

More than just a 'rural play'

We attended the analyst meet of Dabur India. We observed that Dabur's strategy has turned aggressive (outperform market) vs. defensive (riding with the tide). Dabur headed by Mohit Malhotra (new CEO, joined Aug'18) is shaping up well. Mohit is taking the right steps which were required years ago. Dabur has always been admired due to its wide product range and strong rural play (45% rev mix). However, the co was performing below its potential. Extensive product range was limiting management's focus (defensive approach due to focus on many brands). Rural play (acceleration) has been more of a hope than a reality due to competition from regional players and entry of large players in upcountry markets. With the change in approach, we are confident that Dabur can outperform over the next 3-5 years. Current slowdown might impact near term performance but we expect a mean reversion for many brands over the next few years. We see a re-rating potential in Dabur. We are upgrading the target multiple to 40x (38x earlier) on Sep-21 EPS. Our TP for Dabur is Rs 497. Maintain BUY.

- Implementing tried and tested strategies:** Management is now focusing on implementing the wining strategies i.e. "Strengthening the core business". We have seen a turnaround in performances with a change in approach like HUL (Sanjiv Mehta - 2013), Britannia (Varun Berry - 2013), Nestle (Suresh Narayanan - 2015) and Jubilant FoodWorks (Pratik Pota - 2017).
- Dabur's key thrust areas:** Dabur has several brands that are under indexed despite being popular for years. Focus is on 8 power brands (~65% rev mix) which are supported by concentrated media spends. Co is accelerating product innovation and brand renovation

which will ensure scalability of under indexed brands. Dabur's 5 strategies are (1) Scaling power brands, (2) Driving innovation and renovation for market leadership, (3) Distribution expansion, (4) Operational excellence and (5) Capability improvement.

- Strengthening distribution:** Dabur has aggressive plans to deepen its direct reach in rural markets (45% rev mix). In 1QFY20, co added 4k villages which led to outperformance in volume growth. Dabur has plans to reach 55/65k villages in FY20/21 vs 44k in FY19. Post GST, most of the players are ramping up their direct reach which will support new launches and diversify from wholesale channel.
- Stance:** Co level initiatives are on track. We will be keen to see how Mohit will drive Dabur's large but under indexed portfolio. Revitalizing the strategy should fill the gaps in product/distribution/communication. There are few low hanging fruits which Mohit will try to assess initially, resulting in a quick turnaround in performance. Rural tilt in sales mix means progress of monsoon (normal) and government initiatives are key (wage growth is muted). Our change in rating is based on medium term performance.

Financial Summary (Consolidated)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Sales	77,219	85,331	93,937	105,638	118,834
EBITDA	16,174	17,396	20,311	23,530	27,060
APAT	13,663	14,436	16,908	20,348	23,540
EPS (Rs)	7.76	8.20	9.57	11.52	13.32
P/E (x)	57.2	54.2	46.4	38.6	33.3
EV / EBITDA (x)	46.8	43.5	37.2	31.8	27.5
RoIC	47.3	50.1	53.1	59.0	65.6

Source: Company, HDFC sec Inst Research

INDUSTRY	FMCG
CMP (as on 09 Sep 2019)	Rs 444
Target Price	Rs 497
Nifty	11,003
Sensex	37,145

KEY STOCK DATA

Bloomberg	DABUR IN
No. of Shares (mn)	1,767
MCap (Rs bn) / (\$ mn)	785/10,947
6m avg traded value (Rs mn)	1,034

STOCK PERFORMANCE (%)

	Rs 477/357		
	3M	6M	12M
Absolute (%)	9.9	2.8	(5.1)
Relative (%)	16.2	1.5	(1.9)

SHAREHOLDING PATTERN (%)

	Mar-19	Jun-19
Promoters	67.90	67.88
FIs & Local MFs	6.67	7.03
FPIs	18.21	17.76
Public & Others	7.22	7.33
Pledged Shares	0.00	0.00

