

DABUR INDIA

FMCG

HOLD

Target Price: Rs 300

Annual report analysis

India sales growth in Dabur has slowed down sharply – from a lofty 19% CAGR over FY06-13 to a mere 7% over FY13-17. FY17 annual report suggests renewed thrust on positioning the company as a ‘Science-based Ayurveda’ specialist to bring back growth. However, we see more of the same when we read about the strategic initiatives.

Dabur has a strong portfolio of brands which, in our view, it is not leveraging appropriately. The fact that GCPL’s innovations in outdoor mosquito repellents and air fresheners (categories dominated by Dabur) have been able to make a mark is a cause for concern. We have a HOLD rating on Dabur with a price target of Rs 300 (based on 32x forward P/E). We estimate consolidated sales and EPS CAGR of 11% each over FY17-19 with OPM remaining stable at 19.5%.

CMP : Rs 304
Potential Upside : -1%

MARKET DATA

No. of Shares : 1,762 mn
Free Float : 32%
Market Cap : Rs 536 bn
52-week High / Low : Rs 320 / Rs 259
Avg. Daily vol. (6mth) : 1.8 mn shares
Bloomberg Code : DABUR IB Equity
Promoters Holding : 68%
FII / DII : 20% / 6%

Cash flow analysis: Free cash flow post capex conversion at 52% in FY17 (92% in FY16) was lower due to higher capex in FY17. Net working capital days at 17 days as at Mar-17 reduced by four days YoY aided by seven days reduction in receivable days. Driven by higher capex in FY17, RoCE declined 350 bps YoY to 30.4%. Business RoCE (ex goodwill) stood at 32.8%. Of the total capex of Rs 4.9 bn in FY17, Rs 4.1 bn was spent on Indian operations. Dividend payout at 37.4% was in line with the 39% payout over the past five years.

Distribution initiatives: To enhance portfolio focus it has embarked on Project Buniyad which is an initiative focused on separate front-end sales team for urban and rural for three categories – Home & personal care, Health care and Foods. At the same time, it has continued with Project LEAD which aims to expand coverage of doctors.

Our view: We estimate consolidated sales CAGR of 11% (7% volume, 4% realisation) and EPS CAGR of 11% over FY17-19 with OPM remaining stable at ~19.5%. Dabur has a strong pricing power given its presence in niche categories. However, FY17 OPM of 19.9% is at its historical peak. Margin could come under pressure if A&P spends rise sharply from a very low base of FY17.

Financial summary (Consolidated)

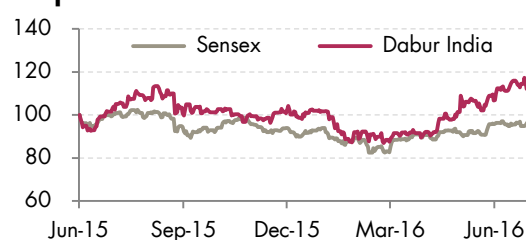
Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	84,028	75,922	84,563	94,211
Adj PAT (Rs mn)	12,500	12,768	14,094	15,676
Con. EPS* (Rs)	-	-	8.1	9.3
EPS (Rs)	7.1	7.2	8.0	8.9
Change YOY (%)	16.7	2.0	10.4	11.2
P/E (x)	42.8	42.0	38.0	34.2
RoE (%)	33.2	28.3	26.7	25.4
RoCE (%)	33.9	30.4	30.2	30.5
EV/E (x)	33.8	33.8	30.3	26.9
DPS (Rs)	2.2	2.2	2.6	3.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY17	FY18E	FY19E
Dom sales growth	(1.0)	10.5	10.6
Intl sales growth	(4.9)	12.9	13.1
Gross margin (consol)	50.8	50.8	50.9
EBITDA margin (consol)	19.9	19.6	19.5

