Stock Update

Company Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dabur India

Growth prospects to improve ahead

Consumer Goods	Sharekhan code: DABUR
Reco/View: Buy ↔	CMP: **Rs. 545** · Price Target: **Rs. 645** ↔

↑ 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	Neutral	↔	Neutral
RQ	Positive	↔	Positive
RV	Positive	↔	Positive

ESG Disclosure Score NEW

ESG RISK RATING 31.17

Updated July 08, 2022

High Risk

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

Source: Morningstar

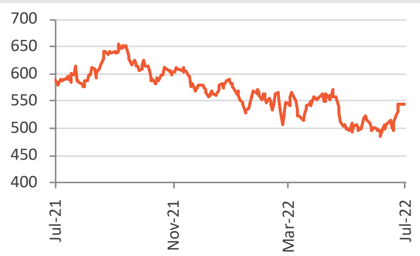
Company details

Market cap:	Rs. 96,375 cr
52-week high/low:	Rs. 659 / 482
NSE volume: (No of shares)	19.6 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	57.7 cr

Shareholding (%)

Promoters	67.4
FII	20.8
DII	3.8
Others	8.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.5	-1.9	-6.4	-7.5
Relative to Sensex	8.2	6.3	6.1	-8.9

Sharekhan Research, Bloomberg

Summary

- Dabur India (Dabur) to post resilient mid-single digit volume growth in Q1FY2023, which is better compared to flat sales volume/volume decline for peers (vs. high base of 34% volume growth in Q1FY2022).
- With recovery in out-of-home consumption, the food and beverage business to register strong growth, while home and personal care business to register low double-digit growth in Q1.
- Better monsoon boosting rural demand and sustained strong growth in beverages business will help volume growth to remain high compared to the industry in the coming quarters. On the other hand, OPM will improve on a y-o-y basis in H2FY2023 with softening of key commodity prices.
- The stock is currently trading at 45x and 37x its FY2023E and FY2024E EPS, which is at a stark discount to its last five years' average. We maintain our Buy recommendation with an unchanged PT of Rs. 645.

Dabur India Limited (Dabur) highlighted achieving mid-single digit volume growth in its domestic business in Q1FY2023 (versus 34% volume growth in Q1FY2022), driven by strong double-digit growth in its foods and beverage business. This is better compared to some of the other FMCG peers who are likely to post flat or low single-digit decline in sales volume. The foods and beverage business has gained momentum in the past two quarters due to receding scare of the pandemic and is likely to maintain it in the medium term, supported by a slew of new launches. This along with better monsoon (7% above normal monsoon as of now) will help volume growth momentum to improve in the quarters ahead (especially in Q3 and Q4). Margins would remain under pressure in the near term. However, expected softening in commodity prices will help margins to improve in H2FY2023.

- **Domestic sales volume to grow in mid-single digit; Trajectory likely to improve in H2:** Dabur's domestic business volume growth is expected at mid-single digit, which is better if compared with high base of 34% volume growth in Q1FY2022. We expect volume growth to remain in mid-single digit for another quarter. Sustained market share gains in product categories, higher growth in the foods and beverages business, and likely improvement in rural demand with normal monsoon would help volume growth to recover to high single digit in H2FY2023.
- **Food and beverages business to gain from strong season and receding pandemic risk:** Dabur's foods and beverages business was affected by lower out-of-home consumption during the season affected by the pandemic. Despite muted performance of the category in the past two years, Dabur has consistently gained market share in the nectars and juices business. After two years of lull, the food and beverages business is expected to post strong double-digit growth in Q1FY2023 due to improved demand for out-of-home consumption products, which will help Dabur to post mid-single digit volume growth better than peers. We believe higher demand, market share gains, good acceptance to innovations, and better traction for small packs would help the category to maintain double-digit growth in the medium term.
- **Commodity correction to support margins in H2:** Raw-material inflation for Dabur stood at 12% in FY2022 and was expected to further increase by 7-8%, impacting the EBIDTA margin in Q1FY2023. The company has indicated 200 bps EBIDTA margin decline in Q1FY2023. Commodity prices (including vegetable oils, crude oil, and sugar) have witnessed significant correction in the past 15-20 days. This will help margin pressure to cool-off in the second half of the year. Thus, overall inflation should be around high single-to low double-digit in FY2023, which will be taken care by price hikes undertaken in the recent times. Overall, the company is targeting to maintain OPM in-line with the last fiscal at around 20.0% through cost efficiencies, better product mix, and stringent ad spends.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 645: 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 revenue and PAT to grow by 15% and 19% over FY2022-FY2024, respectively. The stock has underperformed compared to broader indices and is currently trading at 45x/37x its FY2023E/FY2024E earnings, which is at a stark discount to its last five years' average multiple of 47x. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 645.

