

# DABUR

## On a strong wicket; outlook sanguine

India Equity Research | Consumer Goods

Dabur India's (Dabur) Q4FY18 revenue (up 6.2% YoY) came in line, while EBITDA and PAT (up 16.2%/19.0% YoY) surpassed estimates led by better-than-expected margin. Domestic volumes grew 7.7% YoY (on a base of 2.4%), indicating initial signs of revival, especially in rural areas, which outpaced urban growth. International business too continued to improve—16.8% YoY constant currency (CC) growth (5.0% /3.9% /-2.2% in Q3FY18 /Q2FY18 /Q1FY18). Dabur clocked multi-quarter high EBITDA margin of 23.9% aided by 167bps YoY gross margin expansion, flat A&P spends and better operating efficiencies. Dabur's stable-to-expanding market share, waning competition from herbal players and improving rural economy are positives. Maintain 'BUY'.

### Secular and diversified growth continues

Dabur's Q4FY18 category-wise growth was well diversified. Oral care, hair care, health supplements, digestives and skin care (categories which have been clocking strong growth over the past few quarters) grew 11.0%, 8.8%, 14.0%, 7.2% and 8.5% YoY, respectively. Homecare was relatively soft with flattish growth. Beverages grew mere 2% due to heightened competitive intensity. International business remained strong—posted CC growth of 16.8% YoY (improving trajectory over the past three quarters) with GCC and Saudi markets turning around. The only missing link was the *Namaste* business, which declined in Q4FY18 as well—down 6% YoY.

### Q4FY18 conference call: Key takeaways

Management has guided for ~8% YoY volume growth in H1FY19 and ~10% in H2FY19. Rural value growth was at 12.6% YoY and urban at 9.2% YoY. If raw material prices spike further, **Dabur will effect additional price hikes**. The company has gained market share across most strong categories; the only category it lost share in is beverages.

### Outlook and valuations: Positive; maintain 'BUY'

We expect the volume recovery to sustain and improve aided by premiumisation, new launches, uptick in rural spending and government's rural push. Hence, we raise our target multiple to 40x (earlier 38x) to arrive at revised TP of INR438 (INR408 earlier). Dabur continues to remain our top pick in the consumer staples space. At CMP, the stock is trading at 34x FY20E EPS. We maintain 'BUY/SO'.

Year to March	Financials								(INR mn)		
	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E			
Net sales	20,329	19,090	6.5	19,664	3.4	77,248	89,633	100,328			
EBITDA	4,852	4,176	16.2	4,035	20.3	16,174	18,704	21,691			
Adjusted Profit	3,972	3,337	19.0	3,329	19.3	13,718	16,471	19,278			
Adj Dil. EPS (INR)	2.3	1.9	18.7	1.9	19.3	7.8	9.4	10.9			
Diluted P/E (x)						47.7	39.8	34.0			
EV/EBITDA (x)						40.5	34.7	29.5			
ROAE (%)						25.9	26.8	27.2			

#### 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 371
Target Price	: INR 438
52-week range (INR)	: 383 / 265
Share in issue (mn)	: 1,761.5
M cap (INR bn/USD mn)	: 654 / 9,744
Avg. Daily Vol.BSE/NSE('000)	: 1,592.5

#### SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	68.1	15.0	15.0
MF's, FI's & BK's	8.5	24.3	22.8
FII's	17.7	21.3	21.4
Others	5.7	39.4	40.7
* Promoters pledged shares (% of share in issue)			0.1

#### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Consumer Goods Index
1 month	12.5	6.2	9.9
3 months	3.9	(2.6)	5.5
12 months	28.8	15.4	20.1

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**Table 1: Segmentwise sales growth rate**

Category growth rate (%)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Domestic volume growth	8.1	5.0	(2.5)	7.0	4.1	4.5	(5.0)	2.4	(4.4)	7.2	13.0	7.7
Hair Care	12.7	9.4	2.0	6.0	(3.3)	(4.6)	(22.8)	(4.0)	(11.0)	2.3	16.7	8.8
Oral Care	17.5	18.7	10.5	18.3	11.6	0.8	(5.1)	3.6	1.5	22.8	23.0	11.0
HealthSupplements	1.2	9.0	(7.1)	2.0	(1.1)	(5.6)	(14.5)	5.0	(7.0)	3.0	19.5	14.0
Digestives	1.7	1.6	(2.4)	6.5	(5.6)	(3.4)	(10.7)	(5.0)	4.0	11.7	19.3	7.2
Skin Care	5.2	2.2	9.5	(2.2)	(3.1)	6.6	(11.4)	(0.6)	4.0	15.8	14.5	8.5
Home Care	12.0	12.4	8.4	19.3	2.1	19.9	(5.2)	(6.5)	6.2	10.1	36.0	0.5
OTC & Ethicals	16.7	10.8	7.5	7.1	(10.1)	(0.7)	(11.7)	(4.0)	(6.6)	5.5	8.7	NA
Food	15.5	2.4	(23.7)	11.7	4.3	15.2	52.2	7.9	(8.3)	11.7	0.1	2.0
International contribution to revenue	33.0	33.0	31.0	30.0	34.0	34.0	30.0	25.0	31.0	28.5	27.0	26.2
International CC growth	NA	NA	NA	NA	NA	NA	NA	NA	(2.2)	3.9	5.0	16.8
GCC	10.0	9.0	10.0	5.0	NA	NA	NA	NA	NA	NA	NA	NA
Egypt	NA	NA	7.0	27.0	NA	NA	NA	NA	NA	NA	NA	NA
EBITDA margins	16.8	20.6	19.2	20.7	17.9	20.6	18.0	21.8	16.4	21.4	20.5	23.9

