

Dabur India Ltd (Dabur), the leading Indian FMCG company, is also a world leader in Ayurveda with a portfolio of over 250 Herbal/Ayurvedic products.

Investment Rationale

☞ Growth improves across domestic and international operations: Consolidated revenue increased by 11.1% YoY (adjusted for GST and currency) in Q4FY18 owing to strong growth in the domestic business and recovery in international business. Led by strong volume growth of 7.7%, domestic business expanded by 10% YoY. Growth was across categories barring Juices which witnessed very high competitive intensity and Home care. Oral care posted growth of 11% YoY mainly due to strong growth of 13.7% in toothpaste category. Hair oil also grew by 8.8% YoY on the back of market share gains and strong growth in coconut oil. Shampoos registered staggering 31% YoY growth driven by restaging of Vatika shampoo, focused marketing initiatives and improving bottle saliency. Health Supplements posted 14.0% YoY growth driven by robust growth in Chyawanprash & Honey and waning competitive intensity from Patanjali. International business witnessed revival with 16.8% (CC) growth led by 51% growth in GCC markets (on a low base) and the management expects this growth momentum to sustain going forward.

☞ EBITDA margin to improve by 30bps over FY18-20E: Overall EBITDA grew by 16.2% YoY as EBITDA margin surprised positively with 206 bps YoY expansion to 23.9% in Q4FY18. The expansion was mainly driven by higher gross margin (+167 bps YoY) led by better product mix and lower ad spends (-20 bps YoY). This is the highest EBITDA margin posted by the company over the last few years. Further, strong operating performance coupled with lower tax rate led to ~19% YoY growth in net profit. Going forward, the management expects some improvement in operating margin coming mainly from turnaround of international operations while it expects largely stable margins for the domestic market. We factor EBITDA margin of 21%/21.2% in FY19E/20E.

☞ Well positioned to capitalize on demand revival: The management highlighted that rural growth at 13% YoY outpaced the urban growth rate of 9% YoY in this quarter. With green shoots visible in terms of improving consumer demand, the management expects growth rate of 8-10% in volume terms for FY19E. Given expectation of normal monsoons, government stimulus, revival of international business and new product launches, we expect Revenue/PAT to grow at a CAGR of 13%/14.7% over FY18-20E.

Valuations:

We believe Dabur with its well-diversified product portfolio, leadership position & strong distribution reach is well placed to capitalize on recovery in rural demand. We maintain 'BUY' rating on the stock to BUY with a revised target price of Rs.409 based on 40x FY20E EPS.

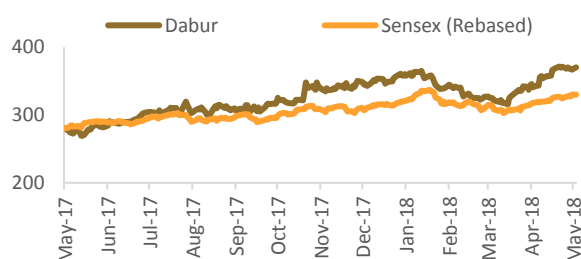
Market Data

Rating	BUY
CMP (Rs.)	370
Target (Rs.)	409
Potential Upside	11%
Duration	Long Term
Face Value (Rs.)	1.0
52 week H/L (Rs.)	382/265
Adj. all time High (Rs.)	382
Decline from 52WH (%)	3.1
Rise from 52WL (%)	39.6
Beta	1.0
Mkt. Cap (Rs.Cr)	65,220

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Net sales (Rs.Cr)	7,614	7,748	8,802	9,901
Net profit (Rs.Cr)	1,277	1,369	1,576	1,802
EPS (Rs.)	7.2	7.8	8.9	10.2
P/E (x)	51.1	47.6	41.4	36.2
P/BV (x)	13.4	11.4	11.0	9.3
ROE (%)	28.2	25.8	27.1	27.8

