Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Dabur India Ltd

Good Q4; focus on improving volume growth ahead

Consumer Goods	Sharekhan code: DABUR
Reco/View: Buy ↔	CMP: **Rs. 524** / Price Target: **Rs. 615** ↓

↑ 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		↔	

Summary

- Dabur India's (Dabur's) Q4FY2024 numbers were ahead of our expectation mainly on account of higher-than-expected OPM at 16.6%; Revenues grew by 5% y-o-y (domestic volume growth of 4.2%) and PAT grew by 16.6% y-o-y (like-for-like by 22.7%).
- The company's growth in rural market stood at 8% versus urban growth of 4%. Dabur expects rural growth to improve with likelihood of a better monsoon and sustained support through government initiatives.
- Management targets revenue growth of high-single digit to low-double digits with mid-to-high single digit volume growth. OPM would stand at 20% in FY25 and will consistently improve in years ahead.
- Stock has corrected by 12% from its highs and is trading at 43.5x/36.7x its FY2025E/26E EPS. Recovery in volume growth will be key re-rating trigger for the stock. We maintain a Buy with a revised PT of Rs. 615.

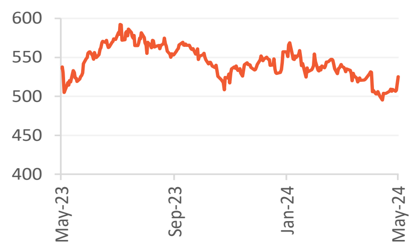
Company details

Market cap:	Rs. 92,908 cr
52-week high/low:	Rs. 597/489
NSE volume: (No of shares)	20.1 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	59.8 cr

Shareholding (%)

Promoters	66.3
FII	16.1
DII	12.6
Others	5.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.2	-3.6	-1.0	-2.4
Relative to Sensex	-2.1	-7.1	-17.4	-24.3

Sharekhan Research, Bloomberg

Dabur's Q4FY2024 numbers were good with OPM coming in at 16.6% better than ours and the street's expectations resulting in double-digit PAT growth. Consolidated revenues grew by 5.1% y-o-y to Rs. 2,815 crore, driven by 4.2% y-o-y volume growth (including Badshah) in the domestic market. In India business, the HPC segment grew by 8.7% y-o-y, F&B segment's revenue stood flat y-o-y, while a delayed winter led to a 1.5% y-o-y decline in HC segment. International business grew by 12% y-o-y (CC terms) aided by good momentum in Egypt, Turkey and the SSA region. Softening of raw material inflation aided in 279 bps y-o-y expansion in gross margin to 48.6%. However, higher advertising & promotion (A&P) spends limited expansion in OPM to 128 bps y-o-y to 16.6%. Operating profit grew by 13.9% y-o-y to Rs. 467 crore, while adjusted PAT increased by 16.6% y-o-y to Rs. 342 crore. On a LFL basis, (excluding amortisation cost of Badshah brand and Namaste's legal costs) PAT grew by 22.7% y-o-y. In FY2024, revenue grew by 7.6% y-o-y (volume growth at 5.5%) to Rs. 12,404 crore, OPM improved by 58 bps y-o-y to 19.4% and PAT grew by 6.5% y-o-y to Rs. 1,811 crore. The board has recommended final dividend of Rs. 2.75 per share for FY2024, taking the total dividend for FY2024 at Rs. 5.5 per share.

Key positives

- Rural demand for Dabur grew 400 bps ahead of urban demand.
- Odomos' market share increased by 677 bps; Chyawanprash, hair oils and Honitus market share improved by 138 bps, 115 bps and 114 bps, respectively.
- Oral care portfolio grew by 22% y-o-y; oral care penetration improved to 52%.
- Digestives reported a ~16% y-o-y growth led by Hajmola and Pudin Hara franchise.
- Badshah Masalas' portfolio grew 20.7% y-o-y driven by focused marketing efforts and rejuvenated portfolio.
- International business' revenues grew by 12% y-o-y on CC terms

Key negatives

- Delayed winter led to a 1.5% y-o-y decline in Healthcare segment.
- Namaste region reported y-o-y decline of 10.9% in Q4.