Source: Company, Edelweiss research

For Q4FY18, separate growth rates for OTC and Ethicals has been given: 7.8% YoY for OTC and 10.3% YoY for Ethicals.

For foods, 2% growth rate is for Beverage category only.

For Q2FY18, OTC & Ethicals, represents only OTC growth rate, For Q3FY18, Hair care growth rate is growth rate for hair oil range

## Q4FY18 conference call takeaways

### Outlook and demand environment

- H1FY19 volume growth target is ~8% YoY and ~10% YoY for H2FY19.
- Off take has been good in rural, cash & carry and MT. Little tailwinds from macros. Category growth rates in HPC are still soft. Some uptick, however, in March.
- Value growth—rural grew at 12.6% YoY, urban 9.2% YoY. HPC did well in rural areas.
- HPC grew 10% YoY in Q4FY18; growth has revived riding market share gains.
- Will continue to invest towards infrastructure and deepen reach and penetration.
- Domestic volumes grew 7.7% YoY. Underlying GST and currency adjusted growth was 11.1% YoY.
- Marginal price hikes effected in a few categories. If inflation rises, Dabur will take the required price hikes.
- Patanjali changed the game when it entered the market. However, with waning of many macro headwinds, management expects growth to improve.
- NPD pipeline is robust. Some initiatives have been kept on hold.
- Amongst new launches, Odonil zipper, Red gel and brahmi amla were successful.
- Dabur has gained market share across most strong categories. Only category where it has lost some share is beverages.

### Oral care

- Oral care jumped 11.0% YoY. *Babool* brand is facing some competition. *Dabur red* continues to clock strong growth. QoQ as well, with market share gains.
- Overall oral care category growth may slow a tad (~6% YoY) post two years of decent growth. Management believes, Dabur will be able to gain market share from competition.
- Toothpaste category grew 13.7% YoY. *Red toothpaste* franchise sustained its growth momentum.
- Toothpowder category declined 3.9% YoY.

**Hair oil category**

- Hair oil category grew 8.8% YoY riding strong double digit growth in coconut oils; reported market share gains. *Anmol* franchise is doing well. More share gains have come in perfumed hair oil. ~7-8% YoY volume growth, outperforming the category by ~40-50%.
- The hair oil category has benefitted from GST-led rate reduction and hence the company has increased activations in that category.
- Shampoos category grew 31.3% YoY driven by restaging of *Vatika* shampoo, focused marketing initiatives and improving bottle saliency.

**Home care**

- Homecare category posted muted growth primarily on account of weaker season and low institutional sales for *Odomos*.
- No structural issue with *Odomos* brand.

**Skin care**

- Skin care grew 8.5% YoY driven by good growth in *Gulabari* and facial kits.

**Healthcare**

- Healthcare grew 11.2% YoY in Q4FY18.
- Health supplements jumped 14.0% YoY spurred by strong double digit growth in *Chyawanprash* and *Honey*.
- *Dabur Honey* grew 23.7% YoY; broad-based growth across regions, channels and SKUs. Pretty close to where Dabur had peaked earlier.
- Digestives grew 7.2% YoY on strong performance of *Hajmola* tablets.
- OTC category grew 7.8% YoY led by good growth in *Honitus*, *Ashokarishta* and *Dashmularishta Asavs*.
- Ethicals grew 10.3% YoY on account of strong surge of classical portfolio.

**Foods**

- Beverages grew ~2% YoY riding increased competition in the category. Promotional intensity in juices is at all-time high and is not sustainable. Margins are at a decent level to back any required promotional activity. Should be able to clock double digit growth sooner than later. In juice, Dabur's market share has dropped ~200bps from 56% to 54%.
- Supply chain is one of Dabur's strengths in the beverages category.
- Focus within beverages will on adding more value-added products. Base category is more commodity like and hence margin dilutive.
- Culinary business grew 9.0% YoY driven by double digit growth in *Hommade Paste*, *Hommade Coconut Milk* and *Nature's Best*.
- *Activ Coconut Water* continued to register good sales; capacity being ramped up.
- *Real Koolerz* launched on pan-India basis.