Source : BSE

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Business Strategy

- (1) Power Brands Strategy
- (2) Driving Innovation and Renovation
- (3) Distribution Expansion
- (4) Operational Excellence
- (5) Capability Enhancement

(1) Power brands strategy

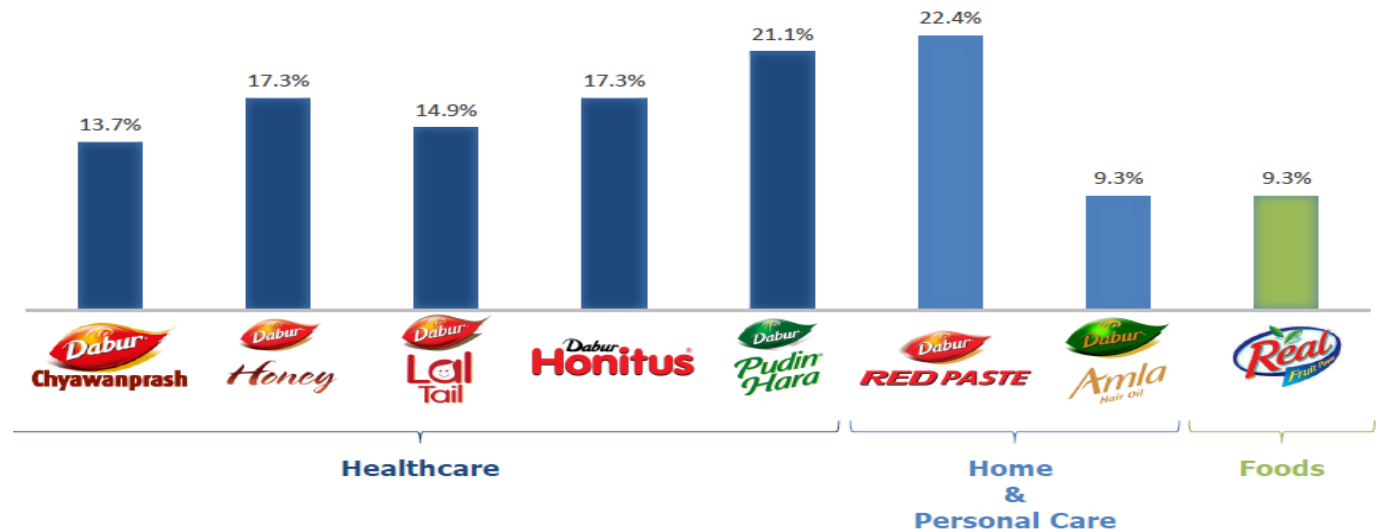
- **Focus on 8 brands:** Dabur is putting their weight behind 8 brands to drive overall growth. These 8 brands (65% revenue mix) are either present in a large category (gain market share) or in an under-penetrated category (grow the category). We admire Dabur’s strategy of focusing on limited brands rather than investing limited funds behind each brand.
- **Concentrated A&P Spends:** Dabur has rationalised its A&P spends in the last few years (7.1% of sales in FY19 vs. 9.8% in FY16). During this period, the co has shifted funds to ATL from BTL. Mohit’s strategy on A&P is to increase spend on power brands (~20%) and continue to rationalise overall spend (growing at 5-6%). Most of the power brands are present in under-penetrated categories and hence higher A&P spends would support in growing the category.

Power brands grew by ~15% in FY19 vs. ~9% growth in ex-power brands.

Power brands have outperformed domestic biz on a 3 year CAGR basis

Vatika (Rs 2.5bn) is the 9th brand Dabur has identified under power brands

Power Brands Revenue Growth – FY19



Source: Company, HDFC sec Inst Research

Chyawanprash and Honey have regained share post Patanjali's fallout

Dabur honey's share dropped to 40% in FY18 (vs. peak of 60%). It has since recovered to >50%.

In Chyawanprash, Dabur's share, which had dropped to 58% in FY17, has returned to over 60% now.

