

BUY

TP: Rs 628 | ▲ 18%

DABUR INDIA

| Consumer Staples

| 05 May 2023

Steady growth; improving demand visibility

- **Broad-based growth across categories in Q4, barring healthcare which is navigating the high Covid base**
- **Green shoots emerging in rural markets, providing visibility for growth ahead**
- **We assume coverage on DABUR with BUY and a TP of Rs 628, based on 46x FY25E EPS**

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Steady performance in a challenging environment: Dabur reported 6% YoY revenue growth during Q4FY23 and continued to gain market share in key categories despite the inflation-led impact on consumption. During the quarter, the company increased prices by 6% to mitigate the cost inflation while offering consumer promotions to soften the impact of pricing on consumption, which resulted in flattish volume growth during the quarter. India business grew 6% YoY and international business grew 11% CC. Gross margin for FY23 contracted by 260bps YoY to 46%, though the contraction is moderating sequentially.

Green shoots visible in rural markets: Rural growth remained a challenge on account of high inflation and downtrading, but green shoots were visible towards the end of the quarter, especially in the states of Bihar and Uttar Pradesh. Unseasonal rains during Q4 affected Dabur's performance in key markets. In our Mar'23 report, **Visible signs of rural revival**, we highlighted that companies with strong product portfolios, a large rural presence and localised marketing strategies are gaining market share in respective categories despite the difficult demand environment.

Broad-based growth across key categories: Dabur's food & beverage business reported strong growth of 30% YoY in FY23. A robust performance in air fresheners aided a 23% YoY uptick in home care. The digestives business grew 10% YoY for the year while the shampoo portfolio was up 8%. Hair oil gained 130bps market share to 17%, its highest ever level. Oral care penetration now stands at 50.8% with 15.8% market share. The air freshener and shampoo categories saw market share rise by 140bps and 30bps respectively.

BUY, TP Rs 628: Dabur continues to grow ahead of the market and to gain share despite persisting challenges in key categories. With the softening of inflation and improving rural demand, we expect a revival in volume growth across the portfolio. Increased investment in advertising & promotions will lend further impetus to growth. The stock is trading at 46.7x/38.8x FY24E/FY25E EPS. We assume coverage on Dabur with BUY and value the stock at 46x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 628.

Ticker/Price	DABUR IN/Rs 530
Market cap	US\$ 11.5bn
Free float	33%
3M ADV	US\$ 12.3mn
52wk high/low	Rs 611/Rs 482
Promoter/FPI/DII	66%/20%/14%

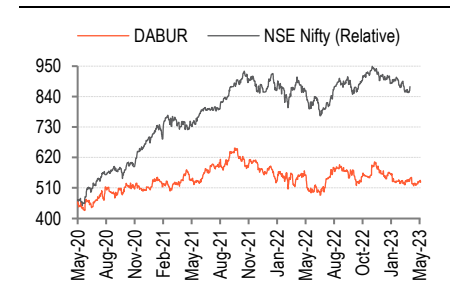
Source: NSE | Price as of 4 May 2023

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)	55.0	46.7	38.8
EV/EBITDA (x)	43.4	36.8	30.3
Adj. EPS growth (%)	(2.1)	17.8	20.3

