03-Feb-2021

DABUR INDIA LIMITED

CASE STUDY

ABOUT THE COMPANY

Dabur India Ltd. is one of the leading fast moving consumer goods (FMCG) players dealing in consumer care and food products. The company has rich ayurvedic heritage of almost 136 years and is the 4th largest FMCG company in India and a leader in Ayurveda globally. The company has various brand leaders in different market segments - Dabur Chyawanprash, a health tonic, and Hajmola - a digestive tablet. Real, launched during 1996- 97, has also successfully become the leader in the market.

Dabur operates in key consumer products categories like Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. The Company has a wide distribution network, with a high penetration in both urban and rural markets. Dabur's products also have a huge presence in the overseas markets (contributing 26% of revenues) and are available in over 100 countries across the globe. The company has its manufacturing presence across 9 countries.

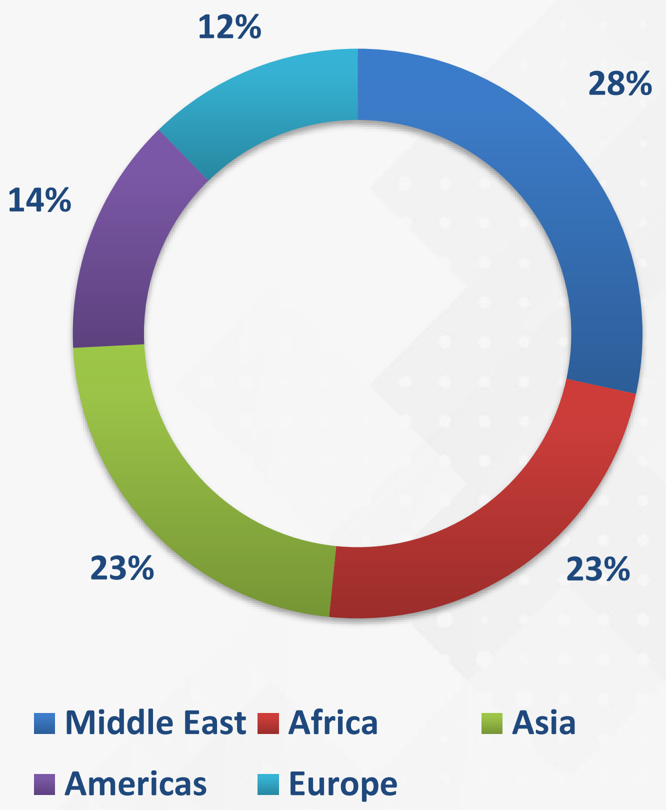
Dabur has identified 9 Power Brands – Dabur Chyawanprash, Dabur Honey, Dabur Lal Tail, Dabur Honitus, Dabur Pudin Hara, Dabur Red Paste, Dabur Amla Hair Oil, Vatika and Real fruit juice – that account for more than 70% of its total sales.

ABOUT THE COMPANY

SEGMENT BREAK UP

- Dabur's Consolidated Business
  - International Business — 26%
  - India Business — 72.5%
    - Home & Personal Care — 50%
    - Healthcare — 34%
    - Foods — 16%
  - Others — 1.5%

INTERNATIONAL BUSINESS GEOGRAPHICAL BREAK UP



SALES GROWTH

In FY20, revenues grew by 2% YoY to ₹8,704 cr led by 4.9% growth in the international business as the domestic business reported a flattish 0.6% growth over FY19. On account of COVID-19, both the geographies witnessed loss of sales and hence, the growth was impacted.

In 9M FY21, the revenues grew by 5.7% YoY to ₹7,225 cr (v/s ₹6,838 cr in 9M FY20) led by 9.5% YoY growth in the domestic business. International business however de-grew by 1.6% YoY.

Domestic business was aided by 34.5% growth in the healthcare segment, and 3.4% growth in the HPC (Home and Personal Care) segment. While foods segment reported a decline of 14.1%.

5 Year CAGR: 2.1%

Dabur India Ltd.

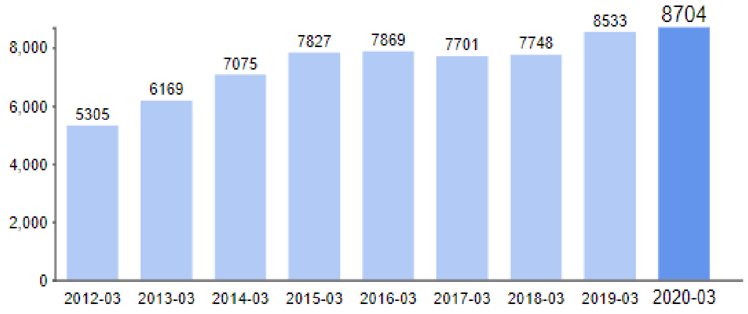
Chart | Deliveries | Updates | Technicals | Fundamental | Financials | Shareholding | MF Holding

Overview | Results | Ratios

Quarterly | Halfyearly | Annual

Consolidated | Standalone

	9 Years	2016-03 Rs. Cr.	2017-03 Rs. Cr.	2018-03 Rs. Cr.	2019-03 Rs. Cr.	2020-03 Rs. Cr.
Net Sales		7,868.77	7,701.44	7,748.34	8,533.05	8,703.59



EBITDA GROWTH

In FY20, the EBITDA grew by 3% YoY to ₹1,792 cr which was mostly led by revenue growth.

