

BUY Dabur India**Weak winter hurts India show; valuation captures headwinds**

Consumer Goods ▶ Company Update ▶ January 4, 2024

TARGET PRICE (Rs): 650

In Q3FY24, Dabur is likely to post ~7% consol. revenue and ~9% earnings growth. We expect 4% volume-led revenue growth on the domestic front, with 8% growth in Company's international business. Badshah would contribute ~2% to consol. revenue, in our view, with >20% YoY growth. Gross margin is likely to maintain the recovery trend, but EBITDA margin expansion YoY would be slow given higher A&P needs. The mgmt. foresees QoQ recovery in demand. At one year forward P/E of 44x (capture near-term headwinds), the stock trades at 5% discount to its last 5Y avg fwd P/E. We maintain our positive stance on Dabur, encouraged by its diversified portfolio, which the management is geared to better leverage with improvement in the demand scenario. We retain BUY with Sep-24E TP of Rs650, on 46x Sep-25E earnings.

Dabur India: Financial Snapshot (Consolidated)

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---------------------|---------|---------|---------|---------|---------|
| Revenue | 108,887 | 115,299 | 125,845 | 139,617 | 153,324 |
| EBITDA | 22,538 | 21,641 | 24,868 | 28,967 | 32,453 |
| Adj. PAT | 18,242 | 17,182 | 19,580 | 23,030 | 25,854 |
| Adj. EPS (Rs) | 10.3 | 9.7 | 11.1 | 13.0 | 14.6 |
| EBITDA margin (%) | 20.7 | 18.8 | 19.8 | 20.7 | 21.2 |
| EBITDA growth (%) | 12.5 | (4.0) | 14.9 | 16.5 | 12.0 |
| Adj. EPS growth (%) | 7.7 | (6.0) | 14.0 | 17.6 | 12.3 |
| RoE (%) | 22.7 | 19.8 | 20.9 | 22.5 | 23.0 |
| RoIC (%) | 60.7 | 44.3 | 42.2 | 49.1 | 56.5 |
| P/E (x) | 54.9 | 58.4 | 51.2 | 43.6 | 38.8 |
| EV/EBITDA (x) | 41.9 | 43.9 | 37.8 | 32.2 | 28.3 |
| P/B (x) | 11.9 | 11.2 | 10.3 | 9.4 | 8.5 |
| FCFF yield (%) | 1.5 | 1.1 | 1.6 | 2.0 | 2.4 |

Source: Company, Emkay Research

Weak winter, slow Rural to hurt domestic show; International better placed

In the domestic business (comprising ~75% of revenue), the company sees early signs of revival in consumption. While Rural growth still lags Urban growth, Dabur India sees sequential improvement in the demand trend. As such, we build-in ~4% volume growth in Q3FY24 (3% growth in Q2FY24). Company's India business is likely to see growth of ~5% in its home & personal care portfolio (45% of sales), of ~2% in Healthcare (40% of sales; affected by the delayed winter season), and of ~6% in Foods (15% of sales). Its International business has sustained double-digit constant-currency growth; we see ~8% reported growth. Badshah Masala continued to perform well and is expected to clock growth in the high twenties led by strong volume; we see 2% contribution to consol. revenue in Q3FY24. Intl. business is expected to post double-digit growth in constant currency (aided by healthy momentum in MENA region); we see ~8% reported growth.

Higher A&P needs absorb bulk of gross-margin benefit, OPM show to be muted

Amid moderating inflation and cost saving initiatives, gross margin expansion on a YoY basis is likely to remain healthy at ~250bps (to 48%) in Q3FY24. Better gross margin is likely to absorb the higher A&P needs; we see 42% absolute increase in spends YoY (up by 190bps YoY to 7.8%). Consol. EBITDA margin is likely to expand by 10bps YoY to 20.2%. We see EBITDA growth at ~8% YoY. Earnings growth is likely to be ~9% YoY.

