



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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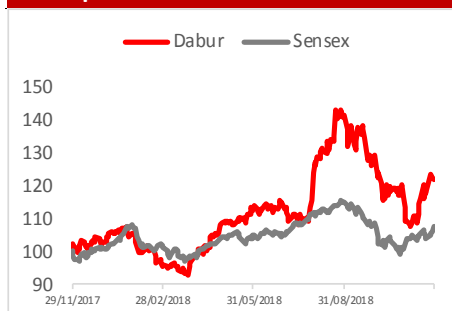
### Buy on Dips

Current Price	414
52 Week Range	312/491
Target Price	455
Upside	10%

### Key Share Data

Market Cap (Rs.bn)	735.64
Market Cap (US\$ mn)	10524.17
No of o/s shares (mn)	1770
Face Value	1
Monthly Avg.	
vol(BSE+NSE) Nos	4029.15
BSE Code	500096
NSE Code	DABUR
Bloomberg	DABUR:iN

### Price performance



### % Shareholding

	Sept-18	June-18
Promoters	67.88	67.88
Institutions	22.18	21.07
Others	9.94	11.05
<b>Total</b>	<b>100.0</b>	<b>100.0</b>

### Investment Argument

**Getting back to old roots, Ayurveda the next big thing, Dabur prepared with 5250 acres of land:** Consumer preference changed from chemical based products to Ayurvedic products, Dabur having 134 years of experience working with Ayurveda is a biggest beneficiary. Over past 3 years, company has increased its land under cultivation at a CAGR of 61.4% to 5250 Acres from 2015 Acres growing 58 of its 100 plants that have been identified as critical to their operations.

**Rural India a big (\$100bn by 2025) opportunity @46% contribution of Dabur's Domestic Sales with strong footing:** As per IBEF study rural is expected to grow at a CAGR of 15% over 2016 to 2025 from \$29.4bn to \$100bn. With Dabur's Channel Focus Strategy through project Buniyaad, an infra base created, number of line sold would go up from 19 to 23 with a strong reach of 35000 retail points.

**More Focus on Core Portfolio, aim to attain Market Leadership:** 3 Brands (Real, Vatika and Amla) contribute Rs. 10 bn plus and 12 other brands contribute Rs. 1 bn plus to overall revenues. Although majority of Dabur's products are well known not many have received the needed investment to grow the brand larger. The strategy now is to focus on 2 or 3 such brands each year and developing them further. The management has identified 15 such products that can grow from 0.1bn to 1bn.

**Project LEAD to increase distribution through Doctor Advocacy Programs:** Since Inception till date, the company has created a network of 39000 Doctors (25000 Ayurvedic and 14000 Allopathic) and aims to increase reach to 50000 Doctors by FY19.

**"Project Buniyaad" to make Dabur more prominent, no.3 in distribution after HUL and P&G @6.3mn outlets:** Started in 2017 with the purpose of strengthening distribution channels and increasing sales across all brands. As on 31<sup>st</sup> March 2018, Dabur increased their reach to 41000 villages, enhanced the number of brands sold in Rural areas, and increased direct reach to 1.02 mn from 0.91 mn in FY17 and aims to increase it to 1.2mn outlets in FY19.

**International business evolved from hair-oils to personal care, short-term impacted due to external factors, Dabur well established to absorb future opportunity with a base of 8 manufacturing units overseas:** Organic International business has evolved to full-fledged personal care entity from a pure-play hair-oil business (93% of revenue in FY06 to 34% in FY18). Even though growing at a CAGR of 14% over FY06 to FY18 the business has witnessed de-growth in FY17 and FY18 due to geopolitical headwinds. Going forward MENA region and SSA region GDP expected to improve that contribute ~75% of International revenues.

**New Product Development by leveraging potential of power brands:** NPD going forward would be 2.5% of total turnover, mainly include adjacencies where the company has the right to win and competitive advantage in-terms of formulation backed by clinical studies goal also would be to target Gen-X and Y consumers

**Changing Defensive to Offensive, will achieve double digit growth after 3 years:** After a Stellar Q1 performance in FY19, achieving a 24% topline growth with an underlying 20.9% volume growth, the company has broken the no growth taboo since end of FY15, and is very confident in achieving double digit growth for the current financial year.

**Valuation:** we expect the company's revenue to grow at CAGR of 13.1% and bottom-line to grow at CAGR of 19.3% over FY19-21E giving an EPS of Rs. 10.6 and 12.7 for FY20E and FY21E respectively. At CMP of Rs. 414, the stock is trading at 38.9x FY20E EPS and 32.6x FY21E EPS. Based on weighted average method, we give a P/E multiple of 38x FY21E EPS of Rs. 12.7 with a weight of 70% and EV/EBITDA of 26x in FY21E with a weight of 30% arriving at a target price of Rs. 455, i.e. upside of 10%. We recommend investors to **BUY ON DIPS**.

### Financials ( Consolidated)

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY17	76,135.9	-3.2%	15,089.4	19.8%	12,765.4	2.0%	7.2	57.1	26%	29%
FY18	77,218.5	1.4%	16,174.4	20.9%	13,660.5	7.0%	7.8	53.4	24%	27%
FY19E	88,130.8	14.1%	18,790.6	21.3%	15,729.4	15.1%	8.9	46.5	27%	31%
FY20E	99,847.1	13.3%	22,402.8	22.4%	18,779.0	19.4%	10.6	38.9	27%	33%
FY21E	1,12,779.1	13.0%	26,757.4	23.7%	22,403.4	19.3%	12.7	32.6	27%	34%



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### BACKGROUND

Dabur India is one of India's leading FMCG companies and one of the world's largest Ayurvedic and Natural Health Care Company with 134 years of experience in Ayurveda. They has a wide range of products in various segments which includes, Hair Care, Skin Care, Foods, OTC and Ethical, Digestives Health Supplements. A few out of the basket of known brands under Dabur are Real Juice, Hajmola, Dabur Honey, Dabur Red Paste, and Dabur Vatika. The company has 5250 Acres of cultivation which is used to grow different types of medicinal herbs that are used in their products for various health diseases.

