

Dabur India

9 September 2019

Reuters: DABU.NS; Bloomberg: DABUR IN

Company initiatives to steer growth in slowdown

We met the top management team of Dabur India (Dabur) at the analyst meet organized by them. Some key highlights are as below:

Near term commentary soft: Dabur is seeing slowdown in the market, which could affect near term growth. Industry growth is sequentially seeing pressure now; value growth of 10% (led by 6.2% volume growth) in 1QFY20 now comes down to 7.1% (3.7% volume growth) in July'19. Faster growth in the Natural/Ayurvedic/Herbal segment, focus on power brands, low unit packs (LUP's) helped Dabur to grow ahead of the market in the recent quarter. Despite good performance in 1QFY20, the company has maintained its target of mid to high single digit volume growth for India business given the sequential slowdown, channel liquidity crunch and competitive intensity in some key categories (oral care and hair oil).

Increasing capabilities in Ayurveda: Dabur wants to make Ayurveda contemporary and has accelerated the pace of innovation to roll out products based on its traditional knowledge as part of its growth strategy. Management believes that its knowledge in the space of Ahar (diet), Vihar (exercise) and Aushadhi (medicines) is unparalleled compared to peers. With the support from the Ministry of Ayush, Dabur believes it can integrate Ayurveda into the mainstream healthcare, just like how Chinese medicines went mainstream. It is also enhancing its capability in Ayurveda through portfolio expansion (classical & branded range), increasing doctor coverage from 40k currently to 55k, enhancing consumer touch points (via Dabur Ayurved Chikitsalayas from 525 to 650 and Dabur branded Ayurvedic stores from 1,500 to 2,500) and also through engagement with consumers at health camps & sampling at religious events.

Innovations to steer growth in slowdown: Innovations, which had taken a back seat in the last few years, have picked up now. Product launches and renovations are expected to steer growth in the current environment. Dabur believes that the slowdown is temporary and will maintain its strategy of renovation & innovation, even though other players are holding back. The company won't backtrack from innovations even if its failures come ahead of its successful launches. It has no intention of getting into new categories in the domestic business for at least the next three years as it already has a diversified portfolio. New Product Development (NPD) currently contributes to ~2% of sales.

Spends to be concentrated on Power brands: Earlier, Dabur had planned a lot of Above The Line (ATL) spends but with the current slowdown, the company is recalibrating its strategy and putting more money on the Below The Line (BTL) activities to be competitive in the market. A&P investments will also be concentrated on the select 8 Power brands. In FY19, media spends increased by 20% for Power brands while for the domestic business the increase was 6%. Based on penetration and market share of the categories in which they are currently present, Dabur believes it has to focus on getting market share in the toothpaste, shampoo and hair oil category while the majority of the remaining categories lie in a 'low penetration and high market share' quadrant. Dabur will invest to grow this categories by driving relevance, accessibility and product experience.

Focus on LUP's to ride on rural distribution infrastructure: Dabur's distribution reach is the largest in the country at ~6.7mn+ outlets. The company aims to increase direct reach to ~1.2mn outlets by the end of FY20 from ~1.1mn now. Modern trade has a saliency of ~15% and is growing in double digits. Dabur's market share in MT is lower than GT. It sees a lot of growth opportunities in MT through increase in visibility, open format outlets etc. Ecom currently has a saliency of ~2% and is growing by ~50%. On the rural front, the company is targeting 60k villages out of the potential 80k villages, out of which 55k villages are to be reached in this fiscal year. It is creating a portfolio through LUP's to ride on the infra & reach of rural area. Rural sales mix has already improved to ~48% now from 45% at the end of FY19. Through RISE (Regional Insights and Speed of Execution) initiative, it aims to launch various regional products, especially in the under-indexed regions.

Valuation and outlook: Though we are optimistic about management's strategy to invest in power brands, initiatives undertaken for distribution enhancement and pick-up in innovation momentum, we have retained our Accumulate rating. Valuations are fair at 42.7x FY21E, particularly for a business with moderate earnings prospects (~10.5% CAGR over FY19-21) and return ratios lower than peers. We have revised our target price (TP) to Rs440, valuing it at 40x September'21 EPS.

