

BUY

TP: Rs 669 | ▲ 25%

DABUR INDIA

Consumer Staples

04 November 2023

Steady growth and market share gains

- **Strong growth across categories except beverages which declined 10% YoY in Q2 due to uneven rainfall in North India**
- **International business fared well owing to moderation in inflation and changes in distribution**
- **Strong growth in food & international business and higher A&P investment to propel growth; maintain BUY, TP at Rs 669 (unchanged)**

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Steady performance amid macro headwinds: Dabur reported 7.3% YoY revenue growth in Q2FY24 (10.4% YoY CC growth) to Rs 32bn supported by a consistent performance in both the home & personal care and healthcare segments. India FMCG volume growth came in at 3% YoY (including 5.8% for *Badshah*). Dabur continued to gain market share across 90% of its product portfolio. International business maintained strong momentum with 23.6% growth in CC terms. MENA revenue grew 18%, Egypt was up 35% and Turkey 78%.

Margin expansion continues: Gross margin expanded 290bps YoY and 170bps QoQ to 48.3% largely due to easing inflation. EBITDA grew 10% YoY with 50bps margin expansion to 20.6% despite a 43% rise in A&P spend in the consolidated business.

Rural growth continues to lag urban demand: Management remains optimistic on future growth as it is seeing green shoots of recovery in rural markets and indicated that while rural growth still lags urban growth, the gap has reduced. Urban demand witnessed sequential improvement led by new-age channels.

Steady performance across key categories: Dabur's digestive business grew 18% YoY and the home care (HC) business increased 15%. The Ayurvedic OTC and ethical business grew 8% each. Foods posted a 40% YoY increase with *Badshah* growing 6%. However, unseasonal rains in the company's key North Indian markets impacted the beverage business which declined 10% YoY.

Maintain BUY, TP Rs 669: Dabur continues to deliver steady growth and gain share despite macro headwinds in key categories. Amid easing inflation and improving rural demand, we expect the company to deliver profitable growth backed by investments in A&P, distribution network and brand, manufacturing and digital channels. The stock is currently trading at 47.8x/36.8x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the 10Y average multiple – for an unchanged TP of Rs 669.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 536
Market cap	US\$ 11.5bn
Free float	33%
3M ADV	US\$ 11.8mn
52wk high/low	Rs 611/Rs 504
Promoter/FPI/DII	66%/18%/16%

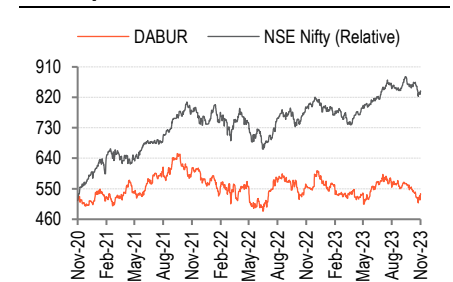
Source: NSE | Price as of 3 Nov 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	115,299	128,881	150,845
EBITDA (Rs mn)	21,641	25,436	32,814
Adj. net profit (Rs mn)	17,072	19,868	25,769
Adj. EPS (Rs)	9.6	11.2	14.5
Consensus EPS (Rs)	9.6	11.4	13.9
Adj. ROAE (%)	19.1	20.1	23.6
Adj. P/E (x)	55.6	47.8	36.8
EV/EBITDA (x)	43.8	37.3	28.9
Adj. EPS growth (%)	(2.1)	16.4	29.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

