

BSE SENSEX	S&P CNX
40,248	11,917
Bloomberg	DABUR IN
Equity Shares (m)	1,762
M.Cap.(INRb)/(USD\$)	850.8 / 12
52-Week Range (INR)	484 / 357
1, 6, 12 Rel. Per (%)	6/24/16
12M Avg Val (INR M)	1049
Free float (%)	32.1

CMP: INR482
TP: INR455 (-6%)
Neutral

Earnings in line; Growth prospects muted

- **2QFY20 consolidated sales grew 4.1% YoY** to INR22.1b (v/s est. INR22.4b). EBITDA grew 8.6% YoY to INR4.9b (v/s est. INR4.8b). PBT grew 6% YoY to INR5b (v/s est. INR5b). Adj. PAT increased 15.5% YoY to INR4.4b (v/s est. INR3.9b). Domestic FMCG business grew 4.9% with underlying volume growth of 4.8% (v/s est. +4%).
- **Gross margin expanded 140bp YoY to 50.8%**. Along with lower staff costs as a % of sales (down 10bp YoY to 10.9%), higher ad spends (up 20bp YoY to 6.5%) and higher other expenses (up 40bp YoY to 11.2%), translated to consol. EBITDA margin expanding 90bp YoY to 22.1%.
- 1HFY20 consol. sales/ EBITDA/ Adj. PAT grew 6.6%/ 13.2%/ 15.3% YoY.
- **Standalone:** sales/EBITDA/Adj. PAT grew 4.9%/6.6%/16.4%. EBITDA margins expanded 40bp YoY to 23.3%.
- **Concall highlights:** (1) Maintained guidance of mid-high single-digit volume growth for domestic business; (2) Seeing long and protracted slowdown in rural market; (3) Facing liquidity crunch in the market – selectively extending credit to distributors (credit days extended from 6 days to 15-20 days).
- **Valuation and view:** Results were in line with estimates, but volume growth was better than expected. We have marginally raised our full-year EPS estimates for FY20/FY21E by ~1.8%/1.1%. Valuations are fair at 47.3x FY21, particularly for a business with moderate earnings growth prospects (~9.5% CAGR over FY19-21 on top of 6.3% CAGR in the past 3 years) and ROCEs in the mid-20s, which is also inferior to peers. We maintain Neutral rating on the stock with a target price of INR455 (targeting 40x Sep'21 EPS).

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	85.1	91.9	102.1
EBITDA	17.4	19.5	21.8
NP	15.0	16.1	18.0
EPS (INR)	8.5	9.1	10.2
EPS Gr. (%)	9.5	7.3	11.6
BV/Sh. (INR)	31.9	36.1	39.2
RoE (%)	26.5	26.8	27.1
RoCE (%)	23.9	24.6	25.0
P/E (x)	56.7	52.8	47.3
P/BV (x)	15.1	13.3	12.3

Estimate change



TP change



Rating change



Quarterly Performance (Consolidated)

Y/E March	FY19				FY20				FY19	FY20E	FY20	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
Domestic FMCG vol. growth (%)	21.0	8.1	12.4	4.3	9.6	4.8	4.0	12.0	11.5	7.4	4.0	
Net sales	20,807	21,250	21,992	21,282	22,733	22,120	22,982	24,022	85,150	91,856	22,392	-1.2%
YoY change (%)	16.2	8.5	11.8	4.7	9.3	4.1	4.5	12.9	9.9	7.9	5.4	
Gross profit	10,321	10,491	10,839	10,589	11,256	11,235	11,557	12,195	42,240	46,243	11,279	
Margin (%)	49.6	49.4	49.3	49.8	49.5	50.8	50.3	50.8	49.6	50.3	50.4	
EBITDA	3,861	4,508	4,454	4,572	4,576	4,895	4,746	5,273	17,396	19,491	4,751	3.0%
Margins (%)	18.6	21.2	20.3	21.5	20.1	22.1	20.7	22.0	20.4	21.2	21.2	
YoY growth (%)	25.0	7.4	10.4	-5.8	18.5	8.6	6.6	15.3	7.6	12.0	5.4	
Depreciation	427	431	449	462	528	545	538	457	1,769	2,067	517	
Interest	149	156	167	124	153	152	151	117	596	573	148	
Other income	737	812	753	661	733	818	828	840	2,962	3,219	893	
PBT	4,022	4,734	4,591	4,647	4,629	5,016	4,885	5,540	17,993	20,070	4,979	0.7%
Tax	724	961	924	328	834	662	1,124	1,294	2,937	3,914	1,046	
Rate (%)	18.0	20.3	20.1	7.1	18.0	13.2	23.0	23.4	16.3	19.5	21.0	
Adjusted PAT	3,292	3,766	3,661	4,307	3,791	4,350	3,754	4,225	15,026	16,120	3,926	10.8%
YoY change (%)	18.1	4.1	10.2	8.7	15.2	15.5	2.6	-1.9	9.8	7.3	4.2	

