March 22, 2024

Dabur India Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Non-convertible Debenture Programme	500.00	500.00	[ICRA]AAA (Stable); reaffirmed
Long-term/ Short-term – Fund-based Limits	524.50	793.25	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Short-term Non-fund Based Facilities	10.00	0.00	-
Short-term Interchangeable Limits	(25.00)	(175.00)	[ICRA]A1+; reaffirmed
Long-term/ Short-term – Unallocated Bank Limits	465.50	206.75	[ICRA]AAA (Stable)/ [ICRA]A1+; reaffirmed
Total	**1,500.00**	**1,500.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmation of ratings factors in Dabur India Limited's (Dabur) continued healthy operating and financial performance, as reflected in its healthy volume growth (across product categories), robust cash flows, strong balance sheet and superior liquidity position. The ratings continue 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, healthy market share for many of its products, strong distribution network and a diversified product portfolio. The ratings remain supported by Dabur's strong balance sheet with negative net debt position and strong credit metrics.

In 9M FY2024, Dabur reported a revenue growth of ~8.3% YoY driven by healthy growth in its Indian FMCG business (including the newly added "Badshah" brand, post-acquisition) and the International business, which grew at 11.7% on a constant currency basis. The operating profit margin (OPM) improved by 40 bps to 20.2% in 9M FY2024 (19.8% in 9M FY2023) driven by healthy performance of its home and personal care as well as food and beverages (F&B) business verticals. The company's strategy to focus on strengthening its power brands, innovation and new product launches, as well as expansion of its distribution infrastructure, are expected to support its earnings growth over the medium term.

Dabur is continuously seeking synergistic acquisitions in both domestic and international markets in an endeavour to increase its market share and brand portfolio. In this regard, ICRA notes that the company had acquired ~51% stake in Badshah Masala Private Limited w.e.f. January 2, 2023, a branded player in the spices and condiments category with major presence in Gujarat, Maharashtra and Telangana, at a consideration of ~Rs. 588 crore. This acquisition was funded by internal accruals and existing liquid investments and is expected to help expand the company's foods business over the medium term. ICRA expects the management to continue to adopt a disciplined approach while evaluating further inorganic growth opportunities.

Dabur continues to remain exposed to intense competition in the FMCG sector and risk of growth slowdown due to a challenging macro-economic environment. The domestic FMCG business continues to witness competition with multiple established players, including some large multinational players as well as domestic companies.

ICRA notes that there is an ongoing case in the US against the company's subsidiary, "Namaste Laboratories LLP", pertaining to allegations that several brands of hair relaxers cause ovarian cancer, uterine cancer and other related health issues in the US. The management indicated that the company has been incurring legal expenses as well; while its product liability insurance ensures that any amount incurred by the company with regards to any adverse outcome/settlement is expected to be recovered from the insurance company. ICRA also notes that hair relaxer products by Namaste Laboratories LLP contribute less than 1% to the total consolidated turnover of Dabur India Limited. The progress on the litigation and any adverse impact on the credit profile of Dabur remains monitorable.

ICRA also notes that Dabur's Chairman and Directors, along with others, have been named in an FIR lodged by the Mumbai Police (in relation to ongoing disputes regarding the promoters plans to enhance stake in a certain enterprise). Even as Dabur is a professionally managed entity and the impact of developments in this regard on the company's operations is unlikely, ICRA will, nevertheless, continue to monitor the developments.

On October 17, 2023, Dabur had announced the receipt of intimation of pending payable GST of ~Rs. 320 crore, along with interest and penalty, which the company refutes and is challenging. The company's strong liquidity position with cash and investments of over ~Rs. 5,000 crore, as on September 30, 2023, will help fund any potential liabilities and provide comfort.

The Stable outlook on the long-term rating reflects ICRA's view that Dabur's cash flows from operations will remain robust, aided by its well-established brand in the ayurvedic/ herbal category, diverse product portfolio and strong distribution network, which along with its strong balance sheet will help it maintain robust credit metrics.

Key rating drivers and their description

Credit strengths

Healthy operating and financial performance – Dabur's operational and financial performance has remained healthy despite the challenging operating environment ushered by high inflation, intense competition, and volatile geopolitical environment in the last few years. In 9M FY2024, Dabur reported a revenue growth of ~8.3% YoY and OPM of 20.2% aided by healthy growth in the healthcare and F&B business verticals. The growth in recent quarters has been supported by the company's increased focus on power brands, launch of new products and gain of market share in existing products. The company's OPM is expected to remain steady at around 20-21% over the medium term, despite being exposed to volatility in input commodity prices. Dabur's reputed brand image, diversified product portfolio, and strong distribution network have helped it maintain its market leadership position in many of its product segments.

