

## Dabur – Significant transformations underway

### Upgrade to Buy

With the COVID-19 crisis having impacted nearly every industry, we were interested in learning the strategies being adopted by large corporates to cope with the changing times. To understand the extent of transformation taking place and to obtain a longer-term perspective on Dabur's prospects, we interacted with the company's CEO, Mr. Mohit Malhotra. The discussion also addressed our concerns on factors that we believed were holding the company back. Key insights highlighted below:

- Ayurvedic products are witnessing strong traction (expect revenues at 35% of sales in FY21 v/s ~30% in FY20). Mr. Malhotra believes not only is this good news because of elevated sales growth but also because the segment is more profitable than the rest of the portfolio.
- The company is doing stellar work on erstwhile relatively weak areas such as direct reach and technology & analytics (DT&A) in distribution. Dabur is aiming to increase direct reach to 1.5m (from 1.2m in FY20) over the next 2 years. Also, it is targeting to be in line or better than domestic peers in DT&A over the next 6-8 months.
- Sales from new launches are targeted to reach ~5% of total sales in 2 years (from 2% in FY20).
- Mr. Malhotra believes that currently Dabur is less efficient than peers on several operating costs. We have seen with peers, particularly in case of HUVR and BRIT, how much can be extracted on the costs front to reinvest in growth. Targeted cost savings for FY21 stands at INR800m-1b, which Mr. Malhotra believes is an encouraging start and waiting to be expanded significantly. The cost savings will be primarily used to increase ad spends (as % of sales), which are currently lower than peers.
- As guided in the 4QFY20 post results call, 1QFY21 sales will be affected due to delay in classification (by the authorities) of Ayurvedic products as essentials. However, outlook beyond the quarter is good. The MENA business (the largest part of Dabur's international business) is the only concern for the current year.
- Valuation and view: In our earlier note on the analyst meet in Sep'19, we had highlighted the winds of change blowing inside Dabur India from the time the new CEO took over in Apr'19. The company has been re-energized with (a) renewed focus on the Ayurvedic healthcare products business (30% of FY20 domestic sales), (b) implementation of the power brand strategy leading to far sharper focus than in the past, (c) increasing appeal to the millennial through sampling, better communication and improved availability of Dabur's products, and (d) sharp pickup in pace of new launches (which was duly delivered on the launches front in FY20). Unveiling of plans to plug the gaps on direct reach and T&A are highly encouraging too.
- If the intended transformation on all the above fronts is executed well, Dabur, in our view, appears one of the most exciting investment opportunities in the Indian consumption space over the next 4-5 years with potential earnings growth of 15-20% CAGR.

### Dabur



Mr. Mohit Malhotra  
CEO

Before taking charge as the CEO in Apr'19, Mr. Malhotra was the CEO of Dabur's India business. Prior to this, he was the CEO of Dabur International and was based out of Dubai. Mr. Malhotra joined Dabur India as a Management Trainee in 1994 and handled key assignments in Marketing and Sales. He is a Management Graduate from Pune University and holds Master's degree (Executive) in International Business from the Indian Institute of Foreign Trade, New Delhi. Under Mr. Malhotra's leadership, Dabur created a global footprint and has emerged as a transnational consumer products' maker with presence across 100 countries.

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- We believe that looking beyond near-term valuations is essential in a business that is undergoing a gradual but evident transformation in its top line and earnings growth path.
- Dabur offers best visibility among peers in our coverage universe beyond 1QFY21 due to (a) its rural dependence (highest among domestic companies, barring Emami), and (b) large part of its portfolio being non-discretionary in nature. **Thus, we upgrade the stock from Neutral to Buy with a TP of INR535 (50x Jun'22E EPS).**

**Detailed notes from our discussion with Mr. Mohit Malhotra, CEO of Dabur**

**Well placed in current pandemic given highly differentiated portfolio**

- Management believes that unlike peers, not only does Dabur have **strong domain knowledge in its healthcare portfolio, extensive sourcing of herbs and the widest collection of ancient manuscripts on traditional medicines**, but also an all-encompassing knowledge and portfolio suitable for the core concepts of Ayurveda.
- Dabur is seeing tailwind in the form of the Ministry of AYUSH’s initiatives to **promote traditional medicine. In fact Dabur, with its extensive knowledge of herbs, is helping this ministry in formulating regulations and aiding the process of growing Ayurveda.**

**Exhibit 1: Well-differentiated portfolio to provide some comfort**

Repurposed our Communication around Immunity and Germ Protection		Highlighted benefits of Ayurveda in fighting Covid-19	
Healthcare Portfolio			
HPC Portfolio			
Foods Portfolio			

Source: Company, MOFSL

**Exhibit 2: Enhancing capability in Ayurveda**

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

Source: Company, MOFSL

**Diverse strategy for different portfolios:**

- A) **In the HPC (~50% contribution)** portfolio where Dabur’s penetration is high, the company is aiming to (a) take market share from peers and consolidate, (b) plug gaps in the portfolio (introduce flanker brands, problem solving communication) and expand into new geographical areas, and (c) piggyback on the Naturals wave.
  - **In the Hair oils category (14-15% market share)**, which is struggling at present, flanker brands such as ‘*Brahmi Amla*’ and ‘*Sarson Amla*’ are helping maintain sales growth and margins. Growth is expected to see resurgence as consumers’ habits are unlikely to change. Moreover, despite the 90% category penetration, Dabur is continuously gaining market share from peers. It aims to further strengthen its share in brands like ‘*Brahmi Amla*’, ‘*Dabur Amla*’, ‘*Anmol*’, etc.
  - **While the overall Oral care category (14-15% market share)** is declining over the past few months, Naturals and Herbals are growing. Furthermore, Dabur is continuously gaining share in Naturals. Given that oral care falls under staples, it is likely to provide stability to the overall HPC portfolio.
  - **The Shampoo category** is likely to see growth compared to the weak outlook 2-3 quarters ago due to the company’s focus on Naturals and Ayurveda in current scenario.
  - **In the Home care portfolio**, Dabur has introduced ‘*Sanitize*’ brand. Sanitizer sales are expected to clock revenues of INR1b in 1QFY21 (domestic plus exports). Even though the spike seen in usage of hygiene products will even out by next year, habits formed during the COVID-19 pandemic are likely to sustain. For e.g. washing hands.
  - **In Personal Hygiene only ~2 players** currently dominate the market. Thus, there is scope for additional 1-2 players to enter this space and consolidate.