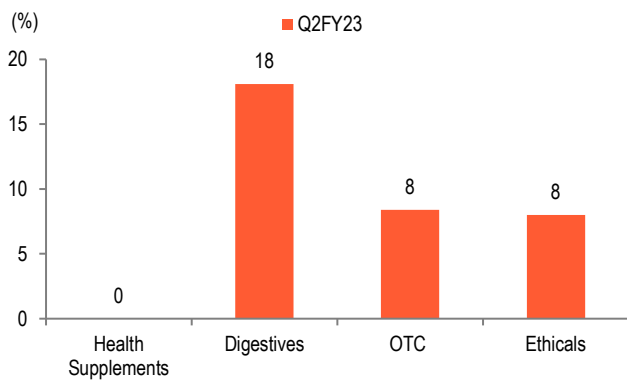


Fig 1 – Financial performance

(Rs mn)	Q2FY24	Q1FY24	Q2FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	32,038	31,305	29,865	2.3	7.3	32,175	(0.4)
EBITDA	6,609	6,047	6,007	9.3	10.0	6,467	2.2
Adj. PAT	5,151	4,639	4,901	11.0	5.1	5,232	(1.6)
Gross Margin (%)	48.3	46.6	45.4	170bps	290bps	47.2	110bps
EBITDA Margin (%)	20.6	19.3	20.1	130bps	50bps	20.1	50bps
Adj. PAT Margin (%)	16.1	14.8	16.4	130bps	(30bps)	16.3	(20bps)

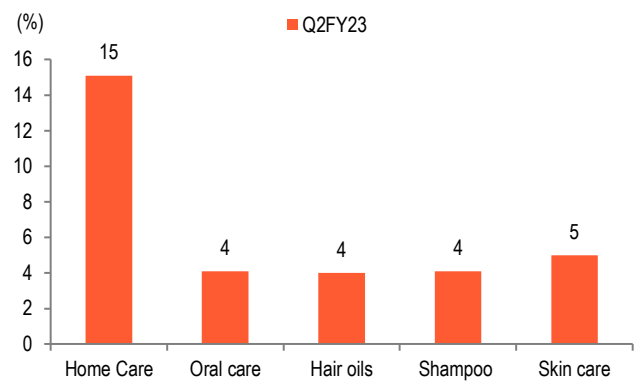
Source: Company, BOBCAPS Research

Fig 2 – Healthcare segment growth



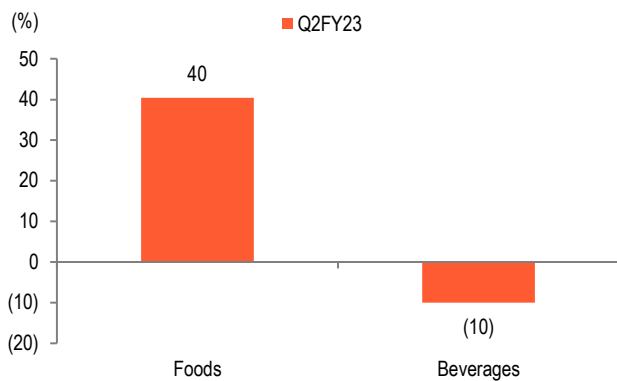
Source: Company, BOBCAPS Research

Fig 3 – Home & personal care segment growth



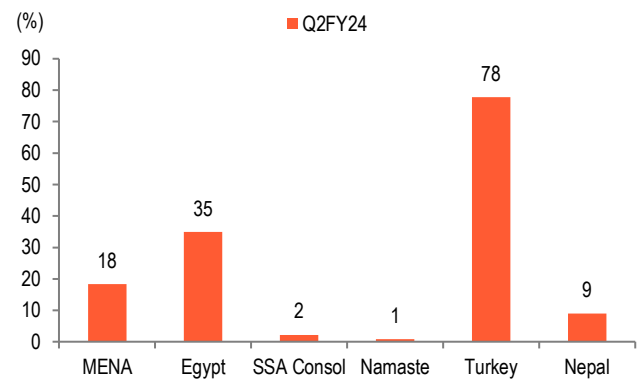
Source: Company, BOBCAPS Research

Fig 4 – Food & Beverages segment growth



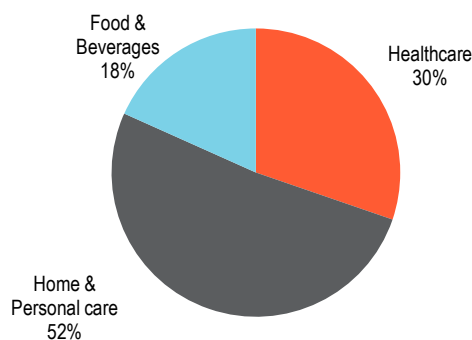
Source: Company, BOBCAPS Research

Fig 5 – International revenue growth (constant currency)



