

Dabur India Limited. (HOLD)

QUARTERLY EARNINGS HIGHLIGHTS 2QFY20

Dabur India Limited reported consolidated revenue growth of 4.1% y-y at Rs2,212cr in 2QFY20 almost in line with our expectation of Rs 2,231cr led by India FMCG volume growth of 5% y-y in line with the expectation of 5%. Gross profit margin came at 50.8% ahead of our expectation of 49.9%. Comparable EBITDA (excluding the impact of IND AS 116) grew 6.5% y-y to Rs 480cr marginally beating our estimate of Rs 473cr. Comparable EBITDA margin came at 21.7% marginally beating our estimate of 21.2%. The reported consolidated net profit came in at Rs 403cr growing 7% y-y aided by tax write backs resulting in lower effective tax rate. The net profit adjusted for exceptional item of Rs 40cr (provision for impairment in the value of treasury investment due to rating downgrade of DHFL bond) grew by 16% y-y to Rs 437cr beating our estimate of Rs 384cr.

- The consumer care business revenue grew by 6% y-y to Rs 1,885cr and its profit grew by 11% y-y to Rs 501cr led by 110 bps y-y rise in profit margin to 26.6%.
- The growth in consumer segment was led by Health Care and Digestives each growing by 14% and 10% y-y. Dabur's market share in Hair Oil and Red Tooth paste category increased by ~30bps and ~66 bps. Market share also increased in both Chyawanprash and Glucose categories.
- The Food business revenue declined by 8% y-y to Rs 267cr and its profit decreased by 25% y-y to Rs 37cr led by 307 bps y-y decrease in operating margin to 13.7%.
- Home Care Segment grew by 7% y-y led by strong growth in Odomos. Dabur's Shampoo business, on the back of the relaunch of its Vatika Shampoo, grew by 12% y-y. The Toothpaste category grew by nearly 5% during the quarter led by Dabur Red Paste reporting nearly 10% y-y growth.
- The International markets reported constant currency growth of 3.2% led by GCC, Nigeria and Turkey.

Outlook & Valuations

According to the management the slowdown in India FMCG industry continued aggravated by liquidity crunch. However due to expansion in distribution reach and portfolio enhancement strategy the rural market for Dabur grew faster than urban in contrast to other FMCG players. The company observed higher growth than the industry in most of its product categories. The management is hopeful of a demand recovery in second half of the current financial year led by normal monsoon and Government reforms. Therefore we value Dabur at 48x its FY21E EPS of Rs 10.3/share to arrive at price target of Rs 500 per share. We maintain our HOLD rating on the stock and would advise to accumulate the stock on correction.

Key Financials

Rs.(Cr)	FY 18	FY 19	FY 20E	FY 21E
Revenue	7,722	8,533	9,296	10,281
EBIDTA	1,617	1,740	1,981	2,217
EBIDTA Margins%	20.9%	20.4%	21.3%	21.6%
PAT	1,366	1,505	1,635	1,829
PAT Margin%	17.7%	17.6%	17.6%	17.8%
ROE%	25.9%	26.6%	27.0%	26.5%
EPS	7.7	8.5	9.3	10.3
P/E TTM	48.5	44.9	52.0	46.5

Source: Company, Bonanza Research

FMCG

Closing Price:	482
Target Price	500

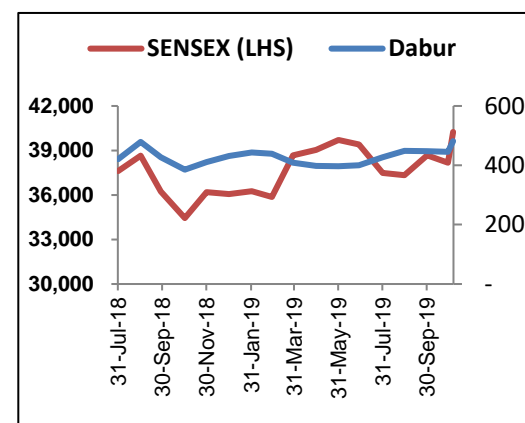
Stock Details

Bloomberg Code	DABUR: IN
Reuters Code	DABU.NS
Shares O/S (Cr.)	176.7
M Cap (Rs Cr)	85,561
52 week H/L (Rs)	488/358

Shareholding Pattern (%)