**Exhibit 3: Penetration and market share matrix**

Parameter	Low Market Share	High Market Share
High Penetration	<ul style="list-style-type: none"> <li>❖ Shampoos</li> <li>❖ Hair Oils</li> <li>❖ Toothpaste</li> </ul>	<ul style="list-style-type: none"> <li>❖ Glucose</li> <li>❖ Cough &amp; Cold</li> </ul>
Low Penetration	<ul style="list-style-type: none"> <li>❖</li> </ul>	<ul style="list-style-type: none"> <li>❖ Pudina Hara</li> <li>❖ Baby Massage Oil</li> <li>❖ Ayurvedic Medicines</li> <li>❖ Air Fresheners</li> <li>❖ Juices</li> <li>❖ Honey</li> <li>❖ Nleaches</li> <li>❖ Chyawanprash</li> <li>❖ Mosquito Repellent Creams</li> </ul>

Source: Company, MOFSL

- B) **Given low penetration in Non-HPC portfolio (i.e. Health Care and Foods & Beverages)**, Dabur is seeking to (a) drive relevance (Chyawanprash - all season brand), (b) increase accessibility (e.g. respond to the perception that Chyawanprash is expensive), and (c) lead penetration through innovation, sampling and premiumization/ adapt to appeal to the millennial.
  - **Health care (~30% contribution likely to increase to 35% in FY21):** Given its market leadership, strong tailwind from COVID-19 is helping Dabur grow this portfolio. It is focusing on taking Ayurveda mainstream (‘Going back to roots’) by increasing penetration in Honey (~45% market share), *Chyawanprash* (64% market share with only 4-5% penetration in India), Glucose (30% market share), etc. by looking at alternate formats like tablets and Health Food Drink (HFD).

Since this category is more profitable than the rest of the portfolio, healthy growth here should be overall margin accretive if other factors remain the same.

- **Foods & Beverages portfolio:** With the huge market size of ~INR75b for drinks v/s ~INR16b for Juices, Dabur entered into Mango-based drinks, Coconut water and the value-added milk segment with an intention to garner 3-4% market share in the drinks category. In Juices, 'Real' gained 160bp market share pre-COVID. Moreover, the company is looking at launching value-added foods in the Foods business by way of innovations in the *Hommade* brand e.g. Chutneys, to ride the wave of ready-to-eat.

**Efforts on growing power brands to continue**

- **Management reiterated its strategy (unveiled in FY19) that emphasis on 8 power brands** will enable better focus.
- **These brands together contribute ~70% to sales** but will contribute a large part of incremental sales growth going forward.
- **90-95% ad-spends on power brands:** With this focus, even if overall ad-spends only increase ~6-7%, the increase in ad-spends on power brands is likely to be in double-digits.

**Exhibit 4: Focus on 8 power brands (contributes 70% of sales)...**

Segment	Dabur Brands
Healthcare	Chyawanprash
	Honey
	Lal Tail
	Honitus
	Pudin Hara
Home & Personal Care	Red Paste
	Amla Hair Oil
Foods	Real Fruit Power

Source: Company, MOFSL

**Exhibit 5: ...along with LUPs is helping Dabur grow ahead of market**



Source: Company, MOFSL

**Exhibit 6: Consumer marketing orientation**

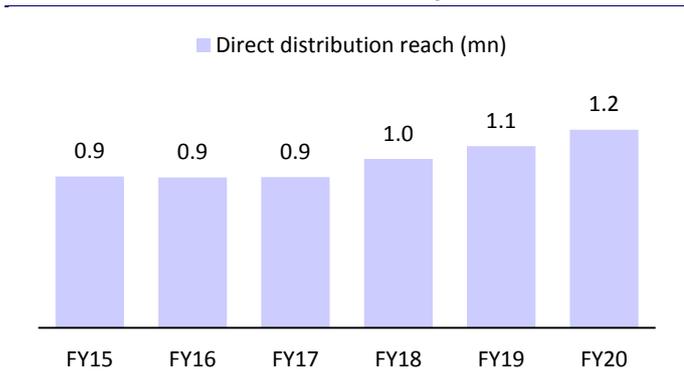


Source: Company, MOFSL

**Distribution advantage with improving channel mix**

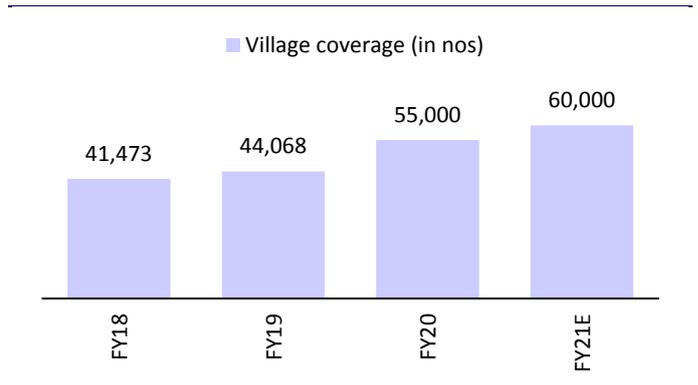
- Dabur’s total distribution reach stands at ~6.4m outlets, including direct reach at 1.2m. The company aims to increase direct reach to 1.5m outlets over the next couple of years, which would be a key advantage.
- The company covers 52,000 villages currently and is targeting to reach ~60,000 by FY21 (potential for ~80,000).
- Moreover, ~40,000 retailers are connected on the app platform and management aims to increase this number further.
- **E-commerce to act as bulwark against modern trade over the next few years:** Mr. Malhotra also believes that with acceleration in E-commerce (~3% contribution to sales for Dabur) on account of COVID-19, bargaining power (impacting company’s working capital) in the hands of modern trade outlets (~15% contribution) should even-out eventually. Also, there should not be any major shift in terms of trade toward modern trade in their brands. Additionally, with groceries also transitioning to open format set-ups i.e. ‘Standalone Modern Trade’, these should give strong competition to modern trade.

**Exhibit 7: Total distribution reach of 6.4m outlets; aim to increase direct reach to 1.5m in a few years**



Source: Company, MOFSL

**Exhibit 8: Focus on increasing rural reach, which contributes ~48% to FY20 sales**



Source: Company, MOFSL

**Innovation and renovation – Key focus areas**

- In the current year, despite the slowdown, innovation and renovation is expected to be high. There is an evident desire to make brands more relevant for the millennial.
- We note that only Marico (MRCO) and Britannia (BRIT) among peers are likely to have a strong pipeline despite slowdown in the sector.
- Moreover, there will be emphasis on **increasing the contribution of innovation to 5% of sales** from less than 2% currently.

