Sharekhan by BNP PARIBAS

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Dabur India Limited

Healthy Q3; focus on delivering consistent volume growth

Consumer Goods	Sharekhan code: DABUR	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)		✓	

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 515**	
Price Target: **Rs. 605**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

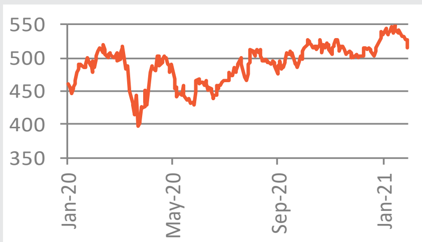
Company details

Market cap:	Rs. 91,102 cr
52-week high/low:	Rs. 552/385
NSE volume: (No of shares)	36.2 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	56.8 cr

Shareholding (%)

Promoters	67.9
FII	18.8
DII	5.9
Others	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.6	-0.9	5.2	4.8
Relative to Sensex	0.2	-17.3	-16.4	-7.6

Sharekhan Research, Bloomberg

Summary

- Dabur India's (Dabur) domestic volumes grew by a healthy ~18.1%, beating ours as well as the street's expectation of 11-12%.
- Health supplements, OTC & ethicals, shampoos and oral care posted healthy growth of 34.5%,29%, 28.6% and 28%, respectively.
- Healthcare and oral care products to continue good run while revival in home care, foods and skin care will drive next leg of revenue growth. Management aims to maintain OPM through cost-saving initiatives and price hikes.
- Revenues and PAT likely to clock CAGR of ~14% and 16% over FY2020-23. We maintain a Buy on the stock with PT of Rs. 605..

Q3FY2021 was yet another healthy quarter for Dabur India (Dabur) as revenues rose 16%y-o-y, driven by 19.5% growth in its domestic business and a 19% y-o-y increase in PAT. Domestic volumes grew by ~18.1%,largely inline with a 17% volume growth achieved in Q2. Health Supplements, OTC & Ethical, shampoo and Oral care posted healthy growth of 34.5%, 29%, 28.6% and 28% respectively during the quarter. Dabur brands/categories continued to gain market share in key categories such as oral care (by 120 bps), shampoos (by 50 bps), Chyawanprash (by 120 bps), honey (by 700 bps), Odomos (by 250 bps) and Odonil (by 210 bps), which augurs well for long-term perspective. The e-Commerce channel grew by 150% (revenue contribution increased to 6%). New products continued to perform well and fetched 4-5% of total revenues (YTD contribution is 6%). The gross margins stood up marginally by 31 bps to 50.4%, while increase in advertisement expenses led to a flat OPM of 21% (170 bps spike in ad-spends).We expect categories such as Chyawanprash, Honey, ethical products and Hair care to maintain double digit growth momentum due to improved penetration and higher traction for trusted brands. On the other hand, the foods business which saw a turnaround (grew by 5%) registering a growth after six consecutive quarters of decline. With out-of-home consumption expected to improve and the company focusing on increasing penetration of smaller packs, the juices category is expected to deliver better performance in the coming quarters. Further, discretionary categories such as skin care and home care would revive in the coming quarters. The international business grew by 13% with a recovery in the MENA region (11% growth) and strong (33%y-o-y) growth in the Turkey (hobby) business. The company has incorporated a separate subsidiary to improve growth prospects of the exports business. Price of key inputs such as agri-commodities and packaging materials have gone up, which Dabur will pass on to consumers through price hikes in key products. Advertisement spends rose to 10.7% of sales in Q3 and are likely to further increase to 11-11.5% in the medium term. However, the company expects to save ~Rs. 150crore through cost-saving initiatives in the next 2-3 years. The overall focus is on maintaining OPM y-o-y.

Key positives

- Domestic volume growth stood at 18.1% in-line with 17% volume growth in Q2.
- Juices business (excluding HORECA and CSD) grew by 8%
- Oral care registered strong growth 28% led by strong growth in natural's portfolio.

