

Good set of numbers in tough times; food business especially muted growth in juices remain a concern; Recommend Neutral with a target price of Rs 495

Current	Previous
CMP: Rs 481	
Rating: Neutral	Rating : Hold
Target: Rs 495	Target: Rs 446

(NR-Not Rated)

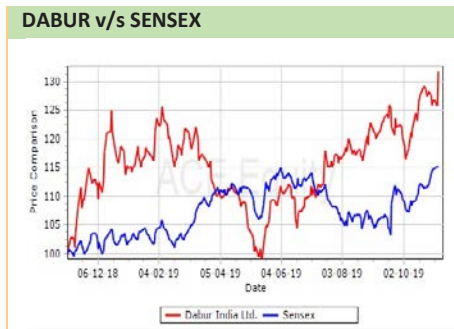
Stock Info	
INDEX	
BSE	500096
NSE	DABUR
Bloomberg	DABUR IN
Reuters	DABU.NS
Sector	FMCG
Face Value (Rs)	1
Equity Capital (Rs Cr)	177
Market Cap (Rs Cr)	84,959
52w H/L (Rs)	483 /357
Avg Weekly Vol (BSE+NSE)	68,33,100

Shareholding Pattern	%
(As on Sept, 2019)	
Promoters	67.9
Public & Others	32.1

Source: NSE, Arihant Research

Stock Performance (%)	3m	6m	12m
DABUR	12.0	26.3	31.4
SENSEX	9.7	3.3	15.2

Source: ACE Equity, Arihant Research



Source: ACE Equity, Arihant Research

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Dabur India reported good set of numbers in Q2FY20, beating our estimate except a minor miss on revenue front. Consolidated revenue for the quarter stood at Rs 2212 cr, a tad below our estimate of Rs 2316 cr, registering +4.1% YoY/-2.7% QoQ growth. Consolidated EBITDA grew +8.6% YoY/+7% QoQ to Rs 490 cr beating our estimate of Rs 486 cr, while EBITDA margin expanded +92bps YoY/+200bps QoQ to 22.1% against our estimate of 21%. Consolidated PAT witnessed a handsome growth of +7% YoY/+11% QoQ to Rs 403 cr, above our estimate of Rs 382 cr. Despite subdued consumer sentiment, domestic business of Dabur registered decent volume growth of 4.8% for the quarter, while ex-foods, the volume growth was 7.4%. We remain positive on Dabur from longer-term perspective, and raise our target price to Rs 495 from Rs 446, valuing the stock at 50x FY21E earnings. However, due to expensive valuation and recent run-up in stock price, we change our rating to Neutral from Hold.

Q2FY20 Highlights

- India standalone business grew by 4.9% YoY led by FMCG volume growth of 4.8% YoY. While international business grew by 3.2% YoY in constant currency (CC) basis, ex- SAARC the growth was 8.5%.
- Contribution of domestic FMCG business remained steady at 69.2%, while international business contributed 28.2% compared to 28.7% last year.
- Healthcare segment grew by 11.1% YoY on the back of robust growth in health supplements (+14.4%), Digestive (+10.2%), OTC (+4.2%) and Ethicals (+7.2%). Dabur gained market share both in glucose & chyawanprash categories during Q2FY20.
- Home and personal care segment grew by 4.3% YoY, driven by strong growth in shampoo & post wash segment (+12%), followed by home care (+7%), oral care (+4.4%), hair oil (+2.6%) and skincare (+1%) segments.
- Market share in shampoo category increased by ~65 bps while oral care and hair oil share increased by 66 bps & 30 bps respectively during Q2.
- Red Toothpaste Franchise continued its growth momentum growing by 9.5% despite a high base and overall decline in the category by 3%.
- Foods segment growth was muted at 5% YoY due to decline in juices as consumers downtraded to cheaper alternative amidst demand slowdown.

Valuations

At CMP of Rs 481, Dabur is trading at FY20E and FY21E, P/E multiples of 52.9x and 47.7x respectively. Factoring in good Q2FY20 results we keep our FY20E/21E estimate unchanged, and now value the stock at a target P/E of 50x its FY21E earnings against 45x earlier, which yields a TP of Rs 495.