E: MOFSL Estimates

Key Quarterly Charts

Exhibit 1: Domestic FMCG business volumes grew 4.8% YoY in 2QFY20

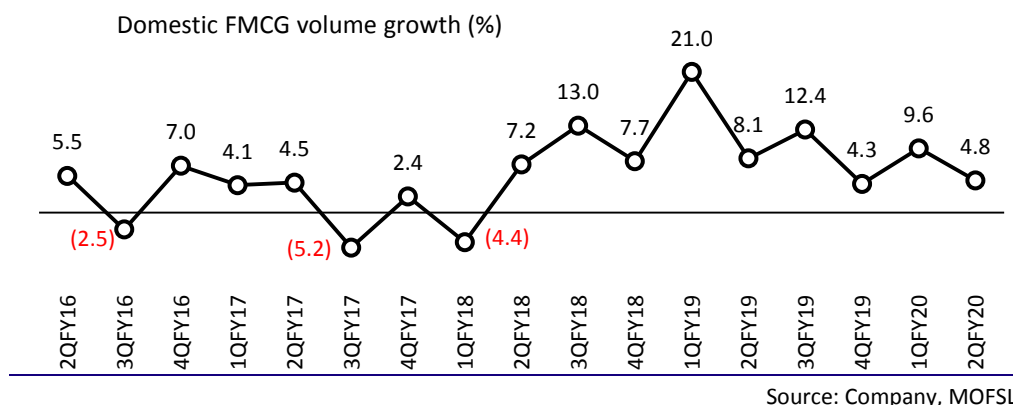


Exhibit 2: Domestic FMCG business YoY realization stood flat in 2QFY20

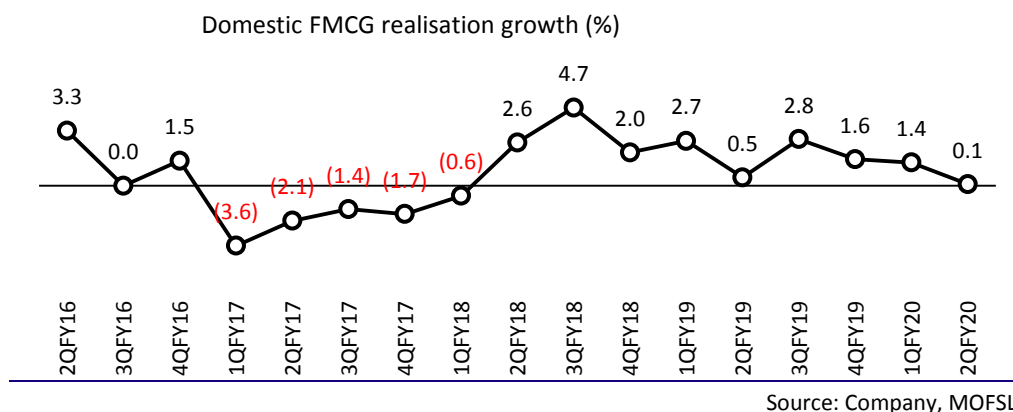
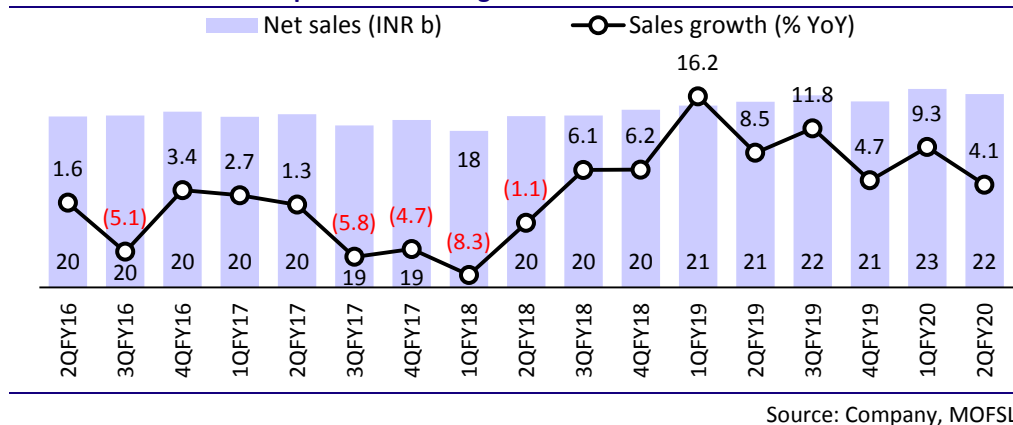