**Exhibit 9: Product launches and re-launches in FY20; NPД contribution as % sales to be ~5% in next two years**

Sr. No	Particulars (YTD)
<b>Domestic Business</b>	
1	Dabur Babool Ayurvedic Paste - Dual protection
2	Dabur Amla Kids Nourishing Hair Oil - Amla, Olive, Almond
3	Dabur Amla Kids Nourishing Shampoo - Amla, Olive, Shikakai
4	Dabur Amla Kids Castle Pack - Nourishing Hair Oil & Shampoo - Combo Pack
5	Dabur Brahmi Hair Oil, Amla Hair Oil, Sarson Amla Hair Oil - INR10/-
6	Dabur Vatika Naturals Shampoo - Long & Black (Amla), Health (Henna), Vatika (Lemon & Menthol)
7	Fem Hair Removal Cream - Fair & Soft (Rose, Gold, Sandal, Turmeric) - 50% free 60g at the price of 40g
8	Fem Fairness and Glow - Fruit Crème Bleach - INR65
9	Odonil
10	Dabur Natural Care - Kabz Over
11	Hajmola - Chat Cola, Hing
12	Dabur GlucoPlus-C - Added Mango Flavor
13	Dabur Hridayasava
14	Dabur Dadimavale
15	Vasant Meha Ras
16	Real Fruit Power - Mixed Berries Juice, Masala Pomegranate, Masala Mixed Fruits, Masala Guava, Masala Aam Panna, FruitORS - Orange, Apple, pink guava juice, masala sugarcane, Activ coconut water, Aloe Vera Kiwi
17	Dabur Hommade Paste - Finger, Garlic, Tamarind, Ginger Garlic
18	Dabur Haldi drops Tulsi drops
19	Dabur air sanitizer
20	Dabur immunity kit
21	Dabur amla juice
22	Dabur Giloy, Neem, Tulsi juice
23	Trikatu Churan
24	Dazzle surface cleaner
25	Fem hand wash with germ kill
26	Dabur suraksha kit
27	Vatika ayurvedic shampoo
28	Dabur veggi wash
29	Dabur sanitize disinfectant spray
30	Odonil Aerosol –Floral Bliss and Ocean Breeze
31	ArshoghaniVati
<b>International business:</b>	
1	New range of Hair Waxes and Hair Mousse in Hobby, Turkey
2	Vatika Serum in Egypt
3	Olive Oil with Black Castor in South Africa
4	ORS Fix-It Range in USA
5	Amla Kids in Egypt
6	Vatika Afro Naturals Range in South Africa
7	Dabur herb't alpha range in UAE
8	Vatika sanitizing body wash across GCC
9	Dermoviva sanitizing range (Gel, Soap, Spray & Wipes) – across
10	Dabur amla hair repair solutions – UAE and Oman
11	Garden of Eden Liquid Soap, Hobby Marshmallow Shower Gels, Hobby Fresh Care Shower Gels, Hobby –Sea Salt Spray, Kids Hair Gel, BB Weightless Hair Mousse in Turkey
12	ORS Colorblast Range – USA
13	Dabur HonitusHerbal Lozenges and Organic Virgin Coconut Oil in UAE

Source: Company, MOFSL

### Cost rationalization initiatives to help Dabur reinvest in business without incurring significant additional costs

- The company is targeting cost savings worth of IN800m-1b by FY21. Given the satisfactory operating margin levels, it plans to reinvest majority of the savings back into the business, particularly as its ad-spends are much lower than peers.

- Dabur aims to drive cost savings by focusing on rationalizing (a) employee cost over the next few years by higher automation of production (packaging/ employee costs are higher than most peers), (b) conversion and transportation cost, (c) procurement costs through expanding vendor base and some value engineering, and (d) packaging by making it lighter yet sturdy. Moreover, as part of net revenue management, Dabur is also reviewing trade schemes and the potential to increase pricing in a few sub-segments.

#### Exhibit 10: Initiated project Samridhhi for cost optimization and cash flow management

Project Samridhhi	Cash Flow Management
<p><b>Initiated Project Samridhhi in India for cost optimisation and value enhancement across various levers of business</b></p> <p>Areas under consideration include:</p> <ul style="list-style-type: none"> <li>• Raw and Packaging Material Spends</li> <li>• Logistics Spend</li> <li>• Indirect Spends</li> <li>• Net Revenue Management (Pricing, CP and TP Spends)</li> <li>• Manufacturing Costs</li> <li>• Employee Costs</li> </ul>	<ul style="list-style-type: none"> <li>• Debtors: The collections were driven by regular follow ups and selective incentives to distributors for early payments and collection through RTGS and NACH (National Automated Clearing House)</li> <li>• Extended supplier credit period</li> <li>• Cash flows were managed through daily monitoring of Collections and Payments to optimize the same</li> <li>• No liquidity issues faced as the company has sufficient cash reserves of around INR 3,800 crore as on 31<sup>st</sup> March 2020</li> </ul>

Source: Company, MOFSL

#### Exhibit 11: Employee cost as % sales is higher than most large peers

Companies (%)	FY16	FY17	FY18	FY19	FY20
Emami	8.8	9.4	10.1	10.4	11.3
Nestle	11.6	10.3	10.6	10.4	10.6
GCPL	11.2	10.7	10.7	10.6	10.3
<b>Dabur</b>	<b>10.2</b>	<b>10.4</b>	<b>10.3</b>	<b>11.0</b>	<b>8.2</b>
Colgate	6.8	7.2	7.3	6.6	7.3
Marico	6.2	6.8	6.7	6.4	6.5
ITC	6.4	6.1	6.1	6.1	5.9
PGHH*	5.2	4.9	4.7	4.5	5.6
HUL	5.2	5.2	5.1	4.6	4.4
Britannia	4.1	3.9	4.1	4.0	4.3

