

## Reduce

### Healthcare continues to post strong growth

- Dabur's Q2FY21 results exceed our estimate. Domestic FMCG volumes increased by 16.8% YoY.
- Growth in the domestic market was driven by health care (+49.3%) and HPC (9.1%) business.
- Healthcare contribution grew from 32% in Q2FY20 to 40% in Q2FY21 led by 2x growth in Chyawanprash and double digit growth in Honey- indicates change in consumer preferences. We believe that the healthcare category would continue to grow faster post Covid with new launches.
- We have upward revised our FY21E and FY23E EPS estimates at Rs 9.5 (+13%) and Rs 9.8 (+0.8%) and introduced FY23E EPS estimates at Rs10.8. We value the stock at 48x FY23E EPS to arrive at a TP of Rs 520. Considering rich valuations, we **maintain Reduce**; buy on dips.

### Robust operational performance

Revenues jumped 13.7% YoY to Rs 25.2bn - came ahead of our estimates. Domestic business reported 19.8% net sales increase with volume growth of 16.8%. GM remained flat during the quarter. EBITDA margins expanded by 50bps to 22.6% as 150bps increase in A&P spends was completely offset by 30/160bps decrease in employee cost/other expenses. RPAT increased 19.5% YoY to Rs 4.8bn. Excluding extraordinary loss of Rs 400mn in the base quarter, the APAT increased 8.7% - came ahead of our estimate of Rs 4.2bn.

### Satisfactory segmental performance

During the quarter – (1) Consumer Care business grew 17.6% YoY to Rs 22.2bn and EBIT increased 17.6% to Rs 5.9bn; EBIT margin remained flat at 26.6% (2) Foods business reported 3.8% YoY revenue decline to Rs 2.6bn; EBIT decreased 2.3% to Rs 357mn; EBIT margin in the business expanded by 20bps to 13.9%. At the category level Dabur reported mix performance - Health Supplements (+70.8%), OTC (+56.1%), Oral care (+26.4%) and Ethicals (+10.7%) reported strong performance while Hair oils (-6.3%) and Home care (-10.2%) witnessed weak performance during the quarter. Skin business reported strong turnaround with 38.1% growth

### Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	25,160	22,120	13.7	19,800	27.1
Total Expense	19,466	17,224	13.0	15,634	24.5
EBITDA	5,694	4,895	16.3	4,166	36.7
Depreciation	596	545	9.5	567	5.1
EBIT	5,098	4,351	17.2	3,599	41.7
Other Income	876	818	7.1	718	22.0
Interest	75	152	(50.9)	78	(4.3)
EBT	5,899	4,616	27.8	4,238	39.2
Tax	1,067	582	83.4	825	29.3
RPAT	4,817	4,030	19.5	3,418	40.9
APAT	4,817	4,430	8.7	3,418	40.9
			(bps)		(bps)
Gross Margin (%)	50.9	50.8	9	49.4	147
EBITDA Margin (%)	22.6	22.1	50	21.0	159
NPM (%)	19.1	18.2	93	17.3	188
Tax Rate (%)	18.1	12.6	549	19.5	(138)
EBIT Margin (%)	20.3	19.7	59	18.2	209

CMP	Rs 515
Target / Upside	Rs 520 / 1%
NIFTY	11,814

### Scrip Details

Equity / FV	Rs 1,766mn / Rs 1
Market Cap	Rs 910bn
	USD 12bn
52-week High/Low	Rs 535/ 386
Avg. Volume (no)	32,27,420
Bloom Code	DABUR IN
<b>Price Performance</b>	<b>1M</b> <b>3M</b> <b>12M</b>
Absolute (%)	0 1 11
Rel to NIFTY (%)	(4) (8) 11

### Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	66.9	67.9	67.9
MF/Banks/FIs	9.3	9.0	7.7
FIs	17.4	17.6	18.0
Public / Others	6.4	5.5	6.4