Exhibit 3: Consolidated reported net sales grew 4.1% YoY to INR22b



- Segmental:** Hair care, Health supplements & Oral care grew 7.3%, 14.4% and 4.4%, respectively while Foods de-grew by 5% YoY. Other relatively smaller segments mainly OTC & Ethicals, Digestives, Skin care & Salon and Home care grew 5.7%, 10.2%, 1% and 7%, respectively.

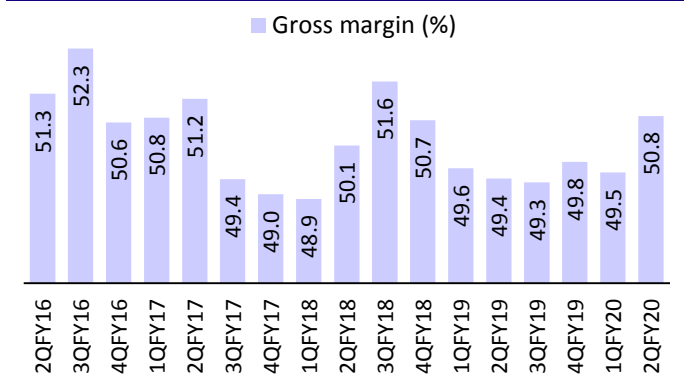
Exhibit 4: Category wise performance

Category growth (%)	2QFY17	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Hair Care	(4.6)	(22.8)	(4.2)	(11.1)	2.3	20.8	11.6	20.6	15.7	24.0	2.6	12.0	7.3
Health Supplements	(5.6)	(14.4)	5.0	(7.2)	3.0	19.5	14.0	27.5	12.3	13.8	10.2	19.6	14.4
Oral Care	0.8	(5.1)	3.6	1.4	22.8	23.2	11.0	17.3	3.9	10.0	8.2	11.4	4.4
Foods	15.2	52.2	7.9	(8.3)	11.7	0.0	1.9	26.1	1.4	11.1	(5.9)	1.6	(5.0)
Digestives	(3.4)	(10.7)	(5.1)	3.8	11.7	19.3	7.2	21.6	10.8	22.5	11.9	18.2	10.2
Skin & Salon	6.6	(11.4)	(0.6)	4.0	15.8	14.5	8.5	27.1	11.9	19.3	11.2	12.1	1.0
Home Care	19.9	(5.2)	(6.4)	6.1	10.1	36.0	1.6	17.4	10.9	8.9	16.2	10.9	7.0
OTC & Ethicals	(0.7)	(11.7)	(4.0)	(6.6)	2.2	8.7	8.8	16.9	7.6	17.6	12.8	15.0	5.7
IBD (CC terms)	(2.3)	0.0	(4.5)	(2.2)	3.9	5.0	16.8	10.5	7.0	3.4	1.9	7.7	3.2

*Growth figures refer to like to like growth (GST adjusted) till 1QFY19

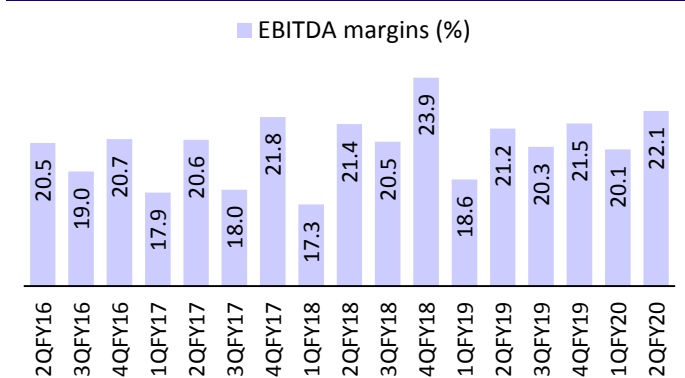
Source: Company, MOFSL

Exhibit 5: Consol. gross margin up 140bp YoY to 50.8%...