Valuation captures near-term stress

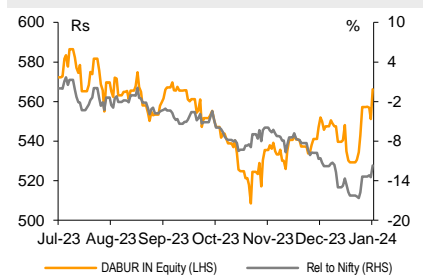
Our sustained constructive outlook on Dabur is on account of: 1) its focused strategy to drive share and penetration; 2) portfolio transformation for aligning with evolving trends; 3) category extensions; 4) strengthening of the distribution moat; and 5) its funding muscle for inorganic opportunities (~7% of market cap is in liquid assets). At one year forward P/E of 44x (on Bloomberg consensus, capture near-term headwinds), the stock trades at a 5% discount to its last 5Y average forward P/E. We retain BUY on Dabur, with Sep-24E TP of Rs650/share, on 46x P/E (in line with its last 5Y average forward PER).

| | |
|-------------------------|-----------|
| Target Price – 12M | Sep-24 |
| Change in TP (%) | NA |
| Current Reco. | BUY |
| Previous Reco. | BUY |
| Upside/(Downside) (%) | 14.8 |
| CMP (04-Jan-24) (Rs) | 566.3 |

| Stock Data | Ticker |
|-----------------------------|----------|
| 52-week High (Rs) | 597 |
| 52-week Low (Rs) | 504 |
| Shares outstanding (mn) | 1,772.0 |
| Market-cap (Rs bn) | 1,003 |
| Market-cap (USD mn) | 12,056 |
| Net-debt, FY14E (Rs mn) | -6,434 |
| ADTV-3M (mn shares) | 2 |
| ADTV-3M (Rs mn) | 1,096.4 |
| ADTV-3M (USD mn) | 13.2 |
| Free float (%) | 33.8 |
| Nifty-50 | 21,659 |
| INR/USD | 83.2 |
| Shareholding, Sep-23 | |
| Promoters (%) | 66.2 |
| FPIs/MFs (%) | 18.4/9.9 |

Price Performance

| (%) | 1M | 3M | 12M |
|---------------|-------|-------|--------|
| Absolute | 3.5 | 2.0 | 1.1 |
| Rel. to Nifty | (1.1) | (8.5) | (15.7) |

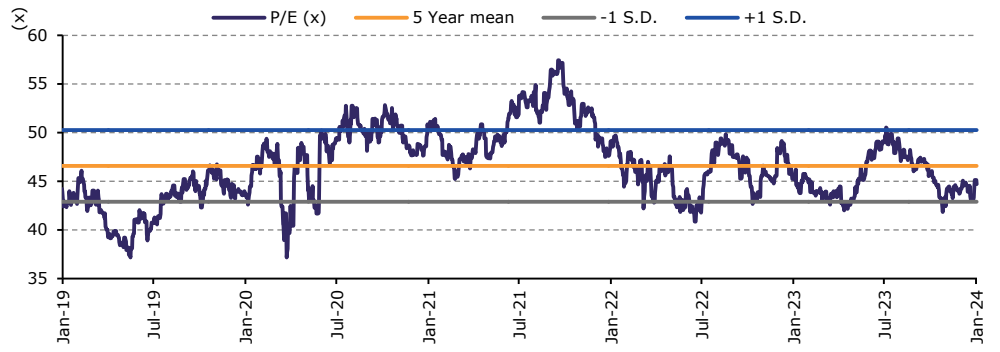
1-Year share price trend (Rs)**Nitin Gupta**

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Exhibit 1: Dabur India – One year forward PER (based on Consensus)