Promoters	67.9
DII's	7.7
FII's	17.6
Non-Institution	6.7

Stock Performance Chart



Stock Performance

Return (%)	1 Mth	6 Mths	1 Yr
Absolute	11.3	31.1	31.2

Quarterly P&L

Rs. Cr	2QFY20	2QFY19	Y-Y	1QFY20	Q-Q	1HFY20	1HFY19	Y-Y
Net Sales	2,212	2,125	4%	2,273	-3%	4,485	4,206	7%
Gross Profit	1,123	1,049	7%	1,126	0%	2,249	2,081	8%
Total Expenditure	1,722	1,674	3%	1,816	-5%	3,538	3,369	5%
Reported EBIDTA	490	451	9%	458	7%	947	837	13%
Depreciation	54	43	26%	53	3%	107	86	25%
EBIT	435	408	7%	405	7%	840	751	12%
Interest	15	16	-2%	15	0%	30	30	0%
Other Income	82	81	1%	73	12%	155	155	0%
PBT and exceptionals	502	473	6%	463	8%	965	876	10%
Exceptional	(40)	-	N.A	(20)	100%	(60)	-	N.A
Tax	58	96	-39%	79	-27%	138	168	-18%
PAT	404	377	7%	364	11%	767	707	9%
Minority Interest	(0.7)	(0.9)	-27%	(0.7)	-3%	(1.4)	(1.7)	-20%
Share of Associates	0.2	0.3	-22%	0.3	-34%	0.5	0.5	8%
Consol. Profit After Tax	403	377	7%	363	11%	767	706	9%
Comparable PAT excl. exceptionals	437	377	16%	376	16%	813	706	15%
Comparable EPS per share	2.5	2.1	16%	2.1	16%	4.6	4.0	15%
Gross Margin	50.8%	49.4%	142bps	49.5%	128bps	50.1%	49.5%	66bps
EBIDTA Margin	22.1%	21.2%	92bps	20.1%	200bps	21.1%	19.9%	122bps

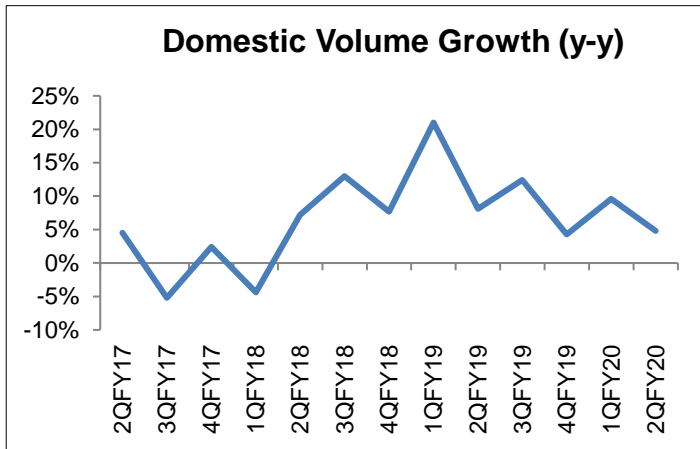
Source: Company, Bonanza Research

Key Highlights of Concall:-

- The mid single digit domestic volume growth was due to the continuation of economic slowdown led by liquidity crunch in the market. The company is providing selective credit extension to support the dealers and distributors to cope with the slowdown.
- The rural market for Dabur grew by 6% y-y compared to 3% y-y growth in urban market. The growth in rural market was primarily led by expansion in rural foot print from 48,000 villages in 1QFY20 to 51,000 in the quarter gone by followed by portfolio enhancement strategies. The urban markets performance was impacted by de-growth in the Juice category. The market share of Real Fruit Juice has went up to 60.5%.
- The Juice segment underperformed as consumers opted for low value carbonated drinks and other fruit drinks. The lockdown of J&K state also affected the Juices category. The company has launched Real Koolerz in 10 rupee price point to tackle the down trading by consumers. The product is showing good traction in urban centers. Management believes there is huge potential for growth via such low unit packs. In Food segment the gift pack business led by the festival season has done well which led to decline in margins of the Food business. Volume growth ex of Foods business was 7.4% y-y in the quarter gone by.
- In Hair Oil segment the Brahmi and Sarso category has done well whereas the Coconut Oil segment's performance was weak led by lower Copra prices which the company was late to pass on to consumers due to which down trading towards unorganized players occurred and floods in parts of the country also affected the coconut oil business. The company's market share in Hair Oil category has increased by around 30bps.
- In the toothpaste category the naturals/Ayurveda segment which is around 30% of the whole toothpaste category is growing well at around 10% y-y. The entire toothpaste category de-grew by 3%. According to the management Dabur on the back of its superior products could outperform the category. The company has launched Babool Ayurved toothpaste in North India on a test basis. If it gains traction and starts receiving repeat orders then it would be launched pan India. Dabur gel that was launched earlier hasn't gained traction the company is repositioning the brand and changing the marketing mix to improve it.
- The Nepal business was impacted due to implementation of VCTS – a system to bring transparency in goods movement similar to India's E-Way bill. Excluding Nepal the international business has grown by 8.5% in constant currency terms. GCC, Pakistan, Nigeria, Egypt and Turkey are growing well. The management expects growth rates to be sustainable. Nepal's recovery is expected after one more quarter.
- The management expects the worst to be over for Dabur and growth should recover in second half. The management has maintained its guidance of mid to high single digit domestic volume growth in FY20. The effective tax rate on consolidated level is expected to be around 18%-20% during FY20 & FY21 and FY22 onwards it could be between 22%-25%.