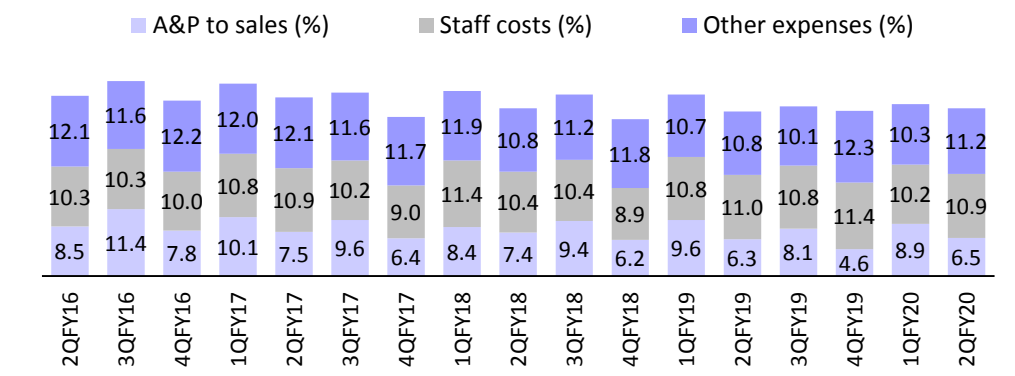
Source: Company, MOFSL

Exhibit 6: ...EBITDA margin expanded 90bp YoY to 22.1%



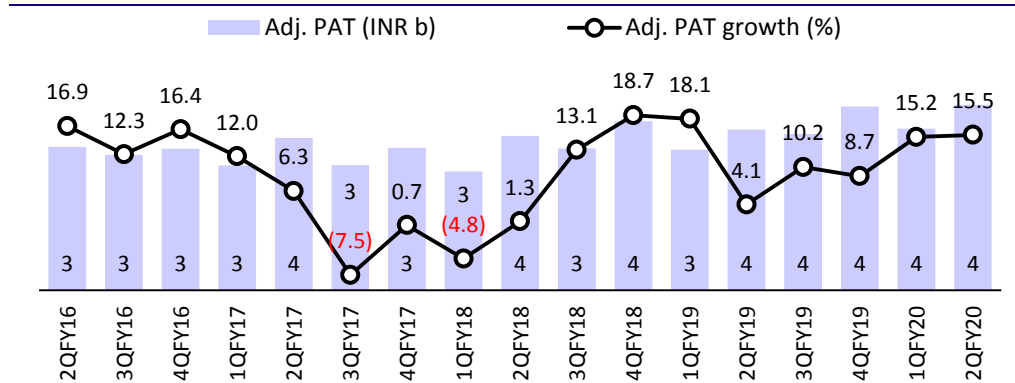
Source: Company, MOFSL

Exhibit 7: A&P down 20bp YoY to 6.5% of sales, staff cost down 10bp YoY to 10.9% of sales and other expenses up 40bp YoY



