

Retail Equity Research

Dabur India Limited

FMCG

BSE CODE: 500096

NSE CODE: DABUR

Bloomberg CODE: DABUR:IN

SENSEX: 40,284

HOLD

12M Investment period

Rating as per Large Cap

CMP Rs 455 TARGET Rs 499 RETURN 10%

(Closing: 15-11-19)



KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Margins expand in Q2 but valuation expensive

Dabur India Ltd (Dabur), a leading Indian FMCG company, is a world leader in Ayurveda with a portfolio of over 250 Herbal/Ayurvedic products. The company operates through Health Supplements, Digestives, Shampoos, Hair Oils, Skin Care, Oral Care, Foods and Other OTC & Ethical products.

- Q2FY20 revenue rose 4.1% YoY to Rs. 2,212cr led by 6.1% YoY growth in Consumer care business.
- EBITDA margin expanded 92bps YoY to 22.1% on lower material costs as a percentage of revenue while PAT was up 7.0% YoY to Rs. 403.0cr on lower effective tax rate.
- Weak demand, liquidity issues and slowdown in urban demand on account of customer down-trading pose challenges
- We revise our target price to Rs. 499 based on 46x FY21E adj. EPS and downgrade our rating on the stock to HOLD as we believe current valuation is already expensive factoring in its wide distribution network, rural reach and new products amid tough macro conditions.

Weak volumes in Q2

Dabur's topline expanded 4.1% YoY to Rs. 2,212cr in Q2FY20 affected by sustained slowdown in demand on account of liquidity crunch. Consumer care business grew by 6.1% YoY while the Food business shrunk 7.7% YoY. Pakistan business performed well with 20.0% YoY growth while Nepal declined by 35.0% YoY at constant currency (cc). International business grew 3.2% YoY at cc. EBITDA rose 8.6% YoY to Rs. 490cr in Q2FY20 while EBITDA margin expanded 92bps YoY to 22.1%. PAT was impacted by one-off impairment charges of Rs. 40cr. Management expects to reinvest gains on lower tax liability into brand building and promotional activities to capture market share while maintaining stable margins.

Key concall highlights

- Q2FY20 volume growth in domestic FMCG business was 4.8% YoY (7.4% ex-food). Company is targeting mid to high single digit domestic volume growth for the year
- E-commerce platform witnessed strong growth of more than 63.0% YoY contributing 2.2% of revenue while wholesale contribution was 30.0%-33.0%
- Rural growth rate at ~6.0% was on account of better infrastructure development in rural areas and better penetration while urban growth tapered to ~3.0% on lower consumer spending patterns
- Direct reach expanded to 1.18mn outlets while coverage expanded by 3,000 villages to reach 51,000 villages showcasing company's intent to invest strongly in its channels

Liquidity crunch and customer down-trading

The company's working capital requirements have increased due to longer credit period (extended from 6 days to 20 days) for selective distributors with an aim to tide over the liquidity crunch. Customers have started spending less on healthier and more expensive food with a preference for aerated drinks over fruit juices due to the lower price point of the products. We deem this trend to continue till the liquidity crisis is past and consumer spending improves again.

Valuation

We estimate PAT to grow at 12.4% CAGR in FY19-21E. While we believe that their wide distribution network, rural reach, new product launches and lower input prices would help the company maintain its footing in a difficult macro environment, current valuation is already at its 5-year high and we downgrade our rating on the stock to HOLD with a revised target price of Rs. 499 based on 46x FY21E adj. EPS.