As of 31<sup>st</sup> March, 2018, the company has 126 Scientists that help them in research for different herbs which also include clinical trials and testing. Dabur has a total network reach of 6.3mn outlets with 1.02mn retail outlets, 370 super stockists, 10000 sub-stockists and 175 medical sales representatives who cover 39000 doctors by educating and informing them about Dabur's Ayurvedic products, its benefits, and trials. Currently the company has 20 manufacturing plants (12 in India and 8 International).

### Industry

According to a "TechSci research report" the Ayurvedic products market in India is projected to grow at CAGR of 16% from 2016-2021 on back of increased awareness of the benefits of Ayurveda, and as such a surge in the sale of Ayurvedic Based Products as opposed to chemical based products.

As of 2015, the Ayurvedic personal care segment contributes more than 60% to the overall Ayurvedic Revenues. Dabur's home & Personal Care business contributes ~50% of India Revenues amounting to Rs.2.64Bn. Consumer Trends have changed from chemical to Natural, bringing more natural based products into limelight, more specifically Ayurvedic Based Products which fulfils both Natural as well as Medicinal based purposes.

Government Push for Ayurvedic Products through education and national awareness programs through celebrations of "National Ayurveda Day" is another factor contributing to such levels of growth.

The company in the past year has held events to raise awareness of the benefits of Ayurveda and also conducted 600 health camps.

### MSP Hike, Rain Fall & Rural Growth to remain key factors for Growth:

The recent hike in MSP will benefit farmers in Rural India, driving their income by almost 24% which will lead to a shift in consumer taste from a lower end product to a better-quality product offered by companies such as Dabur. Dabur's rural to urban share currently stands at 45%:55% and as such MSP hike for farmer's income, Rain Fall for Crops are very pertinent for rural growth. It has been observed that rural is growing faster than Urban and is likely to continue further with government focusing more on rural India.

### Competitive advantage for Dabur for 134 years, as companies now try to be more natural:

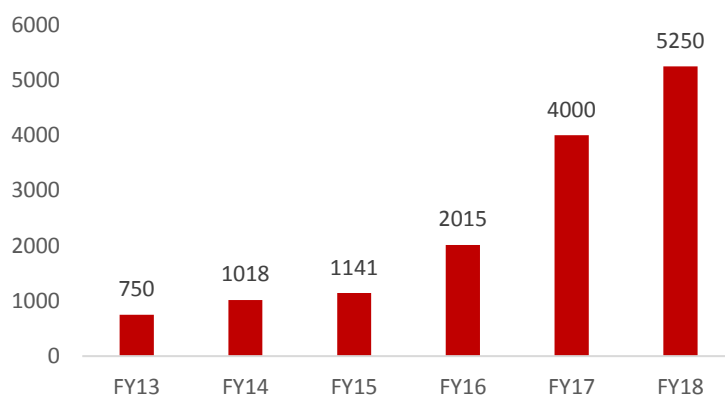
Consumers in today's time have become more aware of the type of products that they use, tilting towards products which have less chemicals and more natural solutions. Recognizing this change, companies are now trying to incorporate more natural elements but Dabur has excelled in this field working with Ayurveda since 134 years with most of their products consisting of natural elements and no chemicals. Since the past 3 years, the company has been increasing it's area under cultivation with a CAGR of 61.4% as seen in the chart.



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### Area Under Cultivation (Acres)



The company grows 58 plants out of a 100 on these lands which are essential to their operations. This gives Dabur a competitive advantage since they would not have to go through the process of testing and researching (incorporating naturals to their existing portfolio) and thus also giving them an opportunity to gain market share in that time.

#### **E-Commerce and Modern Trade distribution channels to boost growth:**

Seeing the traction that E-Commerce and Modern Trade has received over the past few years, Dabur has implemented the two in its distribution network. For the company, the 2 channels are the fastest growing channels with Modern trade contributing about 12-14% of FMCG sales to the company.

Likewise the contribution made from each channels have changed with Wholesale and Enterprise (Traditional) contributing 22.2% & 7.7% respectively in Q1FY19 has reduced from 24.5% and 10.1% Respectively in FY17 whereas modern trade and E-Commerce contributing 12.8% and 0.6% respectively in Q1FY19 has increased from 11.6% and 0.6% in FY17.

Changing the method of introducing new products in markets, Dabur with some of the new product launches has started introducing first on E-Commerce platforms, monitoring the response the product gets on that channel and depending on the response, introduces the product in other channels as well.

The Management has stated that with new big players in grocery entering the Indian Market such as Walmart-Flip Kart, Grofers, the growth in this channel can be exponential with the E-Commerce even reaching a 10% contribution to sales. In terms of growth E-Commerce will be fastest followed by Modern trade and then General or Traditional trade.

#### **Changing Media Strategy, rationalizing communication to help increase brand visibility:**

Dabur currently buys 200-300 channels across media space in India. Till date they would buy channels during different times as cost of the channel would be dependent on the time of day. The channels were then used for promotions for their brands across media. The plan forward is to decrease these channels from 200 to 50, but buying channels during peak timings of the day to ensure reaching a larger crowd of all age groups. This would entail slightly higher costs but will ensure more of the populous to view the promotions and thus increase awareness for the products. As such the company has stated that they have different strategies for each brand and for each category i.e mass Category, Premium Category, General Category.



