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Stock Update

Dabur India Limited

Q4 miss on volumes; Strong portfolio to aid steady growth ahead

Consumer Goods	Sharekhan code: DABUR	Result Update

Summary

- Dabur India Limited's (Dabur) domestic volume growth stood at 25% in Q4FY2021, lower than our as well street's expectation of 30%-35%. OPM stood flat at 18.9%; PAT grew by 27% to Rs. 377.9 crore (lower than street expectation of Rs. 425 crore).
- CRS implementation resulted in inventory correction due to lesser pre-season stocking up with distributors, leading to lower revenue by ~Rs. 100 crore-120 crore. Q4 is seasonally a soft quarter for winter-related healthcare products (including Chyawanprash), leading to lower growth.
- Supply-led disruption might affect near-term performance. Health supplements and ethical regaining momentum, discretionary categories to see moderation.
- We have reduced our estimates for FY2022 by 7%, while we have fine-tuned them for FY2023. We maintain Buy with a PT of Rs. 675.

Q4FY2021 was a miss for Dabur India Limited (Dabur) due to lower-than-expected volume growth in the domestic business at 25% as against our as well as street expectation of 30%-35% for the quarter. The company's consolidated revenue grew by 25.3% y-o-y to Rs. 2,336.8 crore (little less than our expectation of Rs. 2,398.1 crore). This was largely due to low base of 12% revenue decline in the base quarter. Health supplements, OTC and ethicals, shampoo, hair oil, and oral care posted strong growth of 18%, 37.3%, 35%, 24%, and 42%, respectively, during the quarter. Foods and beverages registered strong growth of 28% on a low base, while it posted good growth of 12% on a sequential basis. The company has implemented CRS in Q4, which results in lesser pre-season pipeline filling of summer-centric products such as (Glucon D, Juices, amla-based hair oil, and ethicals products), which resulted in lower revenue by around Rs. 100 crore-120 crore. Revenue growth was also affected by lower growth in the healthcare segment, as Q4 is a seasonally soft quarter for winter-related healthcare products (including Chyawanprash). Dabur brands/ categories continued to gain market share in key categories such as oral care (by 120 bps), shampoos (by 70 bps), Chyawanprash (by 170 bps), honey (by 230 bps), Odomos (by 130 bps), and Odonil (by 90 bps), which augurs well from a long-term perspective. New products continued to perform well and fetched 5% of total revenue (compared to 2%-3% contribution in earlier years). In FY2021, Dabur's revenue grew by ~10% and OPM stood almost flat at 20.9%. Strong growth in categories such as healthcare and oral care led to growth in FY2021. April started on a good note with higher demand in rural India and good recovery in urban India. However, localised lockdown in key states resulted in supply-led disruption, which might affect performance in the near term. The company expects health supplements, OTC, and ethicals to regain momentum in the near term, while discretionary categories (including juices, skin care, and digestive) are likely to post moderate growth in the near term. Management expects market share gains in key categories, distribution expansion, and improvement in penetration coupled with high teens growth in the international business, which would help achieve double-digit revenue growth in the medium term. Raw-material prices have gone up in the recent past and the company took a price increase of 3% in Q4 while it is opting for another price hike of 2%-3% in Q2 to mitigate input cost inflation. Further, cost-saving projects such as Samriddhi will help in cost savings of around Rs. 100 crore (aided in savings of Rs. 50 crore in FY2021). Overall, management is targeting to maintain OPM a on y-o-y basis.

Key positives

- Juices business (excluding HORECA and CSD) grew by 40%; Sequentially, it grew by 12%.
- International business grew by 19.4%, led by strong growth in Middle East and SAARC.
- New product contribution improved to 5%; healthcare-related NPD contributed 2%-3%.

Key negatives

- Domestic volume growth stood at 25% on a lower base of Q4FY2020 with 15% volume decline.
- Healthcare category registered just 23% growth, which is lower as compared to some of the earlier quarters.

Our Call

View - Maintain Buy with a PT of Rs. 675: We have reduced our earnings estimates for FY2022 by 7% to factor in lower discretionary categories such as juices, hair oil, skin care, and digestives, while we have fine-tuned our estimates for FY023. The diversified portfolio of brands, sustained market share gains in key categories, good traction to new product launches and distribution expansion would help Dabur achieve double- digit revenue and earnings growth in the medium term (with stable OPM). The stock is currently trading at 40.3x its FY2023E EPS, which is at a discount to its last three-year average multiple of 47x. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 675.