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

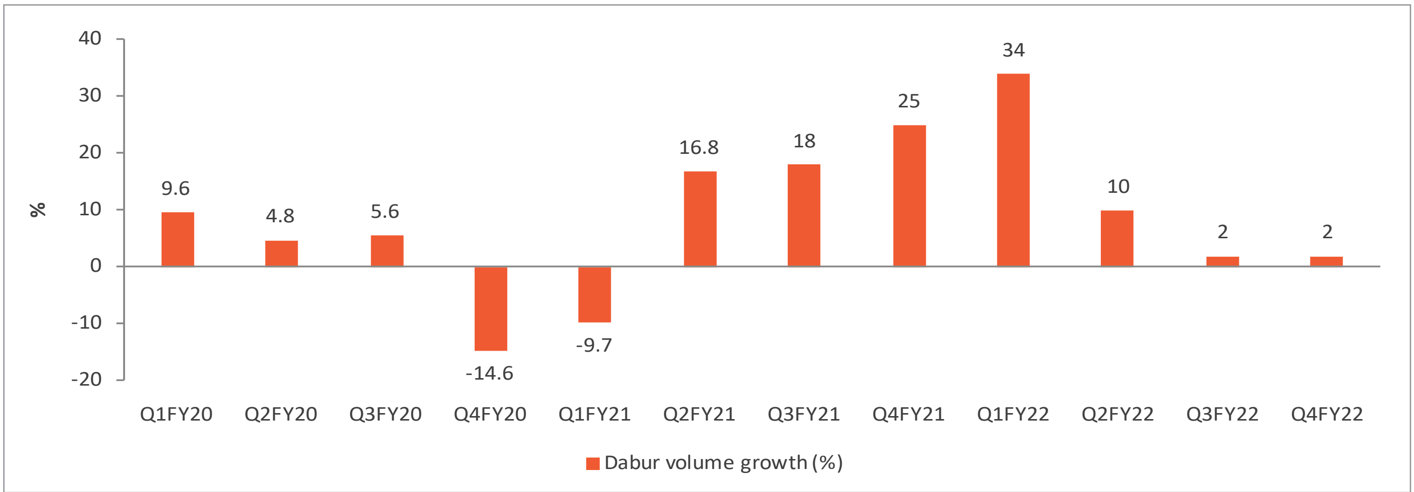
Particulars	FY21	FY22	FY23E	FY24E
Revenue	9,562	10,889	12,444	14,487
OPM (%)	20.9	20.7	20.5	21.5
Adjusted PAT	1,696	1,829	2,126	2,603
% YoY growth	11.0	7.9	16.2	22.5
Adjusted EPS (Rs.)	9.6	10.3	12.0	14.7
P/E (x)	56.8	52.7	45.4	37.1
P/B (x)	12.6	11.5	10.4	9.0
EV/EBIDTA (x)	46.0	42.7	37.5	30.6
RoNW (%)	23.8	22.8	24.0	26.0
RoCE (%)	26.4	26.3	27.8	31.3

