

CMP : Rs 420

Rating : Accumulate

Target : Rs 491

**STOCK INFO**

|                          |          |
|--------------------------|----------|
| INDEX                    |          |
| BSE                      | 500096   |
| NSE                      | DABUR    |
| Bloomberg                | DABUR IN |
| Reuters                  | DABUR IN |
| Sector                   | FMCG     |
| Face Value (Rs)          | 1        |
| Equity Capital (Rs Cr)   | 176.63   |
| Mkt Cap (Rs Cr)          | 74185    |
| 52w H/L (Rs)             | 491 /312 |
| Avg Weekly Vol (BSE+NSE) | 10633320 |

**SHAREHOLDING PATTERN**

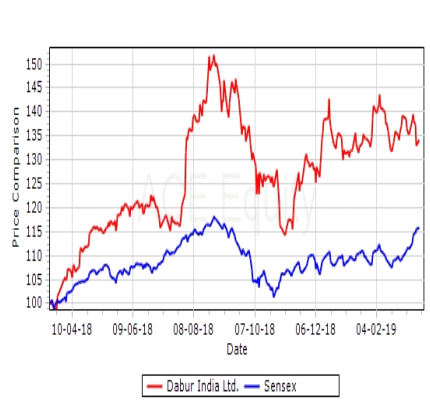
|                               |       |
|-------------------------------|-------|
|                               | %     |
| <b>(As on December, 2018)</b> |       |
| Promoters                     | 67.89 |
| Public & Others               | 32.11 |

Source: ACE Equity, Arihant Research

|                              |           |           |            |
|------------------------------|-----------|-----------|------------|
| <b>Stock Performance (%)</b> | <b>3m</b> | <b>6m</b> | <b>12m</b> |
| DABUR                        | -1.4      | -4.1      | 32.0       |
| SENSEX                       | 6.6       | 3.2       | 15.9       |

Source: ACE Equity, Arihant Research

**DABUR v/s SENSEX**



Source: ACE Equity, Arihant Research

**Dabur India Ltd. (Dabur) is the fourth largest FMCG Company of the country presently catering to health care, personal care & food segment. The company is expected to report 10.9% CAGR growth in revenue over FY18-21E while PAT will witness a CAGR of 12.5% over the same period. We are positive on the future prospects of Dabur and initiate coverage with an "Accumulate" rating on the stock with a target price of Rs 491, which gives an upside potential of 16.9%.**

**Market leadership in key categories across diverse product portfolio**

Dabur's product portfolio is present across diverse categories. A significant portion of company's product portfolio consists of natural and ayurvedic products. The company enjoys market leadership position in key categories across its diverse product portfolio, which augurs well for the company.

**Strong Distribution Network**

Dabur has a very strong distribution network, which caters to ~6.3 mn retail outlets. The company has direct presence in ~41,000 villages and its sales team covers around 39,000 doctors and 200,000 chemists. Dabur also kept its focus on improving its distribution network and increasing its efficiency. Dabur's strong distribution network augurs well for the company's future growth.

**Out of the Headwinds**

In the past 3 years, Dabur faced a lot of headwinds like Patanjali capturing market share, changes in government policies (implementation of GST, demonetization), slowdown in rural demand etc. Despite these headwinds, Dabur was able to maintain its revenue growth with stable EBITDA margins.

**Stable EBITDA Margins around ~21-22% with upside trigger**

Dabur was able to improve its margins from 16% in FY13 to 21% in FY18. This is likely to give the company huge benefit going forward in times of strong demand environment. With control on its raw material sourcing, Dabur would be able to maintain its EBITDA margins around ~21-22% level which coupled with decent revenue growth will have a dual positive impact on its profitability.

**Valuation**

At CMP of Rs 420, Dabur is trading at FY20E and FY21E, P/E multiples of 43.4x and 38.5x respectively. We value the stock at a FY21E target P/E multiple of 45x, which yields a target price of Rs 491 per share. We are bullish on the future prospects of Dabur, and initiate coverage on the stock with an "Accumulate" rating and a target price of Rs 491, a potential upside of 16.9%.

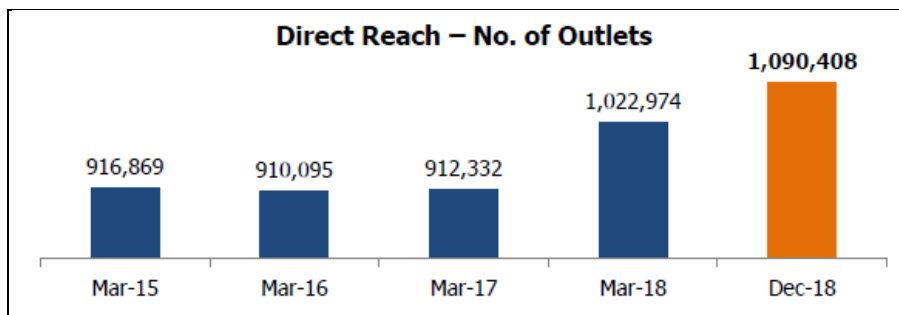
**Financial Performance**

| YE March (Rs Cr) | Net Sales | EBITDA | PAT  | EPS (Rs) | EBITDA Margin (%) | RoE (%) | P/E (x) | EV/EBITDA (x) |
|------------------|-----------|--------|------|----------|-------------------|---------|---------|---------------|
| FY17             | 7614      | 1509   | 1277 | 7.2      | 19.8              | 26.3    | 58.6    | 50.0          |
| FY18             | 7722      | 1617   | 1354 | 7.7      | 20.9              | 23.7    | 55.3    | 46.6          |
| FY19E            | 8634      | 1738   | 1476 | 8.4      | 20.1              | 22.2    | 50.9    | 43.4          |
| FY20E            | 9454      | 1989   | 1708 | 9.7      | 21.0              | 21.9    | 44.0    | 38.0          |
| FY21E            | 10533     | 2256   | 1927 | 10.9     | 21.4              | 21.2    | 39.0    | 33.5          |

Source: Company, Arihant Research

### Company Background

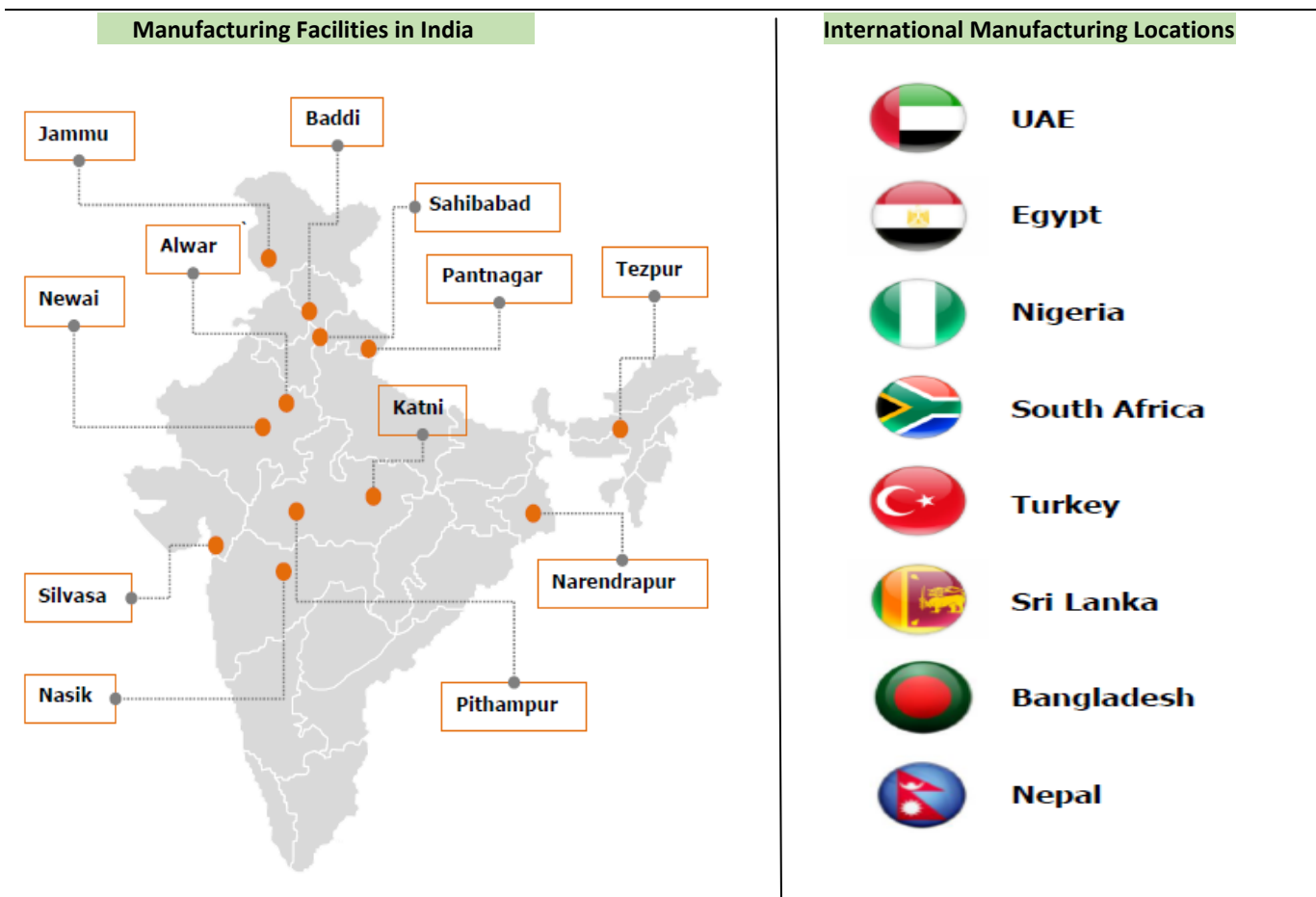
Dabur is one of the prominent FMCG companies of India with special focus on Ayurveda and Natural Healthcare. The company has 20 world class manufacturing facilities catering to needs of diverse markets. Dabur presently caters to health care, personal care and food segment and have one of the largest distribution network in India, covering ~6.7 mn outlets with direct reach of ~1.1 mn outlets.