Price performance



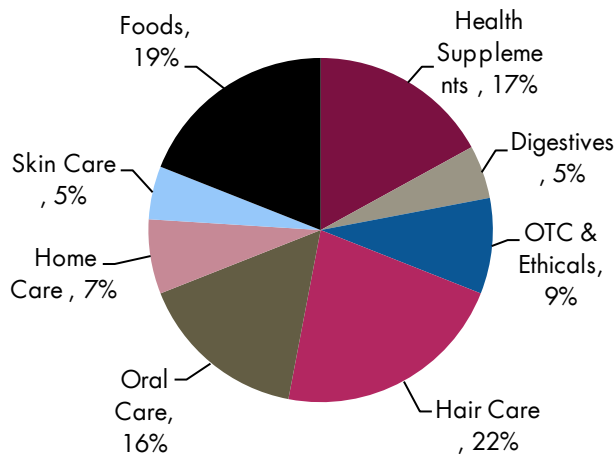
MD&A analysis

New launches: Higher thrust on launches in herbal space

- ◆ Honitus Hot Sip – an Ayurvedic kadha for cough and cold remedy
- ◆ Dabur Red Ayurvedic Gel toothpaste
- ◆ Madhurakshak Activ: Advanced product for effective management of Diabetes
- ◆ Range of Honey Fruit Spreads in four exotic fruit variants
- ◆ Two specialized salon products – OxyLife Tan Clear and OxyLife Pro-Youth Pure Oxygen Facials
- ◆ Amla Plus 100% Juice
- ◆ Dabur Brahmi Amla hair oil and Dabur Anmol Coconut Jasmine hair oil
- ◆ Two new variants in Honey – Honey-Ginger and Honey-Tulsi

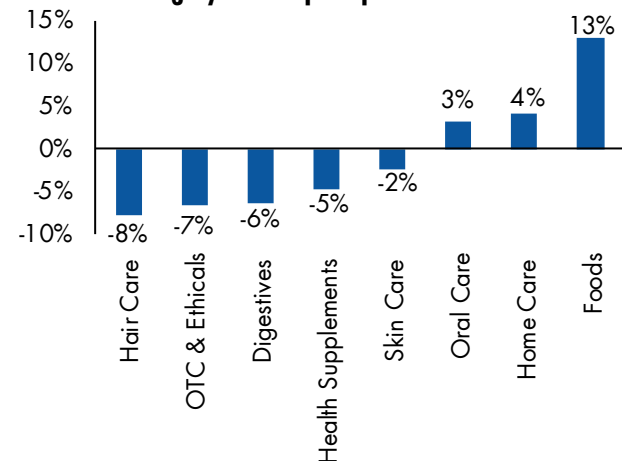
Domestic business: segmental performance – FY17

Exhibit 1: Revenue breakup by category – FY17



Source: Company, Axis Capital

Exhibit 2: Category wise topline performance



Source: Company, Axis Capital

Health supplements (17% of India FMCG)

(Portfolio: Dabur Chyawanprash, Dabur Honey and Dabur Glucose).

- ◆ **Dabur Chyawanprash:** The brand reported good growth before start of winter. However, demonetization-led liquidity crunch coupled with a less intense and shorter winter compressed demand for the brand during the peak winter months
- ◆ **Honey** category continued to witness intense price-led competition. Dabur entered the jams & spreads market in India with a range of Honey Fruit Spreads. It also introduced two new pre-mixed variants of Honey – Honey-Ginger and Honey-Tulsi and launched Dabur Honey in an attractive new squeezey bottle. During the year Dabur established the first ever Mobile Honey Testing Lab.
- ◆ **Dabur Glucose:** The Company reported good growth in the category, supported by an extended and intense summer season. Dabur launched an Aampanna variant, which met with good response from consumers.

Digestives (5% of India FMCG)

(Portfolio: *Dabur Hajmola, Pudín Hara and Nature Care*)

- ◆ **Hajmola** tablets posted a steady performance. The latest Amrud variant performed well and has emerged as one of the fastest growing flavors
- ◆ **Dabur Pudín Hara** got impacted by lookalikes and counterfeits.

OTC and AyurvedicEthicals (9% of India FMCG)

(Categories: *Cough & Cold, Digestion, Women's Health Care, Baby Care and Rejuvenation*).