One year Price Chart



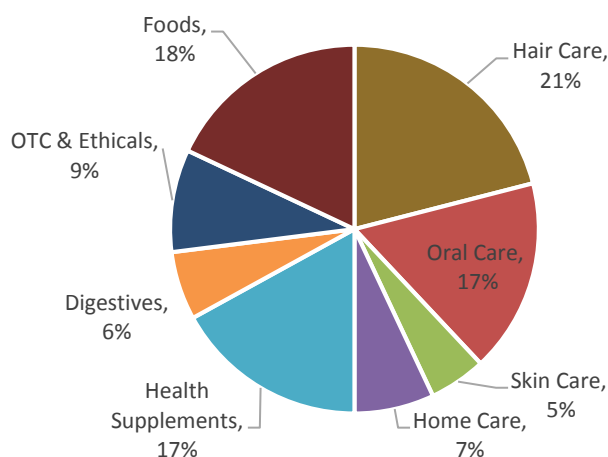
Shareholding Pattern	Mar-18	Dec-17	Chg.
Promoters (%)	68.1	68.1	-
Public (%)	31.9	31.9	-

Domestic business contributes 68% to the total revenues of Dabur.

Dabur India Ltd: Business Overview

Established in 1884, Dabur India Ltd (Dabur) is a world leader in Ayurveda with a portfolio of over 250 Herbal/Ayurvedic products. It operates in key consumer products categories viz; hair care, oral care, health care, skin care, home care and foods. It has 16 brands with a turnover of over Rs1bn. Its products have a global presence and are today available in over 120 countries. Notably, its brands are highly popular in the Middle East, SAARC countries, Africa, US, Europe and Russia. Dabur's overseas revenue accounts for 28% of the total turnover. Moreover, Dabur has a wide distribution network with a high penetration in both urban and rural markets.

Category wise sales mix in domestic business



Source: Company, In-house research

Quarterly Financials (Consolidated)

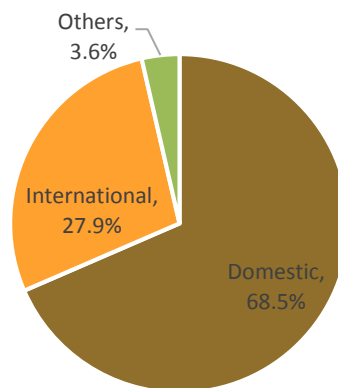
(Rs cr)	Q4FY18	Q4FY17	YoY Growth %	Q3FY18	QoQ Growth %
Sales	2,033	1,915	6.2	1,966	3.4
EBITDA	485	418	16.2	403	20.3
EBITDA Margin (%)	23.9	21.8	206	20.5	335
Depreciation	43	40	7.7	40	5.3
EBIT	443	378	17.1	363	21.9
Interest	13	12	13.6	13	0.2
Other Income	73	65	12.6	66	10.4
Exceptional Items	-	-	-	-	-
PBT	503	431	16.5	416	20.8
Tax	105	98	7.7	83	26.3
PAT	397	334	19.1	333	19.4
Minority Interest	1	1	87.1	1	56.8
Reported PAT	396	333	18.9	332	19.3
Adjustment	-	-	-	-	-
Adj PAT	396	333	18.9	332	19.3
No. of shares (cr)	176.2	176.2	-	176.2	-
EPS (Rs)	2.2	1.9	18.9	1.9	19.3

Source: Company, In-house research

Growth improves across domestic and international operations

Consolidated revenue increased by 11.1% YoY (adjusted for GST and currency) in Q4FY18 owing to strong growth in the domestic business and recovery in international business. Led by strong volume growth of 7.7%, domestic business expanded by 10% YoY. Growth was across categories barring Juices which witnessed very high competitive intensity and Home care. Oral care posted growth of 11% YoY mainly due to strong growth of 13.7% in toothpaste category. Hair oil also grew by 8.8% YoY on the back of market share gains and strong growth in coconut oil. Shampoos registered staggering 31% YoY growth driven by restaging of Vatika shampoo, focused marketing initiatives and improving bottle saliency. Health Supplements posted 14.0% YoY growth driven by robust growth in Chyawanprash & Honey and waning competitive intensity from Patanjali. International business witnessed revival with 16.8% (CC) growth led by 51% growth in GCC markets (on a low base) and the management expects this growth momentum to sustain going forward.

