

# FUNDAMENTAL COVERAGE

## DABUR INDIA LIMITED



BUY | CMP 402 | TARGET 495 | POTENTIAL UPSIDE 23%

02 APRIL 2019

### Stock Data

M.Cap (₹ in cr)	71058
Equity (₹ in cr)	176.63
52 wk H/L ₹	490.7/327
Face Value ₹	1.00
Div. Yield	0.30%
NSE Code	DABUR
BSE Code	500096

### LEAD RATIONALE

Dabur is one of the largest Ayurvedic & natural health care company having wide distribution network, covering 6.3 million retail outlets, next only to HUL's 7 million retail outlets. Though HUL's direct reach stands at 3.5 million outlets, Dabur's direct reach is only at 1 million outlets, which makes immense room to shift dependency from wholesale to direct distribution. Looking ahead, by 2020, Dabur targets Ayurvedic products to constitute more than 75% of its sales in India, from around 60% now. **As consumption of Ayurvedic Products is increasing, Dabur remains in a sweet spot to capitalize upon owing to one of the few companies with a big brand name in this particular segment.**

### Valuation Data

P/E	48.47
EV/EBITDA	34.77
P/BV	10.44
RONW(%)	22%

As part of its mission to transform the traditional knowledge of Ayurveda into a contemporary healthcare option, Dabur announced the launch of a breakthrough product **Dabur GlycoDab Tablets** (AYUSH 82). In line with its focus on Ayurvedic medicinal products company launched 3 new products in its branded ethical portfolio i.e. **Agnisandeeepam Churna, Dadimavaleha, and Vasant Meha Ras**. In addition, strengthening its presence in the Shampoo market, company relaunched the **Vatika Shampoo** range with **Satt Poshan**. Also, it unveiled a new and improved **Vatika Enriched Coconut Hair Oil** packed with the power of seven Ayurvedic herbs that help rejuvenate scalp and reduce hair fall .

### Index Detail

Sensex	39056.65
Nifty	11713.20
Index	S&P BSE 100

Moreover, company plans to launch various new products across categories like **Juices, Home care, Toothpastes etc in FY 20**, which would bring the company into another level of growth. Further, management remains optimistic of recovery in international business by H2 FY20 and sustained growth in domestic business.

**MSP for farmers and normal monsoon prediction in the year ahead would turn out to be fruitful for the FMCG sector. Hence, we expect FMCG sector to perform this year owing to increase in consumption and rural boost by the government in budget 2019. This is expected to support higher domestic volumes for the company in next few years.**

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**Focus on core portfolio - Innovation supported by strong execution- Grasp market share gains**

Company has a robust product portfolio catering to different segments. It has three brands (**Real, Vatika, Amla**) that deliver turnover of ₹1,000 crore plus & **16 brands crossed turnover of ₹100 crore level adding to Dabur Anmol Coconut Oil** which joining this coveted list during this year. Further, year also saw flagship toothpaste brand **Dabur Red Paste** cross ₹ 500 crore turnover mark, **making it the fourth Dabur brand to reach this mark after Dabur Amla, Vatika and Real.**

Apart from core brands, management has sharpened focus on accelerating growth of brands like **Dabur Lal Tail, Pudín Hara, Honitus**, each with a potential to **become an ₹100 crore plus brand in next 3-4 years.** Looking ahead, **Dabur's strategy of gaining overall market leadership entails strengthening ayurvedic offerings, regionalization, targeting products for Gen Y & Z, premiumisation and deepening distribution.**

**Healthy Financial Position- Stable EBITDA Margins - Bodes well**

Company has faced a lot of headwinds from past 2-3 years like **Patanjali capturing market share, changes in government policies (implementation of GST, demonetization), slowdown in rural demand etc.** Despite these headwinds, company has been able to improve its margins from 16% in FY13 to 21% in FY18, which **would likely to give company huge benefit going forward in times of strong demand environment.**

Moreover, consistent revenue growth, steady profitability and cash generation, robust capital structure, comfortable net worth, strong debt protection metrics, and ample liquidity, **will have a dual positive impact on its profitability in years ahead.** Although the company grew at a slower pace in fiscal 2018, operating profitability improved by 130 bps to 20.9% due to favorable product mix and lower promotional cost. Looking Ahead, **Revenue is expected to grow at a compound CAGR of 8-9% between FY 19-21, driven by expected increase in rural demand, more new product launches, and improving distribution reach, while the operating margin is expected to sustain at 15-20% considering increase in promotional cost and slight increase in the input cost.**