Source: Company, Arihant Research

### Manufacturing Facilities

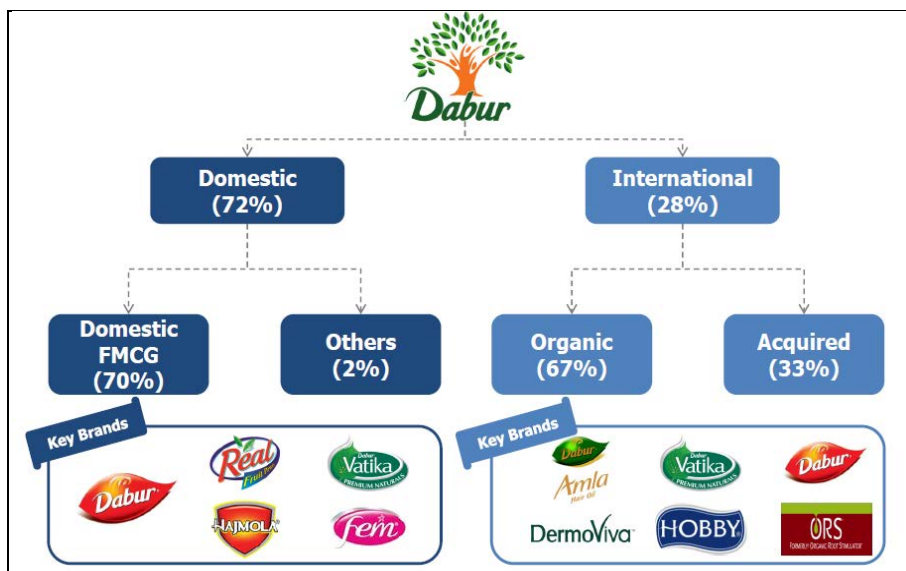
The company’s manufacturing facilities are spread across 20 locations in India, while it has 8 manufacturing locations abroad catering to its international business division.



Source: Company, Arihant Research

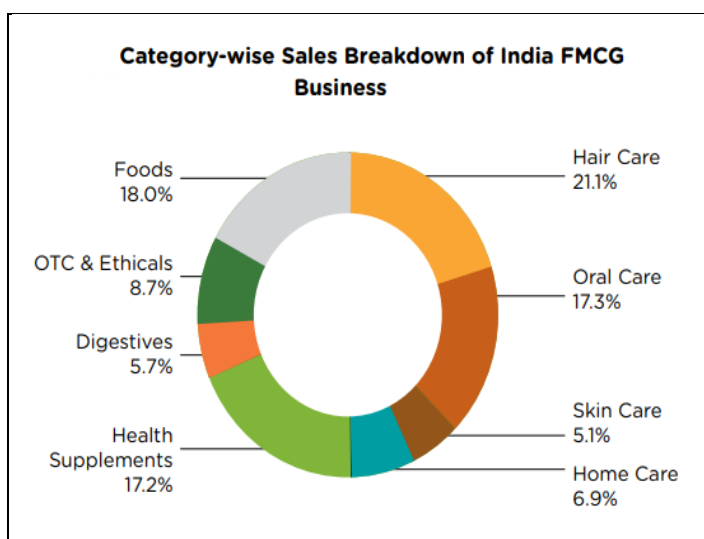
### Business Verticals

Dabur’s business verticals are divided into three Strategic Business Units (SBUs), 1) Consumer care, 2) Food, (consumer care and food business together forms India FMCG Business) and 3) International business.



Source: Company, Arianth Research

- **Consumer Care Business**  
Includes Health Care and Home & Personal Care business and accounts for 56.2% of consolidated sales of Dabur (as of FY18)
- **Food Business**  
Comprising of Packaged Fruit Juices and Culinary Products, this segment accounts for 12.2% of consolidated sales of Dabur (as of FY18)
- **International Business**  
This segment accounts for 28% of consolidated sales of Dabur (FY18)

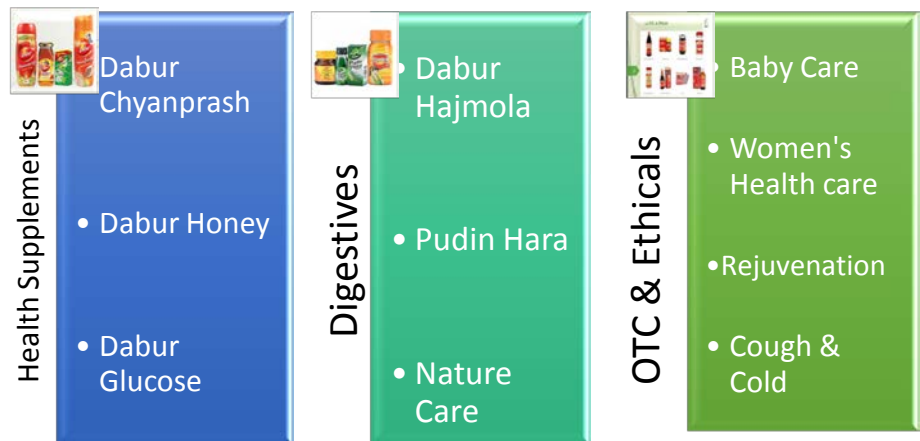


Source: Company, Arianth Research

## Product Portfolio

### Healthcare

Ayurveda-based products have been gaining traction in India over the past few years on account of rising awareness about harmful effects of chemicals and allopathic medicines, coupled with increasing number of product innovations by companies. The pace of growth is also expected to continue in years to come. Dabur has been constantly investing in upgrading its Health Care portfolio. All this is being done while keeping the core of Ayurveda intact. This vertical contributed 31.7% of the Indian business (in FY18).



Source: Company, Aриhant Research

### Health Supplements

Dabur's Health Supplements portfolio has three key brands — Dabur Chyawanprash, Dabur Honey and Dabur Glucose. This category accounts for 17.2% of the India business (in FY18).

### Digestives

Dabur is a leading player in the natural and Ayurvedic digestive category with prominent brands like Dabur Hajmola, Pudín Hara and Nature Care. The company has been working towards popularizing herbal remedies for treating and mitigating digestive disorders. Dabur is also the market leader in Pudín Hara. The Digestive category contributed 5.7% to Dabur's India FMCG Business in FY18.

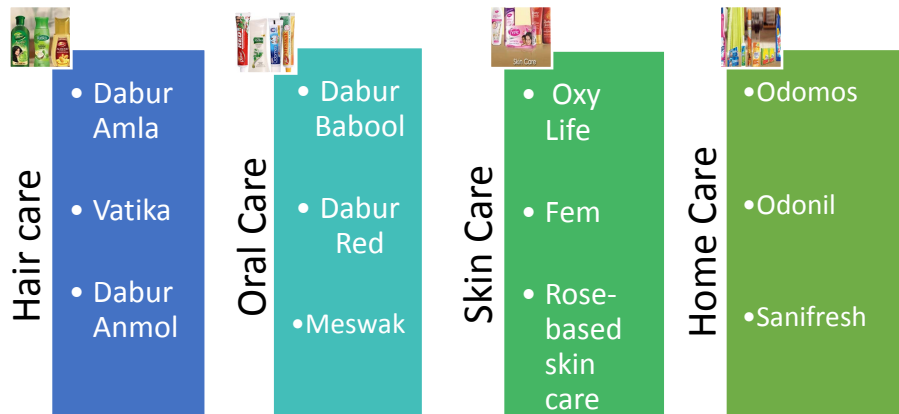
### OTC and Ethical's

This portfolio accounts for 8.7% of Dabur's India Business (in FY18). This business can emerge as a future growth driver for Dabur. The company's OTC portfolio presently include the following products.---

- 1) Cough and cold
- 2) Women's Health Care
- 3) Baby Care
- 4) Rejuvenators

### Home and Personal care

Many of today's consumers are demanding natural or nature-based products in home and personal care category. This growing trend among Indian consumers for natural ingredients gives Dabur a great opportunity for growth. Dabur offers a wide range of products covering Hair Care, Oral Care, Skin Care and Home Care. This vertical contributed 50.4% to Dabur's India business (in FY18).



