

# Dabur India

BSE Code	: 500096
Time Duration	: <b>18 months</b>
CMP	: <b>₹427.60 (as on 28 September, 2018)</b>
Target Price	: <b>₹520</b>



**Swiftest Performers  
Among Heavy Weights**

The Large Rhino recommendation for the month of September, 2018 is Dabur India Ltd. Dabur India Ltd. is the country's fourth largest FMCG company overall and second largest in terms of product portfolio. Dabur is one of best companies to play the rural recovery (~45% revenue from rural). With improving consumer sentiments, we believe it will lead to healthy earnings growth in the ensuing quarters too. Dabur and Amazon have jointly set up an online marketplace exclusively for Ayurveda.

Dabur mainly operates under three verticals in the domestic market, namely, home & personal care (50% revenue), health (32%) and foods (18%). We expect the health segment would continue to drive the topline of the company on the back of high demand and volume growth in products like Dabur Chyawanprash, Dabur Honey, Dabur Hajmola and Pudín Hara. Also, the hair care and oral care (personal care) categories would drive the volumes going forward. We see steady growth in the food segment too, led by strong growth in Real and Activ juice brands. In Q1FY19, all the segments and the sub-categories have delivered robust double-digit growth on a YoY basis.

## Segmental Performance

**Health** – This segment comprises of health supplements, digestives, Over-The-Counter (OTC) and Ayurvedic ethical products. Under health supplements, it has three key brands Dabur Chyawanprash, Dabur Honey and Dabur Glucose. Chyawanprash and Honey are the products which have been growing in double digits over the last few quarters. Under digestives, it has brands like Dabur Hajmola, Pudín Hara and Nature Care. Dabur Hajmola and Pudín Hara are ace products that drive the growth of digestive segment. In FY18, it grew by 10.4% YoY as against de-growth of 11.4% YoY in FY17. Under OTC and Ayurvedic ethical products, it has portfolio in categories like cough & cold, digestion, women's health care, baby care and rejuvenation.

**Home & Personal Care** – This segment offers a range of products covering hair care, oral care, skin care and salon and home care. Under hair care, it has hair oils under brand name of Dabur Amla, Vatika and Anmol and shampoos like Vatika shampoo with Satt Poshan. In FY18, hair care grew by 4.2% YoY as against de-growth of 6.8% YoY in FY17. Over the last 3-4 quarters, the shampoo category has been growing at a rate of 30% and is the best performing category. The demand for hair care products is picking up in the rural areas. Margin delivery is good for this segment and good growth in volumes is seen. Under oral care, it has toothpastes (with brands like Dabur Babool, Dabur Red Paste, Dabur Meswak and Dabur Red Gel) and tooth powders (with Dabur Lal Dant Manjan). In FY18, The oral care segment grew by 16.9% YoY as against growth of 7.5% YoY in FY17. The company is continuously gaining market share in toothpastes segment and Dabur Red toothpaste has now become a Rs 5 billion brand. The oral care segment has been growing in double digits for the last four quarters. Under skin care and salon, its portfolio consists of facial bleaches under the Fem and OxyLife brands, hair removal creams under the Fem brand and rose-based mainstream skin care products under the Dabur Gulabari brand. Under home care, it has brands like Odomos mosquito repellents, Odonil air fresheners and Sanifresh toilet cleaners. The skin care and home care categories too have delivered low double-digit growth in FY18 and Fem brand and Odomos would continue to drive volumes in these segments.

**Foods** – This segment largely comprises packaged fruit juices and beverages with culinary pastes forming a small part of the business. It is a pioneer in packaged fruit juice market in India and enjoys nearly 55% share of the category with a range of products under the brands Réal and Réal Activ. Also, it launched Active Coconut Water couple of years ago. This segment grew in strong double digits due to high volume growth in Réal and Activ. We expect steady growth in this segment, driven by high demand and growth in volumes.

## Export Segment

The company's 30.3 per cent revenue comes from International markets which have performed well compared to the previous year. During Q1FY19, the international business reported 10.5% growth (CC) compared to de-growth of 2.2 per cent previous year. The growth was led by Saudi Arabia clocking 54% growth followed by Pakistan's 40% gains.

