



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

| Reco/View | Change |
|-----------------------|--------|
| Reco: Buy | ↔ |
| CMP: Rs. 567 | |
| Price Target: Rs. 675 | ↑ |

↑ Upgrade ↔ Maintain ↓ Downgrade

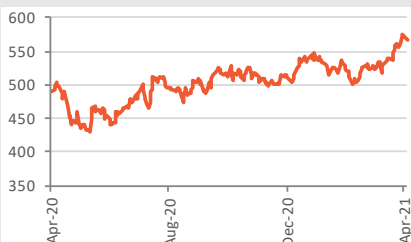
Company details

| | |
|-------------------------------|-----------------|
| Market cap: | Rs. 1,00,213 cr |
| 52-week high/low: | Rs. 581 / 421 |
| NSE volume: (No of shares) | 34.4 lakh |
| BSE code: | 500096 |
| NSE code: | DABUR |
| Free float: (No of shares) | 57.7 cr |

Shareholding (%)

| | |
|-----------|------|
| Promoters | 67.4 |
| FII | 19.8 |
| DII | 5.3 |
| Others | 7.5 |

Price chart



Price performance

| (%) | 1m | 3m | 6m | 12m |
|--------------------|-----|-----|------|-------|
| Absolute | 6.3 | 6.4 | 11.8 | 13.6 |
| Relative to Sensex | 9.7 | 8.0 | -6.7 | -39.6 |

Sharekhan Research, Bloomberg

Summary

- We maintain our Buy recommendation on Dabur India Limited (Dabur) with a revised PT of Rs. 675. Strong brand portfolio, double-digit earnings growth visibility (~18% CAGR over FY2020-FY2023), and decent valuation makes it a strong case for investment.
- Dabur's Q4FY2021 performance is expected to be strong with volume growth of 30%+; stable operating margin and 20%+ PAT growth.
- Second wave of surge in COVID-19 cases has pushed the demand for health and hygiene products. Dabur will be one of the key beneficiaries of it and its healthcare portfolio will score good run.
- The stock is currently trading at 40.5x its FY2023E EPS, which is at a discount to its last three years' average multiple of 47x, thus providing a good opportunity to enter in quality stocks.

Dabur India Limited (Dabur) consistently registered strong double-digit volume growth of 17%-18% in Q2FY2021 and Q3FY2021. Strong volume growth can be attributed to robust demand for healthcare and ethical products and market share gains in categories such as oral care, shampoos, Chyawanprash, and honey. We expect Dabur to register 30%+ volume in Q4FY2021 on account of sustained double-digit growth in healthcare, ethical and shampoos, improved sales in hair oils due to recovery in the hair oil category, gaining market share in key categories, and supported by low base of Q4FY2020. The recent surge in COVID-19 cases has again pushed demand for sanitizers and hygiene products, while demand for healthcare products continues to remain strong. Our interaction with most medical/chemist shops suggest that demand for products such as giloy, tulsi drops, and honey has gone up significantly in recent times. The company is also promoting Dabur Sanitize Germ Protection soap, which was test marketed in few cities in Q3. Demand for such products is expected to remain strong in the domestic market. From a supply perspective, we do not expect any major disruption due to well-preparedness of consumer goods companies. Further, rural India is yet to see any underperformance and demand environment in rural markets has been keenly monitored in the coming months. Health supplements and OTC products, which registered growth of 49% and 31%, respectively, in 9MFY2021 will continue to deliver strong double-digit growth in the coming quarters (including Q4). Sustained market share gains and higher promotional activities will help the oral care and shampoo category to achieve strong growth. The hair oil category has consistently recovered on a q-o-q basis; and we expect strong rebound in Q4. Going ahead, new product addition, improving penetration of healthcare products (including Chyawanprash and honey), sustained market share gains in large categories, and enhanced distribution will help the company to achieve a revenue CAGR of 14.5% over FY2020-FY2023. We expect OPM to gradually improve from 20.6% in FY2020 to 22.5% in FY2023 because of efficiencies, cost-saving programmes, and better revenue mix. Thus, we expect Dabur's earnings to report a 17.6% CAGR over FY2020-FY2023 (much better than a 6% earning CAGR achieved over FY2017-FY2020). Another year of normal monsoon and sustained strong demand in rural India will act as an additional trigger for earnings uptick in the near term.