Dabur's geographical mix

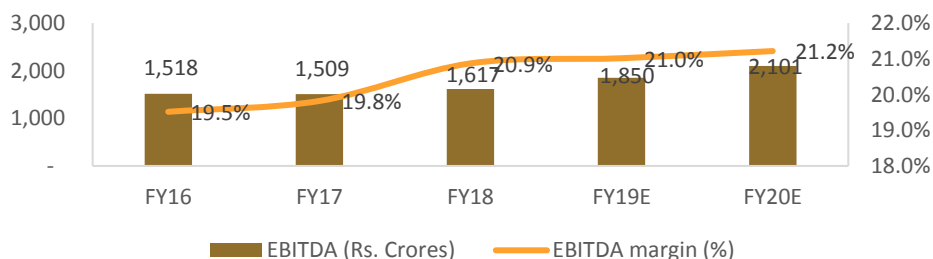


Source: Company, In-house research

EBITDA margin to improve by 30bps

Overall EBITDA grew by 16.2% YoY as EBITDA margin surprised positively with 206 bps YoY expansion to 23.9% in Q4FY18. The expansion was mainly driven by higher gross margin (+167 bps YoY) led by better product mix and lower ad spends (-20 bps YoY). This is the highest EBITDA margin posted by the company over the last few years. Further, strong operating performance coupled with lower tax rate led to ~19% YoY growth in net profit. Going forward, the management expects some improvement in operating margin coming mainly from turnaround of international operations while it expects largely stable margins for the domestic market. We factor EBITDA margin of 21%/21.2% in FY19E/20E.

EBITDA margin to improve by 30 bps over FY18-20E

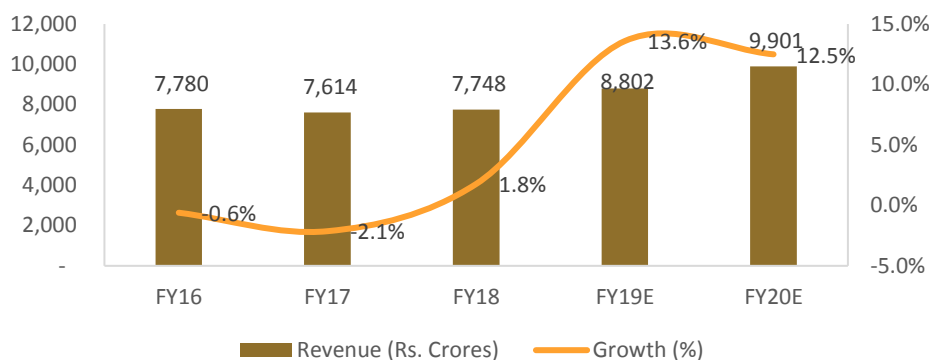


Source: Company, In-house research

Well positioned to capitalize on demand revival

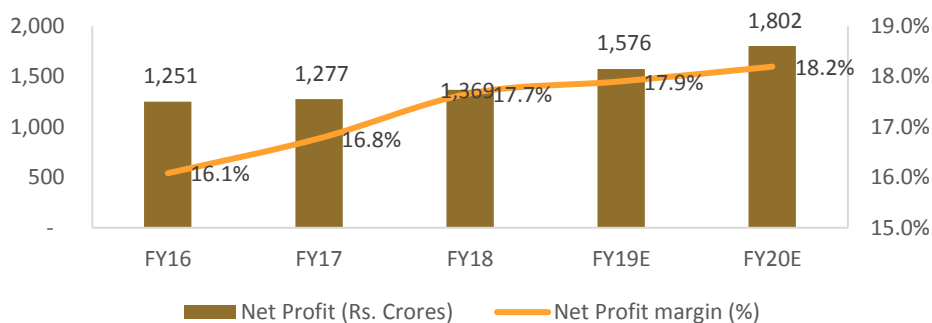
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Revenue to grow at a CAGR of 13% over FY18-20E



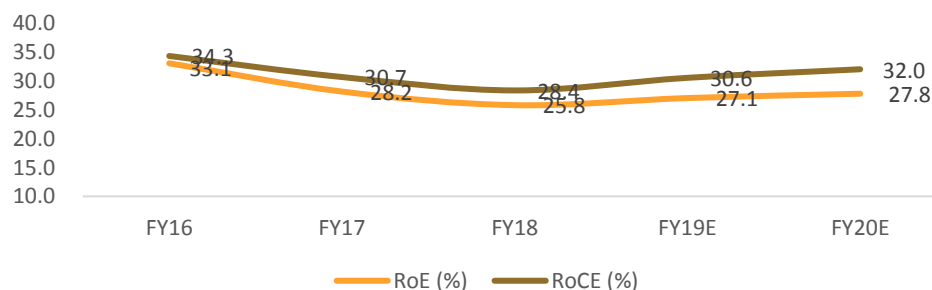
Source: Company, In-house research

Net Profit to grow at a CAGR of 15% over FY18-20E



Source: Company, In-house research

Return ratios trend



Source: Company, In-house research

Key risks

- Weak rural demand.
- Heightened competitive intensity in some of its categories.
- Steep rise in input costs.

