Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dabur India Ltd

Strong market share gains pave growth path

Consumer Goods	Sharekhan code: DABUR

Reco/View: Buy	↔	CMP: **Rs. 556**	Price Target: **Rs. 725**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

ESG Disclosure Score NEW

ESG RISK RATING 29.31

Updated Jan 08, 2022

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 98,319 cr
52-week high/low:	Rs. 659/483
NSE volume: (No of shares)	20.7 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	57.7 cr

Shareholding (%)

Promoters	67.4
FII	21.5
DII	3.6
Others	7.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	7.0	0.2	4.1	17.0
Relative to Sensex	17.0	10.6	5.4	9.9

Sharekhan Research, Bloomberg

Summary

- Dabur India reported y-o-y revenue growth of 7.8% and muted volume growth of 2% in Q3FY2022 on high base of 16% growth in Q3FY2021; despite raw material inflation, OPM remained at 21%; while reported PAT stood at Rs. 505 crore.
- Dabur gained market share across 100% product portfolio; rural growth exceeded urban growth by 500 bps; food & beverages business reported robust growth of 38% backed by the Hommade brand.
- Sustained market share gains, distribution expansion (especially in rural market), investments behind power brands and new launches would help company maintain double-digit revenue growth; OPM to sustain in FY2022.
- The stock trades at 42.8x/35.6x its FY023/24E EPS. We maintain a Buy on the stock with an unchanged PT of Rs. 725.

Dabur India (Dabur) posted a y-o-y revenue growth of 7.8% to Rs. 2,941.8 crore on double-digit growth in Q3FY2021 (muted volume growth of 2%), while OPM marginally increased by 29 bps to 21.3% (despite a 205 bps decline in gross margins). Volume growth was muted due to a slowdown in consumer demand and high base of health supplements and honey. India FMCG y-o-y growth came in at 7.4% and International business CC y-o-y growth was reported at 8.7%. PAT grew by a slow 2.2% to Rs. 504.5 crore (as margins declined). During the quarter, rural growth outpaced urban growth by 500 bps and the company gained market share across 100% of its product portfolio.

Key positives

- Toothpaste segment grew by 8%, which is highest amongst peers and ahead of industry growth due to sustained market share gains.
- Dabur gained market share across 100% product portfolio with Juices & Nectars market share up by 514 bps, Chyawanprash share rising by 200 bps and honey gaining share of 180 bps.
- Rural growth beat urban growth by 500 bps mainly because of distribution expansion, which expanded to 80,000 villages from 55,000 villages.
- Despite a dip in the gross margin, the company managed to maintain OPM at around 21%.

Key negatives

- Domestic business volume growth stood at 2%.
- Consolidated gross margins decreased by 205 bps due to higher raw material inflation.

Management Commentary

- Consumer-centric innovation, investments behind the power brands, network expansion (especially in the rural market) and sustained market share gains in key categories would help the company to maintain the good growth momentum in the medium term.
- Input cost inflation will continue to put pressure on gross margins in the near term. The company undertook calibrated price hikes across its products to mitigate the impact of higher input prices. If required, it will take further price hikes in its leadership brands.
- The company's focus is to maintain OPM at current levels and it will take necessary steps (including increasing topline, curtailing expenses and/or price hikes) to prevent any dilution in the margins.

Revision in estimates – We have broadly maintained our earnings estimates for FY2022, FY2023 and FY2024 and will keenly monitor the performance for next few quarters..

Our Call

View – Maintain Buy with an unchanged PT of Rs. 725: Dabur's Q3 performance was marginally ahead of expectation. Volume growth missed due to high base of Chyawanprash and Honey (excluding that volume growth would have been mid to high single digit). The diversified portfolio of brands, sustained market share gains in key categories, good traction to new launches and distribution expansion would help Dabur achieve double-digit revenue and earnings growth in the medium term (with stable OPM). We expect Dabur's revenues and PAT to grow by 16% and 18% over FY2021-24. The stock is currently trading at 42.8x/35.6x its FY2023E/24E EPS. We maintain our Buy on the stock with an unchanged PT of Rs. 725.

