DABUR

Date: 9th May, 2020

OVERVIEW

Recommendation: Accumulate with a Target of Rs. 700

Valuation: Fairly valued on the higher side

Current Market Price: 446.7

Time Horizon: 3-5 years

ABOUT COMPANY:

Dabur India Ltd is one of the leading FMCG companies in India. The Company has a legacy of over 135 years. It is also India's largest Ayurvedic medicine and natural consumer products manufacturer. Their products mainly include health supplements, digestives, energizers, baby and woman care products. It also provides moisturizers, room fresheners, fruit juices and these are made available under various brand names like Vatika, Hajmola, Odomos etc.

Two years back, Dabur joined hands with the Chhattisgarh Govt to promote biodiversity and are actively into corporate social responsibility. Founder S.K Burman founded an NGO- Sundesh which carries out welfare activities in education and healthcare sector. The healthcare division of the Company has around 260 products to cure ailments ranging from common cold to paralysis.

Dabur ran a Pharma business which was demerged in 2003 and formed a new company, Dabur Pharma Ltd. Later on, a German company bought a stake in the Company in 2008.

Pros-

- Strong brand image and product development strength
- Leader in herbal digestives with a high market share
- Effectively using its capital in order to generate profit, this is indicated by the improving ROCE for the past 2 years
- It is a Company with low debt
- Better understanding of the preferences of the consumers (Indians)
- First mover in Ayurveda Research and Development

Cons-

- There is stiff competition for most of the products as there are very well established companies in the same line.
- It does not have direct company outlets
- Less preferred by consumers as allopathy cures faster than Ayurvedic
- Low or no barriers to entry in the key product markets and therefore has disruptive competition from new entrants.
- Uneven profitability across product line

ECONOMIC MOAT

Company History: Established in 1884 in Calcutta by Dr. S.K. Burman

Company Management:

MD and CEO: Mohit Malhotra

Chairman: Dr. Anand Burman

COMPETITIVE MOAT OF DABUR

The competitive moat of Dabur is Herbal Digestives with a market share of herbal digestives close to 90%. It is highly preferred by most consumers when compared to other digestives provided by competitors of Dabur. The herbal digestives are available under the brand Hajmola. It is one of the most influential brands in Dabur's portfolio. Also, the brand was associated with the very famous Amitabh Bachchan whose persona in the commercials helped the brand gain better market share, which at that time was around 75%-80%.

Hajmola as a brand helped Dabur position itself as one of the top FMCG companies of India and Dabur Hajmola in the food and beverages sector. It also kept pace with the evolution of consumers, as initially Hajmola was made available in glass bottles only and later on they changed the packaging and it was available in pouches as well which made it easy for the consumers to carry along. Some of the competitors of Hajmola are Digene and Eno.

However, the Company is known for fresh fruit juices as well, Dabur's Real is the market leader in the segment. The fruit juices have a competitive advantage over other companies like Coca-Cola since there are no additives. Therefore, most consumers prefer Real Activ juice by Dabur.