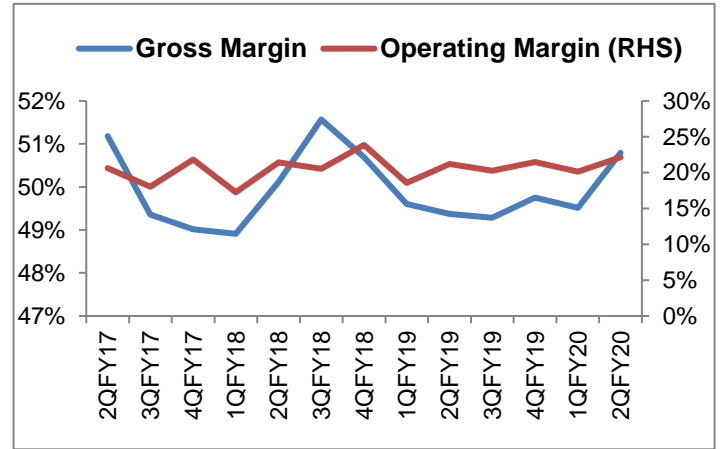
Business Highlights

Exhibit 1: Domestic Volume growth



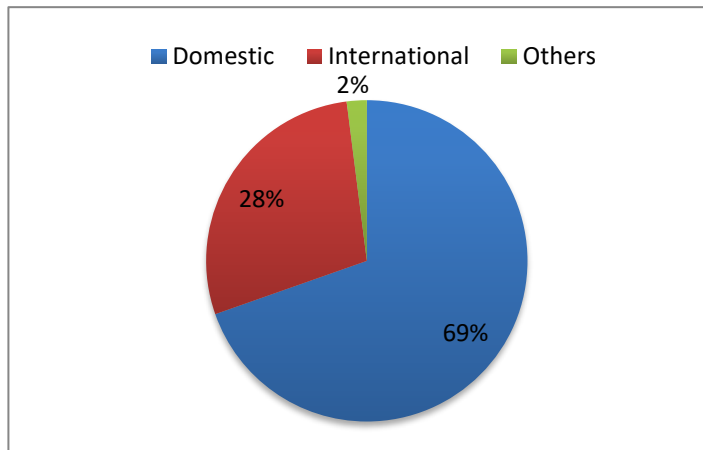
Source: Company, Bonanza Research

Exhibit 2: Margin Trend



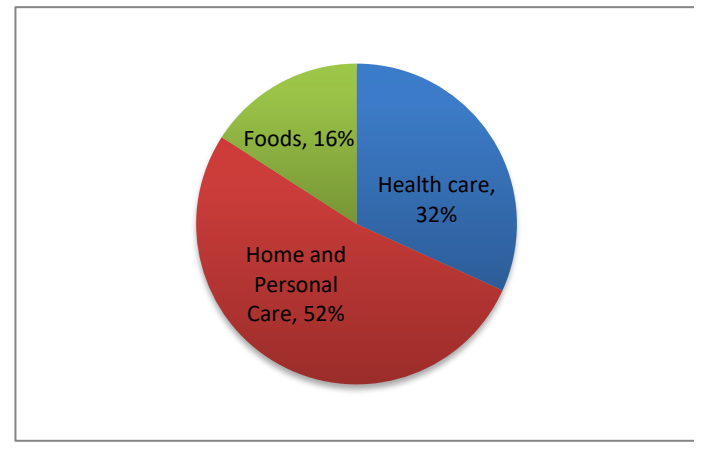
Source: Company, Bonanza Research

Exhibit 4: Revenue Contribution



Source: Company, Bonanza Research

Exhibit 5: Revenue Mix



Source: Company, Bonanza Research

Exhibit 6: Categorywise growth (y-o-y)

Segments	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Health Supplements	-14%	5%	-7%	3%	20%	14%	28%	12%	14%	10%	20%	14%
Digestives	-10%	-5%	4%	12%	19%	7%	22%	11%	23%	12%	18%	10%
OTC &Ethicals	-11%	-4%	-7%	3%	9%	9%	18%	8%	18%	13%	15%	6%
Hair Care	-20%	-4%	-11%	1%	23%	12%	21%	17%	24%	3%	12%	4%
Oral Care	-5%	9%	2%	23%	23%	11%	17%	4%	10%	8%	11%	4%
Skin Care	-11%	0%	4%	16%	15%	9%	27%	12%	19%	11%	12%	1%
Home Care	-5%	-7%	6%	10%	36%	0%	17%	11%	9%	16%	11%	7%
Foods	52%	10%	-8%	12%	0%	2%	27%	2%	11%	-6%	1%	-5%