### Valuation (x)

	FY21E	FY22E	FY23E
P/E	54.1	52.4	47.7
EV/EBITDA	44.5	42.4	37.9
ROE (%)	23.6	21.3	20.6
RoACE (%)	22.2	19.7	19.3

### Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	94,830	1,00,327	1,10,190
EBITDA	19,891	20,692	22,882
PAT	16,815	17,364	19,081
EPS (Rs.)	9.5	9.8	10.8

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### International business performance was a mixed bag

IB reported 3.5% growth (in CC) during the quarter. Hobi (+31.3%), Namaste (+14.6%), Nepal (+29.3%) and Bangladesh (+31.8%) businesses posted strong growths during the quarter. However, MENA (-15.0%) and Egypt (-3.3%) reported decline due to Covid led lockdowns and macroeconomic headwinds.

### Market share gain continues

During Q2, Dabur gained 190bps market share in Chyawanprash category. This signifies strong distribution and brand strength of Dabur in the health category. In addition, Dabur gained (1) 90bps MS in oral care (2) 60/80bps MS in Odonil/Odomos and (3) 80bps MS in shampoo category. We believe that as Dabur is gaining market share, with opening up of markets the company would continue to outpace peers in respective categories.

#### Exhibit 1: Actual V/s DART estimates

(Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	25,160	22,206	13.3	Growth in Health supplements was higher than expected
EBITDA	5,694	4,960	14.8	
EBITDA margin %	22.6	22.3	30 bps	Lower than expected operating expenses
APAT	4,817	4,208	14.5	Cascading effect of high EBITDA

Source: Company, DART

#### Exhibit 2: Change in estimates

(Rs mn)	FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)
Net Revenue	94,830	84,245	12.6	100,327	95,599	4.9
EBITDA	19,891	17,502	13.7	20,692	20,518	0.8
EBITDA Margin (%)	21.0	20.8	20 bps	20.6	21.5	(80) bps
APAT	16,815	14,885	13.0	17,364	17,227	0.8
EPS	9.5	8.4	13.0	9.8	9.8	0.8

Source: Company, DART

We have upward revised our revenue estimates for FY21E and FY22E to factor in Q2 performance. Further, we have upward revised our FY21E EBITDA margin estimate as Q2 margins were ahead of our estimate. However, we have reduced our FY22E margins estimates as the company is likely to increase investment in A&P which would pressurize margins. In line with revision in EBITDA, we have revised APAT estimates.

**Exhibit 3: Segmental performance (Rs mn)**

Segmental Performance	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
<b>Consumer Care</b>					
Revenue	22,172	18,847	17.6	17,340	27.9
EBIT	5,888	5,008	17.6	4,327	36.1
EBIT Margin %	26.6	26.6	0bps	25.0	160bps
<b>Foods</b>					
Revenue	2,569	2,671	(3.8)	2,173	18.2
EBIT	357	366	(2.3)	298	19.8
EBIT Margin %	13.9	13.7	20bps	13.7	20bps
<b>Retail</b>					
Revenue	109	292	(62.6)	20	437.4
EBIT	(30.6)	(1.6)	1,812.5	(58.7)	(47.9)
EBIT Margin %	(28.0)	(0.5)	(2750)bps	(289.2)	26110bps
<b>Others</b>					
Revenue	248	246	0.9	221	12.0
EBIT	20.9	16.8	24.4	20.8	0.5
EBIT Margin %	8.4	6.8	160bps	9.4	(100)bps
<b>TOTAL</b>					
Revenue	<b>25,097</b>	<b>22,056</b>	<b>13.8</b>	<b>19,754</b>	<b>27.0</b>
EBIT	<b>6,236</b>	<b>5,389</b>	<b>15.7</b>	<b>4,588</b>	<b>35.9</b>
EBIT Margin %	<b>24.8</b>	<b>24.4</b>	<b>40bps</b>	<b>23.2</b>	<b>160bps</b>