TAKE ON DABUR

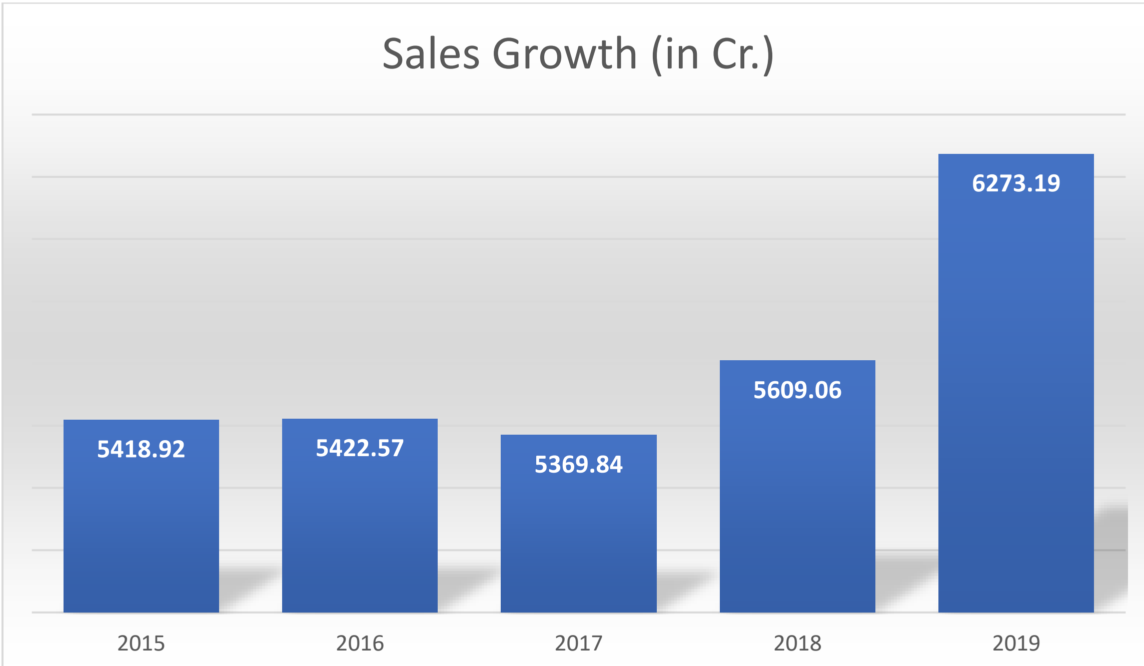
- Dabur India Ltd. is a large cap Company with a market cap of Rs. 83405.42 Cr. operating in FMCG sector.
- Due to a slow down in consumption for the past two years, the Company decided to spend $500 million- a part of cash reserve to acquire companies and revive the sales.
- Last year the Company expanded its operations to remote parts of the country to access more consumers and build its rural network by March 2021.
- In order to avoid losing out on customers, the Company adopted a strategy to introduce 10-rupee packets of hair oil, toothpaste, etc. This approach boosted sales of most of the products and Hajmola became popular in the rural areas.
- The impact of Covid-19 has rather been a positive one for the Company. Being a producer of daily consumed products, it saw a 10% rise in stock so far in 2020.
- The international portfolio has changeling risks as some of the key economies are under significant pressure due to weak oil prices and demand.
- Dabur India's Q4 FY20 volumes are expected to dip by 2%. While healthcare and food products will contribute to the growth, skincare could be impacted.
- On May 5th 2020, the Company resumed operations at all manufacturing plants and are targeting consumer needs like hygiene products and immunity boosters.

ECONOMIC AND INDUSTRY ANALYSIS

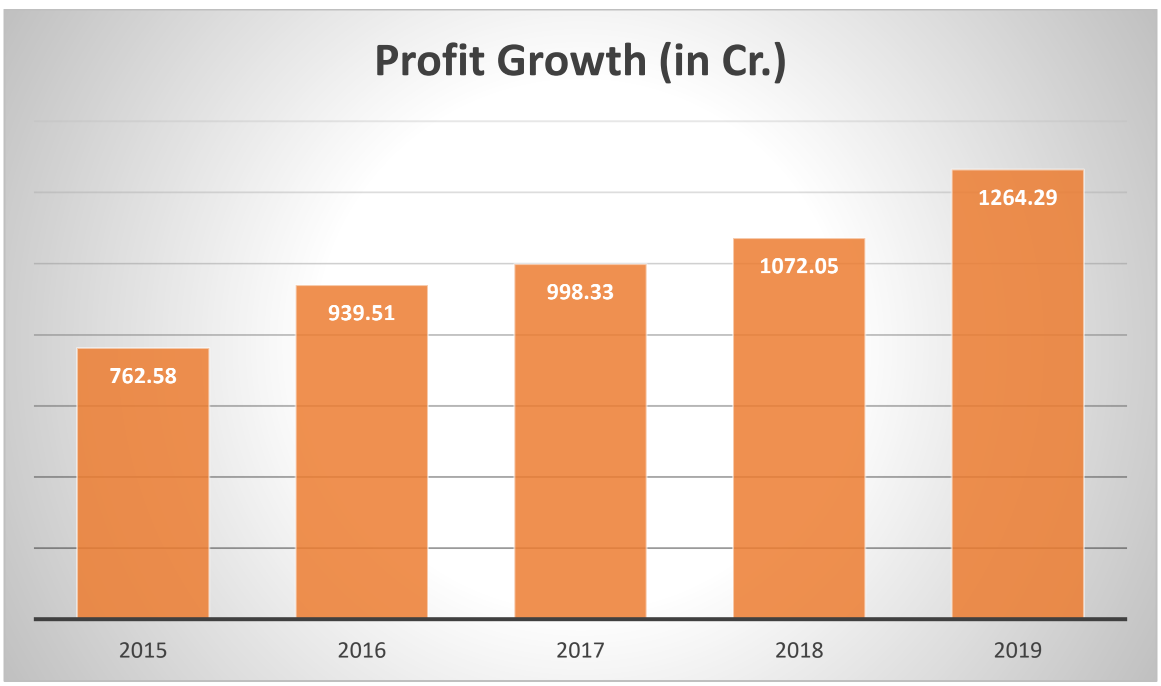
- The economy has a very disruptive impact of Covid 19 on it and it is likely that it will require a god amount of time to recover from the effect of the pandemic followed by the lockdown.
- IMF has projected a GDP growth of 1.9% for India in 2020 and this is considered to be the worst recession after the Great Depression in the 1930s.
- However, post the pandemic there is hope that most companies would move out of China and invest in India.
- The companies in the FMCG sector saw a sharp increase in sales during the month of Jan and Feb, whereas in Mar it witnessed a complete drop.
- In spite of some relaxation on the lockdown front, the FMCG sector is facing issues with regard to logistics and movement of the fast-moving goods. It is a challenge for the companies in the industry.

