DABUR RATING: **NEUTRAL**

Company to get back to Ayurveda roots

Execution of the strategy will be key; fair valuations, moderate growth prospects behind 'Neutral' rating

WE ATTENDED DABUR'S analyst meet, where the company threw light on various key topics. Key highlights:

The new CEO has intuited the need to get back to the core – Ayurveda – after a spin of wheel toward non-core over the last 15 years. India's Ministry of Ayush too is drawing a parallel between traditional remedies and wellness, reinforcing the idea of Ayurveda. The recent success of Patanjali/Himalaya in a few categories is also indicative of consumers' increasing preference for herbal products. DABUR is well poised to capitalise on these trends with its longer pedigree, better sourcing and access to a wider set of manuscripts unlike herbal peers. Even HPC and food innovations will have a herbal focus wherever possible.

The company cited that the ongoing quarter remains challenging but retained its guidance of mid-to-high single-digit volume growth for the remaining nine months of FY20. Given weak industry growth and intensifying competition, below-the-line spends will be much higher than envisaged at the beginning of the year.

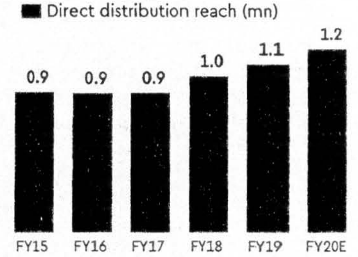
DABUR has identified a few power brands where spends can grow by 12-15%, even if overall ad spends increase at only 6-7%.

The goal is to appeal to the millennial, increase accessibility and drive penetration through sampling and innovation in the case of healthcare.

DABUR aims to accelerate the pace of new launches—management believes it was lacking here either in terms of quantum or commitment. The company aims to increase the NPD contribution from 2% of sales to around 4% in two years.

That said, successful execution of the planned strategy will be key. DABUR had in the past placed primacy on Ayurveda with mixed results. However, the intent appears much clearer now. Potential for herbal/herbal-based products in India is very attractive and DABUR undeniably has the pedigree to take advantage of that. However, it is worth noting that healthcare, where the 'back to roots' programme will have the highest impact, is only ~30% of domestic sales. Fair valuations of 43x FY21e, moderate near-term earnings growth prospects and weaker-than-peers RoCE prompt us to wait and watch before turning more constructive. Maintain **Neutral**.

Total distribution reach of 6.7 m plus outlets; aims to increase direct reach to 1.2 m outlets by FY20



Source: Company, MOFSL

Thinking core again

The new CEO Mohit Malhotra highlighted his blueprint for Dabur's growth.

Getting back to strengths: The new CEO highlighted the Chinese system of medicine is becoming mainstream in that country, and similarly, his vision is to take Ayurveda mainstream in India.

State encouragement: The Ministry of Ayush is taking initiatives to promote traditional medicine. Dabur is helping this ministry in formulating regulations and supporting the process of growing Ayurveda.

Peers have shown the way: Patanjali and Himalaya in recent years have shown the way towards growing the category, albeit with moderate eventual success.

MOTILAL OSWAL