66,151</b>	<b>74,887</b>
<b>Applications of Funds</b>				
Gross Block	28,446	28,943	29,943	30,943
Less: Accumulated Depreciation	7,996	9,424	10,904	12,436
<b>Net Block</b>	<b>20,450</b>	<b>19,518</b>	<b>19,039</b>	<b>18,507</b>
Capital Work in Progress	503	503	503	503
<b>Investments</b>	<b>25,239</b>	<b>21,698</b>	<b>21,698</b>	<b>21,698</b>
<b>Current Assets, Loans &amp; Advances</b>				
Inventories	10,965	9,321	10,119	11,363
Sundry Debtors	8,097	4,922	5,347	5,991
Cash and Bank Balance	1,043	12,170	20,142	29,115
Loans and Advances	3,560	3,384	3,766	4,001
Other Current Assets	1,011	1,021	1,293	1,147
<i>sub total</i>	24,677	30,818	40,667	51,617
<b>Less: Current Liabilities &amp; Provisions</b>				
Current Liabilities	16,869	11,913	12,978	14,558
Provisions	3,332	2,396	2,776	2,880
<i>sub total</i>	20,201	14,309	15,755	17,438
Net Current Assets	4,476	16,508	24,912	34,179
<b>Total Assets</b>	<b>50,667</b>	<b>58,227</b>	<b>66,151</b>	<b>74,887</b>

E – Estimates

### Cash Flow

Particulars (₹mn)	Mar16	Mar17P	Mar18E	Mar19E
<b>Profit before tax</b>	<b>15,489</b>	<b>16,104</b>	<b>17,382</b>	<b>19,302</b>
Depreciation & w.o.	1,358	1,429	1,480	1,531
Net Interest Exp	544	540	540	540
Direct taxes paid	(3,010)	(3,303)	(3,694)	(4,226)
Change in Working Capital (Non Cash)	(1,406)	(906)	(432)	(294)
Extra Ordinary	178	(0)	0	0
<b>(A) CF from Opt. Activities</b>	<b>13,153</b>	<b>13,864</b>	<b>15,277</b>	<b>16,854</b>
Capex	(3,037)	(497)	(1,000)	(1,000)
<b>Free Cash Flow</b>	<b>10,116</b>	<b>13,367</b>	<b>14,277</b>	<b>15,854</b>
(Inc)/ Dec. in Investments	(7,105)	3,541	0	0
<b>(B) CF from Invst. Activities</b>	<b>(10,142)</b>	<b>3,044</b>	<b>(1,000)</b>	<b>(1,000)</b>
Issue of Equity/ Preference	3	0	0	0
Inc./ (Dec.) in Debt	577	0	0	0
Interest exp net	(544)	(540)	(540)	(540)
Dividend Paid (Incl. Tax)	(4,764)	(5,240)	(5,764)	(6,341)
<b>(C) CF from Financing</b>	<b>(4,728)</b>	<b>(5,781)</b>	<b>(6,305)</b>	<b>(6,881)</b>
Net Change in Cash	(1,717)	11,127	7,972	8,973
Opening Cash balances	2,760	1,043	12,170	20,142
Closing Cash balances	1,043	12,170	20,142	29,115

