Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Dabur India Ltd

Soft Q1; better times ahead

Consumer Goods	Sharekhan code: DABUR
Reco/View: Buy ↔	CMP: Rs. 555
	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	Neutral	↑	Positive
RQ	Positive	↔	Positive
RV	Positive	↔	Positive

ESG Disclosure Score NEW

ESG RISK RATING 32.07

Updated Jul 08, 2023

High Risk

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

Source: Morningstar

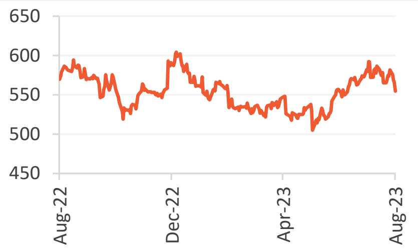
Company details

Market cap:	Rs. 98,295 cr
52-week high/low:	Rs. 610 / 504
NSE volume: (No of shares)	19.2 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	59.8 cr

Shareholding (%)

Promoters	66.2
FII	19.7
DII	8.9
Others	5.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.3	9.8	0.0	-2.7
Relative to Sensex	-3.9	3.0	-8.8	-14.5

Sharekhan Research, Bloomberg

Summary

- Dabur posted muted performance in Q1FY2024 due to sales decline in beverage category, moderate growth in health supplements and skin care category, while higher ad spends kept OPM flat. Revenue and PAT grew 11% and 5%, y-o-y, respectively.
- Rural volumes grew by 7.5%; Recovery in the rural demand and stable demand in the urban market coupled with market share gains in key categories would help Dabur achieve mid-to-high single digit volume growth in the coming quarters.
- Management eyes an OPM of 19-20%. Raw material cost savings will be utilised for higher investment behind brands.
- Stock has underperformed broader indices and trades at 43x/35x its FY2024E/25E EPS. We maintain a Buy on the stock with a revised price target of Rs. 640.

Dabur India's (Dabur's) Q1FY2024 performance was affected by lower sales of beverages and health supplements due to unseasonal rains in North India. Beverage segment revenues fell by 2.5% while health supplement category (including Glucose portfolio) registered a modest growth of 5.5%. Thus, despite mid-to-high single digit volume growth in most other key categories, domestic volumes rose by only 3%. Consolidated revenues grew by 11% y-o-y to Rs. 3,130.5 crore with domestic business growing by 8%, while international business grew by 10.2% y-o-y. Acquisition of Badshah added 2% to the overall growth. Gross margins improved by 74 bps y-o-y to 46.6% while higher ad-spends led to flat OPM at 19.3%. Operating profit grew by 11.2% y-o-y to Rs. 604.7 crore. Higher interest cost led to a 5% growth in the adjusted PAT to Rs. 465 crore.

Key positives

- Oral care category grew by 13% (driven by 9% volume growth); gaining market share from industry leader.
- Hair oils portfolio grew by 10%, ahead of category growth of 3%.
- Over-the-counter (OTC) portfolio registered strong growth 24.3% with strong growth across portfolio.
- Badshah Masala added 24% growth to the foods portfolio.

Key negatives

- Beverage revenues fell by 2% impacted by unseasonal rains in North and West India.
- Skin care category witnessed moderated growth of 3.5%.

Management Commentary

- Rural growth stood at 8% (rural industry growth was 4%) and urban growth stood at 10%. With improving volume growth in rural India and share gains in most categories, the revenue growth will improve in the coming quarters.
- Volumes grew by only 3% due to a fall in beverage volumes. Healthcare category registered 6-7% volume growth, HPC category registered 7-8% volume growth (oral care registered 9% volume growth) and food business registered 6% volume growth. Thus with expected recovery in the beverage sales in the quarters ahead, volume growth should recover to mid-to-high single digit for the company.
- Category-wise, oral care will continue to post double digit growth on back of market share gains (volume growth will be high-single digits), value-added hair oil should grow in double digits, Healthcare portfolio should growth by 10%, OTC & ethicals should grow in mid-teens, Food business (including Badshah) should get close to Rs. 500 crore in revenues by FY2025. Thus the company is well-poised to achieve double-digit revenue growth in the coming years.
- New launches are gaining strong traction and will continue to be around 3-4% of overall revenues.
- Dabur Honey complies with FSSAI parameters under strict regulations. None of its batch contents any of the key inputs beyond permissible limits.
- Management expects OPMs to sustain at 19-20% as the company likely to do higher investments behind brand building and promotional activities.

