

Equity Research Desk



ALPHA

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Dabur India Ltd. – An Ayurvedic FMCG Company

Market Data	
CMP	Rs. 496
Date	14-Jun-22
Target Price	Rs. 585
Upside Potential	18.00%
52 Week High/Low	659/488
Sector	FMCG
Rating	Buy

Dabur was established by Dr. S K Burman in 1884 in Kolkata. Incorporated in 1936, the company operates in key consumer product categories like Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. Dabur India (DIL) is one of the biggest FMCG companies with a presence in Ayurveda based products across categories. Dabur marries age-old traditional wisdom with modern-day Science to develop products for consumers across generations and geographies. It has over 18 brands and sales of over Rs.100 crs each. Dabur offers products in over 100 countries across the globe and has manufacturing facilities at 21 locations—13 in India and one each in the UAE, South Africa, Sri Lanka, Egypt, Turkey, Nigeria, Nepal and Bangladesh. The company has built a strong distribution network of over 6.9 million retail outlets with a direct reach of 1.3 million outlets in India as of March 2022. Dabur also derives ~50% of its sales through rural regions with presence in 90,000 villages.



Products & Services: The company produces several products under three main segments such as Healthcare, Home & Personal care and Food & beverage.

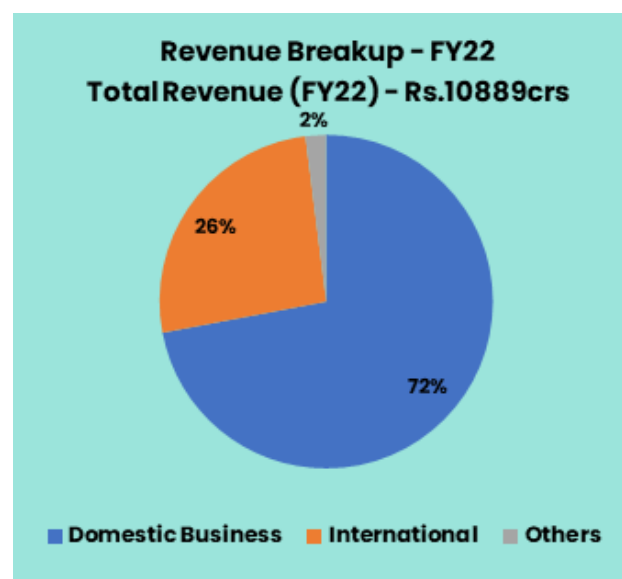
Healthcare Segment (HC) – This further divide into sub segments such as Health supplements, Digestive and OTC with brands namely Dabur Honey, Dabur Chyawanprash, Dabur Lal Tail, Dabur Gilo, Dabur Nature Care, Hajmola, etc.

Home & Personal care Segment (HPC) – This further divide into sub segments such as Haircare, Oralcare, skincare and Homecare with brands namely Dabur Amla, Dabur Red, Dabur Vatika, Oxyline, Odonil, Odomos, etc.

Food & beverages (F&B) – It consists of F&B brands namely Real, Real Active and Dabur Homemade.

SHP	Mar - 22 (%)	Dec - 21 (%)	Change
Promoters	67.38	67.37	0.01
FPI	20.43	21.11	-0.68
DII	3.83	3.59	0.24
Public & Others	8.36	7.93	0.43
Pledged	0.00	0.00	0.00

Subsidiaries: As on 31st Mar 2022, the company has a total of 26 subsidiaries and 1 Joint venture..





Key Rationale

- **Strong Market Position** – The company has established brands in the natural healthcare, personal care and food products segments. It has ~63% market share in the health supplements segment (Chyawanprash), ~16.5% in the oral care (toothpaste) segment and 15% in the hair oil segment. It is the market leader (around 60% share) in the fruit juice segment, with its Real and Active brands. It is also the leader in herbal digestives and is one of the largest producers of ayurvedic drugs in India. The company continues to focus on its brands Dabur Amla, Red, Vatika, Real, Chyawanprash, Honey, Pudín Hara, Lal Tail and Honitus. Strong market position, diverse product offerings and healthy investments in new products will drive growth over the medium term.
- **Power of 9 brands** – Dabur has identified 9 'Power Brands' – that account for more than 70% of its total Sales. As part of this strategy, the company has been putting disproportionate investments behind these brands to improve visibility, enhance distribution and drive innovation by way of new products, variants and format launches. It has also created flanker brands to support its power brands and to cater to varied consumer needs. A majority of these Power Brands fall in the Health Care space, where Dabur has the right to win. With this strategy, Dabur seeks to not just grow the categories where it is currently a market leader, but also sizably increase its presence and market share in some large categories where its brands are relatively smaller in size. Dabur Chyawanprash, Dabur Honey, Dabur Pudín Hara, Dabur Lal Tail and Dabur Honitus in the Healthcare space; Dabur Vatika, Dabur Amla and Dabur Red Paste in the Personal Care category; and Real in the Food & Beverages category are the nine powerful brands of Dabur.
- **FY22** – FY22 revenue grew 14% YoY at Rs.10,889 crs crossing a Rs.10000crs sales mark for the first time from Rs.9562 crs in FY21. In the above, the domestic business constitutes of 71% of the overall revenue. The Domestic business breakup includes Healthcare Segment (36% of the domestic sales), Homecare & Personal Segment (47% of the domestic sales) and F&B segment (17% of the domestic sales).
- **Financial Performance** – The company has generated a Revenue and PAT CAGR of 7% and 11% over the period of FY12–22. Dabur has a strong financial risk profile with low debt on books and cash and liquid investments to the tune of Rs.6790 crs. Expected cash accrual of Rs.1100–1200 crs per fiscal will sufficiently cover yearly capex of Rs.300–500 crs over the medium term. The company's EBITDA Margin has been extremely stable at 21% for the past three fiscals. The avg. ROE of the company stood at 24% for the past 5 years. The capex for the year is likely to Rs.400 crs and income tax is likely to be 22–23% in FY23.