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.

Valuations (Consolidated) Rs cr

Particulars	FY19	FY20	FY21	FY22E	FY23E
Revenue	8,533	8,704	9,562	11,026	13,023
OPM (%)	20.4	20.6	20.9	20.9	21.9
Adjusted PAT	1,496	1,528	1,696	1,944	2,364
Adjusted EPS (Rs.)	8.5	8.6	9.6	11.0	13.4
P/E (x)	63.7	62.4	56.1	49.0	40.3
P/B (x)	16.9	14.4	12.4	10.7	9.0
EV/EBIDTA (x)	53.5	52.2	45.4	39.1	31.2
RoNW (%)	26.4	25.0	23.8	23.5	24.3
RoCE (%)	28.1	27.0	26.4	28.2	29.9

Source: Company, Sharekhan estimates

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. 535**	
Price Target: **Rs. 675**	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

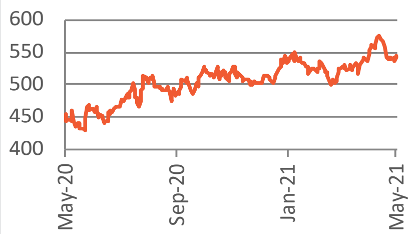
Company details

Market cap:	Rs. 94,557 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	7.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	0.3	0.4	5.5	7.2
Relative to Sensex	1.6	4.8	-9.6	-47.8

Sharekhan Research, Bloomberg

Revenue grew by 26%; OPM stood flat: Consolidated revenue grew by 26% y-o-y, driven by 25% volume growth in its domestic business. All categories, including healthcare, oral care, ethicals, food and beverages, and hair care registered strong double-digit growth because of low base effect. International business grew by almost 20%. Gross margin declined by 35 bps to 48.7%, while the increase in advertisement expenses led to flat OPM at 18.9% (120 bps spike in ad spends). Operating profit grew by 25.6% y-o-y to Rs. 442.5 crore. Reported PAT grew by 26.8% y-o-y to Rs. 337.9 crore during the quarter.

Segment-wise performance: Healthcare segment: Revenue of the healthcare segment grew by 23% y-o-y to Rs. 541 crore, driven in Q4. Health supplements recorded 17.8% revenue growth, which was lower than some of the earlier quarters as some of the winter care products registered modest growth due to off-season. Dabur's market share in honey and Chyawanprash increased by 230 bps and 170 bps, respectively. Lower penetration of both the categories provides a huge scope to grow in the coming years. The digestive category's revenue grew by 20%, led by strong double-digit growth in Pudin Hara and Hajmola portfolio. The OTC division posted robust 37% growth, backed by strong growth in Honitus, Lal Tail, and Shilajit portfolio. Further, new products such as Dabur Health Drops, health juices, and other immunity-boosting products added to revenue growth of the category. Ethicals registered strong growth of 39%, backed by distribution expansion, visibility initiatives, and activations.

Home and personal care (HPC) segment: Revenue of the HPC segment grew by 30% y-o-y to Rs. 1,146 crore, driven by strong growth in oral care, hair care, and skin and salon portfolios. The oral care category registered strong growth of 42.1%, driven by good demand in Dabur Red toothpaste. The category market's share improved by ~120 bps. Meswak and Babool franchise also reported double-digit growth. The hair oils category registered 25% growth, as it witnessed smart broad-based recovery across key brands. Market share of the hair oil category improved by 70 bps. Shampoos saw good growth of 33% with market share gains of ~70 bps. Home care registered 24.3% growth on a low base. Odonil's market share improved by ~90 bps and Odomos' market share increased by ~130 bps. Skin and salon grew by 37.9%, driven by strong growth across brands.

Foods and Beverages segment: Revenue of the foods and beverages segment grew by 27% to Rs. 241 crore (grew by 40% excluding the institutional business). The beverage business witnessed smart recovery during Q4 despite HORECA business remaining under pressure and posted 27% growth during the quarter. In-home and out-of-home portfolios registered strong double-digit growth. The company has launched products in small SKUs of Rs. 10 to penetrate in the rural market, which will help it achieve good growth in the medium to long run. The foods business under Hommade brand grew by 36.1% in Q4FY2021. The brand's contribution is around Rs. 70 crore in FY2021. With expected launches in spices and condiments, the company expects brand revenue to reach Rs. 100 crore in FY2022 and expect it to be a Rs 450 crore-500 crore brand over the next four to five years.

