

Corporate Finance: Final Project



Case Company: Dabur

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Company Profile

01.

Product Segments



- Consumer care: home care, personal care, and health care (67%)
- Food business: juices, beverages, and culinary. (23%)
- Other :Guar gum, pharma (10%)

02.

Product Portfolio

- Health supplements
- Cough and cold syrups and drops
- Women's health and baby care products
- Hair oils, shampoos,
- Moisturizing creams and lotions,
- Toothpaste and tooth powders,
- Room fresheners,
- Fruit juices, beverages and other ethical products

03.

Operational presence



- India
- Middle East
- Africa
- South Asia
- the US
- Europe

04.

Major Competitors

- HUL
- Nestle
- Godrej
- Marico
- Proctor and Gamble



Channels of operation:

Organized retail chains, e-commerce platforms and specialized channels

Company SWOT Analysis



Strengths

Dabur's Strength lies in its low prices and the wide national presence that they offer through e-commerce websites. They also have an excellent market share with a solid brand value and product differentiation. Dabur's strategic relationships with its manufacturers, distributors, and retailers also contribute to its strengths.

Weaknesses

Dabur products face competition from various other products in the market, for example, the effect of substitution for cola on its juices is high. Additionally, Dabur doesn't have any direct to consumer outlets and hence has a longer supply chain due to retailers and middlemen.

Opportunities

Dabur has high penetration and several of the markets Dabur has products in are also projected to grow further. Its market share has also been increasing. Further, due to the growing popularity of Ayurveda, Dabur has a unique position that it can take advantage of in the international markets, even so by enlarging its portfolio products. Recent acquisition of Badshah Masala will help it to expand in the food segment

Threats

Dabur is facing threat due to counterfeit products being sold in the market that can affect the brand value. It is also faced with rising input costs, forcing them to increase their own costs and by local competition and external shocks. This is because Dabur products face increasing competition from locally sourced ones and also because exports are affected by macro headwinds.

Company's Porter's 5 Forces

1

The Threat of New Entrants: (Low to Medium)

The Company has popularized a whole range of products based on the traditional science of Ayurveda. So it's equipped with advantages of the first mover, learning curve, brand loyalty, patents and economies of scale. Further, FMCG is also a well-regulated space with a few major players dominating the space. Hence, there is only a low to medium level of danger of brand-new entrants.

2

Substitution Threat:(Medium)

Dabur doesn't compromise on quality and has competitive rates. Being one of the most experienced companies, it has won massive customer loyalty. Further, perfect substitution of Dabur would be expensive due to dominance in the herbal FMCG space. The lower cost of these ingredients also enables Dabur to price its products low as compared to other highly prevalent multinational FMCGs.

3

Competitive Rivalry:(Medium to High)

Dabur India is one of the leading companies in this competitive market with a number of strong competitors. The competition of other businesses with Dabur India is rather high. The demand for Dabur products in rural areas is somewhat low compared to its competitors. Hence, there is a medium to high competitive rivalry.

4

The Power of Buyer:(Medium to high)

Competitors of Dabur India Ltd, have dramatically increased the customer's bargaining power. Therefore, Dabur has to maintain its strategies in such a way that it could stand out of all the competitors for its customers. Hence, Dabur India makes sure to keep its consumers satisfied by maintaining competitive pricing.

5

The Power of Supplier:(Medium to High)

Dabur India has a large share in the market, requiring a great number of supply chains. This triggers it to be a picturesque purchaser for the suppliers. Suppliers have never complained about cost and the bargaining power is likewise low. In action, Dabur India has likewise been cordial with its suppliers as it thinks of long-lasting relations. Moreover, Dabur has built up a brand name and a commensurate loyalty that comes with it.

Macro Analysis

Expected to grow at a CAGR of 14.9% in FMCG over the next few years due to:

- Rising digital connectivity in cities and rural areas through e-commerce
- Investment approval of up to 100% foreign equity in single-brand retail and 51% in multi-brand retail
- The union government's production-linked incentive (PLI) scheme as it provides an opportunity for a boost in exports
- Herbal cosmetics products in India have seen increasing adoption, and the segment alone is expected to grow at 15-20%
- The Processed Food Market of India is expected to grow to 470 billion USD by 2025, up from 263 billion USD in 2020-21.