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The company has also shifted its focus on promoting their brands on social media such as Facebook to more E-Commerce based platforms in order to attract younger crowd as teens and young adults shop more online than going to a store and purchasing goods.

### **Strong brand portfolio, will focus more on Core Brands to drive growth**

Dabur has a well-known brand portfolio of brands such as Hajmola, Dabur Lal Tail, Dabur Honey, Dabur Red Paste Dabur Pudina among others. Even though these brands are well established in their respective markets, they have not received enough investment to make the brand larger or to gain market leadership. This is due to the large array of brands which has caused them to invest in some but not all.

Moving forward, the company will focus on 2 or 3 such brands, namely Dabur Honitus, Lal Tail and Pudina Hara for FY19 where in these brands will receive 1.5x investment, which will help them achieve a 1.2x Sales and Profit growth. This will be done through aggressive promotions and ad campaigns to attain the target. Company aims to convert the 15 odd brands which are in the Rs. 1bn plus category to move to the Rs. 10 bn Category in the next few years.

To further highlight the focus on each brand, the company has changed its structure, appointing a well experienced head to each of the major brands that the company has enabling them to give separate attention to each and strategize accordingly.

### **Product Developments to be at 2-3% of overall revenues; more focus on Adjacencies**

Dabur will focus more on Adjacencies of their existing product brands as part of their strategy to focus on their pillar brands and not expand into newer ranges. They launched several products during FY18, many with a regional twist such as the Real Ethnic Range, Ready to drink Mocktails (First ever in India in this category), Honitus Hot Sip, and Hajmola Cola flavor among others. The new products launched will aim for different consumers of different age groups, and growth would be achieved through Premiumization. To strengthen their HealthCare Portfolio, the company has also ventured into Diabetes management and solution through a supplement called Dabur GlycoDab Tablets. The company will launch on an average 4-5 products each year.



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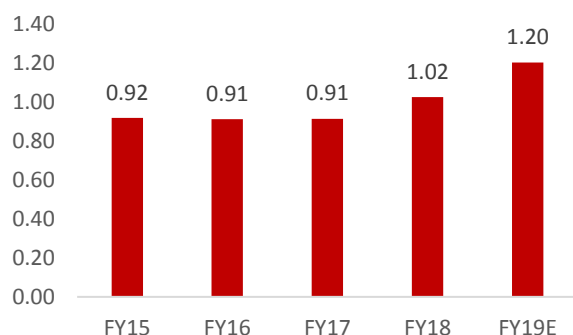
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Dabur has undertaken few projects in the last couple of years taking a different approach to understand its business in a more detailed and manner and revive growth that the company experienced in earlier years excluding the last 3 years.

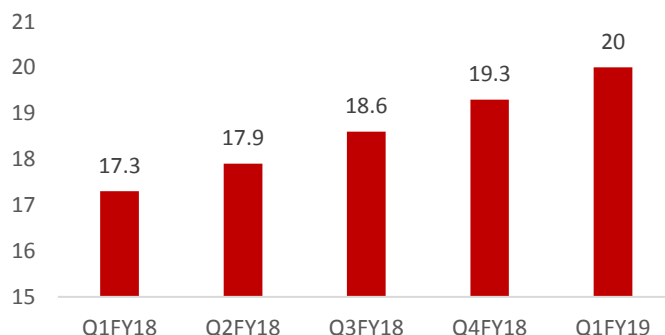
### Project Buniyaad

- Implemented in 2017 to ensure greater portfolio focus has shown promising results. This project was undertaken to improve sales across the portfolio and leverage their product range to increase presence in the retailer outlets in both urban and rural markets.
- The current share of Rural: Urban in most of its brands is 45%:55% respectively.
- For rural markets, 2 teams were formed, 1 for home & personal Care and another for Health Care & Foods.
- Presence in Rural markets increased significantly as Company now reaches 41000 villages across India, and has a network of 11000 sub-stockists.
- Average number of brands sold has increased by 10% in rural markets, availability of smaller brands in rural markets has been increased significantly.
- Since inception, the lines sold in rural market has increased from 17.3 to 20.0.
- In Urban markets, they strengthened their presence by adding 200 sales people. Gave them PDA's to enhance sales and distribution efficiencies
- Company's direct reach crossed 1 mn retail outlets (1.08mn in Q2FY19), aims to increase it to 1.2mn outlets by end of FY19
- Strengthened Rural Ecosystem by implemented a Rural Sales Promoters (RSP) portal.
- The Short-term cost for this project is high but the long term benefits outweigh the short term costs

Outlets in Mn



Lines Sold



### Project LEAD

- (Leveraging through Empowered Anchoring and Detailing): A doctor advocacy program, where it expanded its reach to 39000 doctors inclusive of 14000 allopathic doctors. The Current medical Rep team consists of 176 members which is planned to increase by another 100 by next fiscal as well as increase the doctor reach to 50000. i.e. +11000
- This project has been successful as Branded Ethical continues to be a growth driver in the Ayurveda Business giving a growth of 5% in FY18, and breaking the trend of a negative to a flat growth in the past 3 years.



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### RISE Initiative

- **(Regional Insights and Speed of Execution)** is an initiative undertaken to understand the different markets in India that are present which are apt for specific types of products only.
- Starting with **Regional Insights**, India in general is very large which each region, each area, each state and city having a different taste and liking to products, meaning that promoting all products at all places will not work, e.g, North of India is very different from South India. Taking Vatika oil as an example, in North a different variant would be successful as compared to in the south where people would prefer coconut oil.
- Data will be collected in each level, on ground, consumers, employees, management through different means such as sampling of products, feedback data, interviews and run through multi variate analyses and data analytics
- Through Analysis, each market's characteristics would be identified in terms of the response that any product receives, the fondness for the product, the demographics of the people fond of the product.
- Moving to Speed of Execution, once the data has been analyzed, a strategy would be formed to sell such products in their respective key markets, moving faster with promotions, consumer activations thereby increasing the awareness and visibility of the product in its key market.