**Ratios - FY22**

ROE	21%
ROCE	26%
Div. Yield	0.95%
PE Ratio	50.00
Face Value	1.00
EPS	Rs. 9.84

Industry Analysis

Fast-moving consumer goods (FMCG) sector is India's fourth-largest sector with household and personal care accounting for 50% of FMCG sales in India. Growing awareness, easier access and changing lifestyles have been the key growth drivers for the sector. The urban segment (accounts for a revenue share of around 55%) is the largest contributor to the overall revenue generated by the FMCG sector in India. The FMCG market in India is expected to increase at a CAGR of 14.9% to reach US\$ 220 billion by 2025, from US\$ 110 billion in 2020. The Indian FMCG industry grew by 16% in CY21 a 9-year high, despite nationwide lockdowns, supported by consumption-led growth and value expansion from higher product prices, particularly for staples. Indian packaged food market is expected to double to US\$ 70 billion by 2025. E-commerce segment is forecast to contribute 11% to the overall FMCG sales by 2030.

Growth Drivers

The Government of India has approved 100% FDI in the cash and carry segment and in single-brand retail along with 51% FDI in multi-brand retail.

The union government's production-linked incentive (PLI) scheme gives companies a major opportunity to boost exports with an outlay of US\$ 1.42 billion.

Rising digital connectivity in cities and rural areas is driving the demand for FMCG (through e-commerce portals). Increase in disposable income in rural India and low penetration levels in rural market offers room for growth.



Peer Analysis

Competitors: Godrej Consumer Products, Marico, etc.

Dabur's positioning as world leader in Ayurveda/Herbal products, renowned portfolio of brands categories and sub-categories further backed by superior distribution network makes it well placed to capture lifestyle changes-led growth in the consumer goods space, while giving it an edge over competitors. The Margin profile of Dabur is much better than the competitors which reflects the pass-on power and the cost efficiency of the Management.

Company	CMP	Mcap.	ROE	EBITDA Margin	PAT Margin	P/E	EPS
Dabur	496	87815	21.00%	21.00%	16.00%	50	9.84
Godrej Cons.	737	75374	16.00%	20.00%	15.00%	42	17.44
Marico	500	64620	35.00%	18.00%	13.00%	53	9.48

Outlook

The Management expects rural (~45% of revenue) to recover only in H1FY23 aided by a normal monsoon outlook, higher MSP and favorable crop output. The management says it will maintain current EBITDA Margins on a full-year FY23 basis despite RM headwinds through a combination of 1) Price hikes, 2) Judicious A&P spends and 3) Cost optimizations. Dabur has already taken a price hike of ~5-6% in FY22 in domestic business and will further look to raise prices to offset the impact of rising RMs on overall profitability. In Q4FY22, it witnessed 16% inflation while for FY22 inflation was 12.5%. Dabur expects another 8-9% inflation across its product portfolio in H1FY23. Overall NPD (New Product Development) contribution to sales stood at ~5% in Q4FY22 while e-comm NPD contributes to 10% of the sales. It will continue to invest in NPD as new channels like e-com (~7% of sales) provide better traction and testing.

Margins - FY22	
Gross	48%
EBITDA	21%
PAT	16%



Valuation

Management's focused approach on scaling up power brands through extension/variants, deeper distribution and strong management bandwidth drives confidence in the sustainability of the company's growth. However, near-term growth challenges and margins pressure remains. At CMP, the stock trades at 40x of FY24E EPS. We recommend a BUY rating in the stock with the target price (TP) of Rs.585, 47x FY24E EPS.

Risks

- **Inflationary Risk** – High food inflation has an adverse effect on the FMCG industry. People will spend less money on discretionary items which will hit the FMCG industry. Though companies took price hikes to pass on the prices, the margins will take time to recover.
- **Competitive Risk** – The domestic FMCG business continues to witness intense competition with multiple established players, including some large multinational players as well as domestic companies. Dabur being an established player with a sizeable market share had faced competitive pressure in the past and remains exposed to risks of heightened competition.
- **Covid related Risk** – Any increase in covid cases or a new variant emergence will result in a chance of lockdown which will impact the FMCG recovery.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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