Source: Company, Bloomberg, Emkay Research

Dabur India: Consolidated Financials and Valuations

| Profit & Loss | | | | | |
|-----------------------------|----------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| Revenue | 108,887 | 115,299 | 125,845 | 139,617 | 153,324 |
| Revenue growth (%) | 14.1 | 5.9 | 9.1 | 10.9 | 9.8 |
| EBITDA | 22,538 | 21,641 | 24,868 | 28,967 | 32,453 |
| EBITDA growth (%) | 12.5 | (4.0) | 14.9 | 16.5 | 12.0 |
| Depreciation & Amortization | 2,529 | 2,891 | 2,969 | 3,151 | 3,360 |
| EBIT | 20,009 | 18,750 | 21,898 | 25,816 | 29,094 |
| EBIT growth (%) | 13.5 | (6.3) | 16.8 | 17.9 | 12.7 |
| Other operating income | 807 | 1,034 | 1,199 | 1,343 | 1,504 |
| Other income | 3,932 | 4,454 | 4,899 | 5,389 | 5,928 |
| Financial expense | 386 | 782 | 1,000 | 550 | 450 |
| PBT | 23,555 | 22,422 | 25,797 | 30,655 | 34,572 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Taxes | 5,264 | 5,174 | 6,062 | 7,510 | 8,643 |
| Minority interest | 49 | 67 | 155 | 115 | 75 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 17,392 | 17,072 | 19,140 | 22,590 | 25,414 |
| PAT growth (%) | 2.7 | (1.8) | 12.1 | 18.0 | 12.5 |
| Adjusted PAT | 18,242 | 17,182 | 19,580 | 23,030 | 25,854 |
| Diluted EPS (Rs) | 10.3 | 9.7 | 11.1 | 13.0 | 14.6 |
| Diluted EPS growth (%) | 7.7 | (6.0) | 14.0 | 17.6 | 12.3 |
| DPS (Rs) | 5.5 | 5.2 | 6.3 | 7.5 | 8.5 |
| Dividend payout (%) | 55.9 | 54.0 | 57.9 | 58.8 | 59.3 |
| EBITDA margin (%) | 20.7 | 18.8 | 19.8 | 20.7 | 21.2 |
| EBIT margin (%) | 18.4 | 16.3 | 17.4 | 18.5 | 19.0 |
| Effective tax rate (%) | 22.3 | 23.1 | 23.5 | 24.5 | 25.0 |
| NOPLAT (pre-IndAS) | 15,538 | 14,424 | 16,752 | 19,491 | 21,820 |
| Shares outstanding (mn) | 1,767.9 | 1,771.8 | 1,771.8 | 1,771.8 | 1,771.8 |

Source: Company, Emkay Research

| Cash flows | | | | | |
|------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| PBT | 23,555 | 22,422 | 25,797 | 30,655 | 34,572 |
| Others (non-cash items) | 0 | 0 | 0 | 0 | 0 |
| Taxes paid | (3,876) | (4,945) | (6,062) | (7,510) | (8,643) |
| Change in NWC | (968) | (1,601) | (96) | 451 | 1,428 |
| Operating cash flow | 18,023 | 14,884 | 18,709 | 21,907 | 25,239 |
| Capital expenditure | (3,692) | (4,857) | (3,999) | (4,000) | (4,000) |
| Acquisition of business | 0 | 0 | (5,000) | (10,000) | (10,000) |
| Interest & dividend income | 0 | 0 | 0 | 0 | 0 |
| Investing cash flow | (12,992) | (5,660) | (4,099) | (8,611) | (8,072) |
| Equity raised/(repaid) | 1 | 4 | 0 | 0 | 0 |
| Debt raised/(repaid) | 5,408 | 488 | 0 | 0 | 0 |
| Payment of lease liabilities | 0 | 0 | 0 | 0 | 0 |
| Interest paid | (219) | (779) | (1,000) | (550) | (450) |
| Dividend paid (incl tax) | (9,723) | (9,213) | (11,074) | (13,289) | (15,060) |
| Others | (352) | (815) | 0 | 0 | 0 |
| Financing cash flow | (4,885) | (10,315) | (12,074) | (13,839) | (15,510) |
| Net chg in Cash | 147 | (1,091) | 2,536 | (542) | 1,657 |
| OCF | 18,023 | 14,884 | 18,709 | 21,907 | 25,239 |
| Adj. OCF (w/o NWC chg.) | 18,991 | 16,485 | 20,310 | 21,456 | 23,810 |
| FCFF | 14,331 | 10,027 | 14,710 | 17,907 | 21,239 |
| FCFE | 13,945 | 9,245 | 13,710 | 17,357 | 20,789 |
| OCF/EBITDA (%) | 80.0 | 68.8 | 75.2 | 75.6 | 77.8 |
| FCFE/PAT (%) | 76.4 | 53.8 | 70.0 | 75.4 | 80.4 |
| FCFF/NOPLAT (%) | 92.2 | 69.5 | 87.8 | 91.9 | 97.3 |