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### FINANCIALS

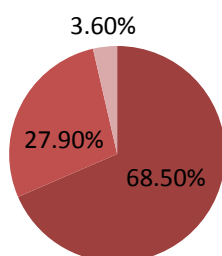
#### Revenue

Dabur's Revenue has been stagnant for the past 3 years, giving minor to no growth. This was due to the entry of Patanjali into the ayurvedic market, giving direct competition to Dabur as well as Demonetization, introduction of GST and changes in accounting Standards. The company breaks its business into 3 major constituents namely, Domestic, International and Others. As of FY18, the company on an overall basis achieved a topline of Rs. 77218.5 mn, giving a growth of 1.2% over last year. In H1FY19 the company achieved a topline of Rs.42056.5 mn, a 12.2% growth over H1FY18 in reported terms, with a volume growth of 21% in Q1FY19 and 8.10% in Q2FY19 giving an average volume growth of 15% in H1FY19. This is the first time in last 4 years that Dabur has recorded a double digit growth in the first half of FY19. We expect overall revenues to grow at CAGR of 13.37% over FY19-21.

#### Domestic Business (FY18:65.80% of Overall Sales, Rs 52894.67Mn, CAGR FY16-18: 0.92%)

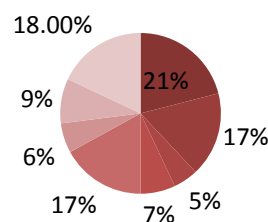
Domestic Business is split into 8 main Segments in which the company is present in i.e. Hair Care, Oral Care, Skin Care, Home Care, Health Supplements, Digestive, OTC & Ethical, and Foods businesses. As of H1FY19, the domestic business contributed 68.46% amounting to Rs.28790.55 Mn, a growth of 14.54% over H1FY18 domestic revenue of Rs.25136.81 mn.

**Revenue Break-Up (FY18)**



■ Domestic ■ International ■ Others

**Domestic Revenue Break Up (FY18)**



■ Hair Care ■ Oral Care ■ Skin Care  
■ Home Care ■ Health Supplements ■ Digestives  
■ OTC & Ethicals ■ Foods

#### Hair Care (FY18: 21% of Domestic Sales, Rs.11107.88Mn, CAGR FY16-18: -3.57%)

This business contributes ~22% to Domestic Revenues in Q2FY19 respectively. Dabur is present in Shampoo and Hair Oils where In Q2FY19, Shampoos (13.6% of Hair Care portfolio) grew by 49% over Q2FY18 and Hair Oils (86.4% of Hair Care) grew 11.1%. This is the 4<sup>th</sup> consecutive quarter in which shampoos has posted a growth of over 30%. Hair Care since the past 3 years has been growing at a negative CAGR of -3.57% as both markets are highly competitive which only increased further after Patanjali's entry in 2015. Dabur's two major brands (Rs.10bn+), Dabur Anmol and Dabur Vatika are present under this segment. The company over the past couple of years has been trying to increase its customer base by introducing new variants such as Coconut, Sarson Amla Hair Oil, and Brahmi Amla Hair Oil. This will regionalize the brand where in different variants will work better in their associated markets. To further boost growth the company has been involved in aggressive ad campaigns appointing Kareena Kapoor Khan to market Dabur Amla Hair Oil. The efforts taken by the company towards end of the FY18 and beginning of FY19 for hair oils resulted in a gain of 120 basis point market share when compared to the same quarter last year.



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The Management is confident in achieving a double digit growth in shampoos and a high single digit growth in Hair Oils. A strong portfolio, well established brands with numerous variants to cater different markets within India we expect this segment to grow at CAGR of 12% from FY19-21.

### **Oral Care (FY18:17% of Domestic Sales; Rs.8992.09Mn, CAGR FY16-18: 7.45%)**

Brands under this segment are Dabur Babool, Dabur Red Paste, Dabur Meswak and Dabur Red Gel and ToothPowder. This segment has given consistent growth over the years as opposed to the company's other segments. Oral Care in FY18 grew by 11.5% from FY17 and in Q2FY19 grew by 3% over Q2FY18 albeit on a high base of 23% growth achieving revenue of Rs.2598.99 Mn in Q2FY19. In Q2, the company reported a growth of 19.5% in Red toothpaste portfolio. Currently the red portfolio contributes ~65% to the overall Oral Care Portfolio. This segment has seen the change in consumer demand and willingness to pay more for more products with a natural element. As per MAT (Monthly Annual Total), the natural segment contributes 30% to total toothpaste sales of the country. It has increased from 23% two years back. The natural segment has grown 5 times faster than the non-natural segment in the oral care category. As Per IBEF FMCG report, the contribution of herbal products to personal care segment in India stood at 6-7% and is estimated to grow to 10% by 2020. Even though, other companies in this segment are entering or entered the natural segment, Dabur has a competitive advantage due to its years old experience. In this segment, Dabur's Market share in terms of volumes is 15.5% and 12% in Value terms. Most Brands are under the Rs. 1bn plus brand group, the company will focus on these brands to grow them further and larger. Due to its consistency in growth and further investments in these brands, we expect the segment to grow at a CAGR of 12.50% from FY19-21.