ACCUMULATE

Sector: FMCG

CMP: Rs441

Target Price: Rs440

Upside: 0%

Vishal Punmiya

Research Analyst

vishal.punmiya@nirmalbang.com

+91-22-6273 8064

Ayush Chaturvedi

Research Associate

ayush.chaturvedi@nirmalbang.com

+91-22-6273 8244

Key Data

Current Shares O/S (mn)	1,761.1
Mkt Cap (Rsbn/US\$bn)	779.8/10.9
52 Wk H / L (Rs)	477/357
Daily Vol. (3M NSE Avg.)	2,168,800

Price Performance (%)

	1 M	6 M	1 Yr
Dabur India	1.8	1.0	(2.8)
Nifty Index	(1.5)	(0.8)	(5.5)

Source: Bloomberg

Other interesting pointers:

- Growth in rural area is still higher than urban area for Dabur but the gap has narrowed in recent quarters.
- Competitive intensity in hair oil by local players has gone up. Competition in oral care has also picked up.
- Healthcare range mix to go up in coming two years to 30-35%. The category is relatively immune to slowdown because of the problem solving nature.
- Liquidity crunch: Credit in the trade channel has gone up. Credit line extension in the channel has gone up to 35-40 days compared to 15 days earlier. The company is releasing credit in the market wherever required on an exception basis, not to everybody. This has not led to any major impact on Dabur's financials.
- The company currently has 12 manufacturing facilities in India with no facilities in the South. Sales from South are just 16% of sales as of now.
- Total number of employees stands at 7,458 with 4,974 for India business. Dabur is improving diversity and hiring women in various functions, including sales. Dabur has strengthened the team by appointing heads for critical functions of the future. GM & above level employees incentives are now linked to the company's consolidated performance.
- The company has a team of 98 in its R&D function. R&D expenditure saw an increase of 16% in FY19. Have filed 18 patent applications.
- Target to become Plastic Waste Neutral Company by FY21.
- Promoters do not draw any remuneration.
- No executive position held by any promoters.
- ESOP scheme in place to attract talent.
- Dividend payout at 50% of standalone profit.

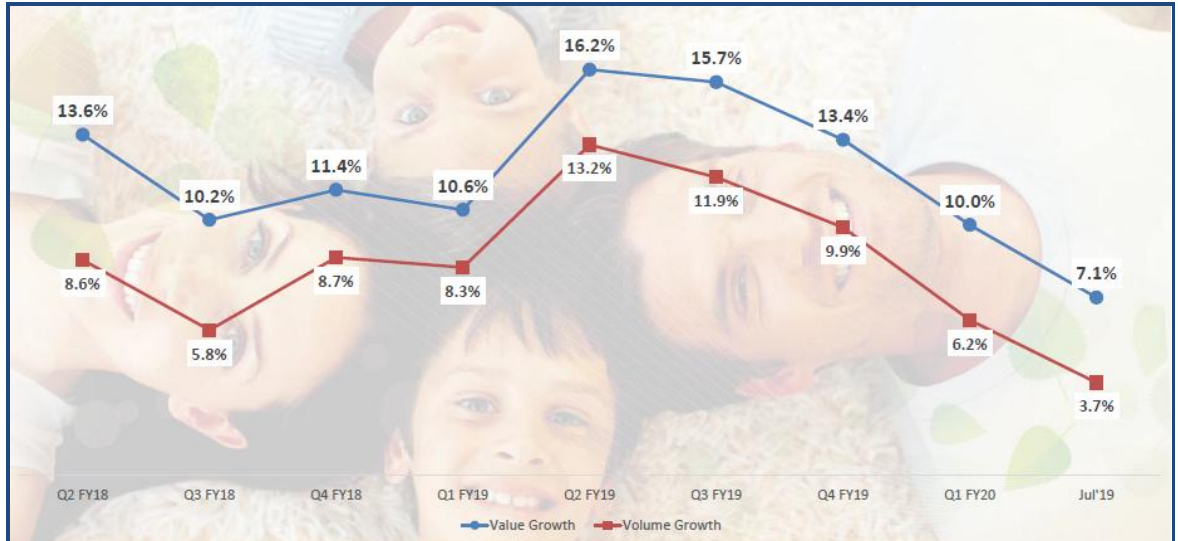
Exhibit 1: Foods business only laggard in domestic business in FY19 and 1QFY20