### International business

- International business reported growth of 16.8% on constant currency basis. Management anticipates double digit revenue growth in FY19; this is expected to be accompanied by margin expansion as well.
- GCC markets witnessed a strong turn around with constant currency growth of 50.7% YoY led by Saudi Arabia which grew 81.9% YoY. Not targeting expats in GCC markets, but locals. Made a few structural changes in the distribution channel in Saudi Arabia; will focus more on direct distribution.
- Egypt posted strong growth of 38.0% YoY in constant currency.
- SAARC markets performed well led by strong growth in Nepal and Pakistan.
- Shutdown in Algeria & Yemen led to loss of sales in the North African region.
- *Namaste's* US business reported muted performance due to category issues. However, the Sub-Saharan region posted strong growth of 23% YoY on constant currency basis. Management expects *Namaste* to be back on the growth track in FY19.

### Cost and margins

- Current domestic margins are at a good level and management expects this range to sustain hereon.
- International margins are expected to improve going ahead.

### Distribution

- Direct distribution is ~1.05mn currently. Optimal will be ~1.2mn.

### Others

- Tax rate will continue to be MAT rate.
- Looking at some domestic inorganic target also.
- Embarking on a project to revamp supply chain and logistics.
- Inventory in FG has increased since packaging disclosures are required to be changed.
- Capex for FY19 will be INR2,500-3,000mn for capacity expansion in existing plant. No greenfield plant expected

### Outlook and valuations: Positive; maintain 'BUY'

Dabur is set to benefit from recovery in rural growth (aided by the government’s rural push)—which contributes ~45% to total sales—and good monsoon. Initially, the company was losing market share to a strong herbal player. However, now the share loss has stemmed (gained share in UP in the oral care segment) and competitive intensity is receding.

To capitalise on the changing consumer trend, Dabur will be launching ayurvedic-based products in oral care, hair care, health supplements, etc., which is envisaged to spur overall growth. The company has countered rising competition by enhancing its promotional spending, which has helped win back market share. However, it will now reduce promotion spends and focus on media spends, which is a superior strategy and help 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 soft base as well as economic improvement in GCC and Saudi Arabia. *Project Buniyaad* is helping Dabur improve sales traction in rural geographies.

Following strong revival in volume off take and improving market share, we raise our target multiple from 38x to 40x to arrive at revised TP of INR438 (earlier INR408). We maintain 'BUY/SO'. Dabur continues to remain our top pick in the consumer staples space.

**Chart 1: One-year forward P/E band**



Source: Edelweiss research

**Table 2: Consolidated segmental performance**

Consumer care business	Q4FY18	Q4FY17	% growth Y-o-Y	Q3FY18	% growth Q-o-Q
Consumer care business	16,774	15,508	8.2	16,969	(1.1)
Foods business	2,934	2,980	(1.5)	2,107	39.3
Retail business	279	308	(9.3)	321	(13.1)
Others	342	351	(2.5)	268	27.6
<b>Gross income (Excl other income)</b>	<b>20,329</b>	<b>19,147</b>	<b>6.2</b>	<b>19,664</b>	<b>3.4</b>
<b>Year to March - PBIT (INR mn)</b>					
Consumer care business	4,287	3,773	13.6	4,187	2.4
Foods business	554	454	21.9	275	101.3
Retail business	4	2	147.1	16	(74.1)
Others	17	10	72.7	16	7.5
<b>PBIT</b>	<b>4,862</b>	<b>4,239</b>	<b>14.7</b>	<b>4,494</b>	<b>8.2</b>
<b>Year to March - Margin</b>					
Consumer care business	25.6	24.3	123	24.7	88.1
Foods business	18.9	15.2	363	13.1	581.9
Retail business	1.5	0.6	NM	5.0	NM
Others	5.0	2.8	218	5.9	(93.1)
<b>Margin</b>	<b>23.9</b>	<b>22.1</b>	<b>178</b>	<b>22.9</b>	<b>106.2</b>

Source: Company, Edelweiss research  
Segmental revenue numbers are not comparable on YoY basis owing to GST based accounting in Q4FY18