In 9M FY21, the EBITDA grew by 8.3% YoY to ₹1,560 cr (v/s ₹1,440 cr in 9M FY20) which was mostly aided due to lower other expenses (-5.8% YoY) during the period.

The management has indicated that it would take necessary steps like cost optimization, reduction in consumer promotion & advertising expenses in order to keep the prices of all the products under control.

5 Year CAGR: 6.4%

PAT GROWTH

The PAT was flat at ₹1,448 cr in FY20 (v/s 1,445 cr in FY19) which was impacted partially due to an exceptional charge worth of ₹100 cr which was on account of impairment of treasury investments in DHFL and Reliance Home Finance due to downgrade and failed repayments.

In 9M FY21, the PAT was higher by 13% YoY to ₹1,318 cr (v/s ₹766 cr in H1 FY20) mainly aided due to low base effect (exceptional charge worth ₹60 cr in 9M FY20).

The company would continue to strengthen and leverage the power brands, expand the distribution network, digitize the operations, optimize costs and build organizational capabilities for sustainable and profitable future growth.

5 Year CAGR: 6.3%

GROWTH EDGE METER: 3

An Edge Meter is a graded measurement of certain aspects of a company on a scale of 1 to 5, 5 denoting the highest rating. Since judgement on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

EBITDA MARGIN

From FY16, the company had optimized its advertisement costs which led to expansion of its margins to ~22% from ~18% in FY15. The EBITDA margin has been flat over the past 2 years at around 21.7%.

In 9M FY21, the company was able to maintain its margins at ~21.6% (v/s 21.1% in 9M FY20) which was aided mainly due to savings in the other expenses, and favourable product mix during the period.

In H1 FY21, the company had launched project 'Samriddhi' which aimed to cut non-essential spending and reviewing the variable cost structure. Hence, currently the company aims to primarily maintain the margins at pre-COVID levels.

PAT MARGIN

In FY20, the PAT margins were lower at 14.9% (v/s 15.5% in FY19) impacted due to exceptional charge during the year.

In 9M FY21, the PAT margins were higher at 18.2% (v/s 17% in 9M FY20), aided mainly due to lower base effect.

PROFITABILITY

ROCE

Dabur had a healthy average ROCE of 31.3% over the past 9 years. However over the past 4 years, the ROCE has come down from 34.5% in FY16 to 26.4% in FY20.

The company has been incurring higher capital investments in both brownfield and greenfield projects along with a new factory which is currently being built in Assam over the past few years. These have had an impact on the company's ROCE over the past years.