Revision in earnings estimates - We have fine-tuned our earnings estimates for FY2024/FY2025 as results are largely in-line with expectations. Management is confident of good recovery in the performance with rural seeing good uptick in demand.

Our Call

View – Maintain Buy with a revised price target of Rs. 640: The management expects performance to recover in the coming quarters with recovery in rural demand and further aided by strategies in place to drive growth. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and launches, while profitability is expected to improve led by a moderation in raw material inflation and better operating leverage. The stock has underperformed the broader indices and is currently trades at 43x/35x 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	FY22	FY23	FY24E	FY25E
Revenues	10,889	11,530	13,359	15,549
OPM (%)	20.7	18.8	21.1	21.9
Adjusted PAT	1,829	1,703	2,297	2,792
% YoY growth	7.9	-6.9	34.9	21.6
Adjusted EPS (Rs.)	10.3	9.6	12.9	15.7
P/E (x)	53.7	57.8	42.9	35.2
P/B (x)	11.7	11.0	9.8	8.4
EV/EBIDTA (x)	43.4	45.6	34.9	28.5
RoNW (%)	22.8	19.6	24.1	25.7
RoCE (%)	26.3	22.1	27.0	30.0

Source: Company; Sharekhan estimates

Soft Q1 – Revenue growth at 11% y-o-y, OPM stood flat y-o-y

Consolidated revenues grew by 10.9% y-o-y to Rs. 3,130.5 crore in-line with our and average street expectations of Rs. 3,098-3,120 crore. India FMCG business posted volume growth of 3%. India Standalone revenues grew by 8% y-o-y while international business saw CC growth of 20.6%. Among categories, healthcare and home & personal care grew by 10% and 11% y-o-y respectively, while food & beverage revenue stood flat y-o-y. Company reported market share gains across 90% of its portfolio. As anticipated, softening of raw material inflation led to an expansion in gross margins which improved by 74 bps y-o-y to 46.6%. However, OPM stood flat y-o-y at 19.3% due to higher advertisement expenses (up by 30% y-o-y). OPM came in line with our and average street expectation of 19.2-19.4%. Operating profit grew by 11.2% y-o-y to Rs. 604.7 crore, while higher depreciation and interest cost led to 5.3% y-o-y growth in the adjusted PAT to Rs. 465 crore, against our and average street expectation of Rs. 458-465 crore. Reported PAT stood at Rs. 456.6 crore.

India business grew by 8%; international business grew by 21% (constant currency) in Q1FY2024

- **Healthcare:** The HC business (contributing 26.4% to domestic revenues in Q1FY2024) clocked revenues of Rs. 595 crore in Q1FY2024, up by 10% y-o-y. On a four-year CAGR basis, the segment reported a 10.6% growth. The health supplements portfolio grew by 5.5% y-o-y as glucose portfolio was impacted by unseasonal rains. Ex-Glucose, health supplements grew by 10%. Market share gains continued in Chyawanprash and Honey categories. The digestives portfolio saw 14.3% y-o-y growth on base of 39.5% growth in Q1FY2023 driven by robust double-digit growth in the Hajmola franchise. OTC portfolio grew by 24.3% y-o-y driven by double-digit growth in Lal Tail, Honitus, Dabur Health Juices and Shilajit. The company reported ~140 bps market share gains in baby massage oils and 20 bps in cough & cold segment. Ethicals portfolio revenues grew by 7.3% y-o-y led by double-digit growth in the Classicals business.

- **Home and personal care (HPC):** The HPC business (that contributed 49% to domestic revenues in Q1FY2024) grew by 11% y-o-y, reporting a revenue of Rs. 1,107 crore. On a four-year CAGR basis, the segment grew by 8.5%. Within the HPC business, homecare portfolio grew by 14.5% y-o-y in Q1FY2024 driven by robust double-digit growth in Odonil and Odomos. Odonil saw its market share improving by 10 bps in air fresheners, thereby strengthening its No. 1 position in the category. Odomos' market share increased by ~340 bps. The oral care portfolio grew by 13% y-o-y with growth in the toothpaste category driven by Dabur Red, whose market share increased by 50 bps, taking toothpaste segment market share to 16.9%. The hair oils portfolio grew by 10% y-o-y higher than category growth of 3.7%. Market share for hair oils improved by ~200 bps to touch highest ever mark of 17.4%. The company made an entry into the Rs. 1,000 crore cooling hair oil category, with the launch of Dabur Cool King. Shampoos reported growth of 9% y-o-y on a high base of 17% growth in Q1FY2023 with market share gains of ~10 bps. The skincare portfolio grew by 3.5% y-o-y, with Gulabari registering a double-digit growth. Bleach creams portfolio registered market share increase of 30 bps.