Source: Company, Aриhant Research

### Hair Care

Dabur offers wide range of hair oils under brands like Dabur Amla, Vatika and Anmol. Dabur has also expanded its product range in the market by introduction of new variants amongst existing products. Dabur's Hair Care portfolio comprises of hair oils and shampoos, and contributed 21.1% of its India revenue in FY18. The shampoo portfolio accounts for 13.6% of Dabur's Hair Care business. The rest comes from hair oils.

### Oral Care

Dabur is leading player in the oral care market with a portfolio of completely different products in its portfolio with special focus on Ayurvedic and natural ingredients unlike its competitors. Dabur's products under oral care category can be classified as follows,---

- 1) Toothpaste – This includes Brands like Babool, Dabur Red Paste, Dabur Meswak and Dabur Red Gel.
- 2) Toothpowder– This includes brands like DaburLAI Dant Manjan.

The Oral Care business of Dabur has been growing at a strong rate, barring Babool which has shown some signs of weakness in the past few quarters. Oral Care category accounted for 17.3% of Dabur's India FMCG business in FY18.

### Skin Care

This is a small category but growth potential from skin care is very high. This market is expected to reach a size of ~US \$35 billion by 2035, with consumption being driven by teenagers. The herbal cosmetic industry is expected to grow at 12% p.a. in India. Skin Care is one of the key pillars of growth for Dabur in the future. Dabur's Skin Care portfolio includes facial bleaches, hair removal creams and rose-based products under brand names like Fem and Oxy Life and Dabur Gulabari. This segment accounted for 5.1% of Dabur's India revenue in FY18.




















### Home Care

Dabur has an active presence in household care products with brands like Odomos mosquito repellents, Odonil air fresheners and Sanifresh toilet cleaners. Home care category is highly competitive and Dabur's USP (Ayurvedic products) has limited use. This portfolio accounted for 6.9% of the company's revenue in FY18.

### Food

Dabur's Food business largely comprises of packaged fruit juices and beverages. Dabur is the market leader in packaged fruit juice market and enjoys nearly 55% share of the category with a range of products under the brands Real and Real Active. The company has an extremely wide and healthy product range. The food business contributes ~18% to its India revenue. To maintain its market share, Dabur's strategy is to focus on quality and innovation. The brands of Dabur enjoy good premium in the market which is evident by the company's dominant market share despite low pricing strategy adopted by its competitors.

### India FMCG Business of Dabur – Categorywise Break-up

|                  | Category           | Key Brands  | Revenue Contribution (FY18) | FY18 Growth | 9M FY19 Growth |
|------------------|--------------------|---|-----------------------------|-------------|----------------|
| Healthcare (32%) | Health Supplements |    | 17%                         | 9.4%        | 16.2%          |
|                  | Digestives         |     | 6%                          | 10.2%       | 18.2%          |
|                  | OTC & Ethicals     |     | 9%                          | 3.8%        | 14.0%          |
| HPC (50%)        | Hair Care          |    | 21%                         | 4.1%        | 19.9%          |
|                  | Oral Care          |    | 17%                         | 14.4%       | 10.0%          |
|                  | Home Care          |     | 7%                          | 13.0%       | 12.1%          |
|                  | Skin Care          |     | 5%                          | 11.0%       | 19.2%          |
| Foods (18%)      | Foods              |     | 18%                         | 0.7%        | 13.2%          |

Source: Company, Arianth Research

## Market Share of Dabur across Categories

| Vertical             | Particulars        | Revenue Contribution | Key Brands              | Market Size (Rs Cr) | Market Share (Volume Terms) |
|----------------------|--------------------|----------------------|-------------------------|---------------------|-----------------------------|
| Healthcare           | Health Supplements | 17.2%                | 1) Dabur Chyawanprash   | 700-800             | 60%                         |
|                      |                    |                      | 2) Dabur Honey          | 700                 | 50%                         |
|                      |                    |                      | 3) Dabur Glucose        | 600-700             | 28%                         |
|                      | Digestives         | 5.7%                 | 1) Dabur Hajmola        | 700-750             | 40%                         |
|                      |                    |                      | 2) Pudín Hara           | 1000-1100           | -                           |
|                      |                    |                      | 3) Nature Care          |                     | -                           |
|                      | OTC & Ethicals     | 8.7%                 | 1) Cough& Cold          | -                   | -                           |
|                      |                    |                      | 2) Women's Health care  |                     |                             |
|                      |                    |                      | 3) Rejuvenation         |                     |                             |
|                      |                    | <b>31.6%</b>         |                         |                     |                             |
| Home & Personal Care | Haircare           | 21.1%                | 1) Dabur Amla           | 10,000              | 14%                         |
|                      |                    |                      | 2) Vaika                |                     |                             |
|                      |                    |                      | 3) Dabur Anmol          |                     |                             |
|                      | Oral Care          | 17.3%                | 1) Dabur Babool         | 10,000              | 15%                         |
|                      |                    |                      | 2) Dabur Red            |                     |                             |
|                      |                    |                      | 3) Meswak               |                     |                             |
|                      | Home Care          | 6.9%                 | 1) Odomos               | 200                 | 60%                         |
|                      |                    |                      | 2) Odonil               | 600                 | 50%                         |
|                      |                    |                      | 3) Sanifresh            | 900                 | 6%                          |
|                      | Skin care          | 5.1%                 | 1) Oxy Life             | -                   | -                           |
|                      |                    |                      | 2) Fem                  |                     |                             |
|                      |                    |                      | 3) Rose-Based Skin Care |                     |                             |
|                      |                    | <b>50.4%</b>         |                         |                     |                             |
| Food                 | Fruit Juice        | 18%                  | 1) Real                 | 1800                | 55%                         |
|                      |                    |                      | 2) Real Active          |                     |                             |
|                      | Fruit Mocktail     |                      | 1) Real Mocktail        |                     |                             |

### Business Strategy

The company's strategy is to pursue a strong growth path with increasing focus on Ayurveda and nature-based products. Dabur considers its healthcare portfolio as unique and a strong generator of profitable growth for a longer term. In addition, the increasing consumer preference for Ayurvedic products provides Dabur a readymade platform to achieve its targeted growth.

## Dabur's Strategy

Innovation



Expansion



Branding



Promotion



Distribution

Dabur has positioned itself as the 'Science-Based Ayurveda Expert' in the market which helps the company in connecting with the younger generation who likes to understand the science behind the products before consuming them. The company's strategy also includes targeting the youth through specialized campaigns on the digital platforms and enhancing its presence e-commerce and online platforms.

Dabur's Personal Care portfolio and international offerings are also centred on 'herbal and natural' proposition, which has helped the company differentiate its products. The company aims at expanding its presence by investing strongly behind its brands, distribution and manufacturing capabilities. In the longer run, the company will continue to strategically focus on the 'herbal and natural' ingredients to gain competitive advantage. Ayurveda is the core philosophy around which the product portfolio revolves.

The company is increasing its focus on research and new product development to keep the customer interest alive and improve the brand visibility. This is also evident because the research and development cost of Dabur has increased from Rs 2.55cr in FY14 to Rs 32.04cr in FY18, growing at a CAGR of 88.3% during this period.

The total number of research scientists working in the company is equal to 126. In the last 3 years, Dabur launched 77 new products or its variants.

Some new products launched by the company are,---

- **Dabur-GlycoDab Tablets**  
An Ayurvedic solution for managing diabetes.
- **Dadimavaleha**  
A digestive tonic which helps to cure acidity and improve digestion.

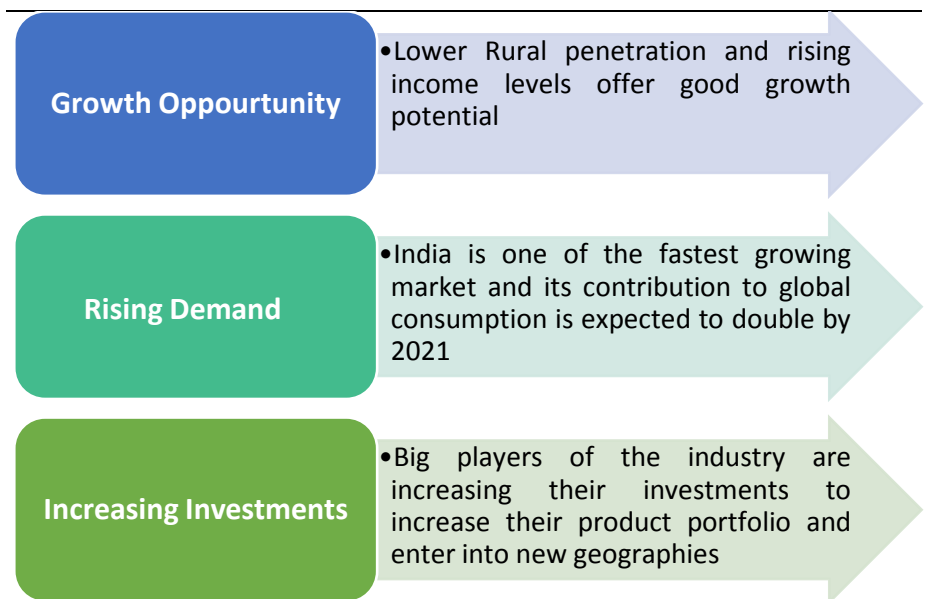


## Industry Analysis

### Growth drivers for the Indian FMCG sector

The Indian FMCG sector is poised to see robust growth going forward as the following key variables act as future growth drivers for the sector,---

