

Dabur India

Inflation-led demand slowdown impacts growth momentum; maintain BUY on reasonable valuations and decent growth outlook

Our view

While volume growth has normalized in last two quarters with 2% each given a high base, 2-yr revenue CAGR of 16%/12% in Q4FY22/FY22 indicates Dabur's portfolio strength and share gains. Resilient growth of 7% in healthcare and strong performance from Foods business on a high base were key positives. Its International business continues to grow in double-digits except Turkey which is soft. Key negatives were category decline in toothpaste and hair oil driving muted growth, yet company was able to gain market share by 20bps/70bps in Q4. Its brands in healthcare, juices and home care continue with a strong growth momentum. Even on the margin front, despite the unprecedented commodity inflation, the company was able to maintain margins with aggressive price hikes in all segments other than hair oil and strong cost controls. Expansion of addressable market is a key focus area for the company in segments like single herbs, beverages and healthcare. We expect the company to continue delivering industry-leading growth for the next couple of years led by aggressive NPD, distribution expansion and brand extensions. Given the nature of portfolio, pricing power remains strong which should help the company keep spending on A&P despite inflation pressure. While margin pressures make us trim our earnings estimates, Dabur's increased growth aggression, transformation initiatives, strong rural reach expansion strategy amidst an expanding Ayurveda/herbal market and improving International growth outlook, we maintain BUY, as valuations also look reasonable now post the recent correction.

Result Highlights

- Quarter results** – India FMCG volume and value growth of 2% and 7.6%, consolidated revenue growth of 7.7%, international business CC growth of 10.7%, EBITDA and PAT growth of 2.5% and 0.4% given a 130bps gross margin shrinkage.
- Portfolio mix** – Healthcare increased 7.4% on a high base, still a strong 15% 2-yr CAGR with share gains in Chyawanprash and Honey and continued strong growth in OTC/ethicals, HPC grew mere 1.9% due to category decline in oral care and hair oils, shampoo and home care show resilient performance, F&B surged 33.5% led by share gains in juices and continued healthy traction in foods business.
- Margins** – Gross margin dropped 130bps/90bps YoY/QoQ to 47.4% on the back of sustained inflation in vegetable oils and other RM prices. EBITDA margin came in at 18%, A&P spends down 2.5% YoY while it saw sharp fall QoQ to contain margin contraction.

Valuation

We build in revenue/EBITDA/PAT growth of 12%/13%/14% over FY22-24E. We trim our EPS estimates by ~6% to incorporate margin headwinds and slightly lower revenue growth assumptions due to rural slowdown and category headwinds in hair oil. But given attractive valuations and possibilities of inorganic growth, we maintain BUY on the stock with a revised PT of Rs609 based on 45x FY24E earnings, in-line with its 5-yr average multiple.

Exhibit 1: Actual vs estimate

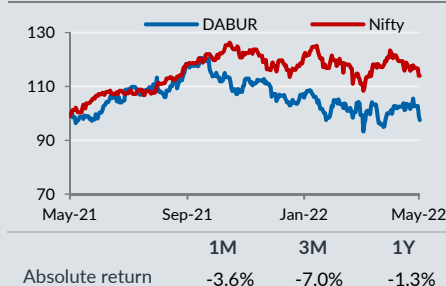
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	25,178	25471	25288	(1.1)	(0.4)	In-line revenue performance with miss on margins
EBITDA	4,536	5094	4853	(11.0)	(6.5)	
EBITDA Margin (%)	18.0	20.0	19.2	(198.5)	(117.6)	
Adjusted PAT	3,805	4168	3947	(8.7)	(3.6)	

Reco	: BUY
CMP	: Rs 529
Target Price	: Rs 609
Potential Return	: +15.1%

Stock data (as on May 5, 2022)

Nifty	16,683
52 Week h/l (Rs)	659 / 502
Market cap (Rs/USD mn)	935284 / 12264
Outstanding Shares (mn)	1,768
6m Avg t/o (Rs mn):	997
Div yield (%):	1.0
Bloomberg code:	DABUR IN
NSE code:	DABUR

Stock performance



Shareholding pattern (As of Mar'21 end)

Promoter	67.4%
FII+DII	24.3%
Others	8.3%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	609	650

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	11.6	13.5
EPS (Old)	12.4	14.4
% change	-6.5	-6.2

