Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Dabur India

Soft Q3; growth drivers in place

Consumer Goods	Sharekhan code: DABUR		
Reco/View: Buy ↔	CMP: Rs. 554	Price Target: Rs. 640 ↓	

↑ 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		↔	
RQ		↔	
RV		↔	

ESG Disclosure Score NEW

ESG RISK RATING 31.24

Updated Dec 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. 98,154 cr
52-week high/low:	Rs. 610 / 482
NSE volume: (No of shares)	18.4 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	58.0 cr

Shareholding (%)

Promoters	67.2
FII	20.6
DII	4.0
Others	8.2

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	-0.6	-3.5	-0.6
Relative to Sensex	1.0	1.0	-6.3	-1.3

Sharekhan Research, Bloomberg

Summary

- Dabur's Q3FY2023 numbers were weak with muted revenue growth of 3.4% y-o-y to Rs. 3,043 crore. Volume decline stood at 3% (price led growth of 6.5%). A rural slowdown and delayed winter hit performance.
- High input cost inflation and an unfavourable sales mix led to a 283 bps/129 bps y-o-y decline in gross margin/OPM to 45.5%/20%, respectively; while PAT fell by 5.5% y-o-y to Rs. 477 crore.
- Revenue and PAT are expected to clock a 13% and 16% CAGR during FY2022-25 backed by sustained market share gains, expansion of distribution network, investments on power brands, new launches and cost-saving initiatives.
- The stock trades at 40.8x/34.0x its FY2024E/25E EPS. We maintain a Buy on the stock with a revised price target of Rs. 640.

Dabur India's (Dabur's) Q3FY2023 was soft as consolidated revenues grew marginally by 3.4% y-o-y (domestic volumes declined by 3%) to Rs. 3,043 crore while adjusted PAT decreased by 5.5% y-o-y to Rs. 477 crore. Gross margins contracted by 283 bps y-o-y to 45.5% and OPM fell by 129 bps y-o-y to 20%. Performance was affected by the high base of the healthcare business, slowdown in the rural market, late onset of winter season, adverse revenue mix and higher input prices. Food & beverage business grew by 6.4% y-o-y, healthcare business revenues grew by 3% y-o-y, while home & personal care (HPC) business revenues grew by 2% y-o-y. International business grew by 14% y-o-y in CC terms. The company continued to gain market share across the portfolio in Q3FY2023. In 9MFY2023, revenues grew by 5.7% y-o-y to Rs. 8,852 crore aided by 6.6% y-o-y growth in India business and 11.6% y-o-y CC growth in the international business. OPM declined by 170 bps y-o-y to 19.8% due to raw material inflation and PAT declined by 2.7% y-o-y to Rs. 1,410 crore.

Key positives

- Dabur gained market share across portfolios, led by a 250bps improvement in Juices & Nectars market share, 70 bps market share gain in Hair Oils, a 30 bps market share gains in Chyawanprash and a 40 bps increase in Shampoo market share.
- Toothpaste category decline stood at 8%, while Dabur's toothpaste's portfolio recorded 3.2% y-o-y growth.
- E-commerce channel registered a 40% y-o-y growth and contributes 9% to revenue.

Key negatives

- Volumes declined by 3%
- Consolidated gross margin/OPM decreased by 283/129 bps y-o-y.
- Hair oils portfolio declined by 2.4% y-o-y on account of ~5% decline in the category.

Management Commentary

- The effect of inflationary pressures was more pronounced in the rural markets as marked downtrading and shift to more affordable and smaller packs led to rural growth lagging urban markets for the second quarter in a row. The management is anticipating rural demand to report a smart recovery in the coming quarters led by record farm output and increased government spending.
- Revenue growth at 3.4% was aided by 6.5% price hikes as volumes declined by 3%. However, on a secondary sales basis, the volume growth stood at 3% in Q3FY2023.
- The toothpaste category's decline stood at 8%, while Dabur's toothpaste portfolio recorded 3.2% y-o-y growth led by market share gains and new product launches. Toothpaste volume/value market share stood at 17%/15.8% in Q3FY2023.
- According to the management, the foods portfolio is expected to reach Rs. 500 crore in next 2-3 years. The company is planning to add five more categories to the foods portfolio, which will lead to an increase in the company's addressable market. The Badshah products will start contributing to revenue from Q4FY2023 and will add to revenue of foods portfolio.
- Gross margins are expected to be muted for next 1-2 quarters and then stabilise to previous levels. The company expects 60-70 bps y-o-y decline in OPM in FY23. However, the management is confident to maintain the 20% level going ahead.