Key Risks

Heightened competition in key categories or supply disruptions caused by 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	FY21	FY22E	FY23E	FY24E
Revenues	9,562	10,864	12,763	14,924
OPM (%)	20.9	21.1	21.8	22.6
Adjusted PAT	1,696	1,888	2,299	2,764
% YoY growth	11.0	11.3	21.8	20.2
Adjusted EPS (Rs.)	9.6	10.7	13.0	15.6
P/E (x)	58.0	52.2	42.8	35.6
P/B (x)	12.8	11.5	10.2	8.7
EV/EBIDTA (x)	47.0	41.0	33.4	27.1
RoNW (%)	23.8	23.3	25.2	26.4
RoCE (%)	26.4	27.9	30.9	32.7

Source: Company; Sharekhan estimates

Revenue grew by 7.8% y-o-y with muted volume growth of 2%; OPM sustained at ~21%

Consolidated revenues grew by 7.8% y-o-y and 4.4% q-o-q to Rs. 2,941.8 crore on a high base of 16% growth in Q3FY21. Two-year revenue CAGR came in at 11.8%. Volume growth in the domestic business stood at 2%. Excluding the high base of honey and Chyawanprash, the volume growth would have been in high single digit. During the quarter, rural growth outpaced urban growth by 500 bps. Dabur gained market share across 100% of its product portfolio. India FMCG y-o-y growth came in at 7.4% while the international business reported a CC y-o-y growth of 8.7%. Healthcare, Home and Personal Care and Food and Beverage registered two-year CAGR of 11.4%, 12.1% and 20.1%, respectively. In the international business, y-o-y growth was seen across all regions led by Namaste (19.4%), Nepal (17.3%), Turkey (14.6%) and Egypt (13%). As anticipated, raw material inflation impacted gross margin which declined by 205 bps y-o-y to 48.3%. Despite lower volume growth and gross margin reduction of over 200 bps, OPM grew marginally by 29 bps y-o-y to 21.3% backed by reduced ad promotion spending (lower by 16% y-o-y). Operating profit grew by 9.3% y-o-y to Rs. 627.5 crore. PAT grew by 2.2% y-o-y to Rs. 504.5 crore.

Strong growth in F&B segment; International business reported 8.7% CC growth

Healthcare: The healthcare segment (contributing 40% to domestic revenue) registered revenue of Rs. 839 crore, down 3% y-o-y. On a two-year CAGR basis healthcare reported growth of 11.4%. The health supplements portfolio declined by 8.3% y-o-y with two-year CAGR at 11.2%. Dabur Chyawanprash and Dabur Honey reported muted performance over high base of last year. Market share in the Chyawanprash and honey categories increased by ~200 bps and ~180 bps during the quarter. Improved mobility and increased out-of-home consumption aided a 12.2% y-o-y growth and 5.8% two-year CAGR growth in the digestives portfolio. Hajmola posted double-digit y-o-y growth while Pudin Hara reported double-digit two-year CAGR in Q3FY2022. The OTC and ethicals portfolio reported a subdued growth of 3.6% y-o-y but grew by a strong 15.4% on two-year CAGR basis driven by strong growth in Honitus, Shilajit and ethicals portfolio. Ethicals grew in high single digits on the back of expansion of Dabur's coverage and portfolio. New product launches for the quarter include Kesarprash, Arjuna Tablets, Shatavari Tablets, Chyawanprash Awaleha and Baby Pants.