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	1,08,887	1,22,496	1,37,383
YoY Growth (%)	13.9	12.5	12.2
EBITDA	22,538	25,173	28,988
Margins (%)	20.7	20.6	21.1
PAT	18,273	20,542	23,920
YoY Growth (%)	7.8	12.4	16.4
ROE	22.8	23.1	23.9
ROCE	27.5	27.8	29.2
EPS	9.9	11.6	13.5
P/E	53.7	45.5	39.1
EV/EBITDA	41.5	36.9	31.6

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- **Earnings and dividend** – PAT flat at Rs 3.8bn owing to flat volume and lower margins. Declared interim dividend of Rs 2.7/share taking total dividend to Rs 5.2/share with dividend payout ratio at 50%.

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	% yoy	% qoq	FY22	FY21	% yoy
Sales	23,368	26,115	28,176	29,418	25,178	7.7	(14.4)	1,08,886.8	95,616.5	13.9
EBITDA	4,425	5,520	6,207	6,275	4,536	2.5	(27.7)	22,538.1	20,026.8	12.5
EBITDA Margin %	18.9	21.1	22.0	21.3	18.0	(92.0) bps	(331.6) bps	20.7	20.9	(24.6) bps
Depreciation	666	613	633	632	651	(2.3)	2.9	2,528.9	2,401.3	5.3
EBIT	3,758.8	4,907.2	5,573.8	5,643.0	3,885.2	3.4	(31.2)	20,009.2	17,625.5	13.5
EBIT Margin %	16.1	18.8	19.8	19.2	15.4	(65.4) bps	(375.2) bps	18.4	18.4	(5.7) bps
Interest charges	86	75	83	111	118	36.2	6.0	386.0	308.1	25.3
Other Income	850	848	1,124	967	991	16.7	2.5	3,931.6	3,252.9	20.9
PBT	4,522	5,681	6,616	6,500	4,759	5.2	(26.8)	23,555	20,570	14.5
Tax	744	1,297	1,558	1,455	954	28.3	(34.5)	5,263.8	3,610.7	45.8
Effective Tax Rate (%)	16.4	22.8	23.6	22.4	20.0			22.3	17.6	
PAT	3,779	4,384	5,057	5,045	3,805	0.7	(24.6)	18,291	16,960	7.9
PAT Margin %	16.2	16.8	17.9	17.1	15.1	(105.7) bps	(11.9) bps	16.8	17.7	(93.9) bps
EPS (Rs)	2.1	2.5	2.9	2.9	2.2	0.7	(24.6)	10.3	9.6	7.9