Revision in estimates – We lowered our earnings estimates for FY2023/FY2024/FY2025 by 5%/7%/5%, respectively to factor in lower margins than expected earlier. The company's performance would see a revival with improvement in the rural demand.

Our Call

View – Maintain Buy with a revised price target of Rs. 640: Q3FY2023 was a soft quarter for Dabur as slowdown in rural markets, delay in winter season and high input prices had a toll on the company's performance. The company continued to gain market share in key brands, launched consumer-centric products and improved distribution network during the quarter. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and new launches, while profitability is expected to improve on the back of a moderation in raw material inflation and cost-saving initiatives. The stock currently trades at 40.8x/34.0x its FY2024E/25E EPS. We maintain a Buy rating on the stock with a revised price target of Rs. 640.

Key Risks

Heightened competition in key categories or a 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	FY25E
Revenues	9,562	10,889	11,732	13,583	15,817
OPM (%)	20.9	20.7	19.6	20.9	21.7
Adjusted PAT	1,696	1,829	1,936	2,405	2,883
% YoY growth	11.0	7.9	5.9	24.2	19.9
Adjusted EPS (Rs.)	9.6	10.3	10.9	13.6	16.3
P/E (x)	57.8	53.6	50.7	40.8	34.0
P/B (x)	12.8	11.7	10.7	9.5	8.2
EV/EBIDTA (x)	46.8	43.4	42.2	34.3	27.9
RoNW (%)	23.8	22.8	22.1	24.7	25.8
RoCE (%)	26.4	26.3	25.6	29.8	31.4

Source: Company; Sharekhan estimates

Muted Q3 – Soft revenue growth at 3% y-o-y, OPM declined by 130 bps y-o-y to 20%

Consolidated revenues grew by 3.4% y-o-y to Rs. 3,043 crore with volume decline at 3% as price led growth stood at 6.5% in Q3FY2023. The India standalone business reported 3-year CAGR of 9.5%. Healthcare business registered a muted growth of 3%, home & personal care (HPC) business marginally grew by 2% and Food & Beverages (F&B) grew by 6% y-o-y. International Business grew by 14% y-o-y in CC terms (3-year CAGR of 8.2%). Muted revenue growth coupled with high input inflation and adverse mix led to 283 bps y-o-y decline in gross margins to 45.5%. The decline in OPM was limited to 129 bps y-o-y to 20% aided by lower advertising spends (down by 24% y-o-y) and cost optimisation measures adopted by the company. Operating profit decreased by 2.8% y-o-y to Rs. 610 crore and the reported PAT decreased by 5.5% y-o-y to Rs. 477 crore.

India business grew by ~3%; international business grew by ~14% (constant currency) in Q3

