

Best placed to ride naturals, herbal consumption trend

Dabur India (DIL) continue to report robust results with 18.1% domestic volume growth led by strong traction in health supplement, oral care, OTC & ethical businesses. The company reported 16% consolidated revenue growth with 19.5% India FMCG growth & 13% international business growth. The higher penetration led growth continued in health supplement and oral care segments with 34.7% & 28% jump in sales, respectively. DIL raised its ad spends (170 bps higher) behind core & power brands, which, in turn, benefited most new launches under core brands. New products (launched in the last three quarters) contributing 4-5% to the sales now. The company maintained its gross margins at 50.4% (31 bps higher) while employee spends sustained at corresponding quarter level. DIL was able to save 113 bps overhead spends by cost rationalisation efforts in a post pandemic period. Operating profit increased 16.5% to ₹ 574.2 crore. The company was able to maintain its operating margins at 21% despite higher ad-spends. PAT grew 23.7% to ₹ 493.5 crore mainly on account of higher operating profit, lower interest cost & lower tax provisioning.

New launches driving growth

The company continued to aggressively launch new products across categories. It introduced Himalayan Forest Honey, Dabur Red Pulling Oil, Herb'l toothpaste variants, Premium hair Oil under Vatika & range of products in OTC & Ethical space. Moreover, within previously launched products healthcare juices, Tulsi drops, Dant Rakshak, Herb'l variants & OTC & Ethicals are getting traction. DIL has been very aggressive in new product launches in the last 10 months, which are now contributing 4-5% of sales. We believe renewed focus on health & immunity boosting products has become the driving force for the company and will also compensate for slower growth of some of the matured categories like hair care & home care. We estimate 10.8% revenue CAGR during FY20-23E.

Margins to sustain despite raw material headwinds

Though DIL is witnessing increase in raw material prices like herbs, alma & honey to the tune of 5-6%, we believe it would be able to maintain its operating margin above ~21% with various cost rationalisation measures & some tweaking in media spends. Moreover, expected strong volume growth across categories would also help it maintain margins through operating leverage. We expect ad spends at ~9% of sales in the next two years. We estimate operating margins of 21.7%, 21.9% for FY22E, FY23E respectively.

Valuation & Outlook

DIL has many new structural growth trends in its favour. Moreover, the company is continuously increasing its direct reach (targeting 1.4 million outlets by March 2021). Further, it would be able to generate sustain healthy revenue growth for the extended period by sufficiently spending on brand building. Given strong growth in high margin brands and cost cutting measures, we expect 14.4% earnings CAGR in FY20-23E. We maintain **BUY** recommendation with a revised target price of ₹ 620/share (earlier ₹ 595).

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	8533.1	8703.6	9686.2	10766.9	11851.9	10.8%
EBITDA	1739.6	1792.4	2081.5	2341.1	2597.9	13.2%
EBITDA Margin %	20.4	20.6	21.5	21.7	21.9	
Net Profit	1446.3	1447.9	1751.3	1945.0	2167.7	14.4%
EPS (₹)	8.2	8.2	9.9	11.0	12.3	
P/E	62.9	62.9	52.0	46.8	42.0	
RoNW %	25.7	21.9	22.9	23.0	23.3	
RoCE (%)	29.6	26.1	26.5	27.0	27.4	

Source: Company, ICICI Direct Research



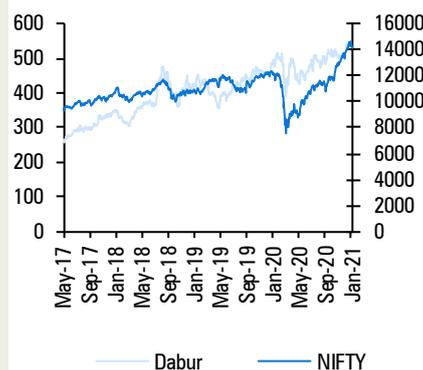
Particulars

Particular (₹ crore)	Amount
Market Capitalization	90,521.2
Total Debt (FY20)	471.8
Cash and Investments (FY20)	3,611.6
EV	87,381.4
52 week H/L (₹)	552 / 385
Equity capital	176.6
Face value (₹)	1.0