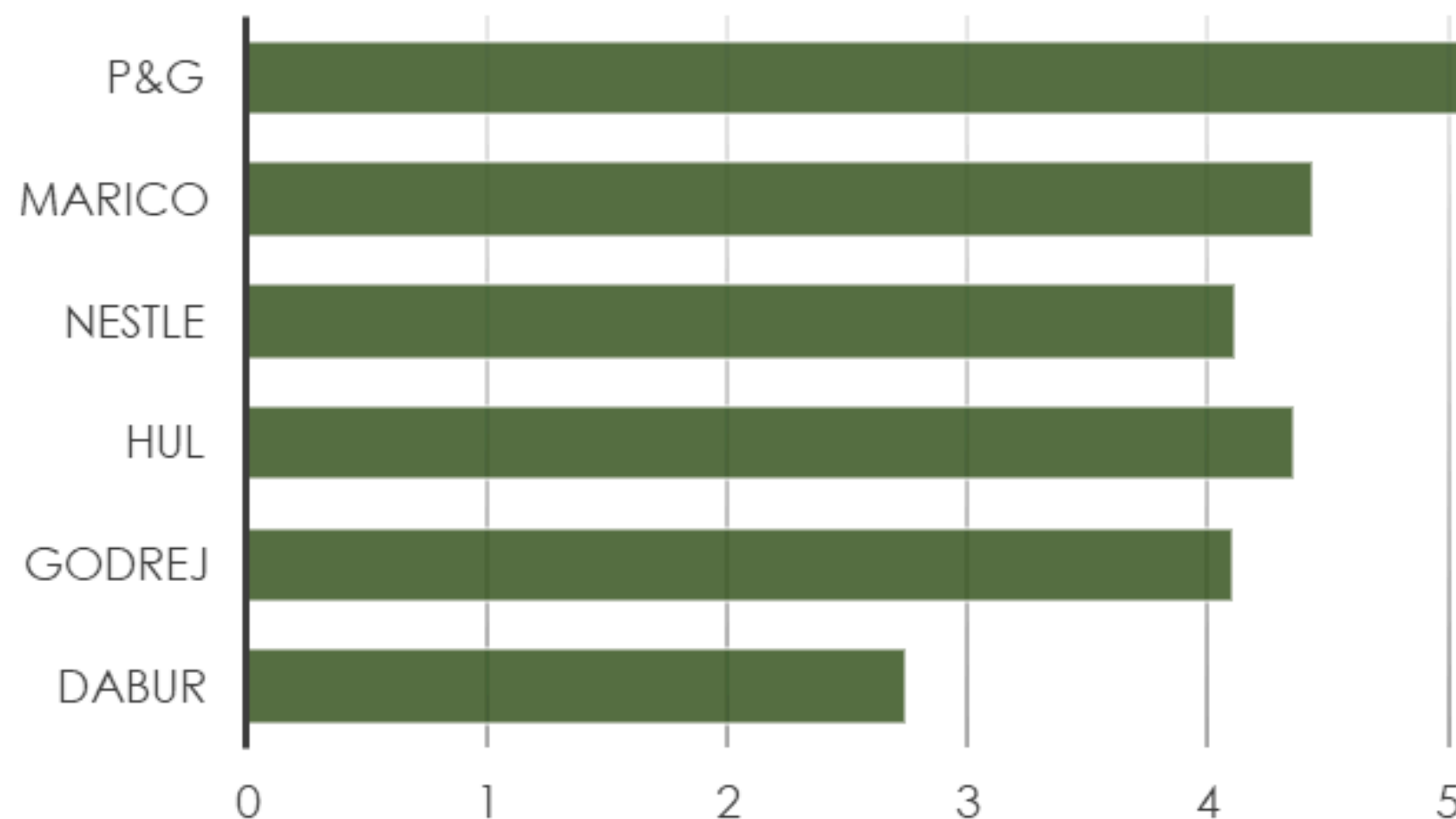
Certain Macro trends could also impact Dabur's growth, such are:

- Repo Rates are down to a historic low of 6.25% p.a, meaning that banks have also been at a position to decrease interest rates, reducing the cost of borrowing for firms.
- Slower rural growth due to inflationary pressure, this could continue in the next fiscal year as well.

