

BUY

TP: Rs 669 | ▲ 21%

DABUR INDIA

Consumer Staples

04 August 2023

Volume growth visible in rural markets

- Q1 revenue grew 11% YoY aided by strong growth across categories, except beverages that saw the impact of unseasonal rains
- Gross margin expanded 70bps YoY to 46.6% as input costs moderated; A&P spend increased 30%
- Investments in A&P, digital channels and distribution network expected to propel growth; maintain BUY with TP of Rs 669

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Strong growth amid macro headwinds: Dabur reported 11% YoY revenue growth during Q1FY24 (13% CC growth) and continued to gain market share across 90% of its portfolio despite persisting headwinds in domestic and international markets. India business grew 8% YoY and international business grew 21% CC. Gross margin expanded 70bps YoY to 46.6% and is guided to expand sequentially. Dabur continues to extend the distribution network and its direct distribution reach now stands at 1.4mn outlets which the company expects will reach 1.5mn by end-FY24.

Rural volume growth turns positive: Per management, rural volume growth in the FMCG category turned positive during the quarter at 4% YoY, and Dabur outpaced category growth with an 8% uptick in rural demand. Urban markets continue to grow ahead of rural centres, but the gap has narrowed significantly. Management expects further improvement in rural consumption as commodity prices ease.

Growth across key categories: Dabur's healthcare portfolio reported 10% growth YoY and a 4Y CAGR of 10.6%. Home and personal care (HPC) revenue increased 11% YoY and over-the-counter (OTC) business reported healthy 24% growth led by demand for *Honitus* cough syrup. The digestive business was up 14% YoY and homecare 14.5%. Foods delivered an increase of 35% YoY, but the beverages portfolio was adversely impacted by unseasonal rains. Dabur indicated that it has expanded market share by 200bps in the hair oil category, by 50bps in its *Dabur Red* toothpaste and by 320bps in immunity booster *Chyawanprash*.

Maintain BUY, TP Rs 669: Dabur continues to outperform the market and to gain share despite macro headwinds in key categories. Given easing inflation and improving rural demand, we expect sustained volume momentum across the portfolio. Increased investment in advertising & promotion, distribution network and digital channels will lend further impetus to growth. The stock is currently trading at 48.9x/40.6x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the stock's 10Y average multiple – for an unchanged TP of Rs 669.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 555
Market cap	US\$ 12.0bn
Free float	33%
3M ADV	US\$ 13.2mn
52wk high/low	Rs 611/Rs 504
Promoter/FPI/DII	66%/20%/14%

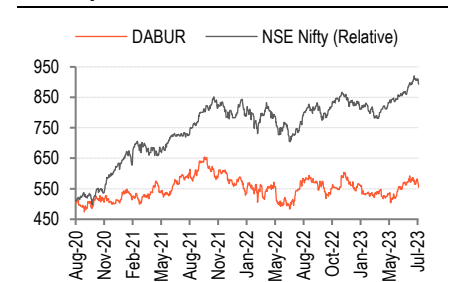
Source: NSE | Price as of 3 Aug 2023

Key financials

Y/E 31 Mar	FY23P	FY24E	FY25E
Total revenue (Rs mn)	1,15,299	1,30,189	1,47,820
EBITDA (Rs mn)	21,641	25,510	31,060
Adj. net profit (Rs mn)	17,072	20,106	24,193
Adj. EPS (Rs)	9.6	11.3	13.7
Consensus EPS (Rs)	9.6	12.1	13.9
Adj. ROAE (%)	19.1	20.3	22.2
Adj. P/E (x)	57.6	48.9	40.6
EV/EBITDA (x)	45.4	38.6	31.7
Adj. EPS growth (%)	(2.1)	17.8	20.3