Key Risk

- Any steep increase in raw material prices could impact operating margins negatively going forward
- The growth in health supplement categories (Honey, Chawayanprash) could decline in FY22 with disease related concerns receding after vaccination

Price Performance



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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	2,728.8	2,636.7	2,353.0	16.0	2,516.0	8.5	Net sales witnessed a growth of 16% led by domestic volume growth of 18.1%
Raw Material Expenses	1,353.7	1,312.2	1,174.5	15.3	1,235.9	9.5	The company maintained its gross margins despite uptick in some commodities cost
Employee Expenses	274.0	270.4	244.8	12.0	267.3	2.5	
SG&A Expenses	282.4	215.3	203.5	38.8	202.2	39.7	The company significantly (170 bps) increased its media spends largely investing behind core/power brands
Other operating Expenses	244.5	268.1	237.4	3.0	241.3	1.3	Overhead spends came down by 113 bps with some cost cutting measures extended post pandemic
EBITDA	574.2	570.6	492.9	16.5	569.4	0.8	
EBITDA Margin (%)	21.0	21.6	20.9	9 bps	22.6	-159 bps	The company has been able to maintain its operating margins despite considerable increase in marketing spends
Depreciation	57.2	56.7	54.4	5.1	59.6	-4.1	
Interest	6.9	9.7	10.5	-34.6	7.5	-8.4	
Other Income	80.9	74.7	74.5	8.7	87.6	-7.6	
Exceptional items	0.0	0.0	20.0	N.A.	0.0	N.A.	
PBT	591.1	578.9	482.5	22.5	589.9	0.2	
Tax Outgo	97.5	112.9	83.5	16.8	106.7	-8.6	
PAT	493.5	465.9	398.9	23.7	483.2	2.1	With higher operating profit, lower interest cost, PAT grew 23.7%
Key Metrics YoY growth (%)							
Domestic Volume Growth	18.1		5.6		16.8		Strong domestic volume growth with continued momentum health supplement, oral care categories
Standalone sales growth	18.5		5.0		17.9		
Subsidiary's sales growth	8.8		13.1		2.6		International business also revived with strong 13% growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% change	Old	New	% change	Old	New	% change	
Sales	9,547.8	9,686.2	1.4	10,617.5	10,766.9	1.4	11,603.7	11,851.9	2.1	We change our estimates slightly after stronger than estimated Q3 numbers
EBITDA	2016.9	2081.5	3.2	2277.7	2341.1	2.8	2,505.0	2597.89	3.7	
EBITDA Margin (%)	21.1	21.5	37 bps	21.5	21.7	29 bps	21.6	21.9196	33 bps	We raise our margin estimate considering operating leverage benefits
PAT	1691.2	1751.3	3.6	1893.4	1945.0	2.7	2,079.2	2167.68	4.3	
EPS (₹)	9.6	9.9	3.6	10.7	11.0	2.7	11.8	12.3	4.3	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current					Earlier			Comments
	FY19	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Std. Sales (₹ crore)	6,273.2	6,309.8	7,310.9	8,154.1	8,977.7	7,073.5	7,895.7	8,609.7	We raised our revenue estimates with continued strong performance in key categories
Subs. Sales (₹ crore)	2,259.9	2,393.8	2,375.4	2,612.9	2,874.2	2,474.3	2,721.8	2,993.9	
RM exp. To sales %	50.5	50.1	49.6	50.0	50.1	50.0	49.9	50.1	
Adex to sales %	7.1	8.0	9.1	8.5	9.1	8.2	8.5	9.3	
Interest Cost (₹ crore)	59.6	49.5	30.2	40.2	40.2	38.9	40.2	40.2	