### **Skin Care ( 5% of Domestic Sales ; Rs.2644.73Mn, CAGR FY16-18: 0.92%)**

Products under this segment are sold under FEM and Dabur Gulabari brand. As Per a joint study conducted by ASSOCHAM and MRSS India stated that "India's grooming industry market size is expected to rise to \$35 bn by 2035 and the herbal cosmetic industry is expected to grow at 12% p.a in India driven by teenagers. Skin Care in Q2FY19 reported a growth of 11.9% on back of double digit growth in Gulabari and Oxy Bleaches. The company recently signed Kriti Sanon as the brand ambassador for FEM. We expect the growth momentum to continue and thus this segment will grow at CAGR of 13% for FY19-21.

### **Home Care(7% of Domestic Business ; Rs3702.63Mn, CAGR FY16-18: 9.02%)**

Dabur is in the Mosquito repellent, Air Fresheners and toilet cleaners through brands such as Odomos, Odonil and Sanifresh. As on Q2FY19, the company reported a growth of 10.9% over Q2FY18 with strong growths in both Odonil and Sanifresh. Odonil is a Rs. 2bn plus brand forming about 66% of total Home Care portfolio and as per management this brand has been giving double digit growth. Odomos is a seasonal business, facing a lot of competition from competitor such as Godrej and 3M but is a market leader in the mosquito repellent cream. Dabur has also introduced 2 new variants in Odonil, i.e. Odonil Zipper Daffodil and Rose, which will start providing results in the coming quarters. The company is confident in achieving a double-digit growth in this segment, and thus we expect the category to grow at CAGR of 13% between FY19-21.

### **Health Supplements (17% of Domestic Business ; Rs.8992.09Mn, CAGR FY16-18: -1.92%)**

This segment consists of 3 well-known brands of Dabur namely Dabur Honey, Dabur Glucose and Dabur Chyawanprash. In Q2FY19, this segment was 15.50% of Domestic Sales amounting to Rs.2275.95 Mn, which grew at a rate of 12.3 over Q2FY18. Dabur Honey and Chyawanprash both performed well during the quarter. According to Nicholas Hall year book 2017, Dabur Chyawanprash is the second largest OTC brand in India after Vicks. The year FY18 saw the company change its strategy in making Chyawanprash an all year round brand instead of just being used in the winters. This was successfully carried through Doctor Advocacy Programs under Project LEAD, and with the expansion of this program this year, this brand will be a





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beneficiary. Dabur Honey is also seeing good growth after it was rebranded as a product for weight management. Recently the company also introduced a new SKU in honey known as Dabur Honey Squeeze, a SKU with a brand new bottle packaging with 225gm as against the 500gm or 1kg variants. The company is optimistic about the new variant. We believe the benefits for the two brands have just started and will continue for further years. Thus, we expect this segment to grow at CAGR of 16.5% from FY19-FY21.

### **Digestives (6 % of Domestic Revenues ; Rs. 3173.68Mn, CAGR: FY16-18: 0.92%)**

Hajmola, Pudín Hara and Nature Care are brands that come under this segment. Hajmola and Pudín Hara are brands in the Rs. 1 bn plus segment. In Q2FY19 this segment reported a growth of 10.8% on back of a strong performance in Hajmola and Pudín Hara. The company is taking efforts to promote the brand through a sampling method where in during popular events which would attract a lot of crowd such as Durga Puja and Kumbh Mela, they sample different Hajmola flavors to change the perception from just being a digestive tablet to a tasty post meal digestive tablet. Even though sampling costs are high for short term, on a long-term basis the benefits are high as this does direct promotion for the brand as well as a direct connect with the customers. This also enables them to get feedback that instant about the liking of the product. Hajmola and Pudín Hara are two established brands which have not received much investment from the company to grow the brand larger. The management has stated that they will invest 1.5x in Pudín Hara and two other brands to generate 1.2x sales and profit growth and with aggressive promotions for Hajmola we expect this segment to grow at CAGR of 13% for FY19-21.

### **OTC & Ethical (9% of Domestic Revenues, Rs.4760.52Mn, CAGR FY16-18: 0.92%)**

This segment has not performed in the past 3 years. It was most affected by the introduction of GST as there is a larger share of unorganized market which disrupted the distribution channels and thus the management could not invest properly. Dabur Lal Tail and Honitus are brands under this segment. Management plans to focus on these two brands and invest in it to grow the brand larger. Furthermore, the company has ventured into diabetes management with a new product launch of GlycoDab tablets. Project LEAD is a method through which the company is promoting brands under this segment through doctors. In 2018, Dabur has managed to treat close to 1 lac patients through 620 camps conducted by the company. In Q2FY19 OTC grew by 10% on back of good growth in Lal Tail, Honitus and Shilajit. Ethicals grew by 6.1% over Q2FY18. We believe the growth momentum will continue due to the current developments thus expect this segment to grow at a CAGR of 12.5% for FY19-21.

### **Foods (18% of Domestic Revenues, Rs.9521.04Mn, CAGR FY16-18: 0.92%)**

Dabur is into Juices and Culinary business under this segment. Real and Real Activ are brands under this segment. This segment has always been competitive and despite seeing a dip in market share in the past 2 quarters Dabur has once again managed to regain its market share to 55% in the category. Even though a market leader, the segment has given moderate to no growth since the past few years due to competition from ITC, Parle, Paper Boat, Tropicana. There are changes in consumer tastes as consumers are now moving away from carbonated drinks and more towards juices. Furthermore, consumers are more aware of the sugar intake in each product and thus the company is in track to conform to that change. There is huge opportunity to grow in juices as it's a low penetrated market with only close to 10% penetration. The company in an effort to regionalize the brand to attract more domestic consumers have come out with regional flavors such as Masala Guava, Alphonso, and Masala Pomegranate. The company has also ventured into Packaged Mock tails with virgin Pina colada and Virgin Mary mock tails under the Real Brand. The company is also thinking of entering the fruit drinks segment, a Rs. 40 Bn segment in coming years. With these new launches yet to provide results, expanding into newer areas we expect this segment to grow at CAGR of 14.25% from FY19-21.



