

## Dabur India Ltd

Analyst Recommendation: **BUY**

BSE Code: 500096      NSE: DABUR      Reuters Code: DABU.NS      Bloomberg Code: DABUR:IN

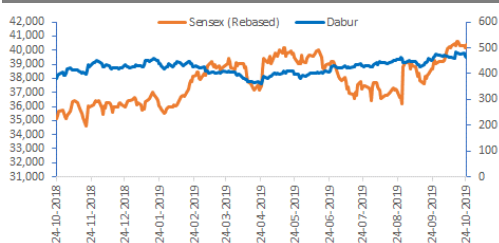
**CMP: Rs 464**  
**2 Year Target - Rs 535**

Face Value	1.0
Market Cap (Rs cr)	81,956
52 week high/low	487.7/357.5
Beta	0.8
Shares O/S (Cr)	176.7
Book Value per Share (Rs)	31.9
Sensex	40,445
Nifty	11,922

### Investor's Rationale

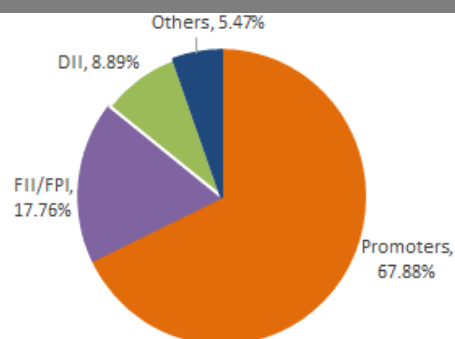
- **Focus on growth and innovation:** Last two to three years witnessed muted new launches for the company. Easing competitive intensity & normalized channels have paved path for new launches. In Q2FY20, the company launched Dabur Amla kids hair oil & shampoo, Dabur Dadimavaleha (in ethicals). Dabur has focus on its eight premium brands which form more than half of the domestic revenue for the company: Chyawanprash, Honey, Lal Tail, Honitus, Pudina Hara, Red Paste, Amla and Real juice. These brands are witnessing heightened focus from the company and increased brand investments, which would help drive market share gains/category penetration-led growth. Dabur aims to drive innovation in these power brands with the launch of premium products and access packs for rural consumers.
- **Healthcare segment: Main driving force:** The healthcare business drove growth in the India business with sales growing at 14.4% YoY while rest of the categories grew in mid-single digits. The segment witnessed robust growth of 11.1% growth on account of increased focus of the management. The juices & nectar category saw a sharper slowdown compared to other categories, which impacted the domestic performance for the quarter. Excluding the food business, domestic FMCG business grew 6.8% in value and 7.4% in volume terms. Dabur's sales in the rural regions outpaced urban (6% growth vs 3%) mostly led by decline in juices category which is an urban centric segment (~80% of juice consumption happens in urban areas) and also as its direct reach to the hinterlands has increased.
- **Image overhaul through consumer initiatives for healthcare:** Dabur has been constantly undertaking efforts towards transforming its brand image by holding various health camps, plantation events, fitness marathons and other digital campaigns. This is helping create a niche in the domestic market as well as helping increase its reach.

### 1 yr. Price Chart of Stock and BSE



**Valuation:** Given Dabur's focus on product inventions and new product launches in the coming months. The company aims to increase direct reach (up by 40,000 to 1.18 million outlets) and deeper penetration into villages (increase by 3,000 villages to 51,000), would yield results in the foreseeable future. We value Dabur India Ltd at 48x FY22E EPS, with a target price of Rs 535 representing a potential upside of 15.5% from CMP.