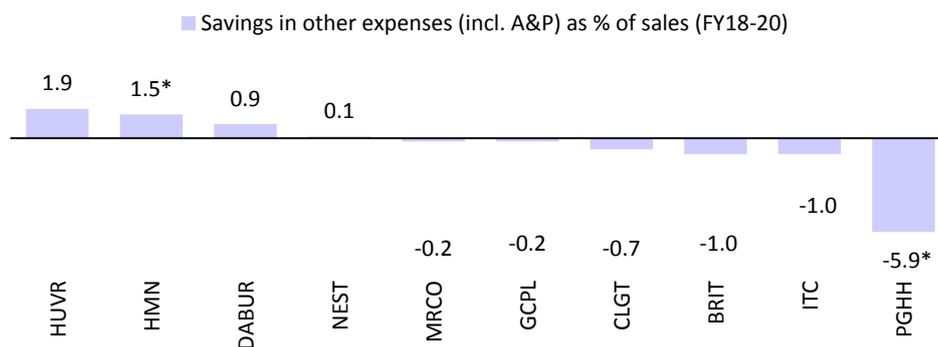
Source: Company, MOFSL, \*Estimates

#### Exhibit 12: Ad-spends as % sales is lower than most peers

Ad-spends as % sales	FY16	FY17	FY18	FY19	FY20
Emami	18.3	17.8	18.6	17.5	17.7
Colgate	11.6	12.9	12.6	12.7	13.8
HUVR	11.8	11.1	12.1	12.1	12.2
PGHH *	8.8	8.8	10.6	10.6	12.2
Marico	11.5	11.0	9.3	9.1	9.9
<b>Dabur</b>	<b>9.9</b>	<b>8.5</b>	<b>7.9</b>	<b>7.2</b>	<b>7.5</b>
GCPL	10.0	9.9	10.3	10.1	7.5
Nestle	6.7	5.7	5.3	6.9	6.7
Britannia	5.4	4.3	4.2	4.6	4.7

Source: Company, MOFSL, \*Estimates

**Exhibit 13: Savings in other expenses (incl. A&P expense) as % sales (FY18–20)**



Source: Company, MOFSL, \*Estimates

- **Other points:** With INR36b worth of cash in the company’s balance sheet, Dabur is evaluating options for acquisitions in the Hygiene and Personal Care space. On the other hand, it is not considering inorganic opportunities in the Drinks space as it is margin dilutive.

**Targeting best-of-kind technology and analytics amongst domestic peers in the next 6-8 months**

- Technology in distribution, particularly the use of handheld devices, is an area where the company was among the early adopters. However, Dabur lost its edge to some peers on technology, analytics and data collection over the years. Nevertheless, with changing times, Dabur has realized the importance of looking at data and technology in order to make a paradigm shift in serving customers (MIS, decision making, cross-selling and up-selling products).
- With that in mind, the company worked on (a) upgrading distributor management system (DMS), (b) sales force automation (SFA), (c) developing linkages and subsequent benefits between SFA, DMS and SAP Hana to get primary, secondary and tertiary data (which is now used for decision analytics), and (d) setting up Tableau dash board for the top management (enabling faster decision making).
- Additionally, it recently appointed a Chief Digital Officer (CDO) – an ex-Unilever employee to work on spearheading digital initiatives. The CDO’s KRA is to focus on (a) technology upgrades, (b) introduce continuous replenishment system for ~4,000 stockists, and (c) manage inventory levels across the system.
- In a highly encouraging move, Mr. Malhotra stated that they aim to match or surpass the best domestic peers on the technology and analytics front in the next 6-8 months.

Exhibit 14: Using data and technology for cross-selling and up-selling products

### Sales Order Taking

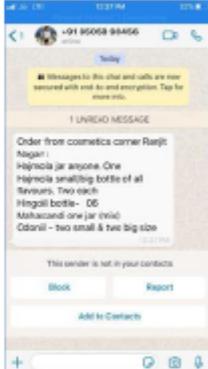


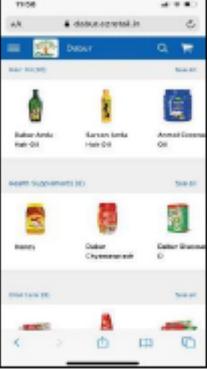
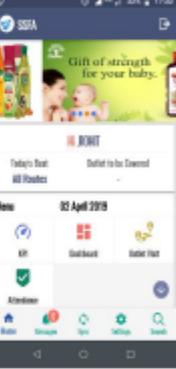
**Incentive scheme for salesmen and delivery boys during early lockdown period**



**Realigned Parlour Team to GT Channel**

#### Automation in Order Taking under Covid

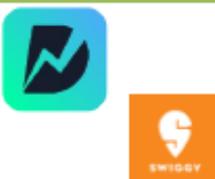


- Enabled SSMs to telecall and take order on SFA directly from home at start of Covid
- Piloted order taking through WhatsApp & Centralized Tele-Agents
- Launch of Retailer App now reaching close to 40,000 retailers for self-service

Source: Company, MOFSL

Exhibit 15: GTM Approach

Delivery of Goods	Reaching Consumers Directly	Retailer Safety, Field Force Safety and Motivation
 <p><b>Stockists Operating from Home</b></p>	 <p><b>Dunzo &amp; Swiggy Partnership for Delivery</b></p>	 <p><b>Rolled out 1 lakh 'Suraksha Stores' with Ministry of Consumer Affairs</b></p>
 <p><b>Partnered with 3P and Dainik Bhaskar to ensure uninterrupted Supplies</b></p>	 <p><b>'Immunity at Doorstep' – A Direct-to-Consumer initiative</b></p>	 <p><b>Health Insurance of One Lakh given to 1500+ SSM of Dabur Stockists</b></p>
 <p><b>Ready Stock Unit Operations to drive sales</b></p>	 <p><b>Placing Dabur's Immunity booster products in Dairy &amp; Kirana Stores</b></p>	 <p><b>Digital Certificates being given for exceptional service by Sales Team members</b></p>

Source: Company, MOFSL

Exhibit 16: Retooling media mix

Medium	Change	
TV (News, Kids, Movies, DD)	↑	<p><b>Shifted focus to Digital and News Channels, Kids Channels, Movie Channels on TV</b></p> 
TV (GEC)	↓	<p><b>Advertisements on DD with serials like Ramayana, Mahabharata</b></p> 
Digital	↑	<p><b>High Impact Integration with marquee events on TV, like PM Modi's Address to the Nation</b></p> 
Print	×	
Outdoor	×	