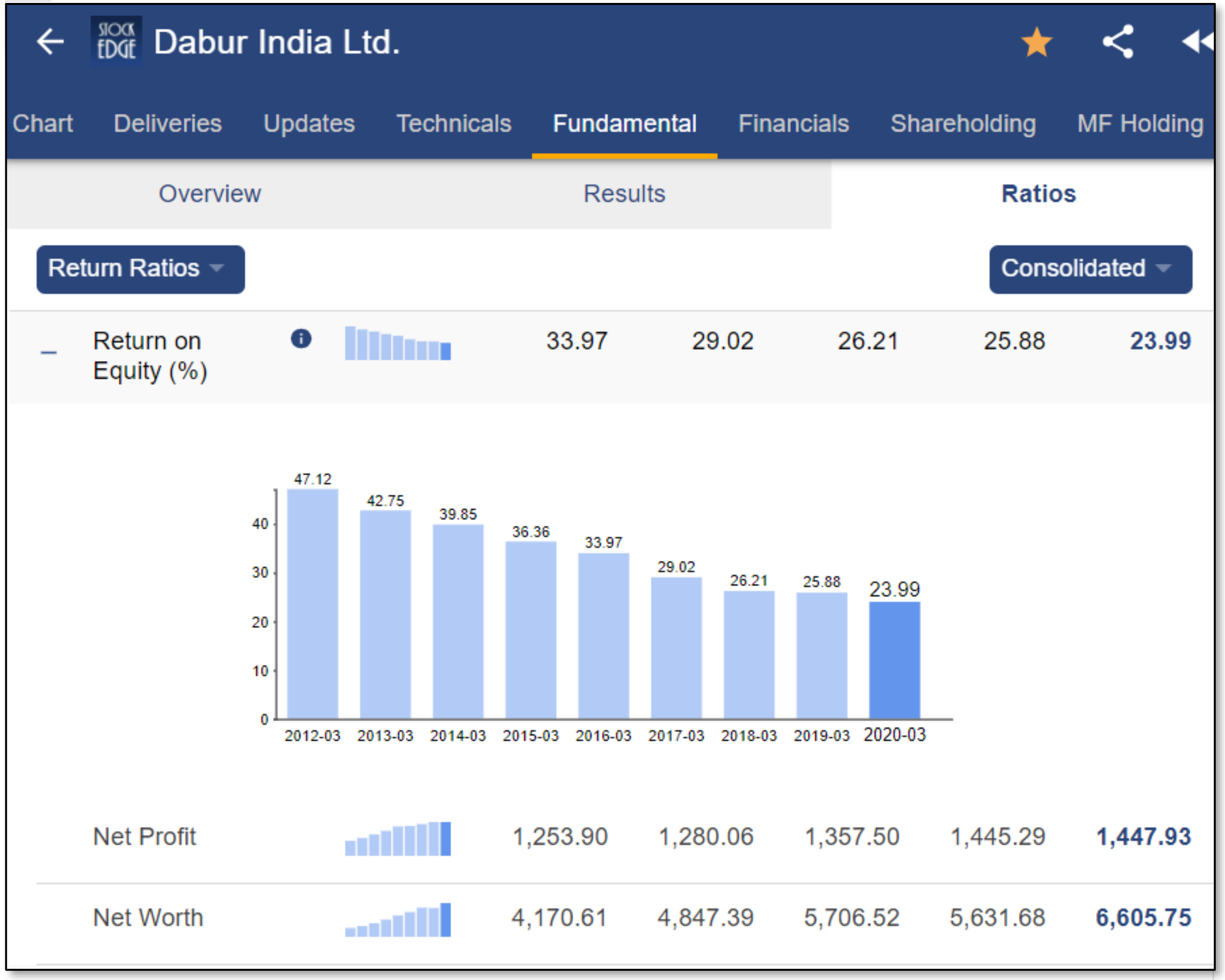
STOCK EDGE

PROFITABILITY

Case Study

ROE

Similar to the ROCE, the company has had a healthy average ROE of 34% over the past 9 years. However, that has been continuously falling over the years on account of falling net profit growth.



STOCK EDGE

PROFITABILITY EDGE METER: 4

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CASH FLOWS

Dabur has a very healthy and strong cash flow from operations (CFO) profile over the past 9 years. In FY20, the CFO was 8% higher to ₹1,614 cr.

Cash flow from investing was an outflow of ₹517 cr (v/s an inflow of ₹337 cr in FY19) which was on account of higher CAPEX worth ₹377 cr as well as higher investments made during the period.

Cash flow from financing activities outflows were lower at ₹1,043 cr (v/s ₹1,888 cr in FY19) due to lower dividend payments in FY20.

Dabur has been leveraging the new-age channels like ecommerce, cash and carry and modern trade which is enabling them to make leaner operations, thus aiding the cash flows of the company.

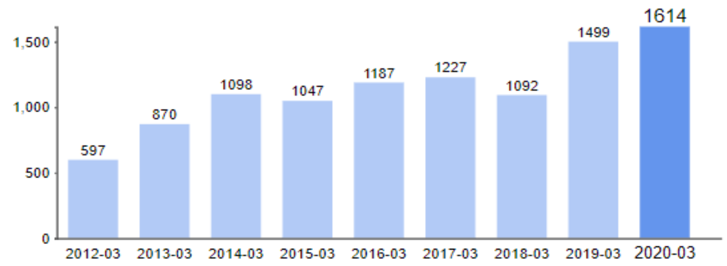
Dabur India Ltd.

eries | Updates | Technicals | Fundamental | Financials | Shareholding | MF Holding | Outlook | Edg

Chart | B/S | P/L | C/F

Cash Flow — Consolidated | Standalone

Particulars	9 years	2016-03 Rs. Cr.	2017-03 Rs. Cr.	2018-03 Rs. Cr.	2019-03 Rs. Cr.	2020-03 Rs. Cr.
+ Cash Fr. Operatn.		1,187	1,227	1,092	1,499	1,614



Particulars	9 years	2016-03 Rs. Cr.	2017-03 Rs. Cr.	2018-03 Rs. Cr.	2019-03 Rs. Cr.	2020-03 Rs. Cr.
Cash Fr. Inv.		-730	-807	-540	337	-517
Cash Fr. Finan.		-374	-339	-577	-1,888	-1,043

WORKING CAPITAL CYCLE

The working capital cycle of the company has improved significantly over the past 9 years. Initially the working capital used to be tied up for around 35 days and currently in FY20 it has come down to just 2 days.

