

13th November, 2017

CMP – ₹341.85/-

View – Positive

Company Background and Business Model

Dabur India is one of the leading Indian consumer goods company with presence across Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. It is the world's largest Ayurvedic and Natural Health Care Company with a portfolio of over 250 Herbal and Ayurvedic products. Dabur's positioning on the 'health and wellness' platform, backed by its ayurvedic, natural and herbal has created a niche for its product offerings. Its portfolio includes 5 flagship brands - Dabur as the master brand for natural healthcare products, Vatika for premium personal care, Hajmola for digestives, Real for fruit juices & beverages and Fem for fairness bleaches & skin care products. It has a wide distribution network, covering over 6 million retail outlets in urban and rural markets. Dabur now markets its vast line of products in over 120 countries, through 30 states of the art manufacturing units, 10 out of which are located outside India. Dabur's overseas revenue today accounts for over 30% of the total turnover.

Investment Argument

- **Quarter 2 results indicative of volume revival** – Dabur reported better than expected numbers for Q2FY18. While consolidated comparable revenue growth was at 8% yoy ₹1960 crs, standalone business reported 10.7% yoy on a comparable basis. EBITDA was up 2.7% yoy to ₹420 crs and APAT was up 1.3% yoy to ₹360 crs. Domestic FMCG business registered volume growth of 7.2%. International business reported 3.9% constant currency (CC) growth despite of macro headwinds. Growth was driven by a smart growth in the rural markets which clocked double digit growth while urban wholesale channel declined.
- **Rural India a key Growth driver** – This quarter rural growth at 11% has been marginally ahead of urban growth at 10%. Rural India demand has been on the back burner in the past on account of one-time factor such as bumper crop in 2016 which lead to depression in prices; temporary factors such as destocking on account of GST and demonetization; and more permanent factors like food distribution reforms. We believe as food price inflation makes its head seen again the terms of trade will turn favorable for the rural markets. The management indicated its target of reducing dependence on wholesale segment which has still not completely recovered after disruptive events like demonetization and GST-related destocking. DIL is focusing on the super sub-stockiest model which is rural-centric in order to reduce dependence on wholesale segment, and it has employed around 700 workers. DIL has tied up with Amazon to take its products global. Under this collaboration, Amazon will help DIL to take around 30 products from its popular range such as Vatika hair oil, Meswak toothpaste, Red toothpaste, Chyawanprash etc. to consumers in the US.
- **Basking in the glory of Ayurveda and gearing for new launches** – With the emergence of players such as Patanjali, a company co-founded by Baba Ramdev which has promoted Ayurvedic products aggressively, the naturals space has grown today, constituting 41 per cent of the \$9.2-billion domestic personal care market. Market research agency Nielsen says that naturals as a category is growing 2.2 times faster than the non-naturals segment within personal care and could constitute half of the personal care market in the next few years. Non-naturals, on the other hand, will shrink from 59 per cent now to 50 per cent in the next few years. Dabur has been a key beneficiary of this rising wave, as majority of their portfolio is of Ayurveda origin.

Important Statistics (₹crs)

M.Cap	60217
52 Week H/L (₹)	361/259
NSE Code	DABUR
BSE Code	500096

Financials

	(₹crs)	
	FY16	FY17
Sales	7868.8	7701.4
EBITDA	1518.67	1509
EBITDA Margin	19.3%	19.6%
Reported PAT	1251	1277
PAT Margin (%)	15.9%	16.6%
EPS (₹)	7.12	7.25
Book Value	23.80	27.66
ROE	29.84%	26.2%

Segment Wise	FY17	FY16
Sales		
Consumer Care Business	6329	6626
Food Business	1114	976
Retail Business	123	116
Other Segment	114	133

EBIT & Margins	FY17	FY16
Consumer Care Business	1537	1582
	24.3%	23.9%
Food Business	154	157
	13.8%	16.1%
Retail Business	-1.04	-0.85
	-0.8%	-0.7%
Other Segment	4.52	2.91
	4.0%	2.2%

	Q2FY18	Q2FY17
Sales	1958.9	1981.6
EBITDA	419.9	408.67
EBITDA Margin	21.4%	20.6%
Reported PAT	362.67	358.35
PAT Margin (%)	18.5%	18.1%
EPS (₹)	2.05	2.03

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- **International business finds its footing** – DIL reported constant-currency growth of 3.6% in international business. Countries like Egypt, Nigeria and Turkey reported stellar growth on constant currency basis, but because of their massive currency depreciation, growth in Indian rupee or INR terms was low/negative. GCC markets remained under pressure, thereby registering a decline on constant-currency basis. However, the management has given better guidance going forward as it expects thing to stabilize in the coming quarters. Also, the recent increase in crude oil prices could help the countries in MENA region to some extent.

Segment Wise	Q2FY18	Q2FY17
Sales		
Consumer Care Business	1615	1648
Food Business	282.82	269.72
Retail Business	26.49	28.43
OtherSegment	30.93	29.2
EBIT & Margins		
Consumer Care Business	26.5%	25.4%
Food Business	15.2%	14.8%
Retail Business	2.4%	-2.9%
OtherSegment	3.1%	5.3%

Valuations

At its CMP of ₹ 341.85/-, the stock trades at ~47.5x its TTM earnings of ₹7.2/-. While the management is cautiously optimistic they did voice a positive tone that the worst is behind now. The company aims to garner higher market share in the quarters to come. The company has turned aggressive with new product launches. The company has a wide product basket, along with a balanced mix of both urban and rural markets. A meaningful improvement in consumer off take is a positive, and could reflect in Dabur's performance in the coming quarters. Growth has been much higher than expected in Q2 with a lower base effect in the coming H2 we believe Dabur will continue to its growth trajectory in the near term and are hence *POSITIVE* on the stock.

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Disclosure of Interest Statement in Dabur (India) Ltd. as on November 13th, 2017

Name of the Security	Dabur (India) Ltd.
Name of the analyst	Shivani Vivek Vishwanathan
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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Broking relationship with company covered	NIL
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