FINANCIAL HIGHLIGHTS

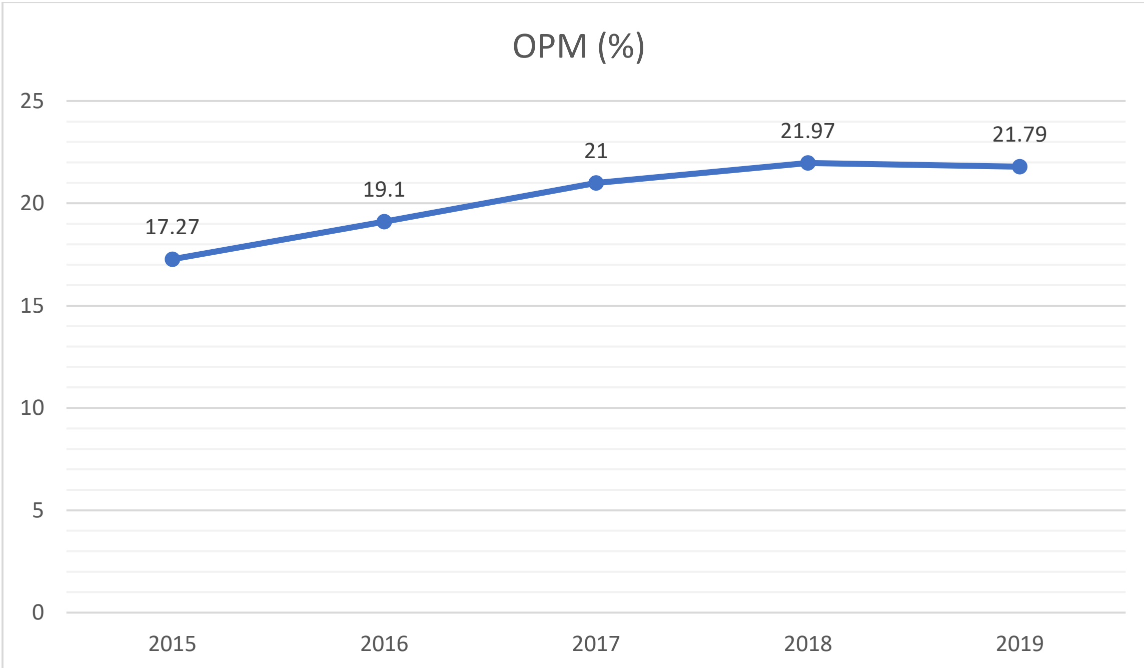
Sales Growth



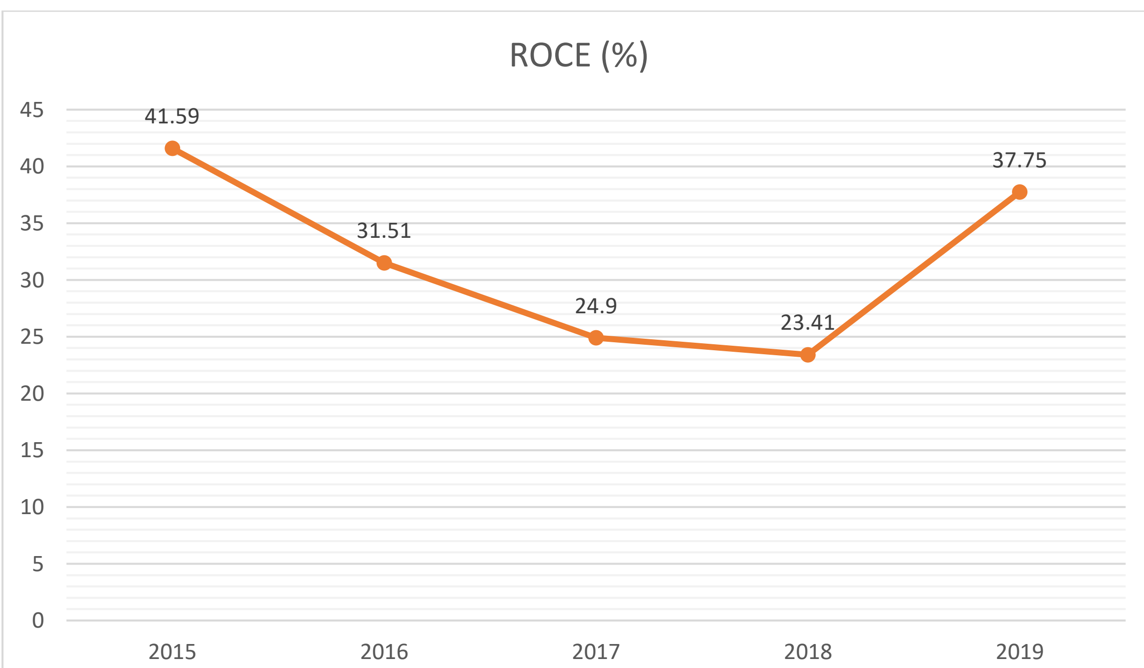
Profit Growth



Operating Profit Margin



Return on Capital Employed



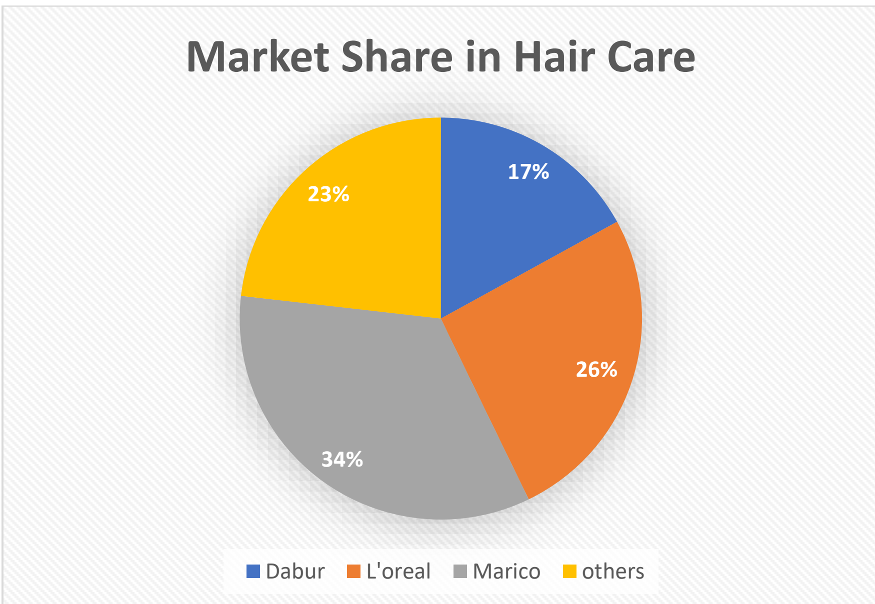
DIVIDEND POLICY:

The Company has a good dividend track report and has consistently declared dividends for the last 5 years. For the year ending 2019, Dabur India declared an equity dividend of 275% amounting to Rs. 2.75 per share and it led to a dividend yield of 0.58%.