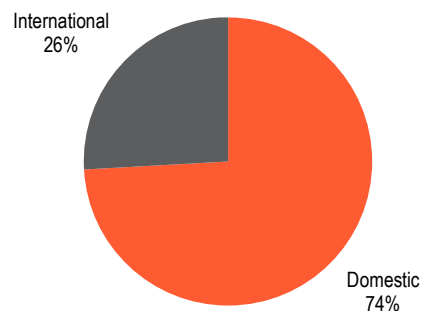
Source: Company, BOBCAPS Research

Fig 6 – Sales contribution by vertical



Source: Company, BOBCAPS Research

Fig 7 – Sales contribution by geography



Source: Company, BOBCAPS Research

Earnings call highlights

- Macroeconomic indicators improved during Q2FY34, but the uneven distribution of rainfall and an overall deficient monsoon weakened rural consumption.
- Dabur expects the general uptrend in FMCG consumption to continue driven by new-age channels, minimum support price (MSP) hikes, sustained infrastructure investments, robust crop sowing and onset of the festive season.
- The company's consolidated revenue grew 10.4% YoY in CC terms and 7.3% YoY in rupee terms to Rs 32bn in Q2FY24. International business grew 23.6% CC. The India beverages portfolio was impacted by the patchy rainfall, especially in North India which is a strong market for the company. Ex-beverages, India business grew 6% YoY on the back of 5% volume growth.
- Home & personal care revenue grew 6% YoY in Q2. Home care climbed 15% led by strong double-digit growth in the *Odonil* and *Odomos* brands, with the company's market share in the mosquito repellent category expanding 555bps YoY to 65%. Hair care posted high-single-digit growth and market share improved by 140bps to 17%.
- Healthcare was up 5% YoY and Dabur gained market share across the health supplements portfolio, with *Chyawanprash* seeing a 45bps gain and *Dabur Honey* clocking 64bps improvement during the quarter.
- The digestive category grew 18% YoY due to a robust performance in the *Hajmola* franchise. Dabur's OTC portfolio increased 8% driven by *Lal Tail*, *Honitus* and health juices.
- The ethical portfolio increased 8% YoY during Q2, baby care sales doubled and the therapeutics division grew in double digits.
- Beverages posted a 10% YoY decline during the quarter. The food business under the *Homemade* brand recorded 40% growth while the *Badshah* portfolio grew by 6%.
- Despite high inflation in spices, the company remains committed to exiting the year with revenue of Rs 5bn from the food portfolio.
- Dabur continues to drive distribution. Its direct reach in India now stands at 1.4mn outlets and management expects to reach 1.5mn outlets by FY24-end. Village coverage has reached 107,000 villages.
- With moderation in inflation and distribution changes, the international business saw strong recovery and grew 23.6% CC. A focus on innovation and customer-centric strategies resulted in market share gains across categories and countries.
- Per management, litigation against the company's subsidiary Namaste LLC in the US does not impact any of its products specifically but covers the entire hair relaxer industry, including L'Oreal, Godrej, Soft Sheen, Carson, Namaste Labs, Avalon, Revlon and others.

- Namaste disputes the allegations filed in the litigation and stands by the safety of its products. The portfolio in question is less than 1% of Dabur's consolidated revenue. The company also has product liability insurance in place which covers any damages or claims arising out of the legal suit, for which the estimate is unknown as the litigation is in the discovery phase.
- Dabur has spent Rs 360mn on legal fees in Q2 and expects the quarterly run rate to reduce to ~Rs 200mn. In H1FY24, the total litigation expense stood at Rs 630mn. Despite these additional expenses, the company expects to deliver an operating margin of over 19.5% for FY24.

Valuation methodology

Dabur continues to deliver steady growth and gain share despite macro headwinds in key categories. Amid easing inflation and improving rural demand, we expect the company to deliver profitable growth backed by investments in A&P, distribution network and brand, manufacturing and digital channels.

