

BUY
 TP: Rs 697 | ▲ 28%

DABUR INDIA

Consumer Staples

31 October 2024

Macro and weather tailwinds vs carbonated soft drinks

- Sales were in line with consensus and our estimates. EBITDA was 4% below consensus and 1% above our estimates
- Beverages were the main driver of destocking. Value-conscious consumer is preferring CSDs. We expect sales trends to remain soft
- DABUR has favourable macro tailwinds from rural while La Nina will likely drive the high-margin, winter-skewed healthcare portfolio. **BUY**

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EBITDA miss: DABUR reported a 16% decline in underlying EBITDA with sales down 5% as margins contracted 240bps to 18.2%. Destocking impacted leverage as gross margin expanded 100bps YoY. Sales were in line with consensus and our estimates. EBITDA was 4% below consensus and 1% above our estimates.

Destocking and demand outlook: DABUR clarified destocking to be one-off and normalised business starting Oct’24. In terms of demand trends, rural grew 130bps ahead of urban in 2Q. The company expects urban to recover from the Dec’24 quarter with easier year ago comps. Rural demand drivers are favourable with rise in kharif acreage and increase in Rabi minimum support prices (MSPs).

Issue in beverages: Share shift is happening from non-carbonated soft drinks-non-alcoholic beverages to CSD – juices are the most impacted due to their high price differential. In its value / Real juice offering, DABUR is undertaking changes in packaging (PETs) and adding additional price points. We think consumer preference for value is clear for the time as DABUR’s premium portfolio / Real Active 100% is still doing well despite a higher price differential with CSDs. We expect DABUR will continue to struggle with its value juice offering in beverages.

Earnings outlook: Across FY25-FY27, we reduce our sales forecasts to factor in the weakness in the Beverages segment. Our gross margins are lower for FY25 to factor in lower-than-expected performance in 2Q along with some margin pressure to manage weakness in beverages. The negative operating leverage from weaker sales in beverages is driving our lower EBITDA margin forecasts.

Our view: With a struggling beverages business, DABUR is reliant on macro and weather tailwinds to deliver low double-digit sales growth. We expect La Nina to be favourable for DABUR’s high margin healthcare portfolio, including Chyawanprash, which has remained soft over the past two years. Meanwhile, 50% rural sales exposure helps active participation in rural recovery. We value DABUR at 52x 12M to Sep’26 EPS using P/E relative to the NIFTY 50 index. We reduce TP to Rs 697 from Rs 762 due to earnings downgrades partly offset by higher NIFTY multiples.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	DABUR IN/Rs 547
Market cap	US\$ 11.5bn
Free float	33%
3M ADV	US\$ 20.7mn
52wk high/low	Rs 672/Rs 489
Promoter/FPI/DII	66%/17%/17%

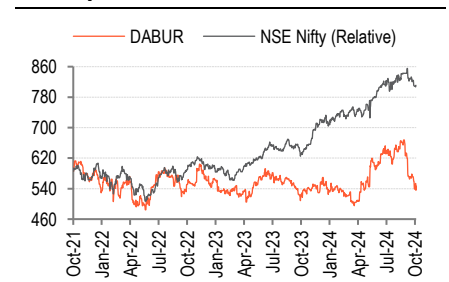
Source: NSE | Price as of 30 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	124,040	131,218	146,669
EBITDA (Rs mn)	24,002	24,814	29,194
Adj. net profit (Rs mn)	18,427	18,736	22,213
Adj. EPS (Rs)	10.4	10.6	12.5
Consensus EPS (Rs)	10.4	11.6	13.3
Adj. ROAE (%)	18.7	17.3	18.7
Adj. P/E (x)	52.6	51.7	43.6
EV/EBITDA (x)	40.4	39.0	33.2
Adj. EPS growth (%)	7.9	1.7	18.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



2QFY25 result review

Fig 1 – DABUR 2QFY25 result summary

(Rs mn)	Q2FY24	Q2FY25	YoY (%)	Reported vs (%)	
				BoBCap	Cons
Sales	32,038	30,286	(5)	0	0
EBITDA	6,609	5,526	(16)	1	(4)
EBITDA margin	20.6	18.2	(238bps)	24bps	(62bps)

Source: Company, Bloomberg, BOBCAPS Research

Earnings revisions

Across FY25-FY27, we reduce our sales forecasts to factor in the weakness in the Beverages segment. Price points in carbonated soft drinks (CSD) remain low vs DABUR's juice portfolio. Share shift is happening from non-CSD-non-alcoholic beverages to CSD – juices are the most impacted due to their high price differential. DABUR is executing changes in packaging (PETs) and adding additional price points. We think consumer preference for value may sustain with DABUR continuing to struggle with its value juice offering. Premium / Real Active 100% continues to perform well. Our gross margins are lower for FY25 to factor in lower-than-expected performance in 2Q along with some margin pressure to manage weakness in beverages. The negative operating leverage from weaker sales in beverages is adversely impacting operating cost in our EBITDA margin forecasts.