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

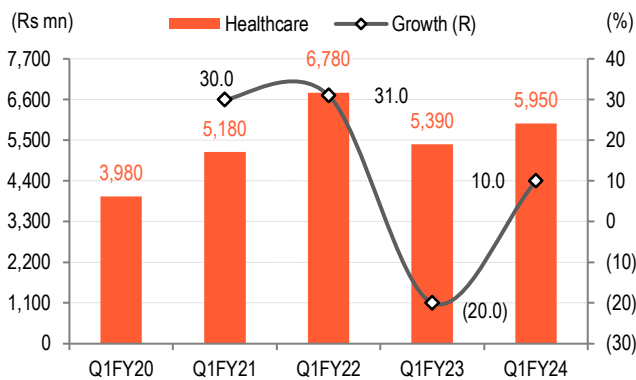


Fig 1 – Quarterly performance

(Rs mn)	Q1FY24	Q4FY23	Q1FY23	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	31,305	26,778	28,224	16.9	10.9	31,271	0.1
EBITDA	6,047	4,098	5,437	47.6	11.2	6,067	(0.3)
Adj. PAT	4,639	3,008	4,403	54.2	5.4	4,699	(1.3)
Gross Margin (%)	46.6	46.0	45.9	60bps	70bps	47.2	(60bps)
EBITDA Margin (%)	19.3	15.4	19.3	390bps	0bps	19.4	(10bps)
Adj. PAT Margin (%)	14.8	11.3	15.6	350bps	(80bps)	15.0	(20bps)

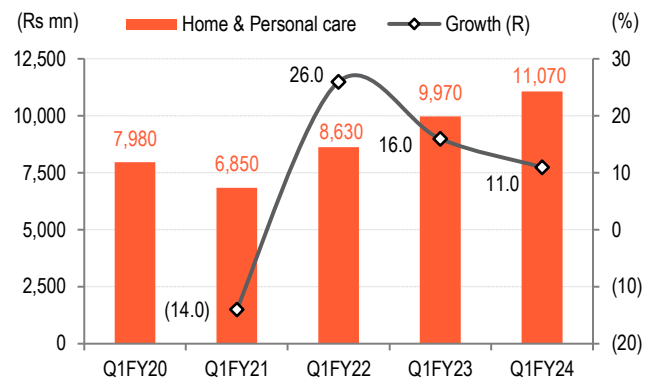
Source: Company, BOBCAPS Research

Fig 2 – Healthcare revenue & growth



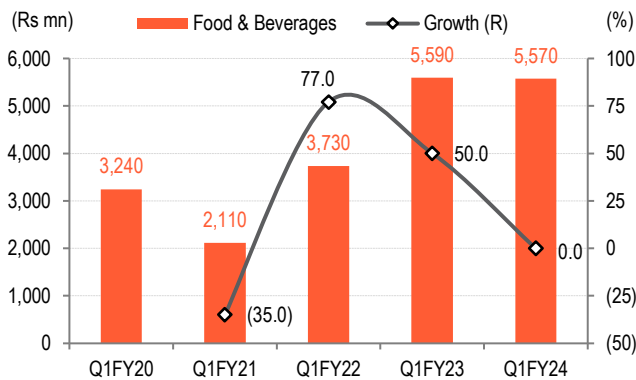
Source: Company, BOBCAPS Research

Fig 3 – HPC revenue & growth



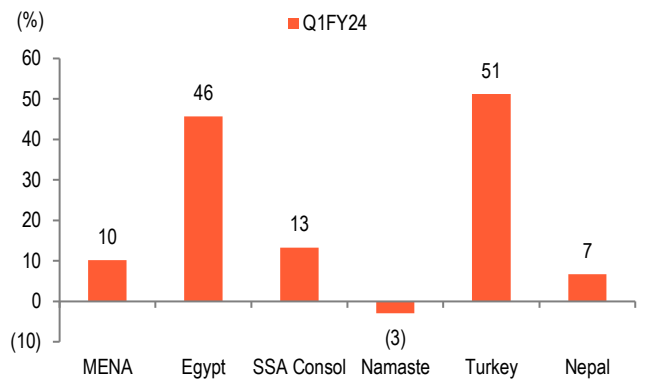
Source: Company, BOBCAPS Research

Fig 4 – Food & Beverages revenue & growth



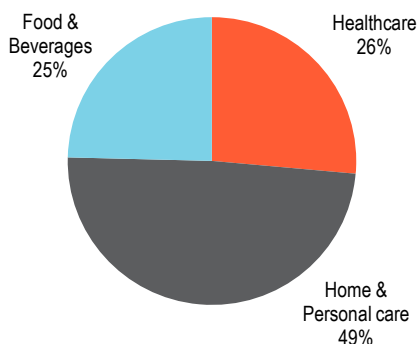
Source: Company, BOBCAPS Research

Fig 5 – International revenue growth (constant currency)