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

Stock performance



Source: NSE

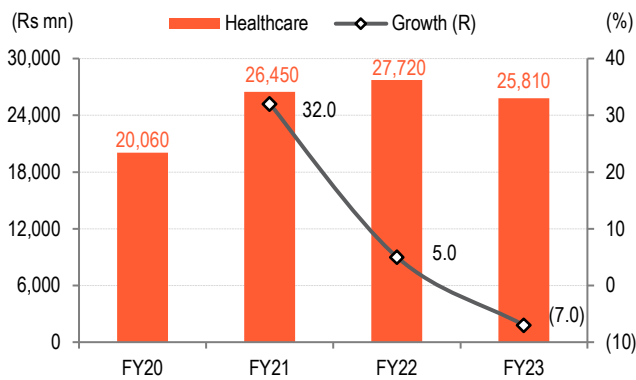


Fig 1 – Quarterly performance

(Rs mn)	Q4FY23	Q3FY23	Q4FY22	QoQ (%)	YoY (%)	Estimates	Variance (%)
Revenue	26,778	30,432	25,178	(12.0)	6.4	26,662	0.4
EBIDTA	4,098	6,099	4,536	(32.8)	(9.6)	4,293	(4.5)
Adj. PAT	3,008	4,759	3,792	(36.8)	(20.7)	3,268	(8.0)
Gross Margin (%)	46.0	45.5	47.4	50bps	(140bps)	45.4	60bps
EBIDTA Margin (%)	15.4	20.0	18.0	(460bps)	(260bps)	16.1	(70bps)
Adj. PAT Margin (%)	11.3	15.6	15.1	(430bps)	(380bps)	12.3	(100bps)