- **Healthcare (HC):** The HC business (contributing 40% to domestic revenues in Q3FY2023) registered revenue of Rs. 858 crore, up 3%. On a three-year CAGR basis, the segment reported an 8.4% growth. The health supplements portfolio stood flat at 0.4% y-o-y (with a three-year CAGR of 7.5%) led by high base of Chyawanprash and Honey in Q3FY21 and Q3FY2022. Market share gains continued in Chyawanprash and Honey categories. The digestives portfolio saw 11.2% y-o-y growth on base of 12% growth in Q3FY2022 driven by Hajmola franchise, on the back of successful NPDs of LimCola and ChatCola variants. Three-year CAGR stood at 7.5%. Dabur's market share increased by 200+ bps in digestive powders category. The OTC and ethicals portfolios' revenues grew by 4% y-o-y (with three-year CAGR at 11.4%) driven by strong growth of OTC portfolio and ex-COVID contextual Ethicals portfolio. OTC business recorded y-o-y growth of 17% driven by Lal Tail, Honitus & Shilajit portfolios, while the ethicals portfolio, ex-Covid contextual products posted 7.5% y-o-y growth.
- **Home and personal care (HPC):** The HPC business (that contributed 45.6% to domestic revenue in Q3FY2023) grew by 2.2% y-o-y, reporting a revenue of Rs. 986 crore in Q3FY2023. On a three-year CAGR basis, the segment grew by 8.7%. Homecare portfolio grew by 18.2% y-o-y (11.5% on 3-year CAGR basis) driven by robust double-digit growth in Odonil, Odomos and Sanifresh brands. Odonil saw its market share improving by 540 bps in aerosols and 410 bps in the gel air fresheners category. Odomos' market share increased by ~220 bps. The oral care portfolio grew by 2.6% y-o-y (11.9% on a three-year CAGR basis) led by 3.2% y-o-y growth in the toothpaste category driven by good growth in Dabur Red. Dabur has now become the No. 2 player in the dentifrice segment with the company's value market share in the category now at highest ever mark of 15.8% (volume market share at 17%). The hair oils portfolio declined by 2.4% y-o-y on account of a ~5% decline in the category 3-year CAGR growth stood at 4.9%. Market share for hair oils portfolio improved by ~70 bps to touch highest ever mark of 16.2%. Shampoo portfolio reported growth of 3.6% y-o-y and 16.9% on a three-year CAGR basis on a high base of 21% growth in Q3FY2022 with market share gains of ~40 bps. The skin & salon portfolio declined by 5.6% y-o-y (2.1% growth on a three-year CAGR basis) as delayed winter impacted the portfolio. The company saw market share increase of 60 bps in bleach creams.
- **Foods & Beverages (F&B):** The F&B segment (contributing 14.8% to domestic revenue in Q3FY2023) reported y-o-y and two-year CAGR growth of 6.4% and 15.2%, respectively, with revenues coming in at Rs. 319 crore. The beverages portfolio reported a muted y-o-y growth of 3.7% impacted by early onset of the festive season. 3-year CAGR came in at 14.3%. Market share in juices category increased by 250 bps. The foods portfolio grew by 34.5% y-o-y and 24.3% on a three-year CAGR basis. Hommade brand continued to perform well driven by innovation and portfolio expansion.
- **International business:** International business' revenues (contributing 25% to total sales) grew by 14% y-o-y on CC terms, with a 3-Year CAGR of 14.1% in Q3FY2023. Revenues grew by 5.1% in rupee term. The MENA region witnessed 10.1% y-o-y decline in revenues while revenue of Namaste region stood flat y-o-y. Other key geographies such as Turkey, Egypt, Sub-Saharan Africa and SAARC registered a y-o-y growth of 97%, 35%, 17% and 8%, respectively.

Key conference call highlights

- **Rural recovery eyed in coming quarters:** The impact of inflationary pressures was more pronounced in the rural markets as marked downtrading and shift to more affordable and smaller packs led to rural growth lagging urban markets for the second quarter in a row for Dabur. However, the management has indicated that the rural demand slump has bottomed out as the company is now seeing some green shoots of revival in demand in the hinterland. Dabur is anticipating rural demand to report a smart recovery led by record farm output and increased government spending.

- **Q3FY23 growth driven by volume and value:** The company's Q3FY2023 revenue growth at 3.4% was aided by 6.5% price hikes as volume decline during the quarter came in at 3%. However, on a secondary sales basis, the volume growth stood at 3% in Q3FY2023.
- **E-commerce contribution:** The e-commerce channel registered a 40% y-o-y growth and contributes 9% to revenue. NPD has large share in the e-commerce channel with drinks portfolio expected to reach Rs. 200 crore in FY23 (Rs. 500 crore in the medium term), juices (high gross margin portfolio) at Rs. 20 crore, baby care at Rs. 20 crore annually and ghee at Rs. 10 crore. Overall NPD contribution to e-commerce is at 10%.
- **Toothpaste category growth ahead of category growth:** The toothpaste category decline stood at 8%, while Dabur's toothpaste portfolio recorded 3.2% y-o-y growth. As per the management, there is downtrading and grammage reduction in the oral care segment. However, Dabur registered growth ahead of category led by market share gains and new product launches. Dabur Red toothpaste market share increased by 36 bps and Meswak also saw market share gains during the quarter. Toothpaste volume/value market share stood at 17%/15.8% in Q3FY2023.
- **Winter portfolio seen good traction in Q4:** The winter portfolio which was impacted in Q3 due to late onset of winters has seen good traction in Q4 o far due to severe winters in many parts of the country. Chyawanprash & creams have witnessed good growth on y-o-y basis and also over the pre-COVID levels.
- **Foods portfolio to grow significantly in the coming years:** According to the management, foods portfolio is expected to reach Rs. 500 crore in next 2-3 years. The company is planning to add 5 more categories to the foods portfolio, which will lead to an increase in the company's addressable market. The Badshah products will start contributing to revenue from Q4FY2023 and will add to revenue of foods portfolio.
- **Gross Margins to be muted for next 1-2 quarters, then stabilise:** The company witnessed 8.5% y-o-y inflation and undertook price increases to the tune of 6.5% in Q3FY2023. The management expects 5.5% inflation going ahead and has guided that the company would be undertaking further price hikes in the coming months to mitigate the impact of input cost inflation. As guided by the management, gross margin is expected to be muted for next 1-2 quarters and then stabilise to previous levels.
- **Expect to maintain OPM at 20%:** The company aims to maintain OPM at 20% in the quarters ahead. The management stated that there would be a change in the company's strategy wherein the company would continue to spend higher on advertisements while cutting down the trade spends on promotions and discounts. The company expects 60-70 bps y-o-y decline in OPM in FY23. However, the management is confident to maintain the 20% level going ahead.