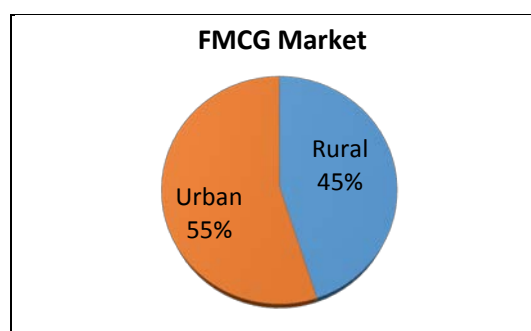
- Rising Income levels
- Increase in penetration
- Increasing investments
- Rural consumption



Source: Arian Research

### Rural v/s Urban Market

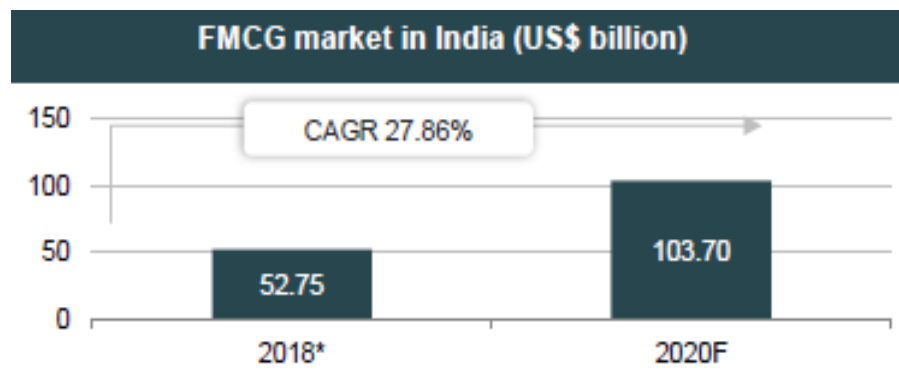
Currently 55% of Indian FMCG sales comes from the urban market. Demand for quality and branded products has also been growing in rural markets. The growth potential from the rural market is very high. The urban market is expected to grow at 8% v/s rural market growth rate of 16%. This will give a very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



Source: Arian Research

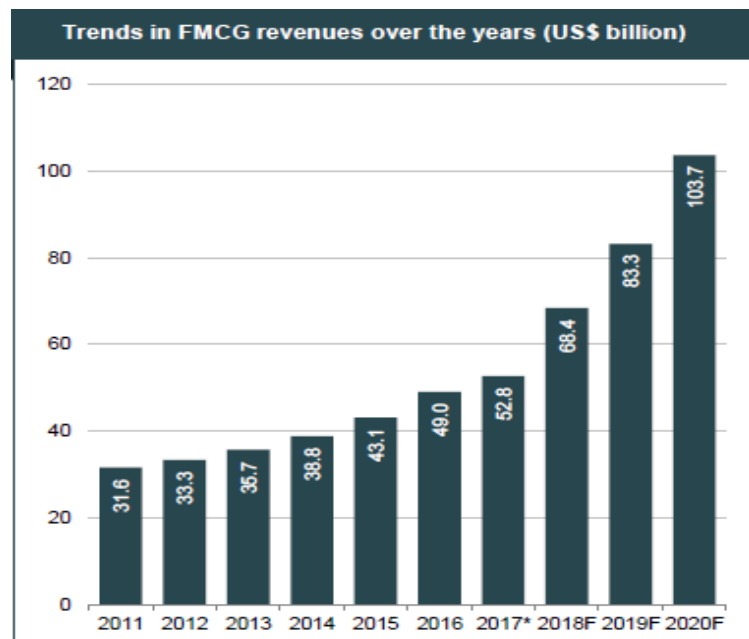
### Favourable demographics and rising income level to boost FMCG market

FMCG market in India is expected to grow at a CAGR of 27.86% and is expected to reach the figure of US\$ 103.70bn by 2020 from US\$ 52.75bn in FY18. Rising income levels and growing youth population have been key growth drivers for the FMCG sector. Brand consciousness has also aided demand. India's contribution to global consumption is expected to more than double to 5.8% by 2020.



### Strong growth in Indian FMCG sector augurs well for FMCG players

Revenues of FMCG sector reached Rs 3400 bn (US\$ 52.8 bn) in FY18 and are estimated to reach US\$ 103.7bn in 2020F. The initiatives taken in Union Budget 2019-20 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.

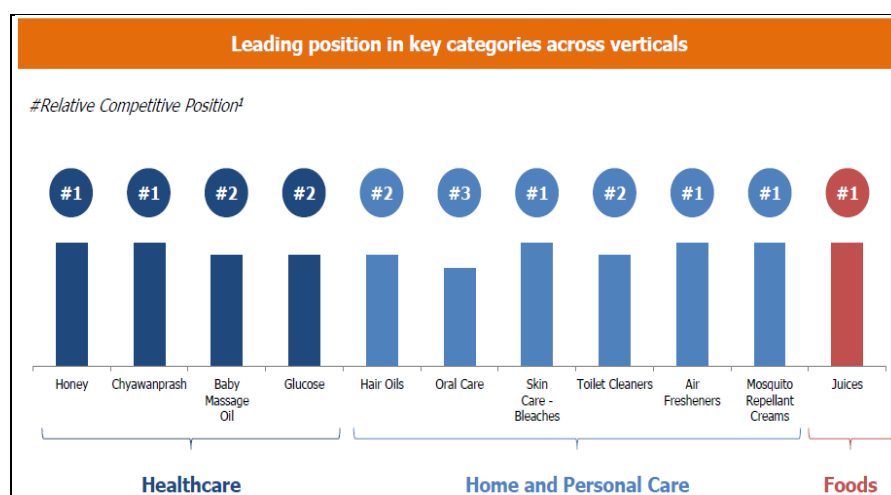


Source: IBEF Reports, Arihant Research

## Key Investment Rationale for Dabur India

### Market leadership in key categories across diverse product portfolio

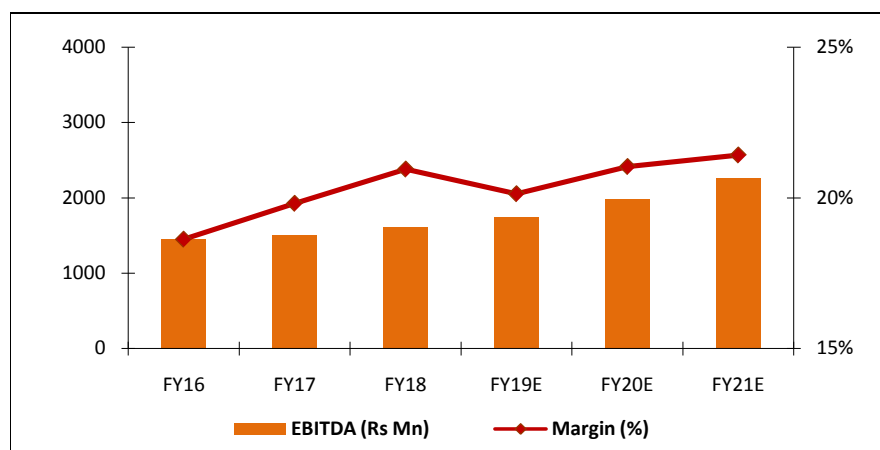
Dabur's product portfolio is present across diverse categories. A significant portion of company's product portfolio consists of natural and ayurvedic products. As consumption of ayurvedic products is increasing, Dabur remains in a sweet spot to capitalize upon this because it is one of the few companies with a big brand name in this particular segment. The company enjoys market leadership position in key categories across its diverse product portfolio, which augurs well for the company.



Source: Company, Arianth Research

### Stable EBITDA Margins around ~21-22% with upside trigger

Dabur has been able to take advantage of the economies of scale with its margins improving consistently from 16% in FY13 to 21% in FY18. This is likely to give the company huge benefit going forward as the company can capitalise on the strong demand environment. With control on its raw material sourcing Dabur would be able to maintain its EBITDA margins around ~21-22% level which coupled with decent revenue growth will have a dual positive impact on profitability of the company.