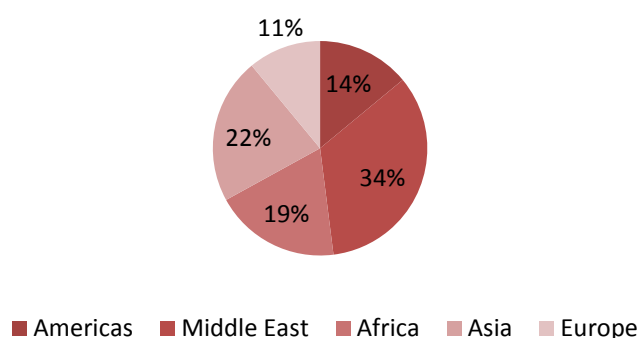
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### International Business (27.90% of Overall Revenues, Rs. 21544Mn, CAGR FY16-18: -4.5%)

The company operates in 5 regions namely, America, Middle East, Africa, Asia and Europe as seen in the chart below. The business has grown at a CAGR of 14% from FY11 to FY18. 67% of international business is organic business (extension of Indian portfolio), and the remaining 33% is acquired business i.e. Namaste (operates In Africa and U.S) and Hobi (operates in Turkey).

#### International Business



The **MENA** (Middle East and North Africa) region as seen below contributes 53% of international business. The MENA region GDP growth rate is expected to increase to 3.6% in 2019 from 2.2% in 2017. In the **Middle East** (34% of International revenues), witnessed a slowdown last year due to low oil prices which affected oil producing companies. The government put a limitation on major projects and subsidies which resulted in consumers saving more than spending. This year, Crude has moved up 29% from \$66 a barrel on Jan 1<sup>st</sup>, 2018 to a high of \$85 a barrel as on date. This is a positive for the economy and thus will see a revival in spending. Further, the company in a bad economy took initiatives by relaunching Dabur Vatika in economical sizes for use. This has led to increase in the brands market share from 17% in March to April 2018 to 19% in May to June 2018 in Saudi Arabia. Further they improved their distribution channels in Saudi Arabia, their biggest market in the Middle East by appointing a new distributor which increased their Direct Reach in the economy. We expect this region will perform well due to favorable oil price movement and other efforts taken by the company to provide growth.

3 economies in which Dabur is present namely, Egypt, Nigeria and Turkey faced currency devaluations and as such hampered growth in the last 2 years. Nigeria and Egypt have stabilized, and growth is normalizing but Turkey is seeing more devaluation. In Constant Currency terms Turkey is performing well posting a growth of 16% and as such indicates the only hindrance to be a macro factor i.e. Currency Devaluation. Hobi, in Constant Currency terms is showing good growth and the growth is only affected due to Macro-Economic factors and not internal factors.

Namaste business (~Rs.450 Crores in FY18) which showed -15% growths in FY18 and In Q1FY19, Namaste posted a low single digit growth which marked a turnaround in their topline as well profitability from negative growth given in past years. The growth momentum continued with this brand posting a 4% growth in Q2FY19.

Dabur has 8 manufacturing locations in 8 major international markets which allow them to manufacture products locally. This allows them to optimize their costs instead of importing the products which is a costlier method.



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Dabur in their International business has witnessed stabilization and growth in most parts except Turkey. We expect that their international business will grow at a CAGR of 12.5% from FY19-21 due to afore mentioned reasons.

### **EBITDA**

Dabur's operating profits has been growing at CAGR of 10.4% between FY13-18 on account of healthy gross margins of 50% over the years and decreasing other expenses. The company reported highest ever EBITDA margins of 20.9% in FY18. We expect EBITDA to grow at CAGR of 17.5% from FY19-21 on back higher sales growth and maintaining gross margins at 50.5%.

### **PAT**

Dabur's consolidated after tax profits are growing at CAGR of 12.1% between FY13-18. We expect the company's profits to grow at CAGR of 19.3% between FY19-21 on back of a healthy topline CAGR growth of 13.1% in addition to the cost optimization in terms of Raw Material Costs, Advertisement costs and reducing finance costs. The company pays 20.5% tax as a percentage of PBT and going forward this will be another factor for a faster growth in after tax profits.



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### Valuation and Outlook

#### Valuation Sheet

Particulars				EPS (Rs)			P/E			EV/EBITDA		
	Company Name	CMP	No.of Shares	M.Cap (Rs.Mns)	FY19	FY20	FY21	FY19	FY20	FY21	FY19	FY20
Nestle	10686	96.41	1030237	170.8	201.23	234.6	62.56	53.10	45.54	35.64	30.97	26.88
Emami Ltd	439	453.93	199275	12.07	14.29	17.01	36.37	30.72	25.81	25.13	21.96	19.29
Marico	360	1290.86	464710	7.36	8.86	10.28	48.91	40.63	35.02	34.52	28.75	24.87
HUL	1765	2164.64	3820590	28.94	34.07	39.38	60.99	51.81	44.82	42.27	36.07	31.27
Britannia	3037	240.30	729791	50.04	60.26	72.04	60.69	50.40	42.16	40.02	33.33	28.20
<b>Dabur</b>	<b>414</b>	<b>1770.00</b>	<b>732780</b>	<b>8.9</b>	<b>10.6</b>	<b>12.7</b>	<b>46.49</b>	<b>38.94</b>	<b>32.71</b>	<b>38.87</b>	<b>32.30</b>	<b>26.61</b>
<b>Average</b>							<b>52.7</b>	<b>44.3</b>	<b>37.7</b>	<b>36.1</b>	<b>30.6</b>	<b>26.2</b>