Our Call

View – Retain Buy with a revised PT of Rs. 675: We currently maintain our earnings estimates for FY2022/FY2023 and will take a broader view on the same post the Q4FY2021 earning conference. Dabur's stock price is currently trading at 40x its FY2023E EPS, which is at a discount to its last three years' average multiple of 47x. Thus, the strong brand portfolio, double-digit earnings growth visibility, and decent valuations provide a good opportunity to invest in quality FMCG stocks. We maintain our Buy recommendation on the stock with a revised PT of Rs. 675 (valuing the stock at 48x its FY2023E earnings).

Key Risks

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

Valuation (Consolidated)

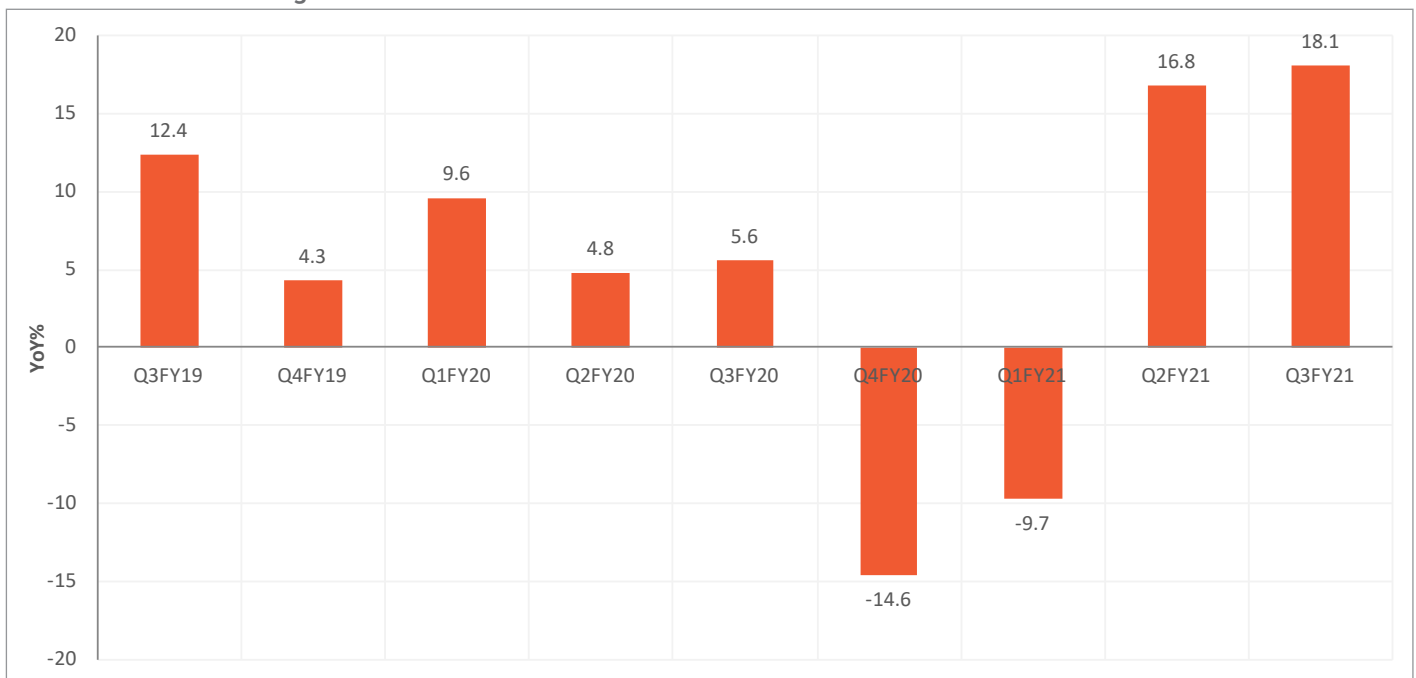
| Particulars | FY19 | FY20 | FY21E | FY22E | FY23E |
|--------------------|-------|-------|-------|--------|--------|
| Revenue | 8,533 | 8,704 | 9,747 | 11,482 | 13,063 |
| OPM (%) | 20.4 | 20.6 | 21.8 | 22.2 | 22.5 |
| Adjusted PAT | 1,496 | 1,528 | 1,781 | 2,143 | 2,483 |
| Adjusted EPS (Rs.) | 8.5 | 8.6 | 10.1 | 12.1 | 14.0 |
| P/E (x) | 67.1 | 65.7 | 56.3 | 46.8 | 40.4 |
| P/B (x) | 17.8 | 15.2 | 13.0 | 11.0 | 9.2 |
| EV/EBIDTA (x) | 56.4 | 55.0 | 45.7 | 37.7 | 32.2 |
| RoNW (%) | 26.4 | 25.0 | 24.9 | 25.5 | 24.7 |
| RoCE (%) | 28.1 | 27.0 | 28.3 | 30.0 | 29.5 |