Source: Company, ICICI Direct Research

Conference Call Highlights

- DIL reported a splendid set of numbers with consolidated revenue growth of 16% led by 19.5% growth in India FMCG business growth & 13% (constant currency growth of 14.1%) international business growth. Domestic business reported volume growth of 18.1%
- Domestic FMCG growth was led by 34.7% growth in health supplement, 28% growth in oral care, 34.1% growth in OTC & 23.2% growth in ethical category. Some discretionary categories, which were impacted by reduce out of home activity, also saw strong growth during the quarter. Hair care & skin care segment grew 13.7% & 9.1%, respectively. Within foods, culinary business saw healthy 16.1% sales growth
- Digestives (Hajmola, Pudín Hara), home care & beverages continue to see dismal revenues with -0.3%, -1% & 3.9% growth. Hajmola brand sales was impacted by reduced out of home activity & only partial opening up of restaurants. Within home care air fresheners, Odonil was impacted given discretionary nature of usage
- Beverage (Real fruit drinks, juices) were negatively impacted by reduces activity at HORECA & CSD channels. However, excluding HORECA & CSD, sales grew by 8%
- In International business, MENA region, Nepal & Bangladesh saw 11.1%, 12.9% & 17.4% revenue growth, respectively. Hobby & Namaste business grew 33.4% & 8.2%, respectively. Egypt business witnessed 9.5% growth. The possibility of margin improvement in International business stays with expected high operating leverage
- New products, which were launched in the last three quarters are now contributing 4-5% to sales. Within newly launched products, Healthcare juices, Tulsi drops, Premium hair care brands, toothpaste brands Dant Rakshak, Herb'l have been gaining traction. However, sanitisers & disinfectants saw significant decline in sales with plethora of brands available at lower prices
- Oral care category is growing at 7% with 3% contributed by volumes. However, herbal, naturals & Ayurveda category is growing at 14%. The company has gained market share by 120 bps. Red toothpaste continue to grow at a faster pace and Meswak & Babool also reported double digit growth. Within oral care, 70% of sales is contributed by Red toothpaste whereas other brands are contributing rest 30%
- The company expects exponential growth in Chyawanprash & Honey would taper down but still expect these brands to grow at moderate pace in FY22E. The company witnessed a market share gain in Chyawanprash & Honey to the tune of 120 bps & 700 bps, respectively. Honey is ₹ 1500 crore category with 40% market share whereas Chyawanprash is ₹ 1000 crore category
- The company is on track to increase direct distribution network from current 1.2 million outlets to 1.4 million by March 2021. It is also looking to increase its chemist network from 2.4 lakh to 2.7 lakh. Channel inventory is at 21 days. The company is looking to improve its MT presence. E-commerce channel sales will structurally go up
- DIL has incorporated a wholly owned subsidiary specifically to export consumer care product. Currently, it would be utilising its existing capacities to export own brand as well as private labels. The company is looking to leverage available tax incentives for exports. It would also require new capacities in the medium term specifically in the healthcare space with the current growth trajectory

Key Metrics

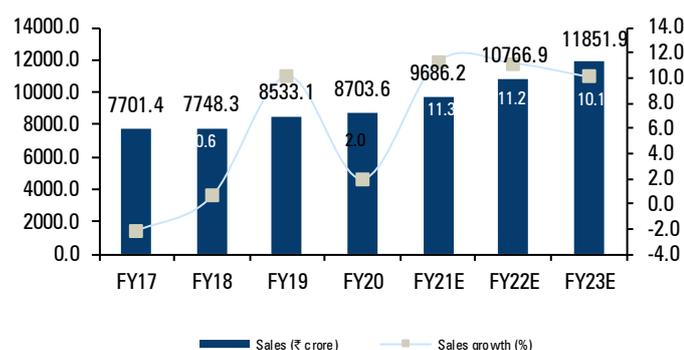
Exhibit 4: Category wise revenue growth in percentage (YoY)