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### An Eye on Quarterly numbers

On numbers front, Domestic FMCG business recorded value growth of 15.2% led by volume growth of 12.4% during the quarter. While, International business reported 3.4% growth with constant currency growth of around 1%, impacted by continued under performance of MENA markets and adverse currency movement. Moreover, growth **momentum is expected to continue in the domestic business; however, headwinds in the international market may drag overall performance.** On profitability front, company posted healthy numbers for Q3 FY19, revenue during the quarter increased by 11.8% with EBITDA growth of 10.8% Y-O-Y. High raw material cost was offset by lower advertisement and other expenses. Thus, EBITDA margin contracted marginally to 23.7% Y-O-Y for the quarter. Profit for Q3 was up 10.2% at ₹ 366.1 crore as against ₹ 332.1 crore a year ago, thereby increasing EPS to ₹ 2.07 during Q3. Operating margins in international business declined by around 250 Bps because of increased trade schemes, adverse material inflation and adverse currency movements.

#### Financial Data

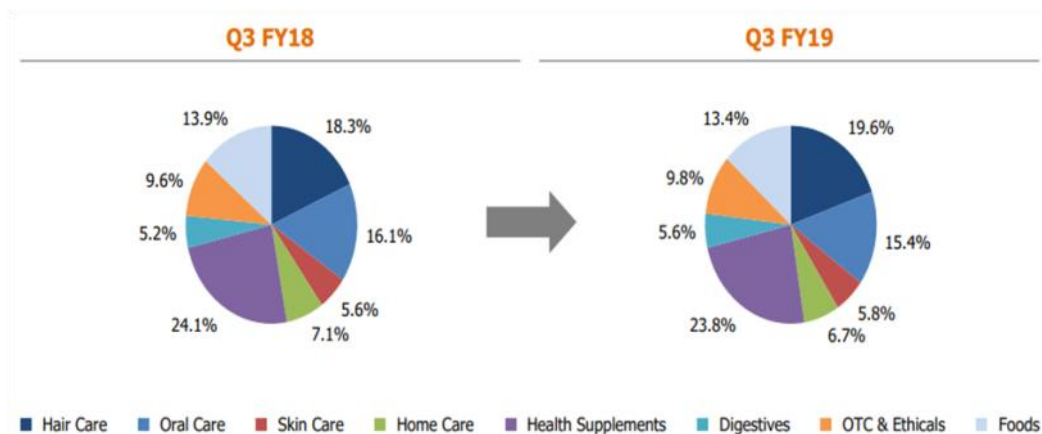
EV	72033.18
Net Worth	6807.81
BV	38.54
EPS(TTM)	8.30

₹ In crores except EPS

#### Key Financials (₹ in crores)

Particulars	Q3 FY 19	Q3 FY 18	Variation %
Revenue	2199.21	1966.44	11.84
EBITDA	521.16	469.98	10.89
PBT	459.57	416.32	10.39
PAT	367.21	333.03	10.26
EPS	2.07	1.89	9.52

### Category-wise Sales Q3 FY19



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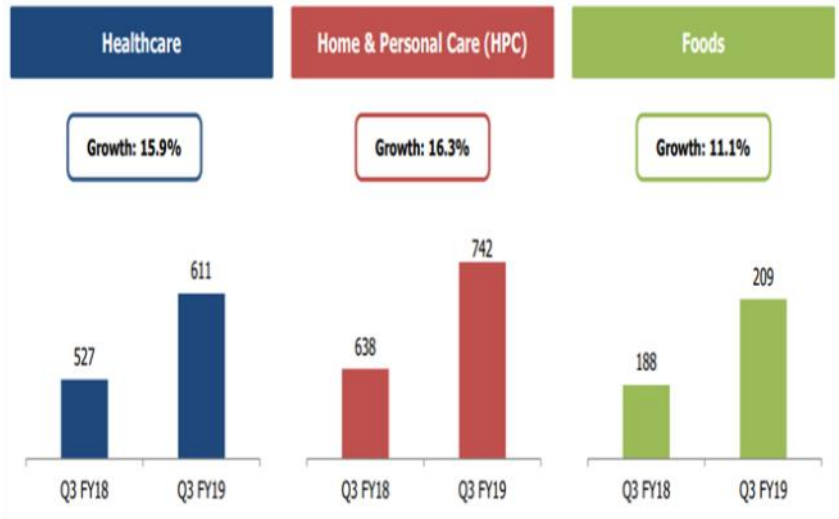
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### Category Growth