Fig 2 – DABUR earnings revisions

(Rs mn)	Actual FY24P	New			Old			Change (%)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Sales	124,040	131,218	146,669	159,580	137,654	152,833	167,032	(5)	(4)	(4)
Gross Margins (%)	48.0	48.9	49.9	50.1	49.2	49.9	50.1	(34bps)	(1bps)	(1bps)
EBITDA	24,002	24,814	29,194	31,821	27,263	31,321	33,987	(9)	(7)	(6)
EBITDA Margin (%)	19.4	18.9	19.9	19.9	19.8	20.5	20.3	(89bps)	(59bps)	(41bps)
Adj PAT	18,427	18,736	22,213	24,313	20,648	23,529	25,658	(9)	(6)	(5)
Adj. EPS	10.40	10.57	12.54	13.72	11.65	13.28	14.48	(9)	(6)	(5)

Source: Company, Bloomberg, BOBCAPS Research

Valuation

We value DABUR at 52x 12M to Sep'26 EPS using P/E relative to the NIFTY 50 index. We reduce TP to Rs 697 from Rs 762 due to earnings downgrades partly offset by higher NIFTY multiples.

Risks

- Increase in competitive intensity in beverages
- Warmer-than-expected winter season adversely impacting healthcare portfolio performance
- Delay in rural recovery

- Slowdown in urban consumption
- Rise in raw material costs
- Currency devaluation in key markets
- Increased competition in the 'natural' category in HPC

Conference call highlights

Sales

- DABUR expects to grow 2H sales at a mid to high single digit growth run rate. This is subject to cooler winters and "normal" performance in FMCG.
- The 2Q inventory correction was a one-off exercise and was mainly driven by weakness in the beverages business. As beverages sales weakened, the remainder of the portfolio was hard-sold which led to a pile up in inventory.
- Distributors are now carrying around 21 days of inventory, down from 30 days previously. Dec'24-end target is to get the inventory days down to 19 by aligning shipments with consumer offtake in both Quick Commerce and General Trade.
- Modern Trade and e-Commerce / Q-Commerce account for 24% of the domestic business.
- The company is directly supplying to Quick Commerce. This channel is highly efficient with dark stores keeping an inventory of three to four days.

Costs

- Copra inflation is well managed as DABUR followed MRCO on price increases.
- Despite promotions, and lower price points, juice margins are being managed with premiumisation.
- Margins in quick commerce are higher vs e-Commerce and General Trade.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	115,299	124,040	131,218	146,669	159,580
EBITDA	21,641	24,002	24,814	29,194	31,821
Depreciation	3,110	3,992	4,432	4,990	4,990
EBIT	18,532	20,010	20,381	24,205	26,832
Net interest inc./(exp.)	782	1,242	1,748	1,057	997
Other inc./(exp.)	4,454	4,824	5,384	5,411	5,438
Exceptional items	0	0	0	0	0
EBT	22,203	23,593	24,017	28,559	31,273
Income taxes	357	5,474	5,562	6,617	7,245
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(58)	(314)	(282)	(296)	(311)
Reported net profit	17,072	18,427	18,736	22,213	24,313
Adjustments	0	0	0	0	0
Adjusted net profit	17,072	18,427	18,736	22,213	24,313

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	21,866	24,217	23,884	26,186	28,347
Other current liabilities	667	1,124	1,189	1,328	1,445
Provisions	2,784	3,182	3,222	3,307	3,378
Debt funds	7,002	6,221	6,289	5,660	5,095
Other liabilities	3,758	4,272	4,519	5,052	5,496
Equity capital	1,772	1,772	1,772	1,772	1,772
Reserves & surplus	92,643	101,259	111,283	123,230	136,317
Shareholders' fund	94,414	103,031	113,055	125,002	138,089
Total liab. and equities	136,544	151,227	160,640	174,387	189,137
Cash and cash eq.	3,259	6,664	13,540	15,913	20,193
Accounts receivables	8,488	8,987	9,347	10,448	11,367
Inventories	20,242	19,470	20,577	22,560	24,422
Other current assets	3,136	5,010	5,300	5,923	6,445
Investments	62,574	69,254	70,466	76,800	82,094
Net fixed assets	22,376	25,609	25,071	26,242	28,007
CWIP	1,751	2,322	2,322	2,322	2,322
Intangible assets	8,887	8,035	8,035	8,035	8,035
Deferred tax assets, net	21	63	67	75	81
Other assets	5,427	5,532	5,591	5,719	5,826
Total assets	136,544	151,226	160,609	174,357	189,134