Peer Analysis

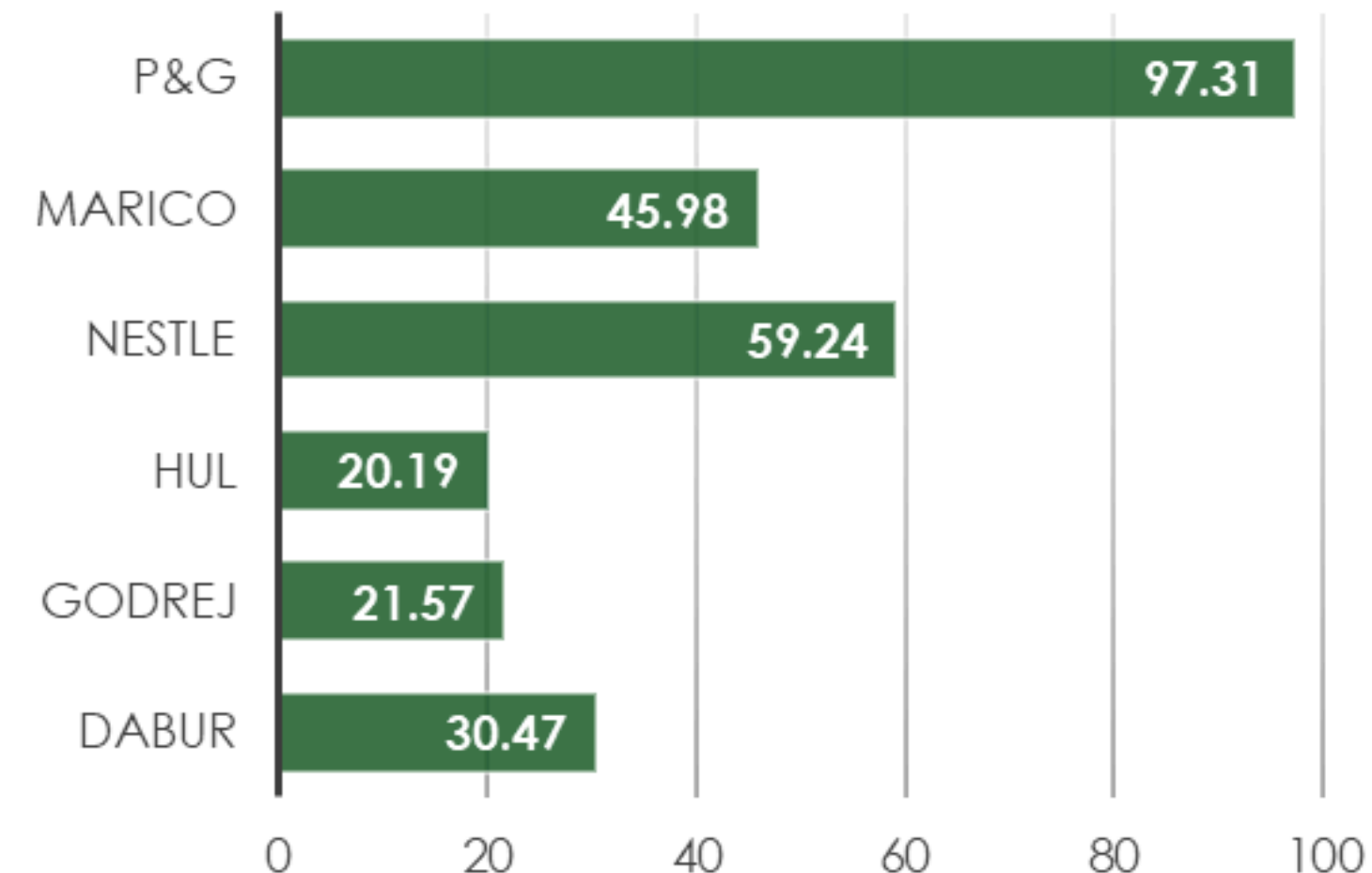
Liquidity Ratio

Inventory Turnover Ratio FY 21



Profitability Ratio

ROCE



- Dabur has markedly lower efficiency of inventory management as opposed to its peers. This may however be due to the specific niche of its products which makes them comparatively longer lasting.
- Dabur gives a moderately high return on its capital employed. However, some of its competitors such as Marico, P&G and Nestle have better profitability.