	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21
Hair Care	16.7*	8.8*	18.8*	11.1*	24*	3*	12.1*	2.6*	0.4*	-20.2	-22.9	-2.4	13.7
Oral Care	23.0	11.0	17.3	3.9	10.0	8.2	11.4	4.4	8.5	-15.8	1.4	24.2	28.0
Health Supp.	19.5	14.0	27.5	12.3	13.8	10.2	19.6	14.4	12.2	-9.5	52.6	70.8	34.7
Digestives	19.3	7.2	21.6	10.8	22.5	11.9	18.2	10.2	15.9	-9.5	-11.5	2.5	-0.3
Skin Care	14.5	8.5	27.1	11.9	19.3	11.2	12.1	1.0	-0.3	-24.2	-12.5	38.1	9.1
Home Care	36.0	N.A.	17.4	10.9	8.9	16.2	10.9	7.0	2.5	-20.6	-30.5	-10.2	-1.0
Foods	0.0	-1.5	N.A.	2.3	11.1	-6.5	1.5	-5.0	-1.7	-18.4	-34.4	-3.8	4.7
OTC	NA	7.8	13.3	10.0	17.7	16.6	13.1	4.2	5.5	-20.6	34.4	56.1	34.1
Ethicals	NA	10.3	23.4	6.1	17.4	9.7	15.9	7.2	2.7	-20.6	10.7	26.4	23.2

Source: Company, ICICI Direct Research

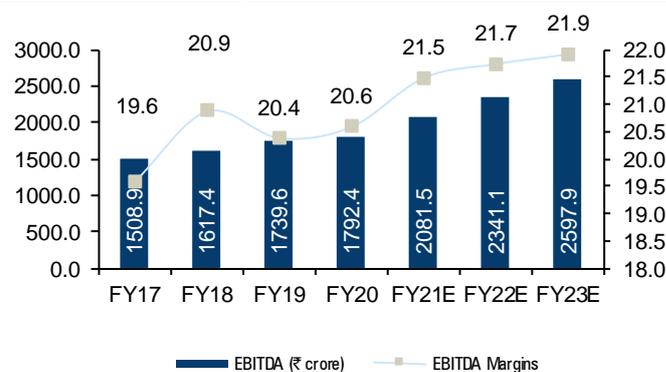
* Hair care included Shampoo

Exhibit 5: Strong revenue growth momentum to continue



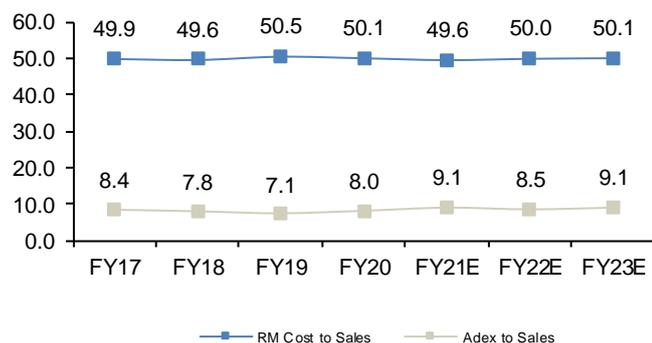
Source: ICICI Direct Research, Company

Exhibit 6: EBITDA margin to remain stable



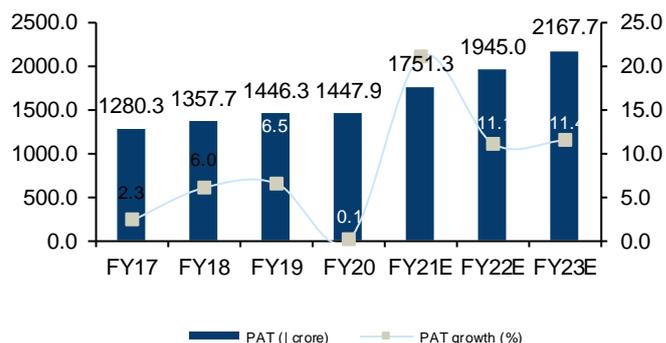
Source: ICICI Direct Research, Company

Exhibit 7: Raw material and adex trend over years



Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	8703.6	2.0	8.2	0.1	62.9	50.2	21.9	26.1
FY21E	9686.2	11.3	9.9	21.0	52.0	43.1	22.9	26.5
FY22E	10766.9	11.2	11.0	11.1	46.8	38.3	23.0	27.0
FY23E	11851.9	10.1	12.3	11.4	42.0	34.4	23.3	27.4

