

March 03, 2021

Dabur India Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	15.00	15.00	[ICRA]AAA (Stable); reaffirmed
Total	15.00	15.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation takes into account Dabur India Limited's (Dabur) healthy operating and financial performance, as reflected in its healthy volume growth, robust cash flows as well as strong balance sheet and liquidity position. The rating continues to derive strength from Dabur's position as one of the leading companies in the domestic fast-moving consumer goods (FMCG) segment, its well-established brands in the ayurvedic/herbal category, significant market share for most of its products, strong distribution network and its diversified product portfolio. The rating also continues to take comfort from Dabur's strong balance sheet with negative net debt position (total debt is less than cash and liquid investments) and strong credit metrics.

These strengths, however, are partly offset by the intense competition in the FMCG sector, exposure to fluctuations in raw material prices and exchange rates as well as the risk of growth slowdown due to a challenging macro-economic environment. Although the international business declined in 9M FY2021, the company's performance has picked up in Q3 FY2021 on both sequential and annualised basis.

ICRA notes that Dabur's growth declined in Q4 FY2020 and Q1 FY2021 due to the impact of Covid-19 pandemic (lockdowns, plant shutdowns, restrictive movement of vehicles, etc.), resulting in supply chain disruptions, mainly from the end of March 2020 to May 2020. However, the recovery has been sharp in the last two quarters, resulting in growth of around 6% in 9M FY2021 despite the challenging environment.

The Stable outlook on the long-term rating reflects ICRA's belief that Dabur's cash flows from operations will remain robust which, along with its strong balance sheet, will support its credit metrics.

Key rating drivers and their description

Credit strengths

Healthy operating and financial performance – Dabur's operational and financial performances remained healthy despite the challenging operating environment characterised by pandemic-induced challenges, economic slowdown in the domestic industry, intense competition, and international geopolitical issues in the last few years. Dabur's domestic volume growth declined by ~15% in Q4 FY2020 and ~9% in Q1 FY2021 due to the impact of Covid-19 pandemic (lockdowns, plant shutdowns, restrictive movement of vehicles, etc.), resulting in supply chain disruptions, mainly from the end of March 2020 to May 2020. However, the recovery has been sharp in the recent two quarters (17% in Q2 FY2021 and 18% in Q3 FY2021), limiting the impact on overall FY2021. The growth in the recent quarters has been supported by the company's increased focus on power brands, launch of many new products and gain of market share for the existing products. Its operating profitability remained steady around 20–21% in the past few years. Dabur's reputed brand image, diversified product portfolio and strong distribution network continue to help it in maintaining its market leadership position in most of the product segments where it is present.

Its financial risk profile continues to be supported by moderate revenue growth, steady profitability, healthy cash accruals and strong liquidity position.

Possession of strong brands solidifies foothold in domestic FMCG space – Dabur has multiple brands with strong image such as Dabur, Vatika, Real, Hajmola, Pudín Hara, Honitus, Lal Tail, Dabur Red, Dabur Amla, Dabur Chyawanprash and Dabur Honey, Anmol, Fem, etc. The brand Dabur has a very strong reputation, particularly in the ayurvedic and herbal segment, which augured well for the company during Covid-19 pandemic as the demand for ayurvedic and herbal immunity booster products spiked. These strengths also helped it in maintaining its market position despite competition from large international and domestic players.

Strong financial position – The company's financial position remains strong with healthy net worth of around Rs. 7,130 crore as on September 30, 2020. Limited debt on balance sheet has resulted in lower gearing of 0.05 times and strong coverage indicators with interest coverage of 56 times and DSCR of 14 times in H1 FY2021. As of September 30, 2020, Dabur had cash and bank balance of Rs. 290 crore, current investments of Rs. 500 crore and non-current investments of Rs. 3,010 crore.

Credit challenge

Intense competition – The domestic FMCG business continues to witness intense competition with multiple established players, including some large multinational players as well as domestic companies. There have been increased activities by FMCG companies in the ayurvedic and herbal segment in the last few years. With increased marketing and promotion, awareness among consumers towards natural and herbal products is likely to have improved, leading to expansion of the market segment. Nevertheless, Dabur being an established player with a sizeable market share had faced competitive pressure in the past and remains exposed to risks of heightened competition.

