

**BUY**

TP: Rs 762 | ▲ 18%

**DABUR INDIA**

Consumer Staples

02 August 2024

## Rural recovery, potential upside from intense/extended winters

- 1QFY25 underlying result was broadly in line with consensus with in-line sales but 1% lower EBITDA and EPS
- Rural focused reinvestments restricted EBITDA, but we expect quick rewards in the form of acceleration in rural sales with recovery
- Exposure to elastic categories, strong distribution evident in above-average rural performance. Trends to improve further – Retain BUY

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**Broadly in-line result, with rural pickup despite heatwave:** Dabur reported 8% underlying EPS growth on 7% sales growth and 24bps EBITDA margin expansion. Compared to Bloomberg consensus, sales were in line, with EBITDA and EPS both 1% lower. Rural volumes grew 7% on our estimates vs 6% in 4QFY24.

**Preparing for rural recovery and weather:** Volume trends improved through the Jun'24 quarter and continued to improve in Jul'24. During 1QFY25, Dabur launched newer, affordable and rural-specific packs across categories backed by increased communication. We expect sales growth trends to accelerate through FY25. La Niña is synonymous with cooler and wetter weather leading to harsher/extended winter, which bodes well for Dabur's winter-centric (Chyawanprash) and higher margin portfolio. We forecast 8% sales growth in 1HFY25 vs 14% in 2HFY25.

**Urban stable to slow:** Urban trends remain slow to stable with growth in modern trade and eCom offset by weakness in general trade. This partly reflects Dabur's efforts to increase exposure to direct distribution, which is also margin accretive.

**Our view:** Dabur is our top pick in FMCG given its 45+% rural sales exposure, growing rural distribution, and a relatively elastic portfolio enabling faster response to recovery. The prospect of La Niña is a potential upside scenario in terms of sales growth and margin expansion due to the margin-accretive profile of its winter-centric portfolio. We value Dabur at 63x 12M to Jun'26 EPS using P/E relative to the NIFTY 50 index. We raise TP to Rs 762 from Rs 742 due to earnings revisions.

### Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	DABUR IN/Rs 644
Market cap	US\$ 13.6bn
Free float	33%
3M ADV	US\$ 29.2mn
52wk high/low	Rs 662/Rs 489
Promoter/FPI/DII	66%/17%/17%

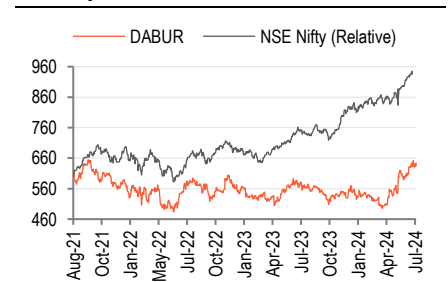
Source: NSE | Price as of 1 Aug 2024

### Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,040	137,654	152,833
EBITDA (Rs mn)	24,002	27,263	31,321
Adj. net profit (Rs mn)	18,427	20,648	23,529
Adj. EPS (Rs)	10.4	11.7	13.3
Consensus EPS (Rs)	11.4	13.9	13.9
Adj. ROAE (%)	18.7	19.0	19.5
Adj. P/E (x)	61.9	55.2	48.5
EV/EBITDA (x)	47.5	41.8	36.4
Adj. EPS growth (%)	7.9	12.1	13.9

Source: Company, Bloomberg, BOBCAPS Research

### Stock performance



Source: NSE

1QFY25 result summary				Reported vs (%)	
	(Rs mn)	Q1FY24	Q1FY25	YoY (%)	BoB
Sales	31,305	33,491	7	(4)	0
EBITDA	6,047	6,550	8	(4)	(1)
EBITDA margin (%)	19.3	19.6	24bps	4bps	(22bps)
Adj. EPS (Rs)	2.62	2.82	8	(1)	(1)

Source: BOBCAPS Research, Bloomberg, Company



## Earnings summary

For FY25, our sales, EBITDA and EPS forecasts are 1% lower. This mainly reflects a slightly slower-than-expected recovery in rural in 1QFY25. It's more of a timing issue so our FY26 sales and earnings forecasts are correspondingly 1% higher. We summarise our forecasts in the table below.