### Shareholding pattern as on 30<sup>th</sup> June 2019



	FY19	FY20E	FY21E	FY22E
Revenue (Rs.Cr)	8,515.0	9,281.4	10,116.7	10,976.6
EBITDA (Rs. cr)	1,740.0	1,949.1	2,159.9	2,343.5
Adj. profit (Rs.Cr)	1,445.0	1,625.8	1,807.7	1,971.3
Adj. EPS (Rs.)	8.2	9.2	10.2	11.1
P/E (x)	56.8	50.5	45.4	41.6
P/BV (x)	14.6	13.9	13.0	11.9
EV/EBITDA (x)	42.8	40.3	36.1	32.7
ROE (%)	23.8	25.5	28.2	29.7
ROCE (%)	27.6	29.7	33.0	34.5

## Domestic Business continues to face problems

Dabur India's domestic business growth stood at 4.9% YoY, led by a 4.8% YoY underlying volume growth, which was slightly ahead of our estimate. Growth was broad based and across categories except Foods category. Hair care, Health supplements, Oral care, Digestives, Home care and Otc & ethicals grew 2.6%, 14.4%, 4.4%, 10.2%, 7% and 6.3%, respectively. While Foods business declined 5% during the quarter which suffered on account of sharper slowdown in the juices category. The business was also affected by lockdown of J&K (where the brand has very high market share) and floods in some states.

## Healthcare (HC) – Q2 FY20

	Health Supplements	Digestives	OTC	Ethicals
Growth %	14.4%	10.2%	4.2%	7.2%
Category Highlights	<ul style="list-style-type: none"> <li>Recorded strong growth on the back of double-digit growth in Chyawanprash and Glucose</li> <li>Dabur's market share increased in both Chyawanprash and Glucose categories</li> </ul>	<ul style="list-style-type: none"> <li>Driven by continued strong performance of Hajmola tablets</li> <li>Hajmola ChatCola continues to gain traction</li> </ul>	<ul style="list-style-type: none"> <li>OTC was relatively muted</li> <li>Strong growth in Honitus and Badam Tail</li> </ul>	<ul style="list-style-type: none"> <li>Driven by robust growth across product categories driven by medico-marketing, distribution expansion and activations</li> </ul>

## Foods – Q2 FY20

	Foods
Growth %	(5.0%)
Category Highlights	<ul style="list-style-type: none"> <li>As per Nielsen, J&amp;N category declined by 7.2% (in volume) in Q2 due to downtrading to lower price alternatives</li> <li>Market share of Real Fruit Juices went up to 60.5% - gain of 420 bps</li> <li>Real ORS &amp; Real Koolerz Mango being rolled out nationally</li> <li>Culinary business under Hommade brand reported strong double-digit growth</li> </ul>

## Home & Personal Care (HPC) – Q2 FY20

	Shampoo & Post Wash	Hair Oils	Oral Care	Home Care	Skin & Salon
Growth %	12.0%	2.6%	4.4%	7.0%	1.0%
Category Highlights	<ul style="list-style-type: none"> <li>Driven by strong growth in Vatika shampoo bottle portfolio</li> <li>Market share in shampoo category increased by 65 bps</li> </ul>	<ul style="list-style-type: none"> <li>Category seeing a sharp slowdown</li> <li>Market share in hair oil category increased by ~30 bps</li> </ul>	<ul style="list-style-type: none"> <li>Category impacted by slowdown</li> <li>Red Toothpaste Franchise continued its growth momentum with RTP growing by 9.5%</li> <li>Market share improved by 66 bps</li> </ul>	<ul style="list-style-type: none"> <li>Driven by strong growth in Odomos</li> <li>Odonil and Sanifresh were flattish in this quarter</li> <li>Entire Odonil Range revamped with contemporary packaging</li> </ul>	<ul style="list-style-type: none"> <li>Skin Care was relatively muted on account of consumption slowdown and high base of last year</li> </ul>

**International Business has been growing steadily**

- Benign commodity and favourable mix led to improvement in YoY margins during the quarter in the international business.
- Nepal: Vehicle and consignment tracking system (VCTS) impacted the business, it is a kind of e-way bill. Region limping back to normalcy, October was good. Nepal saw good sales in Oct'19 and should recover soon (70% business in Nepal is Juice business). Excl. Nepal, growth in international business was 8.5%.
- Infiltration of stocks from West Bengal (due to difference in offers) impacted Bangladesh business.
- International business – Current growth rate of mid-to-high-single-digit is sustainable – GCC, Nigeria, Pakistan, and Egypt are bright spots.

