

Institutional Equity Research

Dabur India

FMCG | India

2QFY18 Result Update | October 31, 2017

CMP* (Rs)	333
Upside/ (Downside) (%)	14
Bloomberg Ticker	DABUR IN
Market Cap. (Rs bn)	587
Free Float (%)	31.9
Shares O/S (mn)	1,762

BUY 

Target Price: Rs381

Domestic Business Shines albeit on a Lower Base

Benefiting from lower base effect and pipeline refilling post GST roll-out, Dabur India's 2QFY18 numbers marginally exceeded our estimates. While consolidated net sales came in at Rs19.6bn vs. our estimate of Rs19.4bn, its net profit grew by 1.3% YoY to Rs3.6bn vs. our estimate of Rs3.5bn. Underlying consolidated revenue growth in constant currency terms stood at a healthy 8%. Domestic business grew by 10% YoY in value terms on comparable basis with 7.2% YoY growth in volume.

Looking ahead, we believe that lower base effect, good monsoon, steady input costs and new product pipeline should aid growth for Dabur in coming quarters. **Expecting the Company to post revenue and earnings CAGR of 10.7% and 14.4%, respectively through FY17-19E, we maintain our BUY recommendation on the stock with a revised Target Price of Rs381 (from Rs360 earlier).**

Highest Domestic Volume Growth in Past 9 Quarters

Volume growth in domestic business stood at 7.2% in 2QFY18 vs. 4.4% de-growth witnessed in 1QFY18. Domestic growth was led by Oral Care (+22.8% YoY), Skin Care (+15.8% YoY) and Beverages (+13.3% YoY). Hair Oil segment grew by 2.3% YoY with Amla (excluding CSD) growing by 9% YoY, while health supplement business grew by 3% YoY. The Management stated that while moderate stabilisation happened in trade during the quarter post disruption in 1QFY18, the wholesale and CSD channels continue to remain under pressure. It also added that the underlying consumer demand is improving, which is expected to improve further owing to normal monsoon. International business grew by 3.9% YoY in constant currency terms aided by 38% YoY growth in Egypt and 27% YoY growth in Turkey, although GCC region witnessed 4% YoY de-growth due to import quota embargo in Algeria.

Margin Scenario Remains Benign

Consolidated gross margins fell by 110bps YoY to 50.1%. A&P spend remained largely flat at 7.4% of sales. Other expenses fell by 130bps YoY to 10.8% on the back of cost synergies. Resultant EBITDA margins rose by 80bps YoY to 21.4%. On segmental basis, EBIT margins of Consumer Care business improved by 120bps YoY to 26.5%, while Foods business witnessed 30bps YoY improvement in margins to 15.1%.

Outlook & Valuation

We expect Dabur to post strong set of numbers in coming quarters on the back of lower base effect of 2HFY17, trade stabilisation post GST roll-out, good monsoon, stable input costs scenario and aggressive new product pipeline. Based on expected EPS of Rs9.5, the stock currently trades at 35.1x FY19E earnings, which is attractive considering that the stock has been trading at average forward multiple of 37x in past three years. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs381 (from Rs360 earlier).**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	77,797	76,136	82,548	93,290
EBITDA	15,183	15,089	16,813	19,590
Net profit	12,566	12,832	14,555	16,791
EPS (Rs)	7.1	7.2	8.1	9.5
DPS (Rs)	2.3	2.3	3.0	3.5
P/E (x)	46.8	45.9	41.3	35.1
P/B (x)	13.9	12.0	10.2	8.8
EV/EBITDA (x)	36.8	36.7	32.4	27.3
ROE (%)	33.5	28.4	27.4	27.3
Dividend yield (%)	0.7	0.7	0.9	1.1

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	9.7	8.0	14.5
Relative to Nifty	4.2	5.5	(5.3)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	68.1	68.1
Public	32.0	32.0

1 Year Stock Price Performance



Note: * CMP as on October 31, 2017

Research Analyst : Sameer Deshmukh

Contact : (022) 33201327

Email : sameer.deshmukh@relianceada.com

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Risks to the View

- ▶ Delay in recovery in consumer demand.
- ▶ Heightened competitive intensity.
- ▶ Sharp increase in input costs