Source: Company, MOFSL

**Performance highlights – Lockdown and current status**

- April and first half of May was a setback due to supply chain issues given the lack of clarity on classification of essential/non-essential items, particularly in the case of Ayurvedic products. June, however, has been much better than May. **During 1QFY21, there is likely to be an estimated impact of INR4-4.5b on revenue and INR0.6-0.8b on PAT.**
- **All 11 factories have already re-started operations currently.** Factory operations resumed selectively from the second week of April, post approvals from local authorities but with limited manpower. Currently, despite the manpower availability constraints (restrictions on inter-state movements, etc.), almost all factories are running at operational capacity of ~70%.
- **Supply chain was disrupted in view of the lockdown since Mar'20** and is gradually returning to normalcy based on state-wise regulations (added new vendors for single-source vendor categories; glass bottle supply was impacted initially but has now resumed). Availability of transportation for raw materials, packing material and finished products was also an issue. However, the situation is improving gradually with states relaxing the movement of goods.
- **There is a strong demand for Healthcare (faced stock-outs), Hygiene and essential products.** The discretionary Personal Care and non-essential categories are also slowly witnessing a recovery in demand. Overall FMCG sales are expected to see resurgence post 1QFY21.
- **International business:** The MENA region was severely affected due to the crash in oil prices (~40% of international turnover). Despite weak demand, the company is gaining share in all categories. Unlike Indian peers who cater to expats in this region, Dabur caters to locals. The company aims to enter more categories in MENA. Barring MENA and Nepal, all other geographies are doing well.
- **Channel performance:** HORECA, Food Services and CSD channels are still struggling. Modern trade is limping back to normalcy. General trade is seeing

resurgence but it is expected to be short-lived. Once normalcy returns, the company expects modern trade to do well and consolidate its position. E-commerce is doing extremely well in the current COVID scenario and is at ~2x of last year's levels. Moreover, 80% of its stockists are working barring the ones in red zones.

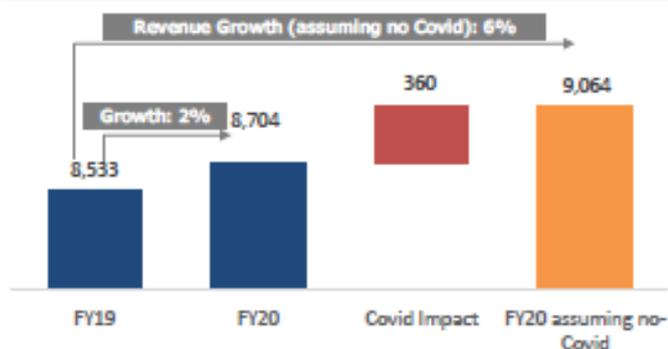
**Exhibit 17: Decent category growth in 9MFY20 despite high wholesale exposure and slower-than-expected rural growth**

Category growth (%)	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	*4QFY20
Hair Care	(4.2)	(11.1)	2.3	20.8	11.6	20.6	15.7	24.0	2.6	12.0	7.3	2.8	(20.2)
Health Supplements	5.0	(7.2)	3.0	19.5	14.0	27.5	12.3	13.8	10.2	19.6	14.4	12.2	(9.7)
Oral Care	3.6	1.4	22.8	23.2	11.0	17.3	3.9	10.0	8.2	11.4	4.4	8.5	(15.4)
Foods	7.9	(8.3)	11.7	0.0	1.9	26.1	1.4	11.1	(5.9)	1.6	(5.0)	(1.7)	(20.6)
Digestives	(5.1)	3.8	11.7	19.3	7.2	21.6	10.8	22.5	11.9	18.2	10.2	15.9	(9.4)
Skin & Salon	(0.6)	4.0	15.8	14.5	8.5	27.1	11.9	19.3	11.2	12.1	1.0	(0.3)	(24.3)
Home Care	(6.4)	6.1	10.1	36.0	1.6	17.4	10.9	8.9	16.2	10.9	7.0	2.5	(18.0)
OTC & Ethicals	(4.0)	(6.6)	2.2	8.7	8.8	16.9	7.6	17.6	12.8	15.0	5.7	4.1	(20.9)
IBD (CC terms)	(4.5)	(2.2)	3.9	5.0	16.8	10.5	7.0	3.4	1.9	7.7	3.2	12.0	(0.5)

