BONANZA WEALTH MANAGEMENT RESEARCH

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7 August 2019

Dabur India – BUY

CMP	:Rs.435.0
Target Price	:Rs.560.0
Upside	: 28%+
Stop Loss	:Rs.374.0 (Closing basis)

Investment Thesis

Recently, the stock price of Dabur India Ltd. (Dabur) corrected by ~5% from 52-week high of Rs.469.00 despite reporting good set of numbers in the recent quarters.

Dabur has emerged from a general FMCG company to a less traditional consumer-oriented healthcare company, focused to new-age consumers. It has developed a well-diversified product portfolio catering to different segments. Dabur is re-branding its product range, like Pudin Hara, Chyawanprash, Hajmola and Dashmularishta as more youth-oriented under its 'Getting the future ready' strategy. Presently, ~35% of its domestic revenue comes from health-positioned brands, which it plans to increase gradually over time. We believe, competition raised from Patanjali has subsided significantly, resulting in high double-digit growth of Dabur Red and Dabur Honey (that competes with Patanjali in the respective category) in H2FY19. We believe, Dabur will grow by double-digit growth, driven by high single-digit volume growth with focus on power brands and low unit price products in FY20-21E.

Dabur generates ~45% of its revenue from rural market as against ~35% for the industry. Domestic FMCG sales growth moderated to 6% due to rural slowdown, liquidity crunch and prolonged winter, which impacted hair care and foods segments in FY19. The international business growth also remained muted (1% constant currency growth) due to continued weakness in MENA region and adverse currency in Turkey, Nigeria and Pakistan. We believe steady focus on expanding direct reach in rural areas would augment the volume growth in future. Out of the total 6.6 lakh villages in India, 66,000 generate ~50% of rural FMCG sales. Dabur has a direct reach to 44,000 of these villages, which it plans to increase to 51,000 by FY20E.

Financials

- During the past 5 years, revenue of Dabur grew at a CAGR of 3.8% while PAT grew at a CAGR of 9.6% in the same period.

Consol. (Rs.Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	76,136	77,219	85,150	97,922	112,611
EBITDA	15,089	16,174	17,396	20,005	23,006
% growth	-0.6	7.2	7.6	15.0	15.0
PAT	12,769	13,544	14,423	16,659	19,241
EPS (INR)	7.2	7.7	8.2	9.4	10.9
P/E (x)	61.4	57.9	54.5	47.2	40.9
RoE (%)	26.9%	24.1%	26.0%	27.3%	28.8%

- Dabur has reported 9.3% YoY growth in revenue in Q1FY20 to Rs.22,733mn driven by 9.6% YoY volume growth supported by higher advertisement and promotion.

Stock Data

Market Cap (Rs. Mn)	7,87,492
Market Cap ($ Mn)	11,091.4
Shares O/S (in Mn)	1,767.1
Avg. Volume (3 month)	2,652,000
52-Week Range (Rs.)	469/ 357

Shareholding Pattern

Promoters	67.88%
FIIs	17.76%
Institutions	7.03%
Others (incl. body corporate)	7.33%

Performance (%)	1M	6M	1Yr
Absolute	-0.8%	10.4%	13.3%
BSE FMCG	5.2%	-1.4%	7.9%

Key Ratios

Div Yield	0.6%
TTM PE	53.4x
ROE	26.2%
TTM EPS (Rs.)	8.4/-

- Dabur's consumer care segment grew 11.4% YoY led by 17.8% growth of healthcare segment growth wherein health supplements, digestives, OTC and ethicals grew by 19.6%, 18.2%, 13.1% & 15.9%, respectively. While foods segment grew by only 1.5% YoY on account of higher competitive intensity.
- EBITDA of Dabur has increased by 18.5% YoY to Rs.4,576mn in Q1FY20. EBITDA margin has also improved by 157bps to 20.1% in Q1FY20 led by 67bps dip in advertisement spend to sales, 59bps dip in employee expenditure to sales and 40bps dip in other overheads to sales.

Key Business Highlights

- Dabur is amongst the top FMCG companies in India, operate in key consumer products categories like Hair Care, Oral Care, Health Supplements, Digestives, OTC &Ethicals, Skin Care, Home Care and Foods. Dabur is also a leader in Ayurvedic products with a portfolio of over 250 Herbal/Ayurvedic products.
- Flagship brands of Dabur consist of Dabur Amla, Dabur Chyawanprash, Vatika, Réal, Dabur Red Toothpaste, Babool, Hajmola, Dabur Honey, Glucose, Fem and Odonil.
- It has a wide distribution network, covering over 5.3 million retail outlets with a high penetration in both urban and rural markets. Dabur's international business spread into the US, Egypt, Nigeria, Bangladesh and Nepal and contributes ~26% to revenues.