Source: Company, Emkay Research

| Balance Sheet | | | | | |
|---------------------------------------|---------------|----------------|----------------|----------------|----------------|
| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
| Share capital | 1,768 | 1,772 | 1,772 | 1,772 | 1,772 |
| Reserves & Surplus | 82,045 | 87,961 | 96,027 | 105,329 | 115,682 |
| Net worth | 83,813 | 89,733 | 97,799 | 107,100 | 117,454 |
| Minority interests | 406 | 4,682 | 4,837 | 4,951 | 5,026 |
| Deferred tax liability (net) | 823 | 910 | 910 | 910 | 910 |
| Total debt | 10,301 | 11,738 | 11,738 | 11,738 | 11,738 |
| Total liabilities & equity | 95,342 | 107,062 | 115,283 | 124,699 | 135,128 |
| Net tangible fixed assets | 20,568 | 31,734 | 32,140 | 32,114 | 31,879 |
| Net intangible assets | 0 | 0 | 0 | 0 | 0 |
| Net ROU assets | 1,780 | 1,869 | 1,962 | 2,061 | 2,164 |
| Capital WIP | 1,675 | 1,751 | 1,500 | 1,500 | 1,500 |
| Goodwill | 2,512 | 4,053 | 4,053 | 4,053 | 4,053 |
| Investments [JV/Associates] | 95 | 78 | 78 | 78 | 78 |
| Cash & equivalents | 67,803 | 65,833 | 73,804 | 83,696 | 95,788 |
| Current assets (ex-cash) | 30,194 | 33,094 | 36,342 | 39,665 | 42,488 |
| Current Liab. & Prov. | 27,503 | 29,482 | 32,633 | 36,407 | 40,658 |
| NWC (ex-cash) | 2,691 | 3,612 | 3,709 | 3,258 | 1,830 |
| Total assets | 95,342 | 107,062 | 115,283 | 124,699 | 135,128 |
| Net debt | (57,502) | (54,096) | (62,066) | (71,959) | (84,050) |
| Capital employed | 95,342 | 107,062 | 115,283 | 124,699 | 135,128 |
| Invested capital | 25,770 | 39,399 | 39,901 | 39,425 | 37,762 |
| BVPS (Rs) | 47.4 | 50.6 | 55.2 | 60.4 | 66.3 |
| Net Debt/Equity (x) | (0.7) | (0.6) | (0.6) | (0.7) | (0.7) |
| Net Debt/EBITDA (x) | (2.6) | (2.5) | (2.5) | (2.5) | (2.6) |
| Interest coverage (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| RoCE (%) | 27.0 | 22.9 | 24.1 | 26.0 | 27.0 |