This has been mainly due to extended payable days along with a control over receivable and inventory days by prudent collection system driven by online payments and selective incentives for early payments along with planned stock pile up over these years.

FREE CASH FLOW

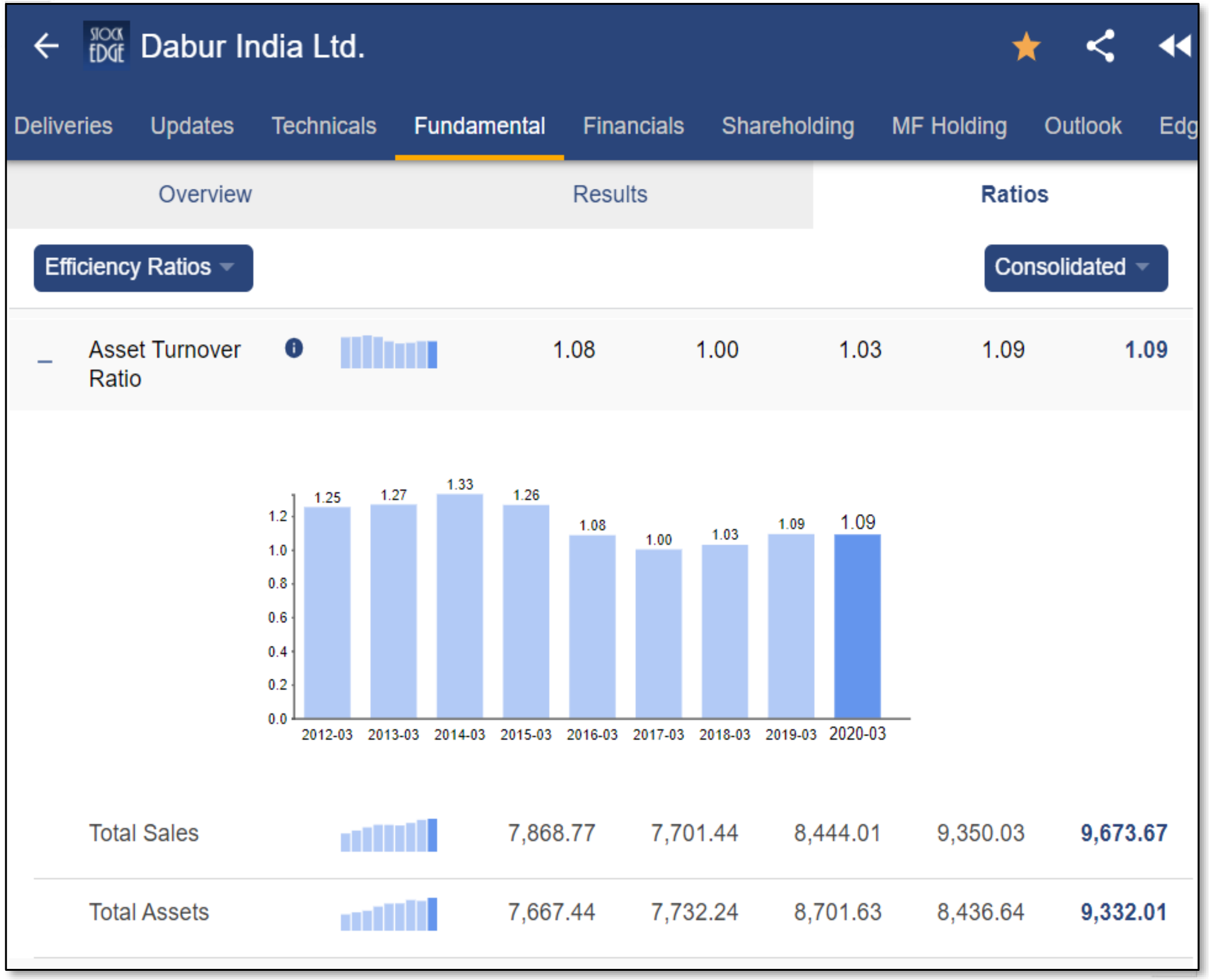
Dabur has had a healthy and a positive FCF per share over the years. In FY20, the FCF/share was lower at ₹6.75 per share due to higher net CAPEX during the period. The CAPEX was incurred on developing the domestic as well as the overseas manufacturing facilities. Over the past 5 years, the company has allocated ~3%-5% of revenues on its CAPEX activities.

The company intends to keep some portion of the cash inflows in order to fund future CAPEX programs into newer projects, expansion of capacities, renovation/modernization as well as acquisition of brands.

