

DABUR INDIA

FMCG

HOLD

Target Price: Rs 280

Enters into fruit-based fizzy drinks

Dabur India has launched a premium fruit-based carbonated drink under brand *Dabur VOLO*. *VOLO* will be available in two variants (1) Black currant & grape and (2) Strawberry & cranberry, priced at Rs40 for a 250ml can. Being a premium product it will be available only in premium outlets/modern trade. Parle's *Appy* is the only other product in segment while Coca-Cola and PepsiCo are also looking to participate in segment. Dabur is leader in juices but has <1.5% market share in beverages; any success in fizzy drinks will be positive for the company.

We estimate consolidated sales & EPS CAGR of 13% & 14% over FY16-18 with stable OPM of 18.1%. Valuation at FY18 P/E of 33x is tad expensive given moderate growth. We maintain **HOLD** with a revised TP of Rs 280 (on 29x forward P/E) vs. Rs 270 earlier.

CMP : Rs 308
Potential Upside : -9%

MARKET DATA

No. of Shares : 1,759 mn
Free Float : 32%
Market Cap : Rs 542 bn
52-week High / Low : Rs 320 / Rs 231
Avg. Daily vol. (6mth) : 1.5 mn shares
Bloomberg Code : DABUR IB Equity
Promoters Holding : 68%
FII / DII : 21% / 6%

Launch of *Dabur VOLO*, fruit-based carbonated drink: *Dabur VOLO* (*VOLO* is an acronym for V Only Live Once) is a fruit-based carbonated drink targeted towards the youngster in 16-25 age group. As the product has been launched towards the end of summer, the company is not looking forward to any big bang activity.

Beverage (carbonated drinks, juices and water) is the largest FMCG category, and growing at frenetic pace. Beverages at >Rs500bn is not only the largest FMCG category but also among the fastest growing with volume CAGR of 18% over CY10-15 (see exhibit 4,5,6,7 for data on beverage category). Category growth should continue to be strong while segmentation in the category will only increase. *Dabur VOLO*'s launch is an attempt to innovate and segment the category. We note Dabur launched *Burrst Fizz* in August 2011 which met muted consumer response.

Our take: Dabur's food segment (18% of India sales) has been its fastest growing segment, posting ~19% CAGR over FY08-16. In our view, growth in pure play juice category is slowing down (management recently mentioned that juice category cannot grow at 20% in future and that 15% is more likely); hence, the company is innovating to drive growth.

Financial summary (Consolidated)

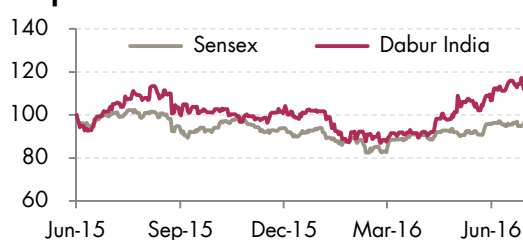
Y/E March	FY15	FY16	FY17E	FY18E
Sales (Rs mn)	77,747	84,359	95,261	107,945
Adj PAT (Rs mn)	10,696	12,526	14,255	16,297
Con. EPS* (Rs)	-	-	8.2	9.4
EPS (Rs)	6.1	7.1	8.2	9.3
Change YOY (%)	16.1	16.9	14.6	14.3
P/E (x)	43.6	43.2	37.7	33.0
RoE (%)	35.6	33.3	31.6	31.0
RoCE (%)	33.8	34.0	35.5	36.9
EV/E (x)	34.5	34.3	29.8	25.8
DPS (Rs)	2.0	2.3	3.5	4.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(%)	FY16	FY17E	FY18E
Dom sales growth	6.1	12.3	12.1
Intl sales growth	13.9	14.2	14.7
Gross margin (consol)	55.2	55.0	54.5
EBITDA margin (consol)	18.0	18.1	18.1

Price performance



Foray into fruit-based carbonated drinks

Dabur India has launched a fruit-based carbonated drink *Dabur VOLO*, which would be available in two variants – (a) Black currant & grape and (b) Strawberry & cranberry.