**New launches in this quarter**

- Real Juices in UAE, Japan and Bahrain.
- Vatika Hair Wax.
- ORS Olive Oil Fix-It Range.
- Vatika Hair Food.
- Real ORS and Real Koolerz Mango were rolled out nationally.

**Revenue growth on track with volume growth to usher in later**

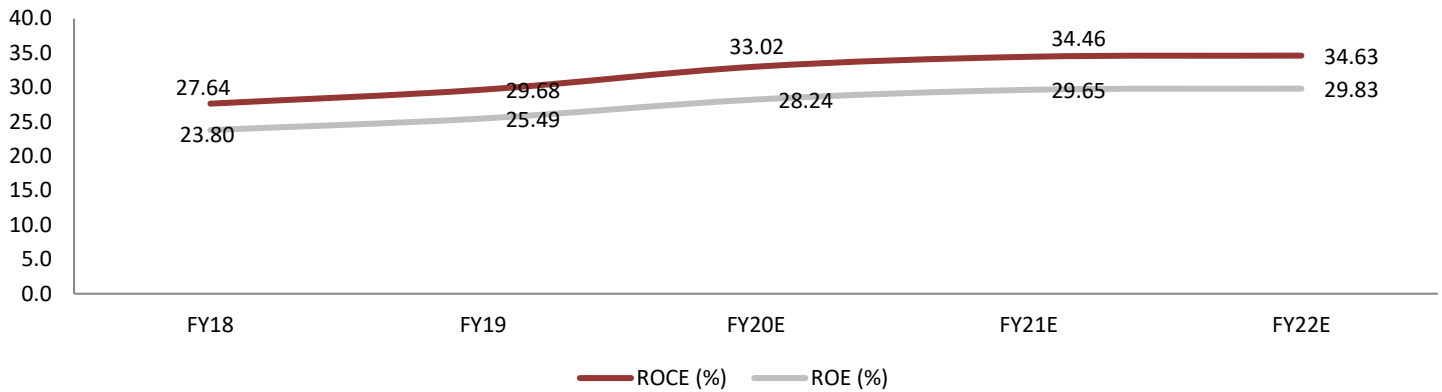
Dabur India reported consolidated sales growth of 4.1%. Domestic sales grew 4.9% led by 4.8% volume growth. International business increased 3.2% in constant currency terms. The management has guided for mid to high single digit volume growth for FY20E, maintaining its operating margin at 20% for the year.