ASSET TURNOVER RATIO

Dabur has had a stable asset turnover ratio over the past 5 years at around 1.09x. The sales growth during the period FY16 to FY17 were impacted due to factors such as demonetization, currency devaluation, below average rainfall impacting the rural sector and hence slowdown in the FMCG industry along with other headwinds in the international markets such as geo-political issues and currency volatility. However, the industry slowly started reviving from FY18 onwards which is reflected in the improvement of the topline growth.

Lower sales growth rate (from 2016 to 2018), and on the other hand consistent increase in the total assets (led by higher long term investments) impacted the asset turnover ratio.



EFFICIENCY EDGE METER: 3

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DEBT TO EQUITY

Dabur has a low debt-equity ratio which has reduced from 0.72x in FY12 to 0.08x in FY20.

In FY20, the company did not have any long term borrowings. ₹163 cr worth of non-current liabilities are related to the long term maturities of lease liabilities. Remaining short term borrowings formed as a part of the working capital loans.

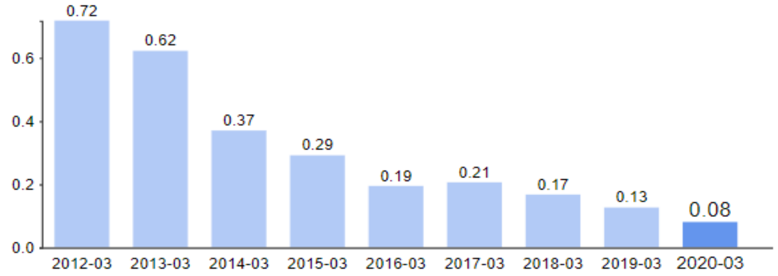
Dabur India Ltd.

art Deliveries Updates Technicals Fundamental Financials Shareholding MF Holdi

Overview Results Ratios

Solvency Ratios Consolidated

	9 years	2016-03	2017-03	2018-03	2019-03	2020-03
Total Debt to Equity Ratio		0.19	0.21	0.17	0.13	0.08



	9 years	2016-03	2017-03	2018-03	2019-03	2020-03
Total Debt		792.16	975.00	937.59	699.37	521.99
Net Worth		4,170.61	4,847.39	5,706.52	5,631.68	6,605.75