Key negatives

- Digestive and Home care segment registered flat sales during the quarter.

Our Call

View - Maintain Buy with price target of Rs. 605: We broadly maintain our earnings estimates for FY2021/22/23.Strong traction in healthcare products, market share gains in oral care category, faster recovery in juices category led by a recovery in out-of-home consumption and sustained high rural demand will be key catalysts for near-term growth. Further, strong traction in new launches, emergence of e-Commerce as a new trading channel coupled with focus on export markets would improve growth prospects in the long run. We expect revenues and PAT to clock a CAGR of 14% and 16% over FY2020-23E. The stock is currently trading at 44.0x/38.0x its FY2022/23E EPS. We recommend Buy on the stock with a price target of Rs. 605.

Key Risks

Heightened competition in any of the key categories or supply disruption caused by any unavoidable events or slowdown in the demand environment would act as a key risk to our earnings estimates in the near to medium term.

Valuation (consolidated) Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenues	8,533	8,704	9,489	11,179	12,718
OPM (%)	20.4	20.6	21.6	21.9	22.2
Adjusted PAT	1,496	1,528	1,715	2,067	2,396
Adjusted EPS (Rs.)	8.5	8.6	9.7	11.7	13.5
P/E (x)	60.9	59.6	53.2	44.1	38.0
P/B (x)	16.2	13.8	11.9	10.1	8.5
EV/EBIDTA (x)	51.1	49.9	43.1	35.5	30.2
RoNW (%)	26.4	25.0	24.1	24.9	24.3
RoCE (%)	28.1	27.0	27.4	29.3	28.9

Source: Company; Sharekhan estimates

Growth momentum sustained in Q3; Domestic volume growth stood at 18%

Consolidated revenue grew by 16% y-o-y, driven by 19.5% growth in its domestic business. Domestic volume growth stood at ~18.1% which was inline with Q2FY2021 volume growth of 17%. Health care, Oral care and Hair care registered a strong double-digit growth. Health supplements, OTC & ethicals, Shampoo & post-wash and oral care posted registered growth of 34.5%,29%, 28.6% and 28% respectively. Gross margins grew by 31 bps to 50.4%, while increase in advertisement expenses led to flat OPM to 21% (170 bps spike in ad-spends). Operating profit grew by 16.5% y-o-y to Rs. 574 crore. Lower interest cost and better other income led adjusted PAT to grow by 19% y-o-y to Rs. 493.6crore.

Healthcare and home &personal care(HPC) segment sustain revenue growth; foods segment recovers

Healthcare segment: Revenue of the healthcare segment grew by 28% y-o-y to Rs.866crore driven by heightened demand for health, hygiene and wellness products. Health supplements recorded a 34.5% revenue growth led by a double-digit growth in Dabur Honey and Chyawanprash. Dabur's market share in honey increased by ~700 bps. Penetration of branded honey rose and Dabur aims to gain share from unorganised players. Market share of Chyawanprash increased by ~120 bps led by gain from small players. Digestive category revenue stood flat; Pudin Hara sawdouble-digit growth whereas Hajmola remained hit due to restricted outdoor activity, closed schools and minimal outside food consumption. The OTC division posted a robust growth of 34.1%, backed by strong growth in Honitus, LalTail and Shilajit portfolio. Further, new products such as Dabur Health Drops, health Juices and other immunity-boosting products added to revenue growth, whereas ethicals registered a good growth of 23.2% backed by distribution expansion, visibility initiatives and activations. The company launched multiple products under the health supplements and OTC categories including Dabur Himalayan Forest Honey, Dabur Organic Honey, Dabur Camne Vid Tablets, Dabur Madhurantak Vati, Dabur Mahavishgarbh Tail and Dabur Himalayan Organic Apple Cider Vinegar, which are gaining good traction.