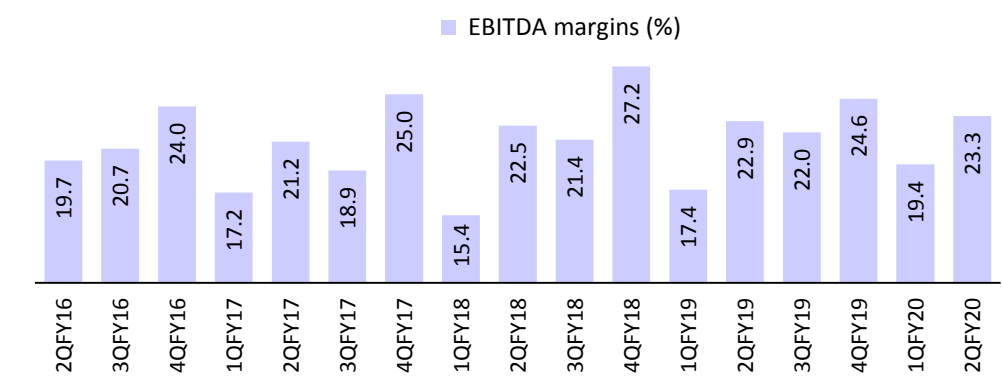
Source: Company, MOFSL

Exhibit 8: Consolidated Adj. PAT grew 15.5% YoY to INR4.4b



Source: Company, MOFSL

Exhibit 9: Standalone EBITDA margin expanded 40bp YoY to 23.3% in 2QFY20



Source: Company, MOFSL

Exhibit 10: Launched during the quarter



Source: Company, MOFSL

Conference call highlights

- Domestic business is facing heavy headwinds in the form of sustained slowdown in demand and aggravated liquidity crunch in the market.
- The long and protracted slowdown in the rural market is on account of (a) liquidity crunch, (b) income with consumers that has declined, (c) impact due to demonetization and GST implementation, and (d) lack of new investments.
- Company is facing a liquidity crunch in the market; it is selectively extending credit to distributors (credit days extended from 6 days to 15-20 days).
- Maintaining guidance of mid-high single-digit volume growth for domestic business.
- Gift packs have done well.
- Tax rate – 17.5% for FY20/FY21 (standalone basis); consol. tax rate to be lower than 20%.

Channel details

- Urban direct reach is currently 1.2m outlets.
- Rural reach ~51,000 villages.
- E- Commerce is 2.2% of sales.
- Rural is growing at 6% while urban is growing at 3%.
- E-commerce grew 65%; MT grew 8%, GT (urban) had flat to 1.5% growth while rural trended at 6%.

Oral care

- Gained 66bp market share in Oral care.
- Red toothpaste continues to grow at ~9% (on high base) while oral care category is declined at 3%.
- Babool portfolio to be revamped.
- Customizing communications for Meswak.
- Competitive intensity has gone up in oral care.
- 10% growth in Herbal, Ayurveda and Naturals market (30% of oral care).
- Dabur has stepped up on A&P.
- Red gel has not been received well in the market; Re-launch on the cards.
- Patanjali headwinds have abated – Growth is down from high double-digits to high single-digits.

Juices

- In Fruit Juice business, company is sitting at all-time high market share. Market is seeing growth in carbonated segment due to weak consumer sentiment.
- Consumer is downtrading to drinks and carbonated beverages, leading to slower growth in juices.
- Drinks category is estimated to be INR60b.
- 80% juice business is urban for Dabur.
- Supply chain impacted due to shutdown in J&K and floods in other parts of the country.
- Launching multiple premium variants, launching premium packaging and working on GTM to revive growth in juices.

Hair oil

- Gained 30bp in market share. Company's aggression and strategy in hair oil segment remains intact. Perfume oil, almond oil did well.
- Hair oil saw some impact of floods as well.
- Dabur Amla growth was flat, but gained market share.
- Coconut hair oil – Copra prices correction - windfall to competitor - passed on gains to the consumers - competitive intensity increased.

International

- GCC market is showing signs of renewed growth, clocking 9% CC growth in this quarter.
- Pakistan business grew 20% CC – gaining shares.
- Nepal declined 35% on VCTS implementation (similar to e-way bill) - 1-1.5 months of business standstill.

- Nepal saw good sales in Oct'19 and should recover soon (70% business in Nepal is Juice business). Excl. Nepal, growth in international business was 8.5%.
- International business – Current growth rate of mid-to-high-single-digit is sustainable – GCC, Nigeria, Pakistan, and Egypt are bright spots.

Launches

- Real Juices in UAE, Japan and Bahrain.
- Vatika Hair Wax.
- ORS Olive Oil Fix-It Range.
- Vatika Hair Food.
- Real ORS and Real Koolerz Mango were rolled out nationally.