- ◆ In the **Cough & Cold category**, Ayurvedic cough syrups are gaining popularity with a growing number of consumers purchasing cough syrups as self-medication. *Dabur Honitusis* the most preferred brand in this category
- ◆ **Dabur Lal Tail** continues to be a market leader in the Ayurvedic baby massage oil category.
- ◆ **Women's Health Care** range comprises *Dashmularishta, Ashokarishta* and *Dabur Activ Blood Purifier*. Range was expanded with the introduction of a restorative tonic under the brand *Dabur Woman Restorative Tonic*
- ◆ **Rejuvenator portfolio**, which includes *Shilajit* and *Shilajit Gold* performed well.

Hair care (22% of India FMCG)

(Portfolio: *Hair Oils and Shampoos*).

- ◆ **Hair oil:**
 - The company launched *Dabur Brahmi Amla Hair Oil* which offers triple benefits of Brahmi, Amla and Vitamin E.
 - As a part of geographic expansion strategy it launched *Anmol Jasmine Hair Oil* in Maharashtra and Madhya Pradesh. Also, *Almond Hair Oil* was promoted aggressively in South India.
 - It launched an aggressive go-to-market strategy with both *Sarson Amla Hair Oil* and *Anmol Coconut Oil* through a mix of aggressive pricing, distribution expansion and entry into new geographies. Playing in the economy segment with Rs10 offerings, both *Brahmi Amla Hair Oil* and *Sarson Amla Hair Oil* have been working towards converting loose hair oil users
- ◆ **Shampoos** (14% of Hair care revenue): Business reported a slowdown in line with the industry as the category remained sluggish and hyper competitive at the value end of the market. Dabur is now revamping its portfolio with a focus on the brand's herbal heritage.

Oral care (16% of India FMCG)

(Portfolio: *Toothpastes (with brands like Dabur Babool, Dabur Red Paste and Dabur Meswak) and Toothpowder (with Dabur Lal Dant Manjan)*)

Oral care is one of the few segments which saw growth in FY17 on the back of an herbal wave trend in the category. Dabur's toothpaste brands reported market share gains with the flagship brand Dabur Red Paste emerging as the third largest toothpaste brand in India. *Meswak Toothpaste* reported good growth during the year with market share gains. Toothpowder offering *Dabur Lal Dant Manjan* saw steady demand and is today the number one toothpowder brand in the country.

Skin care and salon (5% of India FMCG sales)

(Portfolio: (a) facial bleaches under Fem and OxyLife brands, (b) hair removal creams under Fem and (c) rose-based skin care products under Dabur Gulabari)

- ◆ Dabur expanded its presence in the Skin Care market with the launch of *Fem Ultra Gold Creme Bleach*. It has helped Fem emerge as the market leader in the Gold bleach segment
- ◆ Dabur expanded its Professional Skin Care range with the launch of *OxyLife Tan Clear* and *OxyLife Pro Youth Pure Oxygen Facials*
- ◆ Dabur Gulabari brand extension into face washes received well in the market

Home care (7% of India FMCG sales)

(Portfolio: (a) mosquito repellents under the brand Odomos, (b) air fresheners under Odonil and (c) toilet cleaners under the Sanifresh brand)

- ◆ Home care is another segment apart from Oral care & Foods, which has seen growth. Dabur's mosquito repellent brand **Odomos** reported good growth during the year, riding on sustained activity around prevention of mosquito borne diseases
- ◆ **Odonil** performed well as it established itself as the air freshener expert
- ◆ **Sanifresh** reported a steady performance despite competition from private label players and established brands

Foods (19% of India FMCG sales)

(Portfolio: packaged fruit juices & beverages and culinary pastes.)

