

Dabur Nepal Private Limited

Ratings

Facilities	Amount (Rs. in Million)	Ratings ¹	Rating Action
Short Term Bank Facilities	6,600.00	CARE-NP A1+ [A One plus]	Reaffirmed
Total Facilities	6,600.00 (Six Thousand Six Hundred Million Only)		

Details of instruments/facilities in Annexure 1

CARE Ratings Nepal Limited (CRNL) has reaffirmed the rating of 'CARE-NP A1+' assigned to the short term bank facilities of Dabur Nepal Private Limited (DNPL).

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of DNPL continues to derive strength from its established track record of operations with strong brand equity and wide range of products in Nepal coupled with strong distribution network and experienced directors and management in the related field. The rating also factors in robust financial profile of the company characterized by stable profitability, strong liquidity and its comfortable capital structure with healthy debt coverage indicators at the end of FY23 (Audited; FY refers to the twelve-month period ending mid-July). The rating also derives comfort from the strength and expertise derived from strong ultimate holding company Dabur India Limited (DIL).

These strengths are partially offset by concentrated business on foods segment, exposure to the volatility in the raw material prices and volatile interest rates, fragmented industry with competition from both domestic and international players and exposure to regulatory risk.

Going forward, the ability of the company to continue to scale up its operations while maintaining the profitability and debt service indicators will remain the key rating sensitivities. Any substantial debt funded capital expenditure impacting the overall financial risk profile of the company will also remain a key rating sensitivity.

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strength and expertise derived from strong ultimate holding company Dabur India Limited

Dabur India Limited (DIL), through its wholly owned subsidiary Dabur International Limited, holds 97.50% shares in DNPL. DIL, ultimate holding company of DNPL, is one of India's leading fast-moving consumer goods (FMCG) manufacturers with operating income of over INR 115 Bn during FY23 (refers to the twelve-month period ended March 31, 2023) and market capitalization of INR 922 Bn as on March 20, 2024. Established in 1884, DIL operates in healthcare, personal care and food products segments with a portfolio of over 250 Herbal/ Ayurvedic products. DIL has large presence in the overseas markets and are available in over 120 countries across the globe. DIL's capability in terms of extensive research and development to create product and packaging solutions and its expertise and long experience provides significant competitive advantage to DNPL. Being a part of Dabur group, apart from benefits of DIL's extensive R&D, DNPL follows same policies and standard operating procedures which are made at group level.

Established track record with a strong distribution network

DNPL has an established track record of more than three decades in Nepal in manufacturing FMCG products. As one of the leading FMCG companies in Nepal, DNPL has strong distribution network comprising of more than 300 distributors catering to 1 lakh retail points across Nepal. Furthermore, the company's growing business profile is underpinned by a

¹Complete definitions of the ratings assigned are available at www.careratingsnepal.com and in other CRNL publications

continually expanding product portfolio across healthcare, personal care and food products segments. An efficient supply chain management system and prudent working capital management enables healthy operating efficiency.

Robust financial risk profile characterized by stable profitability and strong liquidity

Total Operating Income (TOI) of the company grew by ~22% year-on-year (y-o-y) to Rs. 13,018 Mn in FY22 supported by growing out of home consumption of established product range coupled with strong traction for newly introduced products. The sales momentum from its diversified product range continued in FY23 as TOI grew by ~5% y-o-y to Rs.13,615 Mn in FY23 with PBILDT margins stable at ~14% in FY22-FY23. PAT margin improved by 44 bps to 10.34% in FY23 supported by increase in interest income from its y-o-y amplifying cash reserves. Although volatility in raw material cost remains, the company is generally able to pass through the same. Cash reserves increased to Rs. 1,707 Mn at the end of FY23 (FY22: Rs. 1,604 Mn). Gross Cash Accruals (GCA) of DNPL increased by ~10% to Rs. 1,833 Mn in FY23 (FY22: Rs. 1,670 Mn).