Source: Company, Emkay Research

| Valuations and key Ratios | | | | | |
|---------------------------|-------------|-------------|-------------|-------------|-------------|
| Y/E Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
| P/E (x) | 54.9 | 58.4 | 51.2 | 43.6 | 38.8 |
| P/CE(x) | 47.4 | 49.2 | 43.8 | 37.7 | 33.8 |
| P/B (x) | 11.9 | 11.2 | 10.3 | 9.4 | 8.5 |
| EV/Sales (x) | 8.7 | 8.3 | 7.6 | 6.7 | 6.1 |
| EV/EBITDA (x) | 41.9 | 43.9 | 37.8 | 32.2 | 28.3 |
| EV/EBIT(x) | 46.3 | 49.7 | 42.2 | 35.4 | 31.0 |
| EV/IC (x) | 36.0 | 23.7 | 23.2 | 23.2 | 23.9 |
| FCFF yield (%) | 1.5 | 1.1 | 1.6 | 2.0 | 2.4 |
| FCFE yield (%) | 1.4 | 0.9 | 1.4 | 1.8 | 2.1 |
| Dividend yield (%) | 1.0 | 0.9 | 1.1 | 1.3 | 1.5 |
| DuPont-RoE split | | | | | |
| Net profit margin (%) | 16.8 | 14.9 | 15.6 | 16.5 | 16.9 |
| Total asset turnover (x) | 1.2 | 1.1 | 1.1 | 1.2 | 1.2 |
| Assets/Equity (x) | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 |
| RoE (%) | 22.7 | 19.8 | 20.9 | 22.5 | 23.0 |
| DuPont-RoIC | | | | | |
| NOPLAT margin (%) | 14.3 | 12.5 | 13.3 | 14.0 | 14.2 |
| IC turnover (x) | 4.3 | 3.5 | 3.2 | 3.5 | 4.0 |
| RoIC (%) | 60.7 | 44.3 | 42.2 | 49.1 | 56.5 |
| Operating metrics | | | | | |
| Core NWC days | (25.3) | (23.6) | (22.5) | (22.4) | (23.2) |
| Total NWC days | 9.0 | 11.4 | 10.8 | 8.5 | 4.4 |
| Fixed asset turnover | 2.8 | 2.4 | 2.2 | 2.2 | 2.3 |
| Opex-to-revenue (%) | 27.5 | 26.9 | 28.3 | 27.8 | 27.4 |

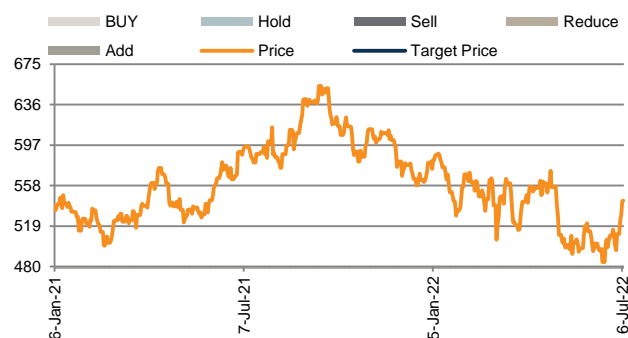
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

| Date | Closing Price (INR) | TP (INR) | Rating | Analyst |
|-----------|---------------------|----------|--------|-------------|
| 12-Dec-23 | 549 | 650 | Buy | Nitin Gupta |
| 12-Dec-23 | 549 | 650 | Buy | Nitin Gupta |
| 30-Nov-23 | 538 | 650 | Buy | Nitin Gupta |
| 30-Nov-23 | 538 | 650 | Buy | Nitin Gupta |
| 24-Nov-23 | 537 | 650 | Buy | Nitin Gupta |
| 24-Nov-23 | 537 | 650 | Buy | Nitin Gupta |
| 03-Nov-23 | 536 | 650 | Buy | Nitin Gupta |
| 03-Nov-23 | 536 | 650 | Buy | Nitin Gupta |
| 20-Oct-23 | 525 | 650 | Buy | Nitin Gupta |
| 20-Oct-23 | 525 | 650 | Buy | Nitin Gupta |
| 19-Oct-23 | 526 | 650 | Buy | Nitin Gupta |
| 19-Oct-23 | 526 | 650 | Buy | Nitin Gupta |
| 06-Oct-23 | 547 | 650 | Buy | Nitin Gupta |
| 06-Oct-23 | 547 | 650 | Buy | Nitin Gupta |
| 03-Oct-23 | 554 | 650 | Buy | Nitin Gupta |
| 03-Oct-23 | 554 | 650 | Buy | Nitin Gupta |

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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|---------------|---|
| BUY | >15% upside |
| ADD | 5-15% upside |
| REDUCE | 5% upside to 15% downside |
| SELL | <15% downside |

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