*The PBIT Margins (%) are almost identical at around 20%. The high ROCE of P&G may be due to their larger volumes

Relative Valuation

Company	Godrej Consumer		HUL		Marico		P&G		Dabur	
<i>Multiples</i>	<i>Sector average</i>									
EV / sales										
Hist	7.32 x		11.96 x		6.75 x		11.61 x		9.41 x	
Proj 1	7.01 x		11.05 x		6.14 x		10.55 x		8.69 x	
EV / EBITDA										
Hist	36.17 x		47.49 x		36.10 x		53.00 x		43.19 x	
Proj 1	35.52 x		41.50 x		33.67 x		51.52 x		40.55 x	
P/E										
Hist	50.57 x		69.81 x		53.14 x		79.80 x		63.33 x	
Proj 1	49.70 x		62.00 x		48.80 x		75.36 x		58.97 x	
Dabur Valuation	EV / Sales		EV / EBITDA		PE					
	Hist	Proj 1	Hist	Proj 1	Hist	Proj 1	Hist	Proj 1		
Enterprise value		102,462.75		101,321.28		98,346.87		98,644.70		
Net debt + Long Term Investment		5,612.4		5,612.4		5,612.4		5,612.4		
Equity value		96,850.4		95,708.9		92,734.5		93,032.3		
Shares outstanding		176.8		176.8		176.8		176.8		
Implied share price		547.84		541.38		524.56		526.24		621.27 607.81

- Arriving at a valuation for Dabur via its peers suggests that the company is nearly appropriately valued - with the EV multiples indicating slight overvaluation but the P/E multiple suggesting undervaluation.
- Purely on the basis of relative valuation, there appears to be no strong reason to buy into Dabur at its prevailing price

