FIRST LIGHT

04 October 2024

RESEARCH

DABUR INDIA | TARGET: Rs 762 | +23% | BUY

2QFY25 sales, EBITDA miss: Est sales rural +2%, urban -16%

AUTOMOBILES

Double-digit volume gains MoM points towards healthy recovery

BUILDING MATERIALS

Bathware channel check: Demand remains soft in Q2FY25

SUMMARY

DABUR INDIA

- Sales and EBITDA miss on 2QFY25. Estimated sales miss of 11% and EBITDA miss of 25%
- Sales declined due to (1) channel inventory adjustment, (2) adverse impact from excess rains that impacted weather and out of home
- Drivers of the sales decline are one-off. Fundamentals intact but clarity needed on the pace of rural recovery. BUY (rural + elastic exposure)

Click here **for the full report.**

AUTOMOBILES

- Passenger vehicle volumes grew in higher single digit (8%) YoY with share of SUV segment continuing to stay higher
- 2-wheeler segment shows healthy signs of (volume) growth, MoM growth of 22% indicates the segment is in a strong recovery mode
- Commercial vehicle segment grew MoM (~15%) after flat growth in Aug'24, pointing to encouraging signals in the near future

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BUILDING MATERIALS

- Bathware demand environment remains soft in Q2FY25 on heavy monsoon and slowdown in IHB construction activity
- Pricing environment for sanitaryware remains stable in Q2FY25; faucetware prices to rise 4-8% in Sep-Oct'24
- Jaquar performed the best in the industry, followed by Cera. New players not a major threat to established brands

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BUY
TP: Rs 762 | ⮝ 23%

DABUR INDIA | Consumer Staples | 03 October 2024

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2QFY25 business update implies miss on sales and EBITDA: Consolidated sales down in mid-single digits; driven by double-digit constant FX growth in international and a decline in domestic. EBITDA margin is expected to contract to mid- to high-teens vs 20.6% in the year ago quarter due to negative operating leverage. Compared to Bloomberg consensus, assuming a 5% sales decline and 17.5% EBITDA margin, it implies an 11% miss on sales and 25% miss on EBITDA.

Breaking down sales performance by subsegments: Assuming a -5% decline in consolidated sales with International +13%, the implied Domestic run rate is an 8% decline in sales. Assuming the bulk of destocking in urban markets, along with modest rural sales growth of +2%, we estimate urban to be down 16%.

Drags and drivers in Domestic: Excess rains impacted out of home and consumer offtake in beverages. The destocking was due to inventory adjustment done to reflect higher growth in Online/Qcomm vs General Trade. In terms of drivers, Badshah grew in double digits.

Questions to focus on

- **Is destocking being done in phases?** MRCO undertook destocking in the Jun quarter result. Our understanding is that it was driven by weaker sales in hair oil, but also partly due to the channel shift from General Trade to Quick Commerce. The volume impact was small at 2% and is spread out instead of one quarter. In contrast, DABUR's decline in sales group and urban appears to be much larger. Despite being a one-off, it would be comforting to understand the precise impact of destocking and whether it is complete.

- **What about trends in rural?** There is no commentary on the pace of rural recovery and whether it accelerated in the Sep quarter. Our understanding from the rural indicators is that rural is doing okay. Rural CPI for Jul+Aug has moderated to 4.1% vs the Jun quarter average of 5.5%. Crop sowings have exceeded last year and remain above normal. This implies stable to strong labour demand and positive sentiment among farmers regarding agri prospects.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	DABUR IN/Rs 619
Market cap	US$ 13.1bn
Free float	33%
3M ADV	US$ 20.4mn
52wk high/low	Rs 672/Rs 489
Promoter/FPI/DII	66%/17%/17%

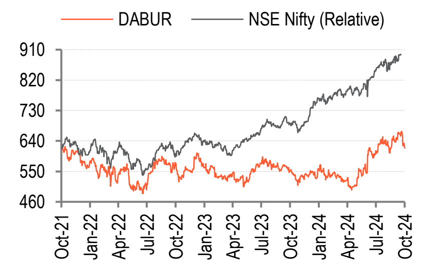
Source: NSE | Price as of 1 Oct 2024

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)	59.5	53.1	46.6
EV/EBITDA (x)	45.7	40.2	35.0
Adj. EPS growth (%)	7.9	12.1	13.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