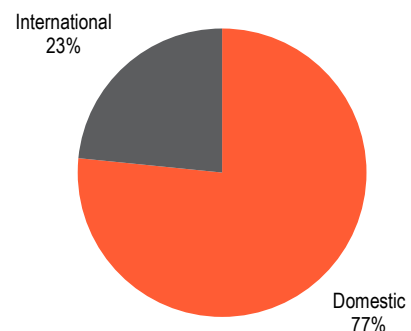
Source: Company, BOBCAPS Research

Fig 6 – Sales contribution by vertical



Source: Company, BOBCAPS Research

Fig 7 – Sales contribution by geography



Source: Company, BOBCAPS Research

Earnings call highlights

- Dabur reported 11% YoY (13% CC) revenue growth during Q1FY24 to Rs 31.3bn. India business grew 8% YoY backed by a strong double-digit uptick in the healthcare and HPC portfolios, though the beverage portfolio was dampened by unseasonal rains in North and West India.
- On a four-year CAGR basis, India business grew 10% with a near-double-digit CAGR in healthcare and HPC and double-digit growth in food & beverages.
- International business was up 10% YoY and 21% CC in Q1, led by robust growth across regions. Revenue from the Middle East and North Africa rose 10% YoY, Egypt 45%, Turkey 52%, and Sub-Saharan Africa 13%.
- Dabur did well in both rural and urban markets. Management indicated that rural volume growth in the FMCG category has improved from -5% in Q4FY22 to +4% in Q1. Management is seeing recovery trends and expects more money in the hands of consumers given near-normal rainfall thus far, a 10% hike in wage rate under MGNREGA, higher MSP for crops, and strong *kharif* sowing.
- Dabur indicated that its rural volumes grew 8% YoY vs. 4% for the FMCG category and expects a further uptick as commodity prices continue to soften.
- Gross margin expanded 70bps as inflation moderated from high-single-digits to low-single-digits. Dabur increased A&P investments by ~30% YoY during Q1. Even so, EBITDA grew 11% YoY while PAT was up 5%. Excluding the amortisation impact on the Badshah acquisition, PAT was up 8% YoY.
- The company indicated that it has gained market share in 90% of the portfolio despite persisting headwinds in domestic and international markets.
- HPC registered 11% YoY revenue growth during Q1. Oral care grew 13% YoY, resulting in a strong double-digit four-year CAGR.
- In toothpastes, *Dabur Red's* market share expanded by 50bps. Dabur indicated that it is consolidating its #2 position in the oral care segment, with every second household being a Dabur Oral Care household.
- The hair oils business was up 10% YoY and expanded market share by 200bps to reach its highest-ever level of 17.4%. Shampoos also expanded market share and grew 9% YoY in Q1 with a four-year CAGR of 13%.
- Homecare registered strong 14.5% YoY growth with all brands performing well. *Odonil* continued to witness market share gains and the company clocked a 340bps uptick in market share in the mosquito repellent category.
- Healthcare grew 10% YoY (four-year CAGR of 10.6%) and Dabur saw market share expansion across the health supplement portfolio. The digestive category increased 14% YoY on the back of a robust performance in the *Hajmola* franchise.
- The OTC portfolio grew 24% YoY driven by double-digit growth in *Lal Tail* and *Honitus*. Dabur's ethical portfolio was up 7% YoY.

- Dabur has established a Therapeutics division for advocacy and sales of its healthcare portfolio to allopathic doctors. The division is targeting incremental business of ~Rs 1.5bn during FY24, with a portfolio of baby care, branded ethical, pure herbs and dermatology products.
- The company aims to reach 70,000 allopathic doctors in addition to its current coverage of 70,000 ayurvedic practitioners. This should enable it to bring ayurveda into mainstream allopathic healthcare and accelerate growth of its healthcare vertical.
- Beverages saw muted growth on account of unseasonal rains in North and West India. The foods business under the *Hommade* brand posted strong growth of 35% YoY.
- The recently acquired Badshah portfolio grew 23% YoY in Q1FY24, and management maintains its guidance of exiting the year with Rs 5bn in revenue from the foods business, including Badshah.
- Dabur's direct reach stands at 1.4mn outlets and the company expects to reach 1.5mn by end-FY24. Village coverage stands at more than 100,000 villages.
- Capex for FY24 is guided to be in the range of Rs 4bn-4.5bn, including Rs 1.6bn incurred during Q1.