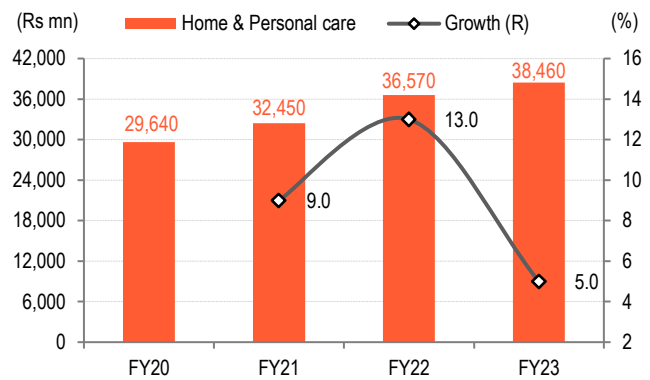
Source: Company, BOBCAPS Research

Fig 2 – Healthcare: Revenue and growth



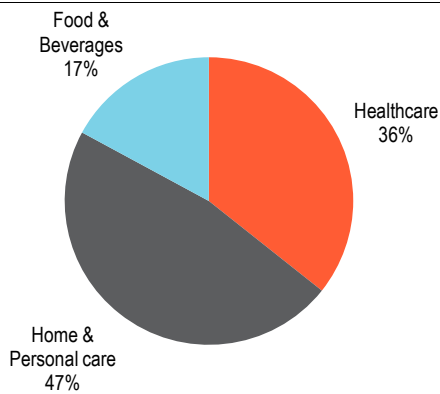
Source: Company, BOBCAPS Research

Fig 3 – Home & personal care: Revenue and growth



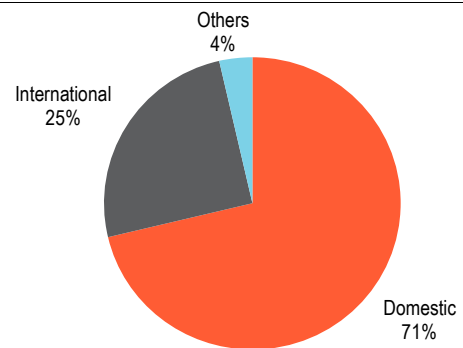
Source: Company, BOBCAPS Research

Fig 4 – Revenue contribution by vertical, FY23



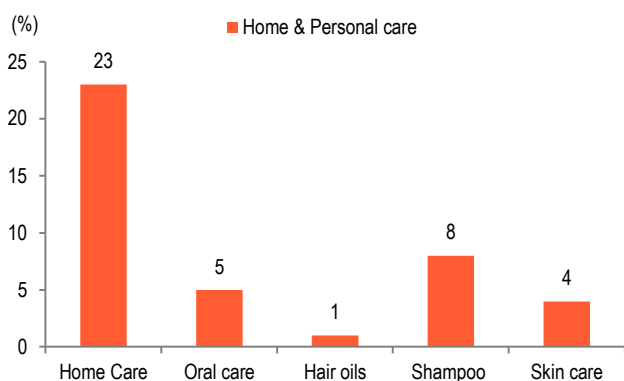
Source: Company, BOBCAPS Research

Fig 5 – Revenue contribution by geography, FY23



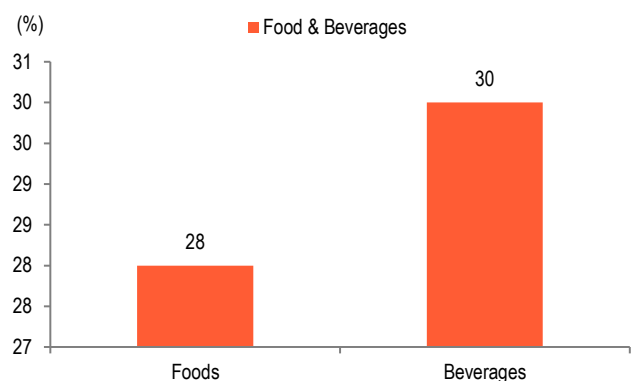
Source: Company, BOBCAPS Research

Fig 6 – Segment growth – Home & personal care, FY23



Source: Company, BOBCAPS Research

Fig 7 – Segment growth – Food & beverages, FY23



Source: Company, BOBCAPS Research

Earnings call highlights

- The FMCG sector saw a volume decline during 9MFY23 and the challenging demand environment continued into Q4, with growth emerging only towards the end of the quarter.
- Dabur's volume growth in Q4FY23 was mainly driven by food categories. The health & personal care (HPC) and over-the-counter (OTC) categories continued to report volume declines.
- Rural markets are still lagging urban centres on account of high inflation and downtrading by consumers. However, new-age distribution channels and green shoots of recovery in rural markets late into the quarter herald emerging signs of demand revival.
- During Q4, Dabur recorded consolidated revenue growth of 6.4% YoY (8.6% CC). India business grew 5% and secondary sales were up ~10%.
- Operating margin contracted during the quarter due to a one-off forex loss of Rs 220mn-250mn from Sri Lanka, phasing off of CSR expenses of Rs 100mn in Q4, further costs toward distribution restructuring in MENA, and increased variable costs.
- Management expects gross margin to improve going forward and is targeting operating margin of 19.5-20%. Media spends are guided to rise to 7-8% from current levels of 5.5%.
- During FY23, international business grew 11% CC. Both Turkey and Egypt recorded a strong uptick in constant currency terms, but rupee revenue was hit by currency devaluations in these countries. Nepal business performed well.
- The food & beverages (F&B) business recorded stellar growth of ~30% for the year.
 - The beverage business held to its strong trajectory on the back of initiatives towards expanding the addressable market. Dabur's fruit drinks portfolio under the *Real Koolerz* brand crossed the Rs 2bn mark during the year.
 - The foods business also grew at a robust 34% in FY23 with consolidation of the newly acquired Badshah portfolio during the quarter. However, management expects growth in this portfolio to moderate going ahead.
 - Dabur expects 20% growth in the Badshah portfolio and is targeting revenue of Rs 17bn from F&B in the next five years.
- The HPC portfolio increased 5% in FY23 despite a decline in the category. Toothpaste grew ~5%, leading to a double-digit three-year CAGR.
- The healthcare portfolio declined 7% though the three-year CAGR remained strong at 9%. Growth was flattish in Q4 on account of a high base due to the Omicron wave in the year-ago quarter.
 - Within healthcare, digestives grew at 10% in FY23 on the back of a robust performance in the *Hajmola* and *Pudin Hara* franchises.