Valuation and view

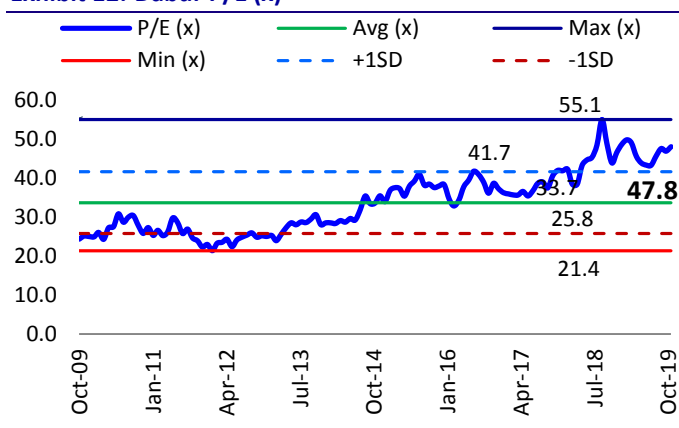
- Results for the quarter were in line with our estimates, but better than expected volume growth was a positive surprise. Accordingly, we have marginally raised our full year EPS estimates for FY20/FY21E by ~1.8%/1.1%.
- Valuations are fair at 47.3x FY21, particularly for a business with moderate earnings growth prospects (~9.5% CAGR over FY19-21 on top of 6.3% CAGR in the past 3 years) and ROCEs in the mid-20s also inferior to peers.
- We maintain Neutral rating on the stock with a target price of INR455 (targeting 40x Sep'21 EPS).

Exhibit 11: We increase our EPS estimates by 1.8%/1.1% for FY20/FY21

	New		Old		% Change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Sales	91,856	1,02,084	93,381	1,03,792	-1.6%	-1.6%
EBITDA	19,491	21,767	19,148	21,550	1.8%	1.0%
Adjusted PAT	16,130	18,006	15,846	17,815	1.8%	1.1%

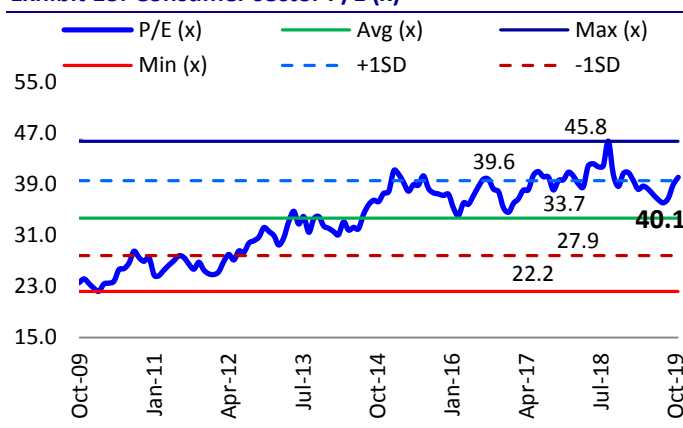
Source: Company, MOFSL

Exhibit 12: Dabur P/E (x)



Source: Company, MOFSL

Exhibit 13: Consumer sector P/E (x)



Source: Company, MOFSL

Financials and Valuations

Income Statement							(INR M)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	
Net Sales	78,272	77,797	76,136	77,219	85,150	91,856	1,02,084	
Change (%)	10.6	-0.6	-2.1	1.4	10.3	7.9	11.1	
Gross Profit	41,071	40,192	38,582	39,019	42,240	46,243	51,674	
Margin (%)	52.5	51.7	50.7	50.5	49.6	50.3	50.6	
Other Expenditure	27,907	25,009	23,493	22,845	24,845	26,751	29,907	
EBITDA	13,164	15,183	15,090	16,174	17,396	19,491	21,767	
Change (%)	13.5	15.3	-0.6	7.2	7.6	12.0	11.7	
Margin (%)	16.8	19.5	19.8	20.9	20.4	21.2	21.3	
Depreciation	1,150	1,332	1,429	1,622	1,769	2,067	2,224	
Int. and Fin. Charges	401	485	540	531	596	573	675	
Other Income - Recurring	1,761	2,172	2,984	3,052	2,962	3,231	3,552	
Profit before Taxes	13,374	15,538	16,104	17,074	17,993	20,082	22,420	
Change (%)	15.8	16.2	3.6	6.0	5.4	11.6	11.6	
Margin (%)	17.1	20.0	21.2	22.1	21.1	21.9	22.0	
Tax	2,347	2,840	3,443	3,713	4,221	3,796	4,237	
Deferred Tax	162	159	-140	-360	-1,284	120	135	
Tax Rate (%)	18.8	19.3	20.5	19.6	16.3	19.5	19.5	
Profit after Taxes	10,865	12,539	12,801	13,720	15,056	16,166	18,048	
Change (%)	16.1	15.4	2.1	7.2	9.7	7.4	11.6	
Margin (%)	13.9	16.1	16.8	17.8	17.7	17.6	17.7	
Minority Interest	26	28	31	31	30	36	42	
Adjusted PAT	10,839	12,511	12,770	13,689	15,026	16,130	18,006	