Premium pricing, focus on premium outlet and modern trade

At present VOLO has only one SKU (250 ml can) priced at Rs 40. Given premium positioning, the product would primarily be available in modern trade and premium outlets across the country. As the product launch has been launched towards the end of summer, the company is not looking to have any big bang activity.

Parle's Appy Fizz is only brand in the segment

In the fruit-based carbonated drink segment, Parle's *Appy Fizz* is the category leader. Coca-Cola is piloting *Fanta Green Mango*, a carbonated beverage with higher fruit content. PepsiCo would also be looking to launch its carbonated juices.

Previous failed attempt

In August 2011, Dabur had test marketed few carbonated juices under *Burst Fizz*, which were recalled as response was muted. The company highlighted that the current product launch is different from its earlier attempt.

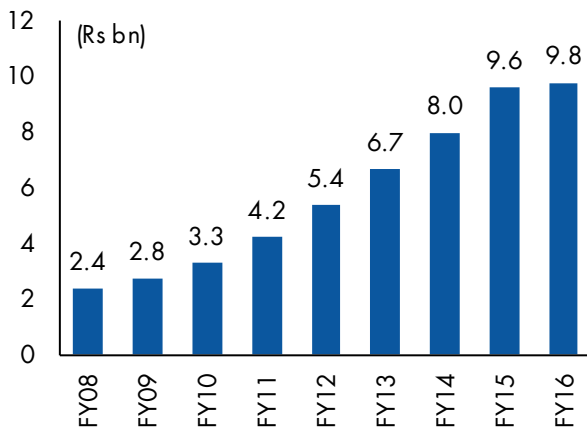
"A segment which was left out of our portfolio was that of youngsters from 16-25 years age. In our primary research, we found out that they are not concerned about health. They want the fun of fizz,"
 - Kumar Mayank, category head, foods, at Dabur India

