

August 04, 2022

**RESULT REPORT Q1 FY23** | Sector: Consumer Staples

# Dabur India

**Resilient performance both on revenue and margins front; downgrade to NEUTRAL due to limited upside**

## Our view

Dabur posted resilient performance with domestic volume growth 5% given a high base of 34% driven by strong performance from HPC and Foods business indicating Dabur's portfolio strength and share gains. Resilient growth of 16% in HPC and strong performance from Foods business on a high base were key positives. Its Healthcare business declined from a high base given reduction in covid contextual portfolio. Its International business continues to grow with 3-yr CAGR of 5% CC except MENA 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/30bps in Q1. Its brands in 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 downgrade from Buy to NEUTRAL as stock has already run up.

## Result Highlights

- **Quarter results** - India FMCG volume and value growth of 5% and 10%, consolidated revenue growth of 8.1%, international business CC growth of 8%, EBITDA and PAT growth of -1.5% and 0.7% given a 220bps gross margin shrinkage.
- **Portfolio mix** - Healthcare decreased 21% on a high base, still a strong 11% 3-yr CAGR with share gains in Chyawanprash and Honey and while OTC/ethical declined 15%, HPC grew 16% led by shampoo and home care's resilient performance, F&B surged 50% led by share gains in juices and continued healthy traction in foods business.
- **Margins** - Gross margin dropped 220bps/150bps YoY/QoQ to 45.9% on the back of sustained inflation in vegetable oils and other RM prices. EBITDA margin came in at 19.3% vs 21.1% YoY, A&P spends down 16.5% YoY while it increased 5% QoQ.

## Valuation

We maintain our estimates and build in revenue/EBITDA/PAT growth of 12%/13%/14% over FY22-24E. We maintain EPS estimates to incorporate margin headwinds and wait for next quarter performance and downgrade from Buy to Neutral on the stock with an unchanged PT of Rs609 based on 45x FY24E earnings, in-line with its 5-yr average multiple.

## Exhibit 1: Actual vs estimate

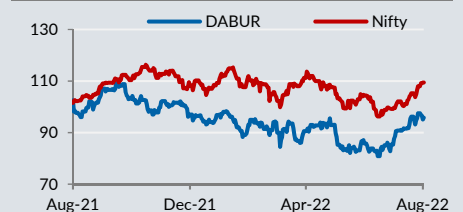
Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	28,224	27,421	28,054	2.9	0.6	Resilient performance both on revenue and margins fronts
EBITDA	5,437	5,649	5,420	(3.8)	0.3	
EBITDA Margin (%)	19.3	20.6	19.3	(133.9) bps	(5.8) bps	
Adjusted PAT	4,414	4,774	4,309	(7.5)	2.4	

Reco	: <b>NEUTRAL</b>
CMP	: Rs 574
Target Price	: Rs 609
Potential Return	: +6.1%

## Stock data (as on August 04, 2022)

Nifty	17,382
52 Week h/l (Rs)	659 / 482
Market cap (Rs/USD mn)	1016795 / 12794
Outstanding Shares (mn)	1,772
6m Avg t/o (Rs mn):	1,045
Div yield (%):	0.9
Bloomberg code:	DABUR IN
NSE code:	DABUR

## Stock performance



	1M	3M	1Y
Absolute return	9.8%	7.2%	-1.5%

## Shareholding pattern (As of June'22 end)

Promoter	67.2%
FII+DII	24.3%
Others	8.5%

## Δ in stance

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

## Δ in earnings estimates

	FY23e	FY24e
EPS (New)	11.6	13.5
EPS (Old)	11.6	13.5
% change	-	-

## 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	58.2	49.4	42.4
EV/EBITDA	45.1	40.0	34.4

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- **Earnings** – PAT at Rs 4.4bn, higher marginally 0.7% owing to lower margins.