**Fig 1 – Dabur financial forecasts**

(Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	108,887	115,299	124,040	137,654	152,833
... YoY (%)	-	6	8	11	11
EBITDA	22,538	21,641	24,002	27,263	31,321
... YoY (%)	-	(4)	11	14	15
EBITDA margin	20.7	18.8	19.4	19.8	20.5
... YoY (%)	-	(193bps)	58bps	45bps	69bps

Source: Company, BOBCAPS Research

## Conference call takeaways

- **Badshaah** – In domestic, volume growth was 16% with pricing down 1%. Gross margin was +500bps. In international, there is increased scrutiny due to ethylene oxide-driven contamination. While Dabur products are not restricted, all overseas products are getting delayed resulting in an inefficient supply chain.
- **Hair oil** – Bajaj has become highly promotional. Increased discounting is now hurting category profitability in the hair oil segment.
- **Dabur's high sales contribution from rural is helping results** – Over the past three quarters, industry volumes deteriorated from +9% to +6% to +4%, while Dabur's volume trajectory is in contrast with volumes +3% to +4% to +5%. With rural recovery likely to be stronger post farmer payout in late Sep/early Oct, we think Dabur's margin of outperformance will further increase.
- **M&A** – Dabur is looking to expand its premium portfolio in Personal Care/Hair Oil and is open to M&As.
- **Village penetration slightly slower** – The village coverage increased by ~3.3k in the current quarter, slower than the FY24 quarterly run rate of ~5k.
- **Channel mix** – The company is looking to improve its margin profile by increasing its direct channel exposure. EBITDA margins in Modern Trade are now in line with General Trade.
- **Continued structural change in Oral Care category** – Oral Care continues to experience consumer shifts from traditional to natural toothpaste, which is driving share gains for Dabur and Patanjali.
- Dabur's Oral Care volumes were +8%. The company has completed a pricing comparison exercise across categories with competitors and is now making adjustments to drive volumes and market share.

- **Heatwave drove consumption from fruit juice to carbonated drinks** – With the heatwave, Nectar sales took a hit as consumers preferred carbonated beverages for immediate relief and refreshment over healthy drinks. This was the standard pattern across the Nectar category. Another reason for the weakness was the Cola wars – a new entrant discounted heavily in response to which both number 1 and number 2 players cut pricing. The net result was an increase in price differential with Nectar. This price differential increased from average 1.6x to 3.5x now. Nectar comprises 70% of Dabur's beverages segment.
- **Margin outlook** – Dabur guided for at least 19.6% EBITDA margin for FY25, with pressure in 2HFY25 when inflation comes through. We expect the string recovery in rural demand to provide some cushion and perhaps scope for passing on inflation.
- **La Niña effect** – La Niña is synonymous with cooler and wetter weather leading to harsher/extended winter, which bodes well for Dabur's winter-centric (Chyawanprash), higher margin portfolio. We forecast 8% sales growth in 1HFY25 vs 14% in 2HFY25.

## Valuation methodology

The stock is currently trading at 55x FY25E EPS. DABUR has historically traded at 2.5x vs the NSE NIFTY 50 1-year forward EPS. We value DABUR at 63x 12M to Jun'26 EPS – a 10% premium to its historical average vs NIFTY 50. We maintain BUY and increase TP to Rs 762 from Rs 742.