Management Commentary

- At 8%, rural growth outpaced urban growth (4%) for the first time after 2 years of a lull. Management expects this trend to continue in the quarters ahead as monsoon is expected to be good followed by support of government led initiatives.
- Recovery in rural demand will benefit categories such as hair oils, shampoo, OTC-driven healthcare products and small packs in the beverages space.
- Beverages category is expected to grow in strong double digits on a low base while Badshah will continue to grow above 20%.
- Badshah follows regulatory norms under the FSSAI for sale of products in the domestic market. Ethlyene Oxide usage is within the prescribed limit and hence will not have any impact on sales in the domestic as well as urban market. The company has undertaken some roll-back in prices which will help Badshah to achieve better volume growth in FY2025.
- A delayed winter affected sales of Chyawanprash resulting in decline revenues in Q4. Management is confident of its healthcare portfolio and with a further distribution expansion, it expects growth to rebound to double-digits on a normalised base.
- The management targets revenue growth of high-single digit to low-double digit for FY2025. This will be driven by a mix of volume growth of 5-7%, while pricing growth will be ~3%.
- Gross margin expansion will sustain in FY2025. However, the same will be lower than the expansion achieved in FY2024.
- Consolidated OPM stood at 19.4% in FY2024 (like for like stood at 20.2%). Management expects OPM to improve to 20% in FY2025 and will gradually rise in the subsequent years. The company has started with the second leg of cost optimisation that would aid cost savings of Rs. 100 crore in FY2025.
- Legal costs of Rs. 80-85 crore for case related to Namaste will continue in FY2025.

Revision in estimates – We have reduced our earnings estimates for FY2025 and FY2026 to factor in the higher amortisation cost of acquisition of Badshah brand and one-time legal expenses. Excluding that there would have been no major change in earnings estimates.

Our Call

View – Maintain Buy with a revised PT of Rs. 615: Dabur's management expects performance to recover in the coming quarters with improving 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 in power brands and new launches, while profitability is expected to improve, as raw material inflation eases and operating leverage improves. Stock has corrected by 12% from its 52-week high and trades at 44x/37x its FY2025E/FY2026E EPS. We believe valuations have almost bottomed-out and with an expected recovery in the rural demand, Dabur should post better performance in the coming quarters providing some boost to valuations. Hence, we maintain a Buy with a revised price target of Rs. 615.

Key Risks

Heightened competition in key categories or a slowdown in demand would act as a key risk to our earnings estimates in the near to medium term.

Valuation (consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E
Revenues	11,530	12,404	13,690	15,630
OPM (%)	18.8	19.4	20.0	20.4
Adjusted PAT	1,703	1,812	2,138	2,530
% YoY growth	-6.9	6.4	18.0	18.4
Adjusted EPS (Rs.)	9.6	10.2	12.1	14.3
P/E (x)	54.6	51.3	43.5	36.7
P/B (x)	10.4	9.4	8.5	7.6
EV/EBIDTA (x)	43.1	39.1	33.8	29.0
RoNW (%)	19.6	19.2	20.6	21.8
RoCE (%)	22.1	21.5	23.2	25.1

Source: Company; Sharekhan estimates

Good Q4 – Volume-led revenue growth of 5% y-o-y, OPM up by ~130 bps y-o-y

Dabur's consolidated revenues grew by 5.1% y-o-y to Rs. 2,815 crore, driven by 4.2% y-o-y volume growth (including Badshah) in the domestic market. Revenue came in largely in-line with our and average street's expectation of Rs. 2,824 crore. In India business, the HPC segment grew by 8.7% y-o-y, F&B segment's revenues stood flat y-o-y, while delayed winters led to 1.5% y-o-y decline in HC segment. International business grew by 12% y-o-y (in CC terms) aided by a good momentum in Egypt, Turkey and SSA region. Softening of raw material inflation led to expansion in gross margins which improved by 279 bps y-o-y to 48.6%. However, OPM increased by 128 bps y-o-y to 16.6% as a part of gross margin savings were diverted to higher A&P spends (that rose by 21% y-o-y). OPM came in higher than our expectation of 15.6% and average street expectation of 16.1%. Operating profit grew by 13.9% y-o-y to Rs. 467 crore, while adjusted PAT increased by 16.6% y-o-y to Rs. 342 crore, against our expectation of Rs. 318 crore and average street expectation of Rs. 340 crore. In FY2024, revenue grew by 7.6% y-o-y (volume growth at 5.5%) to Rs. 12,404 crore, OPM improved by 58 bps y-o-y to 19.4% and PAT grew by 6.5% y-o-y to Rs. 1,811 crore. The company's India business saw market share gains across 95% of the portfolio and its rural business grew 400 bps ahead of the urban market in FY2024. The board has recommended a final dividend of Rs. 2.75 per share for FY2024, taking the total dividend for FY2024 at Rs. 5.5 per share.