Dabur has gained 300-400bps market share in Lal Tail in FY19

Honitus addressable market stands at Rs 3bn

North contributes 70% of Dabur Real's mix. In few pockets in North, Real has a share of >70% (vs. 59.5% share in India). Juice market is witnessing severe competition from dairy based beverages.

Power Brands – Addressable market is ~6x

Power Brands	Category	Mkt Size (Rs bn)	Mkt Share	Rev FY19 (Rs bn)	Dom. Rev Mix FY19	Brand Specific Strategy
Chyawanprash	Health Supplements	9.0	60%	4.8	13%	<ul style="list-style-type: none"> - Focus on region specific products and variants. - Enhance distribution (chemist) and drive consumer frequency across seasons (70% consumption in winters)
Honey	Health Supplements	10.0	50%	5.0	13%	<ul style="list-style-type: none"> - Market share has recovered after the fall-out of Patanjali - Launching premium variants - Strengthen fitness proposition - Increase consumer frequency via targeted campaigns
Lal Tail	OTC	3.5	35%	1.3	3%	<ul style="list-style-type: none"> - Extend brand beyond massage oil (baby care portfolio) - Distribution enhancement
Honitus	OTC	20.0	3%	0.6	2%	<ul style="list-style-type: none"> - Introduce more formats - Regionalization - New formats & variants (lozenges, hot sip) - Distribution enhancement - Scale >Rs 1bn in 3-4 years. - Leverage brand equity to other premium segments (food)
Pudin Hara	Digestives	4.0	20%	0.8	2%	<ul style="list-style-type: none"> - More formats (powder sachets) - Scale distribution
Red paste	Oral Care	80.0	~10%	7.2	19%	<ul style="list-style-type: none"> - Naturals segment in oral care is now growing at 15% (3-4x category growth) - Dabur believes naturals share in oral care can scale to 40-50% vs. 25% currently - Strengthen the core (Dabur Amla)
Amla Franchise	Hair Oil	71.5	11%	8.0	21%	<ul style="list-style-type: none"> - Premiumization - Scale flanker brands (Brahmi & Sarson Amla) - Improve distribution
Real	F&B	18.0	56%	10.0	27%	<ul style="list-style-type: none"> - Drive consumer frequency - Expansion in low through put geographies - Premiumization via new health-based variants - Entering fruit drinks segment
Total		216.0	17%	37.7	100%	
Dabur Domestic Rev.				59.1	64%	- Power Brands account for ~65% of domestic revenues

Source: HDFC sec Inst Research

(2) Driving Innovation and renovation

- Several disruptions in the last 2-3 years led to muted new launches. Easing competitive intensity and normalized channels have improved the environment for new launches. Dabur's focus on innovation will be around its power brands. NPD share for Dabur is at 2% and is expected to grow to 3-4% (lower guidance vs. peers) in the next few years. However, near term slowdown will act as a hindrance to scale new launches.

New Launches and Re-launches

We are encouraged by the change in communication for brands like:

(1) Chywanprash- "All season product"

(2) Honey - "Fitness friendly" and "Tasty product to replace Jam"

(3) Amla Hair Oil - To beat marginal players by saying "Asli Amla Dabur Amla"

(4) Pudina Hara - "Keep the body cool (Thanda Theme)" and "Best medicine for acidity"

(5) Lal Tel - "Sticky oil but makes the baby stronger"



Source: Company, HDFC sec Inst Research

Dabur plans to reach 65k villages directly by FY21 (vs. 44k in FY19).

In addition to increasing penetration, co has launched LUPs (<Rs 10 packs) in the home, personal care, food and healthcare range.

For eg. Pudín Hara is now available in a Rs 5 sachet and Dabur Red is available in a Rs 10 pack

In urban, Dabur's focus is on strengthening its position in modern trade (lower share vs. other channels).