**Major Highlights for the quarter Q1FY20**

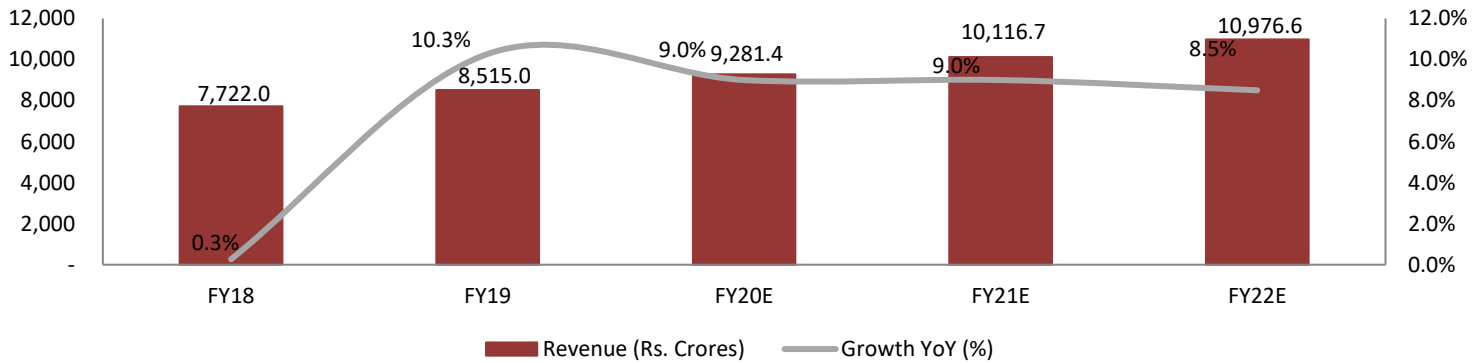
- Dabur is in the process of revamping the Babool brand through ayurvedic proposition (starting with North India, gradually will scale up at pan-India level). Naturals oral care category (which is 30% of toothpastes) is growing at 10%. Remaining 70% of the category is declining.
- Domestic business is facing heavy headwinds in the form of sustained slowdown in demand and aggravated liquidity crunch in the market. The long and protracted slowdown in the rural market is on account of (a) liquidity crunch, (b) income with consumers that has declined, (c) impact due to demonetization and GST implementation, and (d) lack of new investments.
- The management indicated that inflation in raw material prices is benign and expects the margin outlook to remain positive. However, it plans to plough back the benefit by stepping up its A&P spends.
- The company has increased direct reach by 3,000 to 51,000 villages during the quarter. The direct reach is now at 1.18 million outlets.
- The management has guided for 17.5% effective tax rate for FY20E & FY21E, respectively, for the India business.
- Operating margin improved by 91 bps. Volume growth was 4.8%, however, Ex-foods the volume growth stood at 7.4%. Material cost reduced by 142 bps to touch 49.2% in Q2 FY20. Media expenditure was at 6.5% in Q2 FY20 vs 6.3% in Q2 FY19. Adpro increased by 8.0%. The consolidated operating margin reached 22.1% in Q2 FY20.

## Return ratios to expand as the company grows ahead

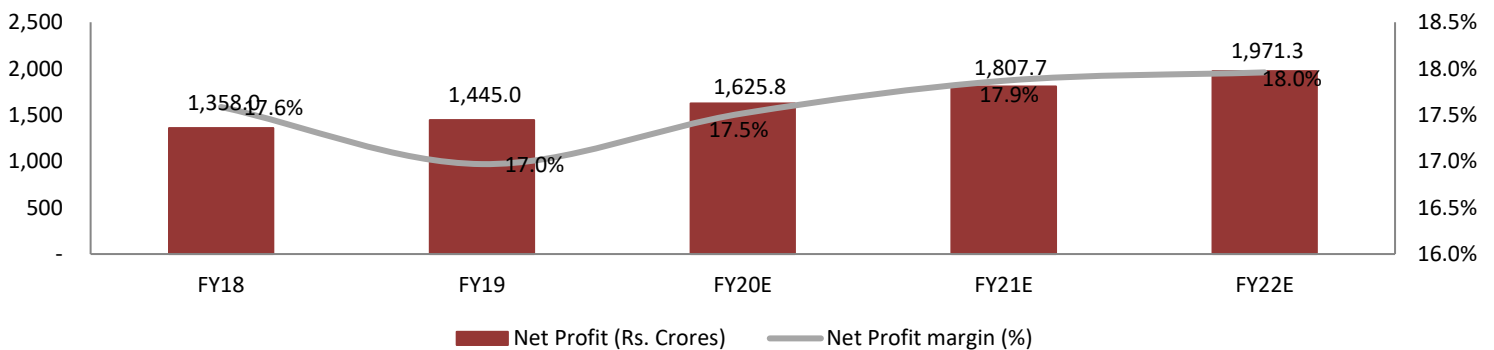
Higher growth with expansion into newer categories will lead to expansion of return ratios. We expect the ROCE and ROE of the company to go up with higher volume growth from 29.7% and 25.5% in FY 19 to 34.6% and 29.8% in FY22 respectively.



## Revenue growth to be steady



## Net profit to surge going ahead



## Outlook and Valuation

We have a BUY rating on Dabur India Ltd, given its strong balance sheet and volume projections based on its dynamic product introduction are set to cement its position in the domestic markets and grow its presence in International markets as well. Its increasing penetration and direct reach is bound to reap rewards in the future. We value Dabur India Ltd at 48x FY22E EPS, with a target price of Rs 535 representing a potential upside of 15.5% from CMP.