**Table 3: Standalone segmental performance**

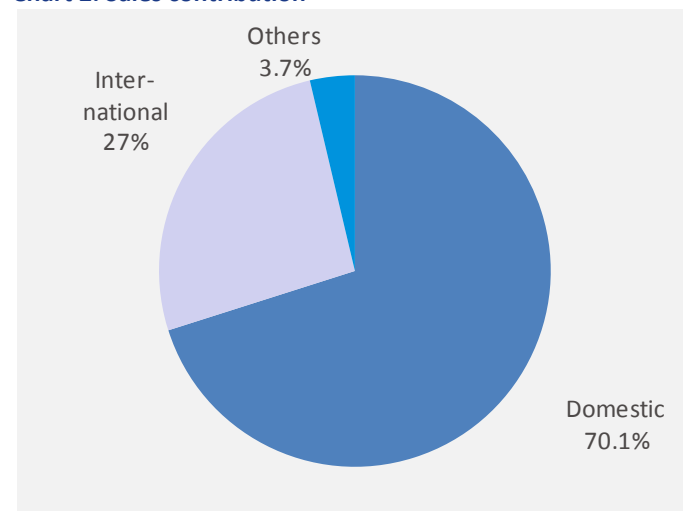
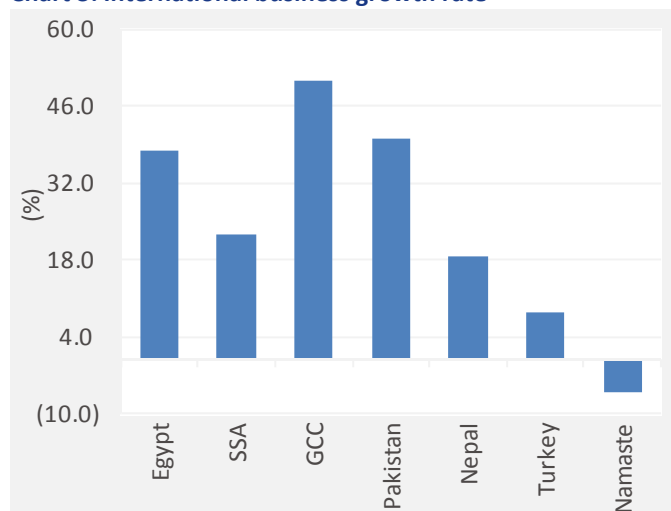
Year to March - Revenues (INR mn)	Q4FY18	Q4FY17	% growth Y-o-Y	Q3FY18	% growth Q-o-Q
Consumer care business	12,249	11,387	7.6	12,364	(0.9)
Foods business	2,536	2,634	(3.7)	1,889	34.2
Others	311	332	(6.4)	240	29.6
<b>Gross income (Excl other income)</b>	<b>15,096</b>	<b>14,353</b>	<b>5.2</b>	<b>14,493</b>	<b>4.2</b>
<b>Year to March - PBIT (INR mn)</b>					
Consumer care business	3,831	3,434	11.5	3,390	13.0
Foods business	381	306	24.6	215	77.5
Others	17	12	44.9	16	6.2
<b>PBIT</b>	<b>4,229</b>	<b>3,752</b>	<b>12.7</b>	<b>3,621</b>	<b>16.8</b>
<b>Year to March - Margin</b>					
Consumer care business	31.3	30.2	111	27.4	385.3
Foods business	15.0	11.6	341	11.4	366.3
Others	5.5	3.6	195	6.7	(121.4)
<b>Margin</b>	<b>28.0</b>	<b>26.1</b>	<b>187</b>	<b>25.0</b>	<b>302.9</b>

Source: Company, Edelweiss research  
Segmental revenue numbers are not comparable on YoY basis owing to GST based accounting in Q4FY18

**Table 4: Standalone P&L**

(INR mn)	Q4FY18	Q4FY17	YoY % Change	Q3FY18	QoQ % Change
Net sales/income from operations	15,096	14,348	5.2	14,493	4.2
Total income from operations	15,096	14,348	5.2	14,493	4.2
Cost of materials consumed	7,742	7,715	0.3	7,340	5.5
Advertising & publicity	817	775	5.4	1,468	(44.4)
Employee benefits expenses	1,018	890	14.4	1,229	(17.2)
Other expenses	1,414	1,384	2.2	1,357	4.2
Total expenses	10,991	10,763	2.1	11,394	(3.5)
EBITDA	4,106	3,585	14.5	3,099	32.5
Other income	708	600	18.0	606	16.9
Depreciation and amortisation expense	263	213	23.5	262	0.7
Finance costs	59	50	19.6	52	13.4
PBT	4,491	3,922	14.5	3,391	32.5
Tax expense	956	900	6.2	736	29.8
PAT before exceptional	3,536	3,022	17.0	2,655	33.2
Exceptional	-	-	NM	-	NM
PAT	3,536	3,022	17.0	2,655	33.2
<b>As % of net sales</b>					
COGS	51.3	53.8	(249)	50.6	63.9
Advertising & publicity	5.4	5.4	1	10.1	(471.8)
Staff costs	6.7	6.2	54	8.5	(173.8)
Other expenditure	9.4	9.6	(28)	9.4	0.3
EBITDA	27.2	25.0	221	21.4	581.4
PBT	29.8	27.3	241	23.4	635.5
Net profit	23.4	21.1	236	18.3	510.5
Tax rate	21.3	22.9	(167)	21.7	(43.5)