#### Based on Bloomberg Estimates

<b>EV/ EBIDTA Multiple FY21 E</b>	<b>26 (Considering Average peers)</b>
EBIDTA FY21	26757.4
<b>FY21 EV (Rs Mns)</b>	<b>700697.0</b>
Debt FY21 (Rs Mns)	2170
<b>Cash FY21 (Rs Mns)</b>	<b>15877.5</b>
Market Cap (Rs Mns)	714404.5
<b>Per Share (Rs)</b>	<b>403.6</b>

Weighted Average Target Price	Multiple	Target Price	Weight Assigned	Price	Comment
Target Price Using PE Multiple	38	476.9	70%	334	Average PE of peers for FY21 is 37x
EV/ EBIDTA	26	403.6	30%	121	Average EV/ EBIDTA multiple of peers for FY21 is 26x
<b>Target Price</b>				<b>455</b>	



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### Valuation and Outlook

Dabur is one of the leading players in the FMCG industry and a leader in the Ayurveda natural segment, with a 134 years of experience. With the recent changes in the industry and the company coming out of the defensive mode from the past 3 years due to Patanjali as well as economic and policy changes the company has guided for a double digit topline growth. Dabur is working towards its guided target and has gotten in a lot of changes both internally in corporate structure as well as formalized different strategies for each brand to drive growth. With favorable macros, a normal to good rainfall, and rising disposable incomes and more focus on "Rural India" the company's future looks promising.

**Valuation:** we expect the company's revenue to grow at CAGR of 13.1% and bottom-line to grow at CAGR of 19.3% over FY19-21E giving an EPS of Rs. 10.6 and 12.7 for FY20E and FY21E respectively. At CMP of Rs. 414, the stock is trading at 38.9x FY20E EPS and 32.6x FY21E EPS. Based on weighted average method, we give a P/E multiple of 38x FY21E EPS of Rs. 12.7 with a weight of 70% and EV/EBITDA of 26x in FY21E with a weight of 30% arriving at a target price of Rs. 455, i.e. upside of 10%. We recommend investors to **BUY ON DIPS**.