Results (Consolidated) **Rs cr**

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Total Revenue	**3,043.2**	**2,941.8**	**3.4**	**2,986.5**	**1.9**
Materials	1,658.2	1,519.6	9.1	1,631.4	1.6
Employee cost	290.8	273.0	6.5	287.6	1.1
Ad Promotions	179.6	237.1	-24.2	151.8	18.3
Other expenditure	304.7	284.6	7.1	315.0	-3.3
Total Expenditure	2,433.3	2,314.3	5.1	2,385.8	2.0
Operating Profit	**609.9**	**627.5**	**-2.8**	**600.7**	**1.5**
Other Income	100.8	96.7	4.2	123.3	-18.2
Interest Expenses	18.9	11.1	70.7	15.1	25.6
Depreciation	70.9	63.2	12.2	70.5	0.6
Profit Before Tax	620.9	650.0	-4.5	638.5	-2.8
Tax	143.5	145.5	-1.4	147.3	-2.6
Adjusted PAT	**477.4**	**504.5**	**-5.4**	**491.2**	**-2.8**
Minority interest	0.8	-0.1	-	-0.3	-
Reported PAT	**476.7**	**504.6**	**-5.5**	**491.5**	**-3.0**
Adjusted EPS (Rs.)	2.7	2.9	-5.6	2.8	-2.8
			bps		**bps**
GPM (%)	45.5	48.3	-283	45.4	14
OPM (%)	20.0	21.3	-129	20.1	-7
NPM (%)	15.7	17.1	-146	16.4	-76
Tax rate (%)	23.1	22.4	73	23.1	4

Source: Company, Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q3FY23	Q3FY22	y-o-y (%)	Q2FY23	q-o-q (%)
Consumer care	2,618.0	2,543.2	2.9	2,410.9	8.6
Foods	352.5	329.0	7.1	499.1	-29.4
Retail	31.6	27.5	15.0	26.2	20.7
Other segments	31.4	32.7	-3.9	40.8	-23.0
Unallocated other operating revenue	9.6	9.4	3.0	9.5	1.9
Total	**3,043.2**	**2,941.8**	**3.4**	**2,986.5**	**1.9**

Source: Company, Sharekhan Research

Segment-wise EBIT margins in %

Particulars	Q3FY23	Q3FY22	y-o-y (bps)	Q2FY23	q-o-q (bps)
Consumer care	23.3	24.7	-144	23.4	-11
Foods	14.0	15.2	-121	18.7	-466
Retail	1.5	0.1	135	-1.7	317
Other segments	12.9	7.8	503	10.6	230

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - H2FY2023 to be better compared with H1

A sustained slowdown in rural demand will continue to put a toll on sales volume of consumer goods companies in Q3FY2023. However, the uptick in the festive season, sustained demand for premium categories along with stable demand in urban markets will lead to a sequential improvement in sales volume. Overall, we expect H2FY2023 to be much better compared with H1FY2023, with expected recovery in sales volumes. OPM is also expected to improve from Q4FY2023. Low penetration in key categories (especially in rural India), lower per capita consumption compared with other countries, a large shift to branded products and emergence of new channels such as e-commerce/D2C provide several opportunities for achieving sustainable growth in the medium to long run.