Exhibit 1: Burst Fizz launch in 2011



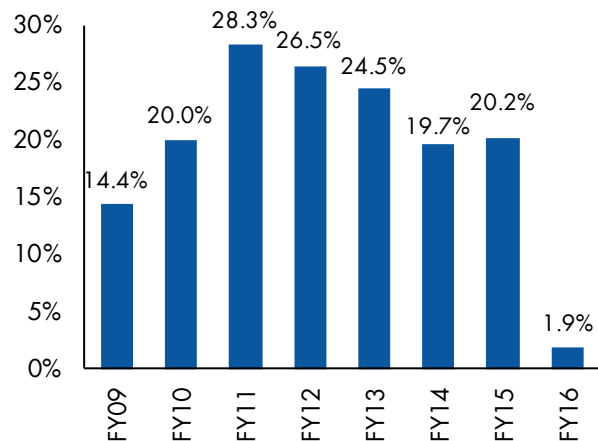
Source: Media

Exhibit 2: Dabur food segment revenue trend



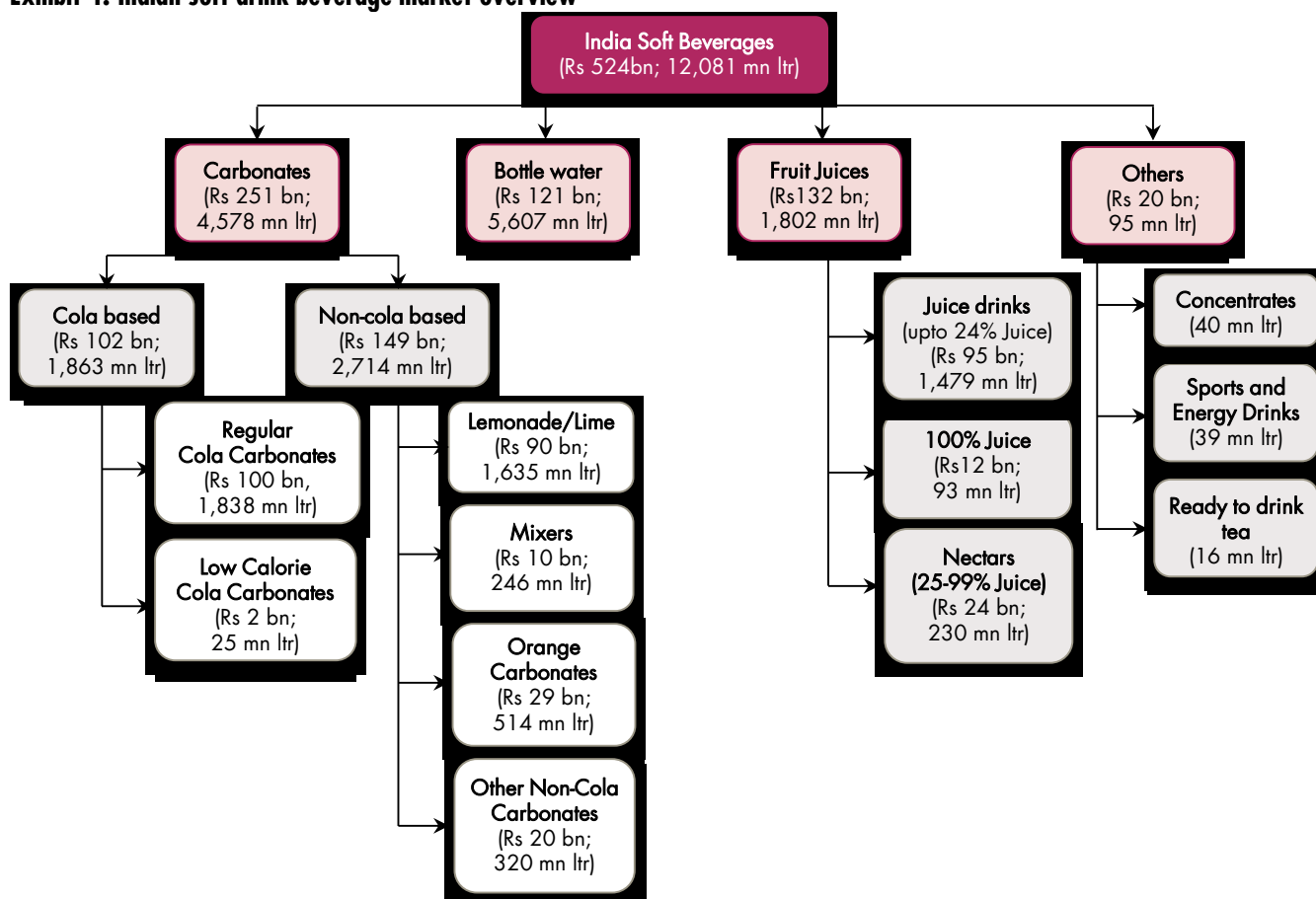
Source: Company, Axis Capital

Exhibit 3: Dabur food segment growth trend



Source: Company, Axis Capital

India soft drink beverage market

Exhibit 4: Indian soft drink beverage market overview


Source: Industry; Axis Capital

Exhibit 5: Soft drink beverage (Carbonated + Juices + Water) market share data for FY15 (by volume)

	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15
Coca-Cola	40.9%	39.6%	38.4%	41.0%	41.1%	39.6%	38.5%	37.1%	35.4%	33.3%
PepsiCo	30.6%	29.5%	28.2%	27.3%	26.7%	26.0%	24.9%	24.1%	23.2%	22.3%
Parle Bisleri Limited	6.5%	8.4%	9.7%	9.8%	9.9%	9.9%	9.9%	10.6%	11.2%	11.8%
Parle Agro Private Limited	5.3%	5.1%	5.1%	4.9%	4.8%	4.7%	4.4%	4.3%	4.5%	4.2%
Dabur India Limited	0.8%	1.0%	1.1%	1.0%	1.0%	1.1%	1.2%	1.3%	1.3%	1.3%
UB Group			0.1%	0.2%	0.4%	0.6%	0.9%	1.0%	1.0%	1.1%
Manikchand Group	0.7%	0.8%	0.9%	0.8%	0.8%	0.7%	0.7%	0.7%	0.8%	0.9%
Tata Global Beverages Limited	0.2%	0.2%	0.3%	0.3%	0.4%	0.4%	0.4%	0.4%	0.5%	0.4%
Narang group			0.1%	0.1%	0.2%	0.2%	0.3%	0.3%	0.3%	0.3%
Others	15.0%	15.4%	16.1%	14.6%	14.7%	16.8%	18.8%	20.2%	21.8%	24.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Source: Industry; Axis Capital