- ◆ It has over 56% market share in fruit juices.
- ◆ The company expanded range with launch of new variants like Mosambi (sweet lime) under the Réal brand and Amla Plus Juice under Réal Wellnezz
- ◆ To cater to the growing demand from young consumers for a fizzy yet healthy drink, Dabur test marketed a range of fizzy fruit juice-based drinks (Réal VOLO)

Domestic business: Sales and distribution strategies

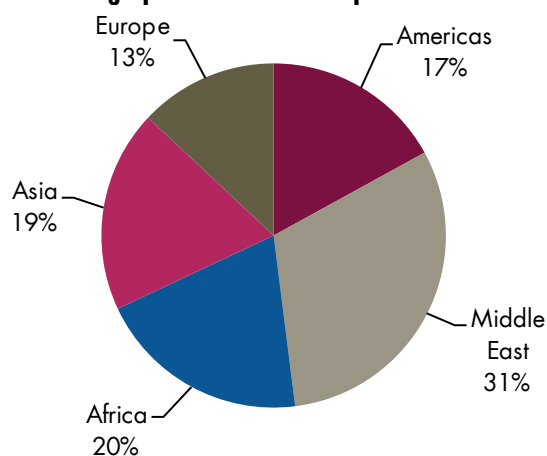
Dabur implemented a sales re-organization programme with the following agenda: Building portfolio focus, adding infrastructure, providing greater focus to Rural India, improving engagement levels with channel partners and leveraging the emerging alternate channels like Modern Trade and e-Commerce.

- ◆ **Project Buniyad:** This distribution initiative is focused on separate front-end sales team for urban and rural for three categories – Home & personal care, Health care and Foods. As a part of strategy, ~1,000 rural sales promoters were inducted and armed with hand-held devices. The company has also added 300 new people in the sales force in urban market
- ◆ **Project LEAD:** Thrust on expanding coverage of doctors, both Ayurvedic and allopathic continued. In FY17, it has added ~5,000 allopathic doctors to take total doctor reach count to 14,000 pan-India. Its Ayurvedic doctor and Vaid coverage is now at ~22,000 pan-India. The company now has 387 Dabur Ayurvedic Centers across India

International business: Country wise performance FY17

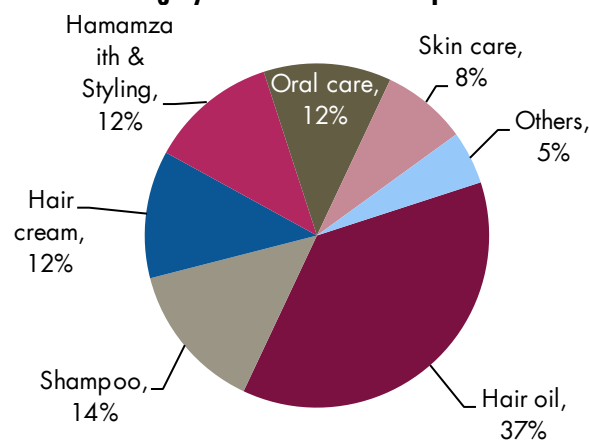
International business recorded sales of Rs 23.2 bn FY17, declining 5% YoY

Exhibit 3: Geographic revenue breakup – FY17



Source: Company Axis Capital

Exhibit 4: Category wise revenue breakup – FY17[^]



Source: Company Axis Capital [^] organic business

The Middle East

The region remained under pressure in FY17 amid significant economic and geopolitical challenges. Its market share in the hair oil category improved to 67% in Saudi Arabia and 40% in UAE with *Vatika Hair Oil* registering strong gains. In hair cream category, market share increased to 35% in Saudi Arabia, driven by good performance of *Dabur Amla Hair Cream*. The company entered the new emerging frontier – Iran, by establishing a subsidiary and 3rd party manufacturing.

Africa

Dabur Egypt, 11% of international business, posted strong growth of 23% in CC terms. High inflation and severe currency devaluation impacted the business profitability. Dabur is a leader in main Hair Care categories, with 72% share in Oils, 60% in Hair Creams and 60% in Hammam Zaith with *Vatika* as the umbrella Hair Care brand. To address currency fluctuations and ensure continuous supply localization of manufacturing is the top priority for the company. Manufacturing capability has been added for Namaste range of products with the acquisition of Carbo Tech Limited in South Africa, plus new capacity set-up in Nigeria and Egypt

Europe

Turkey business performed well in FY17 with 16% CC growth. Growth was broad based across its portfolio. Business witnessed sharp currency deceleration during the year due to slowdown in GDP growth and heightened inflation.