Home and personal care (HPC): The segment (that contributes 45.9% to domestic revenue) grew by 8.4% y-o-y, reporting revenue of Rs. 965 crore. On a two-year CAGR basis, the segment reported a growth of 12.1%. The oral care portfolio grew by 6.7% y-o-y and 16.9% on a 2-year CAGR basis driven by 8.1% y-o-y growth (18% two-year CAGR) in the toothpaste category led by robust momentum in Dabur Red Paste and a ~50 bps market share gains in the toothpaste category. The company is on track to become the No. 2 brand in the toothpaste category. The hair oils portfolio reported 6.1% y-o-y growth and 8.8% 2-year CAGR growth with market share gains of ~90 bps. Both perfumed oils and coconut oils reported registered improvement in market shares. While the hair oil category is seeing volume declines, Dabur's hair oil portfolio recorded 6.1% volume growth on a high base of 11.6%. Shampoo portfolio reported a strong growth of 21.2% y-o-y and 24.1% on two-year CAGR basis with market share gains of ~40 bps. Newly-launched Vatika Ayurvedic shampoo showed good consumer acceptance. The 18.6% y-o-y growth (2-year CAGR growth of 8.3%) in the homecare portfolio was supported by robust double-digit growth in both Odonil & Odomos. Odonil and Odomos registered market share gains of ~50 bps and ~40 bps, respectively. Performance of skin and salon portfolio was dragged down by the sanitizer range, leading to a subdued growth of 3.2% y-o-y. Excluding the sanitizer range, the portfolio grew by 20% y-o-y. On a two-year CAGR basis, skin and Salon portfolio registered 6.1% growth. Fem and Oxy continued their strong recovery with double-digit growths during Q3FY22. Gulabari also reported strong double-digit growth.

Foods & beverages (F&B): The F&B segment (contributing 14.1% to domestic revenue) reported robust y-o-y and two-year CAGR growth of 37.6% and 20.1%, respectively with revenue coming in at Rs. 296 crore. The beverages portfolio reported robust y-o-y growth of 38.6% and 2-year CAGR growth of 20% due to strong growth posted by both in-home and out-of-home categories. The Real brand posted market share gain of ~520 bps. Dabur added drinks and milkshakes category to the total addressable market expansion. The foods portfolio grew by 26.4% y-o-y and 21.1% on a 2-year CAGR basis driven by innovation and strong demand for the Hommade brand. The company targets to achieve revenue of Rs. 100 crore under the Hommade brand in FY2022. Dabur entered the seeds and nuts market during the quarter and the company plans to continue to innovate in this portfolio.

International business: The international business' revenues (contributing 25.1% to total sales) grew by 8.7% y-o-y on CC terms in Q3FY2022 (6.7% growth in rupee terms). The UK & EU business grew by 21.5% followed by Namaste, Nepal, Turkey and Egypt, which reported strong growth of 19.4%, 17.3%, 14.6% and 13%, respectively, on CC terms. MENA region reported muted growth of 4.5% impacted by high inflation in the region. Turkey witness currency depreciation of ~40%, the company focused on increasing export sales from Turkey to regions such as US and MENA which compensated for the currency depreciation. The company aims to achieve double-digit growth in the international business through geographic expansion and market share gains. The company expects to expand its margins in the international business by undertaking price hikes across the product portfolio.