Source: Company, YES Sec

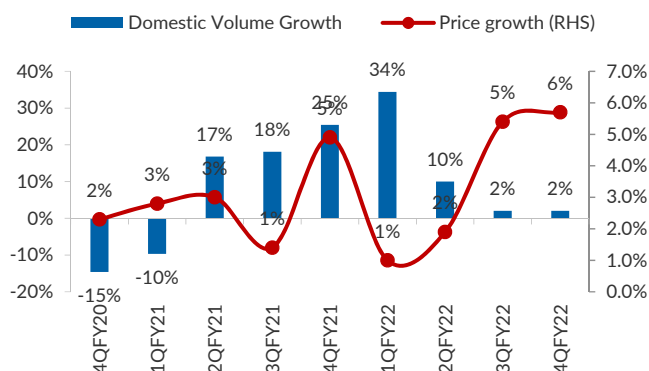
CONCALL HIGHLIGHTS

- **Management commentary** - Key growth drivers were F&B vertical, solid innovation with 5% contribution coming from new launches, market share gains in 99% of portfolio, 25% spends on digital and social media, e-commerce now contributes 6.5% to revenue, 1.3mn direct reach and 90k village reach, Indore plant operational in December 2021, 12.5% material cost inflation led to price hikes and cost efficiencies; Unabated inflation continues, demand has softened in 4Q with volumes contracting 4.1% due to price hikes, revenue up 7.7% (about 2% volume growth) driven by 8.5% India growth, 130bps GM contraction, EBITDA up 2.5% and PBT up 5%, 85cr Turkey business impairment given Turkish Lira devaluation, market share in juices up 610bps, foods business up 12.5% led by portfolio expansion and innovation, HPC up 2% on 33% base, toothpaste up 11.3% and share up 20bps, hair oils up 17% with share up 70bps, shampoo up 22% with share up 40bps, home care up 21% led by Odonil and Odomos, skin care down 11% on base of 40% growth, healthcare up 7.4% on base of 23%, health supplement sup 10%, chyawanprash share up 250bps and honey share up by 300bps, Hajmola share up 300bps, OTC up 17%, international business saw CC growth of 10.7%, Turkey business grew 47% in CC terms, inflation remains the key risk for both demand and margins, strong summer, good harvest and normal monsoon gives a positive outlook for the year.
- **Toothpaste segment update** - Category has declined by 5% mainly due to high base in 4Q in addition to some downtrading and cutback in consumer promotions, Dabur has grown by 2.5% which led to 20bps market share gain to 16.5%, herbal category now reached 30% of total market, growth rates have come off from a very high base, Dabur Red continues to gain share especially in South India.

Dabur India

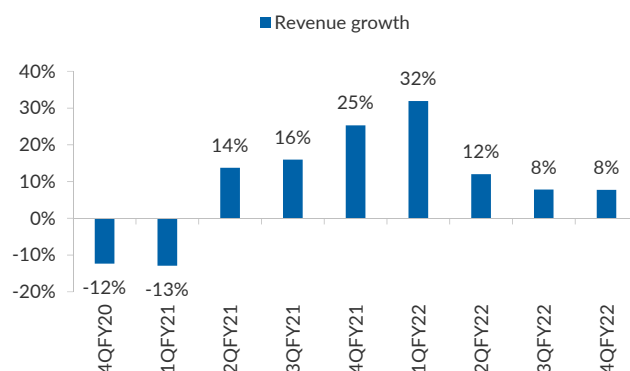
- **Quick commerce update** – Inventory corrections underway in e-commerce which has impacted growth rates in e-commerce which can continue for two more quarters, so structural change in strategy.
- **Margin outlook** – GM compression of 130bps mainly in the hair care segment, foods and healthcare business margins intact with inflation fully passed on, will take more price hikes going forward, can see margin pressure continuing for 1HFY23 and some cool off is expected to begin from 2HFY23; will target to maintain current level of margins via further cost efficiencies.
- **Juices business update** – Significant market share gains of 610bps in juices and nectars to reach 64%, entry into drinks category (did more than 100cr business) also helped, market grew 9% with Dabur growing 35%, doing quite well in April as well.
- **Healthcare business update** – 3-yr CAGR looks soft at 5%; Significant increase in penetration, distribution and market share in products like chyawanprash and honey, 6% CAGR in chyawanprash and 11% in honey; entering new categories in the segment as well, more players coming in will expand the overall market, high base in 1QFY23 will impact growth but expect double-digit CAGRs for the full year, healthcare contribution should settle at around 30% of total revenue with foods and HPC contribution increasing.
- **Downtrading trends** - See signs of downtrading especially in rural India, liquidity crunch and demand compression led to increased credit and weak growth for Dabur; see downtrading in urban markets as well especially HPC categories like shampoo, hair oil, oral care; LUPs doing better than large packs; juices and healthcare portfolio relatively less impacted.
- **International business update** – Consistently growing in double-digits with most headwinds behind except inflation, MENA contributes 40-50% of turnover where margins are the highest, US, SAARC and Egypt also profitable, Turkey is only pain point.
- **Commodity inflation and price hikes** – FY22 material inflation at 12.5% with 16% inflation for 4Q, expect 7% inflation in FY23 with 8-9% inflation as of now, not aggressively passing it on to avoid hit on volumes leading to near-term pressure on margins.
- **Aggression on innovation** – Not looking to cut back or delay innovation and renovation pipeline, ecommerce NPD contribution is 11% vs 5% for company, GT innovation will be muted while e-commerce innovation will remain aggressive.
- **Rural growth outlook** - Rural wallets and credit cycle are witnessing pressure after a long time indicating a pressure on consumption especially in the Hindi heartland; expect rural economy to turnaround in the next 6 months with rising income levels given higher crop prices, rural distribution expansion will help leverage that trend.
- **Capex and tax rate guidance** – Looking at Rs 400cr capex in FY23 mainly on Indore greenfield plant, tax rate expected at 22-23% for FY23 on a consolidated level.
- **Cash utilization plans** – Cash balance has now increased to 6000 crs, scouting for some synergistic acquisitions awaiting more reasonable valuations especially in the e-commerce/foods space.
- **Increase in other expenses** - Freight and travel costs up by 20%, travel expenses higher especially because of higher growth in the foods business, higher outsourcing in the F&B business also drove increase in other expenses.