Exhibit 6: Category-wise key player and their market share for CY15 (by volume)

Category	Size (Rs bn)	No 1 player	Market share	No 2 Player	Market share	No 3 Player	Market share
SOFT DRINKS	524	Coca-Cola	33.3%	PepsiCo	22.3%	Parle Bisleri	11.8%
- Bottled water	121	Parle Bisleri	25.3%	Coca-Cola	13.0%	PepsiCo Inc	11.6%
- Carbonates	251	Coca-Cola	58.9%	PepsiCo	33.3%	Parle Agro	0.2%
- Cola carbonates	102	Coca-Cola	61.8%	PepsiCo	34.5%		
- Non-cola carbonates	149	Coca-Cola	59.4%	PepsiCo	33.3%	Parle Agro	0.6%
- Lemonade/Lime	90	Coca-Cola	77.9%	PepsiCo	16.0%		
- Mixers	10	PepsiCo	43.9%	Coca-Cola	36.9%	Dr Pepper Snapple	2.2%
- Orange carbonates	29	PepsiCo	47.7%	Coca-Cola	45.8%		
- Other non-cola carbonates	20	PepsiCo	91.1%	Parle Agro	4.4%		
- Juices	132	Coca-Cola	33.3%	PepsiCo	27.7%	Parle Agro	17.0%
- 100% juice	12	Dabur India	39.8%	PepsiCo	38.3%	Pioneer Food Group	3.6%
- Juice drinks (up to 24% juice)	95	Coca-Cola	36.2%	PepsiCo	23.1%	Parle Agro	17.1%
- Nectars (25-99% juice)	24	Dabur India	49.4%	PepsiCo	26.5%	Parle Agro	8.1%
- Others	20	Coca-Cola	33.3%	PepsiCo	27.7%	Parle Agro	17.0%

Source: Industry; Axis Capital

Exhibit 7: Category-wise key brands and their market for CY15 (by volume)

Category	Size (Rs bn)	No 1 player	Market share	No 2 Player	Market share	No 3 Player	Market share
SOFT DRINKS	524	Bisleri	11.8%	Kinley	6.9%	Sprite	6.8%
Bottled water	121	Bisleri	25.3%	Kinley	13.0%	Aquafina	11.6%
Carbonates	251	Sprite	18.0%	Thums Up	16.0%	Pepsi	12.4%
Cola carbonates	102	Thums Up	41.8%	Pepsi	32.5%	Coca-Cola	21.0%
Non-cola carbonates	149	Sprite	33.3%	Limca	14.9%	Mountain Dew	10.9%
Lemonade/Lime	90	Sprite	54.3%	Limca	24.4%	7-Up	17.3%
Mixers	10	Evervess	40.7%	Kinley	38.7%	Duke's	9.4%
Orange carbonates	29	Mirinda Orange	49.2%	Fanta	47.8%		
Other non-cola carbonates	20	Mountain Dew	92.8%	Appy Fizz	3.7%		
Juices	132	Maaza	28.8%	Slice	19.4%	Frooti	15.5%
100% juice	12	Réal	42.9%	Tropicana	40.0%	Ceres	3.0%
Juice drinks (up to 24% juice)	95	Maaza	35.4%	Slice	23.8%	Frooti	19.0%
Nectars (25-99% juice)	24	Réal	49.4%	Tropicana	28.1%	Appy	12.5%
Sports and Energy Drink	na	Gatorade	46.4%	Red Bull	35.7%	Lucozade	3.3%