Key conference call highlights

- **Rural growth outpaces urban growth:** Contribution from rural markets constitutes ~46% of total sales for Dabur. The company witnessed 7.5% growth in its rural markets led by strong demand across portfolio while growth in the urban markets was lower at 2.6%.
- **Price hikes to mitigate input cost inflation:** Input cost Inflation during the quarter came in at 13%. The company undertook calibrated price hikes across products to mitigate the impact of higher input prices. Prices were hiked considering the elasticity of demand for the products and accordingly, extent of price hike was different for different categories. The company enjoys leadership position in the healthcare category and thus undertook price hike to the tune of ~10% in this category. In the personal category as well (apart from the hair oil segment), the company undertook a price hike of ~10% while in the foods & beverages category, the company undertook price hike of ~1-2%. In the hair oil category, the company faces tough competition and hence its scope for price hike is narrow as any price hike will lead impact the volumes. The company indicated that the price hikes undertaken are sufficient to cover the inflation and hence any further hikes will depend on the pricing environment going ahead.
- **Focus on maintaining OPM:** The management stated that its top priority is to maintain OPM at the current level and the company will take necessary steps to prevent any dilution in the margins. The company's primary focus would be to increase the topline through initiatives such as higher contribution from innovation and ecommerce, improving modern trade channel and network expansion. Further, the company aims to undertake cost reduction by controlling the company's overhead costs and employee expenses. The company will also consider calibrated price hikes in its leadership brands to maintain margins.
- **E-commerce gaining traction:** Contribution from e-Commerce currently stands at ~6-7% of the company's revenue. Dabur aims to increase e-Commerce contribution to ~14% in the next 3-4 years. The company has adopted a strategy wherein it plans to initially launch all value-added products on the digital platform, scale-up these products on the e-Commerce platform and then selectively launch the products in the modern trade or general trade channel.
- **Accelerated pace of innovation:** The new products currently contribute ~3.5% to total sales and ~10% to the e-commerce sales with revenue of Rs. 60-70 crore. The company plans to increase contribution from new products to ~15% over the next 3-4 years.
- **Capex in the near term:** The company is looking to set up third party manufacturing to meet the rising demand for its products. The company is set to receive benefit of Rs. 170 crore through the PLI scheme for its food business and has made an investment of Rs. 550 crore in its Indore facility for the same. This investment will lead to margin expansion by 2-3% over the next 5-7 years. The management has guided that the company will undertake further investments as the market share of its products improves.
- **Launch of Chyawanprash for ethical:** The company recently launched a new improvised variant of Chyawanprash – Sharangdhar Samhita Chyawanprash which will be sold by the medical practitioners (addition to the ethical portfolio) which will complement the regular Chyawanprash which is sold in the OTC market. The new variant is a premium product and is available at a price twice that of the basic variant.
- **Real brand to expand into newer categories:** The company is planning to newer categories under its Real band. Real, which was earlier a drinks and juice brand will now be catering to three distinct categories with Real fruit power which will be the juices portfolio, Real milk power which will be the value added dairy portfolio and Real health which will be the superfood portfolio. The recently launched Chia and Pumpkin seeds are under the Real health brand. The Real brand is taking up market share from the organised as well as the unorganised players with improvement in modern trade, specifically in South and West India.

Results (Consolidated) Rs cr

Particulars	Q3FY22	Q3FY21	y-o-y (%)	Q2FY22	q-o-q (%)
Total Revenue	**2,941.8**	**2,728.8**	**7.8**	**2,817.6**	**4.4**
Materials	1,519.6	1,353.7	12.3	1,441.5	5.4
Employee cost	273.0	274.0	-0.4	269.7	1.2
Ad Promotions	237.1	282.4	-16.0	202.2	17.3
Other expenditure	284.6	244.5	16.4	283.5	0.4
Total Expenditure	2,314.3	2,154.7	7.4	2,196.9	5.3
Operating Profit	**627.5**	**574.2**	**9.3**	**620.7**	**1.1**
Other Income	96.7	80.9	19.5	112.4	-14.0
Interest Expenses	11.1	6.9	61.5	8.3	34.0
Depreciation	63.2	57.2	10.5	63.3	-0.2
Profit Before Tax	650.0	591.1	10.0	661.6	-1.8
Tax	145.5	97.5	49.2	155.8	-6.6
Adjusted PAT	**504.5**	**493.6**	**2.2**	**505.7**	**-0.3**
Adjusted EPS (Rs.)	2.9	2.8	2.2	2.9	-0.3
			bps		**bps**
GPM (%)	48.3	50.4	-205	48.8	-49
OPM (%)	21.3	21.0	29	22.0	-70
NPM (%)	17.1	18.1	-94	17.9	-80
Tax rate (%)	22.4	16.5	589	23.6	-117