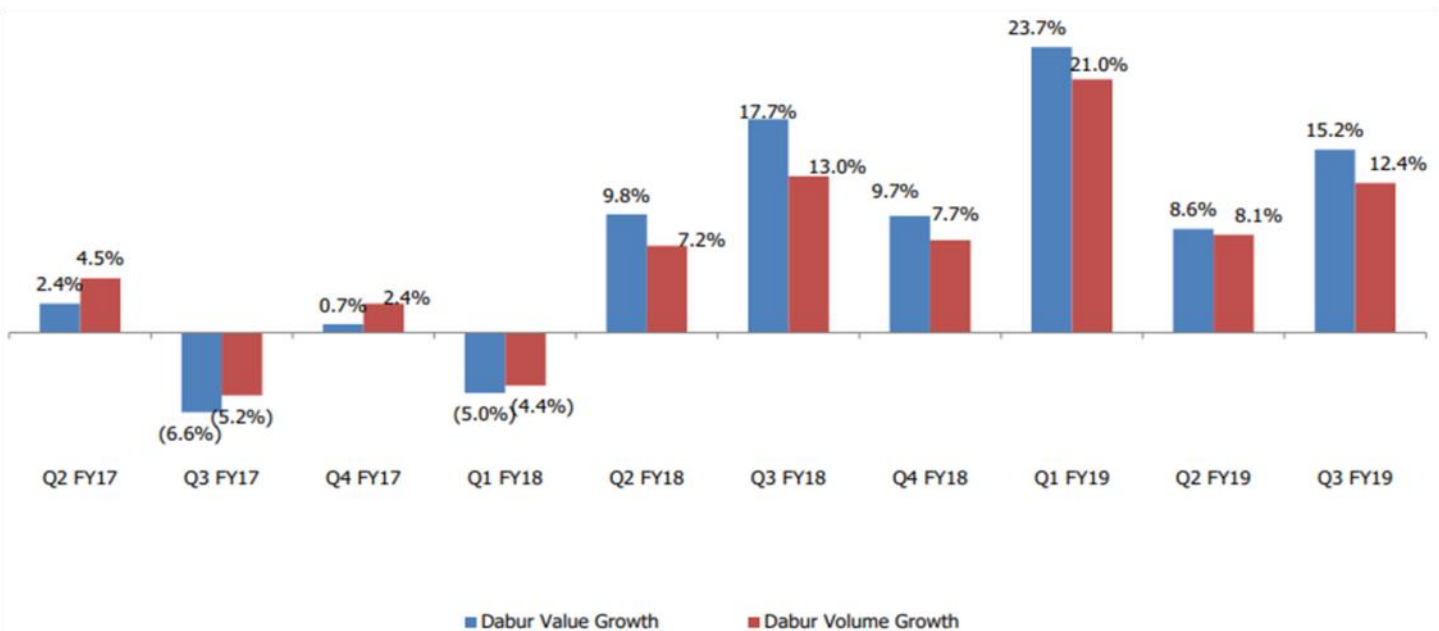
Dabur's Shampoo business grew by 25.2% and Hair Oil business was up 23.6% during Q3 of 2018-19, helping the Hair Care category report a nearly 24% growth during the quarter. The Skin & Salon business ended the quarter with a 19.3% growth, while the OTC & Ayurvedic Ethical's business grew by 17.6%. Dabur's Toothpaste sales, led by continued demand for our flagship Dabur Red Paste, was up 11.1%.

### Domestic FMCG Growth – By Verticals



The Foods business also grew by 11.1%. Dabur Honey continued to move forward on its growth trajectory and ended the quarter with a nearly 20% growth. In local currency terms, Dabur's business in Pakistan, Bangladesh and Turkey reported strong double-digit growths.