\*Impacted due to COVID-19

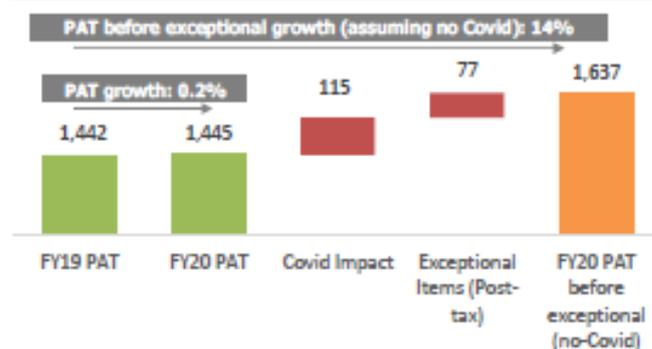
Source: Company, MOFSL

**Exhibit 18: Impact of COVID-19 on FY20 revenue**



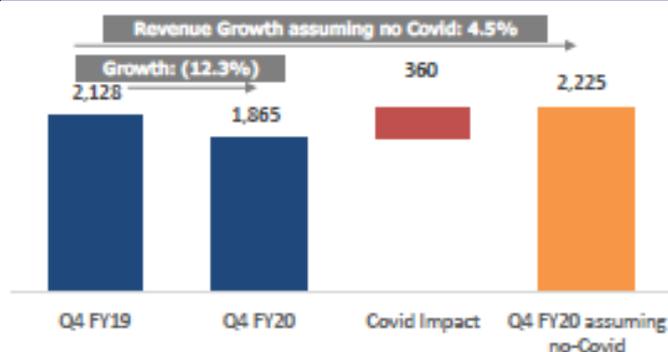
Source: Company, MOFSL

**Exhibit 19: Impact of COVID-19 on FY20 PAT**



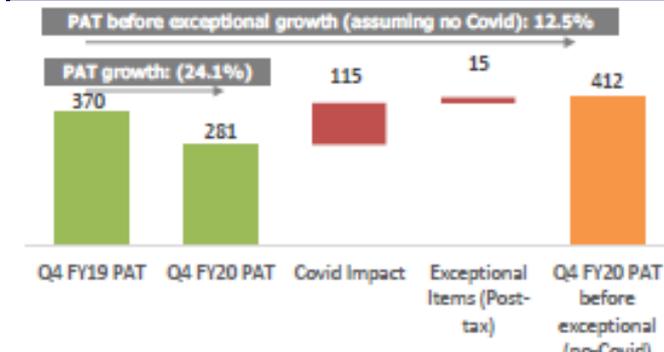
Source: Company, MOFSL

**Exhibit 20: Impact of COVID-19 on 4QFY20 revenue**



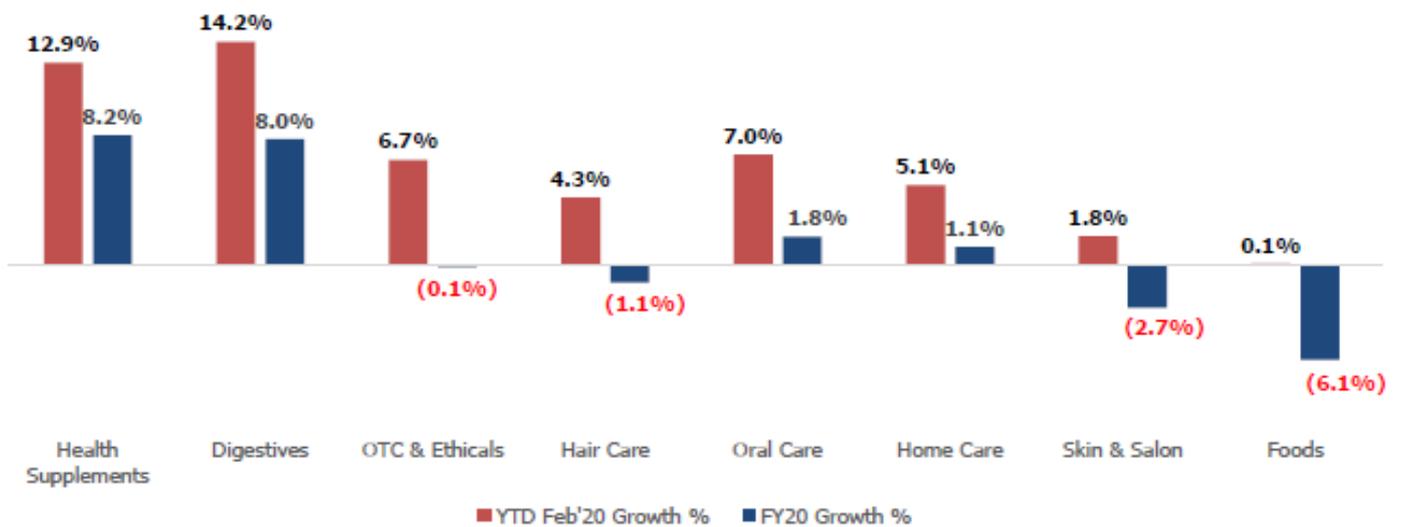
Source: Company, MOFSL

**Exhibit 21: Impact of COVID-19 on 4QFY20 PAT**



Source: Company, MOFSL

Exhibit 22: Domestic business – category-wise growth



Source: Company, MOFSL

Exhibit 23: Strategy to manage COVID-19



Source: Company, MOFSL

Exhibit 24: Streamlining manufacturing

**Covid Timeline in Factories**

- All factories had to be shut down in last week based of Mar'20 post Government notification of lockdown
- Factory operations re-started selectively from 2nd week of April, post approvals from local authorities, with limited manpower.
- Detailed shop-floor precautions & safety systems implemented with appropriate training to staff and workmen.
- Despite constraints on manpower availability due to restrictions on inter-state movements, most factories are currently running at operational capacity of 60-70%.
- We are adding capacities and 3Ps where there is shortage of capacity

<p>Adopted and Implemented Safe Work Practices</p>	<p>Sanitization of factory roads and entrance areas</p>	<p>Social distancing norms being strictly followed in cafeteria</p>	<p>Hygiene Station at Factories</p>
<p>Safety and Hygiene training of all employees before commencing operations</p>	<p>Fumigation at Offices and Shop Floors</p>	<p>Sanitization and Thermal Scanning of Employees, Truck Drivers and Loading Vehicles at the Entry Gates</p>	<p>Social Distancing being strictly followed at factories</p>

Source: Company, MOFSL

29 June 2020

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**Exhibit 25: Leadership position in categories in key international markets**

Category	Saudi Arabia	Egypt	UAE	Nigeria	Morocco	Algeria	US	Turkey
Hair Oil	#1	#1	#2		#1	#1		
Hair Cream	#1	#1	#1		#1	#1		
Hair Gel	#1	#2	#1					#1
Hair Mask	#1	#1	#1					
Hair Serums	#3	#3	#2					
Shampoo	#6	#6	#5					
Leave-On	#6		#3					
Hair Color			#5					
Toothpaste	#5	#4	#4	#3	#3	#3		
Depilatories	#3		#3					
Relaxers							#1	

Source: Company, MOFSL

**Exhibit 26: Sales/EBITDA/PAT growth over last 10 years has been decent but not remarkable. Moreover, growth has been even lower in the past 5 years**

Y/E March (INR m)	FY10	FY15	FY17	FY20	10Y CAGR (%)	5Y CAGR (%)	3Y CAGR (%)
Total Revenue	33,905	78,272	76,136	87,036	9.9	2.1	4.6
Gross Profit	18,398	41,071	38,582	43,434	9.0	1.1	4.0
Gross Margin (%)	54.3	52.5	50.7	49.9	(436)bps	(257)bps	(77)bps
EBIDTA	6,341	13,164	15,090	17,923	11.0	6.4	5.9
Margin (%)	18.7	16.8	19.8	20.6	189bps	377bps	77bps
Profit after Taxes	5,062	10,839	12,770	15,250	11.7	7.1	6.1
Margin (%)	14.9	13.8	16.8	17.5	259bps	367bps	75bps