Exhibit 1: Consolidated revenue growth

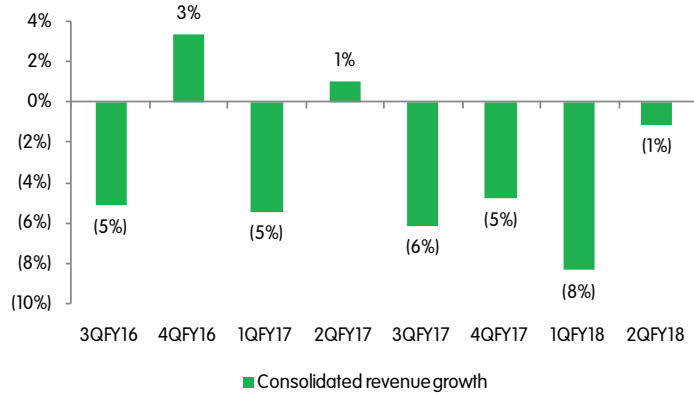


Exhibit 2: Domestic Volume growth

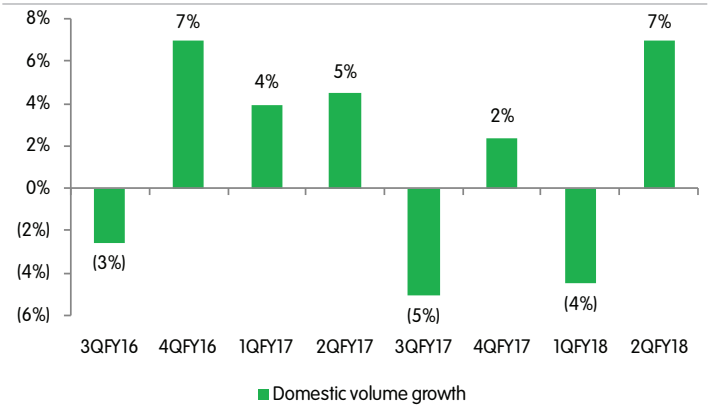


Exhibit 3: Trend in Gross Profit Margin

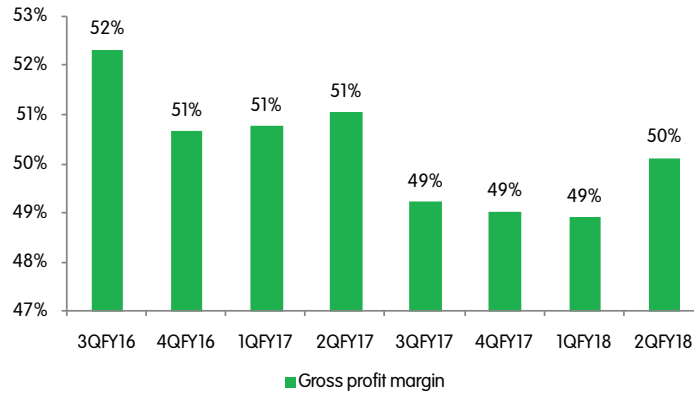
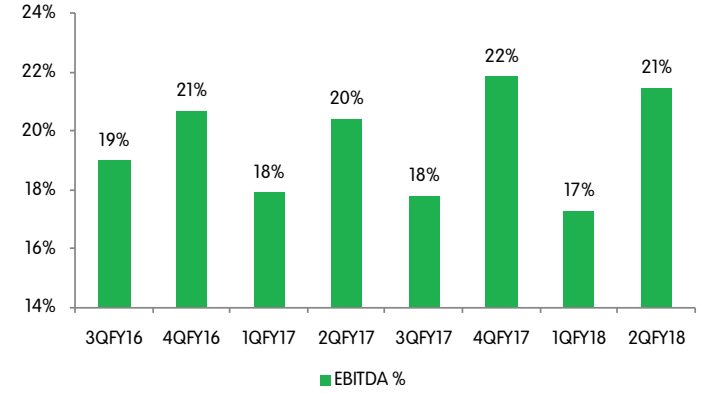