Exhibit 3: Volume growth moderated from a high base however growth aided by Healthcare and Foods



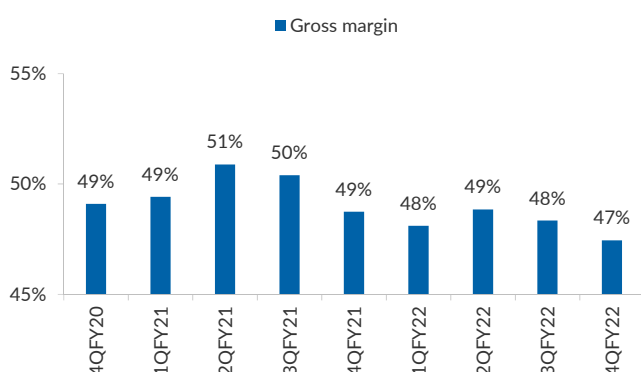
Source: Company, YES Sec

Exhibit 4: Similar trend for consolidated revenue growth



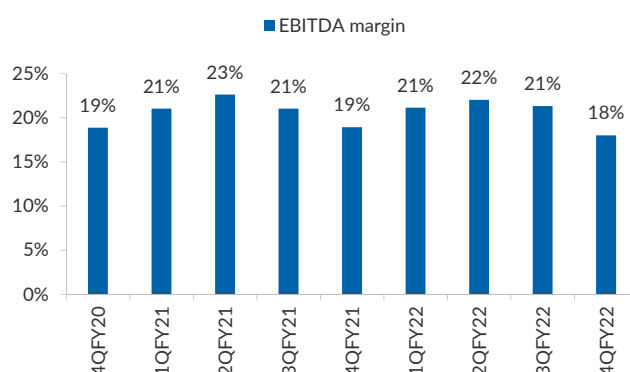
Source: Company, YES Sec

Exhibit 5: Gross margin remains impacted by inflation in input costs



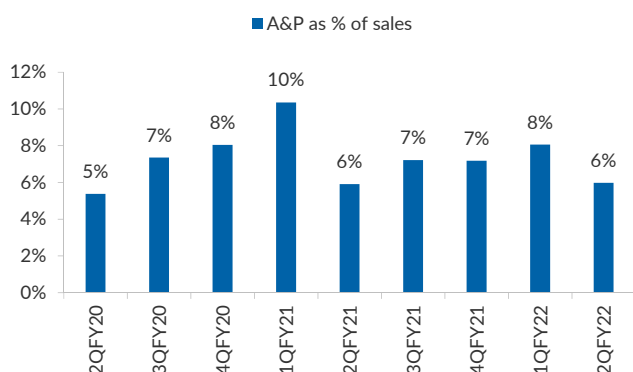
Source: Company, YES Sec

Exhibit 6: Tight control on employee and A&P spends helped restrict EBITDA margin shrinkage