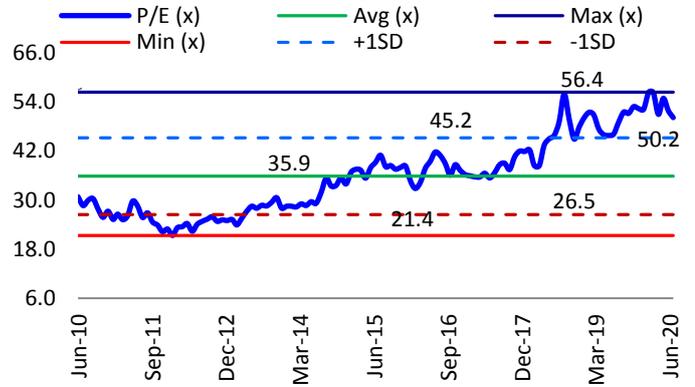
Source: Company, MOFSL

**Rural (~48% of Dabur's sales mix) to fare better than urban, premiumization to take backseat**

- **Even before COVID-19, FMCG growth rates had declined** from 12% to 5% levels with most discretionary and essential categories (including toothpaste, hair oil, etc.) struggling.
- **Significant slowdown was witnessed in rural on account of** (a) falling wage rates, (b) low food inflation / high non-food inflation, and (c) low spend on MGNREGA.
- **However, management believes that rural would perform better than urban areas for at least a year/ year and half. This is because** (a) agriculture is the least impacted by COVID-19 among sectors, (b) significant share of migrant labor has returned to villages, potentially resulting in the lower end of consumption shifting to rural (LUPs), (c) the forecast for monsoon is better than the long-term average, (d) MGNREGA wages have been raised, and (e) infrastructure has improved over the years (cemented roads and enhanced internet connectivity).
- **Urban on the other hand is expected to grow post reduction in the COVID-19 impact, particularly in larger towns:** In urban areas, mostly pantry loading and bulk purchase for essentials was witnessed. Even within non-essentials, large

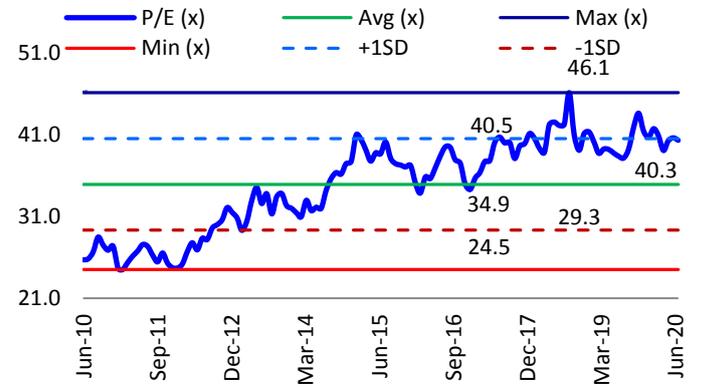
packs are doing well. The company is witnessing severe demand contraction and down-trading. The same is expected to continue for a while as consumers' incomes are under pressure due to the COVID-19 pandemic.

**Exhibit 27: Dabur P/E (x)**



Source: Bloomberg, Company, MOSL

**Exhibit 28: Consumer sector P/E (x)**



Source: Bloomberg, Company, MOSL

## Financials and valuations

Income Statement						(INR Million)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>Net Sales</b>	<b>77,797</b>	<b>76,136</b>	<b>77,219</b>	<b>85,150</b>	<b>87,036</b>	<b>90,804</b>	<b>1,04,384</b>
Change (%)	-0.6	-2.1	1.4	10.3	2.2	4.3	15.0
<b>Gross Profit</b>	<b>40,192</b>	<b>38,582</b>	<b>39,019</b>	<b>42,240</b>	<b>43,434</b>	<b>45,576</b>	<b>52,587</b>
Margin (%)	51.7	50.7	50.5	49.6	49.9	50.2	50.4
Other Expenditure	25,009	23,493	22,845	24,845	25,510	26,652	30,633
<b>EBITDA</b>	<b>15,183</b>	<b>15,090</b>	<b>16,174</b>	<b>17,396</b>	<b>17,923</b>	<b>18,924</b>	<b>21,955</b>
Change (%)	15.3	-0.6	7.2	7.6	3.0	5.6	16.0
Margin (%)	19.5	19.8	20.9	20.4	20.6	20.8	21.0
Depreciation	1,332	1,429	1,622	1,769	2,205	2,317	2,525
Int. and Fin. Charges	485	540	531	596	495	519	615
Other Income - Recurring	2,172	2,984	3,052	2,962	3,053	3,118	3,227
<b>Profit before Taxes</b>	<b>15,538</b>	<b>16,104</b>	<b>17,074</b>	<b>17,993</b>	<b>18,276</b>	<b>19,206</b>	<b>22,042</b>
Change (%)	16.2	3.6	6.0	5.4	1.6	5.1	14.8
Margin (%)	20.0	21.2	22.1	21.1	21.0	21.2	21.1
Tax	2,840	3,443	3,713	4,221	4,854	3,438	3,946
Deferred Tax	159	-140	-360	-1,284	-1,857	115	132
Tax Rate (%)	19.3	20.5	19.6	16.3	16.4	18.5	18.5
<b>Profit after Taxes</b>	<b>12,539</b>	<b>12,801</b>	<b>13,720</b>	<b>15,056</b>	<b>15,279</b>	<b>15,653</b>	<b>17,964</b>
Change (%)	15.4	2.1	7.2	9.7	1.5	2.4	14.8
Margin (%)	16.1	16.8	17.8	17.7	17.6	17.2	17.2
Minority Interest	28	31	31	30	30	42	48
<b>Adjusted PAT</b>	<b>12,511</b>	<b>12,770</b>	<b>13,689</b>	<b>15,026</b>	<b>15,250</b>	<b>15,611</b>	<b>17,917</b>