Exhibit 4: Trend in consolidated EBITDA margins



Source: Company, RSec Research

Exhibit 5: A&P to Sales

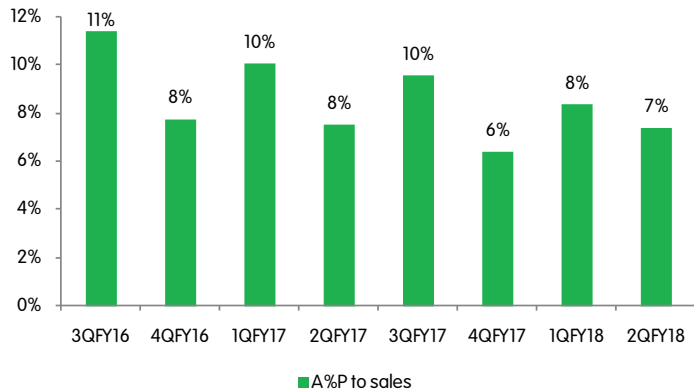
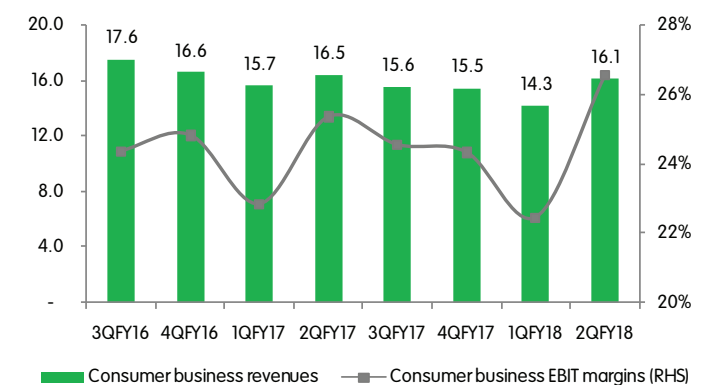


Exhibit 6: Performance of Consumer care business



Source: Company, RSec Research

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Exhibit 7: Quarterly Performance

Y/E March (Rs mn)	2QFY18	2QFY17	% yoy	1QFY18	% qoq	1HFY18	1HFY17	% yoy
Net Sales	19,589	19,816	(1.1)	17,901	9.4	37,490	39,339	(4.7)
Consumption of RM	9,771	9,674	1.0	9,145	6.8	18,917	19,288	(1.9)
(% of Sales)	49.9	48.8		51.1		50.5	49.0	
Staff Costs	2,037	2,158	(5.6)	2,035	0.1	4,072	4,273	(4.7)
(% of Sales)	10.4	10.9		11.4		10.9	10.9	
Advertising	1,457	1,494	(2.5)	1,500	(2.9)	2,958	3,459	(14.5)
(% of Sales)	7.4	7.5		8.4		7.9	8.8	
Other Expenses	2,125	2,403	(11.6)	2,131	(0.3)	4,256	4,743	(10.3)
(% of Sales)	10.8	12.1		11.9		11.4	12.1	
Total Expenditure	15,390	15,730	(2.2)	14,812	3.9	30,202	31,764	(4.9)
Operating Profit	4,199	4,087	2.7	3,089	35.9	7,288	7,575	(3.8)
OPM	21.4	20.6		17.3		19.4	19.3	
Depreciation	401	357	12.1	391	2.6	791	701	13.0
EBIT	3,798	3,729	1.8	2,698	40.8	6,497	6,874	(5.5)
Interest	133	166	(19.8)	133	0.3	266	284	(6.4)
Other Income	843	893	(5.5)	813	3.7	1,656	1,503	10.2
PBT	4,508	4,456	1.2	3,378	33.4	7,887	8,093	(2.5)
(% of Sales)	23.0	22.5		18.9		21.0	20.6	
Provision for Taxation	880	873	0.7	589	49.4	1,468	1,574	(6.7)
(% of PBT)	19.5	19.6		17.4		18.6	19.5	
PAT (recurring)	3,629	3,583	1.3	2,790	30.1	6,418	6,518	(1.5)
Extr. Income/(Expense)	-	-		-		-	-	
Reported PAT	3,629	3,583	1.3	2,790	30.1	6,418	6,518	(1.5)
PATM	18.5	18.1		15.6		17.1	16.6	
Minority interest	2	1		(5)		3	2	
PAT	3,627	3,582	1.3	2,794		6,416	6,517	(1.6)
Equity shares (mn)	1,759	1,759		1,759		1,759	1,759	
EPS (Rs)	2.1	2.0	1.3	1.6	30.1	3.6	3.7	(1.5)