Assumptions

Dabur India Ltd.	Hist	Hist	Hist	Hist	Hist	Proj	Proj	Proj	Proj	Proj	
Assumptions	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27	
Income statement											
Sales growth		10.1%	2.0%	9.9%	13.9%	7.0%	7.0%	7.0%	7.0%	7.0%	Taken as CAGR
COGS as a % of sales	49.6%	50.5%	50.1%	50.1%	51.8%	51.8%	51.8%	51.8%	51.8%	51.8%	Taken at highest level of past 5 years due to conservatism
SG&A as a % of sales	26.8%	26.8%	26.8%	27.3%	25.5%	27.3%	27.3%	27.3%	27.3%	27.3%	Taken at highest level of past 5 years due to conservatism
Depreciation as a % of last years PPE		10.9%	10.5%	12.7%	13.4%	13.4%	13.4%	13.4%	13.4%	13.4%	
Depreciation - Investment Property (amount)	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	
Amortization as a % of Last years intangibles		69.64%	27.67%	19.49%	21.58%	21.58%	21.58%	21.58%	21.58%	21.58%	
Other Non-Operating/Non-Recurring Income	63.7	46.8	64.1	64.5	69.8	0.0	0.0	0.0	0.0	0.0	
Other Non-Operating/Non-Recurring Expenses	(210.2)	(197.7)	(217.4)	(156.2)	(215.0)	0.0	0.0	0.0	0.0	0.0	
Share of Profit from Joint Ventures	0.2	1.0	(0.0)	(1.0)	(1.8)	0.0	0.0	0.0	0.0	0.0	Taken as 0 due to past average being very small
Exceptional Items	14.54	75.34	100.00	0.00	85.00	0.0	0.0	0.0	0.0	0.0	
Minority Interest as a % of Net Profit	0.2%	0.3%	0.2%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	
Effective Tax rate	19.8%	16.2%	15.8%	17.6%	23.2%	23.2%	23.2%	23.2%	23.2%	23.2%	Taken at previous year level
Marginal Tax Rate	34.6%	34.9%	34.9%	34.9%	34.9%	34.9%	34.9%	34.9%	34.9%	34.9%	
Dividend pay out ratio	117.6%	40.6%	38.9%	49.6%	52.8%	50.0%	50.0%	50.0%	50.0%	50.0%	Taken as 50% as per targets of past 2 years
Basic weighted average shares outstanding	176.2	176.6	176.7	176.7	176.8	176.8	176.8	176.8	176.8	176.8	
Diluted weighted average shares outstanding	176.9	177.3	177.2	177.3	177.3	177.3	177.3	177.3	177.3	177.3	
Assets											
Capex as a % of sales	3.0%	1.9%	5.0%	2.3%	3.7%	3.2%	3.2%	3.5%	3.2%	3.3%	Average of past 5 years
Capital WIP as a percentage of Net PPE	2.7%	4.1%	8.0%	8.1%	8.5%	8.2%	8.3%	8.3%	8.3%	8.3%	Taken at average of past 3 years
Investment Property Capex	0.3	-0.9	0.5	0.1	-0.3	0.0	0.0	0.0	0.0	0.0	Taken as 0
Goodwill	411.54	336.07	335.97	336.01	251.15	251.2	251.2	251.2	251.2	251.2	
Capex on Intangibles	1.6	29.8	20.4	9.1	4.7	13.1	15.4	12.5	11.0	11.3	Average of past 5 years
Investments	3,091.8	2,633.4	1,409.2	3,413.6	5,365.1	5,365.1	5,365.1	5,365.1	5,365.1	5,365.1	Taken as constant at previous year levels
Loans	19.0	17.6	24.6	0.0	0.0	0.0	0.0	0.0	0.0	0.0	Taken 0
Other Financial Assets	4.1	77.7	528.5	111.1	23.3	23.3	23.3	23.3	23.3	23.3	Taken as constant at previous year levels
Other Non Current Operating Assets as a % of sales	1.00%	1.04%	1.29%	1.63%	0.95%	1.00%	1.00%	1.00%	1.00%	1.00%	Taken 1%
Inventories as a % of COGS	32.7%	30.2%	31.6%	36.2%	33.9%	32.9%	33.0%	33.5%	33.9%	33.4%	Taken at past 5 years average
Current Investments	713.4	725.4	1,391.0	746.0	854.6	854.6	854.6	854.6	854.6	854.6	Taken as constant at previous year levels
Trade Receivables as a % of Sales	9.1%	9.8%	9.4%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	5.9%	Taken as 5.9%
Current Loans	34.9	11.0	13.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0	
Other Financial Assets	28.3	26.5	2.6	17.4	36.2	22.2	22.2	22.2	22.2	22.2	Taken as constant at historical average
Other Current Assets as a % of Sales	5.1%	4.2%	5.4%	4.1%	2.7%	4.3%	4.1%	4.1%	3.9%	3.8%	Taken at past 5 years average
Assets Held for Sale	1.9	0.2	0.3	0.3	0.3	0.0	0.0	0.0	0.0	0.0	Taken 0
Liabilities											
Other long term liabilities (amount)	165.6	82.7	80.4	77.2	145.7	145.7	145.7	145.7	145.7	145.7	Taken constant at previous year levels
Trade Payables as a % of COGS	36.7%	33.8%	34.0%	40.0%	35.8%	36.0%	35.9%	36.3%	36.8%	36.2%	Taken at past 5 years' average
Other Financial Liabilities	238.2	327.6	225.5	213.1	252.0	252.0	252.0	252.0	252.0	252.0	Taken as constant at previous year levels
Other operating current liabilities as a % of sales	4.1%	4.4%	5.2%	4.5%	3.8%	4.4%	4.5%	4.5%	4.3%	4.3%	Taken at past 5 years' average
Debt											
Issuance of long-term debt						0.0	0.0	0.0	0.0	0.0	
Issuance of leases						0.0	0.0	0.0	0.0	0.0	
Repayment of long-term debt						(1.3)	0.0	(249.1)	0.0	0.0	
Repayment of lease liabilities						(22.9)	(20.2)	(20.2)	(20.2)	(20.2)	
Interest rates											
Interest rate on long-term debt						5.0%	5.0%	5.0%	5.0%	5.0%	
interest on revolver						3.3%	3.3%	3.3%	3.3%	3.3%	Taken at average of past 2 years
Interest rate on cash						2.7%	2.7%	2.7%	2.7%	2.7%	Taken as 2.7%