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	8,703.6	9,686.2	10,766.9	11,851.9
Growth (%)	2.0	11.3	11.2	10.1
Raw Material Expenses	4,360.2	4,805.4	5,378.8	5,939.4
Employee Expenses	947.7	1,017.1	1,098.2	1,208.9
Marketing Expenses	650.0	881.4	915.2	979.8
Administrative Expenses	0.0	668.3	721.4	770.4
Other expenses	953.3	232.5	312.2	355.6
Total Operating Expenditure	6,911.2	7,604.7	8,425.9	9,254.0
EBITDA	1,792.4	2,081.5	2,341.1	2,597.9
Growth (%)	3.0	16.1	12.5	11.0
Depreciation	220.5	226.9	241.3	241.3
Interest	49.5	30.2	40.2	40.2
Other Income	305.3	311.4	327.0	343.3
PBT	1,727.7	2,135.7	2,386.5	2,659.7
Others	100.0	0.0	0.0	0.0
Total Tax	279.7	384.4	441.5	492.0
PAT	1,447.9	1,751.3	1,945.0	2,167.7
Growth (%)	0.1	21.0	11.1	11.4
Adjusted EPS (₹)	8.2	9.9	11.0	12.3

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit before Tax	1,727.6	2,135.7	2,386.5	2,659.7
Add: Depreciation	220.5	226.9	241.3	241.3
(Inc)/dec in Current Assets	-157.2	-543.7	-635.6	-636.6
Inc/(dec) in CL and Provisions	99.3	239.1	263.1	263.8
Others	-276.5	-354.2	-401.3	-451.9
CF from operating activities	1,613.6	1,703.8	1,854.1	2,076.4
(Inc)/dec in Investments	-364.6	-350.0	-350.0	-350.0
(Inc)/dec in Fixed Assets	-400.5	-270.0	-270.0	-270.0
Others	248.2	0.0	0.0	0.0
CF from investing activities	-516.8	-620.0	-620.0	-620.0
Issue/(Buy back) of Equity	0.1	0.0	0.0	0.0
Inc/(dec) in loan funds	-396.8	-150.0	-50.0	-50.0
Dividend paid & dividend tax	-512.5	-706.8	-1,148.6	-1,325.3
Others	-133.8	-30.2	-40.2	-40.2
CF from financing activities	-1,043.0	-887.1	-1,238.8	-1,415.5
Net Cash flow	53.8	196.8	-4.7	40.9
Opening Cash	37.7	91.5	288.3	283.6
Miscellaneous adjustments	719.8	719.8	719.8	719.8
Closing Cash	811.4	1,008.1	1,003.4	1,044.3

*calculated, Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	176.7	176.7	176.7	176.7
Reserve and Surplus	6,429.0	7,473.5	8,269.9	9,112.3
Total Shareholders funds	6,605.8	7,650.2	8,446.6	9,289.0
Long Term Loans	167.6	67.6	67.6	67.6
Long Term Provisions	17.4	17.4	17.4	17.4
Minority Interest / Others	99.4	99.4	99.4	99.4
Total Liabilities	6,890.1	7,834.6	8,631.0	9,473.4
Assets				
Gross Block	3,696.5	3,946.5	4,196.5	4,446.5
Less: Acc Depreciation	1,443.8	1,670.8	1,912.1	2,153.4
Net Block	2,252.7	2,275.8	2,284.5	2,293.2
Capital WIP	146.6	166.6	186.6	206.6
Non- Current Investments	1,409.2	1,709.2	2,009.2	2,309.2
LT loans & advances	24.6	74.6	124.6	174.6
Other Non-current Assets	640.6	690.6	740.6	790.6
Current Assets				
Inventory	1,379.6	1,452.9	1,615.0	1,777.8
Debtors	813.9	914.8	1,016.9	1,119.3
Cash & Bank	811.4	1008.1	1003.4	1044.3
ST Loans & Advances	13.1	12.5	13.9	15.3
Other Current Assets	1,862.4	2,232.4	2,602.4	2,972.4
Current Liabilities				
Creditors	1,482.2	1,641.3	1,824.4	2,008.2
ST Borrowings	304.2	324.2	344.2	364.2
Other CL	677.5	737.5	797.5	857.5
Net Current Assets	2,416.4	2,917.8	3,285.5	3,699.1
Miscellaneous Expenditure	0.0	0.0	0.0	0.0
Total Assets	6,890.1	7,834.6	8,631.0	9,473.4