(3) Distribution Expansion

- After being impacted by GST implementation (wholesale disrupted), Dabur has increased its focus on distribution primarily in rural areas. Dabur aims to increase direct reach to 1.2mn outlets vs. 1.1mn in FY19. In urban, E-commerce and MT (combined contribute ~15% of domestic revenue) are already growing faster than GT. Dabur is increasing its direct reach in rural (55k villages in FY20E vs. 44k in FY19) to drive penetration and success of new launches.

Channel Focus Strategy



Source: Company, HDFC sec Inst Research

(4) Operational Excellence

- Dabur is driving several initiatives for cost optimisation and lead time to reduce its working capital requirement. 'Project Lakshya' is improving service levels (to distribution), reducing logistics cost and driving lower inventory levels. Consistent efforts have already brought down inventory levels at the channel level.

Channel Focus Strategy



Source: Company, HDFC sec Inst Research

(5) Capability Enhancement

- Dabur’s focus area is not only for the external but also improving internal capabilities. In FY19, Dabur has increased its R&D spend by 16% to drive innovation. Co has also strengthened its presence in the ayurveda network to drive category growth.

Enhancing capability in Ayurveda

Portfolio Expansion	Increase Doctor Advocacy	Enhance Consumer Touch Points	Consumer Engagement
<ul style="list-style-type: none"> • Classical & Branded Range enhancement • Hridayasava, Pure Herb Churnas, Vasant Meha Ras, Glycodab 	<ul style="list-style-type: none"> • Increase Ayurvedic Doctor Coverage from 40,000 to 55,000 • Scientific Knowledge Dissemination – 50 Top Ayurvedic Colleges 	<ul style="list-style-type: none"> • Increase Dabur Ayurved Chikitsalayas from 525 to 650 • Increase Dabur branded Ayurvedic Stores from 1,500 to 2,500 	<ul style="list-style-type: none"> • Health Camps <ul style="list-style-type: none"> ➢ 6,000 in Clinics ➢ 10 Lakh Rural Consumers • Consumer Sampling through religious events

Source: Company, HDFC sec Inst Research

Assumptions

Particulars	FY18	FY19	FY20E	FY21E	FY22E
Domestic Gr. (%)	5.2	11.2	10.2	12.5	12.9
Hair Care Gr. (%)	4.2	13.8	10.6	12.0	10.0
Oral Care Gr. (%)	16.9	9.7	2.0	12.0	12.0
Health Supplements Gr. (%)	10.3	14.8	11.8	14.0	15.0
OTC & Ethicals Gr. (%)	5.2	14.1	11.0	14.0	15.0
Digestive Gr. (%)	10.4	16.6	9.2	12.0	14.0
Home Care Gr. (%)	14.2	13.0	10.7	14.0	14.0
Skin Care Gr. (%)	11.1	17.4	7.5	14.0	14.0
Foods Gr. (%)	1.5	9.3	2.5	13.5	13.0
International Gr. (%)	(6.3)	6.6	6.9	12.0	11.0
Consolidated Revenue Gr. (%)	6.9	10.5	10.1	12.5	12.5
Gross Margin (%)	50.5	49.5	50.2	50.6	50.7
ASP (% of sales)	7.9	7.1	7.2	7.1	7.0
Distribution (% of sales)	2.5	2.6	2.6	2.6	2.6
Employee (% of sales)	10.3	11.0	10.8	10.6	10.4
Other Expenses (% of sales)	9.0	8.4	8.1	8.1	7.9
EBITDA Margin (%)	20.9	20.4	21.2	22.3	22.8
Tax Rate (%)	19.8	16.2	20.0	20.0	20.0

Source: HDFC sec Inst Research

Change in Estimate

	FY20E			FY21E			FY22E		
	New	Old	Change	New	Old	Change	New	Old	Change
Net Revenue	93,937	95,029	-1.1%	105,638	106,875	-1.2%	118,834	119,475	-0.5%
EBITDA	20,311	21,096	-3.7%	23,530	24,687	-4.7%	27,060	28,125	-3.8%
APAT	19,943	20,728	-3.8%	23,530	24,319	-3.2%	27,060	27,757	-2.5%
EPS	16,908	17,475	-3.2%	20,348	21,060	-3.4%	23,540	24,268	-3.0%