Source: Company, Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q3FY22	Q3FY21	y-o-y (%)	Q2FY22	q-o-q (%)
Consumer care	2,543.2	2,442.2	4.1	2,387.5	6.5
Foods	329.0	236.5	39.1	369.9	-11.1
Retail	27.5	21.2	29.5	18.3	50.5
Other segments	32.7	23.6	38.4	34.5	-5.3
Unallocated other operating revenue	9.4	5.4	74.0	7.5	25.5
Total	**2,941.8**	**2,728.8**	**7.8**	**2,817.6**	**4.4**

Source: Company, Sharekhan Research

Segment-wise EBIT margins (%)

Particulars	Q3FY22	Q3FY21	y-o-y (bps)	Q2FY22	q-o-q (bps)
Consumer care	24.7	26.6	-182	24.8	-7
Foods	15.2	13.9	133	14.9	30
Retail	0.1	-28.0	-	-33.2	-
Other segments	7.8	8.4	-60	8.2	-35
Unallocated other operating revenue	23.2	24.8	-161	22.9	32

Source: Company, Sharekhan Research

Outlook and Valuation

Sector outlook – Near-term weakness; Long-term growth prospects intact

Slowdown in rural demand, consumer inflation, and weakness in consumer sentiments will hamper overall consumption in the coming quarters. Further, easing of the third COVID-19 wave would affect recovery in out-of-home consumption. On the other hand, companies expect that raw-material inflation will take another 5-6 months to ease and would continue to put pressure on margins. However, price hikes undertaken in the product portfolio would help in reducing input cost pressure. Though near-term headwinds will take a toll on the performance of consumer goods companies, long-term growth prospects are intact. Low penetration levels in key categories (especially in rural India), lower per capita consumption compared to other countries, large shift to branded products, and emergence of new channels such as e-commerce/D2C provide lot of opportunities for consumer goods companies to achieve sustainable growth in the medium to long run.

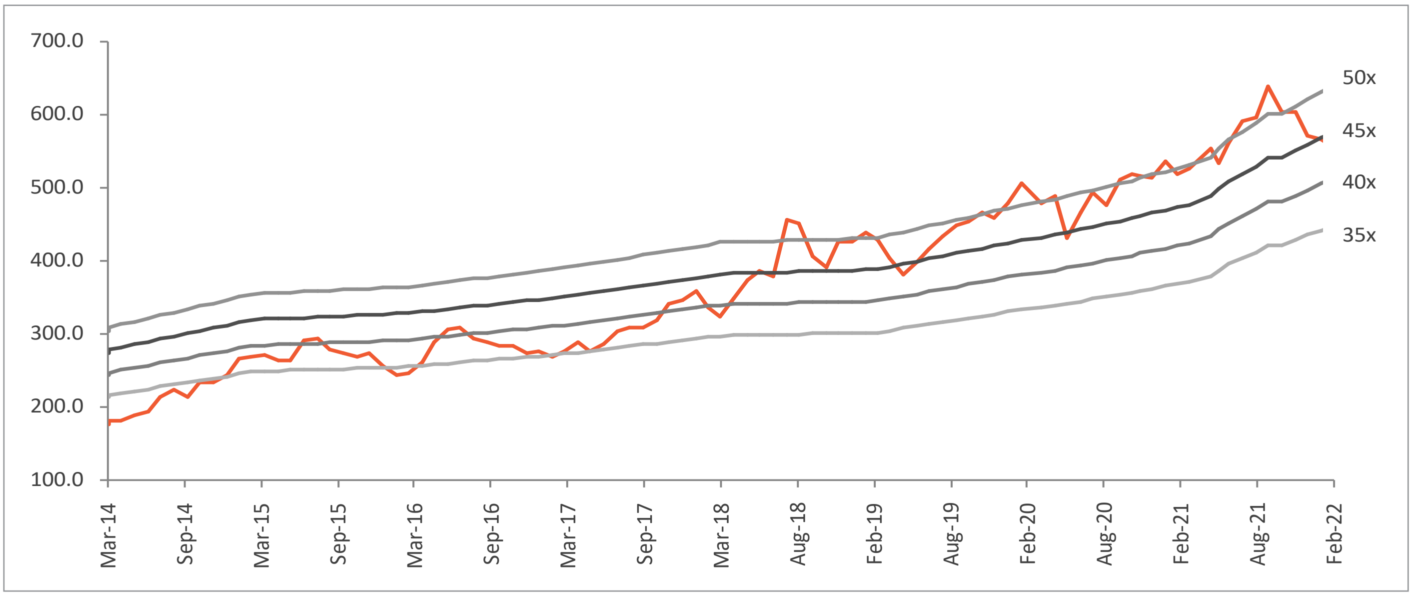
Company outlook - Mid-teens revenue growth; Margins to remain stable