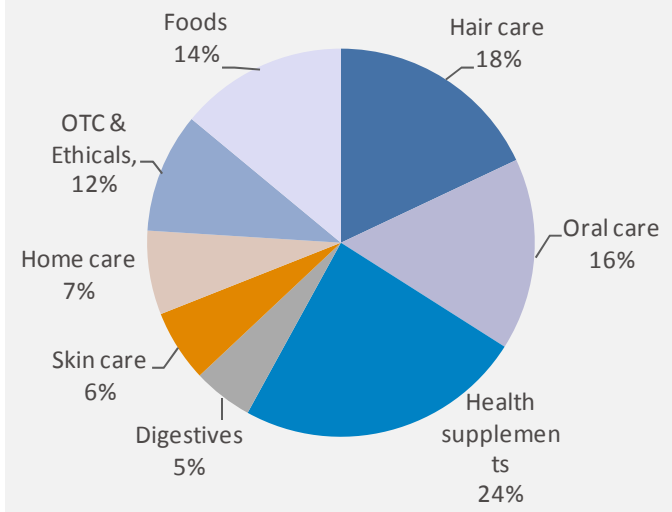
Source: Company, Edelweiss research

**Chart 2: Sales contribution****Chart 3: International business growth rate**

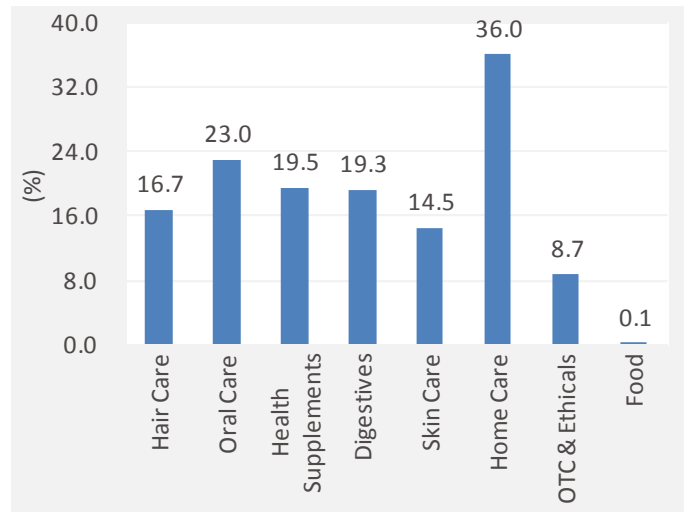
Source: Company, Edelweiss research

# Consumer Goods

**Chart 4: Category contribution**

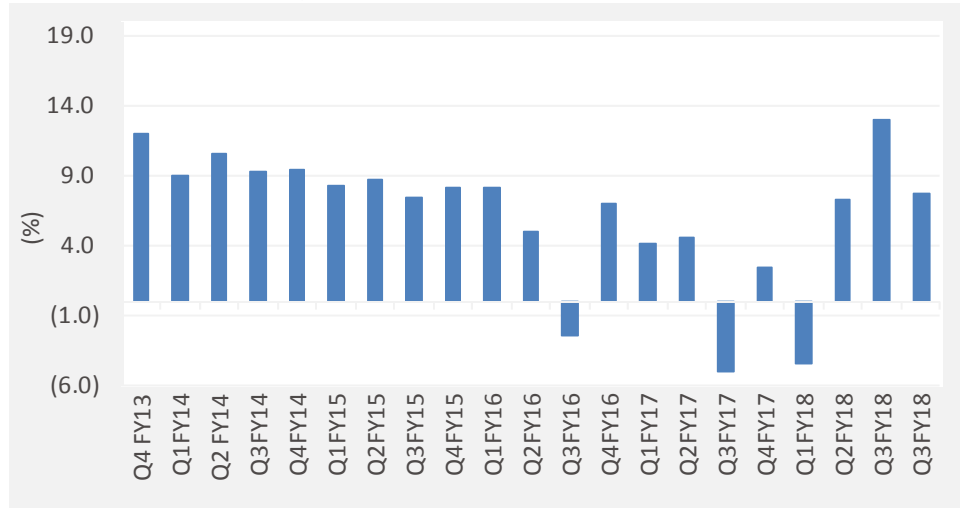


**Chart 5: Category growth rates**



Source: Company, Edelweiss research

**Chart 6: Domestic volume growth**



Source: Company, Edelweiss research



## Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	20,329	19,090	6.5	19,664	3.4	77,248	89,633	100,328
Other operating income	-	57	(100.0)	-		235	259	284
Total operating Income	20,329	19,147	6.2	19,664	3.4	77,483	89,891	100,613
Staff costs	1,807	1,731	4.4	2,048	(11.8)	7,928	8,784	9,832
Cost of goods sold	10,024	9,762	2.7	9,524	5.3	38,464	45,373	50,027
Gross profit	10,305	9,385	9.8	10,141	1.6	39,019	44,519	50,586
Advt. sales & promotions	1,256	1,230	2.1	1,853	(32.2)	6,067	6,991	7,826
Other expenses	2,390	2,249	6.3	2,205	8.4	8,850	10,039	11,237
Total exp. (excl. cogs)	5,454	5,210	4.7	6,106	(10.7)	22,845	25,814	28,895
EBITDA	4,852	4,176	16.2	4,035	20.3	16,174	18,704	21,691
Depreciation	426	395	7.7	405	5.3	1,622	1,613	1,760
EBIT	4,426	3,780	17.1	3,630	21.9	14,553	17,091	19,931
Other income	732	650	12.6	663	10.4	3,052	4,111	4,731
Interest	132	117	13.6	132	0.2	531	572	516
Add: Prior period items								
Add: Exceptional items						(145)		
Profit before tax	5,026	4,314	16.5	4,162	20.8	17,074	20,630	24,146
Provision for taxes	1,052	977	7.7	833	26.3	3,354	4,126	4,829
Minority interest	2	1	125.0	-		2	33	39
Reported net profit	3,972	3,337	19.0	3,329	19.3	13,573	16,471	19,278
Adjusted Profit	3,972	3,337	19.0	3,329	19.3	13,718	16,471	19,278
No. of shares (mn)	1,762	1,757		1,762		1,762	1,762	1,762
Diluted shares (mn)	1,762	1,757		1,762		1,762	1,762	1,762
Diluted EPS (INR)	2.3	1.9	18.7	1.9	19.3	7.8	9.4	10.9
Adjusted Diluted EPS	2.3	1.9	18.7	1.9	19.3	7.8	9.4	10.9