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International performance has shown signs of a recovery wherein Namaste is expected to show double-digit growth. The growth in GCC (Gulf countries) was led by local population and not the Indian expats. Some changes in distribution mechanism, like, moving from wholesale to direct are also done. The depreciating rupee could affect the company's margin.

## Capex Plan

Dabur is planning to invest Rs 250-300 crore in FY19 for capacity expansion and is also planning to make acquisitions in the domestic market. The capex guidance for FY20E on account of plant acquisition in Egypt is slightly higher at Rs. 300 crore.

## New Product Launches

In FY18, the company had launched 16 new products across segments globally. During Q1FY19, there were new launches only in Real and Hajmola (Chat Cola) portfolio. In food, Real ethnic range new additions were Masala guava, Alphonso mango and Masala pomegranate flavours. Currently, both these brands are market leaders in their respective segments, driving topline of the company. Also, the management expects new product pipeline to remain strong and new launches could be accelerated in H2FY19.

## Management Guidance

On the margin front, the management indicated price hikes of 3%-4% to mitigate inflation risk. The company plans to tackle it through effective cost synergies. Media spending will continue to be on the higher side. The focus is more on volume growth and gaining market share, which will automatically lead to operating margin expansion. The management is aiming at double-digit volume growth during the current financial year. The company may go for selective price hikes given that the raw materials like coconut oil and LLP are turning out to be costlier. During the quarter, it enjoyed a 1.4 percentage point backing of price-led growth.

## GST Impact

The implementation of GST caused huge disruption in normal market functioning and overall consumer sentiment. The growth in economy was stunted for a few subsequent quarters. This had negatively affected the FMCG business. The prices of commodities in the FMCG sector decreased after the implementation of GST because now they come under 18 per cent tax bracket against the previous 23-24 per cent rate, leading to a 3-8 per cent decrease in prices of goods.

Thus, the company has recently seen its ratios improve after recovering from negative after-effects of demonetisation and GST. The company is expected to reap the benefits of GST going forward.

The GST is expected to transform logistics in the FMCG sector as all major corporations are remodelling their operations into larger logistics and warehousing, saving costs. The number of warehouses will decrease from 45-50 to 25-30 and the size of warehouses will become larger. Thus, warehousing cost for FMCG companies is estimated to fall by 25-30 per cent.

Also, the company will benefit because of availability of input tax credit on expenses, as now it will not be a cost to the company as earlier.

## Financials

Dabur India has seen its sales grow at 5% CAGR between FY14-FY18. During the same time period, it has earned a healthy profit for its shareholders, growing at 12.55% CAGR. For the FY18, the company has approved dividend aggregating to Rs 1,330.83 crore (including dividend tax).

The consolidated revenue for the quarter Q1FY19 came in at Rs. 2081 crore, as against Rs. 1790 crore in Q1FY18, registering an increase of 16.24% YoY. The growth in revenue was mainly driven by domestic FMCG business volume growth of 21% during the quarter, which has been the highest ever. This was supported by heavy advertisement expenditure.

The EBITDA for the quarter rose by 25% YoY to Rs. 386 crore, as against Rs. 309 crore in the corresponding quarter previous year, with a corresponding margin expansion of 130 bps. Its EBITDA margin for the quarter stood at 18.56 per cent.

In the bottomline too, the company has registered good growth numbers. The PAT for the quarter came in at Rs. 330 crore, an increase of 24.72% YoY. The PAT margin for the quarter stood at 15.85%.

## Valuation

The stock of Dabur India is trading at TTM P/E of 54.44x with TTM EPS of Rs 8.04. The return on average capital employed (ROCE) is seen normalising to 29%. Also, the company has a good return on equity (ROE) track record, with 3-year average ROE at 28.62%. The stock has a good dividend payout of 48%. Considering the potential growth, we believe this valuation is justifiable.