Slowdown in rural markets might have taken a toll on near-term performance. We are confident of volume growth trajectory to improve in the domestic business driven by market share gains in key categories, improving category penetration, strong traction in product launches, and expansion in distribution reach in medium to long run. On the category front, the health supplement category is expected to achieve mid-high single-digit growth, home and personal care is likely to achieve mid-teens growth, and food and beverages business is expected to achieve high double-digit growth (due to low base). The company has undertaken price hike of mid-single digit and is opting for levers such reduction in trade margins and supply efficiencies to reduce pressure on gross margins in the coming quarters. Further, the company is focusing on achieving cost savings of Rs. 100 crore through Project Samriddhi.

Valuation - Maintain Buy with an unchanged price target of Rs. 725

Dabur's Q3 performance was marginally ahead of expectation. Volume growth missed due to high base of Chyawanprash and Honey (excluding that volume growth would have been mid to high single digit). The diversified portfolio of brands, sustained market share gains in key categories, good traction to new launches and distribution expansion would help Dabur achieve double-digit revenue and earnings growth in the medium term (with stable OPM). We expect Dabur's revenues and PAT to grow by 16% and 18% over FY2021-24. The stock is currently trading at 42.8x/35.6x its FY2023E/24E EPS. We maintain our Buy on the stock with an unchanged PT of Rs. 725.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY21E	FY23E
Hindustan Unilever	66.4	59.6	50.0	47.2	42.1	36.0	36.5	24.9	30.0
Marico	54.7	48.2	41.1	39.9	35.7	30.4	41.0	45.8	52.4
Dabur India	58.0	52.2	42.8	47.0	41.0	33.4	26.4	27.9	30.9

Source: Company, Sharekhan estimates

About company

Dabur is one of India's leading FMCG companies with revenue of close to Rs. 10,000 crore. The company operates in key consumer product categories such as hair care, oral care, healthcare, and skin care based on Ayurveda. Dabur India's FMCG portfolio today includes eight distinct Power Brands: Dabur Chyawanprash, Dabur Honey, Dabur Honitus, Dabur PudinHara and Dabur Lal Tail in the Healthcare space; DaburAmla and Dabur Red Paste in the Personal care category; and Real in the Foods & Beverages category. 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 ~25% to total revenue.

Investment theme

Dabur'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 make 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 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
Ankush Jain	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
3	First State Global Umbrella Fund	1.5
4	Mitsubishi UFJ Financial Group Inc.	1.4
5	BlackRock Inc.	1.2
6	Aditya Birla Sun Life Trustee Co.	1.1
7	Vanguard Group Inc.	1.1
8	Matthews International Capital Management	1.1
9	Arisaig India Fund Limited	1.0
10	ICICI Prudential Life Insurance Co.	0.8

Source: Bloomberg (Old data)

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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