Ownership of strong brands helped establish strong market position in domestic FMCG space – Dabur has multiple brands with a strong image, such as Dabur, Vatika, Real, Hajmola, Pudin Hara, Honitus, Lal Tail, Dabur Red, Dabur Amla, Dabur Chyawanprash and Dabur Honey, among others. The brands have a strong reputation, particularly in the ayurvedic and herbal segment, which augured well for the company during the pandemic as consumer demand for ayurvedic and herbal immunity boosting products spiked. These strengths have also helped it in maintaining its market position despite competition from large international and domestic players.

Strong financial position characterised by negative net debt and superior liquidity position – Dabur is a net debt free entity, with net gearing that has remained negative since FY2013. As on September 30, 2023, Dabur had net cash (adjusted for debt) of ~Rs. 5,838 crore over Rs. 5,406 crore as on March 31, 2023. With annual accruals of ~Rs. 1,000-1,200 crore following the dividend pay-out, the company's cash flows and liquidity position are expected to remain strong. Aided by strong cash flow generation, Dabur's dependence on external debt is expected to remain low; and, accordingly, it is likely to maintain low leverage over the medium term as well.

Credit challenges

Intense competition in the industry – The domestic FMCG business continues to witness intense competition from multiple established players, including large multinational players as well as domestic companies. There have been increased activities in the ayurvedic and herbal segment in the last few years by FMCG companies. With increased marketing and promotion, consumer awareness of natural and herbal products has improved, leading to expansion of the market segment. Nevertheless, Dabur, as a well-recognised player with an established market position across product categories, remains exposed to risks of heightened competition.

Environmental and social risks

Environmental considerations: FMCG companies remain exposed to the impact of changes in environmental norms with respect to the treatment of manufacturing residual discharge/waste. Accordingly, Dabur could face operational disruptions if regulatory norms are not complied with. Further, with increasing awareness and restrictions on usage of different grades of plastics for packaging and finding environment-friendly solutions, Dabur's cost structure may be impacted. Even as there is an increasing focus on carbon neutrality, the likelihood of sudden impactful developments on this front for the FMCG industry remains low. There is also a trend towards using organically grown input materials. Such developments can potentially increase costs for FMCG companies like Dabur. Since Dabur has a healthy dependence on agri commodities, it remains exposed to agro-climatic risks, which could result in variations in crop output/prices. Overall, entities in the FMCG industry have a low exposure to environmental risks, buttressed further by their better pricing power reflected in their ability to pass along the increase in costs over time.

Social considerations: On the social dimension, the FMCG sector has a prominent dependence on human capital, in terms of direct and indirect employees as well as contractual labour. Being an interplay of manufacturing and service business, maintaining healthy employee relations and retaining talent by an issuer as well as the supplier ecosystem is essential for disruption-free operations. Also, there could be quality concerns that FMCG entities like Dabur could face in certain product categories, which could adversely impact its brand, or risks that an entire product category could face from the social considerations that pertain to health consciousness (aerated drinks) or equity (fairness creams). While these risks are product category-specific, the overall exposure of the FMCG sector to social risks remains low to moderate.

Liquidity position: Superior

The company has a superior liquidity position, characterised by healthy liquid investments, limited debt on the books, and expectation of strong cash accruals following the regular capex and dividend outgo. As of September 30, 2023, Dabur had unencumbered cash and other investments of Rs. 7,327 crore (cash and liquid investments of ~Rs. 2,171 crore). In addition, 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 (capex) or acquisition leads to considerable and sustainable weakening in its credit metrics and profitability indicators, or if there is any major reduction in the market position of its key products, impacting its accruals for a prolonged period.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology FMCG
Parent/Group support	Not applicable
Consolidation/Standalone	The rating is based on consolidated financial statements of the issuer. The details of the company's subsidiaries/joint ventures can be found in Annexure II.

About the company

Established in 1884 by Dr. SK Burman, Dabur India Limited is among the top four FMCG companies in India. It has business interests in healthcare, personal care and food products. Over the years, Dabur India Limited has focused 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 India Limited has launched over the years are leading brands in their respective segments. Dabur India Limited offers products in over 100 countries across the globe, covering health and personal care segments across the herbal and natural space. Dabur's FMCG portfolio includes eight power brands—Dabur Amla, Dabur Red Paste, Dabur Chyawanprash, Dabur Honey, Dabur Honitus, Dabur PudinHara, Dabur Lal Tail and Dabur Real.

The company offers over 400 products across 21 categories and over 1,000 Stock Keeping Units (SKUs). It has manufacturing facilities at 22 locations—with 14 in India, and one each in the UAE, Sri Lanka, South Africa, Nepal, Egypt, Bangladesh, Turkey and Nigeria. Dabur India Limited has organised its sales force according to zones for better penetration. Over the years, it has built a strong distribution network of 7.7 million retail outlets across India (as of March 2023).