Financial Performance

YE March (RsCr)	Net Sales	EBITDA	PAT	EPS (Rs)	EBITDA Margin %	RoE (%)	P/E (x)
FY18	7722	1617	1354	7.7	20.9	23.7	61.5
FY19	8533	1740	1442	8.2	20.4	25.6	57.9
FY20E	9454	1989	1579	8.9	21.0	23.8	52.9
FY21E	10533	2256	1750	9.9	21.4	22.6	47.7

Source: Company, Arihant Research

Q2FY20 and H1FY20 Financial Performance

Rs Cr (consolidated)	Q2FY20	Q1FY20	Q2FY19	Q-o-Q	Y-o-Y	H1FY20	H1FY19	Y-o-Y
Net Revenue	2,212	2,273	2,125	-2.7%	4.1%	4,485	4,206	6.6%
Material Cost	1,088	1,148	1,076	-5.2%	1.2%	2,236	2,124	5.3%
Employee cost	242	231	234	4.4%	3.1%	473	458	3.2%
Other Expenses	392	437	364	-10.1%	7.8%	829	786	5.5%
EBITDA	490	458	451	7.0%	8.6%	947	837	13.2%
<i>EBITDA margin %</i>	<i>22.1%</i>	<i>20.1%</i>	<i>21.2%</i>	<i>+200bps</i>	<i>+92bps</i>	<i>21.1%</i>	<i>19.9%</i>	<i>+122bps</i>
Other Income	82	73	81	11.6%	0.7%	155	155	0.1%
Depreciation	54	53	43	3.3%	26.4%	107	86	24.9%
EBIT	517	478	489	8.1%	5.7%	995	906	9.8%
Finance cost	15	15	16	-0.1%	-2.1%	30	30	0.2%
Exceptional Item	-40	-20	-	-	-	-60	-	-
PBT	462	443	473	4.2%	-2.5%	905	876	3.3%
Tax Expense	58	79	96	-26.8%	-39.5%	138	168	-18.3%
Effective tax rate %	12.6%	17.9%	20.3%	-533bps	-770bps	15.2%	19.2%	-403bps
PAT	403	363	377	11.0%	6.9%	767	707	8.5%
MI & Associates	-0	-0	-1			-1	-1	
Consolidated PAT	403	363	377	11.0%	7.0%	766	705.8	8.5%
<i>PAT margin %</i>	<i>18.2%</i>	<i>16.0%</i>	<i>17.7%</i>	<i>+224bps</i>	<i>+49bps</i>	<i>17.1%</i>	<i>16.8%</i>	<i>+30bps</i>
EPS (Rs)	2.3	2.1	2.1	11.0%	6.9%	4.3	4.0	8.5%

Source: Company, Aриhant Research

Post Result Conference Call Highlights

- Dabur is providing credit to select distributors to tide over the liquidity crisis, as a result credit days have gone up from 6 days to 15-20 days. However Dabur needs to keep control on WC days also, so doing the above activity very selectively.
- Babool portfolio needs to be revived, also working on Meswak and other oral brands to revamp the portfolio.
- Fruit juice business is seeing muted growth for last few quarters, as consumer are turning to carbonated beverages, which are cheaper than fruit juices due to overall slowdown in consumer demand. However Dabur management is hopeful that growth will come back once the slowdown in consumer demand gets arrested.
- In the hair oil segment especially in the coconut oil category took time to reach up to the nearest competitor Marico, hence some slowdown witnessed. Also due to flood in different states like Maharashtra, Bihar, Madhya Pradesh, Gujarat and West Bengal, witnessed some consumption slowdown.
- Dabur expanded its rural footprint during the quarter by adding 3000 villages. The total village count now reached to over 51,000 villages. E-commerce business grew ~65% during Q2 with revenue share at 2.2%, while modern trade (MT) saw 6% growth. Wholesale channel, which is having 30-33% revenue share saw muted growth at 3%.
- Festive season though not bumper was not too bad, even monsoon was also normal, hence Dabur management believes the worst is behind and demand should trend upwards in H2. Hence despite the current demand slowdown, the company is maintaining its guidance of mid to high single digit growth for FY20E.

Consolidated Financials

Income Statement (Rs Cr)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,614	7,722	8,533	9,454	10,533
<i>Change (%)</i>	-2.1%	1.4%	10.5%	10.8%	11.4%
Raw materials	3,755	3,820	4,309	4,786	5,340
Gross Profit	3,858	3,902	4,224	4,668	5,193
Employee costs	790	793	938	1,021	1,147
Other expenses	1,560	1,492	1,547	1,658	1,791
Total Expenses	6,105	6,104	6,793	7,465	8,277
EBITDA	1,509	1,617	1,740	1,989	2,256
Other Income	298	305	296	236	211
Depreciation	143	162	177	187	206
Interest	54	53	60	64	73
PBT	1,610	1,707	1,799	1,974	2,188
Extra-ordinary	0	15	75	0	0
PBT after ext-ord.	1,610	1,693	1,724	1,974	2,188
Tax	330	335	279	395	438
<i>Rate (%)</i>	20.5%	19.8%	16.2%	20.0%	20.0%
PAT	1,280	1,358	1,445	1,579	1,750
MI & Associates	-3	-3	-4	0	0
Consolidated PAT	1,277	1,354	1,442	1,579	1,750
<i>Change (%)</i>	7.8%	6.1%	6.5%	9.5%	10.8%