- OTC products recorded a double-digit three-year CAGR for the year led by a strong performance in *Honitus*.
- Management expects the ethical and generic business, which has revenue of ~Rs 4bn, to clock high growth ahead.
- Philippe Haydon, ex-CEO of Himalaya, has joined Dabur and is restructuring the healthcare business with the creation of a new vertical 'Dabur Therapeutics'.
- E-commerce grew 30% in FY23 and now contributes ~9% of total revenue. Modern trade saw double-digit growth during the year.
- Dabur continued to expand its distribution reach during the year. Direct reach is now at 1.4mn outlets and village coverage stands at 100,000.
- Dabur expects the food/healthcare/HPC businesses to contribute 20%/30%/50% of total revenue.
- Management believes power brands and their extensions will fuel growth and help transform Dabur into a Rs 200bn company from just over Rs 100bn now. The company expects *Real* to become a Rs 50bn brand, *Amla* a Rs 20bn brand, *Red* a Rs 30bn brand, and *Chyawanprash* and *Honey* to grow into Rs 10bn brands.
- The company announced final dividend of Rs 2.7/sh, taking the total to Rs 5.2/sh for FY23.

Valuation methodology

Dabur continues to grow ahead of the market and to gain share despite persisting challenges in key categories. With the softening of inflation and improving rural demand, we expect a revival in volume growth across the portfolio. Increased investment in advertising & promotions will lend further impetus to growth.

The stock is trading at 46.7x/38.8x FY24E/FY25E EPS. We assume coverage on Dabur with BUY and value the stock at 46x FY25E EPS, in line with the long-term mean, translating to a TP of Rs 628.

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	13.5	4,587	5,623	BUY
Dabur India	DABUR IN	11.5	530	628	BUY
Godrej Consumer Products	GCPL IN	11.6	931	1,112	BUY
Hindustan Unilever	HUVR IN	81.2	2,507	3,069	BUY
ITC	ITC IN	64.4	425	459	BUY
Nestle India	NEST IN	25.6	21,694	24,670	BUY
Tata Consumer Products	TATACONS IN	8.8	776	924	BUY

Source: BOBCAPS Research, NSE | Price as of 4 May 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	62,101	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	9.8	8.6	8.2	7.2	6.4
EV/EBITDA	46.9	41.7	43.4	36.8	30.3
Adjusted P/E	55.4	51.4	55.0	46.7	38.8
P/BV	12.2	11.1	9.9	9.0	8.2

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%

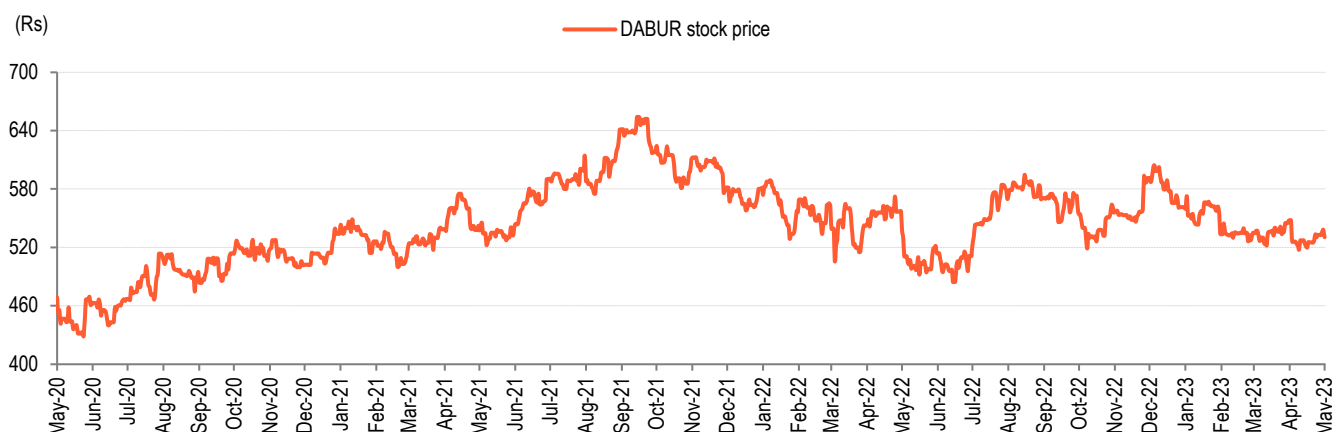
HOLD – Expected return from -6% to +15%

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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