- **Foods & Beverages (F&B):** The foods & beverages (F&B) segment (contributing 24.6% to domestic revenue in Q1FY2024) stood flat y-o-y, while on a four-year CAGR basis the segment grew by 14.5%, with revenues coming in at Rs. 557 crore in Q1FY2024. Beverages portfolio reported y-o-y decline of 2% impacted due to unseasonal rainfall in North and West India. However, the company witnessed market share gains in juices and fruit drinks. Foods portfolio (excluding Badshah) grew by 35% y-o-y. Hommade brand continued to perform well driven by innovation and portfolio expansion Addition of Badshah Masala (saw 24% growth) to foods portfolio added to the growth momentum.

- **International business:** International business' revenues (contributing 23.4% to total sales in Q1FY2024) grew by 20.6% y-o-y on CC terms (10.2% in rupee terms). Turkey, Egypt, Sub-Saharan Africa, MENA region and Nepal registered a y-o-y growth of 51.2%, 45.7%, 13.3%, 10.2% and 6.7%, respectively, while Namaste region registered a 2.9% y-o-y decline in Q1FY2024.

Key conference call highlights

- **Rural demand:** Rural demand grew by 4%, while Dabur's rural growth came in at 8%. All indicators are showing good momentum and thus management expects rural demand to recover in coming quarters.
- **Volume growth:** India FMCG business reported volume growth of 3% in Q1 affected decline in volumes of beverage category. Healthcare category registered 6-7% volume growth, HPC category registered 7-8% volume growth (oral care registered 9% volume growth) and food business registered 6% volume growth. With expected recovery in the beverage sales in the quarters ahead, volume growth should recover to mid-to-high single digit for the company.
- **Healthcare:** Management guided that Healthcare posted a 6-7% volume growth in Q1FY2024. Going ahead, growth in the healthcare segment is expected to be driven by multiple factors including 1. Therapeutic division (management is targeting incremental revenue of Rs. 150 crore in FY2024 and is aiming to cover 70,000 allopathic doctors in addition to 70,000 ayurvedic docs covered presently with 500 feet on street); 2. New product developments which will help to increase the company's addressable market; and 3. Focus on power brands – Lal Tail, Honitus. For FY2024, the company is targeting high single-low double-digit growth in healthcare, with babycare leading the pack.
- **Home & personal care:** During the quarter, homecare reported a 7-8% volume growth as stated by the management. In the oral care portfolio, the company is consistently taking market share from the market leader, whereas in the Hair oil portfolio, growth is driven by the Amla portfolio with better distribution and improved efficiency.
- **Foods & beverages:** Management indicated that beverage portfolio reported a fall in volumes in Q1FY2024, while foods posted a 6% volume growth. Beverages portfolio was impacted in Q1 due to unseasonal rains and is expected to remain muted throughout remaining part of FY24. For the beverages portfolio, the company has targeted 8% volume growth in FY2024. Both Badshah and Homemade both posted strong performance during the quarter. The company plans to start distribution of Badshah Masala in West & South. Dabur aims to achieve Rs. 450 crore revenue from Foods + Badshah in FY2024 and Rs. 500 crore in FY2025.
- **International business:** The company lost some sales in Q1FY2024 due to change in one of the distributor, however international business is expected to post double-digit growth in FY2024.
- **Margins:** Food basket inflation is high even though healthcare & homecare basket inflation has seen moderation. With monsoon, overall inflation is expected to cool down. Management has indicated that gross margin expansion will be invested in media spends. The company is targeting media spends at 8-9% of revenue. The company is expected to register q-o-q improvement in gross margin for next 2-3 quarters and expect to end FY24 at the higher end of guidance if inflation remains in control. Management expects OPM to sustain at 19-20% as the company likely to do higher investments behind brand building and promotional activities.
- **New products:** New products are gaining strong traction and will continue to be ~3-4% of overall revenues. In the e-commerce channel, NPD share is higher at 10%. Babycare is success and company plans revenue to rise to Rs. 50 crore from Rs. 20 crore in FY2023. Recently launched Cool King reported revenue of Rs. 6 crore, Dabur ghee posted revenue of Rs. 10 crore, while Hajmola innovation contribution came in at 10% of the brand's revenue.
- **Capex:** Capex for FY2024 is expected to be at Rs. 400-450 crore (Q1 capex stood at Rs. 160 crore).