Source: DART, Company

**Exhibit 4: Half year performance**

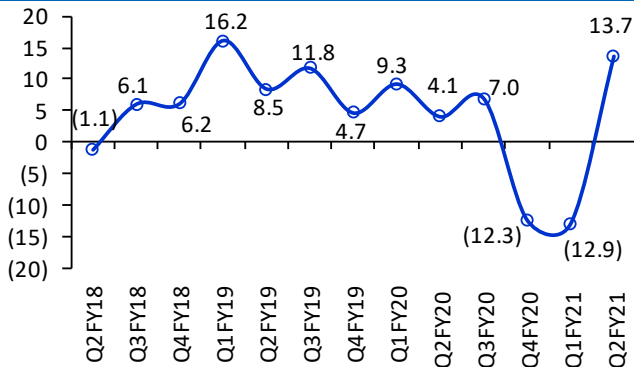
Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
<b>Total Revenue</b>	<b>25,160</b>	<b>22,120</b>	<b>13.7</b>	<b>19,800</b>	<b>27.1</b>	<b>44,960</b>	<b>44,853</b>	<b>0.2</b>
<b>Total Expenditure</b>	<b>19,466</b>	<b>17,224</b>	<b>13.0</b>	<b>15,634</b>	<b>24.5</b>	<b>35,100</b>	<b>35,381</b>	<b>(0.8)</b>
RM Cost	12,359	10,885	13.5	10,016	23.4	22,374	22,362	0.1
Employee Exp	2,673	2,415	10.7	2,238	19.4	4,911	4,729	3.8
Ad spends	2,022	1,442	40.2	1,456	38.8	3,478	3,463	0.4
Other Exp	2,413	2,482	(2.8)	1,924	25.4	4,337	4,827	(10.1)
<b>PBIDT (Excl OI)</b>	<b>5,694</b>	<b>4,895</b>	<b>16.3</b>	<b>4,166</b>	<b>36.7</b>	<b>9,860</b>	<b>9,472</b>	<b>4.1</b>
Other Income	876	818	7.1	718	22.0	1,594	1,551	2.8
Depreciation	596	545	9.5	567	5.1	1,164	1,072	8.5
EBIT	5,974	5,168	15.6	4,316	38.4	10,290	9,950	3.4
Interest	75	152	(50.9)	78	(4.3)	153	305	(49.8)
PBT	5,899	5,016	17.6	4,238	39.2	10,137	9,645	5.1
Tax	1,067	582	83.4	825	29.3	1,892	1,376	37.5
Profit After Tax	4,832	4,434	9.0	3,413	41.6	8,245	8,269	(0.3)
Minority Interest	15	5	228.3	(5)	(408.2)	(10)	(8)	22.9
<b>APAT (After MI)</b>	<b>4,817</b>	<b>4,430</b>	<b>8.7</b>	<b>3,418</b>	<b>40.9</b>	<b>8,255</b>	<b>8,278</b>	<b>(0.3)</b>
EOI	-	(400)	(100.0)	-	NA	-	(600)	(100.0)
<b>RPAT (After OCI)</b>	<b>4,817</b>	<b>4,030</b>	<b>19.5</b>	<b>3,418</b>	<b>40.9</b>	<b>8,255</b>	<b>7,678</b>	<b>7.5</b>
<b>EPS (Adj)</b>	<b>2.7</b>	<b>2.5</b>	<b>8.7</b>	<b>1.9</b>	<b>40.9</b>	<b>4.7</b>	<b>4.7</b>	<b>(0.3)</b>
			<b>bps</b>		<b>bps</b>			<b>bps</b>
Gross Profit (%)	50.9	50.8	10	49.4	150	50.2	50.1	9
Employee Exp (%)	10.6	10.9	(30)	11.3	(70)	10.9	10.5	38
Ad spends (%)	8.0	6.5	150	7.4	70	7.7	7.7	1
Other Exp (%)	9.6	11.2	(160)	9.7	(10)	9.6	10.8	-111
EBITDA (%)	22.6	22.1	50	21.0	160	21.9	21.1	81
PAT (%) Adj	19.1	20.0	(90)	17.3	190	18.4	18.5	-9