South Asia

The South Asia business registered strong double digit growth in FY17.

- ◆ **Nepal** is a large market for Dabur and the business grew at healthy double digits. It also crossed Rs 2.5 bn revenue. All categories grew in double digits with the high salience Fruit Juice business growing in strong double digits.
- ◆ **Bangladesh** business posted a steady performance with brands such as Honey, Odonil and Shampoos registering strong growth.
- ◆ **Sri Lanka and Myanmar** also posted healthy growths with Sri Lanka growing in strong double digits, driven by Fruit Juice category. Myanmar reported strong growth with Oral Care and Skin Care driving growth

Cash flow analysis

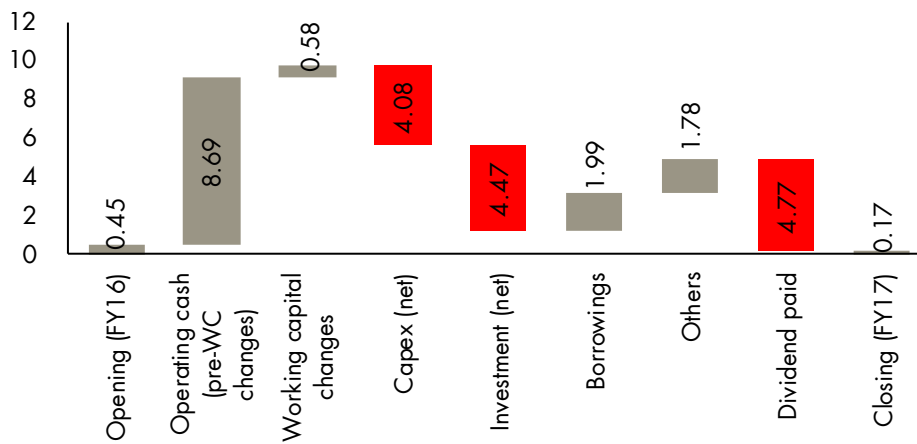
Higher capex spend led to lower FCF conversion

Free cash flow post capex conversion at 52% for FY17 (vs. 92% in FY16) was suppressed given increased capex in FY17. Of the total capex of Rs 4.9 bn in FY17, Rs 4.1 bn was spent on Indian operation, while Rs 800 mn on overseas facilities. In India with capex spend of Rs 2.5 bn, the company has set up factory in Tezpur, Assam (total factory base now increases to 14 locations). The company highlighted that as a policy, cash surplus generated by domestic FMCG business retained for future investments in India. The international business manages its own cash flows without depending upon India business.

Working capital requirement reduced to 17 days, down 4 days YoY

Net working capital days at 17 days as at Mar-17 were lower 4 days YoY. Reduced receivable days (31 days, reduced by seven days) offset increase in inventory days (at 53 days, increased by two days), leading to reduced working capital days. Payable days remained firm at 62 days.

Exhibit 5: Cash flow analysis – FY17 (Rs bn)