International business: Revenue of the international business grew by 19.4% y-o-y in Q4FY2021 (21% growth in constant currency terms). The US business, Egypt, MENA, Nepal, and Bangladesh reported a good quarter, posting 11.6%, 24.1%, 21.9%, 21.4%, and 46.7% growth, respectively, on constant currency terms. Excluding Bangladesh and Myanmar, all other geographies are expected to maintain strong growth momentum.

Key conference call highlights:

- Raw-material inflation stood at 5%-6% due to inflation in prices of agri and packaging materials. The company has already taken price increase of 3% in Q4 and will take another round of price hike to fully mitigate the impact of raw-material inflation. The company expects raw-material inflation to reduce in H2FY2022.
- Tax rate in FY2022 and FY2023 is expected to stand at 22% from 18%-19% in FY2021.
- Dabur's direct reach currently stands at 1.3 million outlets, which is expected to go up to 1.4 million outlets in FY2022. The company has rural coverage of 60,000 villages and it is expected to increase to 80,000 villages by FY2023. At present, the company covers 2.4 lakh and expects to cover around 2.7 lakh chemists.

- With implementation of ERS system, the company's pre-season inventory pipeline has reduced to 17 days from 25 days earlier. The company has increased inventory with distributors in April 2021 to safeguard itself from any supply-led disruption in the current uncertain environment.
- Honey penetration in India is at ~20%. With expected improvement in demand, the company expects double-digit growth in the honey category in the coming quarters. Penetration of Chyawanprash stands at 4%-5%, which provides huge scope for the company to scale up in the coming years. Dabur's market share in juices and nectars is around 10%, which provides huge scope to grow in the long run through market share gains and distribution enhancement.
- Dabur paid dividend of Rs4.75 per share in FY2021. The company has changed its dividend policy by with payout ratio of 50% of consolidated PAT which was earlier 40% of consolidated PAT or 50% of standalone PAT.

Result Table (Consolidated) Rs cr

Particulars	Q4FY21	Q4FY20	Y-o-Y (%)	Q3FY21	Q-o-Q (%)
Total Revenue	2336.8	1865.4	25.3	2728.8	-14.4
Total Expenditure	1894.3	1513.1	25.2	2154.7	-12.1
Operating Profit	442.5	352.3	25.6	574.2	-22.9
Other Income	85.0	75.8	12.2	80.9	5.0
Interest Expenses	8.6	8.6	0.8	6.9	25.8
Depreciation	66.6	58.8	13.2	57.2	16.5
Profit Before Tax	452.2	360.6	25.4	591.1	-23.5
Tax	74.4	62.7	18.7	97.5	-23.7
Adjusted PAT	377.9	298.0	26.8	493.6	-23.4
Extra-ordinary gain / loss	0.0	-16.0	-100.0	0.0	
Reported PAT	377.9	282.0	34.0	493.6	-23.4
Adjusted EPS (Rs.)	2.1	1.7	26.8	2.8	-23.4
			bps		**bps**
GPM (%)	48.7	49.1	-35	50.4	-165
OPM (%)	18.9	18.9	5	21.0	-211

Source: Company, Sharekhan Research

Category-wise performance Rs cr

Division	Q4FY21	Q4FY20	yoy%
Health Supplements	285	242	17.8
Digestives	104	87	19.5
OTC and Ethicals	151	110	37.3
Health Care	541	440	23.0
Shampoo and Post Wash	54.0	40	35.0
Hair oil	280	225.0	24.4
Hair care	334.0	265.0	26.0
Oral care	311	219	42.0
Home care	89.0	72	23.6
Skin ad Salon	78.0	57.0	36.8
Foods	241.0	189.0	27.5
Sales - Domestic (FMCG)	1594.0	1241.0	28.4
Others (Guar, Fem, Pharma, Exports, etc.)	102.0	71.0	43.7
Revenue - DIL Standalone	**1722.0**	**1321.0**	**30.4**
International	649.0	543.0	19.5
Retail	23.0	28.0	-17.9
Inter Company exports (Net)	-57.0	-28.0	103.6
Revenue from operations (Consolidated)	**2337.0**	**1865.0**	**25.3**

Source: Company; SharekhanResearch

Outlook and Valuation

■ Sector view - 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 dealers/distributors to avoid any supply disruption. Sales of immunity-boosting products such as Chyawanprash, Ashwagandha, and Giloy grew by 2x-5x, while honey sales increased by 40%-50% in the past six months. 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 input price increase, sustained benefits of cost-saving initiatives, and judicious media spends would determine the level of profitability growth in the coming quarters.