Source: Company; Sharekhan estimates

Domestic sales volume to grow in mid-single digit; Trajectory likely to improve in H2

Dabur's domestic business volume growth is expected at mid-single digit, which is better if compared to the high base of 34% volume growth in Q1FY2022. Volume growth stood at 2% in the past two consecutive quarters, affected by slowdown in rural demand and high base of healthcare product sales. We expect volume growth to remain in mid-single digit for another quarter. The monsoon season has recovered in July and is currently 7% above normal levels. July-August rainfalls are key for kharif sowing and better agri production in the upcoming kharif season would help in boosting rural demand in the coming quarters. Thus, sustained market share gains in product categories, higher growth in the foods and beverages business, and likely improvement in rural demand with normal monsoon would help volume growth to recover to high single digit in H2FY2023.

Dabur's domestic volume growth

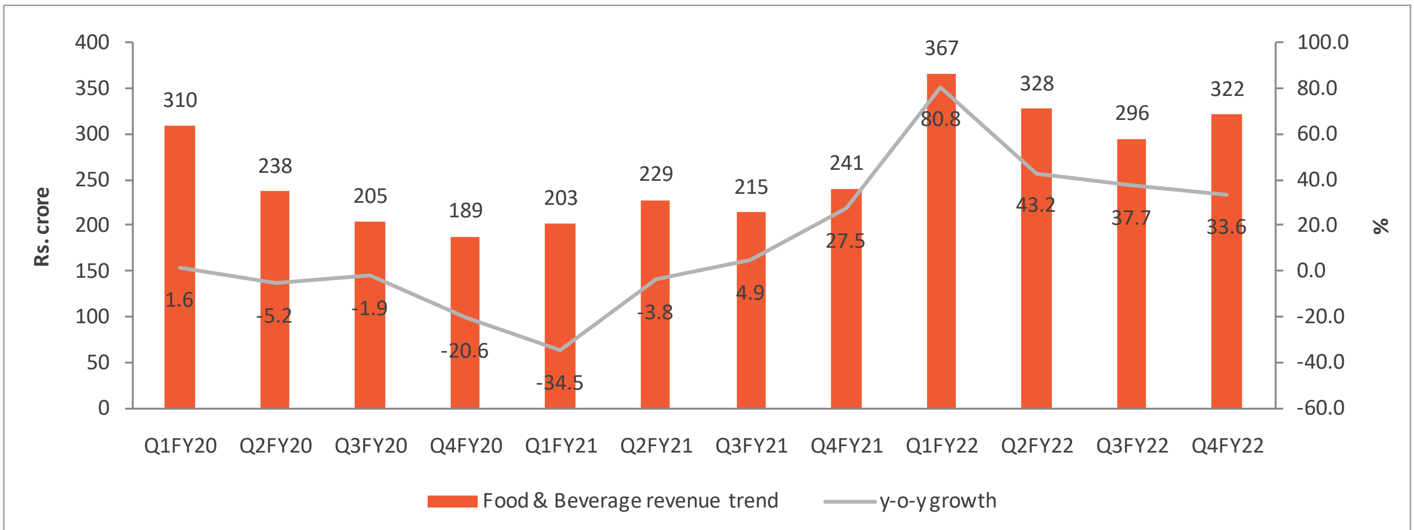


Source: Company, Sharekhan Research

Food and beverages business to gain from strong season and receding pandemic risk