Home and Personal care (HPC) segment: Revenue of HPC segment grew by 16.2% y-o-y to Rs. 890crore driven by good growth in oral care, Hair care and skin & salon portfolios. Oral care category registered strong growth of 28.1% driven by good demand in Dabur Red toothpaste. Category market share improved by ~120 bps. Meswak and Babool franchise also reported double-digit growths. Hair oils category declined by 11.6% (coconut oil gained market share by 20 bps, perfumed hair oil reported double digit growth). Shampoos saw good growth of 27.1% with market share gains of ~50 bps to6.9%. Home care was subdued (declined by 1%) as the category is discretionary in nature. However, Odonil's market share improved by ~210 bps and Mosquito repellent creams also saw a decline, but Odomos' market share increased ~250 bps. Skin and salon grew by 9.1% driven by strong growth in Fem handwash portfolio while Gulabari and Fem are seeing sequential improvement as mobility and social activity are going up.New launches include Dabur Red Pulling Oil, Dabur Herbal Toothpaste rangeand Vatika Enriched Hair Oils Range.

Foods segment: Revenue improved by 5% y-o-y (grew by 25.5% excluding institutional business) to Rs.215crore. Beverage business grew by 3%. The juices business excluding enterprise (HORECA, FS and CSD) saw a growth of ~8%. Market share of Real juices increased by 20 bps. Activ Coconut Water reported strong double-digit growth and recent launches of Real Mango Drink in PET, Dabur Amla Plus and Real Frappe showed good traction. The culinary business under the Hommade brand reported 16.1% growth driven by increased cooking at home. Excluding the HORECA business, the culinary business recorded growth of 43%. Recent launches like chutneys & pickles added to the growth momentum.

International business: Revenues of international business grew by 13% y-o-y in Q3FY2021 (14.1% growth in constant currency terms). Turkey (Hobi), the US business, Egypt, MENA, Nepal and Bangladesh had a good quarter clocking 33.4%, 8.2%, 9.5% 11.1%,12.9% and 17.4% growth, respectively, on constant currency terms. All regions have grown well in Q3FY2021. MENA and Egypt region recovered from Q2FY2021.

Key conference call highlights:

- **Dabur's oral care category beat industry growth:** Dabur oral care category registered strong of 28% with market share gains of 120 bps y-o-y. The growth was much better than the industry's growth of 9% (driven by mix of 3% volume and 6% price-led growth). The sub-segment Naturals category (30% of the overall market) is growing at 14% ahead of industry growth. Red toothpaste contribution is at ~70% to overall toothpaste portfolio which is consistent growing in double digits. However, the highlight was that the balance 30% of the portfolio grew by 25-30% in Q3. Dabur has strong footing in Naturals helped to post strong growth ahead of the industry. The company will continue to innovate its portfolio and will focus on improving its market share in the coming years.
- **Chyawanprash gained 120 bps in market share:** India's Chyawanprash category is worth ~Rs. 1,000crore in India. Dabur's Chyawanprash is gaining market share from small players as a lot of consumers are shifting from small players to more trusted brands. Its market share is currently at over 60% in the domestic market. This is also helping in improving the penetration which has gone beyond 6%. According to the Ayush ministry, Chyawanprash has better immunity power and efficacy levels are very high. However with COVID-19cases coming down the exponential growth rate of Chyawanprash will reduce in the coming quarters.
- **Penetration of Honey continues to improve:** Honey penetration in India is at ~24-25%. The company's market share in the category improved by 700 bps on a y-o-y basis. The company has 40% market share and market size is around Rs 1,500 crore. With innovation in the portfolio, the company expects double digit growth to maintain. The company has increased capacities for Honey and Chyawanprash to tap increasing demand.
- **Digestives growth to improve:** Digestives revenues decreased by 3% in 9MFY2021 as category was badly affected by lower out-of-home consumption during the pandemic. Bottles contributed~25% of the portfolio (largely consumed at home) grew by 15% in Q3 led by better in-house consumption. With schools and offices expected to start in another six months, the out-of-home consumption for digestives will gain momentum. Hajmola as a brand which registered a decline of 50% in H1 is on recovery mode and posted a decline of 15% in Q3. The company plans to launch multiple SKUs under the Hajmola brand.
- **Juices to get revert to growth trajectory:** The juices business clocked a 50% decline during the COVID-19 times and then gradually recovered. The business which registered a decline of 5% in Q3 grew by 2% in December. With summer season coming up and scare of virus receding, the company expects package juice business to get back in double digit growth trajectory. This will be supported by its focus on Rs. 10 pack and new product launches in the premium portfolio of juices.
- **Hair oils, foods and shampoos will offset moderation in healthcare products growth:** The category which got impacted by COVID are hair oils, foods and shampoos they all will come back and help the company in the growth for the next year and try and will offset the little moderation that may see in the growth rates of health supplements or healthcare being in the current year.
- **Incorporated a 100% export subsidiary:** Company incorporated export subsidiary to focus on export market like US and Europe regions and selling across all products.
- **Raw material inflation and higher ad-spends will be mitigated by price hikes and efficiencies:** Dabur expects raw material inflation of 5-6% in the agri and packaging materials. It will pass it on to consumers through prudent price hike. However larger focus will be on maintaining the volume growth momentum which will help in bringing the operating leverage. Further the ad-spends as percentage to sales increased by 170 bps in Q3. The management aims to increase ad-spends as percentage to sales to 12% over the medium term to support its existing brands and new launches. On the other hand, it is expecting costing saving of Rs. 150crore from the cost saving projects over the next two years. Warehouse rationalisation to 25 warehouses from 39 earlier also aided in reducing supply cost. Thus, the overall focus is on maintain the operating margins at 20-21%.
- **Focus on expanding chemist channel:** At present company covers 2.4lacs and expects to cover around 2.7lakh chemists.

Results (consolidated) Rs cr

Particulars	Q3FY21	Q3FY20	Y-o-Y (%)	Q2FY21	Q-o-Q (%)
Total Revenue	2728.8	2353.0	16.0	2516.0	8.5
Total Expenditure	2154.7	1860.1	15.8	1946.6	10.7
Operating Profit	574.2	492.9	16.5	569.4	0.8
Other Income	80.9	74.5	8.7	87.6	-7.6
Interest Expenses	6.9	10.5	-34.6	7.5	-8.4
Depreciation	57.2	54.4	5.1	59.6	-4.1
Profit Before Tax	591.1	502.5	17.6	589.9	0.2
Tax	97.5	87.5	11.5	106.7	-8.6
Adjusted PAT	493.6	415.0	18.9	483.2	2.2
Extra-ordinary gain / loss	0.0	-16.0	-100.0	0.0	
Reported PAT (before minoirty int.)	493.6	399.0	23.7	483.2	2.2
Adjusted EPS (Rs.)	2.8	2.3	18.9	2.7	2.2
			Bps		**Bps**
GPM (%)	50.4	50.1	31	50.9	-49
OPM (%)	21.0	20.9	9	22.6	-159

Source: Company; Sharekhan Research

Category-wise performance Rs cr

Division	Q3FY21	Q3FY20	y-o-y%
Health Supplements	561	417	34.5
Digestives	100	101	-1.0
OTC & Ethicals	205	159	28.9
Health Care	**866**	**677**	**27.9**
Shampoo & Post wash	54.0	42	28.6
Hair oil	298	267.0	11.6
Hair care	**352.0**	**309.0**	**13.9**
Oral care	**333**	**260**	**28.1**
Home care	**106.0**	**107**	**-0.9**
Skin & Salon	**99.0**	**90.0**	**10.0**
Foods	**215.0**	**205.0**	**4.9**
Sales - Domestic (FMCG)	**1971.0**	**1648.0**	**19.6**
Others (Guar, Fem, Pharma, Exports, Etc)	100.0	99.0	1.0
Revenue - DIL Standalone	**2071.0**	**1747.0**	**18.5**
International	688.0	609.0	13.0
Retail	21.0	35.0	-40.0
Inter Company exports (Net)	-51.0	-39.0	30.8
Revenue from operations (Consolidated)	**2729.0**	**2352.0**	**16.0**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Large categories to grow strongly