	Category	Key Brands	Revenue Contribution (FY19)	FY19 Growth	Q1 FY20 Growth
Healthcare (32.3%)	Health Supplements		17.6%	14.6%	19.6%
	Digestives		5.9%	16.4%	18.2%
	OTC & Ethicals		8.9%	13.7%	14.5%
HPC (50.6%)	Hair Care		21.6%	14.8%	11.9%
	Oral Care		16.8%	9.5%	11.4%
	Home Care		6.9%	13.0%	10.9%
	Skin Care		5.3%	17.2%	12.1%
Foods (17.1%)	Foods		17.1%	8.1%	1.5%

Note: Note: Numbers in the charts represent GST adjusted growth (like-to-like)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2 : Industry growth is sequentially seeing pressure



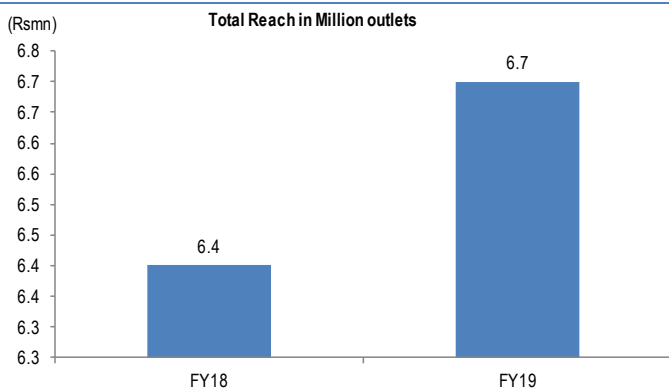
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Recent product launches in the domestic market



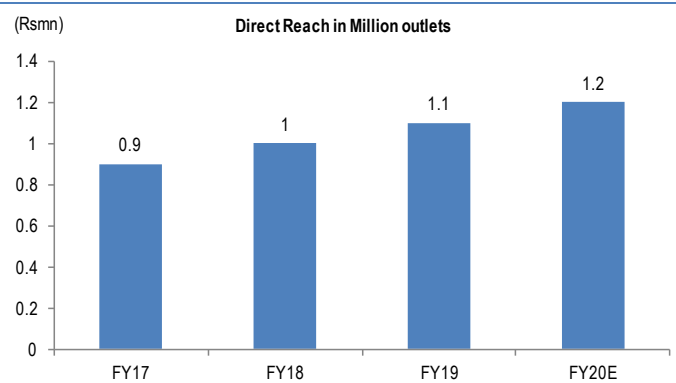
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Total reach trend



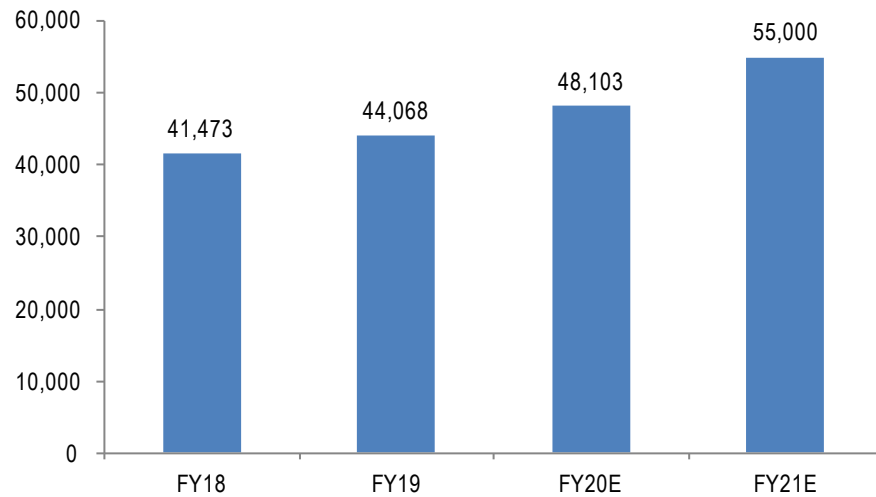
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Direct reach trend