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	% yoy	% qoq	FY22	FY21	% yoy
Sales	26,115	28,176	29,418	25,178	28,224	8.1	12.1	1,08,886.8	95,616.5	13.9
EBITDA	5,520	6,207	6,275	4,536	5,437	(1.5)	19.9	22,538.1	20,026.8	12.5
EBITDA Margin %	21.1	22.0	21.3	18.0	19.3	(187.6) bps	124.8 bps	20.7	20.9	(24.6) bps
Depreciation	613	633	632	651	676	10.3	3.9	2,528.9	2,401.3	5.3
EBIT	4,907.2	5,573.8	5,643.0	3,885.2	4,760.6	(3.0)	22.5	20,009.2	17,625.5	13.5
EBIT Margin %	18.8	19.8	19.2	15.4	16.9	(192.3) bps	143.6 bps	18.4	18.4	(5.7) bps
Interest charges	75	83	111	118	122	62.0	3.4	386.0	308.1	25.3
Other Income	848	1,124	967	991	1,006	18.5	1.4	3,931.6	3,252.9	20.9
PBT	5,681	6,616	6,500	4,759	5,645	(0.6)	18.6	23,555	20,570	14.5
Tax	1,297	1,558	1,455	954	1,231	(5.1)	29.0	5,263.8	3,610.7	45.8
Effective Tax Rate (%)	22.8	23.6	22.4	20.0	21.8			22.3	17.6	
PAT	4,384	5,057	5,045	3,805	4,414	0.7	16.0	18,291	16,960	7.9
PAT Margin %	16.8	17.9	17.1	15.1	15.6	(114.7) bps	3.5 bps	16.8	17.7	(93.9) bps
EPS (Rs)	2.5	2.9	2.9	2.2	2.5	0.7	16.0	10.3	9.6	7.9

Source: Company, YES Sec

## CONCALL HIGHLIGHTS

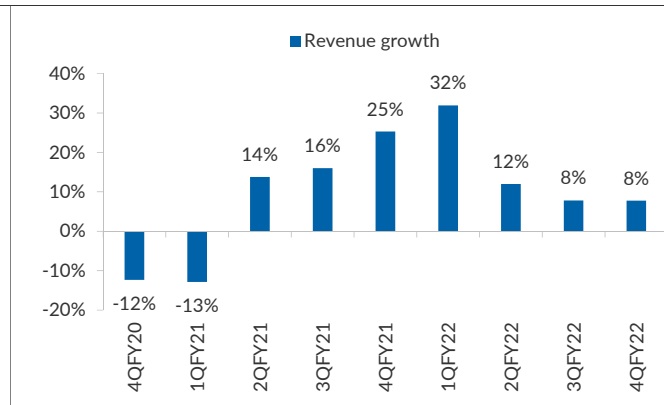
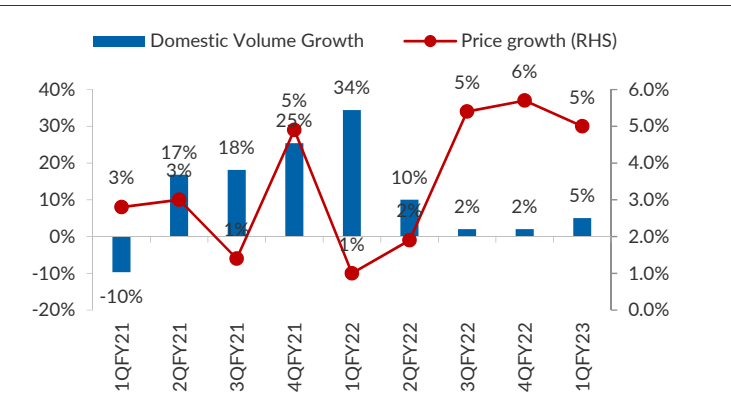
- **Management commentary** – WPI/CPI inflation of 15.2%/7% in June. Overall FMCG volume contracted. Dabur India volume growth of 5%. Covid contextual portfolio saw decline of 20% on a high base. Healthcare/HPC/F&B saw -21%/16%/50% growth during Q1FY23. Foods saw 3.3% market share gain. Food business crossed Rs 1000cr in FY22. Odonil saw increase in market share. Skin care ex. Sanitize grew 35%. 190bps/240bps market share gain in Honey/Chyawanprash. Lal tel, Shilajit grew in mid-teens. 9% of revenue from e-commerce in Q1. Normal monsoon, good harvest should drive rural recovery.
- **Margins** – Q1 is most seasonal and inflation was also higher. Going forward, Q1 margin will usually lower than full year as that of pre-covid trends.
- **New product launches** – Contribution from NPDs is now 4.4% in Q1. Real drink crossed Rs 100cr in FY22 and expecting Rs 200cr sales in FY23. Ayurvedic shampoo gaining market share, Herbal toothpaste doing well. Hajmola extension now contributing more than 10% of overall Hajmola sales. Hommade doing well. In Healthcare, covid contextual sales down by 60-70%. Rs 100cr Sanitize sales during covid dropped to zero. All these NPDs are digital first and e-commerce oriented as of now. Apple cidar doing extremely well. Will be rolling out green tea in Q2. 10k outlets for Chyawanprash extension into HFDs and 30% repeat purchase, will also be rolling chyawanprash into powder format. Dantrakshak, red gel and Dabur amla aloe vera have not done well.
- **Inflation and price increase** – 9% inflation on base of 10% in base quarter, price increase of 5%, 1% as grammage reduction so overall price increase ~6%. Q2 margin will see compression while margin should improve from Q3 onwards. Except hair care, price hike taken in all categories. 3-4% price increase taken in juice portfolio. Strong competition from ITC in juice segment. GM for Juice vitamin product will be 3-4% more than the overall juice portfolio.

