

Dabur

Refer to important disclosures at the end of this report

Recovery to be gradual; Maintain HOLD

- Dabur was witnessing some revival in growth during April and May led by gradual recovery in demand and rural growth has been marginally ahead of urban growth. However, June month has been witnessing destocking by distributor on account of GST.
- Except for core Ayurvedic portfolio of Rs1.5-2bn where the GST rate is higher at 12% v/s 7% earlier, the rest of the portfolio has been neutral to positive for the company.
- Loss in market share in categories like hair care and honey due to high competitive intensity seems to have bottomed out and with the likely recovery in overall demand growth, these segment will resume to growth in ensuing quarters. The company has a healthy pipeline of new products for H2FY18.
- We have revised our estimate to factor in the gradual recovery and model a flat revenue growth in H1FY18. We have cut our earnings estimate by 4.5%/2.6% for FY18E/FY19E. We maintain a HOLD rating with a price target of Rs 280/share.

April & May saw some traction but June impacted by destocking

Dabur was witnessing some revival in growth during April and May led by gradual recovery in demand. However, June month has been witnessing destocking by distributor on account of GST. Rural growth has been marginally ahead of urban growth. Except for core Ayurvedic portfolio of Rs1.5-2bn where the GST rate is higher at 12% v/s 7% earlier, the rest of the portfolio has been neutral to positive for the company. We understand from our channel check that company is compensating distributor for their loss on inventory as on 30th June 2017. Dabur has reduced the overall inventory at the distributor level post demon and will continue to do even during GST implementation, current inventory days is ~22 which will come down by 4-5 during GST implementation.

Share loss bottomed out; growth led by recovery & new launches

Loss in market share in categories like hair care and honey due to high competitive intensity seems to have bottomed out and with the likely recovery in overall demand growth, these segments will resume to growth in ensuing quarters. Company has healthy pipeline of new product launches in health care (diabetes, cholesterol & stress management), fruit drink, Ayurveda segment of hair oil and various other categories. These launches will be mainly in H2FY18 once the disruption in trade due to GST settles down.

Recovery to be gradual; Maintain HOLD

While, Dabur has a well-diversified portfolio it has been witnessing growth challenges in most of the segment. Muted category growth and competition has been the key headwinds We have revised our estimate to factor in the gradual recovery and model a flat revenue growth in H1FY18. We have cut our earnings estimate by 4.5%/2.6% for FY18E/FY19E to factor in gradual recovery in India business, muted international business and lower margins on account of higher ad spend. We maintain a HOLD rating with a price target of Rs 280/share.

Financial Snapshot (Consolidated)

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	78,272	77,797	77,050	83,212	94,484
EBITDA	13,164	14,292	15,125	16,234	18,847
EBITDA Margin (%)	16.8	18.4	19.6	19.5	19.9
APAT	10,658	11,620	12,805	13,427	15,850
EPS (Rs)	6.1	6.6	7.3	7.6	9.0
EPS (% chg)	15.7	8.9	10.0	4.9	18.0
ROE (%)	35.5	30.9	28.4	25.3	26.9
P/E (x)	47.8	43.9	39.9	38.0	32.2
EV/EBITDA (x)	38.7	35.6	33.7	30.8	26.5
P/BV (x)	15.2	12.2	10.5	8.9	8.5

Source: Company, Emkay Research

CMP	Target Price
Rs 290 as of (June 22, 2017)	Rs 280 (■) 12 months
Rating	Upside
HOLD (■)	(3.4) %

Change in Estimates

EPS Chg FY18E/FY19E (%)	(4.5)/(2.6)
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	7.6	9.0
Consensus	8.1	9.3
Mean Consensus TP (12M)	Rs 302	

Stock Details

Bloomberg Code	DABUR IN
Face Value (Rs)	1
Shares outstanding (mn)	1,762
52 Week H/L	320 / 259
M Cap (Rs bn/USD bn)	511 / 7.91
Daily Avg Volume (nos.)	19,71,897
Daily Avg Turnover (US\$ mn)	8.5

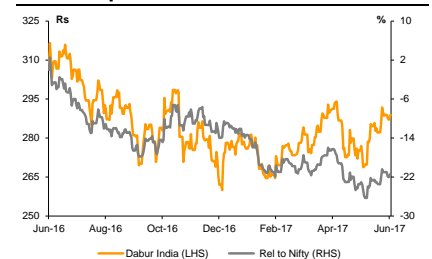
Shareholding Pattern Mar '17

Promoters	68.0%
FIIIs	20.0%
DIIIs	5.8%
Public and Others	6.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	2	9	(6)
Rel. to Nifty	2	(5)	(9)	(20)