Valuation methodology

Dabur continues to outperform the market and to gain share despite macro headwinds in key categories. Given easing inflation and improving rural demand, we expect sustained volume momentum across the portfolio. Increased investment in advertising & promotion, distribution network and digital channels will lend further impetus to growth.

The stock is currently trading at 48.9x/40.6x FY24E/FY25E EPS. We maintain BUY and continue to value the stock at 46x FY25E EPS – assigning a 10% premium to the stock's 10Y 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	14.1	4,799	5,844	BUY
Dabur India	DABUR IN	12.0	555	669	BUY
Godrej Consumer Products	GCPL IN	12.6	1,015	1,159	BUY
Hindustan Unilever	HUVR IN	73.0	2,551	3,069	BUY
ITC	ITC IN	69.0	456	523	BUY
Marico	MRCO IN	9.0	572	646	BUY
Nestle India	NEST IN	26.4	22,476	26,430	BUY
Tata Consumer Products	TATACONS IN	9.4	835	994	BUY
Zydus Wellness	ZYWL IN	1.1	1,433	1,631	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Total revenue	95,617	1,08,887	1,15,299	1,30,189	1,47,820
EBITDA	20,027	22,538	21,641	25,510	31,060
Depreciation	2,401	2,529	3,110	3,543	4,035
EBIT	17,626	20,009	18,532	21,966	27,025
Net interest inc./(exp.)	308	386	782	799	799
Other inc./(exp.)	3,253	3,932	4,454	4,899	5,144
Exceptional items	0	(850)	0	0	0
EBT	20,570	22,705	22,203	26,067	31,370
Income taxes	3,611	5,264	5,174	5,995	7,215
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	17	31	(58)	(61)	(64)
Reported net profit	16,933	17,392	17,072	20,106	24,193
Adjustments	0	(850)	0	0	0
Adjusted net profit	16,933	18,242	17,072	20,106	24,193

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Accounts payables	19,153	20,180	21,866	23,185	26,327
Other current liabilities	1,584	914	667	753	855
Provisions	2,512	2,497	2,784	2,867	2,965
Debt funds	3,491	6,173	7,002	6,999	6,299
Other liabilities	2,284	3,385	3,758	4,243	4,818
Equity capital	1,767	1,768	1,772	1,772	1,772
Reserves & surplus	75,235	82,451	92,643	1,01,856	1,12,947
Shareholders' fund	77,002	84,219	94,414	1,03,628	1,14,719
Total liab. and equities	1,08,471	1,22,845	1,36,544	1,47,728	1,62,036
Cash and cash eq.	13,290	5,701	3,259	3,674	3,545
Accounts receivables	5,616	6,462	8,488	9,584	10,530
Inventories	17,343	19,114	20,242	20,760	22,682
Other current assets	3,906	3,346	3,136	3,533	4,003
Investments	41,484	62,102	62,574	69,704	78,147
Net fixed assets	18,117	19,680	22,376	23,846	26,315
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	24	27
Other assets	5,473	4,035	5,427	5,543	5,681
Total assets	1,08,471	1,22,845	1,36,544	1,47,728	1,62,036

Cash Flows

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23P	FY24E	FY25E
Cash flow from operations	21,147	18,023	14,884	26,377	29,381
Capital expenditures	(3,112)	(3,741)	(5,091)	(5,728)	(6,504)
Change in investments	(13,611)	(12,731)	(137)	(7,130)	(8,442)
Other investing cash flows	2,616	3,668	3,942	0	0
Cash flow from investing	(14,058)	(12,755)	(5,865)	(12,858)	(14,946)
Equities issued/Others	0	1	4	0	0
Debt raised/repaid	369	5,408	488	(954)	(700)
Interest expenses	(194)	(219)	(779)	(799)	(799)
Dividends paid	(5,921)	(9,723)	(9,213)	(10,857)	(13,064)
Other financing cash flows	0	0	(491)	0	0
Cash flow from financing	(6,134)	(4,905)	(10,352)	(12,611)	(14,563)
Chg in cash & cash eq.	955	364	(1,334)	907	(129)
Closing cash & cash eq.	1,888	2,272	976	1,883	1,754