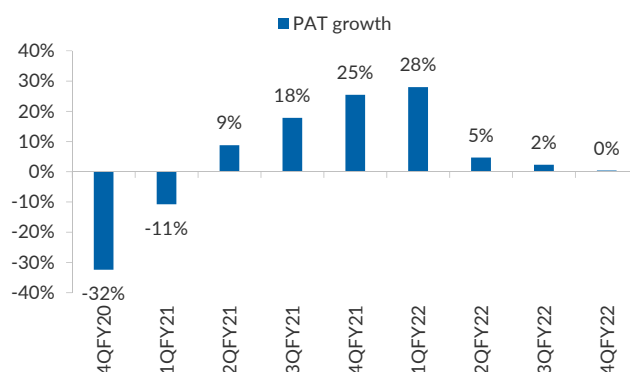
Source: Company, YES Sec

Exhibit 7: A&P spends decreased 2.5% QoQ to mitigate margin pressures



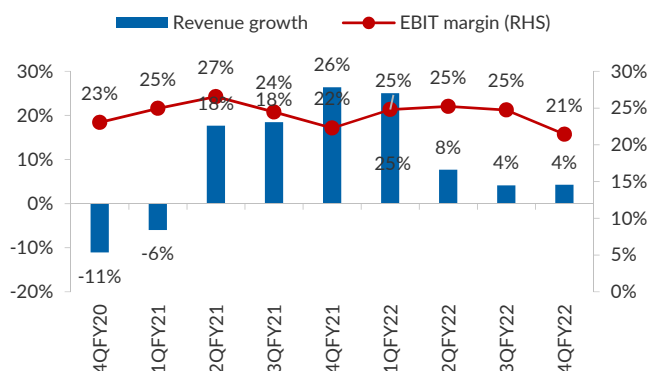
Source: Company, YES Sec

Exhibit 8: Earnings were impacted by a high base and lower margins



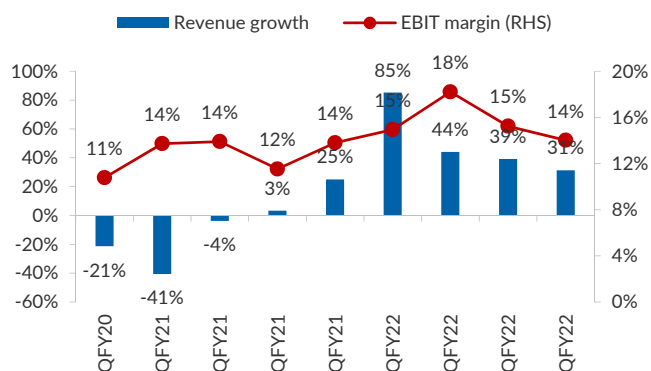
Source: Company, YES Sec

Exhibit 9: Growth normalized with inflation impacting margins in Consumer Care business



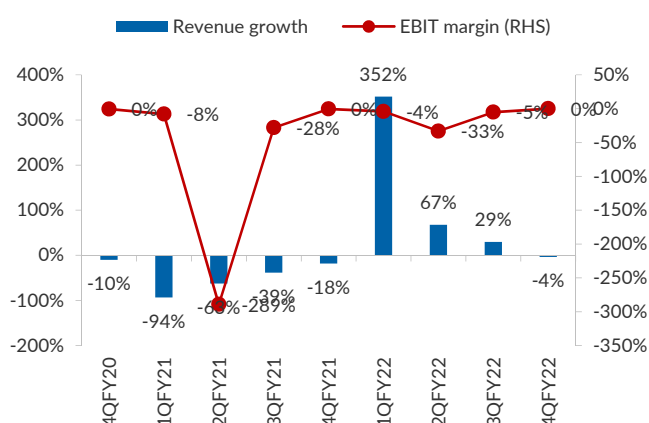
Source: Company, YES Sec

Exhibit 10: Strong revenue growth of 31% but margins were impacted due to inflation in edible oils