Source: Company; Sharekhan estimates

Dabur to registered 30%+ volume growth in Q4:

Dabur consistently registered strong double-digit volume growth of 17%-18% in Q2FY2021 and Q3FY2021. Strong volume growth can be attributed to robust demand for healthcare and ethical products and market share gains in categories such as oral care, shampoos, Chyawanprash, and honey. Although Q1FY2021 saw a volume decline due to supply disruption, health supplements and OTC healthcare categories registered strong growth of 53% and 34%, respectively, due to high demand for health and hygiene products during the quarter. Q4FY2021 is expected to see volume growth in upwards of 30% mainly on account of sustained strong demand for OTC and healthcare products, recovery in the hair oil category, and market share gains in large categories such as shampoos and oral care. Though COVID-19 cases have gone up significantly in the recent past, the well preparedness of the company in terms of supply/distribution of products and sustained high demand in rural markets will have lesser impact on sales volume in Q1FY2022. We need to keenly monitor the demand environment and the impact of restrictions imposed by various states on the supply of products, if any, in the coming months.

Trend in domestic volume growth

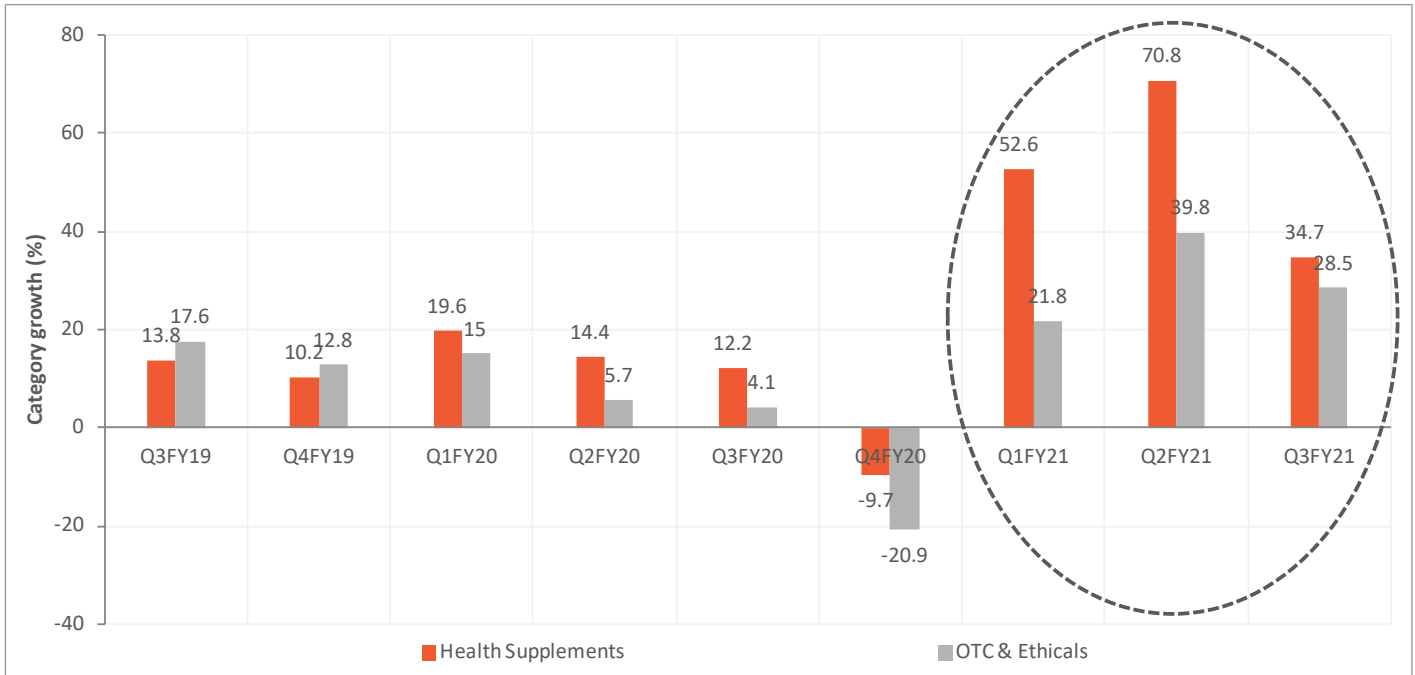


Source: Company; Sharekhan Research

Health supplements and ethical will continue to deliver strong double-digit growth:

Chyawanprash is a ~Rs. 1,000 crore category in India. Dabur's Chyawanprash is gaining market share from smaller players as many consumers are shifting from small players to more trusted brands. Dabur's market share is currently at over 60% in the domestic market. According to the Ayush ministry, Chyawanprash has better immunity power and efficacy levels are very high. This is also helping in improving the penetration, which has gone beyond 6%. On the other hand, honey penetration in India is at 24%-25%. The company's market share in the category improved by 700 bps y-o-y. Growth in these products was anticipated to come down due to drop in COVID-19 cases. However, with the recent spike in cases, which is much larger than the first wave, demand for immunity-boosting products has regained momentum and is expected to remain strong in the coming months. Thus, we expect health supplements and ethical product categories to achieve strong double-digit growth in the coming quarters.

Trend in growth of health supplements and ethical categories



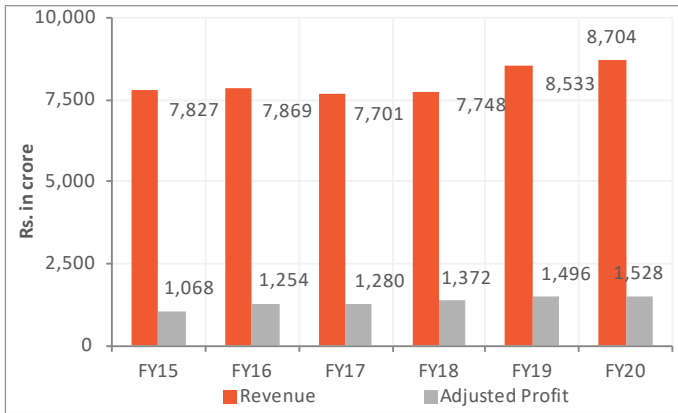
Source: Company; Sharekhan Research

Dabur’s oral care category beats industry growth in Q3FY2021:

Dabur’s oral care category registered strong of 28% market share with gain of 120 bps y-o-y. 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 consistently growing in double digits. However, the highlight was that the balance 30% of the portfolio grew by 25%-30% in Q3. Dabur has a strong footing in Naturals, which helped the company 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. This will help the company to achieve industry-leading growth in the oral care segment in the near to medium term.