### Important Ratios

Particulars	Mar16	Mar17P	Mar18E	Mar19E
<b>(A) Measures of Performance (%)</b>				
EBIDTA Marg. (excl. O.I.)	18.0	19.6	19.4	19.2
EBIDTA Marg. (incl. O.I.)	20.6	23.5	23.2	22.8
EBDT Margin	19.9	22.8	22.5	22.2
Tax/PBT	19.4	20.5	21.3	21.9
Net Profit Margin	14.8	16.6	16.4	16.1
<b>(B) As Percentage of Net Sales</b>				
Raw Material	44.9	49.9	50.4	50.9
Employee Expenses	9.4	10.3	10.2	10.3
Selling & Adm. Expenses	18.4	12.5	12.3	12.2
Other Expenses	4.8	3.4	3.3	3.0
<b>(C) Measures of Financial Status</b>				
Debt / Equity (x)	0.2	0.2	0.1	0.1
Interest Coverage (x)	32.0	33.4	35.9	39.6
Debtors Period (days)	35.0	23.3	23.3	23.3
Closing stock (days)	47.3	44.2	44.1	44.3
Inventory Turn. Ratio (x)	7.7	8.3	8.3	8.2
Fixed Assets Turnover (x)	3.0	2.7	2.8	3.0
WC Turnover (x)	18.9	4.7	3.4	2.7
Non-Cash WC (₹Mn)	3,433	4,338	4,770	5,064
<b>(D) Measures of Investment</b>				
EPS (₹)	7.1	7.3	7.8	8.6
CEPS (₹)	7.9	8.1	8.6	9.4
DPS (₹)	2.7	3.0	3.3	3.6
Dividend Payout (%)	38.3	41.0	42.2	42.1
Profit Ploughback (%)	61.7	59.0	57.8	57.9
Book Value (₹)	23.4	27.7	32.2	37.2
RoANW (%)	33.3	28.4	25.9	24.7
RoACE (%)	34.6	30.6	28.8	28.1
RoAIC (%)	36.0	34.8	38.9	43.2
<b>(E) Valuation Ratios</b>				
CMP (₹)	287	287	287	287
P/E (x)	40.5	39.5	36.9	33.5
Market Cap. (₹ Mn)	504,070	504,070	504,070	504,070
MCap/ Sales (x)	6.0	6.5	6.0	5.4
EV (₹ Mn)	485,701	478,115	470,143	461,170
EV/Sales (x)	5.7	6.2	5.6	4.9
EV/EBDITA (x)	32.0	31.7	29.0	25.6
P/BV (x)	12.2	10.3	8.9	7.7
FCF Yield (%)	2.1	2.7	2.8	3.1
Dividend Yield (%)	0.9	1.0	1.1	1.3

E – Estimates

**Stock price return objective (12 Months)**

<b>Buy</b>	<b>&gt; 15%</b>
<b>Accumulate</b>	<b>5 to 15%</b>
<b>Reduce</b>	<b>(-5) to 5%</b>
<b>Sell</b>	<b>&lt; -5%</b>

***Dolat Team***

<b>Purvag Shah</b>	<b>Principal</b>	<b>purvag@dolatcapital.com</b>	<b>+9122 4096 9747</b>
<b>Amit Khurana, CFA</b>	<b>Head of Equities and Head of Research</b>	<b>amit@dolatcapital.com</b>	<b>+9122 4096 9745</b>

**CONTACT DETAILS**

<b>Equity Trading</b>	<b>Designation</b>	<b>E-mail</b>	<b>Direct Lines</b>
Kishor Bagri, CFA	VP- Equity Sales	kishorb@dolatcapital.com	+9122 4096 9746
Akshata Deshmukh	VP- Equity Sales & Derivatives Strategist	akshatad@dolatcapital.com	+9122 4096 9705
Kapil Yadav	VP - Institutional Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - FII Sales	yomika@dolatcapital.com	+9122 4096 9773
<b>Equity Trading</b>	<b>Designation</b>	<b>E-mail</b>	
P. Sridhar	Head - Sales Trading (Equities)	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	AVP - Equity Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
<b>Derivatives Trading</b>	<b>Designation</b>	<b>E-mail</b>	
Jatin Padharia	Head - Sales Trading (Derivatives)	jatin@dolatcapital.com	+9122 4096 9703
Shirish Thakkar	AVP - Derivatives	shirisht@dolatcapital.com	+9122 4096 9702

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**Dolat Capital Market Pvt. Ltd.**

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Corporate Identity Number: U65990MH1993PTC075189  
Member: BSE Limited and National Stock Exchange of India Limited.  
SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031 & INF230710031, Research: INH000000685  
Registered office: "DOLAT" Plot 60B, East West Road No. 2, JVPD Scheme, Vile Parle (West), Mumbai-400 049.  
Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatcapital.com

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**I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**

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