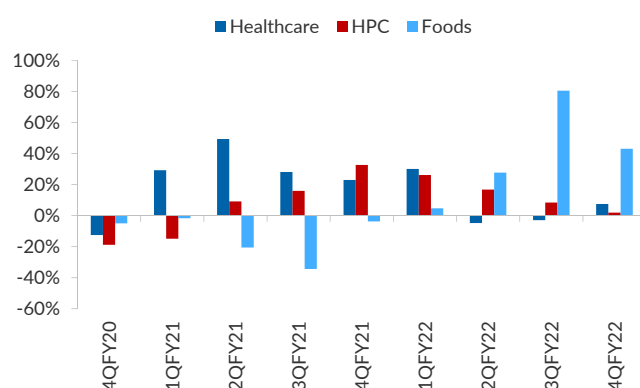
Source: Company, YES Sec

Exhibit 11: ... While retail performance dipped in Q4



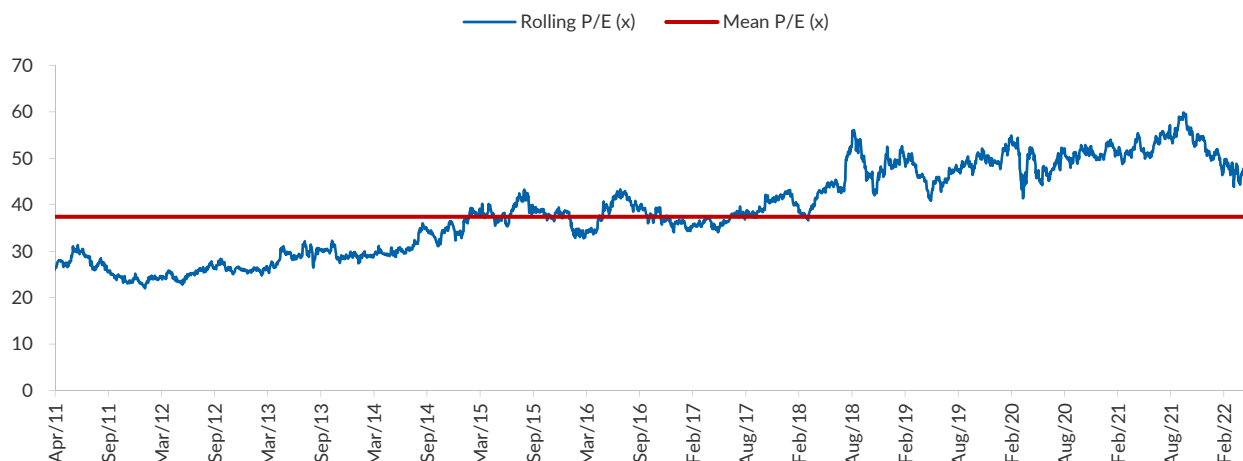
Source: Company, YES Sec

Exhibit 12: Revenue growth led by Healthcare and Foods



Source: Company, YES Sec

Exhibit 13: Currently trading at 45x one-yr fwd earnings



Source: Company, YES Sec

FINANCIALS

Exhibit 14: Balance Sheet

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	1,767	1,767	1,767	1,767	1,767
Reserves	64,290	74,868	82,045	92,316	1,04,276
Net worth	66,422	77,002	84,218	94,489	1,06,449
Debt	4,671	4,833	8,677	7,677	6,677
Deferred tax liab (net)	174	139	816	816	816
Other non current liabilities	676	647	3,513	2,283	2,511
Total liabilities	71,944	82,621	97,224	1,05,264	1,16,452
Fixed Asset	19,676	19,590	21,355	21,627	21,704
Investments	28,518	41,989	62,592	62,592	62,592
Other Non-current Assets	8,816	4,959	3,958	4,265	4,606
Net Working Capital	5,182	1,158	1,869	1,970	2,175
Inventories	13,796	17,343	19,114	18,458	20,702
Sundry debtors	8,139	5,616	6,462	10,068	11,292
Loans and Advances	131	145	0	336	376
Sundry creditors	14,822	19,153	20,180	21,814	24,465
Other current liabilities	5,120	4,820	5,013	6,712	7,528
Provision	1,655	1,878	1,860	2,046	2,251
Cash & equivalents	9,752	14,925	7,451	14,809	25,375
Total Assets	71,944	82,621	97,224	1,05,264	1,16,452

Source: Company, YES Sec

Exhibit 15: Income statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Revenue	87,036	95,617	1,08,887	1,22,496	1,37,383
Operating profit	17,924	20,027	22,538	25,173	28,988
Depreciation	2,205	2,401	2,529	2,728	2,923
Interest expense	495	308	386	461	401
Other income	3,053	3,253	3,932	4,521	5,200
Profit before tax	18,277	20,570	23,555	26,506	30,864
Taxes	2,797	3,611	5,264	5,964	6,944
Adj. profit	15,479	16,950	18,273	20,542	23,920
Exceptional items	1,000	-	850	-	-
Net profit	14,479	16,950	17,423	20,542	23,920

Source: Company, YES Sec

Exhibit 16: Cash flow statement

Y/e 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
PBIT	18,772	20,878	23,941	26,967	31,265
Depreciation	2,205	2,401	2,529	2,728	2,923
Tax paid	(2,797)	(3,611)	(5,264)	(5,964)	(6,944)
Working capital Δ	(1,476)	4,024	(710)	(102)	(204)
Other operating items					
Operating cashflow	16,703	23,693	20,496	23,629	27,039
Capital expenditure	(5,763)	(2,316)	(4,293)	(3,000)	(3,000)
Free cash flow	10,940	21,377	16,202	20,629	24,039
Equity raised	563	2,023	(1,055)	-	-
Investments	5,591	(13,471)	(20,604)	-	-
Debt financing/disposal	(572)	161	3,844	(1,000)	(1,000)
Interest Paid	(495)	(308)	(386)	(461)	(401)
Dividends paid	(5,301)	(8,395)	(9,190)	(10,271)	(11,960)
Other items	(5,861)	3,785	3,715	(1,539)	(112)
Net Δ in cash	4,865	5,173	(7,474)	7,359	10,566