The stock is currently trading at 47.8x/36.8x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the 10-year average multiple – for an unchanged TP of Rs 669.

Key risks

Key downside risks to our estimates are:

- continued inflation in key raw materials, and
- delayed rural recovery.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Britannia Industries	BRIT IN	13.3	4,540	5,844	BUY
Dabur India	DABUR IN	11.5	536	669	BUY
Godrej Consumer Products	GCPL IN	12.7	1,021	1,159	BUY
Hindustan Unilever	HUVR IN	71.8	2,509	3,069	BUY
ITC	ITC IN	65.5	433	523	BUY
Marico	MRCO IN	8.3	528	646	BUY
Nestle India	NEST IN	28.2	23,999	28,260	BUY
Tata Consumer Products	TATACONS IN	10.3	914	1,038	BUY
Zydus Wellness	ZYWL IN	1.2	1,543	1,556	HOLD

Source: BOBCAPS Research, NSE | Price as of 3 Nov 2023

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Total revenue	95,617	108,887	115,299	128,881	150,845
EBITDA	20,027	22,538	21,641	25,436	32,814
Depreciation	2,401	2,529	3,110	3,700	3,980
EBIT	17,626	20,009	18,532	21,736	28,835
Net interest inc./(exp.)	308	386	782	1,087	695
Other inc./(exp.)	3,253	3,932	4,454	4,699	4,934
Exceptional items	0	(850)	0	0	0
EBT	20,570	22,705	22,203	25,348	33,074
Income taxes	3,611	5,264	357	5,778	7,607
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	17	31	(58)	(313)	(329)
Reported net profit	16,933	17,392	17,072	19,868	25,769
Adjustments	0	(850)	0	0	0
Adjusted net profit	16,933	18,242	17,072	19,868	25,769

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Accounts payables	19,153	20,180	21,866	23,334	27,078
Other current liabilities	1,584	914	667	746	873
Provisions	2,512	2,497	2,784	2,860	2,982
Debt funds	3,491	6,173	7,002	6,988	6,289
Other liabilities	2,284	3,385	3,758	4,200	4,916
Equity capital	1,767	1,768	1,772	1,772	1,772
Reserves & surplus	75,235	82,451	92,643	101,484	113,035
Shareholders' fund	77,002	84,219	94,414	103,256	114,807
Total liab. and equities	108,471	122,845	136,544	146,483	161,346
Cash and cash eq.	13,290	5,701	3,259	4,644	1,993
Accounts receivables	5,616	6,462	8,488	9,487	10,745
Inventories	17,343	19,114	20,242	20,527	23,328
Other current assets	3,906	3,346	3,136	3,498	4,083
Investments	41,484	62,102	62,574	67,681	77,960
Net fixed assets	18,117	19,680	22,376	24,032	26,388
CWIP	1,473	1,675	1,751	1,751	1,751
Intangible assets	447	397	8,887	8,887	8,887
Deferred tax assets, net	180	7	21	23	27
Other assets	5,473	4,035	5,427	5,533	5,705
Total assets	108,471	122,845	136,544	146,482	161,344

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash flow from operations	21,147	18,023	14,884	24,908	29,273
Capital expenditures	(3,112)	(3,741)	(5,091)	(5,155)	(6,335)
Change in investments	(13,611)	(12,731)	(137)	(5,107)	(10,279)
Other investing cash flows	2,616	3,668	3,942	0	0
Cash flow from investing	(14,058)	(12,755)	(5,865)	(10,262)	(16,614)
Equities issued/Others	0	1	4	0	0
Debt raised/repaid	369	5,408	488	(953)	(699)
Interest expenses	(194)	(219)	(779)	(1,087)	(695)
Dividends paid	(5,921)	(9,723)	(9,213)	(10,729)	(13,915)
Other financing cash flows	0	0	(491)	0	0
Cash flow from financing	(6,134)	(4,905)	(10,352)	(12,769)	(15,309)
Chg in cash & cash eq.	955	364	(1,334)	1,877	(2,651)
Closing cash & cash eq.	1,888	2,272	976	2,853	202