Relative price chart



Source: Bloomberg

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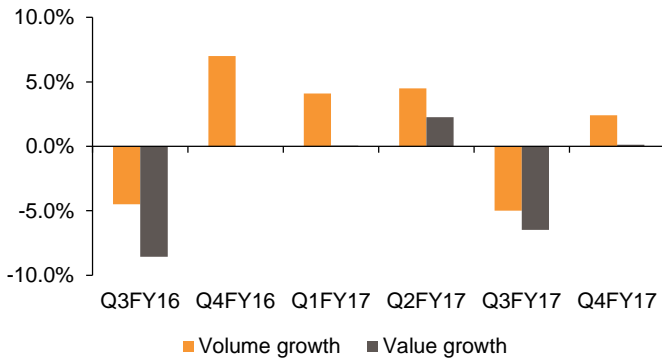
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Other key takeaways

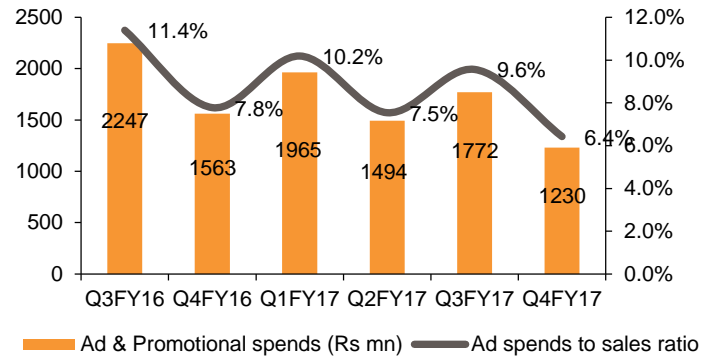
- Honey share decline has bottomed out and the company is seeing customers coming back to them, In case of Hair Oil, Sarso Amla and other brands like Almond and Anmol has been witnessing healthy growth thereby ensuring improvement in overall market share.
- RED toothpaste continues to see healthy growth in high teens while newly launched RED Gel has also done extremely well. Tooth powder in oral care category continues to see a decline.
- Hajmola will see high innovation in ensuing quarters with launch of different variants like Gourmet, Amrut etc.

Exhibit 1: Domestic volume & value growth



Source: Company, Emkay Research

Exhibit 2: Trend in advertising spend



Source: Company, Emkay Research

Exhibit 3: Revision in earning estimate

Y/E, Mar (Rs. mn)	FY18E			FY19E		
	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	85,328	83,212	-2.5	96,886	94,484	-2.5
EBITDA	16,787	16,234	-3.3	19,232	18,847	-2.0
EBITDA Margin (%)	19.7	19.5	-20 bps	19.9	19.9	10 bps
APAT	14,055	13,427	-4.5	16,273	15,850	-2.6
EPS	8.0	7.6	-4.5	9.3	9.0	-2.6

Source: Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Revenue	78,272	77,797	77,050	83,212	94,484
Expenditure	65,108	63,505	61,925	66,978	75,637
EBITDA	13,164	14,292	15,125	16,234	18,847
Depreciation	1,150	1,332	1,429	1,510	1,582
EBIT	12,014	12,960	13,696	14,724	17,265
Other Income	1,581	2,172	2,984	2,782	3,209
Interest expenses	401	485	540	589	530
PBT	13,194	14,647	16,139	16,917	19,945
Tax	2,509	2,999	3,303	3,456	4,053
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	10,658	11,620	12,805	13,427	15,850
Adjusted PAT	10,658	11,620	12,805	13,427	15,850

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Equity share capital	1,757	1,759	1,762	1,762	1,762
Reserves & surplus	31,785	39,947	46,712	55,770	66,814
Net worth	33,541	41,706	48,474	57,532	68,575
Minority Interest	182	217	248	282	323
Loan Funds	7,336	7,971	9,153	8,103	7,053
Net deferred tax liability	587	1,162	1,465	1,465	1,465
Total Liabilities	41,646	51,056	59,339	67,381	77,417
Net block	19,274	17,727	20,006	20,196	20,114
Investment	18,335	26,931	33,548	33,548	33,548
Current Assets	23,454	24,634	23,757	32,811	36,946
Cash & bank balance	2,760	2,198	3,048	10,945	11,770
Other Current Assets	856	3,379	3,138	1,013	1,151
Current liabilities & Provision	19,417	18,237	17,971	19,174	21,498
Net current assets	4,036	6,397	5,786	13,638	15,448
Misc. exp	0	0	0	0	8,307
Total Assets	41,646	51,055	59,340	67,381	77,417