Source: HDFC sec Inst Research

We cut our estimates by ~3% to factor near-term slowdown and expect growth to accelerate in 2HFY20 which will be supported by favorable base

Peer Set Comparison

Company	MCap (Rs bn)	CMP (Rs)	Reco.	TP (Rs)	EPS (Rs)			P/E (x)			EV/EBITDA (x)			Core RoCE (%)		
					FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
HUL	3,949	1,828	NEU	1,847	28.1	32.7	39.9	64.9	55.9	45.8	43.7	40.3	31.8	248.6	36.6	25.6
ITC	2,741	245	BUY	336	10.4	11.4	12.5	23.5	21.6	19.6	14.8	13.4	11.9	39.2	40.6	43.8
Nestle	1,238	12,840	NR	11,064	167.1	206.5	245.9	76.8	62.2	52.2	44.3	38.0	32.5	82.1	101.4	121.4
Dabur	782	444	BUY	497	8.2	9.6	11.5	54.2	46.4	38.6	43.5	37.2	31.8	50.1	53.1	59.0
Britannia	644	2,683	NEU	2,674	48.1	52.5	63.8	55.8	51.1	42.1	36.4	32.3	26.6	39.3	38.7	44.5
Marico	500	387	BUY	395	7.2	8.8	10.5	53.7	43.9	36.7	38.9	30.8	26.8	48.8	48.0	54.1
Colgate	342	1,256	NEU	1,281	27.6	30.8	35.5	45.6	40.8	35.4	27.3	24.4	21.4	67.2	70.6	78.4
Emami	137	294	BUY	464	11.0	13.0	15.0	26.7	22.6	19.6	18.0	15.6	13.5	21.5	27.0	33.0
Jub. Food	160	1,210	BUY	1,775	24.1	29.4	36.8	50.2	41.2	32.9	25.5	22.4	17.8	45.8	47.4	40.0
United Spirits	448	617	BUY	651	10.2	12.4	15.7	60.3	49.9	39.4	35.1	27.7	23.0	15.6	18.1	21.1
Radico Khaitan	40	300	BUY	492	14.1	15.8	18.9	21.2	19.0	15.9	12.3	10.9	9.2	11.5	12.2	13.5

Source: HDFC sec Inst Research

NR: Not Rated

Income Statement

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net Revenues	77,219	85,331	93,937	105,638	118,834
Growth (%)	6.9	10.5	10.1	12.5	12.5
Material Expenses	38,199	43,090	46,763	52,169	58,598
Employee Expense	7,928	9,379	10,106	11,165	12,393
A&P Expense	6,067	6,083	6,769	7,483	8,306
Distribution Expense	1,914	2,201	2,423	2,724	3,065
Other Expenses	6,936	7,182	7,566	8,567	9,412
EBITDA	16,174	17,396	20,311	23,530	27,060
EBITDA Growth (%)	7.2	7.6	16.8	15.8	15.0
EBITDA Margin (%)	20.9	20.4	21.6	22.3	22.8
Adj EBITDA (IND-AS 116)	16,174	17,396	19,943	23,530	27,060
Adj EBITDA Growth (%)	7.2	7.6	14.6	18.0	15.0
Adj EBITDA Margin (%)	20.9	20.4	21.2	22.3	22.8
Depreciation	1,622	1,769	2,279	2,432	2,584
EBIT	14,552	15,627	18,032	21,098	24,476
Other Income (Including EO Items)	3,052	2,962	3,685	4,622	5,138
Interest	531	596	333	232	136
PBT	16,928	17,239	21,184	25,488	29,477
Total Tax	3,354	2,786	4,237	5,098	5,895
Adjusted PAT	13,663	14,436	16,908	20,348	23,540
APAT Growth (%)	7.0	5.7	17.1	20.3	15.7
Adjusted EPS (Rs)	7.8	8.2	9.6	11.5	13.3
EPS Growth (%)	7.0	5.7	16.8	20.3	15.7