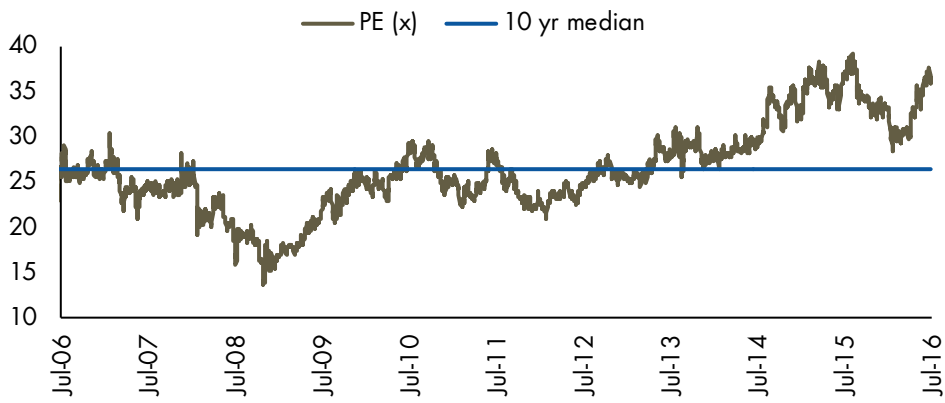
Source: Industry; Axis Capital

Exhibit 8: Category-wise volume (mn liter) and growth (5 and 10 year CAGR) trend

Category	CY06	CY07	CY08	CY09	CY10	CY11	CY12	CY13	CY14	CY15	5Y CAGR	10Y CAGR
SOFT DRINKS	3,073	3,350	3,777	4,536	5,300	6,363	7,589	8,915	10,367	12,081	18%	16%
- Bottled water	833	997	1,247	1,498	1,808	2,343	2,996	3,719	4,557	5,607	25%	24%
- Carbonates	1,886	1,941	2,043	2,432	2,754	3,114	3,486	3,854	4,217	4,578	11%	10%
- Juices	313	368	438	551	678	840	1,035	1,263	1,506	1,802	22%	21%

Source: Industry; Axis Capital

Exhibit 9: 1-year fwd. PE on consensus EPS



Source: Bloomberg, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Net sales	77,747	84,359	95,261	107,945
Other operating income	208	181	199	126
Total operating income	77,955	84,540	95,461	108,071
Cost of goods sold	(37,204)	(37,970)	(43,080)	(49,189)
Gross profit	40,751	46,570	52,381	58,881
<i>Gross margin (%)</i>	<i>52.4</i>	<i>55.2</i>	<i>55.0</i>	<i>54.5</i>
Total operating expenses	(27,549)	(31,372)	(35,186)	(39,370)
EBITDA	13,202	15,198	17,195	19,511
<i>EBITDA margin (%)</i>	<i>17.0</i>	<i>18.0</i>	<i>18.1</i>	<i>18.1</i>
Depreciation	(1,150)	(1,338)	(1,425)	(1,509)
EBIT	12,052	13,860	15,770	18,002
Net interest	(401)	(480)	(284)	(139)
Other income	1,581	2,192	2,452	2,755
Profit before tax	13,232	15,572	17,937	20,619
Total taxation	(2,509)	(3,018)	(3,652)	(4,289)
<i>Tax rate (%)</i>	<i>19.0</i>	<i>19.4</i>	<i>20.4</i>	<i>20.8</i>
Profit after tax	10,723	12,553	14,285	16,330
Minorities	(26)	(27)	(30)	(33)
Profit/ Loss associate co(s)	-	-	-	-
Adjusted net profit	10,696	12,526	14,255	16,297
<i>Adj. PAT margin (%)</i>	<i>13.8</i>	<i>14.8</i>	<i>15.0</i>	<i>15.1</i>
Net non-recurring items	(38)	-	-	-
Reported net profit	10,658	12,526	14,255	16,297