Cash Flow

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
PBT (Ex-Other income) (NI+Dep)	11,613	12,475	13,156	14,135	16,735
Other Non-Cash items	(392)	(888)	0	0	0
Chg in working cap	(914)	(2,348)	1,764	45	(985)
Operating Cashflow	10,472	10,820	15,690	15,016	16,488
Capital expenditure	(2,538)	215	(3,707)	(1,700)	(1,500)
Free Cash Flow	7,934	11,035	11,983	13,316	14,988
Investments	(7,390)	(8,596)	(6,617)	0	0
Other Investing Cash Flow	(415)	25	(17)	0	(8,310)
Investing Cashflow	(8,762)	(6,183)	(7,358)	1,082	(6,600)
Equity Capital Raised	1,297	334	155	0	0
Loans Taken / (Repaid)	254	636	1,181	(1,050)	(1,050)
Dividend paid (incl tax)	(4,620)	(4,222)	(3,972)	(4,369)	(4,806)
Other Financing Cash Flow	(698)	(211)	(2,596)	(2,193)	(2,677)
Financing Cashflow	(4,168)	(3,949)	(5,772)	(8,201)	(9,063)
Net chg in cash	(2,458)	688	2,560	7,897	825
Opening cash position	5,194	2,760	2,198	3,048	10,945
Closing cash position	2,695	3,448	4,759	10,945	11,770

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY15	FY16	FY17	FY18E	FY19E
EBITDA Margin	16.8	18.4	19.6	19.5	19.9
EBIT Margin	15.3	16.7	17.8	17.7	18.3
Effective Tax Rate	19.0	20.5	20.5	20.4	20.3
Net Margin	13.7	15.0	16.7	16.2	16.8
ROCE	35.8	32.6	30.2	27.6	30.0
ROE	35.5	30.9	28.4	25.3	26.9
RoIC	62.2	61.0	61.3	64.5	74.0

Per Share Data (Rs)	FY15	FY16	FY17	FY18E	FY19E
EPS	6.1	6.6	7.3	7.6	9.0
CEPS	6.7	7.4	8.1	8.5	9.9
BVPS	19.1	23.7	27.5	32.7	34.2
DPS	2.0	2.2	2.3	2.5	2.7

Valuations (x)	FY15	FY16	FY17	FY18E	FY19E
PER	47.8	43.9	39.9	38.0	32.2
P/CEPS	43.1	39.4	35.9	34.2	29.3
P/BV	15.2	12.2	10.5	8.9	8.5
EV / Sales	6.5	6.5	6.6	6.0	5.3
EV / EBITDA	38.7	35.6	33.7	30.8	26.5
Dividend Yield (%)	0.7	0.8	0.8	0.9	0.9

Gearing Ratio (x)	FY15	FY16	FY17	FY18E	FY19E
Net Debt/ Equity	0.0	0.0	0.0	(0.2)	(0.2)
Net Debt/EBIDTA	0.0	(0.1)	(0.1)	(0.6)	(0.6)
Working Cap Cycle (days)	6.0	19.7	13.0	11.8	14.2

Growth (%)	FY15	FY16	FY17	FY18E	FY19E
Revenue	10.4	(0.6)	(0.9)	8.0	13.6
EBITDA	13.8	8.6	5.8	7.3	16.1
EBIT	13.5	7.9	5.7	7.5	17.3
PAT	16.6	9.0	10.2	4.9	18.0

Quarterly (Rs mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Revenue	21,613	19,284	19,816	18,529	19,147
EBITDA	4,154	3,488	4,087	3,339	4,176
EBITDA Margin (%)	19.2	18.1	20.6	18.0	21.8
PAT	3,319	2,927	3,573	2,938	3,331
EPS (Rs)	1.9	1.7	2.0	1.7	1.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoters	68.1	68.0	68.0	68.0	68.0
FIs	19.6	19.9	19.8	19.8	20.0
DIs	5.5	5.5	5.6	5.6	5.8
Public and Others	6.8	6.7	6.6	6.5	6.2

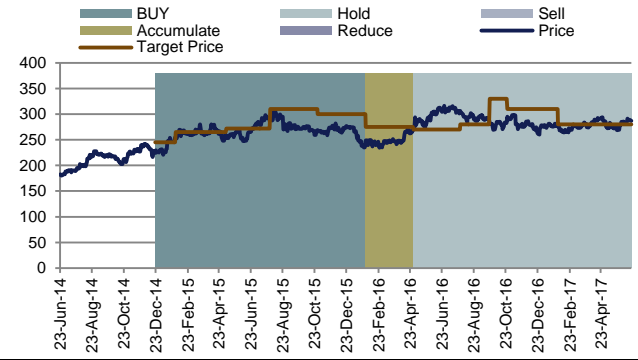
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
02-May-17	285	280	12m	Hold	Amit Purohit
31-Jan-17	276	280	12m	Hold	Amit Purohit
26-Oct-16	295	310	12m	Hold	Amit Purohit
22-Sep-16	284	330	12m	Hold	Amit Purohit
28-Jul-16	306	280	12m	Hold	Prashant Kutty
29-Apr-16	274	270	12m	Hold	Prashant Kutty
29-Jan-16	249	275	12m	Accumulate	Prashant Kutty
29-Oct-15	269	300	12m	Buy	Prashant Kutty
30-Jul-15	289	310	12m	Buy	Prashant Kutty
07-May-15	253	272	12m	Buy	Prashant Kutty
30-Jan-15	252	265	12m	Buy	Prashant Kutty
22-Dec-14	228	245	12m	Buy	Prashant Kutty

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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