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23P	FY24E	FY25E
Reported EPS	9.6	9.8	9.6	11.3	13.7
Adjusted EPS	9.6	10.3	9.6	11.3	13.7
Dividend per share	37.5	5.5	5.2	6.1	7.4
Book value per share	43.6	47.6	53.4	58.6	64.9

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23P	FY24E	FY25E
EV/Sales	10.3	9.0	8.5	7.6	6.7
EV/EBITDA	49.1	43.6	45.4	38.6	31.7
Adjusted P/E	57.9	53.8	57.6	48.9	40.6
P/BV	12.7	11.7	10.4	9.5	8.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23P	FY24E	FY25E
Tax burden (Net profit/PBT)	82.3	76.6	76.9	77.1	77.1
Interest burden (PBT/EBIT)	116.7	113.5	119.8	118.7	116.1
EBIT margin (EBIT/Revenue)	18.4	18.4	16.1	16.9	18.3
Asset turnover (Rev./Avg TA)	88.1	88.6	84.4	88.1	91.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	23.6	22.6	19.1	20.3	22.2

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23P	FY24E	FY25E
YoY growth (%)					
Revenue	10.1	13.9	5.9	12.9	13.5
EBITDA	11.7	12.5	(4.0)	17.9	21.8
Adjusted EPS	17.2	2.7	(2.1)	17.8	20.3
Profitability & Return ratios (%)					
EBITDA margin	20.9	20.7	18.8	19.6	21.0
EBIT margin	18.4	18.4	16.1	16.9	18.3
Adjusted profit margin	17.7	16.8	14.8	15.4	16.4
Adjusted ROAE	23.6	22.6	19.1	20.3	22.2
ROCE	18.8	17.2	14.0	15.1	17.0
Working capital days (days)					
Receivables	26	20	24	25	25
Inventory	119	118	115	113	107
Payables	129	127	122	124	122
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	1.2
Net interest coverage ratio	57.2	51.8	23.7	27.5	33.8
Adjusted debt/equity	4.6	10.3	10.6	9.6	8.1

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

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BUY – Expected return >+15%

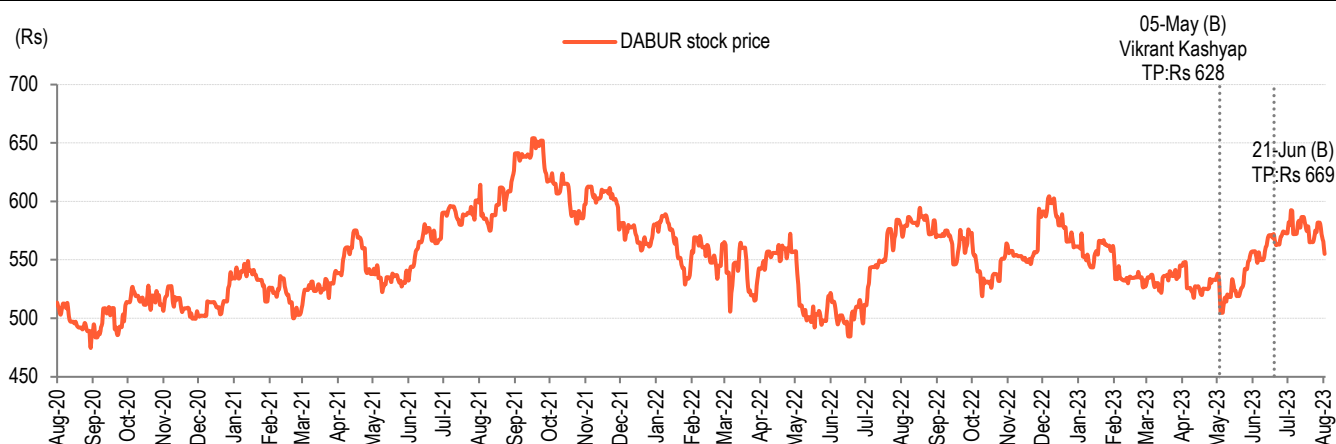
HOLD – Expected return from -6% to +15%

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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