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
Adjusted EPS	8.2	9.9	11.0	12.3
Cash EPS	9.4	11.2	12.4	13.6
BV	37.4	43.3	47.8	52.6
DPS	2.9	4.0	6.5	7.5
Cash Per Share	4.6	5.7	5.7	5.9
Operating Ratios (%)				
PBITDA Margin	20.6	21.5	21.7	21.9
PBT / Total Operating income	17.5	18.8	19.1	19.5
PAT Margin	16.6	18.1	18.1	18.3
Inventory days	54	54	54	54
Debtor days	34	34	34	34
Creditor days	62	61	61	61
Return Ratios (%)				
RoE	21.9	22.9	23.0	23.3
RoCE	26.1	26.5	27.0	27.4
RoIC	28.2	29.8	30.3	30.9
Valuation Ratios (x)				
P/E	62.9	52.0	46.8	42.0
EV / EBITDA	50.2	43.1	38.3	34.4
EV / Net Sales	10.3	9.3	8.3	7.6
Market Cap / Sales	10.5	9.4	8.5	7.7
Price to Book Value	13.8	11.9	10.8	9.8
Solvency Ratios				
Debt/EBITDA	0.3	0.2	0.2	0.2
Debt / Equity	0.1	0.1	0.0	0.0
Current Ratio	1.9	1.9	2.0	2.1
Quick Ratio	1.2	1.3	1.4	1.4

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (FMCG)

	CMP	TP	M Cap	EPS (₹)			P/E (x)			Price/Sales (x)			RoCE (%)			RoE (%)			
	(₹)	(₹)		Rating	(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E
Colgate (COLPAL)	1,603	1,860	Buy	43,654	35.0	37.8	40.5	45.8	42.4	39.6	9.3	8.5	8.0	76.7	80.2	83.7	58.7	61.5	64.3
Dabur India (DABIND)	515	620	Buy	91,067	9.9	11.0	12.3	51.9	46.7	41.9	9.4	8.5	7.7	26.5	27.0	27.4	22.9	23.0	23.3
Hindustan Unilever (HINLEV)	2,263	2,600	Hold	561,507	33.6	40.5	45.0	67.3	55.9	50.3	12.4	10.8	10.0	25.3	29.4	31.7	19.1	22.5	24.3
ITC Limited (ITC)	203	225	Buy	213,884	11.2	12.0	13.4	18.2	16.9	15.2	4.7	4.2	3.8	27.2	30.5	35.7	20.9	23.4	27.5
Jyothy Lab (JYOLAB)	162	175	Hold	5,728	5.9	6.4	7.1	27.7	25.3	22.8	3.1	2.8	2.6	30.6	31.1	31.6	26.0	25.9	26.3
Marico (MARLIM)	416	490	Buy	53,156	9.1	9.8	10.9	45.7	42.5	38.0	6.8	6.1	5.5	42.9	45.4	48.2	37.1	38.6	40.9
Nestle (NESIND)	17,060	18,000	Hold	152,970	223.4	253.4	284.2	76.3	67.3	60.0	11.5	10.4	9.5	59.9	66.6	73.7	119.1	139.2	160.6
Tata Consumer Products (TATGLO)	560	605	Buy	52,158	12.0	13.5	15.1	46.7	41.4	37.0	4.8	4.4	4.1	9.8	10.5	11.1	7.8	8.6	9.3
VST Industries (VSTIND)	3,527	4,200	Hold	5,809	202.4	218.7	235.2	17.4	16.1	15.0	5.1	4.7	4.3	44.7	47.4	52.8	33.2	35.2	39.0
Varun Beverage (VARBEV)	899	730	Hold	19,429	11.3	21.7	26.6	79.5	41.4	33.8	3.0	2.5	2.3	12.3	18.6	20.7	10.1	16.7	17.6
Zydus Wellness (ZYDWEL)	1,933	2,300	Buy	11,359	27.8	65.7	71.7	69.6	29.4	27.0	6.1	5.4	5.0	6.9	8.3	8.9	5.9	8.6	9.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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