Diluted P/E (x)						47.7	39.8	34.0
EV/EBITDA (x)						40.5	34.7	29.5
ROAE (%)						25.9	26.8	27.2

## As % of net revenues

COGS	49.3	51.0		48.4		49.6	50.5	49.7
Employee cost	8.9	9.0		10.4		10.2	9.8	9.8
Other expenses	11.8	11.7		11.2		11.4	11.2	11.2
Adv. & sales promotions	6.2	6.4		9.4		7.8	7.8	7.8
EBITDA	23.9	21.8		20.5		20.9	20.8	21.6
EBIT	21.8	19.7		18.5		18.8	19.0	19.8
PBT	24.7	22.5		21.2		22.0	23.0	24.0
Reported net profit	19.5	17.4		16.9		17.7	18.3	19.2
Tax rate	20.9	22.6		20.0		19.6	20.0	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, and branded ethical and classic products. The second division, Dabur Foods 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	FY17	FY18	FY19E	FY20E
<b>Macro</b>				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
<b>Company</b>				
<b>Revenue growth (Y-o-Y %)</b>				
Hair care	(7.8)	5.0	12.1	10.0
Health supplements	(4.6)	6.0	12.8	14.0
Oral care	3.1	20.0	15.0	15.0
Digestives	(6.3)	7.2	12.0	12.0
OTC and ethicals	(6.5)	9.4	13.6	14.3
Home care	4.1	7.5	12.5	13.0
Skin care	(2.4)	10.0	12.5	15.0
Foods	13.0	5.1	12.7	12.8
Volume growth (domestic)	2.0	6.0	8.0	8.0
Price change (domestic)	(3.0)	2.1	4.5	4.5
International bus growth	(5.3)	(1.8)	5.8	10.0
Excise (% Dom Sales)	1.0	1.0	1.0	1.0
Capex (INR mn)	2,889	2,994	3,085	3,000
Staff costs (% of rev)	10.3	10.3	9.8	9.8
COGS as % of sales (Con)	49.9	49.6	50.5	49.7
COGS as % of sales (std)	16.5	16.6	16.6	17.1
A&P as % of sales	8.4	7.9	7.8	7.8
Cocconut oil (% of COGS)	6.7	6.6	9.0	8.8
Paradichlorbenzene-%COGS	4.2	4.2	4.2	4.1
LLP(Dom) as % of COGS	5.5	6.0	7.8	7.6
Gold (Dom) as % of COGS	3.0	3.0	3.0	2.9
Sorbitol (as % of COGS)	3.6	3.6	3.6	4.1
Amla Green as % of COGS	1.2	1.2	1.2	1.2
<b>Financial assumptions</b>				
Cash conversion cycle	14	15	9	9
Debtor days	35	32	30	30
Inventory days	105	112	99	99
Payable days	125	129	120	120
Dep. (% gross block)	5.3	5.4	4.9	4.9
Tax rate (%)	20.5	19.6	20.0	20.0
Dividend payout	38.0	97.0	40.0	40.0
Yield on cash	8.4	7.4	10.0	10.0

### Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	76,801	77,248	89,633	100,328
Other Operating Income	214	235	259	284
Total operating income	77,014	77,483	89,891	100,613
Materials costs	38,432	38,464	45,373	50,027
Employee costs	7,896	7,928	8,784	9,832
Other Expenses	9,135	8,850	10,039	11,237
Ad. & sales costs	6,461	6,067	6,991	7,826
EBITDA	15,089	16,174	18,704	21,691
Depreciation	1,429	1,622	1,613	1,760
EBIT	13,661	14,553	17,091	19,931
Add: Other income	2,983.5	3,051.8	4,111.22	4,731.00
Less: Interest Expense	540	531	572	516
Profit Before Tax	16,104	17,074	20,630	24,146
Less: Provision for Tax	3,303	3,354	4,126	4,829
Less: Minority Interest	31	2	33	39
Exceptional items	-	(145)	-	-
Reported Profit	12,769	13,573	16,471	19,278
Exceptional Items	-	(145)	-	-
Adjusted Profit	12,769	13,718	16,471	19,278
Shares o/s (mn)	1,762	1,762	1,762	1,762
Adjusted Basic EPS	7.2	7.8	9.4	10.9
Diluted shares o/s (mn)	1,762	1,762	1,762	1,762
Adjusted Diluted EPS	7.2	7.8	9.4	10.9
Adjusted Cash EPS	8.1	8.7	10.3	11.9
Dividend per share (DPS)	2.8	7.5	3.8	4.4
Dividend Payout Ratio(%)	38.0	97.0	40.0	40.0

### Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Materials costs	49.9	49.6	50.5	49.7
Ad. & sales costs	8.4	7.8	7.8	7.8
EBITDA margins	19.6	20.9	20.8	21.6
Net Profit margins	16.7	17.8	18.4	19.3

### Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	(2.1)	0.6	16.0	11.9
EBITDA	(0.6)	7.2	15.6	16.0
Adjusted Profit	2.1	7.4	20.1	17.0

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	1,762	1,762	1,762	1,762	
Reserves & Surplus	46,712	55,304	63,879	73,917	
Shareholders' funds	48,474	57,065	65,641	75,678	
Minority Interest	248	265	298	337	
Short term borrowings	5,045	7,027	6,371	5,715	
Long term borrowings	4,749	3,686	3,342	2,998	
Total Borrowings	9,795	10,713	9,713	8,713	
Long Term Liabilities	534	565	565	565	
Def. Tax Liability (net)	1,080	1,091	1,091	1,091	
<b>Sources of funds</b>	<b>60,131</b>	<b>69,699</b>	<b>77,308</b>	<b>86,383</b>	
Gross Block	28,427	31,427	34,427	37,427	
Net Block	15,340	16,063	18,130	19,370	
Capital work in progress	421	415	500	500	
Intangible Assets	4,244	4,219	4,219	4,219	
Total Fixed Assets	20,005	20,696	22,849	24,088	
Non current investments	25,118	30,918	30,918	30,918	
Cash and Equivalents	10,456	10,195	16,392	23,615	
Inventories	11,067	12,562	12,307	13,569	
Sundry Debtors	6,504	7,061	7,388	8,270	
Loans & Advances	3,871	804	804	804	
Other Current Assets	289	4,781	4,781	4,781	
Current Assets (ex cash)	21,732	25,208	25,280	27,424	
Trade payable	13,027	14,103	14,917	16,447	
Other Current Liab	4,153	3,214	3,214	3,214	
Total Current Liab	17,180	17,318	18,131	19,662	
Net Curr Assets-ex cash	4,552	7,890	7,149	7,762	
<b>Uses of funds</b>	<b>60,131</b>	<b>69,699</b>	<b>77,308</b>	<b>86,383</b>	
BVPS (INR)	27.5	32.4	37.3	43.0	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	12,769	13,573	16,471	19,278	
Add: Depreciation	1,429	1,622	1,613	1,760	
Interest (Net of Tax)	429	426	458	413	
Others	(1,049)	252	147	142	
Less: Changes in WC	1,211	975	(742)	613	
Operating cash flow	12,368	14,898	19,431	20,979	
Less: Capex	2,889	2,994	3,085	3,000	
<b>Free Cash Flow</b>	<b>9,479</b>	<b>11,904</b>	<b>16,346</b>	<b>17,979</b>	

### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Dabur	9,744	39.7	33.9	34.6	29.5	26.8	27.2
Bajaj Corp	1,060	29.0	27.0	22.5	20.0	47.8	50.3
Colgate	4,575	40.3	35.9	25.0	22.0	48.1	46.9
Emami	3,790	48.7	38.0	26.3	21.8	24.8	27.7
Godrej Consumer	11,397	43.7	37.2	31.6	26.9	26.2	26.5
Hindustan Unilever	48,910	51.8	45.6	36.1	31.4	80.4	83.8
Marico	6,428	40.6	35.7	27.6	24.3	35.0	34.2

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		12,368	14,898	19,431	20,979
Investing cash flow		(8,169)	(8,521)	(3,085)	(3,000)
Financing cash flow		(3,390)	(15,463)	(9,533)	(10,834)
Net cash Flow		809	(9,086)	6,813	7,145
Capex		(2,889)	(2,994)	(3,085)	(3,000)
Dividend paid		(5,844)	(15,851)	(7,961)	(9,318)
Share issue/(buyback)		2	-	-	-

### Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	28.2	25.9	26.8	27.2
ROACE (%)	30.7	27.8	29.5	30.8
Debtors Days	35	32	30	30
Payable Days	125	129	120	120
Cash Conversion Cycle	14	15	9	9
Current Ratio	1.9	2.0	2.3	2.6
Debt/EBITDA (x)	0.6	0.7	0.5	0.4
Debt/Equity (x)	0.2	0.2	0.1	0.1
Adjusted Debt/Equity	0.2	0.2	0.1	0.1
Net Debt/Equity	-	-	(0.1)	(0.2)
Interest Coverage Ratio	25.3	27.4	29.9	38.6

### Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	1.4	1.2	1.2	1.2
Fixed Asset Turnover	4.2	3.9	4.2	4.4
Equity Turnover	1.7	1.5	1.5	1.4

### Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	7.2	7.8	9.4	10.9
Y-o-Y growth (%)	1.9	7.4	20.1	17.0
Adjusted Cash EPS (INR)	8.1	8.7	10.3	11.9
Diluted P/E (x)	51.2	47.7	39.7	33.9
P/B (x)	13.5	11.5	10.0	8.6
EV / Sales (x)	8.5	8.5	7.2	6.4
EV / EBITDA (x)	43.3	40.5	34.6	29.5
Dividend Yield (%)	0.7	2.0	1.0	1.2

## 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 - Walker Chandiok & Co, LLP

*\*as per last annual report*

### Top 10 holdings

	Perc. Holding		Perc. Holding
Life Insurance Corp Of India	4.25	Matthews Intl Capital Management	1.94
Commonwealth Bank Of Austr	1.77	Blackrock	1.51
Barclays Mrct Bank	1.21	Aditya Birla Sun Life Asset Management	1.06
Vanguard Group	1.06	ICICI Prudential Asset Mgmt Co	0.71
Icici Prudential Asset Mgmt Co	0.63	Sun Life Financial Inc	0.47

*\*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
27 Mar 2018	Ratna Commercial Enterprises Private Ltd	Buy	37456.00
22 Mar 2018	Ratna Commercial Enterprises Private Ltd	Buy	52544.00
21 Mar 2018	Ratna Commercial Enterprises Private Ltd	Buy	50000.00
09 Feb 2018	Ratna Commercial Enterprises Private Ltd	Buy	50000.00
07 Sep 2017	V KRISHNAN	Sell	30000.00

*\*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	HOLD	SP	M	Marico	BUY	SO	M
Nestle Ltd	HOLD	SP	L	Pidilite Industries	BUY	SO	M
United Spirits	BUY	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



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Aditya Narain

Head of Research

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

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

#### Recent Research

Date	Company	Title	Price (INR)	Recos
26-Apr-18	<b>Bajaj Corp</b>	Decent show; execution monitorable; <i>Result Update</i>	462	Hold
10-Apr-18	<b>Future Consumer</b>	Rising brand and distribution muscle; <i>Initiating Coverage</i>	58	Buy
05-Apr-18	<b>Consumer Goods</b>	Volumes growth slowly improving; rural revival key; <i>Q4FY18 Result Preview</i>		

#### Distribution of Ratings / Market Cap

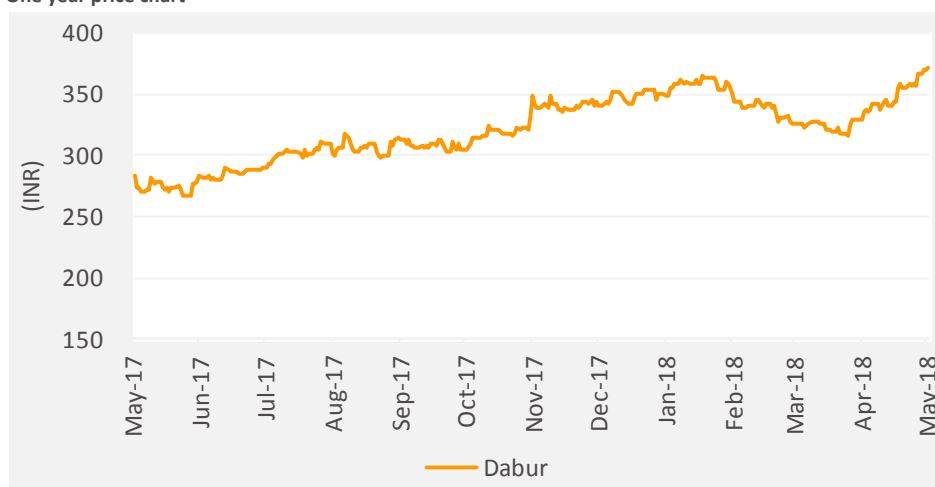
##### Edelweiss Research Coverage Universe

	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
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

#### One year price chart



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