Source: DART, Company

## Key concall takeaways

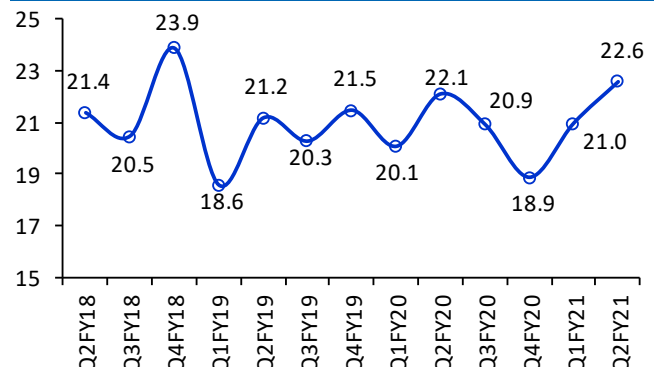
- While ATL (Above the line) spends was 8%, BTL was 8-10% in Q2. In the next 2-3 years, company expects acceleration in A&SP spends from ~8% currently to double digits. Dabur will rationalize other expenses and take judicious price increases to maintain EBITDA margins. Company expects improvement in FY21E EBITDA margins compared to FY20. EBITDA margin in H1FY21 expanded 80bps.
- E-com business for Dabur grew by +200% in Q2FY21 and contributes 6% as compared to 2.1% a year earlier.
- Toothpaste market share improved by 90bps vs last year. Lal Dant Manjan witnessed a strong growth of 30%. Red toothpaste continued its growth momentum. Recently launched Dant Rakshak (launched in North) and Dabur Clove toothpaste generated ~Rs 70mn and ~Rs 20mn sales in two months.
- As per Nielsen, Overall, oral care market grew by 5%, Natural base toothpaste category (27-30% of market) is trending at around 8%. Dabur's oral care grew 10% (secondary sales), as per Nielsen.
- Company has introduced some exclusive products like Baby care, mustard oil and apple cider vinegar in E-com which will be rolled out in GT business after it scales up. Apple cider vinegar is showing encouraging response.
- Sanitizer sales have declined due to multiple players in the market. In Q1FY21, sanitizer sales were Rs 800mn which decreased to Rs 120mn in Q2FY21.
- Urban and rural is growing at 18% and 25% respectively. HORECA business is down 25-30%. CSD and HORECA which contribute 3% of total sales, but very significant to Foods business. Modern trade grew by just 1.7% due to Future Group issues.
- Beverage business declined 4.8%. Excluding Enterprise (HORECA, CSD), it grew 6%. In beverage business, out-of-home which contributes around 35-40% of the total business is growing at 3.5%, whereas the category is declining by ~34%.
- NPD contributions were 5-6% in the beverage business. New products -Real Mango Drink, Real Milkshakes are witnessing encouraging response from the market.
- No pipeline loading during Q2. Channel inventory has corrected by 9 days from 24 days last year to 15 days now, majority corrected in Q1 itself.
- Gross margins in domestic business increased 100bps because of favourable brand mix and deflationary crude oil scenario. International business gross margin suffered majorly because of headwinds in MENA. Dabur is witnessing inflation in agri related RM going ahead and is contemplating judicious price increases in selective sub-segments.
- Total penetration levels of Chyawanprash is at 3.5-4%. Health supplements and nutraceuticals penetration in developed countries like the US is ~80% , compared to 10% in India implying huge headroom for growth.
- Dabur posted 2x sales in Dabur Chyawanprash and robust double-digit growth in Dabur Honey. The company is augmenting capacity of Chyawanprash manufacturing.
- There is downtrading in hair oil category. Company has gained market share of 10bps in Coconut oil segment. In perfumed oil, company business was flat (category decline of 1%). Flanker brands , Sarson Amla Hair Oil and Anmol Coconut Oil reported double digit growth.
- Distribution reach increased from 1.2mn last year to 1.3mn currently. Dabur targets to reach 1.4mn outlets in FY22E.