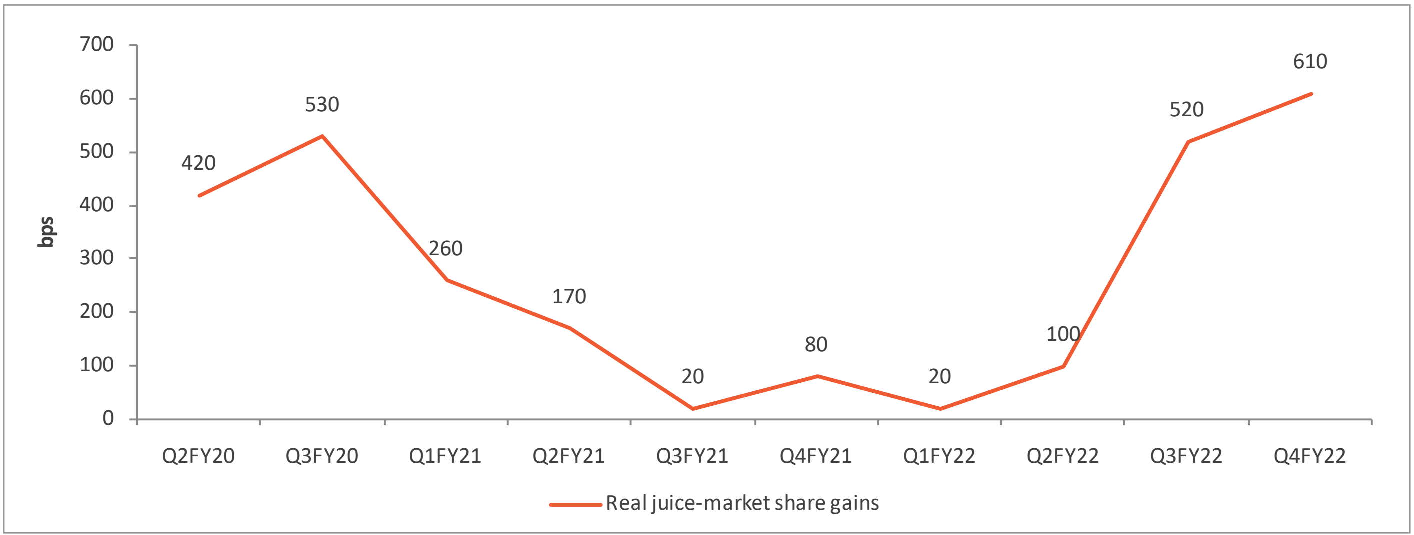
Dabur's foods and beverages business was affected by lower out-of-home consumption during the season, affected by the pandemic. Despite muted performance of the category in the past two years, Dabur has consistently gained market share in the nectars and juices business. After two years of lull, the food and beverages business is expected to post strong double-digit growth in Q1FY2023 due to improved demand for out-of-home consumption products, which will help Dabur to post mid-single digit volume growth better than peers. We believe higher demand, market share gains, good acceptance to innovations, and better traction for small packs would help the category to maintain double-digit growth in the medium term.

Dabur's foods and beverages business growth



Source: Company, Sharekhan Research

Consistent market share gains in juices



Source: Company, Sharekhan Research

Healthcare (HC) business contribution to stabilise at 30%

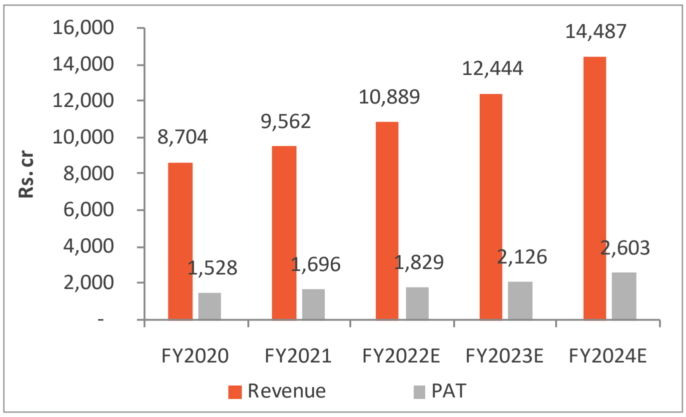
HC business contribution increased to 35-40% in the past two years due to high demand for immunity-boosting products such as Chyawanprash and honey. In Q1FY2023, HC business revenue is expected to decline on a y-o-y basis due to high base of 30% growth in Q1FY2022. With penetration levels of honey and Chyawanprash expected to improve in the coming years, the health supplement business is expected to post steady growth in the coming years (revenue stood flat in FY2022). However, with other segments such as F&B and HPC expected to post strong growth, the contribution of HC segment is expected to stabilise at 30% in the medium term.