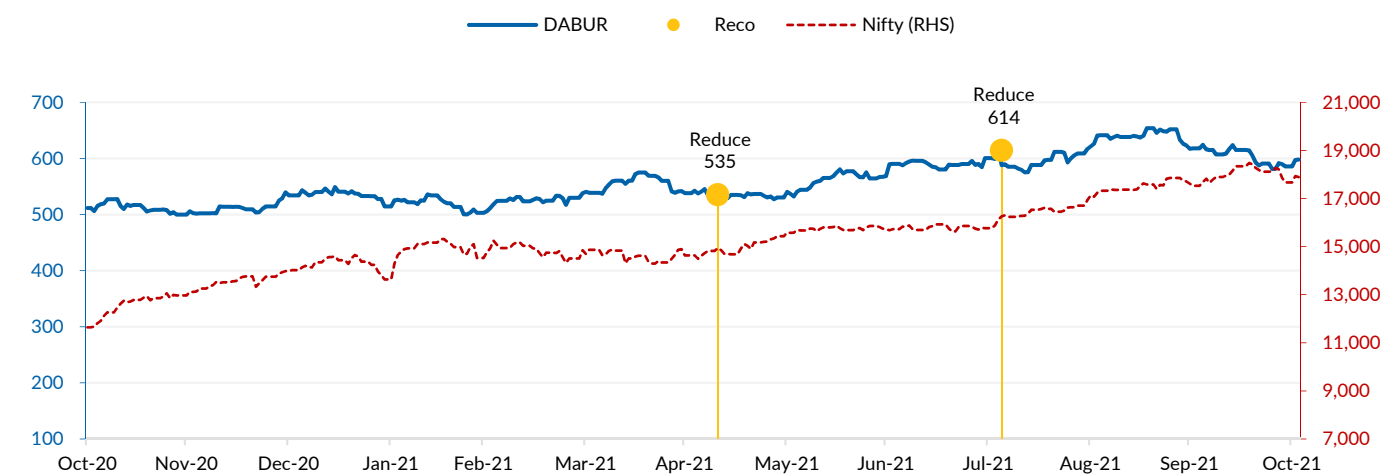
Exhibit 17: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Growth matrix (%)					
Revenue growth	2.0	9.9	13.9	12.5	12.2
Op profit growth	3.0	11.7	12.5	11.7	15.2
EBIT growth	1.0	11.2	14.7	12.6	15.9
Net profit growth	1.7	9.5	7.8	12.4	16.4
Profitability ratios (%)					
OPM	20.6	20.9	20.7	20.6	21.1
EBIT margin	21.6	21.8	22.0	22.0	22.8
Net profit margin	17.8	17.7	16.8	16.8	17.4
RoCE	28.4	27.4	27.5	27.8	29.2
RoNW	25.3	23.8	22.8	23.1	23.9
RoA	17.4	16.8	15.7	15.8	16.7
Per share ratios					
EPS	8.8	9.6	10.3	11.6	13.5
Dividend per share	3.0	4.8	5.2	5.8	6.8
Cash EPS	10.0	10.9	11.8	13.2	15.2
Book value per share	37.4	43.4	47.4	53.2	60.0
Valuation ratios					
P/E	60.4	55.2	51.2	45.5	39.1

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
P/CEPS	52.9	48.3	44.9	40.2	34.8
P/B	14.2	12.2	11.2	9.9	8.8
EV/EBIDTA	51.9	46.2	41.5	36.9	31.6
Payout (%)					
Dividend payout	34	50	50	50	50
Tax payout	15	18	22	23	23
Liquidity ratios					
Debtor days	34	21	22	30	30
Inventory days	58	66	64	55	55
Creditor days	62	73	68	65	65

Source: Company, YES Sec

Recommendation Tracker



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Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 |
MERCHANT BANKER: INM000012227 | RESEARCH ANALYST:
INH000002376 | INVESTMENT ADVISER: INA000007331 | Sponsor and
Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI
Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

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