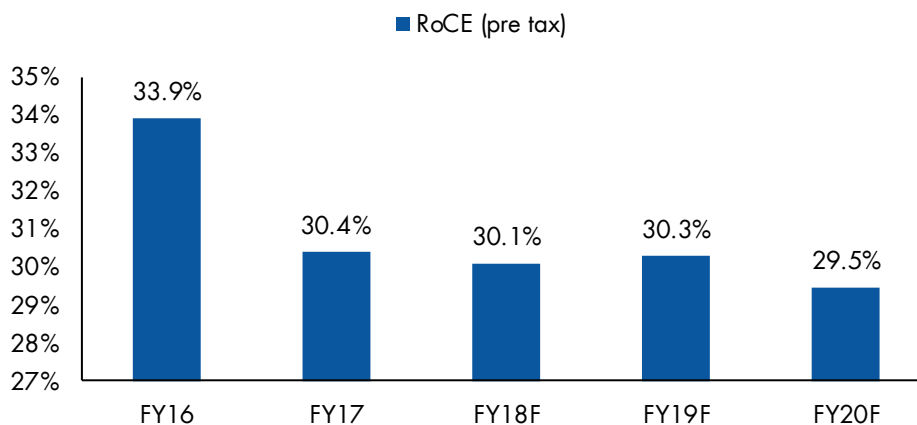


Source: Company, Axis Capital

Higher capex and accumulation of reserve drove RoCE contraction

Given higher capex in FY17, RoCE in FY17 declined 350 bps YoY to 30.4%.

Exhibit 6: RoCE trend



Source: Company, Axis Capital

Managerial remuneration

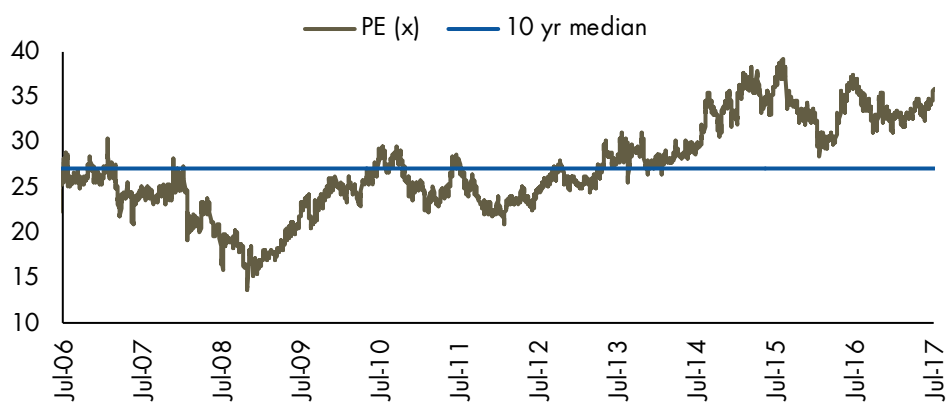
Exhibit 7: Remuneration to key managerial personnel

Name	P. D Narang	Sunil Duggal	Lalit Malik
Designation	Whole-time director	CEO	CFO
FY16	86.0	79.6	15.8
FY17	85.8	86.5	17.1
YoY %	0%	9%	8%

Source: Company, Axis Capital

Valuation

Exhibit 8: 1-year fwd. PE on consensus EPS



Source: Bloomberg, Axis Capital

Financial summary (Consolidated)
Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	84,028	75,922	84,563	94,211
Other operating income	181	214	134	149
Total operating income	84,209	76,136	84,696	94,360
Cost of goods sold	(37,976)	(37,554)	(41,754)	(46,436)
Gross profit	46,233	38,582	42,942	47,924
<i>Gross margin (%)</i>	<i>55.0</i>	<i>50.8</i>	<i>50.8</i>	<i>50.9</i>
Total operating expenses	(31,008)	(23,493)	(26,361)	(29,538)
EBITDA	15,225	15,090	16,581	18,386
<i>EBITDA margin (%)</i>	<i>18.1</i>	<i>19.9</i>	<i>19.6</i>	<i>19.5</i>
Depreciation	(1,338)	(1,429)	(1,575)	(1,695)
EBIT	13,888	13,661	15,006	16,691
Net interest	(480)	(540)	(354)	(139)
Other income	2,138	2,982	3,102	3,327
Profit before tax	15,546	16,103	17,754	19,880
Total taxation	(3,018)	(3,303)	(3,626)	(4,166)
<i>Tax rate (%)</i>	<i>19.4</i>	<i>20.5</i>	<i>20.4</i>	<i>21.0</i>
Profit after tax	12,528	12,800	14,129	15,713
Minorities	(27)	(31)	(34)	(38)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	12,500	12,768	14,094	15,676
<i>Adj. PAT margin (%)</i>	<i>14.9</i>	<i>16.8</i>	<i>16.7</i>	<i>16.6</i>
Net non-recurring items	27	1	-	-
Reported net profit	12,527	12,770	14,094	15,676