Liquidity position: Superior

The company has **superior** liquidity position, given the high liquid investments, limited debt on books and expected strong accruals post the regular capex. As of September 30, 2020, Dabur had cash and bank balance of Rs. 290 crore, current investments of Rs. 500 crore and non-current investments of Rs. 3,010 crore. This apart, the company has unutilised bank limits and the flexibility to raise debt from the market in case of any requirements.

Rating sensitivities

Positive factors – Not applicable

Negative factors – The rating could be downgraded if any large capital expenditure or acquisition leads to considerable and sustainable weakening in the credit metrics or if there is any major reduction in market share of the key product segments, impacting the company's accruals for a prolonged period.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Fast Moving Consumer Goods Industry
Parent/Group Support	Not applicable
Consolidation/Standalone	Rating is based on consolidated financial statements of the issuer

About the company

Established in 1884 by Dr. S K Burman, Dabur is among India's leading FMCG companies. It has business interests in healthcare, personal care and food products. Over the years, the company has focussed on manufacturing and selling ayurvedic products targeted at the mass consumer segment. A number of personal care products, ayurvedic tonics and oral care products that Dabur launched over the years are leading brands in their respective segments. Dabur offers products in over 100 countries across the globe, covering health and personal care segments across the herbal and natural space. Dabur India's FMCG portfolio includes seven major brands, namely Dabur Amla, Dabur Chyawanprash, Dabur Honey, Honitus, Pudinhara, Dabur Lal Tail and Dabur Real. The company has manufacturing facilities at 20 locations—12 in India and one each in the UAE, South Africa, Sri Lanka, Egypt, Turkey, Nigeria, Nepal and Bangladesh. The company has built a strong distribution network of over 6.7 million retail outlets in India as of March 2020.

Key financial indicators (audited)

Consolidated	FY2019	FY2020
Operating Income (Rs. crore)	8515	8685
PAT (Rs. crore)	1445	1448
OPBDIT/OI (%)	20.4%	20.6%
PAT/OI (%)	17.0%	16.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.49	0.40
Total Debt/OPBDIT (times)	0.40	0.29
Interest Coverage (times)	29	36

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Jan 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018	
					03-Mar-2021	27-Feb-2020	25-Jan-2019	12-Dec-2017	
1	NCD	Long Term	15.0	0.0*	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	[ICRA]AAA(Stable)	

* yet to be placed

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (RS Crore)	Current Rating and Outlook
Yet to be placed	NCD	NA	NA	NA	15.00	[ICRA]AAA (Stable)

Source: Dabur India Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	LTHL Ownership	Consolidation Approach
Dabur International Ltd	100%	Full Consolidation
Dabur Nepal Pvt Ltd	98%	Full Consolidation
Naturelle LLC	100%	Full Consolidation
Namaste Laboratories LLC	100%	Full Consolidation
Dabur Egypt Ltd	100%	Full Consolidation
Hobi Kozmetik	100%	Full Consolidation
RA Pazarlama	100%	Full Consolidation
H & B Stores Ltd	100%	Full Consolidation
Asian Consumer Care Pvt Ltd*	0%	Full Consolidation
Dabur Lanka Pvt. Ltd	100%	Full Consolidation
African Consumer Care Ltd	100%	Full Consolidation
Asian Consumer care Pakistan Pvt. Ltd	100%	Full Consolidation
Urban Laboratories International LLC	100%	Full Consolidation
Dabur UK Ltd	100%	Full Consolidation
Dabur Pakistan Pvt. Ltd*	0%	Full Consolidation
Hair Rejuvenation & Revitalization Nigeria Ltd	100%	Full Consolidation
Dabur South Africa (PTY) Ltd.	100%	Full Consolidation
Dermovia Skin Essentials INC	100%	Full Consolidation
Dabur PARS	100%	Full Consolidation
Dabur Consumer Care Pvt. Ltd	100%	Full Consolidation
Dabur Tunisie	100%	Full Consolidation
Healing Hair Laboratories International LLC	100%	Full Consolidation
D and A Cosmetics Proprietary Limited	100%	Full Consolidation
Atlanta Body and Health Products Proprietary Limited	100%	Full Consolidation
Forum 1 Aviation Private Limited	20%	Equity Method

Source: Dabur annual report FY2020

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