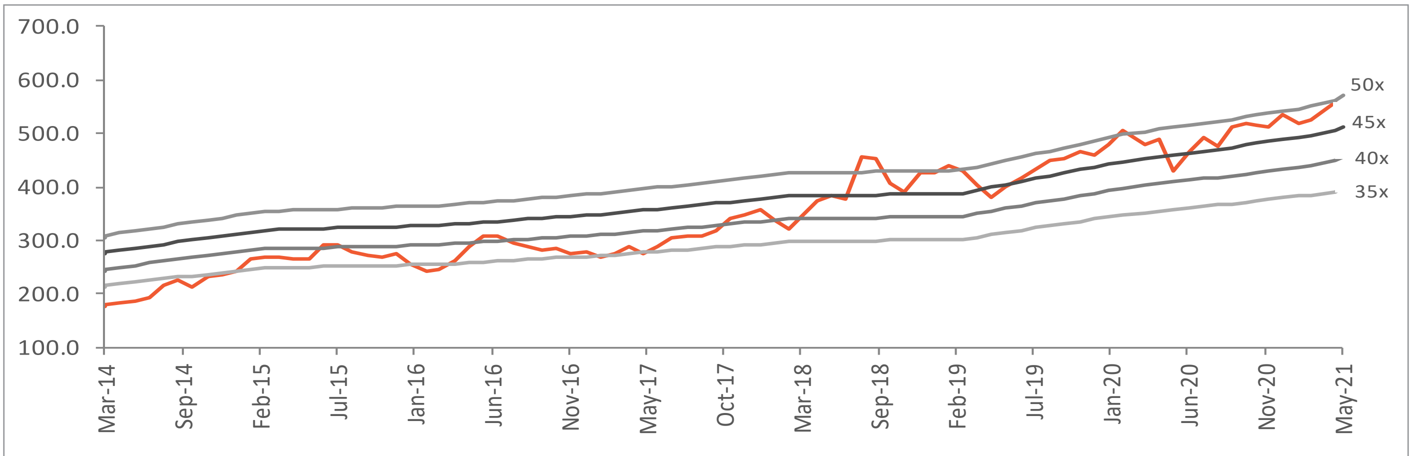
■ Company outlook - Growth momentum to sustain in a stable demand environment

Dabur's revenue grew by ~10% and OPM stood at ~21% in FY2021. The company expects health supplements, OTC, and ethicals to regain momentum in the near term, while discretionary categories (including juices, skin care, and digestive) are likely to post moderate growth in the near term. Management expects market share gains in key categories, distribution expansion, and improvement in penetration coupled with high teens growth in the international business to help achieve double-digit revenue growth in the medium term. Raw-material prices have gone up in the recent past and the company took a price increase of 3% in Q4, while it is opting for another price hike of 2%-3% in Q2 to mitigate the input cost inflation. Further, cost-saving projects such as Samriddhi will help in cost savings of around Rs. 100 crore (aided in savings of Rs. 50 crore in FY2021). Overall, management is targeting to maintain OPM on a y-o-y basis.

■ Valuation - Maintain Buy with price target of Rs. 675

We have reduced our earnings estimates for FY2022 by 7% to factor in lower discretionary categories such as juices, hair oil, skin care, and digestives, while we have fine-tuned our estimates for FY2023. The diversified portfolio of brands, sustained market share gains in key categories, good traction to new product launches, and distribution expansion would enable Dabur to achieve double-digit revenue and earnings growth in the medium term (with stable OPM). The stock is currently trading at 40.3x its FY2023E EPS, which is at a discount to its last three years' average multiple of 47x. We maintain our Buy recommendation on the stock with an unchanged PT of Rs. 675.

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Marico	51.5	46.2	38.7	37.5	34.5	28.8	41.0	45.5	53.1
Hindustan Unilever	69.7	57.0	48.6	49.6	41.3	35.3	36.5	27.3	31.5
Dabur India	56.1	49.0	40.3	45.4	39.1	31.2	26.4	28.2	29.9

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 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'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
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

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