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Village Coverage



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Change in estimates

Y/E March (Rsmn)	Earlier estimates		New estimates		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net sales	93,676	1,03,701	94,337	1,04,879	0.71	1.14
EBITDA	19,670	22,097	19,789	22,236	0.60	0.63
EBITDA margin (%)	21	21	21	21	(45bps)	(11bps)
Adj. PAT	16,561	19,069	16,263	18,263	(1.80)	(4.23)

Source: Company, Nirmal Bang Institutional Equities Research

Financials (consolidated)

Exhibit 8: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Net Sales	76,136	77,219	85,331	94,337	104,879
% Growth	(2.1)	1.4	10.5	10.6	11.2
COGS	37,554	38,199	43,090	46,840	51,869
Staff costs	7,896	7,928	9,379	10,259	11,279
Selling and Distribution	9,392	8,812	8,985	10,075	11,350
Other expenses	6,205	6,106	6,481	7,374	8,146
Total expenses	61,046	61,044	67,935	74,548	82,644
EBITDA	15,090	16,174	17,396	19,789	22,236
% growth	(0.6)	7.2	7.6	13.8	12.4
EBITDA margin (%)	19.8	20.9	20.4	21.0	21.2
Other income	2,984	3,052	2,899	3,225	3,544
Interest costs	540	531	596	573	675
Depreciation	1,429	1,622	1,769	2,067	2,224
Profit before tax (before exceptional items)	16,104	17,074	17,930	20,375	22,881
Exceptional items	0	-145	-603	0	0
Tax	3,303	3,354	2,937	4,075	4,576
PAT (before exceptional items)	12,770	13,689	14,964	16,263	18,263
PAT	12,770	13,544	14,361	16,263	18,263
PAT margin (%)	16.1	16.9	16.3	16.7	16.8
% Growth	2.1	7.2	9.3	8.7	12.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
Share capital	1,762	1,762	1,766	1,766	1,766
Reserves	46,960	55,569	54,802	61,588	67,072
Net worth	48,722	57,331	56,568	63,354	68,838
Total debt	9,787	9,418	5,243	7,500	7,500
Deferred tax liability	1080	1091	231	231	231
Total liabilities	59,589	67,839	62,042	71,085	76,569
Gross block	24,322	26,342	28,275	30,775	32,775
Depreciation	8,843	10,177	11,946	14,012	16,237
Net block	19,584	20,281	19,691	20,124	19,900
Capital work-in-progress	421	415	638	638	638
Investments	32,402	38,052	33,588	36,221	39,118
Inventories	11,067	12,562	13,005	15,595	17,344
Debtors	6,504	7,061	8,336	8,915	9,922
Cash	3,048	3,061	3,165	7,660	11,514
Loans & advances	602	804	1336	1336	1336
Other current assets	3695	4781	4501	4951	5446
Total current assets	24,916	28,268	30,343	38,457	45,562
Creditors	13,341	14,225	14,554	15,837	19,292
Other current liabilities & provisions	4,392	4,952	7,662	8,517	9,356
Total current liabilities	17,733	19,177	22,216	24,354	28,648
Net current assets	7,183	9,092	8,127	14,103	16,914
Total assets	59,589	67,839	62,042	71,085	76,569

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19	FY20E	FY21E
PAT	12,770	13,689	14,964	16,263	18,263
Depreciation	1,429	1,622	1,769	2,067	2,224
Other income	(2,984)	(3,052)	(2,899)	(3,225)	(3,544)
(Inc.)/dec. in working capital	(1,603)	810	(789)	1,031	(1,538)
Cash flow from operations	12,709	11,121	13,368	14,232	18,660
Capital expenditure (-)	2,619	(2,303)	(2,156)	(2,500)	(2,000)
Net cash after capex	15,328	8,818	11,212	11,732	16,660
Dividends paid (-)	4,770	15,858	5,683	9,514	12,820
Inc./dec. in total borrowings	1,745	(369)	(4,176)	2,257	0
Cash from financial activities	(3,590)	(16,781)	(10,478)	(7,854)	(13,519)
Opening cash balance	2,204	3,048	3,061	3,165	7,660
Closing cash balance	10,625	(7,208)	11,380	7,634	11,447
Change in cash balance	8,421	(10,256)	8,320	4,470	3,788