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	14,787	20,135	27,165	26,550	28,780
Capital expenditures	(5,091)	(5,639)	(5,511)	(6,160)	(6,702)
Change in investments	(137)	(7,978)	(1,212)	(6,335)	(5,293)
Other investing cash flows	3,942	3,870	0	0	0
Cash flow from investing	(5,865)	(9,717)	(6,723)	(12,495)	(11,996)
Equities issued/Others	4	0	0	0	0
Debt raised/repaid	488	(472)	(699)	(629)	(566)
Interest expenses	(779)	(1,067)	(1,748)	(1,057)	(997)
Dividends paid	(9,213)	(9,658)	(8,431)	(9,996)	(10,941)
Other financing cash flows	(491)	0	0	0	0
Cash flow from financing	(10,352)	(11,612)	(10,878)	(11,681)	(12,504)
Chg in cash & cash eq.	(1,431)	(1,195)	9,564	2,373	4,280
Closing cash & cash eq.	879	(212)	9,352	11,725	16,006

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	9.6	10.4	10.6	12.5	13.7
Adjusted EPS	9.6	10.4	10.6	12.5	13.7
Dividend per share	5.2	5.5	4.8	5.6	6.2
Book value per share	53.3	58.2	63.8	70.6	77.9

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	8.4	7.8	7.4	6.6	6.1
EV/EBITDA	44.8	40.4	39.0	33.2	30.4
Adjusted P/E	56.7	52.6	51.7	43.6	39.8
P/BV	10.3	9.4	8.6	7.7	7.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	76.9	78.1	78.0	77.8	77.7
Interest burden (PBT/EBIT)	119.8	117.9	117.8	118.0	116.6
EBIT margin (EBIT/Revenue)	16.1	16.1	15.5	16.5	16.8
Asset turnover (Rev./Avg TA)	84.4	82.0	81.7	84.1	84.4
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	19.1	18.7	17.3	18.7	18.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	5.9	7.6	5.8	11.8	8.8
EBITDA	(4.0)	10.9	3.4	17.7	9.0
Adjusted EPS	(2.1)	7.9	1.7	18.6	9.5
Profitability & Return ratios (%)					
EBITDA margin	18.8	19.4	18.9	19.9	19.9
EBIT margin	16.1	16.1	15.5	16.5	16.8
Adjusted profit margin	14.8	14.9	14.3	15.1	15.2
Adjusted ROAE	19.1	18.7	17.3	18.7	18.5
ROCE	17.9	13.6	12.7	14.0	14.3
Working capital days (days)					
Receivables	24	26	25	25	25
Inventory	115	112	109	107	108
Payables	122	130	131	124	125
Ratios (x)					
Gross asset turnover	0.7	0.7	0.7	0.7	0.7
Current ratio	1.2	1.4	1.7	1.7	1.8
Net interest coverage ratio	23.7	16.1	11.7	22.9	26.9
Adjusted debt/equity	10.6	11.2	9.7	7.8	6.2

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

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BUY – Expected return >+15%

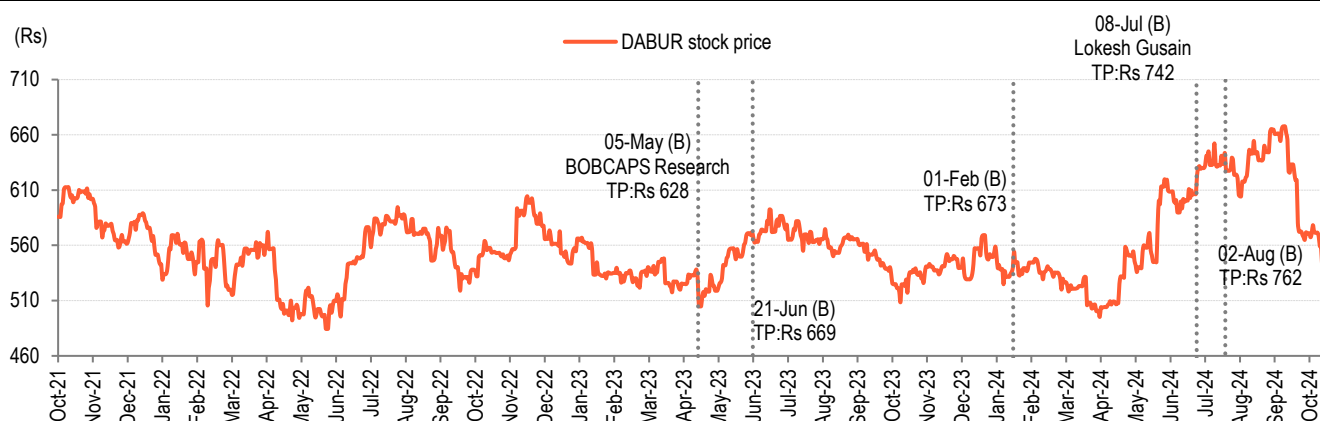
HOLD – Expected return from -6% to +15%

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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