Profit & Loss Account (Consolidated)

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Total operating Income	7,614	7,748	8,802	9,901
Raw Material cost	3,755	3,846	4,369	4,915
Employee cost	790	793	898	1,000
Other operating expenses	1,560	1,492	1,685	1,885
EBITDA	1,509	1,617	1,850	2,101
Depreciation	143	162	174	189
EBIT	1,366	1,455	1,676	1,911
Interest cost	54	53	45	39
Other Income	298	305	342	383
Profit before tax	1,610	1,707	1,973	2,255
Tax	330	335	395	451
Profit after tax	1,280	1,372	1,578	1,804
Minority Interests	3	3	3	3
P/L from Associates	0	0	1	1
Adjusted PAT	1,277	1,369	1,576	1,802
E/o income / (Expense)	-	(15)	-	-
Reported PAT	1,277	1,354	1,576	1,802

Balance Sheet (Consolidated)

Y/E (Rs. Cr)	FY17	FY18	FY19E	FY20E
Paid up capital	176	176	176	176
Reserves and Surplus	4,671	5,530	5,712	6,834
Net worth	4,847	5,707	5,888	7,010
Minority interest	25	27	30	33
Total Debt	976	829	729	629
Other non-current liabilities	166	170	134	98
Total Liabilities	6,013	6,732	6,781	7,770
Total fixed assets	1,548	1,617	1,715	1,765
Capital WIP	42	42	40	40
Investments	3,253	3,805	3,805	4,505
Net Current assets	658	756	709	948
Other non-current assets	513	512	512	512
Total Assets	6,013	6,732	6,781	7,770

Cash Flow Statement (Consolidated)

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pretax profit	1,610	1,693	1,974	2,256
Depreciation	143	162	174	189
Chg. in Working Capital	87	(91)	(100)	(127)
Others	(142)	-	-	-
Tax paid	(322)	(371)	(395)	(451)
Cash flow from operating activities	1,376	1,393	1,653	1,867
Capital expenditure	(490)	(230)	(270)	(240)
Chg. in investments	(511)	(553)	-	(700)
Cash flow from investing activities	(1,001)	(783)	(270)	(940)
Equity raised/(repaid)	15	-	0	-
Debt raised/(repaid)	168	(147)	(100)	(100)
Dividend paid	(477)	(265)	(1,394)	(679)
Other financing activities	-	-	-	-
Cash flow from financing activities	(294)	(412)	(1,494)	(779)
Net chg in cash	81	198	(111)	148

Key Ratios (Consolidated)

Y/E	FY17	FY18	FY19E	FY20E
Growth (%)				
Net Sales	(2.2)	2.1	13.6	12.5
EBITDA	(0.6)	7.2	14.4	13.6
Net profit	2.1	7.2	15.1	14.3
Margin (%)				
EBITDA	19.8	20.9	21.0	21.2
EBIT	21.9	22.7	22.9	23.2
NPM	16.8	17.7	17.9	18.2
Return Ratios (%)				
RoE	28.2	25.8	27.1	27.8
RoCE	30.7	28.4	30.6	32.0
Per share data (Rs.)				
EPS	7.2	7.8	8.9	10.2
DPS	2.3	7.5	2.8	3.2
Valuation(x)				
P/E	51.1	47.6	41.4	36.2
EV/EBITDA	41.5	38.3	33.5	29.1
EV/Net Sales	8.3	8.0	7.0	6.2
P/B	13.4	11.4	11.0	9.3
Turnover Ratios (x)				
Net Sales/GFA	3.3	3.0	3.1	3.2
Sales/Total Assets	1.0	0.9	1.0	1.0

Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Upside or downside is less than 10%	Accumulate*	Upside between 10% & 15%
Reduce	Less than equal to -10%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* Dabur is a large-cap company.

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