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Key ratios

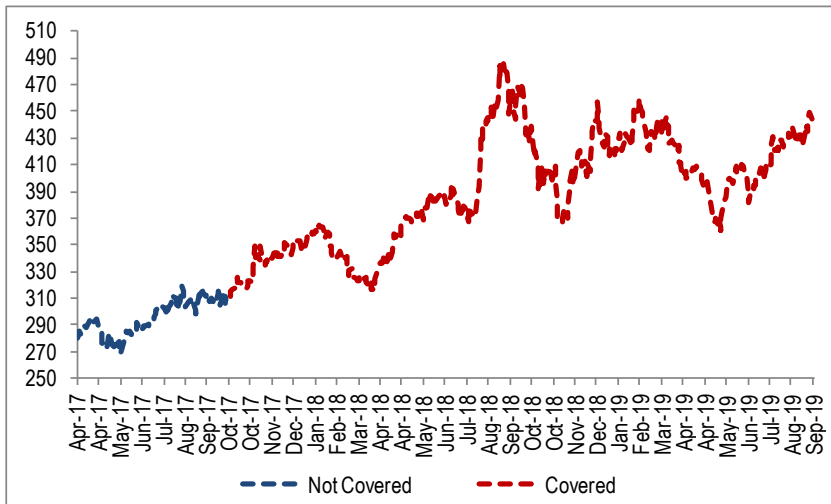
Y/E March	FY17	FY18	FY19	FY20E	FY21E
Per share (Rs)					
EPS	7.2	7.7	8.1	9.2	10.3
Book value	27.6	32.5	32.0	35.9	39.0
DPS	2.3	7.5	2.8	4.6	6.2
Valuation (x)					
P/Sales	10.2	10.1	9.1	8.3	7.4
EV/sales	9.9	9.6	8.8	7.9	7.0
EV/EBITDA	49.8	46.1	43.0	37.5	33.1
P/E	60.8	56.7	52.1	47.9	42.7
P/BV	16.0	13.6	13.8	12.4	11.4
Return ratios (%)					
RoCE	24.4	22.6	24.1	25.3	25.6
RoE	28.4	25.9	26.4	27.3	27.8
Profitability ratios (%)					
Gross margin	50.7	50.5	49.5	50.3	50.5
EBITDA margin	19.8	20.9	20.4	21.0	21.2
PAT margin	16.8	17.8	17.6	17.3	17.5
Liquidity ratios (%)					
Current ratio	1.4	1.5	1.4	1.6	1.6
Quick ratio	0.8	0.8	0.8	0.9	1.0
Solvency ratio (%)					
Debt to Equity ratio	0.2	0.2	0.1	0.1	0.1
Turnover ratios					
Total asset turnover ratio (x)	1.3	1.1	1.4	1.3	1.4
Fixed asset turnover ratio (x)	4.9	4.8	5.2	5.6	6.3
Debtor days	31	33	36	34	35
Inventory days	108	120	110	122	122
Creditor days	76	81	87	86	92

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
29 September 2017	Accumulate	305	305
1 November 2017	Accumulate	333	318
1 February 2018	Accumulate	356	344
3 May 2018	Accumulate	371	372
2 August 2018	Accumulate	432	420
1 November 2018	Accumulate	385	420
4 February 2019	Accumulate	446	480
3 May 2019	Accumulate	385	430
22 July 2019	Accumulate	420	435
9 September 2019	Accumulate	441	440

Rating track graph



DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I, Vishal Punmiya, research analyst and Ayush Chaturvedi Research Associate the author of this report, hereby certify that the views expressed in this research report accurately reflects my personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst is principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees 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. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Copyright of this document vests exclusively with NBEPL.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,
 Nr. Peninsula Corporate Park,
 Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010