Balance Sheet							(INR M)	
Y/E March	2015	2016	2017	2018	2019	2020E	2021E	
Share Capital	1,757	1,759	1,762	1,762	1,766	1,766	1,766	
Reserves	31,785	39,842	46,712	55,304	54,550	62,073	67,438	
Net Worth	33,541	41,601	48,474	57,065	56,317	63,839	69,205	
Minority Interest	182	217	248	265	314	350	392	
Loans	9,608	8,043	9,787	9,418	7,039	7,500	7,500	
Capital Employed	43,331	49,860	58,509	66,749	63,670	71,689	77,097	
Gross Block	25,409	27,802	24,322	26,342	28,028	30,775	32,775	
Less: Accum. Depn.	-6,638	-8,304	-8,843	-10,177	-11,698	-13,765	-15,989	
Net Fixed Assets	18,771	19,499	15,479	16,166	16,330	17,010	16,786	
Capital WIP	503	448	421	415	638	638	638	
Investments	18,134	25,239	32,402	38,052	33,588	36,221	39,118	
Curr. Assets, L&A	23,655	26,020	24,916	28,268	30,451	38,638	45,569	
Inventory	9,733	10,965	11,067	12,562	13,005	15,205	16,906	
Account Receivables	7,108	8,097	6,504	7,061	8,336	8,711	9,692	
Cash and Bank Balance	2,760	2,204	3,048	3,061	3,282	8,435	12,190	
Others	4,053	4,754	4,296	5,585	5,828	6,286	6,781	
Curr. Liab. and Prov.	17,144	20,579	17,733	19,177	20,465	23,947	28,143	
Current Liabilities	14,122	16,739	15,895	17,128	18,061	21,817	25,890	
Provisions	3,022	3,841	1,838	2,049	2,404	2,130	2,253	
Net Current Assets	6,511	5,440	7,183	9,092	9,985	14,691	17,426	
Deferred Tax Liability	-587	-765	-1,080	-1,091	-231	-231	-231	
Application of Funds	43,331	49,860	58,509	66,749	63,670	71,689	77,097	

E: MOFSL Estimates

Financials and Valuations

Ratios

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
Basic (INR)							
EPS	6.2	7.1	7.2	7.8	8.5	9.1	10.2
Cash EPS	6.8	7.9	8.1	8.6	9.2	10.3	11.5
BV/Share	19.1	23.6	27.5	32.4	31.9	36.1	39.2
DPS	2.2	2.0	2.3	7.5	2.8	4.6	6.1
Payout %	36.4	28.0	31.0	96.5	32.3	50.0	60.0
Valuation (x)							
P/E	78.1	67.8	66.5	62.0	56.7	52.8	47.3
Cash P/E	70.6	61.2	59.8	56.0	52.6	46.8	42.1
EV/Sales	10.7	10.6	10.8	10.6	9.6	8.9	7.9
EV/EBITDA	63.5	54.6	54.6	50.5	47.2	41.8	37.1
P/BV	25.2	20.4	17.5	14.9	15.1	13.3	12.3
Dividend Yield (%)	0.5	0.4	0.5	1.6	0.6	0.9	1.3
Return Ratios (%)							
RoE	36.1	33.3	28.4	25.9	26.5	26.8	27.1
RoCE	28.1	27.7	24.4	22.6	23.9	24.6	25.0
RoIC	46.5	50.9	48.7	48.9	50.9	53.4	61.0
Working Capital Ratios							
Debtor (Days)	33	38	31	33	36	35	35
Asset Turnover (x)	1.8	1.6	1.3	1.2	1.3	1.3	1.3
Leverage Ratio							
Debt/Equity (x)	0.3	0.2	0.2	0.2	0.1	0.1	0.1

Cash Flow Statement

(INR M)