Source: Company, Arianth Research

### Strong Distribution Network

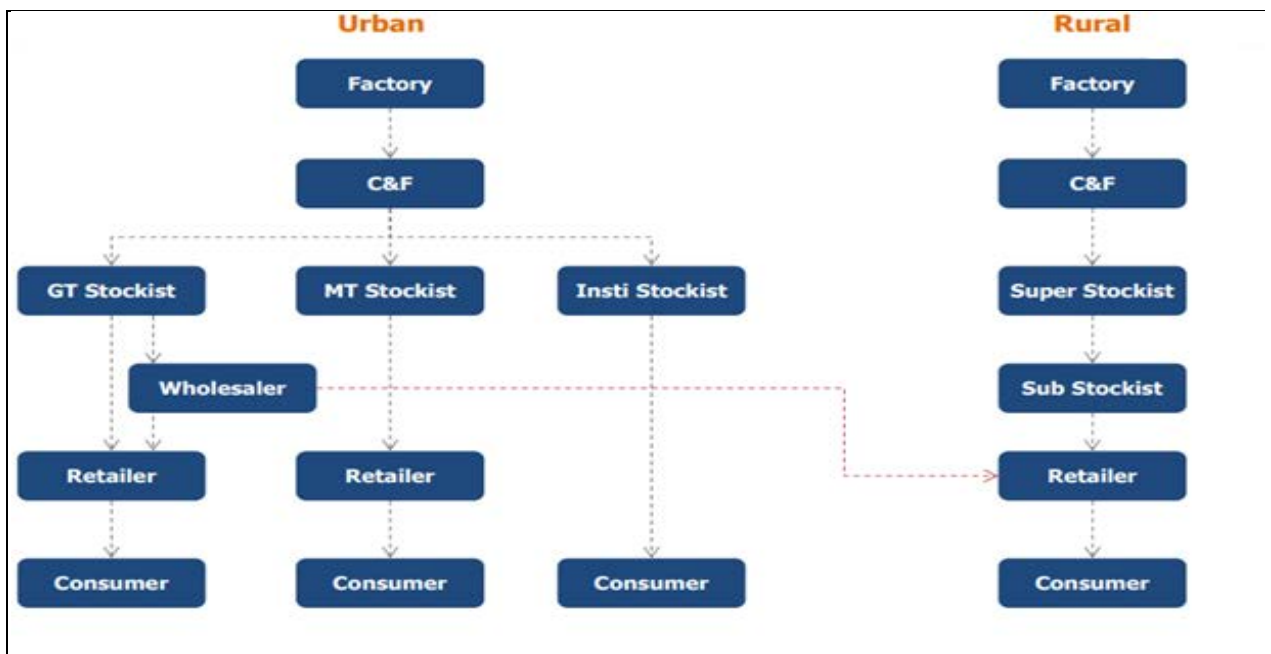
Dabur's products are available on 6.3 million retail outlets in the country. In addition to this, they are also sold through e-commerce platforms and specialized channels like beauty salons, chemists and Ayurvedic pharmacies.

In addition to this, a network of super stockists and sub-stockists in rural areas is set to tap the opportunities in these markets. Through this network, the company has a direct presence in 41,000 villages with ~370 super-stockists and ~10000 sub-stockists.

The company also has a team of around 175 medical sales officers who cover ~39,000 doctors, both Ayurvedic and Allopathic, to get endorsement from the medical community.

These medical sales officers are also engaged with doctors, and provide them detailed information about Dabur's Health Care range and information on various ingredients and clinical study data about each product.

The company covers over 200,000 chemists and over 10,000 Ayurvedic pharmacies to promote and sell its Healthcare products. Dabur also continuously focuses on improving their distribution network and increasing its efficiency.

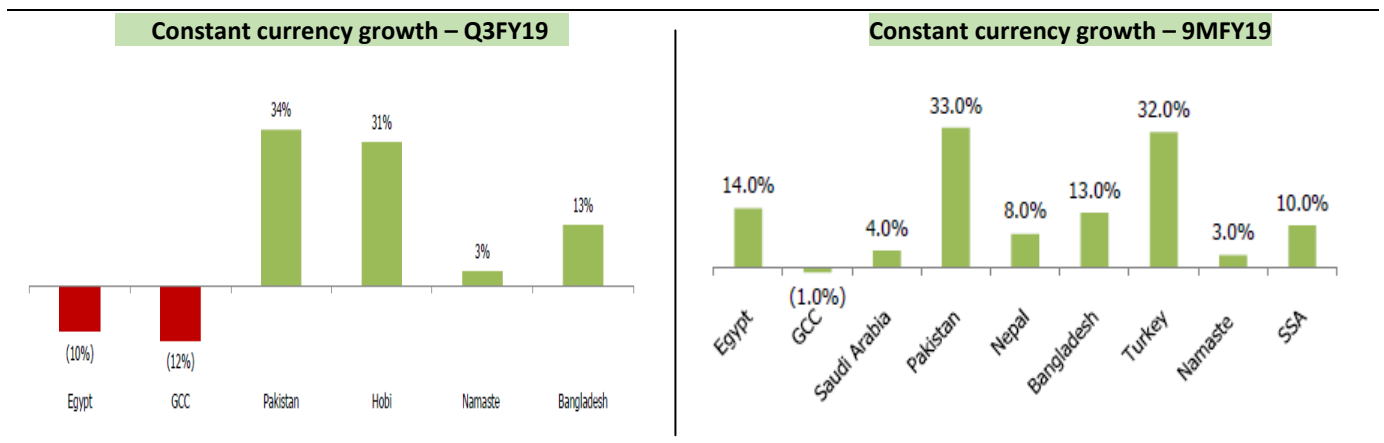


Source: Company, Arian Research

## Key Risk

### Slower growth in international business

During Q3FY19, Dabur's international business grew by 1% in constant currency (CC) terms while the margins contracted by 230 bps. This was on account of higher advertising expense and poor performance in GCC markets and Egypt. Even if the domestic business shows strong growth, the international business can impact overall performance of Dabur.



Source: Company, Arianth Research

### Foreign currency risks

Since a significant portion of the company's revenues is earned in foreign currencies, any expansion into new geographies exposes them to additional foreign currency risks associated with such diversification.

### Inflationary pressures

Some of the key raw materials for the company, which include edible oils, sugar and crude, are susceptible to inflationary pressures. Hence, any significant rise in them can impact the company's margins.

### Leadership change

Mr Mohit Malhotra, will succeed Mr. Sunil Duggal as the CEO of the company's Indian business. Dabur was under the guidance of Mr Sunil Duggal for 17 years. He will remain a whole-time director till May 15, 2019 and continue as a non-executive director till July 30, 2020. This change in leadership may have a short term negative impact.

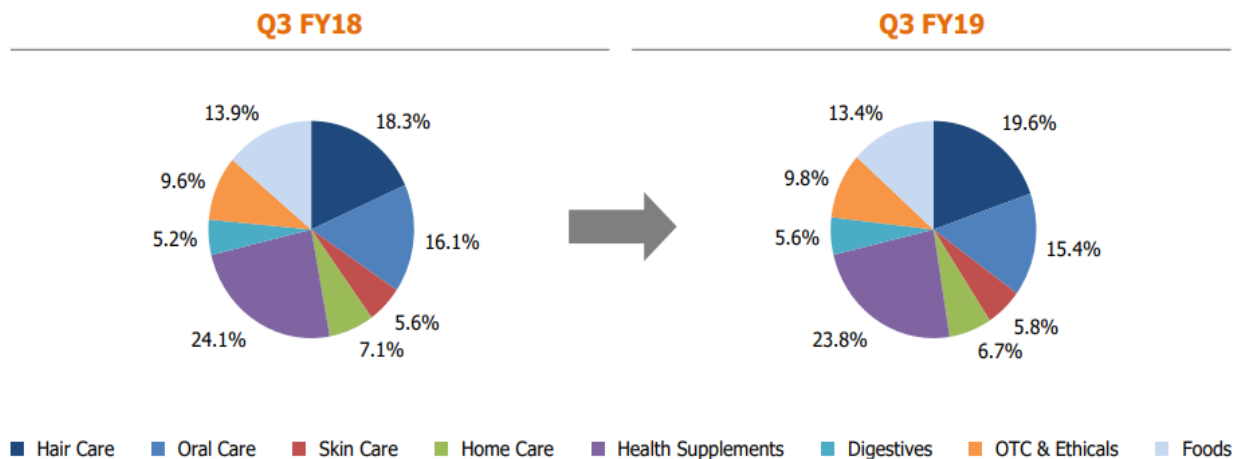
## Q3FY19 and 9MFY19 Financial Performance