Domestic FMCG market's growth recovered to 5% in Q3FY2021 from 1% in Q2FY2021.Astrong pick-up in rural demand, normalisation of general trade channels and higher e-Commerce sales helped sales of most consumer goods companies to recover to pre-COVID levels across most product categories. Discretionary categories such as hair oils and shampoos are recovering well and are expected to maintain strong growth momentum in the coming quarters. Sales of immunity-boosting products such as Chyawanprash, Ashwagandha and Giloy grew 2-5x while Honey sales up by 40-50% in last six months; Chyawanprash likely to Rs1000crore market while Honey is expected to Rs. 1,000crore market by FY2021. These categories growth rate might moderate but improving penetration will drive growth. Increase in key input prices would be mitigated by judicious pricing and cost saving initiatives in the coming quarters.

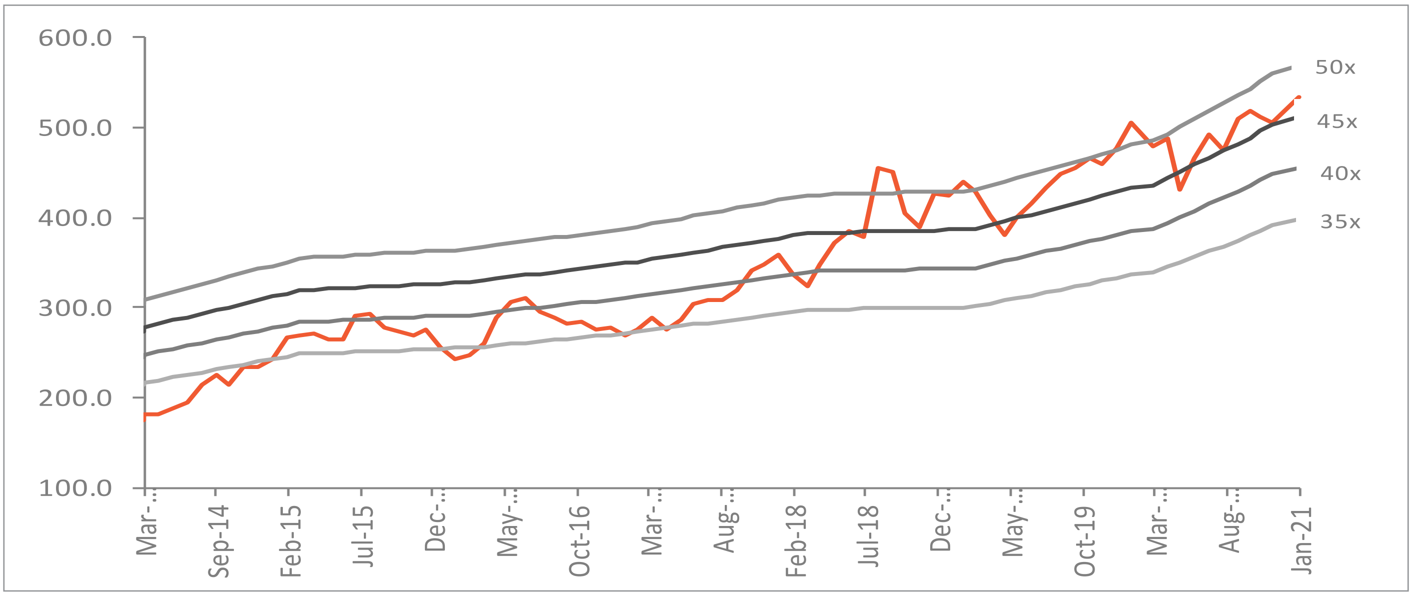
■ Company outlook - Strong recovery in Q3; growth momentum to sustain in the coming quarters