Commodity correction to support margins in H2

Raw-material inflation for Dabur stood at 12% in FY2022 and was expected to further increase by 7-8%, impacting the EBIDTA margin in Q1FY2023. The company has indicated 200 bps EBIDTA margin decline in Q1FY2023. Commodity prices (including vegetable oils, crude oil, and sugar) have witnessed significant correction in the past 15-20 days. This will help margin pressure to cool-off in the second half of the year. Thus, overall inflation should be around high single-to low double-digit in FY2023, which will be taken care by price hikes undertaken in recent times. Overall, the company is targeting to maintain OPM in-line with the last fiscal at around 20% through cost efficiencies, better product mix, and stringent ad-spends.

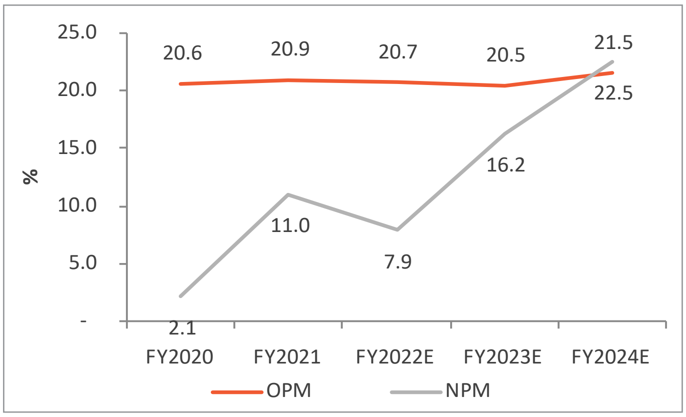
Financials in charts

Steady growth in revenue and PAT



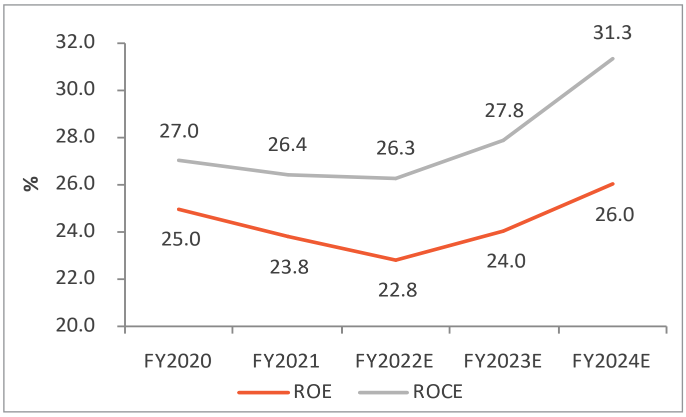
Source: Company, Sharekhan Research

Trend in margins



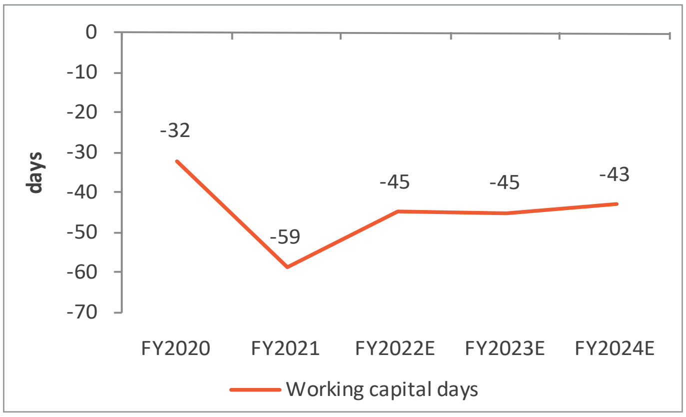
Source: Company, Sharekhan Research

Return ratios to improve



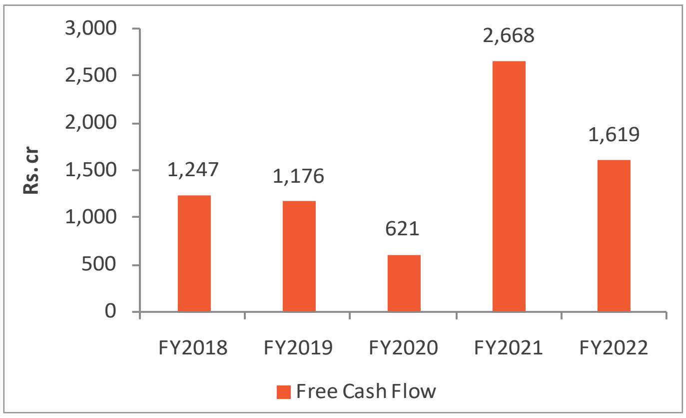
Source: Company, Sharekhan Research

Working capital days to remain stable



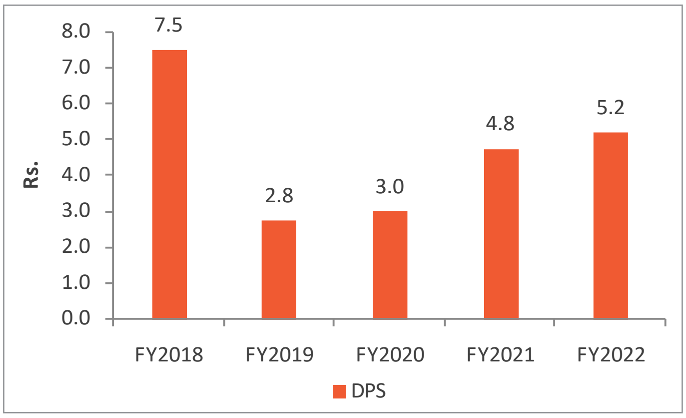
Source: Company, Sharekhan Research

Stable free cash flow generation



Source: Company, Sharekhan Research

Consistent dividend payout



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Deflating commodity prices augur well; Good monsoon key for rural demand

Consumer good companies' profitability will be substantially affected by the sharp increase in commodity prices in the latter half of Q4FY2022. However, the scenario has changed in the past 20 days as commodity prices have cooled off from their high due to improved supply and tapering demand in global markets. Key inputs such as palm oil, wheat, edible oils, and crude oil corrected by 20-50% in the past one month, which provides some relief for consumer goods companies. Commodity prices are expected to further cool-off in the coming months with receding supply issues and lower demand caused by recessionary environment in the key international market. Companies will see margin expansion from H2FY2023. We expect consumer goods companies to pass on the benefit of lower input prices to customers in the form of price-offs in Q2. This will enable consumers to upgrade to large SKUs or better brands in key categories. The monsoon season started on a weaker note with 5% deficiency in June. However, good monsoon in July-August will be key for Kharif season and will play an important role in improving rural demand in the quarters ahead. So, some tailwinds are building up for the sector to improve its growth in the coming quarters.