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Dabur India Ltd Financial data													
P&L (Rs mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19E	FY20E	FY21E
Net Sales	78,687.7	76,135.9	77,218.5	88,130.8	99,847.1	1,12,779.1	Net Profit	12,538.8	12,803.1	13,577.4	15,766.3	18,818.8	22,446.3
Cost of sales	63,505.0	61,046.5	61,044.1	69,340.1	77,444.3	86,021.6	Add: Dep. & Amort	1,331.9	1,428.6	1,621.8	1,783.5	1,977.6	2,171.7
<b>Operating Profit</b>	<b>15,182.7</b>	<b>15,089.4</b>	<b>16,174.4</b>	<b>18,790.6</b>	<b>22,402.8</b>	<b>26,757.4</b>	Minority Interest	(27.4)	(33.7)	(33.5)	(36.9)	(39.8)	(43.0)
Depreciation	1,331.9	1,428.6	1,621.8	1,783.5	1,977.6	2,171.7	<b>Cash profits</b>	<b>13,843.3</b>	<b>14,198.0</b>	<b>15,165.7</b>	<b>17,513.0</b>	<b>20,756.6</b>	<b>24,575.1</b>
PBIT	13,850.8	13,660.8	14,552.6	17,007.1	20,425.2	24,585.7	(Inc)/Dec in						
Other income	2,171.9	2,983.5	3,051.8	3,197.2	3,422.3	3,621.0	-Sundry debtors	(987.3)	1,587.8	(556.6)	(1,290.2)	(1,091.9)	(762.1)
Interest	484.8	540.3	530.5	499.1	326.9	151.9	-Inventories	(1,232.3)	(102.1)	(1,494.7)	(1,200.0)	(950.6)	(1,232.9)
Profit before tax	15,537.9	16,104.0	17,073.9	19,705.2	23,520.6	28,054.7	-Loans/advances	-	(156.6)	(323.6)	254.3	(24.0)	(26.6)
Exceptional and Extra Ordinary	-	-	145.4	-	-	-	'-Current Liab and Provisions	738.0	(182.6)	1,893.8	3,432.0	(876.0)	1,354.8
share of profit/loss in JV	(0.1)	2.5	2.4	2.6	2.9	3.2	'- Other Assets	(505.5)	(101.4)	(946.0)	(474.0)	(486.9)	(532.8)
PBT ( Post Extra Ordinary)	15,537.8	16,106.5	16,930.9	19,707.8	23,523.5	28,067.9	Change in working capital	(1,987.1)	1,045.1	(1,427.1)	722.2	(3,429.4)	(1,199.5)
Provision for tax	2,999.0	3,303.4	3,353.5	3,941.6	4,704.7	5,611.6	<b>CF from Oper. activities</b>	<b>11,856.2</b>	<b>15,243.1</b>	<b>13,738.6</b>	<b>18,235.2</b>	<b>17,327.2</b>	<b>23,375.6</b>
<b>Reported PAT</b>	<b>12,538.8</b>	<b>12,803.1</b>	<b>13,577.4</b>	<b>15,766.3</b>	<b>18,818.8</b>	<b>22,446.3</b>	<b>CF from Inv. activities</b>	<b>(9,144.8)</b>	<b>(9,805.8)</b>	<b>(7,982.3)</b>	<b>(70.9)</b>	<b>(5,000.0)</b>	<b>(3,000.0)</b>
MI	27.4	33.7	33.5	36.9	39.8	43.0	<b>CF from Fin. activities</b>	<b>(3,271.6)</b>	<b>(4,587.4)</b>	<b>(5,743.8)</b>	<b>(16,700.0)</b>	<b>(9,931.8)</b>	<b>(11,418.4)</b>
<b>Adjusted PAT</b>	<b>12,511.6</b>	<b>12,765.4</b>	<b>13,660.5</b>	<b>15,729.4</b>	<b>18,779.0</b>	<b>22,403.4</b>	<b>Cash generated/(utilised)</b>	<b>(560.2)</b>	<b>849.9</b>	<b>12.5</b>	<b>1,464.3</b>	<b>2,395.4</b>	<b>8,957.2</b>
							Cash at start of the year	2,758.4	2,198.2	3,048.1	3,060.6	4,524.9	6,920.3
							Cash at end of the year	2,198.2	3,048.1	3,060.6	4,524.9	6,920.3	15,877.5
								2,198.2	3,048.1	3,060.6	4,524.9	6,920.3	15,877.5
								(0.0)	-	(0.0)	0.0	0.0	-
<b>Balance Sheet</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>	<b>Ratios</b>	<b>FY16</b>	<b>FY17</b>	<b>FY18</b>	<b>FY19E</b>	<b>FY20E</b>	<b>FY21E</b>
Equity capital	1,759.1	1,761.5	1,761.5	1,766.3	1,766.3	1,766.3	OPM	19.3	19.8	20.9	21.3	22.4	23.7
Reserves	39,947.0	46,712.4	55,303.7	55,550.2	66,817.7	80,259.7	NPM	15.5	16.1	17.0	17.2	18.2	19.2
<b>Net worth</b>	<b>41,706.1</b>	<b>48,473.9</b>	<b>57,065.2</b>	<b>57,316.5</b>	<b>68,583.9</b>	<b>82,026.0</b>	Tax rate	19.3	20.5	19.6	20.0	20.0	20.0
Minority Interest	217.1	247.7	265.3	302.2	341.9	384.9	<b>Growth Ratios (%)</b>						
Non Current Liabilities	4,865.0	6,355.4	5,341.4	2,038.7	1,810.8	1,834.0	Net Sales	0.5	(3.2)	1.4	14.1	13.3	13.0
Current Liabilities	22,534.8	22,245.4	24,344.4	29,820.3	26,712.2	25,543.8	Operating Profit	15.3	(0.6)	7.2	16.2	19.2	19.4
<b>CAPITAL EMPLOYED</b>	<b>69,323.0</b>	<b>77,322.4</b>	<b>87,016.3</b>	<b>89,175.5</b>	<b>97,106.9</b>	<b>1,09,403.7</b>	PBIT	15.3	(1.4)	6.5	16.9	20.1	20.4
Non Current Assets	37,166.4	46,177.7	52,618.8	53,142.6	54,222.9	55,113.0	PAT	17.4	2.0	7.0	15.1	19.4	19.3
Fixed Assets	13,016.7	15,349.8	16,039.2	16,977.5	17,999.8	18,828.1	<b>Per Share (Rs.)</b>						
Non Current Investments	18,809.1	24,994.1	30,917.8	30,420.0	30,420.0	30,420.0	Net Earnings (EPS)	7.1	7.2	7.76	8.9	10.6	12.7
Non Current tax assets	-	33.1	33.3	33.3	33.3	33.3	Cash Earnings (CPS)	6.4	6.4	6.8	7.9	9.5	11.5
Long Term Loans and Advances	-	118.6	131.4	145.9	161.9	179.7	Dividend	2.2	2.0	2.3	2.3	7.3	3.5
Other NON Current Assets	629.3	1,026.9	840.1	909.0	950.9	994.9	Book Value	23.7	27.5	32.4	32.5	38.8	46.4
Goodwill	4,105.3	4,105.3	4,115.4	4,115.4	4,115.4	4,115.4	Free Cash Flow	1.5	3.1	3.3	10.3	7.0	11.5
Investment property	606.0	549.9	541.6	541.6	541.6	541.6	<b>Valuation Ratios</b>						
Current Assets	32,156.6	31,144.7	34,397.5	36,335.1	43,226.0	54,675.6	P/E(x)	58.2	57.1	53.4	46.5	38.9	32.6
Current investments	7,492.3	7,407.5	7,133.9	5,000.0	7,000.0	7,000.0	P/B(x)	17.5	15.0	12.8	12.8	10.7	8.9
Inventories	10,965.0	11,067.1	12,561.8	13,761.8	14,712.4	15,945.2	EV/EBIDTA(x)	48.3	48.7	45.4	39.1	32.5	26.8
Trade Receivables	8,092.0	6,504.2	7,060.8	8,351.0	9,442.9	10,204.9	Div. Yield(%)	0.5	0.5	0.5	0.5	1.8	0.9
Cash and Bank Balances	2,198.2	3,048.1	3,060.6	4,524.9	6,920.3	15,877.5	FCF Yield(%)	0.4	0.7	0.8	2.5	1.7	2.8
Short Term Loans and Advances	-	38.0	348.8	80.0	88.0	96.8	<b>Return Ratios (%)</b>						
Other Current Assets	3,409.1	3,079.8	4,231.6	4,617.5	5,062.5	5,551.2	ROE	30%	26%	24%	27%	27%	27%
<b>CAPITAL DEPLOYED</b>	<b>69,323.0</b>	<b>77,322.4</b>	<b>87,016.3</b>	<b>89,477.7</b>	<b>97,448.9</b>	<b>1,09,788.7</b>	ROCE	32%	29%	27%	31%	33%	34%



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