Source: Company, Aриhant Research

Balance Sheet (Rs Cr)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Sources of Funds					
Share Capital	176	176	177	177	177
Reserves & Surplus	4,671	5,530	5,455	6,453	7,582
Net Worth	4,847	5,707	5,632	6,630	7,759
Loan Funds	911	829	524	796	776
MI, Deferred Tax & other liabilities	175	181	59	60	59
Capital Employed	5,933	6,716	6,215	7,485	8,594
Application of Funds					
Gross Block	2,432	2,634	2,828	2,878	2,978
Less: Depreciation	884	1,018	1,195	1,381	1,588
Net Block	1,548	1,617	1,600	1,497	1,390
CWIP	42	42	64	64	64
Other non current assets	513	496	502	502	502
Current tax assets	3	5	2	2	2
Net fixed assets	2,107	2,159	2,168	2,064	1,958
Investments	3,240	3,805	3,392	3,892	4,392
Debtors	650	706	834	1,036	1,154
Inventories	1,107	1,256	1,301	1,554	1,731
Cash & bank balance	305	306	328	685	1,326
Loans & advances & other CA	324	469	415	775	819
Total current assets	2,386	2,738	2,877	4,050	5,031
Current liabilities	1,654	1,822	2,032	2,331	2,597
Provisions	145	164	190	190	190
Net current assets	586	752	655	1,529	2,244
Total Assets	5,933	6,716	6,215	7,485	8,594

Source: Company, Aриhant Research

Cash Flow Statement (Rs Cr)

Year End-March	FY17	FY18	FY19	FY20E	FY21E
PBT	1,610	1,707	1,799	1,974	2,188
Depreciation	143	162	177	187	206
Interest & others	-247	-255	-240	-172	-138
Cash flow before WC changes	1,506	1,614	1,737	1,989	2,256
(Inc)/dec in working capital	150	-161	-8	-517	-74
Operating CF after WC changes	1,656	1,453	1,728	1,472	2,182
Less: Taxes	-330	-335	-279	-395	-438
Operating cash flow	1,326	1,118	1,450	1,078	1,745
(Inc)/dec in F.A + CWIP	-225	-68	-28	-50	-100
(Pur)/sale of investment	-634	-549	410	-500	-500
Cash flow from investing	-859	-617	382	-550	-600
Free cash flow (FCF)	1,101	1,051	1,422	1,028	1,645
Loan raised/(repaid)	119	-82	-305	271	-20
Equity raised	0	0	0	0	0
Interest & others	-775	-882	-1,081	-870	-992
Dividend	-396	-396	-351	-574	-621
Cash flow from financing activities	-4,146	-5,484	-6,826	-6,594	-7,878
Net inc /(dec) in cash	86	1	21	357	641
Opening balance of cash	220	305	306	328	685
Closing balance of cash	305	306	328	685	1,326

Source: Company, Arianth Research

Key Ratios

Year End-March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	7.2	7.7	8.2	8.9	9.9
CEPS	8.1	8.6	9.2	10.0	11.1
BVPS	27.5	32.4	31.9	37.5	43.9
DPS	2.3	2.3	2.0	3.2	3.5
Payout (%)	31.0%	29.3%	24.3%	36.3%	35.5%
Valuation (x)					
P/E	65.2	61.5	57.9	52.9	47.7
P/CEPS	58.7	54.9	51.6	47.3	42.7
P/BV	17.2	14.6	14.8	12.6	10.8
EV/EBITDA	56.6	52.7	49.0	42.8	37.4
Dividend Yield (%)	0.5%	0.5%	0.4%	0.7%	0.7%
Return ratio (%)					
EBIDTA Margin	19.8%	20.9%	20.4%	21.0%	21.4%
PAT Margin	16.8%	17.5%	16.9%	16.7%	16.6%
ROE	26.3%	23.7%	25.6%	23.8%	22.6%
ROCE	23.0%	21.7%	25.1%	24.1%	23.8%
Leverage Ratio (%)					
Total D/E	0.2	0.1	0.2	0.1	0.1
Net D/E	0.1	0.1	0.0	0.0	-0.1
Turnover Ratios					
Asset Turnover (x)	1.3	1.1	1.4	1.3	1.2
Inventory Days	53	59	56	60	60
Receivable Days	31	33	36	40	40
Payable days	86	94	95	90	90

Source: Company, Arianth Research

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Stock Rating Scale**Absolute Return**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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