As income levels are rising, there is also a clear uptrend in the share of non-food expenditure in rural India. The FMCG sector in rural and semi-urban India is estimated to cross US\$ 220 billion by 2025. Thus, it shows positive picture for the company as its penetration in rural areas is substantial. The strong investment behind brands, introduction of several new products, growth of digital media, extensions of existing brands had been and would continue to be the growth drivers for the company.

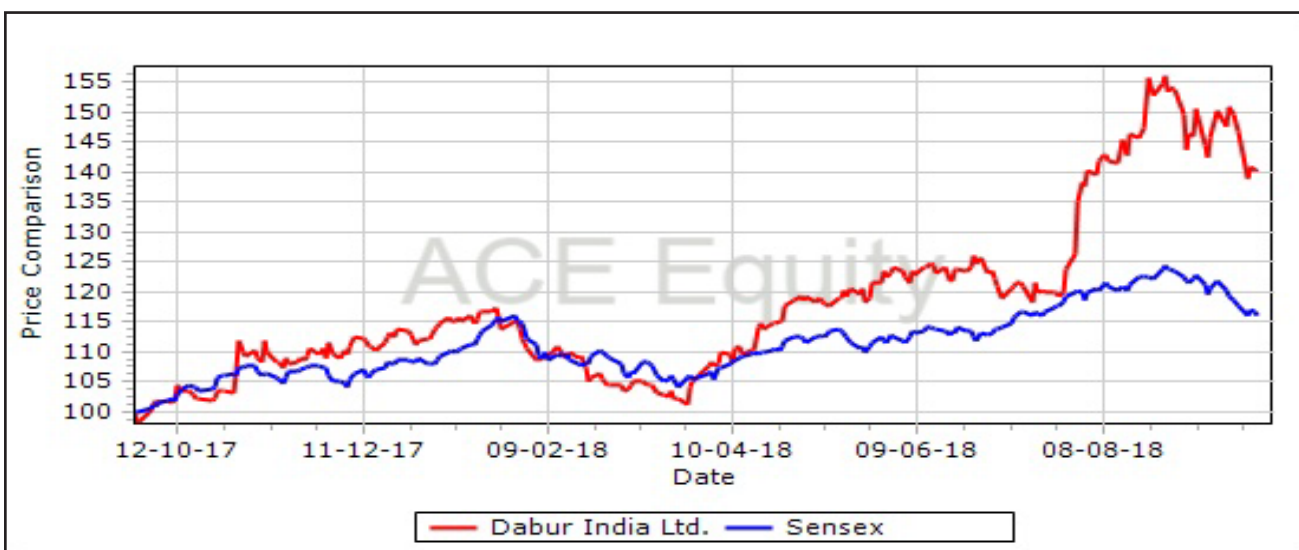
Hence, we urge our investors to **BUY** this scrip with a target price of Rs 520 over the next 18 months.

### Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201803	201703	201603	201503	201403
Net Sales	7721.85	7613.59	7779.66	7827.20	7075.31
Total Income	8027.03	7916.92	7996.85	7985.25	7203.37
Total Expenditure	6106.88	6106.49	6261.38	6510.79	5915.48
PBIDT	1920.15	1810.43	1735.47	1474.46	1287.89
PAT	1357.50	1280.06	1253.90	1068.47	916.45
Dividend %	750.00	225.00	225.00	200.00	175.00
Adj. EPS(Rs)	7.69	7.25	7.11	6.07	5.24

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201806	201803	Q on Q Var%	201706	Y on Y Var%
Net Sales	2080.68	2032.91	2.35	1790.06	16.24
Total Expenditure	1694.56	1547.73	9.49	1481.17	14.41
PBIDT (Excl OI)	386.12	485.18	-20.42	308.89	25.00
PAT	329.78	397.36	-17.01	264.41	24.72
PBIDTM% (Excl OI)	18.56	23.87	-22.25	17.26	7.53
PBIDTM%	22.10	27.47	-19.55	21.80	1.38
PATM%	15.85	19.55	-18.93	14.77	7.31
Adj. EPS(Rs)	1.86	2.25	-17.33	1.50	24.00



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