| Rs Cr (Consolidated)    | Q3FY19       | Q3FY18       | Y-o-Y        | 9MFY19       | 9MFY18       | Y-o-Y        |
|-------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| <b>Net Revenue</b>      | <b>2,199</b> | <b>1,966</b> | <b>11.8%</b> | <b>6,405</b> | <b>5,715</b> | <b>12.1%</b> |
| Material Cost           | 1,115        | 952          | 17.1%        | 3,240        | 2,844        | 13.9%        |
| Employee cost           | 238          | 205          | 16.0%        | 696          | 612          | 13.7%        |
| Other Expenses          | 401          | 406          | -1.2%        | 1,187        | 1,127        | 5.3%         |
| <b>EBITDA</b>           | <b>445</b>   | <b>404</b>   | <b>10.4%</b> | <b>1,282</b> | <b>1,132</b> | <b>13.3%</b> |
| <i>EBITDA margin %</i>  | <i>20.2%</i> | <i>20.5%</i> | <i>-27</i>   | <i>20.0%</i> | <i>19.8%</i> | <i>21</i>    |
| Other Income            | 75           | 66           | 13.6%        | 230          | 232          | -0.8%        |
| Depreciation            | 45           | 41           | 10.9%        | 131          | 120          | 9.3%         |
| <b>EBIT</b>             | <b>476</b>   | <b>429</b>   | <b>10.8%</b> | <b>1,382</b> | <b>1,245</b> | <b>11.0%</b> |
| Finance cost            | 17           | 13           | 26.5%        | 47           | 40           | 18.6%        |
| Exceptional Item        | -            | -            | -            | -            | -15          | -            |
| <b>PBT</b>              | <b>459</b>   | <b>416</b>   | <b>10.3%</b> | <b>1,335</b> | <b>1,190</b> | <b>12.1%</b> |
| Tax Expense             | 92           | 83           | 10.9%        | 261          | 230          | 13.3%        |
| Effective tax rate %    | 20.1%        | 20.0%        | 11           | 19.5%        | 19.3%        | 21           |
| <b>PAT</b>              | <b>367</b>   | <b>333</b>   | <b>10.2%</b> | <b>1,074</b> | <b>960</b>   | <b>11.8%</b> |
| MI & Associates         | -1           | -1           | -            | -2           | -2           | -            |
| <b>Consolidated PAT</b> | <b>366</b>   | <b>332</b>   | <b>10.2%</b> | <b>1,072</b> | <b>958</b>   | <b>11.9%</b> |
| <i>PAT margin %</i>     | <i>16.6%</i> | <i>16.9%</i> | <i>-25</i>   | <i>16.7%</i> | <i>16.8%</i> | <i>-3</i>    |
| <b>EPS (Rs)</b>         | <b>2.1</b>   | <b>1.9</b>   | <b>10.2%</b> | <b>6.1</b>   | <b>5.4</b>   | <b>11.9%</b> |

Source: Company, Arianth Research

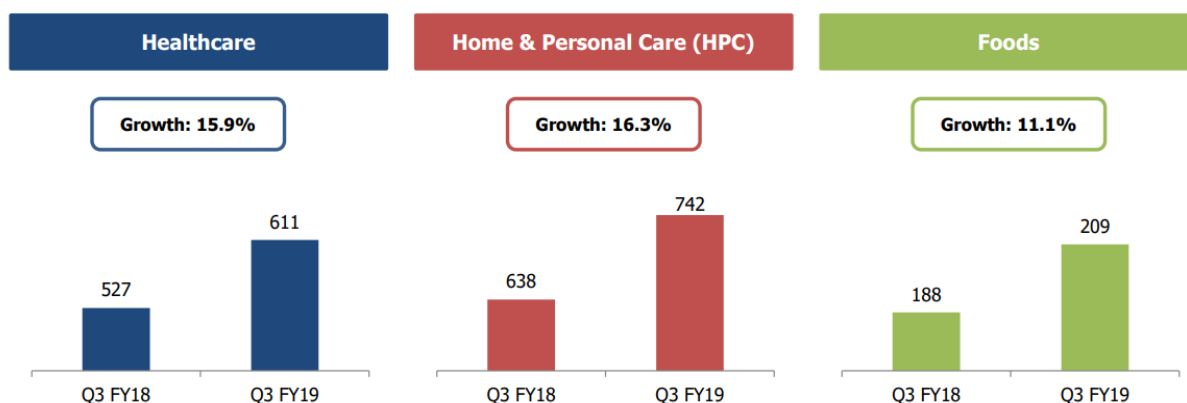
- In Q3FY19, Dabur's revenue grew 11.8% YoY to Rs 2199cr; while consolidated PAT grew 10.2% YoY and stood at Rs 366cr
- India FMCG business grew 15.2% in Q3FY19 with volume growth of 12.4%. All three verticals; Home & Personal Care (HPC), Healthcare and Foods recorded double digit growth led by aggressive investment in brand building and marketing activities. HPC grew by 16.3% on the back of strong performance of the Hair Care and Skin Care portfolio.
- Healthcare recorded 15.9% growth on account of strong growth of Digestives and OTC & Ethicals business. Food reported 11.1% growth.
- Market share continue to increase in key categories like shampoo, hair oil and juices. Contribution of domestic FMCG business stood at 72.2% while international business contributed ~25%.

## Quarterly Sales Break-Up



Source: Company, Arianth Research

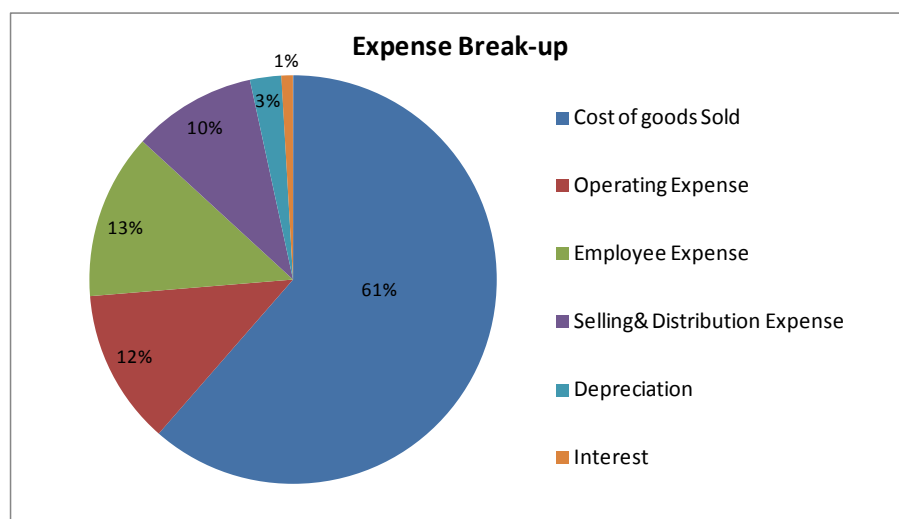
## Segmental Performance



Source: Company, Arihant Research

## Key Highlights

- Dabur is planning to enter into new segments in the beverage business. This will be accompanied by multiple new product launches.
- The company will continue to invest strongly in its brands and distribution infrastructure to leverage growth.
- The management expects a strong demand environment going forward
- Rural market will be the key growth driver in the upcoming quarters.
- 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.
- Contribution from Indian business increased for Dabur in Q3FY19. Revenue share stood at 72.2% in Q3FY19 against 70.2% in Q3FY18.
- International business contributed 25% of its revenues in Q3FY19 against 27.1% in Q3FY18.