# Dabur India

- **Rural and urban market** – rural-urban saw similar growth for Dabur as opposed to Nielsen's estimate of -2.4%/0.8% growth for rural/urban. In urban, MT is quite resilient.
- **Neelibhringa oil** – Rs 400/100ml vs competitor's Rs 600/100ml. There is a huge price gap between premium and mass oil. Neelibhringa is available in South India as of now and will gradually be scaled pan India. Hair oil market is ~Rs 10,000cr size and Dabur has only 15-16% market share. Oral care/Hair care natural contribution is 30%/10%. Herbal oil is flat while others have declined 3-4%. Patanjali share in herbal toothpaste fell from 12% to 9.7%. Dabur red gel is No.1 brand in South India.
- **Neem/Honey portfolio** – Tulsi and Ashwagandha was covid contextual and production now reduced. New players entered into Honey category during covid. Dabur Honey has market share of more than 50%. Category has declined post covid but expect to normalize by next year.
- **Distribution** – Village coverage target to reach 1lac outlets by FY23. 10,000 yoddhas contributed Rs 20cr sales. 6000 additional chemist outlets added.
- **Nepal business** – 60-70% sales come from juices portfolio, no.1 player, grew by 30% in Q1 with increasing market share.
- **Beverages** – Market is growing at 30% while Dabur is growing at 50%. Outlets for juices as of now is 2.5lacs where drinks product are also sold. Strategy for drinks distribution is to capitalize on juices' distribution and ramp up into smaller towns.

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

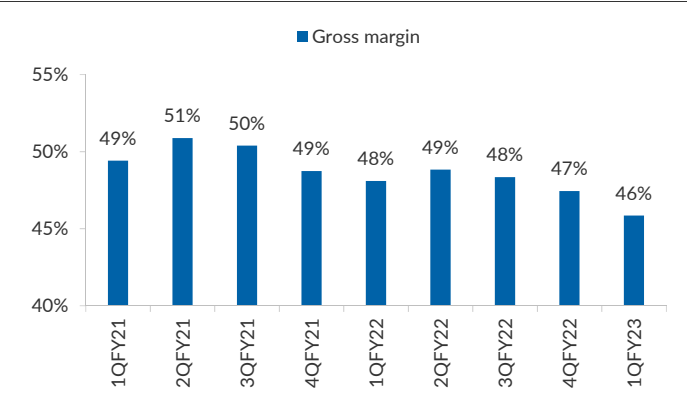
**Exhibit 4: Similar trend for consolidated revenue growth**