Balance Sheet						(INR Million)	
Y/E March	2016	2017	2018	2019	2020	2021E	2022E
Share Capital	1,759	1,762	1,762	1,766	1,767	1,767	1,767
Reserves	39,842	46,712	55,304	54,550	64,290	68,943	74,282
<b>Net Worth</b>	<b>41,601</b>	<b>48,474</b>	<b>57,065</b>	<b>56,317</b>	<b>66,058</b>	<b>70,710</b>	<b>76,049</b>
Minority Interest	217	248	265	314	365	406	454
Loans	8,043	9,787	9,418	7,039	4,718	7,500	7,500
<b>Capital Employed</b>	<b>49,860</b>	<b>58,509</b>	<b>66,749</b>	<b>63,670</b>	<b>71,140</b>	<b>78,616</b>	<b>84,003</b>
Gross Block	27,802	24,322	26,342	28,028	33,070	35,070	37,070
Less: Accum. Depn.	-8,304	-8,843	-10,177	-11,698	-13,903	-16,219	-18,744
<b>Net Fixed Assets</b>	<b>19,499</b>	<b>15,479</b>	<b>16,166</b>	<b>16,330</b>	<b>19,167</b>	<b>18,850</b>	<b>18,325</b>
Capital WIP	448	421	415	638	1,466	1,466	1,466
<b>Investments</b>	<b>25,239</b>	<b>32,402</b>	<b>38,052</b>	<b>33,588</b>	<b>28,003</b>	<b>29,412</b>	<b>30,962</b>
<b>Curr. Assets, L&amp;A</b>	<b>26,020</b>	<b>24,916</b>	<b>28,268</b>	<b>30,451</b>	<b>41,325</b>	<b>48,530</b>	<b>55,809</b>
Inventory	10,965	11,067	12,562	13,005	13,796	15,287	16,410
Account Receivables	8,097	6,504	7,061	8,336	8,139	8,987	10,091
Cash and Bank Balance	2,204	3,048	3,061	3,282	8,114	12,421	16,858
Others	4,754	4,296	5,585	5,828	11,277	11,836	12,450
<b>Curr. Liab. and Prov.</b>	<b>20,579</b>	<b>17,733</b>	<b>19,177</b>	<b>20,465</b>	<b>22,226</b>	<b>23,048</b>	<b>25,965</b>
Current Liabilities	16,739	15,895	17,128	18,061	19,941	20,904	23,668
Provisions	3,841	1,838	2,049	2,404	2,285	2,143	2,297
<b>Net Current Assets</b>	<b>5,440</b>	<b>7,183</b>	<b>9,092</b>	<b>9,985</b>	<b>19,099</b>	<b>25,483</b>	<b>29,844</b>
Deferred Tax Liability	-765	-1,080	-1,091	-231	46	46	46
<b>Application of Funds</b>	<b>49,860</b>	<b>58,509</b>	<b>66,749</b>	<b>63,670</b>	<b>71,140</b>	<b>78,616</b>	<b>84,003</b>

E: MOSL Estimates

## Financials and valuations

### Ratios

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
<b>Basic (INR)</b>							
EPS	7.1	7.2	7.8	8.5	8.6	8.8	10.1
Cash EPS	7.9	8.1	8.6	9.2	9.4	10.1	11.6
BV/Share	23.6	27.5	32.4	31.9	37.4	40.0	43.0
DPS	2.0	2.3	7.5	2.8	3.0	5.3	6.1
Payout %	28.0	31.0	96.5	32.3	35.0	60.0	60.0
<b>Valuation (x)</b>							
P/E	65.2	64.0	59.7	54.5	53.8	52.5	45.8
Cash P/E	59.0	57.6	53.9	50.6	49.2	45.7	40.1
EV/Sales	10.2	10.4	10.2	9.3	9.1	8.7	7.5
EV/EBITDA	52.5	52.5	48.6	45.4	44.0	41.5	35.5
P/BV	19.6	16.9	14.3	14.6	12.4	11.6	10.8
Dividend Yield (%)	0.4	0.5	1.6	0.6	0.7	1.1	1.3
<b>Return Ratios (%)</b>							
RoE	33.3	28.4	25.9	26.5	24.9	22.8	24.4
RoCE	27.7	24.4	22.6	23.9	23.3	21.5	22.7
RoIC	50.9	48.7	48.9	50.9	44.0	39.3	45.2
<b>Working Capital Ratios</b>							
Debtor (Days)	38	31	33	36	34	36	35
Asset Turnover (x)	1.6	1.3	1.2	1.3	1.2	1.2	1.2
<b>Leverage Ratio</b>							
Debt/Equity (x)	0.2	0.2	0.2	0.1	0.1	0.1	0.1

### Cash Flow Statement

(INR Million)

Y/E March	2016	2017	2018	2019	2020	2021E	2022E
OP/(loss) before Tax	15,538	16,107	16,931	17,249	18,276	19,206	22,042
Int./Div. Received	-13	-1,060	153	1,664	4,295	-3,118	-3,227
Depreciation & Amort.	1,332	1,429	1,622	1,769	2,205	2,317	2,525
Interest Paid	-1,430	-1,857	-1,991	-2,002	495	519	615
Direct Taxes Paid	-2,805	-3,221	-3,249	-3,507	-4,854	-3,438	-3,946
(Incr)/Decr in WC	-752	872	-2,575	-181	-4,281	-2,077	75
<b>CF from Oper.</b>	<b>11,870</b>	<b>12,269</b>	<b>10,890</b>	<b>14,991</b>	<b>16,136</b>	<b>13,410</b>	<b>18,084</b>
(Incr)/Decr in FA	-1,892	-4,858	-2,003	-2,250	-4,005	-2,000	-2,000
<b>Free Cash Flow</b>	<b>9,978</b>	<b>7,411</b>	<b>8,887</b>	<b>12,741</b>	<b>12,131</b>	<b>11,410</b>	<b>16,084</b>
(Pur)/Sale of Invt.	-6,883	-5,111	-5,837	3,175	5,585	-1,409	-1,550
Others	91	1,933	2,706	3,187	-2,454	1,410	1,267
<b>CF from Invest.</b>	<b>-8,683</b>	<b>-8,036</b>	<b>-5,134</b>	<b>4,112</b>	<b>-874</b>	<b>-1,999</b>	<b>-2,283</b>
Issue of Shares	172	149	0	5	1	0	0
(Incr)/Decr in Debt	715	1,682	-545	-2,402	-2,321	2,782	0
Dividend Paid	-3,517	-3,963	-3,963	-13,247	-5,337	-9,367	-10,750
Others	-1,114	-1,257	-1,235	-3,238	-2,771	-519	-615
<b>CF from Fin. Act.</b>	<b>-3,743</b>	<b>-3,390</b>	<b>-5,744</b>	<b>-18,882</b>	<b>-10,429</b>	<b>-7,104</b>	<b>-11,365</b>
<b>Incr/Decr of Cash</b>	<b>-556</b>	<b>844</b>	<b>12</b>	<b>221</b>	<b>4,833</b>	<b>4,306</b>	<b>4,437</b>
Add: Opening Bal.	2,760	2,204	3,048	3,061	3,282	8,114	12,421
<b>Closing Balance</b>	<b>2,204</b>	<b>3,048</b>	<b>3,061</b>	<b>3,282</b>	<b>8,114</b>	<b>12,421</b>	<b>16,857</b>

E: MOSL Estimates

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

\*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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