Y/E March	2015	2016	2017	2018	2019	2020E	2021E
OP/(loss) before Tax	13,194	15,538	16,107	16,931	17,249	20,082	22,420
Int./Div. Received	360	-13	-1,060	153	1,664	-3,231	-3,552
Depreciation & Amort.	1,150	1,332	1,429	1,622	1,769	2,067	2,224
Interest Paid	-768	-1,430	-1,857	-1,991	-2,002	573	675
Direct Taxes Paid	-2,295	-2,805	-3,221	-3,249	-3,507	-3,796	-4,237
(Incr)/Decr in WC	-1,168	-752	872	-2,575	-181	448	1,019
CF from Oper.	10,472	11,870	12,269	10,890	14,991	16,144	18,549
(Incr)/Decr in FA	-2,511	-1,892	-4,858	-2,003	-2,250	-2,747	-2,000
Free Cash Flow	7,961	9,978	7,411	8,887	12,741	13,396	16,549
(Pur)/Sale of Invt.	-7,211	-6,883	-5,111	-5,837	3,175	-2,633	-2,897
Others	984	91	1,933	2,706	3,187	2,567	1,582
CF from Invest.	-8,738	-8,683	-8,036	-5,134	4,112	-2,814	-3,315
Issue of Shares	455	172	149	0	5	0	0
(Incr)/Decr in Debt	254	715	1,682	-545	-2,402	461	0
Dividend Paid	-3,948	-3,517	-3,963	-3,963	-13,247	-8,065	-10,804
Others	-929	-1,114	-1,257	-1,235	-3,238	-573	-675
CF from Fin. Act.	-4,168	-3,743	-3,390	-5,744	-18,882	-8,177	-11,479
Incr/Decr of Cash	-2,433	-556	844	12	221	5,153	3,756
Add: Opening Bal.	5,194	2,760	2,204	3,048	3,061	3,282	8,434
Closing Balance	2,760	2,204	3,048	3,061	3,282	8,434	12,190

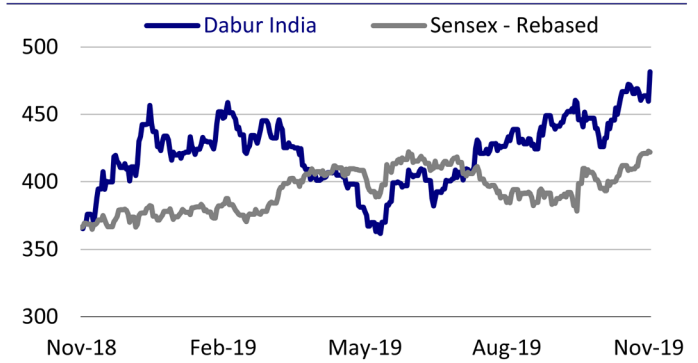
E: MOFSL Estimates

Corporate profile

Company description

Dabur India is the second largest FMCG Company in India, in terms of Product portfolio. Dabur is a market leader in Chyawanprash category and is increasing its presence in other traditional categories like Hair Care, oral care, household care and foods. Dabur's acquisition of *Fem Care* gave it a strategic presence in the highly potential skin care segment.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Sep-19	Jun-19	Sep-18
Promoter	67.9	67.9	67.9
DII	7.7	7.0	6.9
FII	17.6	17.8	18.2
Others	6.7	7.3	7.1

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
LIFE INSURANCE CORPORATION OF INDIA	2.7
FIRST STATE INVESTMENTS ICVC- STEWART INVESTORS AS	1.3
MATTHEWS PACIFIC TIGER FUND	1.2
ARISAIG INDIA FUND LIMITED	1.1
ADITYA BIRLA SUN LIFE TRUSTEE PRIVATE LIMITED A/C ADITYA BIRLA SUN LIFE RESURGENT INDIA FUND - SER	1.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Amit Burman	Chairman
Mohit Burman	Vice Chairman
A K Jain	Vice President (Finance) & CS
Mohit Malhotra	Whole Time Director & CEO

Source: Capitaline

Exhibit 5: Directors

Name	Name
Ajay Dua	R C Bhargava
Falguni Nayar	S Narayan
P N Vijay	Sanjay K Bhattacharria

*Independent

Exhibit 6: Auditors

Name	Type
Chandrasekaran Associates	Secretarial Audit
Ramanath Iyer & Co	Cost Auditor
Walker Chandio & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY20	9.1	9.3	-2.5
FY21	10.2	10.7	-5.1

Source: Bloomberg

NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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