Source: Company, YES Sec

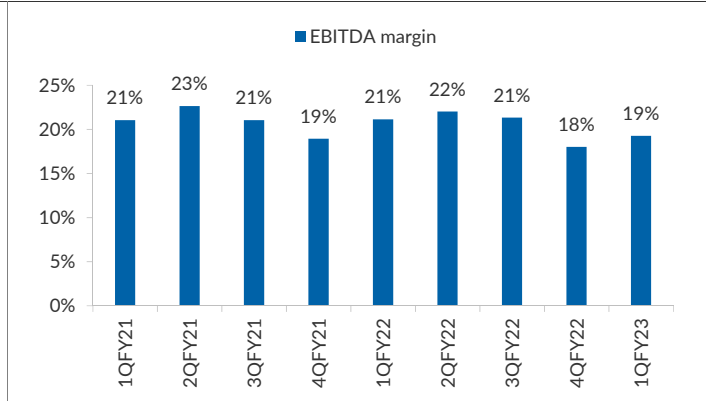
Source: Company, YES Sec

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



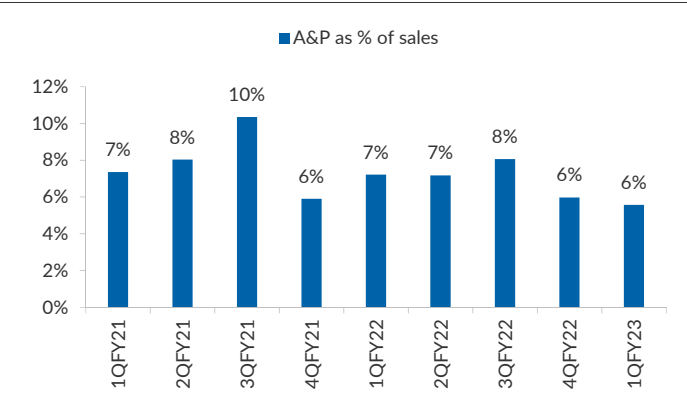
Source: Company, YES Sec

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



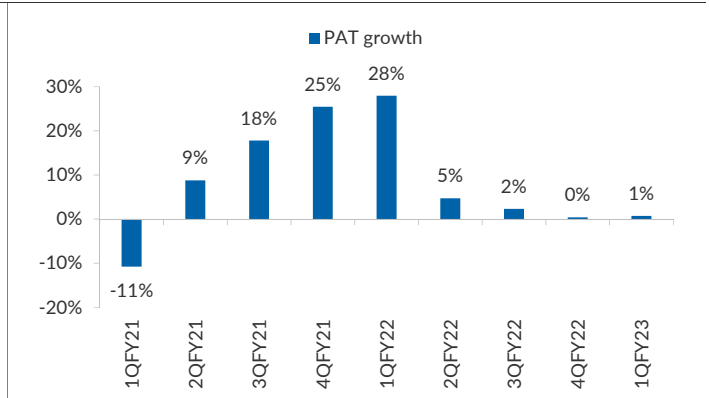
Source: Company, YES Sec

**Exhibit 7: A&P spends decreased 16% YoY while increased 5% QoQ to mitigate margin pressures**



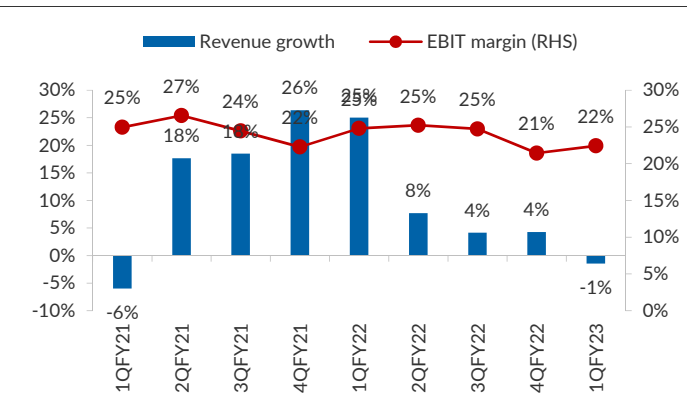
Source: Company, YES Sec

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



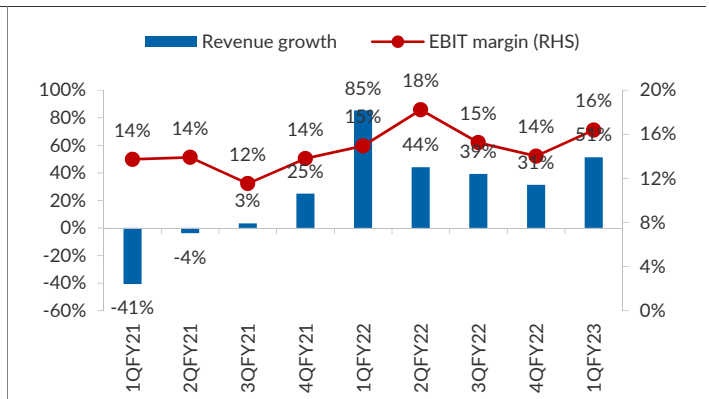
Source: Company, YES Sec

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



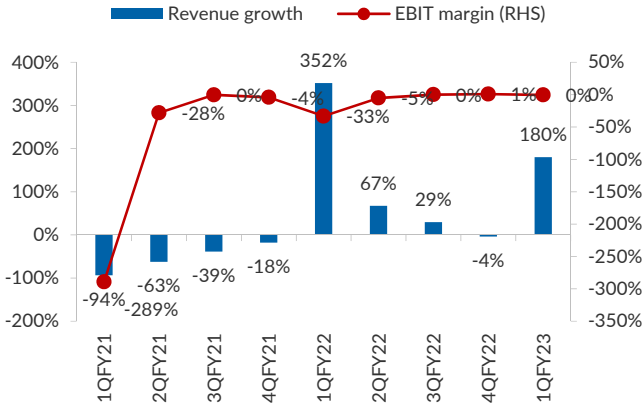
Source: Company, YES Sec

**Exhibit 10: Strong revenue growth of 50% with improved margins in Foods business**



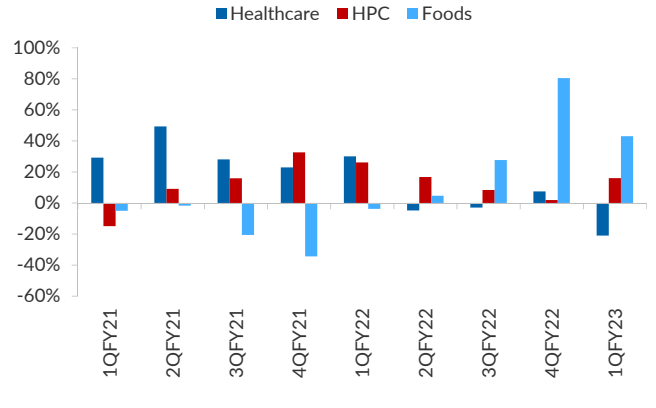