**Exhibit 5: Trend in sales growth (YoY%)**



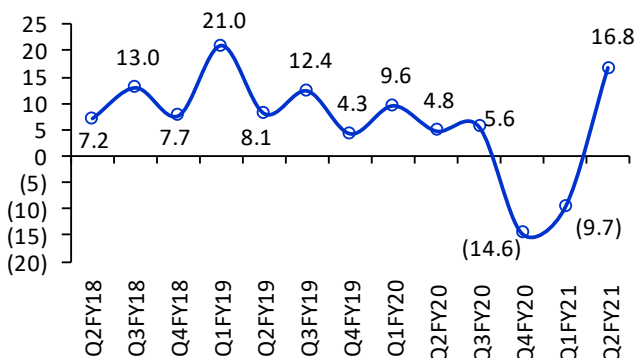
Source: DART, Company

**Exhibit 6: Trend in volume growth (YoY%)**



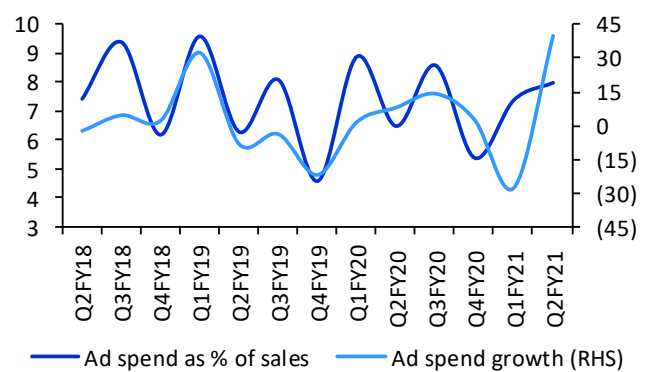
Source: DART, Company

**Exhibit 7: Trend in EBITDA margin (%)**



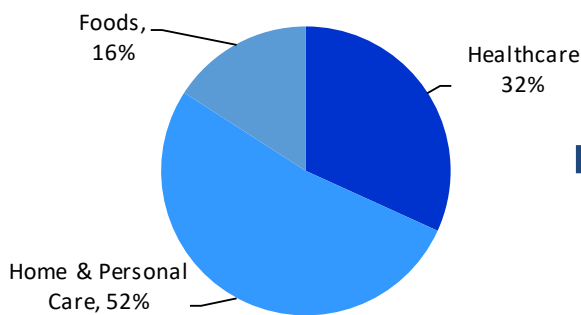
Source: DART, Company

**Exhibit 8: Ad spends trend**



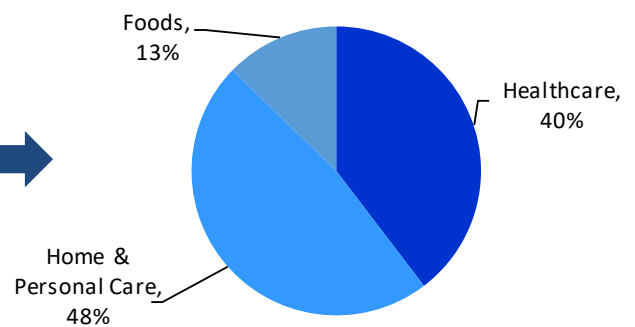
Source: DART, Company

**Exhibit 9: Domestic Revenue contribution in Q2FY20**



Source: DART, Company

**Exhibit 10: Domestic Revenue contribution in Q2FY21**



Source: DART, Company

**Profit and Loss Account**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Revenue</b>	<b>87,036</b>	<b>94,830</b>	<b>1,00,327</b>	<b>1,10,190</b>
<b>Total Expense</b>	<b>69,112</b>	<b>74,939</b>	<b>79,635</b>	<b>87,308</b>
COGS	43,602	46,839	49,616	54,623
Employees Cost	9,477	10,013	10,667	11,725
Other expenses	16,033	18,087	19,352	20,960
<b>EBIDTA</b>	<b>17,924</b>	<b>19,891</b>	<b>20,692</b>	<b>22,882</b>
Depreciation	2,205	2,180	2,343	2,506
<b>EBIT</b>	<b>15,719</b>	<b>17,711</b>	<b>18,349</b>	<b>20,375</b>
Interest	495	559	559	559
Other Income	3,053	2,925	2,913	2,913
Exc. / E.O. items	(1,000)	0	0	0
<b>EBT</b>	<b>17,277</b>	<b>20,077</b>	<b>20,703</b>	<b>22,730</b>
Tax	2,797	3,233	3,310	3,619
RPAT	14,449	16,815	17,364	19,081
Minority Interest	30	30	30	30