## Risks

Key downside risks to our estimates are:

- currency devaluation in key markets,
- seasonality impacting portfolios,
- increased competition in the 'natural' category in HPC,
- delayed rural recovery,
- excess or deficit monsoon, both of which are detrimental to agriculture.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Total revenue</b>	<b>108,887</b>	<b>115,299</b>	<b>124,040</b>	<b>137,654</b>	<b>152,833</b>
EBITDA	22,538	21,641	24,002	27,263	31,321
Depreciation	2,529	3,110	3,992	4,456	5,035
EBIT	20,009	18,532	20,010	22,807	26,286
Net interest inc./(exp.)	386	782	1,242	1,306	1,057
Other inc./(exp.)	3,932	4,454	4,824	5,039	5,064
Exceptional items	(850)	0	0	0	0
EBT	22,705	22,203	23,593	26,539	30,294
Income taxes	5,264	357	5,474	6,116	6,981
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	31	(58)	(314)	(231)	(242)
<b>Reported net profit</b>	<b>17,392</b>	<b>17,072</b>	<b>18,427</b>	<b>20,648</b>	<b>23,529</b>
Adjustments	(850)	0	0	0	0
<b>Adjusted net profit</b>	<b>18,242</b>	<b>17,072</b>	<b>18,427</b>	<b>20,648</b>	<b>23,529</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	20,180	21,866	24,217	24,890	27,279
Other current liabilities	914	667	1,124	1,247	1,384
Provisions	2,497	2,784	3,182	3,257	3,341
Debt funds	6,173	7,002	6,221	6,289	5,660
Other liabilities	3,385	3,758	4,272	4,741	5,264
Equity capital	1,768	1,772	1,772	1,772	1,772
Reserves & surplus	82,451	92,643	101,259	112,390	125,115
Shareholders' fund	84,219	94,414	103,031	114,162	126,887
<b>Total liab. and equities</b>	<b>122,845</b>	<b>136,544</b>	<b>151,227</b>	<b>163,067</b>	<b>177,667</b>
Cash and cash eq.	5,701	3,259	6,664	11,430	14,511
Accounts receivables	6,462	8,488	8,987	9,805	10,887
Inventories	19,114	20,242	19,470	21,443	23,502
Other current assets	3,346	3,136	5,010	5,559	6,172
Investments	62,102	62,574	69,254	73,104	79,327
Net fixed assets	19,680	22,376	25,609	25,318	26,702
CWIP	1,675	1,751	2,322	2,322	2,322
Intangible assets	397	8,887	8,035	8,035	8,035
Deferred tax assets, net	7	21	63	70	78
Other assets	4,035	5,427	5,532	5,644	5,770
<b>Total assets</b>	<b>122,845</b>	<b>136,544</b>	<b>151,226</b>	<b>163,037</b>	<b>177,636</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
<b>Cash flow from operations</b>	<b>18,023</b>	<b>14,787</b>	<b>20,135</b>	<b>28,384</b>	<b>27,997</b>
Capital expenditures	(3,741)	(5,091)	(5,639)	(5,781)	(6,419)
Change in investments	(12,731)	(137)	(7,978)	(3,850)	(6,223)
Other investing cash flows	3,668	3,942	3,870	0	0
<b>Cash flow from investing</b>	<b>(12,755)</b>	<b>(5,865)</b>	<b>(9,717)</b>	<b>(9,632)</b>	<b>(12,642)</b>
Equities issued/Others	1	4	0	0	0
Debt raised/repaid	5,408	488	(472)	(699)	(629)
Interest expenses	(219)	(779)	(1,067)	(1,306)	(1,057)
Dividends paid	(9,723)	(9,213)	(9,658)	(9,292)	(10,588)
Other financing cash flows	0	(491)	0	0	0
<b>Cash flow from financing</b>	<b>(4,905)</b>	<b>(10,352)</b>	<b>(11,612)</b>	<b>(11,297)</b>	<b>(12,274)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>364</b>	<b>(1,431)</b>	<b>(1,195)</b>	<b>7,455</b>	<b>3,081</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,272</b>	<b>879</b>	<b>(212)</b>	<b>7,243</b>	<b>10,324</b>

### Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	9.8	9.6	10.4	11.7	13.3
Adjusted EPS	10.3	9.6	10.4	11.7	13.3
Dividend per share	5.5	5.2	5.5	5.2	6.0
Book value per share	47.5	53.3	58.2	64.4	71.6

### Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	10.5	9.9	9.2	8.3	7.5
EV/EBITDA	50.6	52.7	47.5	41.8	36.4
Adjusted P/E	62.4	66.8	61.9	55.2	48.5
P/BV	13.5	12.1	11.1	10.0	9.0

### DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	76.6	76.9	78.1	77.8	77.7
Interest burden (PBT/EBIT)	113.5	119.8	117.9	116.4	115.2
EBIT margin (EBIT/Revenue)	18.4	16.1	16.1	16.6	17.2
Asset turnover (Rev./Avg TA)	88.6	84.4	82.0	84.4	86.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.5	1.4	1.4
Adjusted ROAE	22.6	19.1	18.7	19.0	19.5

### Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
<b>YoY growth (%)</b>					
Revenue	13.9	5.9	7.6	11.0	11.0
EBITDA	12.5	(4.0)	10.9	13.6	14.9
Adjusted EPS	2.7	(2.1)	7.9	12.1	13.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	20.7	18.8	19.4	19.8	20.5
EBIT margin	18.4	16.1	16.1	16.6	17.2
Adjusted profit margin	16.8	14.8	14.9	15.0	15.4
Adjusted ROAE	22.6	19.1	18.7	19.0	19.5
ROCE	17.2	17.9	13.6	14.2	15.0
<b>Working capital days (days)</b>					
Receivables	20	24	26	25	25
Inventory	118	115	112	107	107
Payables	127	122	130	128	124
<b>Ratios (x)</b>					
Gross asset turnover	0.8	0.7	0.7	0.7	0.7
Current ratio	1.3	1.2	1.4	1.6	1.7
Net interest coverage ratio	51.8	23.7	16.1	17.5	24.9
Adjusted debt/equity	10.3	10.6	11.2	9.6	7.6

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

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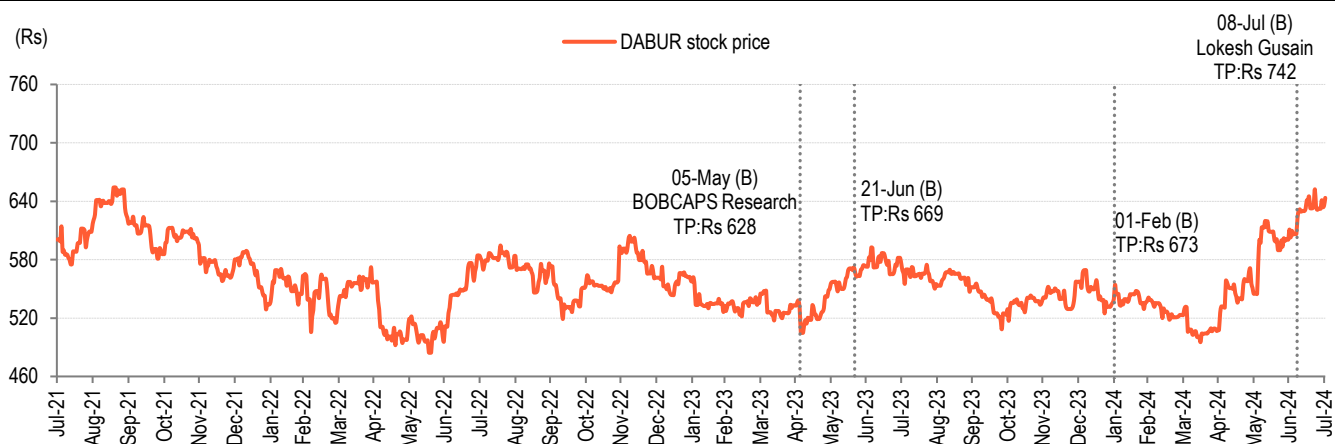
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**Note:** Recommendation structure changed with effect from 21 June 2021

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### 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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