Source: Company, HDFC sec Inst Research

Balance Sheet

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
SOURCES OF FUNDS					
Share Capital - Equity	1,762	1,762	1,767	1,767	1,767
Reserves	55,304	56,467	64,881	74,578	83,206
Total Shareholders Funds	57,065	58,229	66,648	76,345	84,973
Minority Interest	265	314	275	233	190
Long Term Debt	3,686	306	206	106	6
Short Term Debt	5,766	5,266	4,466	2,966	1,466
Total Debt	9,452	5,572	4,672	3,072	1,472
Net Deferred Taxes	1,091	1,091	1,091	1,091	1,091
Other Non-current Liabilities & Provns	565	595	655	720	792
TOTAL SOURCES OF FUNDS	68,438	65,801	73,340	81,460	88,518
APPLICATION OF FUNDS					
Net Block	20,281	20,219	20,940	21,009	20,924
CWIP	522	756	767	780	795
Other Non Current Assets	490	954	1,049	1,154	1,270
Total Non-current Assets	21,293	21,929	22,757	22,943	22,989
Inventories	12,562	13,005	14,086	15,652	17,474
Debtors	7,061	8,336	9,176	10,319	11,608
Other Current Assets	4,988	6,122	6,549	7,009	7,503
Cash & Equivalents	41,112	38,029	43,984	50,931	56,714
Total Current Assets	65,723	65,492	73,795	83,911	93,300
Creditors	17,094	19,811	21,295	23,368	25,636
Other Current Liabilities & Provns	1,484	1,809	1,917	2,026	2,134
Total Current Liabilities	18,578	21,620	23,212	25,394	27,771
Net Current Assets	47,145	43,872	50,583	58,517	65,529
TOTAL APPLICATION OF FUNDS	68,438	65,801	73,340	81,460	88,518

Source: Company, HDFC sec Inst Research

Cash Flow Statement

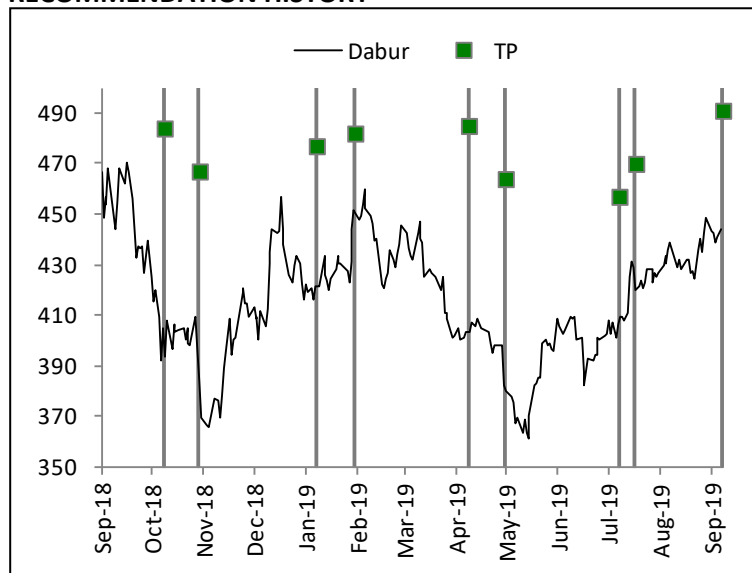
(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Reported PBT	16,931	17,239	21,184	25,488	29,477
Non-operating & EO Items	(2,262)	49	(39)	(42)	(42)
Interest Expenses	424	596	333	232	136
Depreciation	1,622	1,769	2,279	2,432	2,584
Working Capital Change	(2,575)	(255)	(805)	(1,039)	(1,286)
Tax Paid	(3,249)	(2,786)	(4,237)	(5,098)	(5,895)
OPERATING CASH FLOW (a)	10,890	16,611	18,715	21,973	24,974
Capex	(2,003)	(1,929)	(3,000)	(2,500)	(2,500)
Free Cash Flow (FCF)	8,887	14,682	15,715	19,473	22,474
Investments	(5,837)	4,464	(2,500)	(2,500)	(2,500)
Non-operating Income	2,437	-	-	-	-
INVESTING CASH FLOW (b)	(5,402)	2,535	(5,500)	(5,000)	(5,000)
Debt Issuance/(Repaid)	(545)	(3,880)	(900)	(1,600)	(1,600)
Interest Expenses	(428)	(596)	(333)	(232)	(136)
FCFE	6,461	23,622	14,448	18,805	21,710
Share Capital Issuance	-	0	6	(0)	(0)
Dividend	(4,770)	(13,273)	(8,494)	(10,651)	(14,912)
Others	-	-	-	-	-
FINANCING CASH FLOW (c)	(5,744)	(17,748)	(9,722)	(12,483)	(16,648)
NET CASH FLOW (a+b+c)	(256)	1,398	3,493	4,489	3,326
EO Items, Others	269	(17)	(39)	(42)	(42)
Closing Cash & Equivalents	3,061	4,442	7,896	12,343	15,627