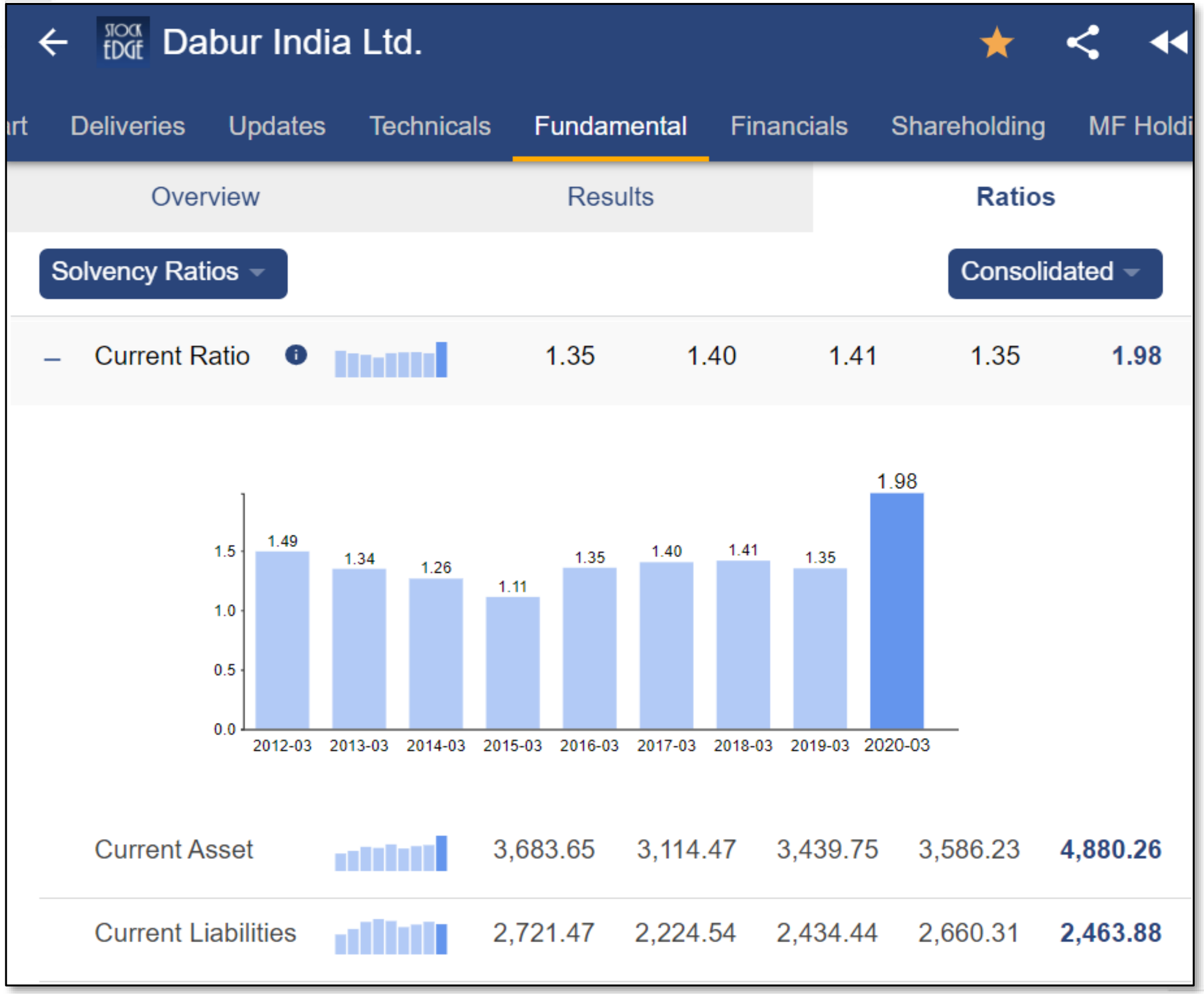
INTEREST COVERAGE RATIO

The interest coverage ratio of Dabur has also been fairly stable over the past 5 years. Overall the EBIT is health enough to cover up the interest obligations comfortably.

CURRENT RATIO

Dabur had a comfortable current ratio over the years. In FY20, the current ratio rose significantly to 1.98x from 1.35x in FY19 led by a higher short term investments (~28.5% of current assets) into non-convertible debentures and liquid mutual funds.

Majority of current liabilities form trade payables (~60%) of the company and on the other hand, inventories (~28%) forms majority of the current assets of the company.



SOLVENCY EDGE METER: 5

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STOCK EDGE

PE RATIO

At the current market price of ₹524.55, Dabur is trading at a PE of 58.07x based on TTM based EPS.

The company is focused to improve its presence in the ayurvedic segment (healthcare) which would help to garner higher margins and hence improve the profitability of the company. However, any threat to the market share in the healthcare segment due to the competition would be a key risk to the company's valuation.

Dabur India Ltd.

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Financial Indicators — Consolidated | Standalone

Market Cap	92,710.04 Cr.	
Earnings per share (EPS)	9.03	Trailing Twelve Months Ending 2020-12
Price-Earning Ratio (PE)	58.07	Trailing Twelve Months Ending 2020-12
Industry PE	63.66	Trailing Twelve Months Ending 2020-12
Book Value / Share	40.33	Trailing Twelve Months Ending 2020-12
Price to Book Value	13.01	Calculated using Price: 524.55
Dividend Yield	0.57	Period Ending 2020-03
No. of Shares Subscribed	176.74 Cr.	1,767,420,476 Shares
FaceValue	1	

DIVIDEND YIELD

For the year FY20, the company has declared an equity dividend of 300% amounting to ₹3 per share. At the current share price of ₹524.55 per share, the dividend yield comes at 0.57%.

Over the past 5 years, the company has had a dividend payout of ~43% with a substantially high payout of 81% in FY18.

Dabur India Ltd.

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TECHNICAL ANALYSIS

Dabur India has been in a steady uptrend since the last few years. The stock had been consolidating between ₹360 and ₹480 for the last 3 years.

The trading and delivery volume activity has increased significantly since March 2020 and the stock has been able to sustain above ₹500.

Investors can accumulate the stock between ₹480 and ₹520. On the upside a move beyond ₹550 might see the stock heading towards ₹600.