Dabur Financial Model

All amounts are in INR Crores

Assumptions

	Hist.	Hist.	Proj	Proj	Proj	Proj	Proj
	31-Mar-18	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27
Marginal Tax Rate			34.94%				
WACC			10.82%				
Terminal year growth rate			7.05%				

Free Cash Flows

	Hist.	Hist.	Proj	Proj	Proj	Proj	Proj
	31-Mar-18	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27
EBIT	2,216.0		2,162.3	2,317.6	2,482.2	2,654.3	2,845.1
Effective Tax Rate	23.2%		23.2%	23.2%	23.2%	23.2%	23.2%
NOPAT	1,701.8		1,660.6	1,779.8	1,906.3	2,038.5	2,184.9
Depreciation & Amortization			272.7	287.9	305.7	328.7	346.8
(Inc)/Dec in Operating Working Capital			(63.5)	(19.6)	(41.4)	(16.1)	(53.1)
(Inc)/Dec in Other operating non-current assets			(12.6)	(8.2)	(8.7)	(9.3)	(10.0)
Inc/(Dec) in Other operating non-current liabilities			0.0	0.0	0.0	0.0	0.0
Purchase of Intangibles			(13.1)	(15.4)	(12.5)	(11.0)	(11.3)
Capital Expenditure			(372.8)	(412.3)	(478.5)	(461.8)	(524.7)
Free Cash Flows			1,471.3	1,612.3	1,670.7	1,868.9	1,932.6

Key Ratios

	Hist.	Hist.	Proj	Proj	Proj	Proj	Proj
	31-Mar-18	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27
Sales Growth			7.00%	7.00%	7.00%	7.00%	7.00%
EBIT Margin			18.56%	18.59%	18.61%	18.60%	18.63%
EBITDA Margin			20.90%	20.90%	20.90%	20.90%	20.90%
NOPAT Growth			-2.42%	7.18%	7.10%	6.93%	7.19%
Invested Capital			3,000.2	3,168.8	3,405.4	3,576.0	3,577.5
ROIC			55.35%	56.17%	55.98%	57.00%	61.07%
Reinvestment Rate			11.40%	9.41%	12.35%	8.32%	11.55%
Implied Growth Rate				6.76%	6.58%	6.57%	14.20%
							7.05%

Terminal Value

Terminal year growth rate			7.1%
Terminal value using growing perpetuity formula			54970.77
Implied TV multiple			17.22

Discounting Model

	1	2	3	4	5
Year Count					
Discount factor	90.2%	81.4%	73.5%	66.3%	59.8%
Present value of cash flows	1,327.7	1,312.9	1,227.7	1,239.3	1,156.5

PV of forecast period cash flows	6,264.1
PV of terminal value	32,893.6
Enterprise value	39,157.8

Implied EBITDA multiple	12.27 x
Less net debt	5,612.4
Equity value	44,770.1

Share outstanding (millions)	176.8
Implied share value (INR)	253.3

Share price sensitivity analysis

	0.0	5%	6.00%	7%	8.00%	9%
9%		452.07589	455.72468	459.37347	463.02226	466.671047
10.00%		309.79565	312.09883	314.40201	316.70519	319.00837
11.0%		239.59127	241.23489	242.87851	244.52213	246.1657493
12.00%		197.75743	199.01132	200.26521	201.51909	202.7729806
13%		169.98373	170.98145	171.97916	172.97687	173.9745817

We have taken a terminal growth rate of 7% for Dabur on the basis of inflationary trends in India, as well as, accounting for the fact that FMCG is a fast growing business with plethora opportunities for product and geographical expansion

Intrinsic valuation shows Dabur to be highly overvalued with intrinsic value being only 40% of the prevailing price. Different assumptions also yield lower than market prices values for Dabur.

This overvaluation marks all FMCG companies. We have seen that relative valuation for Dabur gives an implied price closer to market values. The high industry P/E is indicative of this trend.



D
C
F

Football Field

Valuation for Dabur