<b>Profit/Loss share of associates</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>APAT</b>	<b>15,449</b>	<b>16,815</b>	<b>17,364</b>	<b>19,081</b>

**Balance Sheet**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
<b>Sources of Funds</b>				
Equity Capital	1,766	1,766	1,766	1,766
Minority Interest	365	394	424	453
Reserves & Surplus	64,290	74,740	85,101	96,480
<b>Net Worth</b>	<b>66,056</b>	<b>76,506</b>	<b>86,867</b>	<b>98,246</b>
Total Debt	4,660	8,595	8,595	8,595
Net Deferred Tax Liability	(50)	249	249	249
<b>Total Capital Employed</b>	<b>71,031</b>	<b>85,744</b>	<b>96,135</b>	<b>1,07,544</b>

**Applications of Funds**

Net Block	<b>22,497</b>	<b>20,572</b>	<b>20,729</b>	<b>20,723</b>
CWIP	1,460	1,481	1,481	1,481
Investments	14,090	21,340	21,340	21,340
<b>Current Assets, Loans &amp; Advances</b>	<b>53,074</b>	<b>60,002</b>	<b>71,271</b>	<b>84,273</b>
Inventories	13,790	11,980	12,736	13,997
Receivables	8,130	5,929	6,286	6,906
Cash and Bank Balances	8,100	9,867	9,557	10,572
Loans and Advances	4,670	4,568	4,846	5,188
Other Current Assets	4,474	4,456	5,366	5,387
<b>Less: Current Liabilities &amp; Provisions</b>	<b>20,090</b>	<b>17,650</b>	<b>18,686</b>	<b>20,272</b>
Payables	14,810	12,599	13,382	14,671
Other Current Liabilities	5,280	5,051	5,304	5,601
<i>sub total</i>				
Net Current Assets	32,984	42,351	52,586	64,000
<b>Total Assets</b>	<b>71,031</b>	<b>85,744</b>	<b>96,135</b>	<b>1,07,544</b>