Source: Company, HDFC sec Inst Research

Key Ratios

	FY18	FY19	FY20E	FY21E	FY22E
PROFITABILITY (%)					
GPM	50.5	49.5	50.2	50.6	50.7
EBITDA Margin	20.9	20.4	21.6	22.3	22.8
EBIT Margin	18.8	18.3	19.2	20.0	20.6
APAT Margin	17.7	16.9	18.0	19.3	19.8
RoE	25.9	25.0	27.1	28.5	29.2
RoIC (or Core RoCE)	47.3	50.1	53.1	59.0	65.6
RoCE	22.4	22.7	25.2	27.0	28.3
EFFICIENCY					
Tax Rate (%)	19.8	16.2	20.0	20.0	20.0
Fixed Asset Turnover (x)	2.5	2.7	2.7	2.8	3.0
Inventory (days)	59.4	55.6	54.7	54.1	53.7
Debtors (days)	33.4	35.7	35.7	35.7	35.7
Other Current Assets (days)	23.6	26.2	25.4	24.2	23.0
Payables (days)	80.8	84.7	82.7	80.7	78.7
Other Current Liab&Provns (days)	7.0	7.7	7.4	7.0	6.6
Cash Conversion Cycle (days)	28.5	25.0	25.6	26.2	27.1
Net D/E (x)	(0.6)	(0.6)	(0.6)	(0.6)	(0.7)
Interest Coverage (x)	27.4	26.2	54.2	90.8	179.5
PER SHARE DATA (Rs)					
EPS	7.8	8.2	9.6	11.5	13.3
CEPS	8.7	9.2	10.9	12.9	14.8
Dividend	6.3	4.0	5.0	7.0	9.0
Book Value	32.4	33.1	37.7	43.2	48.1
VALUATION					
P/E (x)	57.2	54.2	46.4	38.6	33.3
P/BV (x)	13.7	13.4	11.8	10.3	9.2
EV/EBITDA (x)	46.8	43.5	37.2	31.8	27.5
EV/Revenues (x)	9.8	8.9	8.1	7.1	6.3
OCF/EV (%)	1.4	2.2	2.5	2.9	3.4
FCF/EV (%)	1.2	1.9	2.1	2.6	3.0
FCFE/Mkt Cap (%)	0.8	3.0	1.8	2.4	2.8
Dividend Yield (%)	1.4	0.9	1.1	1.6	2.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
10-Oct-18	393	BUY	484
31-Oct-18	385	BUY	467
9-Jan-19	416	BUY	477
2-Feb-19	452	BUY	482
10-Apr-19	404	BUY	485
3-May-19	382	BUY	464
9-Jul-19	406	BUY	457
22-Jul-19	420	BUY	470
11-Sep-19	444	BUY	491

Rating Definitions

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