Source: Company, YES Sec

**Exhibit 11: While retail performance improved in Q1**



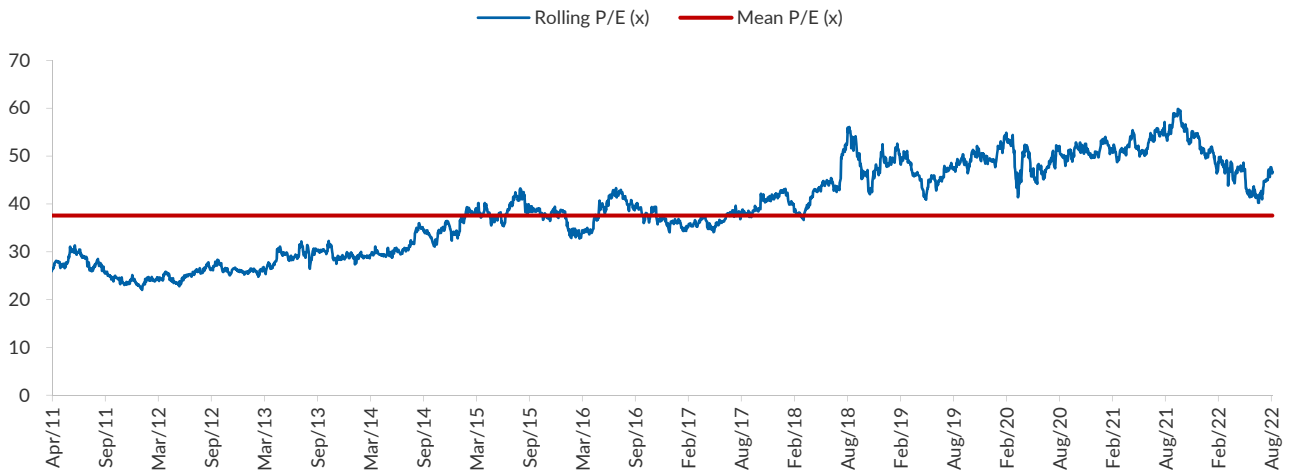
Source: Company, YES Sec

**Exhibit 12: Revenue growth led by HPC and Foods**



Source: Company, YES Sec

**Exhibit 13: Currently trading at 47x 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)
<b>Free cash flow</b>	<b>10,940</b>	<b>21,377</b>	<b>16,202</b>	<b>20,629</b>	<b>24,039</b>
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)
<b>Net Δ in cash</b>	<b>4,865</b>	<b>5,173</b>	<b>(7,474)</b>	<b>7,359</b>	<b>10,566</b>

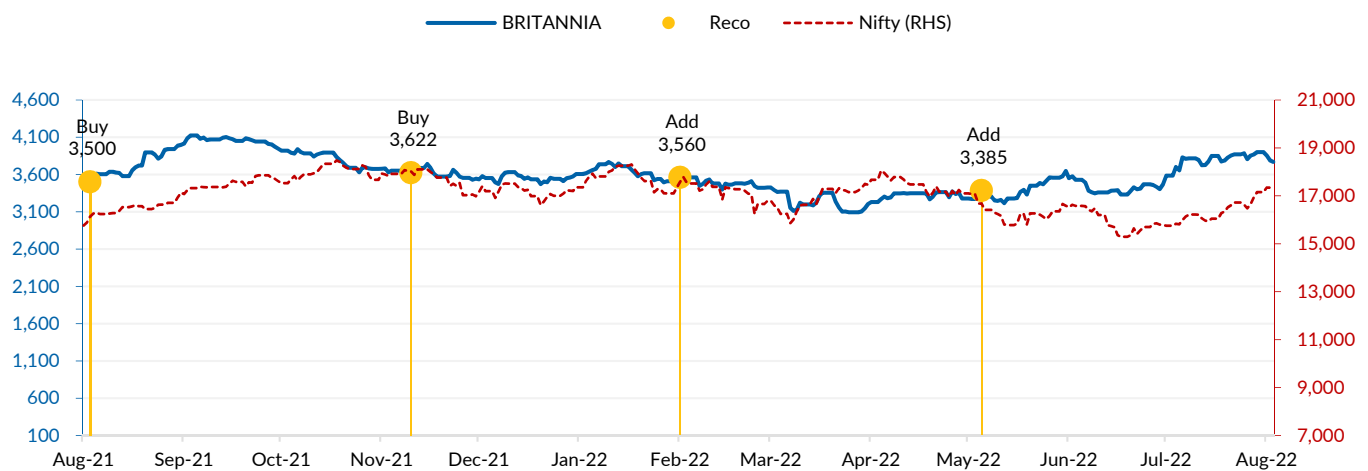
## Exhibit 17: Growth and Ratio matrix

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
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
<b>Profitability ratios (%)</b>					
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
<b>Per share ratios</b>					
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
<b>Valuation ratios</b>					
P/E	65.5	59.9	55.5	49.4	42.4

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
P/CEPS	57.4	52.4	48.8	43.6	37.8
P/B	15.4	13.2	12.1	10.8	9.6
EV/EBIDTA	56.3	50.2	45.1	40.0	34.4
<b>Payout (%)</b>					
Dividend payout	34	50	50	50	50
Tax payout	15	18	22	23	23
<b>Liquidity ratios</b>					
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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**Registration Nos.:** CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | CDSL: IN-DP-653-2021 | 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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## RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

## ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.