Dabur registered the second consecutive quarter of high teens volume growth with sustained strong demand for healthcare products and robust growth in oral care category. However, volume growth might taper as revenue growth in some categories might normalise. Recovery in categories such as juices, hair oils, skin care and digestives would help maintain low double-digit volume growth in the near term.Though input prices have gone and the company is looking to increase ad-spends, we expect OPM to remain stable with prudent price hikes and cost-saving initiatives.

■ Valuation - Maintain Buy with price target of Rs. 605

We broadly maintain our earnings estimates for FY2021/22/23. Strong traction in healthcare products, market share gains in oral care category, faster recovery in juices category led by a recovery in out-of-home consumption and sustained high rural demand will be key catalysts for near-term growth. Further, strong traction in new launches, emergence of e-Commerce as a new trading channel coupled with focus on export markets would improve growth prospects in the long run. We expect revenues and PAT to clock a CAGR of 14% and 16% over FY2020-23E. The stock is currently trading at 44.0x/38.0x its FY2022/23E EPS. We recommend Buy on the stock with a price

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Marico	45.2	38.9	33.8	32.6	28.3	24.6	45.7	52.1	54.4
Hindustan Unilever	67.1	50.9	44.5	45.5	36.8	32.0	37.1	28.3	30.7
Dabur India	53.2	44.1	38.0	43.1	35.5	30.2	27.4	29.3	28.9

Source: Company, Sharekhan estimates

About company

Dabur is one of India's leading FMCG companies with revenue of close to Rs10,000crore. The company operates in key consumer product categories such as hair care, oral care, health care and skin care based on Ayurveda. Dabur has a portfolio of strong brands such as Vatika–a premium hair care brand, Hajmola –a well-known digestive brand, Real –top brand in the fruit juices segment, and Fem – a skin care brand. The company has a large presence in rural India (especially in northern and eastern parts of India). Further, the company has a substantial international presence (in regions such as the Middle East, North America and SAARC), contributing ~26% to total revenue.

Investment theme

Dabur India's positioning as an Ayurvedic products company with a focus on herbal and natural products in the healthcare and personal care segments and a strong presence in the juices segment makes it a formidable play in the domestic market. Further, the company's international presence de-risks its business model when demand slows down in the domestic market. The company continues to leverage its urban and rural presence by enhancing its distribution network and product launches. Higher contribution from its healthcare range augurs well for the company in this pandemic situation. Focus on health/hygiene portfolio, continuous innovation, investment behind brands, leveraging power brands and consumer-connect initiatives are some of the key growth drivers for Dabur in the near to medium term.

Key Risks

- **Slowdown in rural demand:** Any slowdown in the rural demand environment would affect volume growth.
- **Increased input prices:** Any significant increase in prices of key raw materials would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in the highly-penetrated categories such as hair care and oral care would act as a threat to revenue growth.

Additional Data

Key management personnel

Amit Burman	Chairman
Mohit Malhotra	Chief Executive Officer
Lalit Malik	Chief Financial Officer
A K Jain	Vice President (Finance) and Company Secretary

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp of India	2.1
2	First State Investments ICVC	1.7
5	First State Global Umbrella Fund	1.5
4	Mitsubishi UFJ Financial Group Inc	1.4
6	BlackRock Inc	1.2
7	Aditya Birla Sun Life Trustee Co	1.1
8	Vanguard Group Inc	1.1
3	Matthews International Capital Management	1.1
9	Arisaig India Fund Limited	1.0
10	ICICI Prudential Life Insurance Co	0.8

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

Sharekhan

by BNP PARIBAS

Know more about our products and services

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