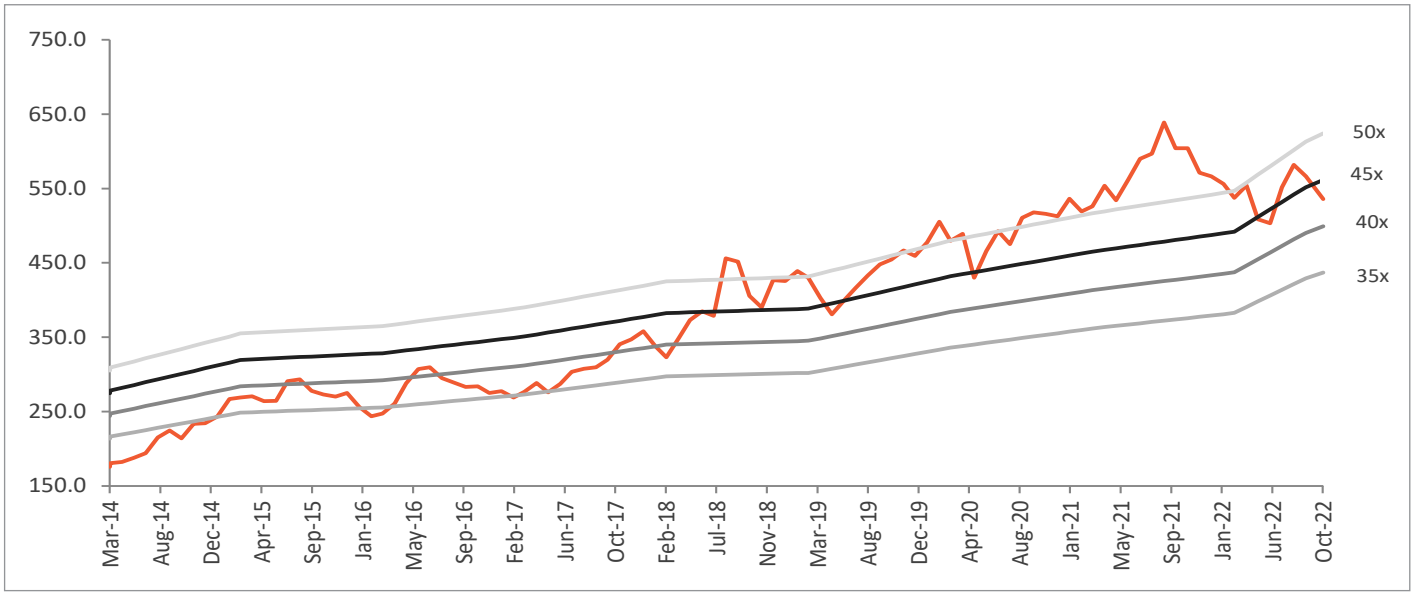
■ Company outlook - Medium-term growth driven by product launches, distribution expansion

Q3FY2023 performance was subdued as revenues grew marginally by 3% y-o-y (domestic volumes declined by 3%) while adjusted PAT decreased by 5.5% y-o-y. We expect volume growth momentum in the domestic business to recover in the coming quarters, driven by market share gains in key categories, improving category penetration, strong traction in product launches, and expansion in distribution reach. Category-wise, health supplements are expected to achieve mid-high single-digit growth, home and personal care is likely to achieve mid-teens growth, and food and beverages business is expected to achieve high double-digit growth. The company has undertaken a price hike of mid-single digit and is focusing on cost saving measures to reduce pressure on margins in the coming quarters. Revenue and PAT are expected to grow at 13% and 16% CAGR during FY2022-25.

■ Valuation - Maintain Buy with a revised price target of Rs. 640

Q3FY2023 was a soft quarter for Dabur as slowdown in rural markets, delay in winter season and high input prices had a toll on the company's performance. The company continued to gain market share in key brands, launched consumer-centric products and improved distribution network during the quarter. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and new launches, while profitability is expected to improve on the back of a moderation in raw material inflation and cost-saving initiatives. The stock currently trades at 40.8x/34.0x its FY2024E/25E EPS. We maintain a Buy rating on the stock with a revised price target of Rs. 640.

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	51.4	45.5	37.9	37.8	32.7	27.9	41.4	47.0	53.1
Hindustan Unilever	70.0	64.8	54.7	49.0	45.2	38.5	24.1	25.9	30.1
Dabur India	53.6	50.7	40.8	43.4	42.2	34.3	26.3	25.6	29.8

Source: Company; Sharekhan Research

About company

Dabur is one of India's leading FMCG companies with revenue of over Rs. 10,000 crore (FY2022). 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 & 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 the 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 the highly penetrated categories such as hair care and oral care would act as a threat to revenue growth.

Additional Data

Key management personnel

Mohit 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	First states Investments ICVC	1.82
2	Blackrock Inc	1.62
3	Life Insurance Corp India	1.59
4	MB Finmart Pvt Ltd	1.50
5	Matthews International Capital Management	1.22
6	Vanguard Group Inc	1.09
7	Capital Group Inc	1.05
8	UTI AMC	0.54
9	Mitsubishi UFJ Financial Group Inc	0.53
10	Mirae Asset Global Investments	0.53

Source: Bloomberg

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

Sharekhan

by BNP PARIBAS

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