Valuation

- Dabur is better placed compared to its peers given its presence in high-margin countries and categories. Of late, Dabur's international business, which contributes 26% to its consolidated revenue, has seen growth issues. Hyperinflation in Egypt, demand slowdown in GCC countries on account of fall in crude oil prices and adverse currency fluctuation has dented its performance in the Middle East and North Africa (MENA) region. However, due to the recent spike in crude oil prices, this highly profitable MENA region is expected to report a better performance. Dabur has been able to maintain 20-21% EBITDA margin, which will improve further once there is improvement in overseas business. As per the management, input cost inflation is benign while prices are expected to stay soft in FY20E. It has taken a price hike of 1.5% during the quarter, which it expects to remain at ~2% for the year. It also expects to maintain operating margins at 20%
- Dabur has a strong set of brands, of which, three brands generate more than Rs.10bn revenue each (Amla, Real and Vatika) and another 16 bring in at least Rs.1bn each. This hasn't stopped the efforts at innovation/re-innovation or re-positioning. Thus, Dabur is targeting several youth-centric products and categories such as milk shakes and drinking yoghurt, now being test marketed and will be soon rolled out nationally. In fact, in the recent past it has successfully rolled out several products/variants like Chyawanprash Sugar Free, HajmolaAnardana and Odomos roll-on and wear-on patches.
- With developed a well-diversified product portfolio, decline in competition from Patanjali, plans to increase rural reach, increase in margin due to benign cost inflation and plans to target youth-oriented brands, we value Dabur at 51.4x FY21E EPS of Rs.10.90 to arrive at target price of Rs.560.00, an upside of ~28%.

Risk & Concern

- Rural India is largely dependent on monsoons and Dabur's approximately 50% of the domestic sales comes from rural India. Thus, below normal rainfall can affect the volumes.
- Sudden rise in inflation caused by supply disruptions of crude oil could bring operating margins under pressure.
- Any increase in competitions from ayurvedic oriented company like Patanjali may pressure on growth of Dabur.

Graphs & Charts

Figure 1: Net Sales Trend

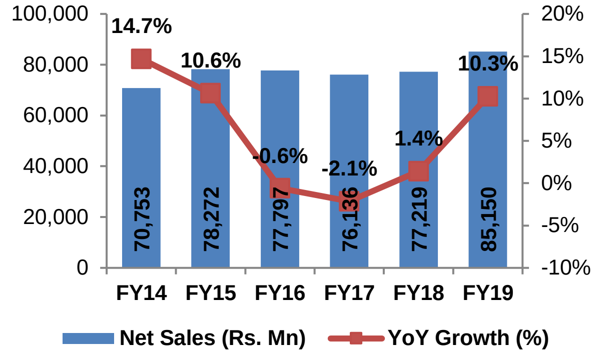


Figure 2: EBITDA & EBITDA Margin Trend

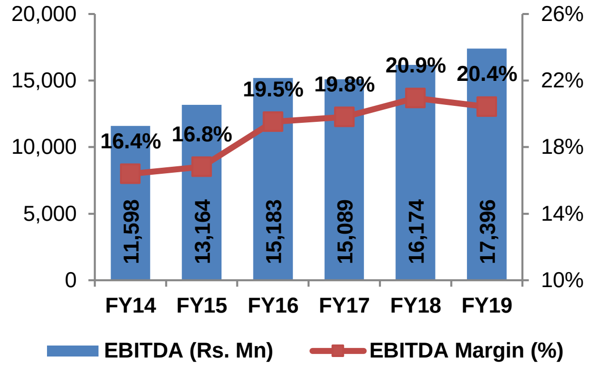


Figure 3: PAT Trend

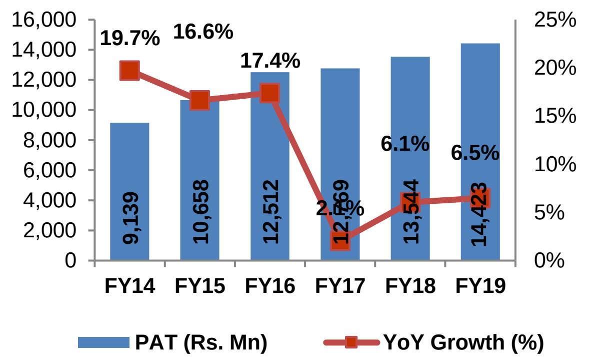
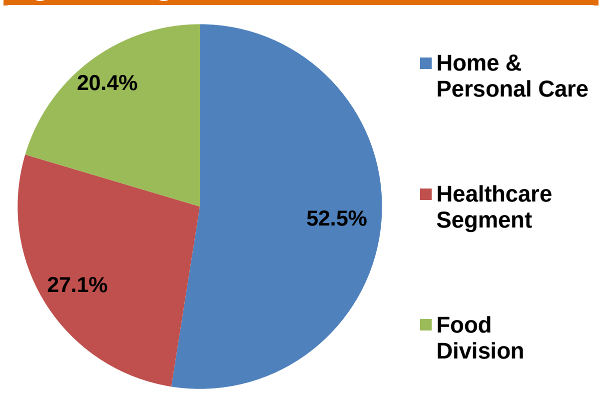


Figure 4: Segment-wise RevenueContribution



Name	Designation
Jitendra Upadhyay	Research Analyst

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Bonanza Portfolio Ltd. Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: https://www.bonanzaonline.com
SEBI Regn. No.: INZ000212137
BSE CM: INB 011110237 | BSE F&O: INF 011110237 | MSEI: INE 260637836
| CDSL: a) 120 33500 | NSDL: a) IN 301477 | b) IN 301688 (Delhi) | PMS: INP 000000985 | AMFI: ARN -0186

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