AUTOMOBILES

03 October 2024

Double-digit volume gains MoM points towards healthy recovery

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Passenger vehicle segment: Domestic passenger vehicle (PV) industry volumes grew 8.1%/3.4% YoY/MoM driven by anticipated pre-festive demand, higher network penetration in Tier II/III cities and discount offers. Maruti Suzuki (MSIL) volumes were flat YoY/MoM (-1%/1%), exports volume grew ~23%/7% YoY/MoM and helped mitigate the slower domestic demand. SUV major Mahindra & Mahindra (MM) replaced Tata Motors (TTMT) for the third slot in the PV segment driven by price rationalisation and discount offers and the new 3XO launch.

Two-wheeler segment: 2W segment volume grew double-digits at ~18%, equally supported by domestic and export markets. The key highlight was strong MoM growth of ~22% in September entirely driven by domestic growth (~25%). Bajaj Auto (BJAUT) posted the strongest ~28% YoY gain and TVS Motors delivered strong MoM growth driven by healthy exports. Hero Motors (HMCL) grew ~19%/24% YoY/MoM indicating strong signs of revival in the entry level segment.

Three-Wheeler segment: The 3W segment growth was flat YoY/MoM as healthy domestic demand (21%) was offset by weak exports volume (down 12%). BJAUT's domestic volume grew 7%/10% YoY/MoM and TVSL's overall volume rose by a strong 33% YoY but fell by 7% MoM as exports stayed weak (down 40%/18% YoY/QoQ).

Tractors segment: Overall sales stayed flat YoY (~+2%) but rose sharply MoM by nearly double volume due to the festive demand and healthy well spread monsoon. Escorts (ESC) and MM collectively delivered 8% YoY gain with the doubling of sales MoM. Exports disappointed, with MM/ESC volumes falling 10%/47% YoY.

Commercial vehicles: CV segment volume fell by ~9% YoY but shot up by 15% MoM driven by strong exports and MHCV segment revival. Domestic volumes for TTMT fell 23%/60% YoY/MoM, Ashok Leyland (AL) fell 12% YoY but rose by a strong 20% MoM backed by healthy freight operator enquiries. TTMT's exports fell 30%/2% YoY/MoM, but AL's exports increased by 18%/7% YoY/MoM.

Key ratings: Retain BUY rating on MM and AL and SELL on ESCORTS and VSTT.

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- **Pricing environment for sanitaryware remains stable in Q2FY25; faucetware prices to rise 4-8% in Sep-Oct'24**
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We recently interacted with 25 bathware dealers pan-India (South: 7; East/Central: 5 each; North: 4; West: 4) to gauge the demand and pricing scenario in the bathware sector in Q2FY25 and its near-term outlook.

Demand conditions: According to our channel checks, bathware demand was weak in Q2FY25 on a YoY basis due to the impact of heavy monsoons, and slowdown in construction activity in the individual home building (IHB) segment. Most dealers expect bathware demand to recover from Oct'24 due to the end of the monsoon season. However, a few dealers believe that bathware demand may remain weak in the near future due to the slowdown in construction in IHB segment.

Pricing scenario: Despite weak demand environment, pricing environment for sanitaryware remained relatively stable on a QoQ basis in Q2FY25. For faucetware, Cera hiked prices by 5-7% in Sep'24 and Hindware announced its plan to raise prices by 4-8% from Oct'24.

Competitive landscape: Our bathware universe revenue grew at 11.8% CAGR over the last five years (FY19-FY24). Among major brands, Jaquar's revenue grew at the fastest pace (+14.6% CAGR), followed by Cera (+9.4%) and Hindware (+6.7%). Among the challenger brands, Kajaria's revenue grew the fastest (+14.5% CAGR), followed by Johnson (+11.3%), Asian Paints (+11.0%), Somany (+7.2%).

Established brands: Jaquar is selling its products at a premium whereas the price of other established brands is almost similar. Product differentiation is not much as each top brand is selling almost similar SKUs across different segments (luxury, mass premium, economy).

Established vs challenger: Most dealers pointed out that established players in the bathware space are not facing intense competition from new entrants due to (a) strong brand recall of established brands and strong distribution network, and (b) weak distribution network, limited SKUs, and poor sales service of new entrants.

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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

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