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	77,797	76,136	82,548	93,290
Total operating income	77,797	76,136	82,548	93,290
% chg	(0.3)	(2.1)	8.4	13.0
Total Expenditure	62,614	61,047	65,735	73,700
Cost of Materials	37,605	37,554	41,356	46,266
Advertising Exp (Incl Promotion)	7,716	6,461	6,263	7,549
Personnel	7,941	7,896	8,212	9,033
Others	9,352	9,135	9,905	10,852
EBITDA	15,183	15,089	16,813	19,590
% chg	17.2	(0.6)	11.4	16.5
(% of Net Sales)	19.5	19.8	20.4	21.0
Depreciation & Amortisation	1,332	1,429	1,596	1,802
EBIT	13,851	13,661	15,217	17,788
% chg	17.3	(1.4)	11.4	16.9
(% of Net Sales)	17.8	17.9	18.4	19.1
Interest & other Charges	485	540	542	523
Other Income	2,172	2,984	3,293	3,671
(% of PBT)	14.0	18.5	18.3	17.5
Recurring PBT	15,538	16,104	17,968	20,937
% chg	17.8	3.6	11.6	16.5
PBT (reported)	15,538	16,104	18,113	20,937
Tax	2,999	3,303	3,594	4,187
(% of PBT)	19.3	20.5	19.8	20.0
PAT (recurring)	12,539	12,801	14,519	16,749
% chg	17.4	2.1	13.4	15.4
(% of Net Sales)	16.1	16.8	17.6	18.0
Minority interest	(28)	(31)	(36)	(42)
Net profit	12,566	12,832	14,555	16,791
Basic EPS (Rs)	7.1	7.2	8.1	9.5
Fully Diluted EPS (Rs)	7.1	7.2	8.1	9.5
% chg	17.2	1.9	11.1	17.7

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Balance sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Share capital	1,759	1,762	1,762	1,762
Reserves	39,947	46,712	54,824	64,437
Net worth	41,706	48,474	56,586	66,198
Borrowings	7,922	9,115	8,615	7,615
Minority interest	217	248	284	326
Deferred tax	882	1,080	1,260	1,469
Total liabilities	50,727	58,917	66,745	75,608
Gross block	25,538	28,427	30,927	33,427
Less: Depreciation	8,258	8,843	10,439	12,241
Net block	17,280	19,584	20,488	21,186
Capital work in progress	448	421	371	321
Investments	26,301	32,402	32,402	32,402
Current assets	25,294	24,904	34,265	45,656
Inventories	10,965	11,067	11,690	13,211
Debtors	8,092	6,504	6,680	7,549
Cash	2,198	3,048	11,249	19,646
Loans and advances	4,038	4,284	4,645	5,250
Current liabilities	17,182	16,940	19,205	22,176
Provisions	1,414	1,453	1,575	1,780
Net current assets	6,698	6,511	13,484	21,700
Total Assets	50,727	58,917	66,745	75,608

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net profit	12,511	12,769	14,193	16,707
Depn and w/o	1,332	1,429	1,596	1,802
Deferred tax	134	198	180	209
Change in working cap	(1,987)	1,037	1,228	181
Operating cash flow	11,990	15,433	17,197	18,900
Capital expenditure	(2,223)	(2,835)	(2,450)	(2,450)
Investments	(7,196)	(6,100)	0	0
Investing cash flow	(9,418)	(8,935)	(2,450)	(2,450)
Free cash	9,767	12,598	14,747	16,450
Dividend	(4,561)	(4,561)	(6,081)	(7,095)
Fresh equity	171	149	0	0
Debt/Preference shares	579	1,194	(500)	(1,000)
Financing cash flow	(3,811)	(3,218)	(6,581)	(8,095)
Others	679	(2,429)	36	42
Net change in cash	(561)	850	8,201	8,397
Opening cash	2,758	2,198	3,048	11,249
Closing cash	2,198	3,048	11,249	19,646

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Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	46.8	45.9	41.3	35.1
P/CEPS	42.2	41.2	36.7	31.6
P/BV	13.9	12.0	10.2	8.8
Dividend yield (%)	0.7	0.7	0.9	1.1
EV/Sales	7.2	7.3	6.6	5.7
EV/EBITDA	36.8	36.7	32.4	27.3
Per Share Data (Rs)				
EPS (Basic)	7.1	7.2	8.1	9.5
Core EPS	7.1	7.2	8.1	9.5
Cash EPS	7.9	8.1	9.1	10.5
DPS	2.3	2.3	3.0	3.5
Book Value	24.0	27.8	32.5	38.0
Returns (%)				
RoCE	28.7	24.7	24.1	24.7
RoE	33.5	28.4	27.4	27.3
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.7	1.4	1.3	1.3
Inventory / Sales (days)	106	108	103	104
Receivables (days)	38	31	30	30
Payables (days)	167	165	170	175
Working capital cycle (ex-cash) (days)	(22)	(26)	(37)	(41)

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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