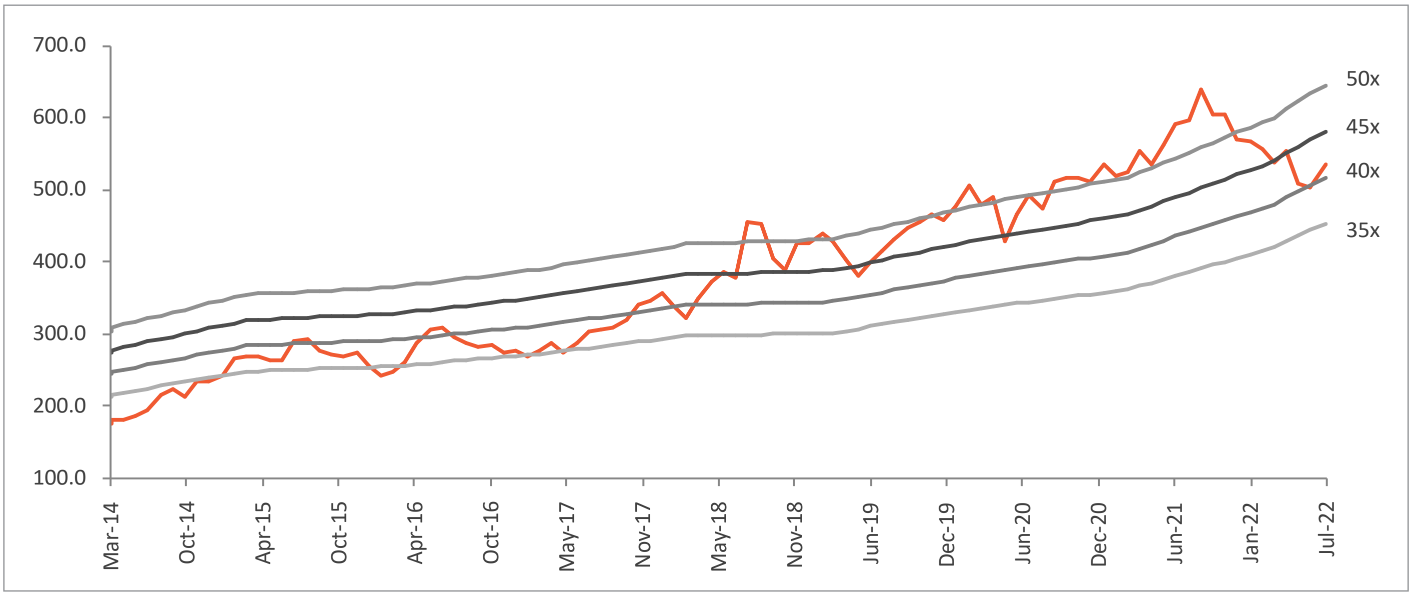
■ Company outlook - Mid-teens revenue growth; Margins likely to remain stable

Dabur's consolidated revenue grew by ~14% (with 10% volume growth in the domestic business), while PAT grew moderately by 8% due to reduction in OPM, led by higher input costs in FY2022. A slowdown in rural markets and higher raw-material inflation might have taken a toll on the company's 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 the medium to long run. The company has undertaken price hike of mid-single digit and is opting for levers such as reduction in trade margins and supply efficiencies to reduce pressure on gross margins in the coming quarters.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 645

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 revenue and PAT to grow by 15% and 19% over FY2022-FY2024, respectively. The stock has underperformed compared to broader indices and is currently trading at 45x/37x its FY2023/FY2024E earnings, which is at a stark discount to its last five years' average multiple of 47x. We maintain our Buy recommendation on the stock with a revised PT of Rs. 645.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Marico	51.6	41.1	34.9	37.8	30.2	26.0	41.4	51.5	55.2
Hindustan Unilever	66.4	60.8	50.3	46.4	42.5	35.3	24.1	26.1	30.9
Dabur India	52.7	45.4	37.1	42.7	37.5	30.6	26.3	27.8	31.3

Source: Company; Sharekhan Research

About company

Dabur is one of India's leading FMCG companies with revenue of over 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 and 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 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 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	Blackrock Inc	1.52
2	MB Finmart Pvt Ltd	1.50
3	Matthews International Capital Management	1.46
4	First states Investments ICVC	1.37
5	Capital Group Companies	1.08
6	Vanguard Group Inc	1.06
7	ICICI Prudential Life Insurance Co.	0.66
8	Mitsubishi UFJ Financial Group Inc	0.64
9	BNP Paribas SA	0.60
10	Federated Hermes Inc	0.53

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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