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
Reported EPS	9.6	9.8	9.6	11.2	14.5
Adjusted EPS	9.6	10.3	9.6	11.2	14.5
Dividend per share	37.5	5.5	5.2	6.1	7.9
Book value per share	43.6	47.6	53.4	58.4	64.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
EV/Sales	9.9	8.7	8.2	7.4	6.3
EV/EBITDA	47.4	42.1	43.8	37.3	28.9
Adjusted P/E	55.9	51.9	55.6	47.8	36.8
P/BV	12.3	11.2	10.0	9.2	8.2

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Tax burden (Net profit/PBT)	82.3	76.6	76.9	78.4	77.9
Interest burden (PBT/EBIT)	116.7	113.5	119.8	116.6	114.7
EBIT margin (EBIT/Revenue)	18.4	18.4	16.1	16.9	19.1
Asset turnover (Rev./Avg TA)	88.1	88.6	84.4	88.0	93.5
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	23.6	22.6	19.1	20.1	23.6

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Revenue	10.1	13.9	5.9	11.8	17.0
EBITDA	11.7	12.5	(4.0)	17.5	29.0
Adjusted EPS	17.2	2.7	(2.1)	16.4	29.7
Profitability & Return ratios (%)					
EBITDA margin	20.9	20.7	18.8	19.7	21.8
EBIT margin	18.4	18.4	16.1	16.9	19.1
Adjusted profit margin	17.7	16.8	14.8	15.4	17.1
Adjusted ROAE	23.6	22.6	19.1	20.1	23.6
ROCE	18.8	17.2	17.9	15.1	18.4
Working capital days (days)					
Receivables	26	20	24	25	24
Inventory	119	118	115	111	105
Payables	129	127	122	123	121
Ratios (x)					
Gross asset turnover	0.8	0.8	0.7	0.8	0.8
Current ratio	1.6	1.3	1.2	1.2	1.1
Net interest coverage ratio	57.2	51.8	23.7	20.0	41.5
Adjusted debt/equity	4.6	10.3	10.6	8.7	6.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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BUY – Expected return >+15%

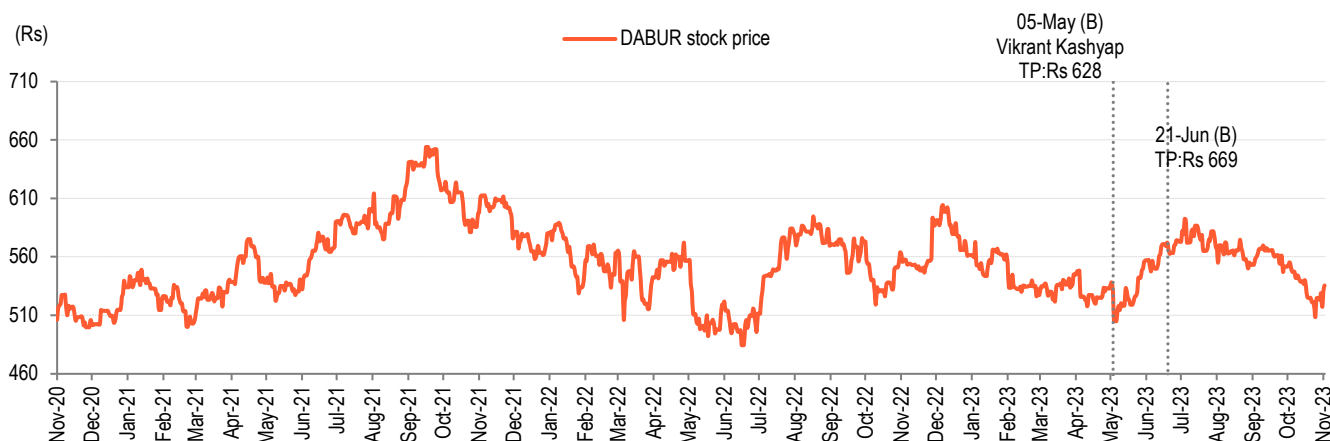
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): DABUR INDIA (DABUR IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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