Source: Company, Bonanza Research

Financials

P&L

Rs Cr	FY18	FY19	FY20E	FY21E
Net Sales	7,722	8,533	9,296	10,281
Total Raw Material Cost	3,912	4,309	4,645	5,140
Gross Profit	3,836	4,224	4,651	5,141
Advert. & Sales Promo (ASP)	607	608	753	853
Total Expenditure	6,104	6,793	7,315	8,064
EBITDA	1,617	1,740	1,981	2,217
Depreciation	162	177	214	236
Interest	53	60	63	65
Other Income	305	296	317	346
PBT	1,707	1,800	2,021	2,262
Exceptionals	(15)	(75)	(60)	-
Profit Before Tax	1,693	1,725	1,961	2,262
Provision for Tax	335	279	373	430
Profit After Tax	1,358	1,446	1,588	1,832
Minority Interest	(3)	(4)	(4)	(4)
Share of Associate	0	1	1	1
Net Profit After Tax	1,354	1,443	1,585	1,829
Recurring Profit After Tax	1,366	1,505	1,635	1,829
Recurring EPS	7.7	8.5	9.3	10.3

Source: Company, Bonanza Research

Cash Flow statement

Rs Cr	FY18	FY19	FY20E	FY21E
Profit Before Tax	1,693	1,725	1,961	2,262
Adjustment	(22)	(24)	12	9
Changes In working Capital	(258)	(24)	58	(142)
Tax Paid	(325)	(279)	(373)	(430)
Cash From Operating Activities	1,089	1,397	1,658	1,699
CAPEX	(200)	(102)	(286)	(240)
FCFF	889	1,295	1,372	1,459
Net Investment (Purchased)/Sold	(584)	391	(604)	(671)
Interest received	244	252	279	308
Cash Flow from Investing Activities	(540)	541	(611)	(603)
Repayment Long Term Borrowings	(62)	(321)	(60)	(4)
Short Term Loans	7	34	32	45
Proceeds from Issue of Equity	-	15	-	-
Dividend Paid	(477)	(1,597)	(745)	(852)
Interest Paid	(43)	(48)	(52)	(53)
Cash from Financing Activities	(574)	(1,917)	(826)	(864)
Closing Cash & Cash Equivalent	89	110	331	564

Source: Company, Bonanza Research

Balance Sheet

Rs Cr	FY18	FY19	FY20E	FY21E
Shareholder's Funds	5,707	5,631	6,471	7,349
Minority Interest	27	31	33	33
Total Borrowings	942	628	596	632
Trade Payables	1,410	1,455	1,700	1,750
Other Liabilities	617	690	807	896
Total Liabilities	8,702	8,436	9,608	10,660
Net Block	1,974	1,917	1,993	2,037
Non Current Investments	3,146	2,686	3,100	3,500
Other Non Current Assets	142	227	280	296
Total Non-Current Assets	5,262	4,830	5,374	5,833
Currents Investments	713	725	850	950
Inventories	1,256	1,301	1,500	1,600
Sundry Debtors	706	834	900	1,050
Cash and Bank	306	327	548	781
Other Current Assets	458	419	436	446
Total Current Assets	3,440	3,606	4,234	4,827
Total Assets	8,702	8,436	9,608	10,660

Source: Company, Bonanza Research

Ratio Analysis

Rs Cr	FY18	FY19	FY20E	FY21E
Sales Growth	1.4%	10.5%	8.9%	10.6%
EBITDA growth	7.2%	7.6%	13.8%	11.9%
Recurring Net Profit Growth	7.0%	10.2%	8.6%	11.9%
Gross Profit Margin	49.7%	49.5%	50.0%	50.0%
EBITDA Margin	20.9%	20.4%	21.3%	21.6%
Recurring Net Profit Margin	17.7%	17.6%	17.6%	17.8%
ASP as % of sales	7.9%	7.1%	8.1%	8.3%
Eff Tax Rate	19.8%	16.2%	19.0%	19.0%
ROE	25.9%	26.6%	27.0%	26.5%
Asset Turnover	0.9	1.0	1.0	1.0
Receivable Days	32	33	34	35
Inventory Days (on COGS)	110	108	110	110
Payable Days (on COGS)	120	120	119	120

Source: Company, Bonanza Research

Disclosure

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