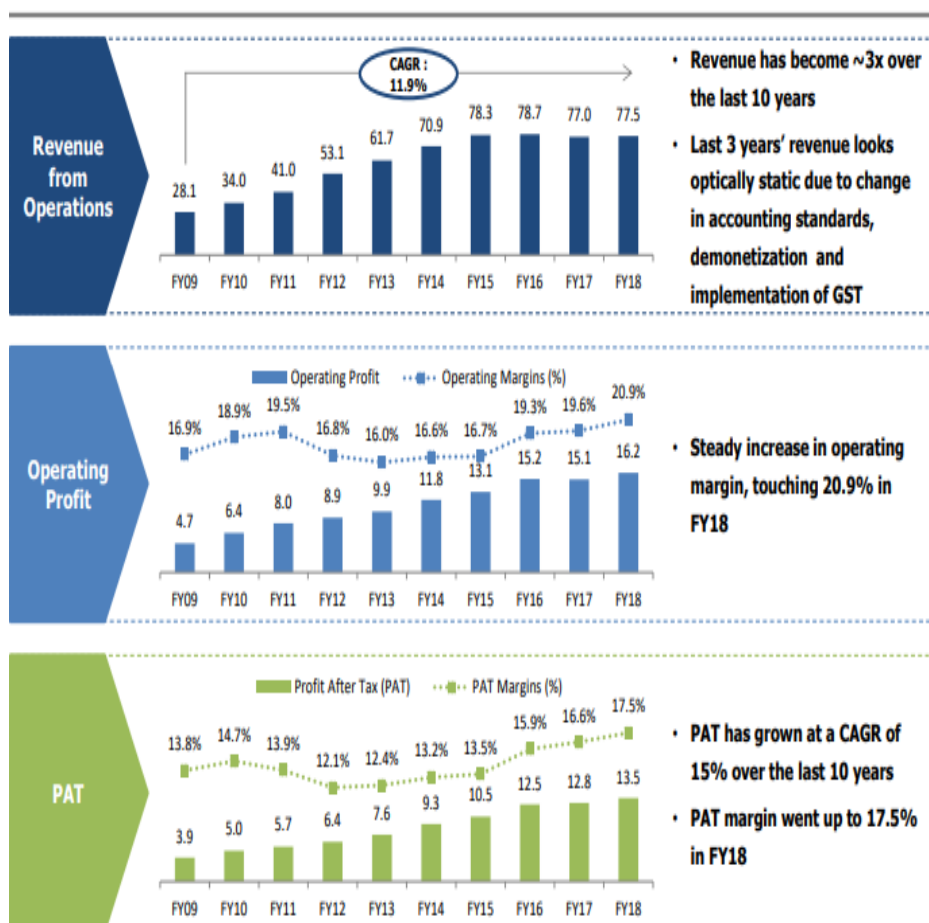


Source: Arihant Research

## Dabur's 10-year Performance Snapshot

| Particulars (Rs Cr)    | FY09         | FY10         | FY11         | FY12         | FY13         | FY14         | FY15         | FY16         | FY17         | FY18         | CAGR         |
|------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Net Sales              | 2805         | 3390         | 4105         | 5305         | 6169         | 7075         | 7827         | 7780         | 7614         | 7722         | 11.9%        |
| <b>EBITDA</b>          | <b>466</b>   | <b>623</b>   | <b>767</b>   | <b>860</b>   | <b>988</b>   | <b>1160</b>  | <b>1316</b>  | <b>1518</b>  | <b>1507</b>  | <b>1615</b>  | <b>14.8%</b> |
| EBITDA Margin(%)       | 16.6%        | 18.4%        | 18.7%        | 16.2%        | 16.0%        | 16.4%        | 16.8%        | 19.5%        | 19.8%        | 20.9%        |              |
| PAT                    | 391          | 501          | 569          | 645          | 763          | 914          | 1066         | 1251         | 1277         | 1354         | 14.8%        |
| PAT Margin (%)         | 13.9%        | 14.8%        | 13.9%        | 12.2%        | 12.4%        | 12.9%        | 13.6%        | 16.1%        | 16.8%        | 17.5%        |              |
| <b>EPS (Rs)</b>        | <b>2.3</b>   | <b>2.9</b>   | <b>3.3</b>   | <b>3.7</b>   | <b>4.4</b>   | <b>5.2</b>   | <b>6.1</b>   | <b>7.1</b>   | <b>7.2</b>   | <b>7.7</b>   | <b>14.6%</b> |
| Cash                   | 148          | 192          | 280          | 418          | 362          | 519          | 276          | 220          | 305          | 306          | 8.4%         |
| Total Debt             | 230          | 179          | 1051         | 1117         | 1258         | 951          | 961          | 792          | 975          | 938          | 16.9%        |
| <b>Debt/Equity (x)</b> | <b>0.3</b>   | <b>0.2</b>   | <b>0.8</b>   | <b>0.7</b>   | <b>0.6</b>   | <b>0.4</b>   | <b>0.3</b>   | <b>0.2</b>   | <b>0.2</b>   | <b>0.2</b>   |              |
| Book Value (Rs)        | 9            | 11           | 8            | 10           | 12           | 15           | 19           | 24           | 28           | 32           | 14.7%        |
| <b>ROE (%)</b>         | <b>47.8%</b> | <b>53.6%</b> | <b>40.8%</b> | <b>37.5%</b> | <b>36.4%</b> | <b>34.3%</b> | <b>31.8%</b> | <b>30.0%</b> | <b>26.3%</b> | <b>23.7%</b> |              |
| Share Price (Rs)       | 99           | 159          | 96           | 106          | 137          | 180          | 266          | 250          | 277          | 327          |              |
| Market Cap             | <b>8564</b>  | <b>13795</b> | <b>16711</b> | <b>18466</b> | <b>23878</b> | <b>31388</b> | <b>46723</b> | <b>43978</b> | <b>48794</b> | <b>57601</b> | <b>23.6%</b> |
| <b>P/E (x)</b>         | <b>21.9</b>  | <b>27.5</b>  | <b>29.4</b>  | <b>28.6</b>  | <b>31.3</b>  | <b>34.3</b>  | <b>43.8</b>  | <b>35.1</b>  | <b>38.2</b>  | <b>42.5</b>  |              |
| P/B (x)                | 10.5         | 14.7         | 12.0         | 10.7         | 11.4         | 11.8         | 13.9         | 10.5         | 10.1         | 10.1         |              |

Source: Company, Arianth Research



Source: Company, Arianth Research

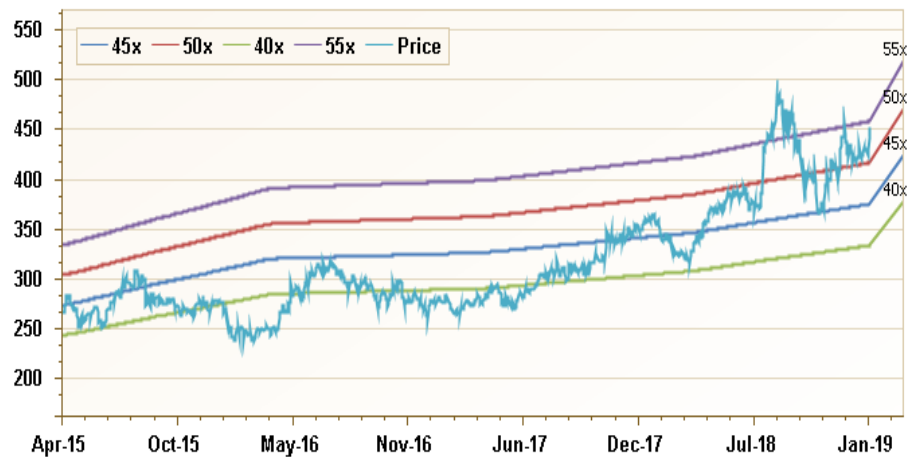
- Dabur has witnessed a growth of 11.9% in sales over the last 10 years, while EBITDA and PAT has witnessed a growth of 14.8% each.
- The company clocked a CAGR of 14.6% in its EPS over the last 10 years, however market has disproportionately rewarded the company, as its market cap increased by 23.6% CAGR over the same period.
- Over the past 5 years, even though the company has maintained similar revenue levels, the company has been successfully able to increase its profitability.



## Valuation

As India is a compelling growth story based on its favourable demographic profile with consumption being in a secular growth trend, hence the companies catering to the consumption theme are trading at significant premium to the market. This is mainly due to their high return ratios, ample positive cash flows, good corporate governance and high dividend payout. Dabur is no exception and hence commands a premium valuation. At CMP of Rs 420, Dabur is trading at FY20E and FY21E, P/E multiples of 43.4x and 38.5x respectively. If we look at the average P/E band of Dabur for the past 5 years then the stock has traded at an average P/E 40x or higher. Based on this rationale, we value the stock at a FY21E target P/E multiple of 45x, which yields a target price of Rs 491 per share.

P/E Band – Dabur



Source: Company, Ace Equity, Arihant Research

## Peer Comparison

Dabur's closest peer companies are Marico, HUL, Godrej Consumer and Emami. In the following table we have compared Dabur with its peers on key parameters.

| Company Name (FY21E estimate) | Price (Rs) | Sales (Rs Cr) | EBITDA (Rs Cr) | EBITDA Margin (%) | PAT (Rs Cr) | EPS (Rs) | P/E (x) | P/BV (x) | ROE (%) |
|-------------------------------|------------|---------------|----------------|-------------------|-------------|----------|---------|----------|---------|
| Marico*                       | 340        | 9307          | 1809           | 19.4              | 1332        | 10.3     | 33.0    | 12.5     | 38.0    |
| HUL                           | 1698       | 52798         | 12600          | 23.9              | 9097        | 40.5     | 41.9    | 19.6     | 73.7    |
| Dabur India                   | 420        | 10533         | 2256           | 21.4              | 1927        | 10.9     | 38.5    | 8.1      | 21.2    |
| Godrej Consumer               | 716        | 13182         | 2924           | 22.2              | 2132        | 20.9     | 34.2    | 8.2      | 25.5    |
| Emami                         | 397        | 3448          | 985            | 28.6              | 690         | 15.3     | 25.9    | 6.9      | 27.8    |

Source: Company, Bloomberg, Arihant Research

\* under Arihant's active coverage

## Consolidated Financials

## Income Statement (Rs Cr)

| Year End-March             | FY17         | FY18         | FY19E        | FY20E        | FY21E        |
|----------------------------|--------------|--------------|--------------|--------------|--------------|
| <b>Revenues</b>            | 7,614        | 7,722        | 8,634        | 9,454        | 10,533       |
| <i>Change (%)</i>          | -2.1%        | 1.4%         | 11.8%        | 9.5%         | 11.4%        |
| Raw materials              | 3,755        | 3,820        | 4,376        | 4,786        | 5,340        |
| <b>Gross Profit</b>        | <b>3,858</b> | <b>3,902</b> | <b>4,258</b> | <b>4,668</b> | <b>5,193</b> |
| Employee costs             | 790          | 793          | 941          | 1,021        | 1,147        |
| Other expenses             | 1,560        | 1,492        | 1,579        | 1,658        | 1,791        |
| <b>Total Expenses</b>      | <b>6,105</b> | <b>6,104</b> | <b>6,895</b> | <b>7,465</b> | <b>8,277</b> |
| <b>EBITDA</b>              | <b>1,509</b> | <b>1,617</b> | <b>1,738</b> | <b>1,989</b> | <b>2,256</b> |
| Other Income               | 298          | 305          | 345          | 397          | 432          |
| Depreciation               | 143          | 162          | 177          | 187          | 206          |
| Interest                   | 54           | 53           | 62           | 64           | 73           |
| <b>PBT</b>                 | <b>1,610</b> | <b>1,707</b> | <b>1,845</b> | <b>2,135</b> | <b>2,409</b> |
| Extra-ordinary             | 0            | 15           | 0            | 0            | 0            |
| <b>PBT after ext-ord.</b>  | <b>1,610</b> | <b>1,693</b> | <b>1,845</b> | <b>2,135</b> | <b>2,409</b> |
| Tax                        | 330          | 335          | 369          | 427          | 482          |
| <i>Rate (%)</i>            | 20.5%        | 19.8%        | 20.0%        | 20.0%        | 20.0%        |
| <b>PAT</b>                 | <b>1,280</b> | <b>1,358</b> | <b>1,476</b> | <b>1,708</b> | <b>1,927</b> |
| <b>MI &amp; Associates</b> | <b>-3</b>    | <b>-3</b>    | <b>0</b>     | <b>0</b>     | <b>0</b>     |
| <b>Consolidated PAT</b>    | <b>1,277</b> | <b>1,354</b> | <b>1,476</b> | <b>1,708</b> | <b>1,927</b> |
| <i>Change (%)</i>          | 7.8%         | 6.1%         | 9.0%         | 15.7%        | 12.8%        |