E – Estimates

**Important Ratios**

Particulars	FY20A	FY21E	FY22E	FY23E
<b>(A) Margins (%)</b>				
Gross Profit Margin	49.9	50.6	50.5	50.4
EBIDTA Margin	20.6	21.0	20.6	20.8
EBIT Margin	18.1	18.7	18.3	18.5
Tax rate	16.2	16.1	16.0	15.9
Net Profit Margin	16.6	17.7	17.3	17.3
<b>(B) As Percentage of Net Sales (%)</b>				
COGS	50.1	49.4	49.5	49.6
Employee	10.9	10.6	10.6	10.6
Other	18.4	19.1	19.3	19.0
<b>(C) Measure of Financial Status</b>				
Gross Debt / Equity	0.1	0.1	0.1	0.1
Interest Coverage	31.7	31.7	32.8	36.5
Inventory days	58	46	46	46
Debtors days	34	23	23	23
Average Cost of Debt	8.5	8.4	6.5	6.5
Payable days	62	48	49	49
Working Capital days	138	163	191	212
FA T/O	3.9	4.6	4.8	5.3
<b>(D) Measures of Investment</b>				
AEPS (Rs)	8.7	9.5	9.8	10.8
CEPS (Rs)	10.0	10.8	11.2	12.2
DPS (Rs)	3.3	3.6	4.0	4.4
Dividend Payout (%)	37.5	37.9	40.3	40.4
BVPS (Rs)	37.4	43.3	49.2	55.6
RoANW (%)	23.6	23.6	21.3	20.6
RoACE (%)	23.7	22.2	19.7	19.3
RoAIC (%)	25.5	25.5	22.6	22.2
<b>(E) Valuation Ratios</b>				
CMP (Rs)	515	515	515	515
P/E	58.9	54.1	52.4	47.7
Mcap (Rs Mn)	9,10,330	9,10,330	9,10,330	9,10,330
MCap/ Sales	10.5	9.6	9.1	8.3
EV	8,92,980	8,85,858	8,76,888	8,66,130
EV/Sales	10.3	9.3	8.7	7.9
EV/EBITDA	49.8	44.5	42.4	37.9
P/BV	13.8	11.9	10.5	9.3
Dividend Yield (%)	0.6	0.7	0.8	0.8
<b>(F) Growth Rate (%)</b>				
Revenue	2.0	9.0	5.8	9.8
EBITDA	3.0	11.0	4.0	10.6
EBIT	0.5	12.7	3.6	11.0
PBT	0.2	16.2	3.1	9.8
APAT	1.7	8.8	3.3	9.9
EPS	1.7	8.8	3.3	9.9

**Cash Flow**

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	13,854	21,572	19,031	21,520
CFI	1,410	(16,815)	(11,780)	(12,244)
CFF	(10,446)	(2,989)	(7,561)	(8,261)
FCFF	9,684	21,297	16,531	19,020
Opening Cash	3,282	8,100	9,867	9,557
Closing Cash	8,100	9,867	9,557	10,572

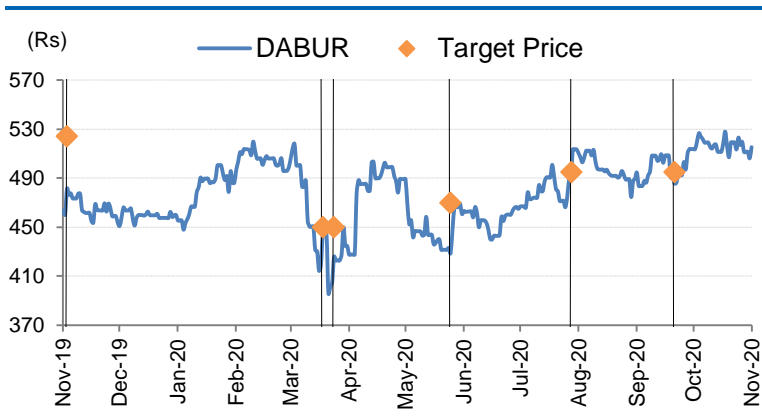
E – Estimates

### DART RATING MATRIX

Total Return Expectation (12 Months)

<b>Buy</b>	<b>&gt; 20%</b>
<b>Accumulate</b>	<b>10 to 20%</b>
<b>Reduce</b>	<b>0 to 10%</b>
<b>Sell</b>	<b>&lt; 0%</b>

### Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Nov-19	Accumulate	524	481
Mar-20	Reduce	450	444
Mar-20	Reduce	450	426
May-20	Buy	470	429
Jul-20	Reduce	495	492
Sep-20	Reduce	495	486

\*Price as on recommendation date

### DART Team

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