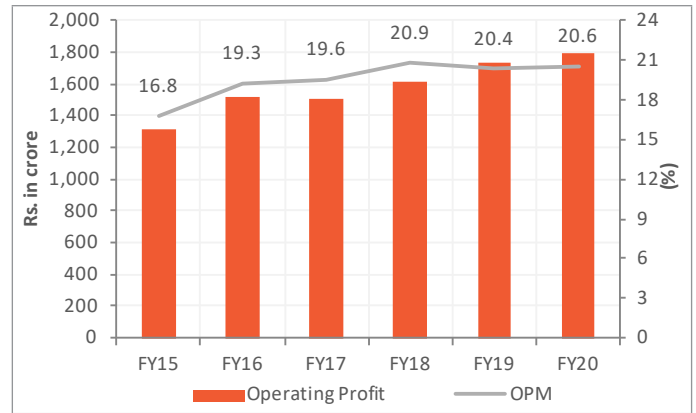
Financials in charts

Trend in revenues



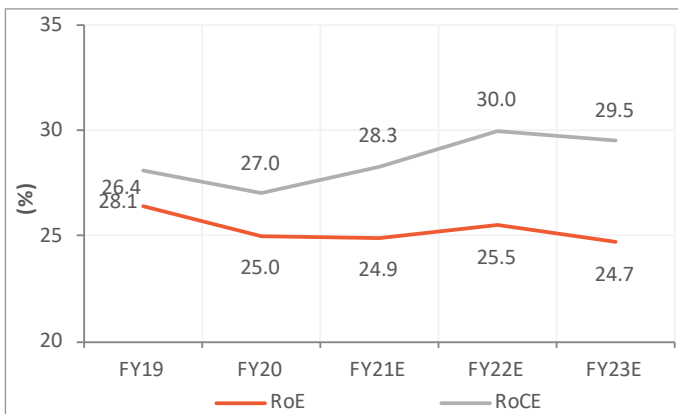
Source: Company, Sharekhan Research

Trend in operating profit & OPM



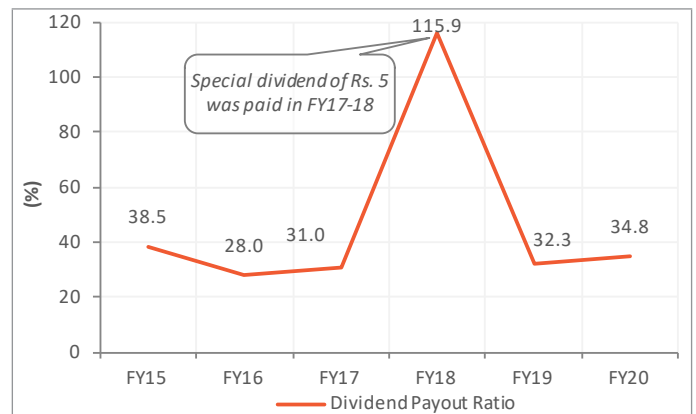
Source: Company, Sharekhan Research

Return ratios to improve going ahead



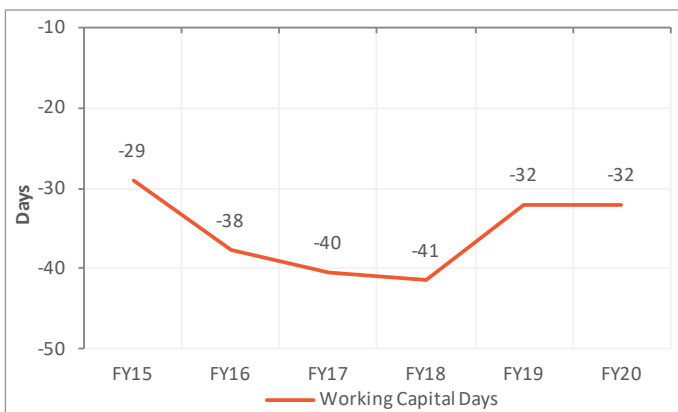
Source: Company, Sharekhan Research

Dividend payout ratio



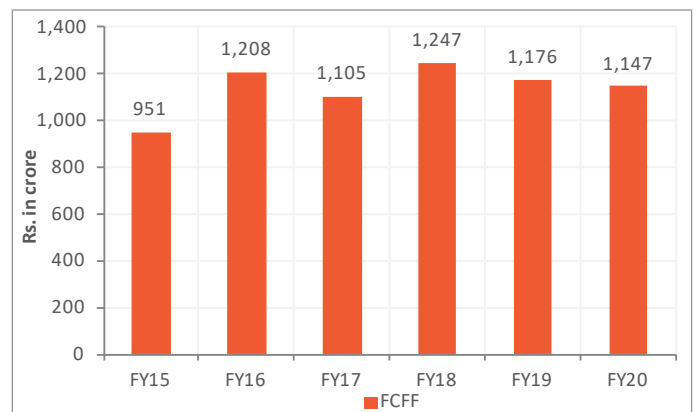
Source: Company, Sharekhan Research

Trend in working capital days



Source: Company, Sharekhan Research

Trend in free cash flows



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector outlook – Long-term growth prospects intact

We believe the shift in demand for branded products, rural demand staying ahead of urban demand, gradual recovery in out-of-home categories, and new product launches remain key catalysts for revenue growth in the near to medium term. In the current environment, with rising COVID-19 cases and localised lockdown, demand for packaged food products is expected to increase. Consumer goods companies have adequately stocked up products at warehouse levels and with the dealers/distributors to avoid any supply disruption. Sales of immunity-boosting products such as Chyawanprash, ashwagandha, and giloy grew 2x-5x, while sales of honey increased by 40%-50% in the past six months. The growth rate of these categories is expected to sustain in the coming quarters due to the recent spike in COVID-19 cases. Raw-material prices have been rising in the recent past and sustenance of this trend will pressurise gross margins in FY2021. Consumer goods companies' ability to pass on the input price increase, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level of profitability growth in the coming quarters.