Source: Company, Arianth Research

## Balance Sheet (Rs Cr)

| Year End-March                       | FY17         | FY18         | FY19E        | FY20E        | FY21E         |
|--------------------------------------|--------------|--------------|--------------|--------------|---------------|
| <b>Sources of Funds</b>              |              |              |              |              |               |
| Share Capital                        | 176          | 176          | 177          | 177          | 177           |
| Reserves & Surplus                   | 4,671        | 5,530        | 6,486        | 7,620        | 8,926         |
| <b>Net Worth</b>                     | <b>4,847</b> | <b>5,707</b> | <b>6,663</b> | <b>7,797</b> | <b>9,103</b>  |
| <b>Loan Funds</b>                    | <b>911</b>   | <b>829</b>   | <b>999</b>   | <b>1,092</b> | <b>1,183</b>  |
| MI, Deferred Tax & other liabilities | 175          | 181          | 181          | 181          | 181           |
| <b>Capital Employed</b>              | <b>5,933</b> | <b>6,716</b> | <b>7,843</b> | <b>9,070</b> | <b>10,467</b> |
| <b>Application of Funds</b>          |              |              |              |              |               |
| Gross Block                          | 2,432        | 2,634        | 3,884        | 5,384        | 6,884         |
| Less: Depreciation                   | 884          | 1,018        | 1,195        | 1,382        | 1,588         |
| Net Block                            | 1,548        | 1,617        | 2,690        | 4,003        | 5,296         |
| CWIP                                 | 42           | 42           | 42           | 42           | 42            |
| Other non current assets             | 513          | 496          | 496          | 496          | 496           |
| Current tax assets                   | 3            | 5            | 5            | 5            | 5             |
| <b>Net fixed assets</b>              | <b>2,107</b> | <b>2,159</b> | <b>3,232</b> | <b>4,545</b> | <b>5,839</b>  |
| <b>Investments</b>                   | <b>3,240</b> | <b>3,805</b> | <b>3,805</b> | <b>3,805</b> | <b>3,805</b>  |
| Debtors                              | 650          | 706          | 828          | 907          | 1,010         |
| Inventories                          | 1,107        | 1,256        | 1,183        | 1,295        | 1,443         |
| Cash & bank balance                  | 305          | 306          | 594          | 497          | 586           |
| Loans & advances & other CA          | 324          | 469          | 798          | 843          | 902           |
| <b>Total current assets</b>          | <b>2,386</b> | <b>2,738</b> | <b>3,403</b> | <b>3,542</b> | <b>3,941</b>  |
| Current liabilities                  | 1,654        | 1,822        | 2,365        | 2,590        | 2,886         |
| Provisions                           | 145          | 164          | 232          | 232          | 232           |
| <b>Net current assets</b>            | <b>586</b>   | <b>752</b>   | <b>806</b>   | <b>720</b>   | <b>823</b>    |
| <b>Total Assets</b>                  | <b>5,933</b> | <b>6,716</b> | <b>7,843</b> | <b>9,070</b> | <b>10,467</b> |

**Cash Flow Statement (Rs Cr)**

| Year End-March                             | FY17          | FY18          | FY19E         | FY20E         | FY21E         |
|--|---------------|---------------|---------------|---------------|---------------|
| <b>PBT</b>                                 | <b>1,610</b>  | <b>1,707</b>  | <b>1,845</b>  | <b>2,135</b>  | <b>2,409</b>  |
| Depreciation                               | 143           | 162           | 177           | 187           | 206           |
| Interest & others                          | -247          | -255          | -284          | -333          | -359          |
| Cash flow before WC changes                | 1,506         | 1,614         | 1,738         | 1,989         | 2,256         |
| <b>(Inc)/dec in working capital</b>        | <b>150</b>    | <b>-161</b>   | <b>235</b>    | <b>-11</b>    | <b>-15</b>    |
| Operating CF after WC changes              | 1,656         | 1,453         | 1,973         | 1,978         | 2,241         |
| Less: Taxes                                | -330          | -335          | -369          | -427          | -482          |
| <b>Operating cash flow</b>                 | <b>1,326</b>  | <b>1,118</b>  | <b>1,604</b>  | <b>1,551</b>  | <b>1,759</b>  |
| (Inc)/dec in F.A + CWIP                    | -225          | -68           | -500          | -500          | -500          |
| (Pur)/sale of investment                   | -634          | -549          | 0             | 0             | 0             |
| <b>Cash flow from investing</b>            | <b>-859</b>   | <b>-617</b>   | <b>-500</b>   | <b>-500</b>   | <b>-500</b>   |
| <b>Free cash flow (FCF)</b>                | <b>1,101</b>  | <b>1,051</b>  | <b>1,104</b>  | <b>1,051</b>  | <b>1,259</b>  |
| Loan raised/(repaid)                       | 119           | -82           | 171           | 92            | 92            |
| Equity raised                              | 0             | 0             | 0             | 0             | 0             |
| Interest & others                          | -775          | -882          | -1,426        | -1,801        | -1,948        |
| Dividend                                   | -396          | -396          | -520          | -574          | -621          |
| <b>Cash flow from financing activities</b> | <b>-4,146</b> | <b>-5,484</b> | <b>-6,826</b> | <b>-6,594</b> | <b>-7,878</b> |
| <b>Net inc/(dec) in cash</b>               | <b>86</b>     | <b>1</b>      | <b>288</b>    | <b>-97</b>    | <b>88</b>     |
| Opening balance of cash                    | 220           | 305           | 306           | 594           | 497           |
| Closing balance of cash                    | 305           | 306           | 594           | 497           | 586           |

Source: Company, Arianth Research

**Key Ratios**

| Year End-March            | FY17  | FY18  | FY19E | FY20E | FY21E |
|---------------------------|-------|-------|-------|-------|-------|
| <b>Per share (Rs)</b>     |       |       |       |       |       |
| EPS                       | 7.2   | 7.7   | 8.4   | 9.7   | 10.9  |
| CEPS                      | 8.1   | 8.6   | 9.4   | 10.7  | 12.1  |
| BVPS                      | 27.5  | 32.4  | 37.7  | 44.1  | 51.5  |
| DPS                       | 2.3   | 2.3   | 2.9   | 3.2   | 3.5   |
| Payout (%)                | 31.0% | 29.3% | 35.2% | 33.6% | 32.2% |
| <b>Valuation (x)</b>      |       |       |       |       |       |
| P/E                       | 57.9  | 54.6  | 50.3  | 43.4  | 38.5  |
| P/CEPS                    | 52.1  | 48.8  | 44.9  | 39.2  | 34.8  |
| P/BV                      | 15.3  | 13.0  | 11.1  | 9.5   | 8.1   |
| EV/EBITDA                 | 49.4  | 46.1  | 42.9  | 37.6  | 33.1  |
| Dividend Yield (%)        | 0.5%  | 0.5%  | 0.7%  | 0.8%  | 0.8%  |
| <b>Return ratio (%)</b>   |       |       |       |       |       |
| EBIDTA Margin             | 19.8% | 20.9% | 20.1% | 21.0% | 21.4% |
| PAT Margin                | 16.8% | 17.5% | 17.1% | 18.1% | 18.3% |
| ROE                       | 26.3% | 23.7% | 22.2% | 21.9% | 21.2% |
| ROCE                      | 23.0% | 21.7% | 19.9% | 19.9% | 19.6% |
| <b>Leverage Ratio (%)</b> |       |       |       |       |       |
| Total D/E                 | 0.2   | 0.1   | 0.2   | 0.1   | 0.1   |
| Net D/E                   | 0.1   | 0.1   | 0.1   | 0.1   | 0.1   |
| <b>Turnover Ratios</b>    |       |       |       |       |       |
| Asset Turnover (x)        | 1.3   | 1.1   | 1.1   | 1.0   | 1.0   |
| Inventory Days            | 53    | 59    | 50    | 50    | 50    |
| Receivable Days           | 31    | 33    | 35    | 35    | 35    |
| Payable days              | 86    | 94    | 100   | 100   | 100   |

Source: Company, Arianth Research

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**Stock Rating Scale**

|            | <b>Absolute Return</b> |
|------------|------------------------|
| Buy        | > 20%                  |
| Accumulate | 12% to 20%             |
| Hold       | 5% to 12%              |
| Neutral    | -5% to 5%              |
| Reduce     | < -5%                  |

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