VALUATION EDGE METER: 4

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QUALITY

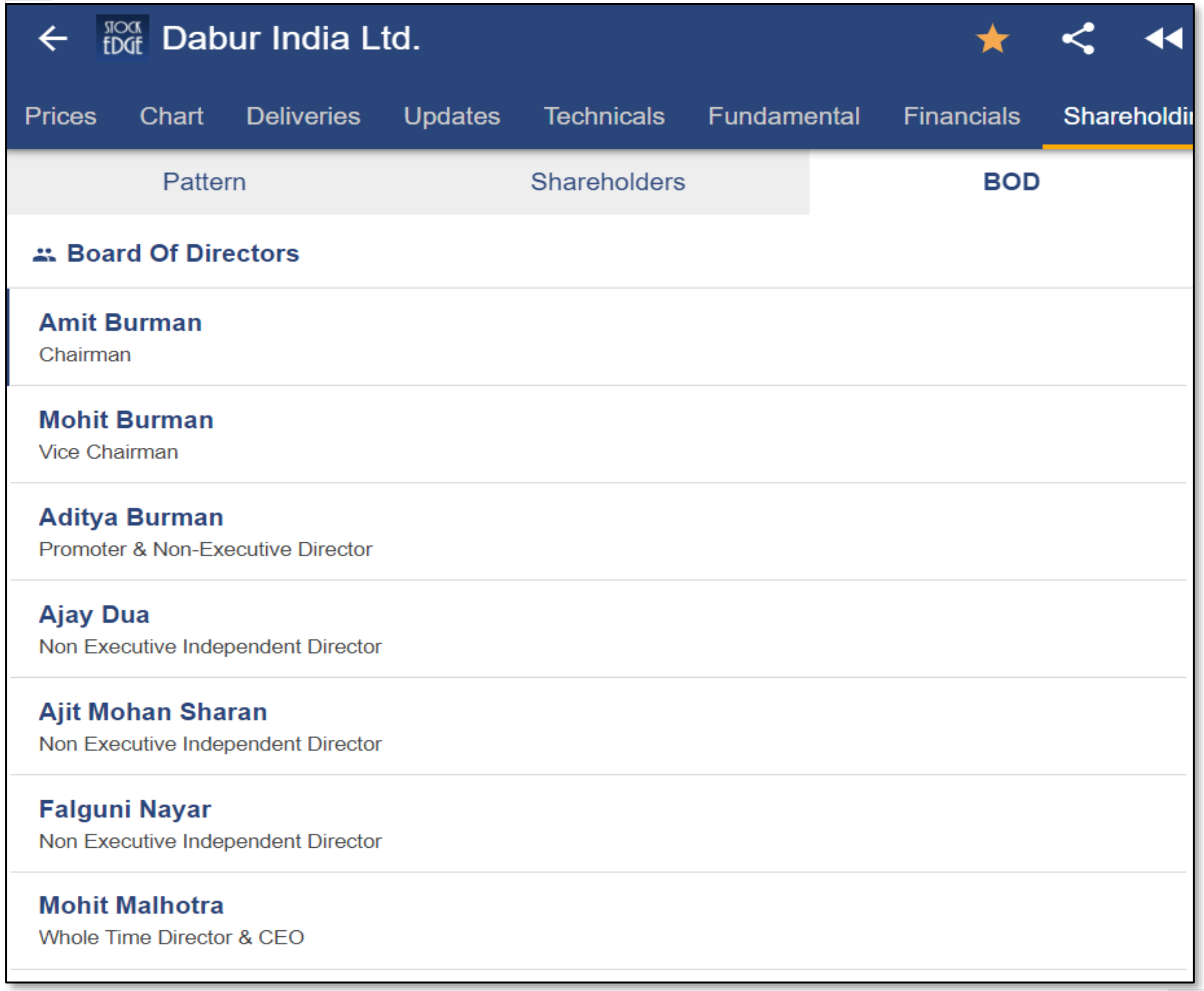
Case Study

MANAGEMENT

The management of Dabur had shown nimble-footedness and agility during the tough pandemic period by responding to the changing dynamics in the marketplace with a more streamlined portfolio and refreshed positioning to meet the emerging needs of the customers.

The management is keen to enhance the popularity of Ayurveda and make it mainstream which includes launch of contemporary formats, enhanced distribution and visibility and promotion on digital media.

The Power Brand strategy has been one of the key pillars of growth. Dabur is putting disproportionate investments behind these brands to improve visibility, enhance distribution and drive innovation.



QUALITY

Case Study

SHAREHOLDING PATTERN

The promoter group holds 67.87% stake in the company.

FII shareholding increased to 18.52% while DII shareholding decreased to 5.93% in December 2020.

Non-institution shareholding also increased to 7.67%.

Top public shareholding:-

First State Investments ICVC	1.34%
ICICI Pru Life Insurance	1.18%
Qualified Institutional Buyer	0.96%

Dabur India Ltd.

Prices | Chart | Deliveries | Updates | Technicals | Fundamental | Financials | Shareholding

Pattern | Shareholders | BOD

	9 Qtrs	2019-12 (%)	2020-03 (%)	2020-06 (%)	2020-09 (%)	2020-12 (%)
+ Promoter		67.88	67.88	67.87	67.87	67.87
− Public		32.12	32.12	32.13	32.13	32.13
FII/FPI		17.48	17.43	17.63	18.08	18.52
DII		7.71	7.61	7.42	6.90	5.93
Non Institution		6.93	7.07	7.08	7.15	7.67
+ Depository Receipts		0.00	0.00	0.00	0.00	0.00
Promoter Holding Pledge (%)		0.00	0.00	0.00	0.00	0.00