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	1,759	1,762	1,762	1,762
Reserves & surplus	39,947	46,712	55,324	64,671
Net worth	41,706	48,474	57,086	66,432
Borrowing	7,922	9,115	2,650	2,650
Other non-current liabilities	882	1,080	983	983
Total liabilities	50,727	58,917	61,019	70,365
Gross fixed assets	25,538	28,427	30,427	32,427
Less: Depreciation	(8,258)	(8,843)	(10,418)	(12,113)
Net fixed assets	17,280	19,584	20,009	20,314
Add: Capital WIP	448	421	200	200
Total fixed assets	17,728	20,005	20,209	20,514
Total Investment	26,433	32,525	29,757	30,757
Inventory	10,965	11,067	12,948	14,453
Debtors	8,092	6,504	7,986	9,051
Cash & bank	2,198	3,048	6,620	13,548
Loans & advances	3,586	3,820	3,793	4,364
Current liabilities	18,596	18,393	20,670	22,738
Net current assets	6,566	6,387	11,053	19,094
Other non-current assets	-	-	-	-
Total assets	50,727	58,917	61,019	70,365

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	15,546	16,103	17,754	19,880
Depreciation & Amortisation	1,338	1,429	1,575	1,695
<i>Chg in working capital</i>	<i>1,078</i>	<i>156</i>	<i>(1,120)</i>	<i>(541)</i>
Cash flow from operations	13,134	10,513	11,481	13,540
<i>Capital expenditure</i>	<i>(2,338)</i>	<i>(598)</i>	<i>(1,779)</i>	<i>(2,000)</i>
Cash flow from investing	(7,869)	(5,161)	4,118	(245)
<i>Equity raised/ (repaid)</i>	<i>3</i>	<i>2</i>	<i>-</i>	<i>-</i>
<i>Debt raised/ (repaid)</i>	<i>(1,566)</i>	<i>1,073</i>	<i>(6,465)</i>	<i>-</i>
<i>Dividend paid</i>	<i>(4,764)</i>	<i>(4,770)</i>	<i>(5,516)</i>	<i>(6,364)</i>
Cash flow from financing	(5,821)	(4,507)	(12,027)	(6,367)
Net chg in cash	(556)	844	3,572	6,928

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	7.1	7.2	8.0	8.9
CEPS (Rs)	7.9	8.1	8.9	9.9
DPS (Rs)	2.2	2.2	2.6	3.0
Dividend payout ratio (%)	31.6	31.0	32.5	33.7
GROWTH				
Net sales (%)	8.1	(9.6)	11.4	11.4
EBITDA (%)	15.3	(0.9)	9.9	10.9
Adj net profit (%)	16.9	2.1	10.4	11.2
FDEPS (%)	16.7	2.0	10.4	11.2
PERFORMANCE				
RoE (%)	33.2	28.3	26.7	25.4
RoCE (%)	33.9	30.4	30.2	30.5
EFFICIENCY				
Asset turnover (x)	3.8	3.5	3.7	3.9
Sales/ total assets (x)	1.3	1.0	1.1	1.1
Working capital/ sales (x)	-	0.1	-	0.1
Receivable days	35.1	31.3	34.5	35.1
Inventory days	58.0	66.2	69.4	69.4
Payable days	70.4	77.9	78.5	76.8
FINANCIAL STABILITY				
Total debt/ equity (x)	0.2	0.2	-	-
Net debt/ equity (x)	(0.5)	(0.6)	(0.6)	(0.7)
Current ratio (x)	1.4	1.3	1.5	1.8
Interest cover (x)	28.9	25.3	42.4	120.5
VALUATION				
PE (x)	42.8	42.0	38.0	34.2
EV/ EBITDA (x)	33.8	33.8	30.3	26.9
EV/ Net sales (x)	6.1	6.7	5.9	5.2
PB (x)	12.8	11.1	9.4	8.1
Dividend yield (%)	0.7	0.7	0.9	1.0
Free cash flow yield (%)	-	-	-	-

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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