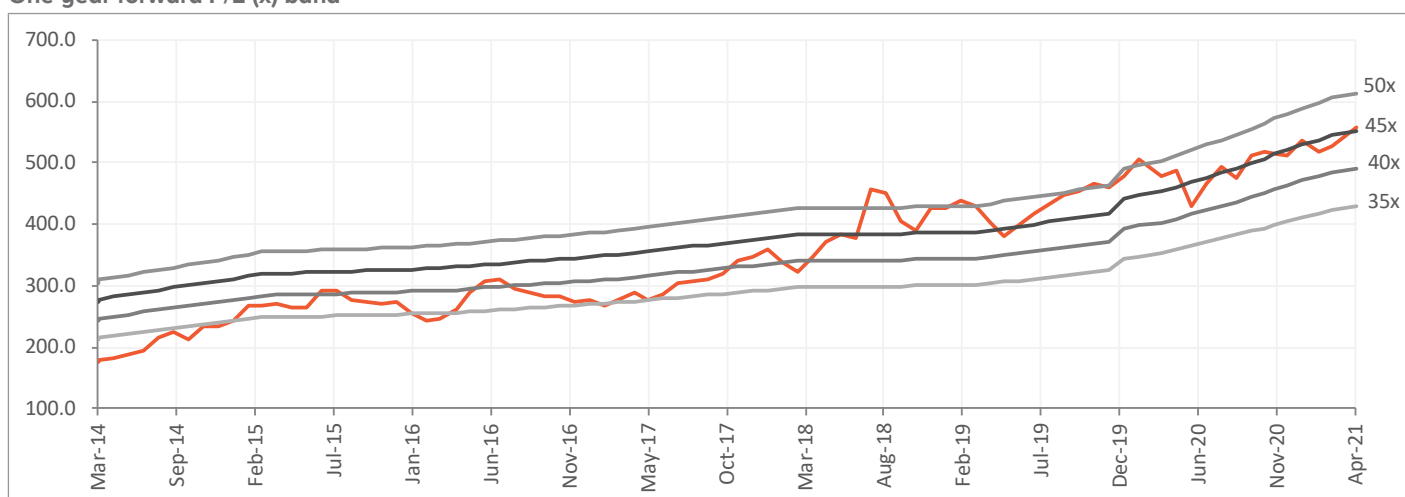
■ Company outlook - Strong recovery in Q3; Growth momentum to sustain in Q4

Dabur registered the second consecutive quarter of high teens volume growth with sustained strong demand for healthcare products and robust growth in the oral care category in Q3FY2021. Volume growth is expected to be strong above 30% due to higher demand for healthcare products, market share gains in key categories, and low base of Q4. Going ahead, new product addition, improving penetration of healthcare products (including Chyawanprash and honey), sustained market share gains in large categories, and enhanced distribution will help the company achieve revenue CAGR of 14.5% over FY2020-FY2023. We expect OPM to gradually improve from 20.6% in FY2020 to 22.5% in FY2023 because of efficiencies, cost-saving programmes, and better revenue mix. Thus, we expect Dabur's earnings to report a CAGR of 17.6% over FY2020-FY2023.

■ Valuation - Retain Buy with a revised PT of Rs. 675

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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 | 44.2 | 38.0 | 33.1 | 31.9 | 27.7 | 24.1 | 46.2 | 52.4 | 54.5 |
| Hindustan Unilever | 68.8 | 52.2 | 45.6 | 46.7 | 37.8 | 32.8 | 37.1 | 28.3 | 30.7 |
| Dabur India | 56.3 | 46.8 | 40.4 | 45.7 | 37.7 | 32.2 | 28.3 | 30.0 | 29.5 |

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 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 its 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 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 Website

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

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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 deteriorating 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

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