Domestic volumes rose 4% (including inorganic); international biz grew 12% y-o-y (CC terms)

Home and personal care (HPC):

- This business grew by 8.7% and 8.1% y-o-y in Q4FY2024 and FY2024, reporting revenues of Rs. 892 crore and Rs. 4,157 crore, respectively. On a four-year CAGR basis, the segment grew by 8.8% in FY2024.
- Homecare portfolio grew by 11.1% y-o-y in FY2024 and by 7.5% y-o-y in Q4FY2024 driven by robust double-digit growth in Odomos, with its market share increasing by over 600 bps. Odonil recorded a market share gain of 260+ bps in the air fresheners category.
- The oral care portfolio grew by 11.3% and 22% y-o-y in FY2024 and Q4FY2024, respectively, with the herbal segment continuing to grow ahead of non-herbals.
- Hair oils portfolio grew by 4.2% y-o-y in FY2024 (fell by 2.5% y-o-y in Q4FY2024), with market share improving by 115 bps.
- Shampoos posted 7.7% and 6.1% y-o-y growth in FY2024 and Q4FY2024, respectively, led by the Vatika franchisee.
- Skincare portfolio grew by 3.7% and 0.6% y-o-y in FY2024 and Q4FY2024, respectively with Gulabari registering a double-digit growth. Bleach creams portfolio registered a 100 bps rise in market share.

Healthcare (HC):

- The business clocked revenues of Rs. 562 crore in Q4FY2024, down by 1.5% y-o-y (grew by 4.2% y-o-y to Rs. 2,689 crore) in FY024. On a four-year CAGR basis, the segment reported a 7.6% growth in FY2024.
- Health supplements portfolio declined by 9.1% y-o-y in Q4FY2024 affected by a delayed winter (declined by 0.9% in FY2024). Chyawanprash's market share increased by 138 bps and Dabur Glucose grew by 9.3% during the quarter.
- Digestives reported a ~16% y-o-y growth in Q4FY2024 and FY2024 driven by good traction to the Hajmola and Pudin Hara franchise.
- Over-the-counter (OTC) portfolio marginally grew by 0.6% y-o-y in Q4FY2024 and by 6.2% y-o-y in FY2024. Delayed winters impacted some parts of this segment in Q4FY2024. Dabur Health Juices and Shilajit performed well. The company witnessed market share gain of 114 bps in Dabur Honitus and 70 bps gain in baby massage oils.

Foods & Beverages (F&B):

- The F&B segment stood flat y-o-y in Q4FY2024 and FY2024 at Rs. 420 crore and Rs. 1,711 crore, respectively. On a four-year CAGR basis, it grew by 16% in FY2024.
- Beverages portfolio reported 1.5% y-o-y decline in Q4FY2024 on a high base of Q4FY2023. It registered y-o-y decline of 2.4% in FY2024.

- o Badshah spices portfolio recorded 23.2% y-o-y growth in FY2024 (20.7% y-o-y growth in Q4FY2024) on the back of focused marketing efforts and rejuvenated portfolio. Hommade brand grew in mid-teens during FY2024.

International business:

- o International business' revenues grew by 12% and 16.4% y-o-y on CC terms to Rs. 718 crore and Rs. 3,046 crore in Q4FY2024 and FY2024, respectively.
- o The Egypt business grew by 63%, while Turkey business was up 39% and Middle east & North Africa (MENA) markets posted a growth of 6.3%. The Sub-Saharan Africa business rose 23.8%. However, the SAARC region and Namaste posted decline of 3.1% and 10.9% y-o-y, respectively in Q4FY2024.