Balance sheet (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Paid-up capital	1,757	1,759	1,747	1,748
Reserves & surplus	31,785	39,842	46,943	54,778
Net worth	33,541	41,601	48,690	56,526
Borrowing	9,608	7,912	2,650	2,650
Other non-current liabilities	587	765	645	645
Total liabilities	61,063	71,205	74,987	88,224
Gross fixed assets	25,409	27,723	29,423	31,423
Less: Depreciation	(6,638)	(7,976)	(9,401)	(10,910)
Net fixed assets	18,771	19,747	20,022	20,513
Add: Capital WIP	503	200	200	200
Total fixed assets	19,274	19,947	20,222	20,713
Total Investment	18,134	25,239	24,269	25,269
Inventory	9,733	10,965	14,032	14,283
Debtors	7,108	8,097	8,037	10,288
Cash & bank	2,760	2,204	3,057	11,524
Loans & advances	2,996	3,560	4,042	4,671
Current liabilities	17,144	20,710	22,703	28,104
Net current assets	6,511	5,310	7,794	14,139
Other non-current assets	-	-	-	-
Total assets	61,063	71,205	74,987	88,224

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY15	FY16	FY17E	FY18E
Profit before tax	13,232	15,572	17,937	20,619
Depreciation & Amortisation	(1,150)	(1,338)	(1,425)	(1,509)
<i>Chg in working capital</i>	<i>514</i>	<i>1,209</i>	<i>(1,149)</i>	<i>2,749</i>
Cash flow from operations	9,835	12,908	12,110	17,832
<i>Capital expenditure</i>	<i>(1,567)</i>	<i>(2,011)</i>	<i>(1,700)</i>	<i>(2,000)</i>
Cash flow from investing	(8,786)	(7,488)	1,239	(872)
<i>Equity raised/ (repaid)</i>	<i>13</i>	<i>3</i>	<i>(12)</i>	<i>1</i>
<i>Debt raised/ (repaid)</i>	<i>97</i>	<i>(1,697)</i>	<i>(5,262)</i>	<i>-</i>
<i>Dividend paid</i>	<i>(4,154)</i>	<i>(4,631)</i>	<i>(7,154)</i>	<i>(8,181)</i>
Cash flow from financing	(3,482)	(5,977)	(12,495)	(8,494)
Net chg in cash	(2,433)	(557)	854	8,466

Key ratios

Y/E March	FY15	FY16	FY17E	FY18E
OPERATIONAL				
FDEPS (Rs)	6.1	7.1	8.2	9.3
CEPS (Rs)	6.7	7.9	9.0	10.2
DPS (Rs)	2.0	2.3	3.5	4.0
Dividend payout ratio (%)	33.0	31.6	42.9	42.9
GROWTH				
Net sales (%)	10.5	8.5	12.9	13.3
EBITDA (%)	13.9	15.1	13.1	13.5
Adj net profit (%)	16.9	17.1	13.8	14.3
FDEPS (%)	16.1	16.9	14.6	14.3
PERFORMANCE				
RoE (%)	35.6	33.3	31.6	31.0
RoCE (%)	33.8	34.0	35.5	36.9
EFFICIENCY				
Asset turnover (x)	3.6	3.8	4.1	4.6
Sales/ total assets (x)	1.4	1.3	1.3	1.3
Working capital/ sales (x)	-	-	-	-
Receivable days	33.4	35.0	30.8	34.8
Inventory days	54.9	57.7	65.4	58.9
Payable days	61.8	70.0	58.7	68.7
FINANCIAL STABILITY				
Total debt/ equity (x)	0.3	0.2	0.1	0.1
Net debt/ equity (x)	(0.4)	(0.5)	(0.5)	(0.6)
Current ratio (x)	1.4	1.3	1.3	1.5
Interest cover (x)	30.0	28.9	55.5	130.0
VALUATION				
PE (x)	43.6	43.2	37.7	33.0
EV/ EBITDA (x)	34.5	34.3	29.8	25.8
EV/ Net sales (x)	5.9	6.2	5.4	4.7
PB (x)	13.9	13.0	11.0	9.5
Dividend yield (%)	0.8	0.7	1.1	1.3
Free cash flow yield (%)	1.8	2.0	1.9	2.9

Source: Company, Axis Capital

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