Results (Consolidated) Rs cr

Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Total Revenue	**3,130.5**	**2,822.4**	**10.9**	**2,677.8**	**16.9**
Materials	1,671.7	1,528.1	9.4	1,451.0	15.2
Employee cost	297.2	269.9	10.1	288.7	2.9
Ad Promotions	204.3	157.2	30.0	151.6	34.8
Other expenditure	352.4	323.6	8.9	376.6	-6.4
Total Expenditure	2,525.7	2,278.8	10.8	2,268.0	11.4
Operating Profit	**604.7**	**543.7**	**11.2**	**409.8**	**47.6**
Other Income	109.8	100.6	9.2	120.7	-9.1
Interest Expenses	24.3	12.2	-	32.1	-24.3
Depreciation	85.6	67.6	26.7	102.0	-16.0
Profit Before Tax	604.6	564.5	7.1	396.4	52.5
Tax	139.6	123.1	13.4	103.5	34.9
Adjusted PAT	**465.0**	**441.4**	**5.3**	**293.0**	**58.7**
Extra-ordinary gain / loss	-8.2	0.0	-	0.0	-
Minority interest	0.2	-0.3	-	0.2	5.3
Reported PAT	**456.6**	**441.7**	**3.4**	**292.8**	**56.0**
Adjusted EPS (Rs.)	2.6	2.5	5.3	1.7	58.7
			bps		**bps**
GPM (%)	46.6	45.9	74	45.8	79
OPM (%)	19.3	19.3	6	15.3	401
NPM (%)	14.9	15.6	-79	10.9	391
Tax rate (%)	23.1	21.8	129	26.1	-301

Source: Company, Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q1FY24	Q1FY23	y-o-y (%)	Q4FY23	q-o-q (%)
Consumer care	2,391.4	2,135.9	12.0	2,096.7	14.1
Foods	668.8	608.8	9.9	521.2	28.3
Retail	29.7	25.7	15.7	27.5	8.1
Other segments	31.2	42.0	-25.8	23.4	33.3
Unallocated other operating revenue	9.4	10.1	-6.7	9.1	3.2
Total	**3,130.5**	**2,822.4**	**10.9**	**2,677.8**	**16.9**

Source: Company, Sharekhan Research

Segment-wise EBIT margins in %

Particulars	Q1FY24	Q1FY23	y-o-y (bps)	Q4FY23	q-o-q (bps)
Consumer care	23.3	22.4	90	18.5	482
Foods	13.9	16.4	-252	13.6	22
Retail	-1.0	-0.4	-59	-4.2	325
Other segments	11.6	10.9	76	13.2	-160

Source: Company, Sharekhan Research

Outlook and Valuation

Sector view - Rural recovery on cards; margin improvement to sustain

Rural demand bottomed out with sales returning to the positive growth path in Q4FY2023. With price inflation stabilising and a decline in key input prices, managements of most companies are confident of witnessing a gradual pick-up in rural demand in the quarters ahead. Moreover, expectation of a well spread-out monsoon and the government offering some incentives prior to the budget might provide some boost to rural sentiments in the coming quarters. In FY2024, revenue growth is expected to be volume-led growth with companies focusing on passing on benefits of the decline in input cost to customers in the coming quarters. The fall in input prices will drive gross margins in the coming quarters. Despite higher media spends, OPM is expected to remain high on a y-o-y basis in the near term.