COMPETITOR ANALYSIS

The top competitors of Dabur includes Marico, Patanjali, Parle Agro. These are companies that give Dabur stiff competition on various products. For example, Marico in the hair care segment being the producer of Parachute hair oil. When it comes to Honey or Chayawanprash there is a rift between Patanjali and Dabur.

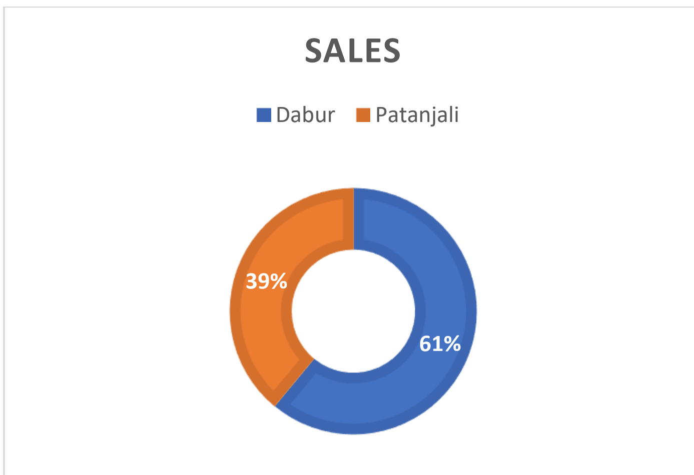
It is evident from the pie chart that Marico has a high share in hair care segment and these two companies are the top competitors of Dabur in this segment.



Dabur India Ltd. has products like Dabur Amla Hair Oil, Vatika Coconut Hair Oil that give stiff competition to the other brands.

Particulars	Dabur India Ltd.	Marico
Market Cap (Rs. In Cr.)	**78934.74**	**38731.36**
EPS (TTM)	**7.51**	**7.79**
PE Ratio	**59.49**	**38.54**

In the Chyawanprash market, Dabur India and Patanjali are major players and have tight competition.



In the wake of Covid 19, the demand for Dabur's Chyawanprash shot up as it contains Amla (gooseberry) and it was suggested by AYUSH that it could act as a precautionary element against Covid 19. The doughnut below shows the market share in Chyawanprash market.

VALUATIONS

Current Situation:

Share Price: 446.7

Market Cap: 78934.74 Cr

Total Shares Outstanding: 176.70 Cr.

Dividend Yield: 0.58%

EPS: 7.51

Book Value: 22.04

PE Ratio (TTM): 59.49

1 year Returns: -0.71%

Per Share Valuations:

Dividend Per Share: 2.75

Free Cashflow Per Share: 0

Operating Cashflow Per Share:

Price/Free Cashflow Ratio:

Operating Revenue Per Share:

Operating Profit Per Share:

Current Investment Per Share:

Non-Current Investment Per Share:

Other Valuation Parameters:

PBIDT Margin: 26.17%

PBIT Margin: 24.43%

PBT Margin: 23.96%

Net Profit Margin: 20.15%

Return on Equity: 31.85%

Return on Assets: 22.66%

Return on Capital Employed: 37.75

Retained Earnings Ratio: -26.31%

Targets

Recommendation Buy on Dips for a Target Of ₹700

Valuation: Target Valuation Of 1,23,915.69 Crores

Current Market Price ₹446.80

Time Horizon: 3-5 Years

Disclaimer: This Report Is Just An Analysis Of A Listed Company And I Hereby Confirm Everything Mentioned Above To Be True To My Knowledge. Please Contact Your Financial Advisor Before Acting On The Recommendation. The Author Or The Website Or Anyone Associated With It Is Not Responsible For Any Loss Incurred.

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