## Dabur India Ltd - Company Overview

Dabur is a 135-year-old ayurvedic company, promoted by the Burman family, started operating in 1884 as an Ayurvedic medicines company. From its humble beginnings in the bylanes of Calcutta, Dabur India Ltd has come a long way today to become one of the biggest Indian-owned consumer goods companies with the largest herbal and natural product portfolio in the world. Overall, Dabur has successfully transformed itself from being a family-run business to become a professionally managed enterprise. What sets Dabur apart from the crowd is its ability to change ahead of others and to always set new standards in corporate governance & innovation. Dabur today operates in key consumer product categories like Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. The ayurvedic company has a wide distribution network, covering 6.7 million retail outlets with a high penetration in both urban and rural markets. Dabur's products also have huge presence in the overseas markets and are today available in over 100 countries across the globe.

## Diversified product portfolio with revenues spread across each vertical

	Category	Key Brands	Revenue Contribution (FY19)	FY19 Growth	H1 FY20 Growth
Healthcare (32.3%)	Health Supplements		17.6%	14.6%	16.7%
	Digestives		5.9%	16.4%	14.2%
	OTC & Ethicals		8.9%	13.7%	9.6%
HPC (50.6%)	Hair Care		21.6%	14.8%	8.0%
	Oral Care		16.8%	9.5%	7.8%
	Home Care		6.9%	13.0%	8.7%
	Skin Care		5.3%	17.2%	6.6%
Foods (17.1%)	Foods		17.1%	8.1%	(1.5%)

Source: Company, In-house research

## Key Risks

- Rising input cost
- Weak consumer demand in rural areas
- Food segment may drag growth

## Balance sheet (Consolidated)

(Rs crore)	FY19	FY20E	FY21E	FY22E
<b>Liabilities</b>				
Paid up capital	177	177	177	177
Reserves and Surplus	5380	5629	6060	6654
<b>Net worth</b>	<b>5557</b>	<b>5805</b>	<b>6236</b>	<b>6830</b>
Minority interest	31	35	39	43
Total Debt	523	623	683	748
Other non-current liabilities	140	156	177	202
<b>Total Liabilities</b>	<b>6251</b>	<b>6620</b>	<b>7135</b>	<b>7825</b>
<b>Assets</b>				
Total fixed assets	1917	1853	1745	1604
Capital WIP	64	73	81	121
Goodwill	-	-	-	-
Investments	725	740	755	792
Net Current assets	699	860	722	893
Deferred tax assets (Net)	-23	-58	-87	-130
Other non-current assets	2,870	3,152	3,919	4,545
<b>Total Assets</b>	<b>6251</b>	<b>6620</b>	<b>7135</b>	<b>7825</b>

## Profit & Loss Account (Consolidated)

(Rs crore)	FY19	FY20E	FY21E	FY22E
<b>Total operating Income</b>	<b>8515</b>	<b>9281</b>	<b>10117</b>	<b>10977</b>
Raw Material cost	3081	3318	3617	3924
Employee cost	938	1002	1082	1174
Other operating expenses	2756	3012	3258	3534
<b>EBITDA</b>	<b>1740</b>	<b>1949</b>	<b>2160</b>	<b>2344</b>
Depreciation	177	184	188	191
<b>EBIT</b>	<b>1563</b>	<b>1765</b>	<b>1972</b>	<b>2152</b>
Interest cost	60	58	66	72
Other Income	296	325	354	384
<b>Profit before tax</b>	<b>1799</b>	<b>2032</b>	<b>2260</b>	<b>2464</b>
Tax	279	406	452	493
<b>Profit after tax</b>	<b>1520</b>	<b>1626</b>	<b>1808</b>	<b>1971</b>
Minority Interests	-4	-4	-4	-4
P/L from Associates	1	1	1	1
<b>Adjusted PAT</b>	<b>1517</b>	<b>1623</b>	<b>1805</b>	<b>1968</b>