STOCK EDGE

SECTOR POTENTIAL

- The Fast-moving consumer goods (FMCG) sector is the 4th largest sector in the Indian economy. There are 3 main segments of the sector: 1) Household and personal care (accounts ~50% of the sector) 2) Healthcare (accounts ~31% of the sector), and 3) Food & beverages (accounts ~19% of the sector). According to the IBEF, the sector is expected to grow to US$ 220 billion by 2025 from US$ 110 billion in 2020.
- The FMCG sector faced a stagflation in growth over the last few years due to demonetization and GST implementation along with broader economic slowdown. The pace of innovation has recently ramped up in FY19 and FY20 expanding into newer categories and broadening the product portfolio.
- The spread of the COVID-19 pandemic has led to a sharper resurgence in the consumer interest, awareness and demand for Ayurvedic therapies and medicines. Increased focus on preventive healthcare and personal hygiene has led to an increase in the demand for the Ayurveda based solutions.
- Factors such as increasing popularity of natural and herbal medicines, rising health concerns and awareness about the side-effects of western medicines is driving the consumer preference for Ayurvedic products in the country. Furthermore, the distribution network of ayurvedic products have improved significantly, increasing the accessibility of these products across both urban and rural regions.

COMPETITIVE LANDSCAPE

Dabur has been facing competition from a very long time. With new players entering the market, innovative product launches, high distribution reach and brand awareness are a few of the areas that the company has been continuously working on.

Dabur specialises in the ayurvedic products which caters to all the age groups. Upon the entry of Patanjali, the company benefitted due to 1) increased awareness of ayurvedic products, and 2) consumers who tried competitors' products came back to Dabur as they understood the difference in quality.

Going forward, the company would continue to work on its core portfolio, expand the distribution network and strengthen the market share.

Fast Moving Consumer Goods

All Stocks | Industries | Gainers | Losers | News

MCAP | PE | P/BV | D/E | ROE | ROCE | SALES | PAT

Stock Name	Statement	Year Ending	Net Sales (Rs. Cr.)	LTP
Hindustan Unilever Ltd.	Consolidated	2020-03	39,783.00	2,232.60
ITC Ltd.	Consolidated	2020-03	49,404.05	216.75
Nestle India Ltd.	Standalone	2019-12	12,368.90	17,155.40
Dabur India Ltd.	Consolidated	2020-03	8,684.64	526.50
Britannia Industries Ltd.	Consolidated	2020-03	11,599.55	3,516.80
Godrej Consumer Products Ltd.	Consolidated	2020-03	9,910.80	745.10
Marico Ltd.	Consolidated	2020-03	7,315.00	415.70
Tata Consumer Products Ltd.	Consolidated	2020-03	9,637.42	579.70
Colgate-Palmolive (India) Ltd.	Standalone	2020-03	4,525.08	1,609.35

FUTURE OUTLOOK

- **Focus on power brands** – The company would continue to focus on the power brands by investing behind different brands in order to improve visibility, increase distribution and pace of innovation by launching new product and variants. Hence, the company has also increased its advertisement costs behind these brands. Also, special focus is put upon the digital channel (~6% of sales in H1 FY21) with each of these brands in order to improve the connect with the millennials and Gen-Z.

- **Healthcare segment to be the key growth driver** – Dabur is the world's largest ayurvedic and natural healthcare company. With growing awareness of the ayurvedic products and its health benefits, the company is well poised to benefit from the development. The company would continue to innovate new products and launch a string of Ayurveda-based products in modern, ready-to-use formats. Being the most margin accretive segment, Dabur wants to structurally change the skew of its product portfolio to a greater prominence to healthcare segment from home and personal category segment.

- **Expand international footprint** – The management believes that within its international business portfolio, Bangladesh has a huge scope of growth. The company is strengthening its footprint and expanding its distribution network in order to grow profitability in the geography. Dabur has a manufacturing unit in Bangladesh and is operating at its full capacity and hence the company is looking to expand its capacities.

FUTURE OUTLOOK

- **Expansion plans** – The management has stated that the capex plans would remain range bound within ₹250 cr-₹300 cr in the medium term. The company has sufficient cash reserves and is also open for inorganic growth opportunities in India. Dabur aims to increase its direct reach to 1.4 million by the end of next year (currently 1.2 million outlets). For inorganic investments the company continues to pay special focus on RoI and synergies before making any investment decision.

QUALITY EDGE METER: 4

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FINAL EDGE MATRIX

Edge Meter Aspects	Grade
Growth	3
Profitability	4
Efficiency	3
Solvency	5
Valuation	4
Quality	4
TOTAL	**23**

The maximum grade for a company could be 30. Any company above grade 20 is worth considering. A grade below 15 is considered to be poor.

THANK YOU

This document and the process of identifying the potential of a company has been produced only for learning purposes. Since equity involves individual judgements, this analysis should be used for only learning enhancements and cannot be considered to be a recommendation on any stock or sector. Our knowledge team has limited understanding and we all are learning the art and science behind this.

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