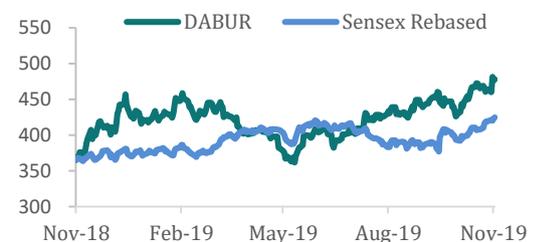
Company Data

Market Cap (cr)	Rs.81,781
Enterprise Value (cr)	Rs.81,722
Outstanding Shares (cr)	176.7
Free Float	32.0%
Dividend Yield	0.6%
52 week high	Rs.488
52 week low	Rs.357
6m average volume (cr)	0.1
Beta	0.5
Face value	Rs.1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	67.9	67.9	67.9
FII's	18.2	17.8	17.6
MFs/Insti	6.7	7.0	7.7
Public	5.1	5.5	5.4
Others	2.2	1.8	1.3
Total	100.0	100.0	100.0
Promoters pledge %	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	7.3%	25.6%	22.8%
Absolute Sensex	8.0%	8.0%	14.6%
Relative Return*	-0.7%	17.6%	8.2%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	8,533	9,280	10,410
Growth (%)	10.1	8.7	12.2
EBITDA	1,740	1,972	2,249
EBITDA Margin (%)	20.4	21.2	21.6
Adj. PAT	1,518	1,681	1,916
Growth (%)	10.9	10.8	14.0
Adj. EPS	8.6	9.5	10.8
Growth (%)	10.6	11.0	14.0
P/E	47.7	48.7	42.7
P/B	12.9	12.8	11.7
EV/EBITDA	41.8	41.4	36.2
ROE (%)	25.6	25.4	27.4
D/E	0.1	0.1	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	2,212	2,125	4.1	2,273	(2.7)	4,485	4,206	6.6
EBITDA	490	451	8.6	458	7.0	947	837	13.2
EBITDA margins	22.1	21.2	92bps	20.1	200bps	21.1	19.9	122bps
Depreciation	54	43	26.4	53	3.3	107	86	24.9
EBIT	435	408	6.7	405	7.5	840	751	11.8
Interest	15	16	(2.1)	15	(0.1)	30	30	0.2
Other Income	82	81	0.7	73	11.6	155	155	0.1
Exceptional Items	(40)	-	-	(20)	-	(60)	-	-
PBT	462	474	(2.5)	443	4.2	905	876	3.3
Tax	58	96	(39.5)	79	(26.8)	138	168	(18.3)
Share of profit from Associate	0	0	(22.2)	0	(34.4)	1	0	8.2
Minority Interest	1	1	(27.2)	1	(2.9)	1	2	(20.0)
Reported PAT	403	377	7.0	363	11.0	766	706	8.5
Adjustments	40	-	-	20	-	60	-	-
Adjusted PAT	443	377	17.6	383	15.6	826	706	17.0
No. of shares	176.7	176.6	-	176.7	-	176.7	176.6	-
EPS (Rs)	2.5	2.1	17.4	2.2	15.7	4.7	4.0	16.9

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	9,351	10,296	9,280	10,410	(0.8)	1.1
EBITDA	1,895	2,123	1,972	2,249	4.1	5.9
Margins (%)	20.3	20.6	21.2	21.6	98bps	98bps
Adj. PAT	1,762	2,052	1,681	1,916	(4.6)	(6.6)
EPS	9.9	11.6	9.5	10.8	(4.0)	(6.9)



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	7,701	7,748	8,533	9,280	10,410
% change	(8.7)	0.6	10.1	8.7	12.2
EBITDA	1,509	1,617	1,740	1,972	2,249
% change	(0.7)	7.2	7.6	13.4	14.0
Depreciation	143	162	177	206	212
EBIT	1,366	1,455	1,563	1,766	2,037
Interest	54	53	60	34	24
Other Income	298	291	222	250	330
PBT	1,610	1,693	1,725	1,982	2,343
% change	3.4	5.1	1.9	14.9	18.2
Tax	330	335	279	357	422
Tax Rate (%)	20.5	19.8	16.2	18.0	18.0
Reported PAT	1,277	1,354	1,442	1,621	1,916
Adj*	-	15	75	60	-
Adj PAT	1,277	1,369	1,518	1,681	1,916
% change	1.9	7.2	10.9	10.8	14.0
No. of shares (cr)	177.0	176.8	177.2	176.7	176.7
Adj EPS (Rs)	7.2	7.7	8.6	9.5	10.8
% change	1.9	7.3	10.6	11.0	14.0
DPS (Rs)	2.3	2.5	2.8	3.5	4.0
CEPS (Rs)	8.0	8.7	9.6	10.7	12.0