## Cash Flow (Consolidated)

Y.E March (Rs crore)	FY19	FY20E	FY21E	FY22E
<b>Pretax profit</b>	<b>1724</b>	<b>2032</b>	<b>2260</b>	<b>2464</b>
Depreciation	177	184	188	191
Chg in Working Capital	379	-257	-729	-531
Others	-186	58	66	72
Tax paid	-279	-406	-452	-493
<b>Cash flow from operating activities</b>	<b>1815</b>	<b>1610</b>	<b>1333</b>	<b>1704</b>
Capital expenditure	-117	-130	-87	-90
Chg in investments	-85	-19	-20	-91
Other investing cashflow	0	0	0	0
<b>Cash flow from investing activities</b>	<b>-202</b>	<b>-149</b>	<b>-107</b>	<b>-182</b>
Equity raised/(repaid)	0	0	0	0
Debt raised/(repaid)	-141	100	60	66
Dividend paid	0	0	0	0
Other financing activities	-1450	-1431	-1439	-1445
<b>Cash flow from financing activities</b>	<b>-1591</b>	<b>-1331</b>	<b>-1379</b>	<b>-1380</b>
<b>Net chg in cash</b>	<b>22</b>	<b>130</b>	<b>-154</b>	<b>143</b>

## Key Ratios & Valuations (Consolidated)

Y.E. March	FY19	FY20E	FY21E	FY22E
<b>Growth (%)</b>				
Net Sales	10.3	9.0	9.0	8.5
EBITDA	7.5	12.0	10.8	8.5
Net profit	6.4	12.5	11.2	9.0
<b>Margin (%)</b>				
EBITDA	23.9	24.5	24.9	24.9
NPM	17.0	17.5	17.9	18.0
<b>Return Ratios (%)</b>				
RoE	23.8	25.5	28.2	29.7
RoCE	27.6	29.7	33.0	34.5
<b>Per share data (Rs.)</b>				
EPS	8.2	9.2	10.2	11.1
DPS	6.3	7.5	9.0	11.0
<b>Valuation(x)</b>				
P/E	56.8	50.5	45.4	41.6
EV/EBITDA	42.8	40.3	36.1	32.7
EV/Net Sales	10.7	9.6	8.8	8.1
P/B	14.6	13.9	13.0	11.9
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	2.8	2.9	3.1	3.3
Sales/Total Assets	2.4	2.2	2.3	2.2



Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Between 10% & -5%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than -5%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

*\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



**Member:** BSE, NSE, MCX, MCX-SX, CDSL

**Reg. office:** PG-4, Rotunda Bldg, Bombay Samachar Marg, Fort, Mumbai - 400001, Maharashtra, India

**Corp Office:** 24/26 Cama Bldg, 3rd Floor, Dalal Street, Fort Mumbai - 400001, Maharashtra India

**Tel:** 91-22-67378001 **Fax:** 91-22-22646410

**Dealing:** 91-22-67378011 **Institutional Dealing:** 91-22-6737833

**Email:** [research@mjpgdirect.com](mailto:research@mjpgdirect.com) **Website:** [www.mjpgdirect.com](http://www.mjpgdirect.com)

**Registration Number:** SEBI- INZ000218338

**Disclaimer:**

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. M J Patel Share & Stock Brokers Ltd. its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within. Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. M J Patel Share & Stock Brokers Ltd. or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. M J Patel Share & Stock Brokers Ltd. has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While M J Patel Share & Stock Brokers Ltd. endeavours to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly. M J Patel Share & Stock Brokers Ltd. and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

This document disclaims any warranty of any kind imputed by the laws of any jurisdiction, whether express or implied, as to any matter what so ever relating to the service, including without limitation the implied warranties of merchantability, fitness for a particular purpose and non-infringement. Any disputes are subject to the jurisdiction only of the Courts of Republic of India at Mumbai.

M J Patel Share & Stock Brokers Ltd shall not be liable for any misrepresentation, falsification and deception or for any lack of availability of services through website even if the same is advertised on the website.

Neither M J Patel Share & Stock Brokers Ltd. nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.