DNPL's capital structure continues to remain comfortable with healthy debt coverage indicators. Overall gearing ratio improved to 0.08x at the end of FY23 (FY22: 0.14x) as steady growth in reserves aided by healthy cash flow from operations has added to its net worth base. Also, sustained strong cash flow generation has helped the company continue to not avail any long-term debt. DNPL's only debt remains working capital related short-term borrowings. Interest coverage ratio of DNPL remained healthy at around 28x in FY23. Total debt to GCA improved to 0.43x at the end of FY23 from 0.69x as on previous balance sheet date on account of lower debt levels and higher GCA during the year.

Strong brand equity with wide range of products

DNPL has established brands such as Dabur, Real, Hajmola etc. which have strong brand recognition both locally and internationally. The brand Dabur has a strong reputation, particularly in ayurvedic and herbal segment. These strengths have also helped DNPL in maintaining its market position despite competition from large international and domestic players. DNPL is manufacturing juice under brand name 'Réal' in about 40 variants in real, active and burst ranges. Home & Personal Care segment which includes brand like Vatika has strong brand presence for premium personal care products. Similarly, Health care segment of Dabur includes brands like Hajmola with strong brand recognition for digestives products in candy and tablets variants. These brands are household names and are preferred brands in their categories.

Major exporter of the country

DNPL's export sales grew by ~3% y-o-y in FY23 to Rs. 8,483 Mn, which constitutes 5.40% (FY22: 4.10%) of total exports of Nepal. DNPL generated ~60% of its gross revenue from exports in FY21-FY23. Considering the export business and volume of DNPL, it was awarded numerous awards in the past like best taxpayer in the export business, commercially important person etc. by different government bodies.

Key Rating Weaknesses**Concentrated business on foods segment**

Business of DNPL is concentrated on foods segments which has been contributing around 70% to the revenue over the years. Although the company is also in other FMCG products like personal care, health care, digestives etc., their contribution to the total revenues remains moderate. Furthermore, revenue of DNPL is concentrated on single customer i.e. DIL. DNPL mainly exports juices and digestives products to DIL. During FY23, DNPL generated around ~60% (FY21-FY22: ~60%) of its gross sale revenue from export sales to DIL, which accounted for almost entire export sales of DNPL.

Fragmented industry with competition from both domestic and international players

DNPL operates in the fragmented FMCG industry, which has organized and unorganized players across segments, as the company has to compete with local players as well as other international players who are into the business of manufacturing similar products and selling domestically. Similarly, the traders involved in the import/ trading of various global brands are the major competitors of DNPL in most of its segments.

Exposure to regulatory risk

DNPL's business is exposed to regulatory risk arising from various regulations and standards related to safety of food implemented by Government of Nepal (GoN). Furthermore, changes in policies like ban in import of sugar by GoN, as seen in past, may have direct impact on the profitability of the company. Ability to manage the impact of any regulatory changes by GoN would also remain a key rating sensitivity.

About the Company

Dabur Nepal Private Limited (DNPL) is a private limited company, established in 1989 and commenced its business operations since 1992. It is a step-down subsidiary of Dabur India Limited (DIL), one of the leading Multi-National Companies of India. DNPL is one of the leading manufacturers and exporter of the country and markets wide range of consumer goods like Fruit Juices/ Beverages, Chywanprash, Glucose, Toothpaste, Hair Oil, Digestive Tablets (Hajmola), Honey etc.

Financial Performance

(Rs. Million)

For the Period Ended Mid-July,	FY21 (A)	FY22 (A)	FY23 (A)
Income from Operations	10,695	13,018	13,615
PBILDT Margin (%)	14.39	13.54	13.88
Overall Gearing (times)	0.18	0.14	0.08
Interest Coverage (times)	47.35	45.77	27.91
Current Ratio (times)	2.65	2.74	3.47
Total Debt/ Gross Cash Accruals (times)	0.93	0.69	0.43

A: Audited

Annexure 1: Details of the Facilities Rated

Name of the Bank Facilities	Type of the Facility	Amount (Rs. In Million)	Ratings
Short Term Bank Facilities	Fund Based/ Non-Fund based limits	6,600.00	CARE-NP A1+ [A One Plus]
Total		6,600.00	

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