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,420	1,517	1,619	1,827	2,128
Non-cash adj.	(270)	(308)	9	(210)	(78)
Changes in W.C	87	(119)	(129)	(149)	(171)
C.F. Operation	1,237	1,089	1,499	1,468	1,878
Capital exp.	(486)	(200)	(225)	(255)	(312)
Change in inv.	(511)	(584)	317	(400)	(700)
Other invest.CF	180	244	244	150	100
C.F - Investment	(817)	(540)	337	(505)	(912)
Issue of equity	15	-	0	-	-
Issue/repay debt	168	(55)	(240)	(150)	(100)
Dividends paid	(477)	(477)	(1,597)	(618)	(707)
Other finance.CF	(45)	(43)	(52)	(34)	(24)
C.F - Finance	(339)	(574)	(1,888)	(803)	(831)
Chg. in cash	81	(26)	(52)	161	135
Closing cash	305	306	328	489	624

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	305	306	328	489	624
Accounts Receivable	650	706	834	1,002	1,166
Inventories	1,107	1,256	1,301	1,480	1,764
Other Cur. Assets	1,055	1,171	1,124	1,182	1,245
Investments	2,554	3,146	2,685	2,764	2,846
Gross Fixed Assets	1,988	2,140	2,226	2,481	2,793
Net Fixed Assets	1,479	1,552	1,548	1,594	1,691
CWIP	42	42	64	67	70
Intangible Assets	424	422	369	376	383
Def. Tax (Net)	-	3	1	2	3
Other Assets	115	97	183	190	198
Total Assets	7,731	8,702	8,437	9,147	9,990
Current Liabilities	1,782	1,970	2,162	2,260	2,582
Provisions	53	57	60	64	68
Debt Funds	915	833	529	379	279
Other Liabilities	108	109	23	25	26
Equity Capital	176	176	177	177	177
Reserves & Surplus	4,671	5,530	5,455	6,207	6,817
Shareholder's Fund	4,847	5,707	5,632	6,384	6,993
Minority Interest	25	27	31	36	41
Total Liabilities	7,731	8,702	8,437	9,147	9,990
BVPS (Rs)	27	32	32	36	40

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	19.6	20.9	20.4	21.2	21.6
EBIT margin (%)	17.7	18.8	18.3	19.0	19.6
Net profit mgn.(%)	16.6	17.5	16.9	17.5	18.4
ROE (%)	26.3	23.7	25.6	25.4	27.4
ROCE (%)	23.6	22.2	25.2	26.0	27.9
W.C & Liquidity					
Receivables (days)	30.8	33.3	35.7	39.4	40.9
Inventory (days)	105.1	119.2	110.2	116.8	124.1
Payables (days)	123.7	133.8	123.3	130.6	135.9
Current ratio (x)	1.4	1.4	1.3	1.5	1.6
Quick ratio (x)	0.8	0.7	0.7	0.8	0.9
Turnover & Leverage					
Gross asset T.O (x)	4.0	3.8	3.9	3.9	3.9
Total asset T.O (x)	1.0	0.9	1.0	1.1	1.1
Int. covge. ratio (x)	25.3	27.4	26.2	51.8	84.9
Adj. debt/equity (x)	0.2	0.1	0.1	0.1	0.0
Valuation					
EV/Sales (x)	6.5	7.3	8.5	8.8	7.8
EV/EBITDA (x)	33.4	35.1	41.8	41.4	36.2
P/E (x)	39.0	41.1	47.7	48.7	42.7
P/BV (x)	10.3	9.9	12.9	12.8	11.7

Recommendation Summary



Dates	Rating	Target
22-Sep-16	BUY	322
9-Feb-17	BUY	298
8-Nov-17	HOLD	358
16-May-18	BUY	409
24-Jul-19	BUY	464
19-Nov-19	HOLD	499

Source: Bloomberg, Geojit Research

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

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

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Neutral- The analyst has no investment opinion on the stock under review

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