Key financial indicators (audited)

Dabur Consolidated	FY2022	FY2023	9M FY2024*
Operating income	10,888.7	11,529.9	9,589.4
PAT	1,744.1	1,703.0	1,470.2
OPBDIT/OI	20.7%	18.8%	20.2%
PAT/OI	16.0%	14.8%	15.3%
Total outside liabilities/Tangible net worth (times)	0.5	0.4	-
Total debt/OPBDIT (times)	0.5	0.5	-
Interest coverage (times)	58.4	27.7	21.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; EBDIT: OPBDIT + Non operating income; Amount in Rs crore

*Source: Company, ICRA Research; All calculations are as per ICRA Research;*Limited audit*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 22, 2024 (Rs. crore)	Date and ratings in FY2024	Date and ratings in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Mar 22, 2024	Mar 28, 2023	Mar 24, 2023	Sep 27, 2022	Sep 30, 2021	Mar 03, 2021
1	**NCD**	Long term	500.00	500.00	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**
2	**Proposed NCD**	Long term	-	-	-	**[ICRA]AAA (Stable)**	**[ICRA]AAA (Stable)**	-	**[ICRA]AAA (Stable)**	-
3	**Fund Based Limits**	Long term and short term	793.25	NA	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	-	-	-	-
4	**Non-Fund Based Facilities**	Short term	-	-	-	**[ICRA]A1+**	-	-	-	-
5	**Interchangeable Limits**	Short term	(175.00)	NA	**[ICRA]A1+**	**[ICRA]A1+**	-	-	-	-
6	**Unallocated Bank Limits**	Long term and	206.75	NA	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	**[ICRA]AAA (Stable)/ [ICRA]A1+**	-	-	-

	short term

Complexity level of the rated instruments

Instrument	Complexity Indicator
NCD	Very Simple
NCD	Very Simple
Fund Based Limits	Simple
Interchangeable Limits	Very Simple
Unallocated Bank Limits	Not applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here]

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
INE016A08013	NCD	October 22, 2021	4.95%	October 21, 2024	250.00	[ICRA]AAA (Stable)
INE016A08021	NCD	April 27, 2023	7.35%	March 18, 2027	250.00	[ICRA]AAA (Stable)
NA	Fund Based Limits	NA	NA	NA	793.25	[ICRA]AAA (Stable)/ [ICRA]A1+
NA	Interchangeable Limits	NA	NA	NA	(175.00)	[ICRA]A1+
NA	Unallocated Bank Limits	NA	NA	NA	206.75	[ICRA]AAA (Stable)/ [ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Company Name	Dabur Ownership	Consolidation Approach
Dabur India Limited	100% (Rated entity)	Full Consolidation
Dabur International Ltd	100%	Full Consolidation
Dabur Nepal Pvt Ltd	97.5%	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
Dabur Bangladesh Pvt. Ltd. (erstwhile Asian Consumer Care Pvt Ltd)@	76%**	Full Consolidation
Dabur Lanka Pvt. Ltd	100%	Full Consolidation
African Consumer Care Ltd	100%	Full Consolidation
Asian Consumer care Pakistan Pvt. Ltd**	0%	Full Consolidation
Urban Laboratories International LLC	100%	Full Consolidation
Dabur UK Ltd	100%	Full Consolidation
Dabur Pakistan Pvt. Ltd**	0%	Full Consolidation
Hair Rejuvenation & Revitalzation 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

Company Name	Dabur Ownership	Consolidation Approach
D and A Cosmetics Proprietary Limited	100%	Full Consolidation
Atlanta Body and Health Products Proprietary Limited	100%	Full Consolidation
Excel Investments FZC**	0%	Full Consolidation
Herbodynamic India Limited***	100%	Full Consolidation
Forum 1 Aviation Private Limited (Joint Venture)	20%	Equity Method
Badshah Masala Private Limited#	51%	Full Consolidation

*Source: Dabur Annual Report FY2023; Note: * The liquidation of Dabur Tunisie, is under process and is likely to be completed by 31 December 2024. The liquidation was earlier expected to be completed by 31 December 2023, but due to certain legal and regulatory compliances under the laws of Tunisia, as response from the Reserve Bank and Authorities in Tunisia on the matter is still awaited.*

*** Subsidiary through control by management*

@ Dabur Bangladesh became a 100% step down subsidiary of Dabur India Limited after acquiring shares from its local JV partner, Advanced Chemical Industries Limited.

**** During the year ended 31 March 2023, name of Herbodynamic India Limited has been struck off from the register of Registrar of Companies, NCT of Delhi & Haryana under Section 248 of the Companies Act, 2013 and it has been dissolved on 11th January 2023. In view of the above, Herbodynamic India Limited has ceased to be a wholly owned subsidiary of Dabur India Limited w.e.f. today i.e. 11th January 2023. # 51% of equity share capital of Badshah Masala Private Limited was acquired in on 02 January 2023.*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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