### Value and Volume Growth Trend for Dabur Domestic FMCG



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### Key Highlights

- ⇒ On a normal base of FY 19 which will be a double digit growth, **there has to be an improvement in disposable income and some benefits to achieve a double digit volume growth in FY 20.**
- ⇒ Continue to invest in brands to grow ahead of the markets
- ⇒ Rural is outgrowing Urban by around 200 bps.
- ⇒ Foods segment has underperformed due to extreme weather in north region, which contributes 2/3 of the company's beverages sales, however, **company expects Q4FY19 also to be subdued for the foods segments as winter season continues to be severe in the north region**
- ⇒ Dabur is **planning to enter into new segments in the beverage business. This will be accompanied by multiple new product launches.**
- ⇒ Company will continue to invest strongly in its brands and distribution infrastructure to leverage growth
- ⇒ Growth in upcoming quarters is expected to come **from toothpaste and shampoo business** as Dabur's market share in these categories is very low, which **gives it ample room to improve its market share further.**
- ⇒ **FY20 will witness higher Innovations and launches in the premium segment. These would be introduced in the E-commerce channel before expansion in Modern Trade**

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### SWOT ANALYSIS

#### Strengths

Strong brand image and product development strength of Dabur  
Strong distribution network and an extensive supply chain  
Has focus markets in GCC, Egypt, Nigeria, US, Nepal etc  
It has a strong legacy since its inception in 1884  
Has an excellent product diversification in healthcare, oral care, food, personal care, home care etc

#### Opportunities

Tapping rural markets and increase penetration in urban areas can boost Dabur  
Mergers and acquisitions to strengthen the brand  
Increasing purchasing power of people thereby increasing demand

#### Weaknesses

Dabur products has stiff competition from big domestic players and international brands  
Dabur doesn't have direct company outlets  
Profitability is uneven across product line

#### Threats

Intense and increasing competition amongst other FMCG companies means burden of Dabur's market share  
FDI in retail thereby allowing international brands  
Competition from unbranded and local products  
Markets where herbal products are not recognized

### Company Overview

Building on a legacy of quality and experience of over 133 years, **Dabur is today India's most trusted name and the world's largest Ayurvedic and Natural Health Care Company.** Dabur's FMCG portfolio today includes **five flagship brands** with distinct brand identities -- **Dabur** as the master brand for natural healthcare products, **Vatika** for premium personal care, **Hajmola** for digestives, **Real** for fruit juices and beverages and **Fem** for fairness bleaches and skin care products. Dabur today operates in key consumer product categories like **Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods.**



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### INDUSTRY AT A GLANCE

India remains the fastest growing major economy in the world. The pace of GDP growth is expected to gather momentum in the medium term on the back of favorable global economic tailwinds, pick-up in Private Investment and implementation of key policy reforms.

**Fast moving consumer goods (FMCG) are the 4th largest sector in the Indian economy. The FMCG sector has grown from US\$ 31.6 billion in 2011 to US\$ 52.75 billion in 2017-18. The sector is further expected to grow at a CAGR of 27.86 % to reach US\$ 103.7 billion by 2020.** The sector witnessed growth of 16.5 % in value terms between June–September 2018; supported by moderate inflation, increase in private consumption and rural income. It is forecasted to grow at 12-13 % between September– December 2018. Post GST and demonetization, modern trade share grew to 10 % of the overall FMCG revenue, as of August 2018.

**Growing awareness, easier access, and changing lifestyles are the key growth drivers for the consumer market. The focus on agriculture, MSMEs, education, healthcare, infrastructure and employment under the Union Budget 2018-19 is expected to directly impact the FMCG sector. These initiatives are expected to increase the disposable income in the hands of the common people, especially in the rural area, which will be beneficial for the sector.**