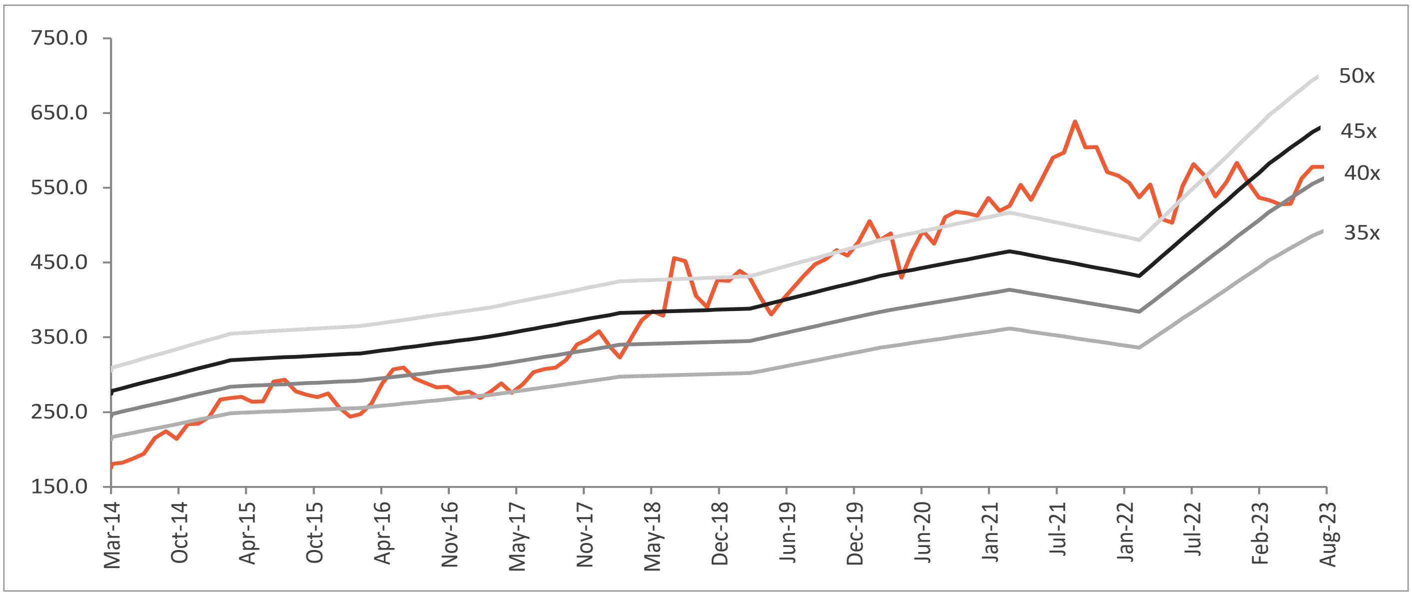
Company outlook - Medium-term growth driven by product launches, distribution expansion

FY2023 performance was subdued as revenues growing in single digits by 6% y-o-y while adjusted PAT fell by 7% y-o-y. We expect 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, healthcare, home, and personal care are expected to achieve high single-digit to low double digit growth, and food and beverages business is expected double in the next 4-5 years. Revenue and PAT are expected to grow at 16% and 22% CAGR during FY2023-25E.

Valuation - Maintain Buy with revised PT of Rs. 640

The management expects performance to recover in the coming quarters with recovery in rural demand and further aided by strategies in place to drive growth. Revenue growth in the medium term will be driven by market share gains, distribution network expansion, investments on power brands and launches, while profitability is expected to improve led by a moderation in raw material inflation and better operating leverage. The stock has underperformed the broader indices and is currently trades at 43x/35x 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 (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Marico	55.9	46.8	41.0	40.2	33.9	29.7	40.8	44.0	46.9
Hindustan Unilever	59.8	54.6	46.8	43.5	38.7	33.0	25.6	28.2	31.9
Dabur India	57.8	42.9	35.2	45.6	34.9	28.5	22.1	27.0	30.0

Source: Company, Sharekhan estimates

About company

Dabur is one of India's leading FMCG companies with revenue of over Rs. 11,500 crore (FY2023). 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, Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp India	2.23
2	Blackrock Inc	1.67
3	First states invesments ICVC	1.42
4	Vanguard Group Inc	1.11
5	BNP Paribas SA	0.71
6	Matthews International Capital Management	0.67
7	Capital Group Inc	0.57
8	Norges Bank	0.56
9	UTI AMC	0.51
10	ICICI Prudential AMC	0.51

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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