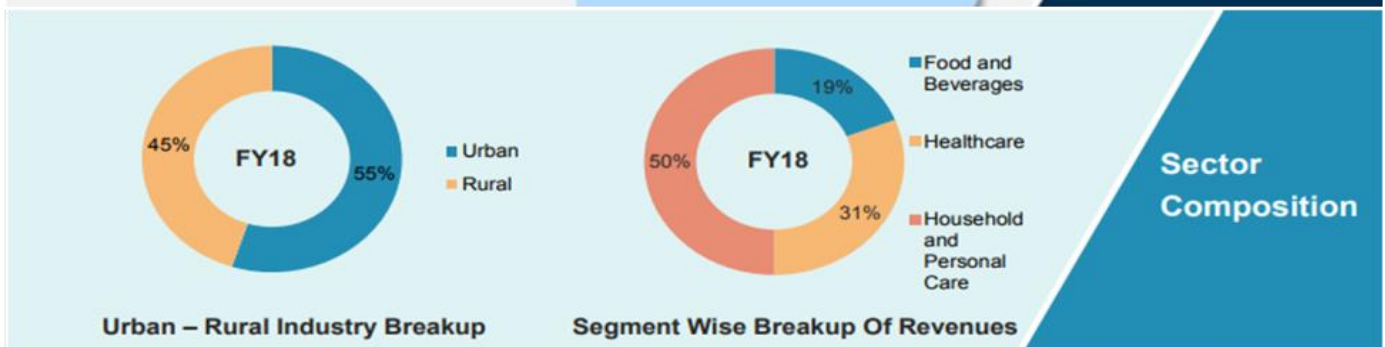
### Rural v/s Urban Market

Currently 55% of Indian FMCG sales comes from the urban market. Demand for quality and branded products has also been growing in rural markets. The growth potential from the rural market is very high. The urban market is expected to grow at 8% v/s rural market growth rate of 16%. **This will give a very good opportunity for players like Dabur to try and capitalize upon the potential untapped demand which is likely to emerge in the upcoming years.**

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## Info graphic FMCG Sector





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### Outlook and Recommendation

Dabur's broad product portfolio provides a good play on Indian Consumer Goods spend by its extensive presence in underpenetrated and high growth categories. Its positioning on the **'health and wellness'** platform, backed by its ayurvedic, natural and herbal (ANH) image is very progressive. This, combined with its demonstrated ability to create new categories and sub-categories, **makes it well-placed to capture lifestyle changes-led growth in the consumer goods space.**

Initially, Dabur had intensified competition from Patanjali. However, now the company has stopped losing market share and the competitive intensity has also waned. To capitalize on this, the company will be launching ayurvedic-based products in categories such as oral care, hair care, health supplements etc which is envisioned to shoot overall growth. Moreover, it intends to **launch a slew of innovations, leveraging its Ayurveda range and increasing its contribution from 60 % now to more than 75 % of domestic sales by 2020.**

*A slowdown in rural demand due to lower government spending or monsoon failure could impact Dabur's revenues significantly. In addition to this, further rise in competitive intensity in categories like Shampoo, Oral care, hair oils, juice may put pressure on volumes.*

*Led by Dabur's strong brand recall in Ayurvedic space coupled with new launches, focusing on healthcare and government initiative, we remain optimistic on broad based growth, market share gains and recovery in international business. **We estimate EPS at ₹ 9.90 for FY 20 with Estimated P/E at 50x, share price turns around to ₹ 495.***

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### Quarterly Results (₹ in crore except per share)

Particulars	LTM	201812	201809	201806	201803
Net Sales	<b>8437.80</b>	2199.21	2124.97	2080.68	2032.91
<b>EBITDA</b>	<b>2071.70</b>	521.16	532.31	459.99	558.24
Depreciation	<b>173.30</b>	44.85	43.10	42.73	42.59
Operating Income	<b>1898.40</b>	476.31	489.21	417.26	515.65
Misc .Income (Exp.)	<b>304.40</b>	75.77	81.48	73.87	73.24
Interest Expenses	<b>60.40</b>	16.74	15.56	14.88	13.24
EBT	<b>1838.00</b>	459.57	473.65	402.38	502.41
Taxes	<b>366.10</b>	92.36	96.10	72.38	105.23
Net Income (Reg)	<b>1471.90</b>	367.21	377.55	330.00	397.18
Extraordinary Items	<b>0.00</b>	-	-	-	-
<b>Reported Net Income</b>	<b>1471.90</b>	367.21	377.55	330.00	397.18
<b>EPS</b>	<b>8.30</b>	2.08	2.14	1.87	2.25
<b>Adjusted EPS</b>	<b>8.30</b>	2.10	2.10	1.90	2.20

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