Key conference call highlights

- **Eyeing rural recovery in the near term:** In Q4FY2024, rural growth was 8% and urban growth came in at 4%, thus, rural growth outpaced the urban market by ~400 bps. Distribution expansion, higher marketing spends, and introduction of rural-specific portfolio has helped the company post good performance in rural markets. Going ahead, management expects rural recovery to be back in 2-3 months aided by a normal monsoon and support of government led initiatives.
- **Targeting high-single digit volume growth in FY2025:** The company eyes high-single digit volume growth and 2-3% price-led growth in FY2025. Management indicated that double-digit volume-led growth would be driven by premiumisation in urban markets led by modern trade and e-commerce, penetration-led growth in the rural markets led by distribution expansion and innovation across segments. It expects to achieve mid-teens to high-double digit CC growth in the International business.
- **Margins to be at 20% going ahead:** Consolidated OPM stood at 19.4% in FY2024 (like for like stood at 20.2%). Management expects OPM to improve to 20% in FY2025 and will gradually rise in the subsequent years. The company has started with the second leg of cost optimisation that would aid cost savings of Rs. 100 crore in FY2025.
- **Market share gains in oral care:** Dabur's oral care penetration now stands at 52%. The management indicated that oral care category is witnessing consolidation, so top four players have gained market share, with Dabur's Oral care business reporting 20 bps market share gains.
- **Distribution expansion to continue:** The company added 4 lakh outlets during the year. Its village presence has increased from 1 lakh villages at FY2023-end to 1.22 lakh villages at FY2024-end. Dabur's focus on rural and urban expansion to continue. The company aims to achieve deeper penetration in e-comm and quick commerce going ahead.
- **Legal cost overhang to continue for another 12-18 months:** Management guided that legal cost would continue for another 12-18 months. The company expects to incur legal cost of Rs. 80-90 crore (Rs. 20-25 crore per quarter) for FY2025 as well.

Results (Consolidated) Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
Total Revenue	**2,814.6**	**2,677.8**	**5.1**	**3,255.1**	**-13.5**
Materials	1,446.8	1,451.0	-0.3	1,672.8	-13.5
Employee cost	316.2	288.7	9.5	310.6	1.8
Ad Promotions	183.7	151.6	21.1	244.5	-24.9
Other expenditure	401.2	376.6	6.5	359.3	11.7
Total Expenditure	2,347.8	2,268.0	3.5	2,587.2	-9.3
Operating Profit	**466.8**	**409.8**	**13.9**	**667.8**	**-30.1**
Other Income	128.9	120.7	6.7	127.4	1.2
Interest Expenses	35.2	32.1	9.7	36.5	-3.4
Depreciation	107.4	102.0	5.3	96.9	10.8
GPM (%)	453.1	396.4	14.3	661.8	-31.5
Tax	111.4	103.5	7.7	155.0	-28.1
Adjusted PAT	**341.6**	**293.0**	**16.6**	**506.8**	**-32.6**
Minority interest	0.4	0.2	-	0.4	0.0
Reported PAT	**341.2**	**292.8**	**16.5**	**506.4**	**-32.6**
Adjusted EPS (Rs.)	1.9	1.7	16.6	2.9	-32.6
			bps		**bps**
GPM (%)	48.6	45.8	279	48.6	-1
OPM (%)	16.6	15.3	128	20.5	-393
NPM (%)	12.1	10.9	120	15.6	-343
Tax rate (%)	24.6	26.1	-150	23.4	118

Source: Company, Sharekhan Research

Segment-wise revenue Rs cr

Particulars	Q4FY24	Q4FY23	y-o-y (%)	Q3FY24	q-o-q (%)
-- Domestic business	**1,874.0**	**1,813.0**	**3.4**	**2,275.0**	**-17.6**
Healthcare	562.0	571.0	-1.6	883.0	-36.4
Home & personal care	892.0	821.0	8.6	1,051.0	-15.1
Foods & beverages	420.0	421.0	-0.2	341.0	23.2
-- International business	**718.0**	**705.1**	**1.8**	**781.0**	**-8.1**
-- Others	**222.6**	**159.7**	**39.4**	**199.1**	**11.8**
Total	**2,814.6**	**2,677.8**	**5.1**	**3,255.1**	**-13.5**

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Volume growth likely to pick-up from H2FY2025

Rural demand has seen some uptick in Q4FY2024 with a sequential improvement in the consumption. We expect consistent recovery with likely stimulus coming in the post-election Budget. This along with a better monsoon might help in good recovery in demand for consumer goods companies (especially in rural markets) in H2FY2025. Prices of key inputs such as crude and palm oil have increased due to global uncertainties. If prices continue to move from current levels, we should see price hikes in product categories in the coming months. This will also reduce aggression from small and reginal players in the domestic market. We expect revenue growth for consumer goods companies to be much better in FY2025 compared to FY2024. This along with stable margins would help consumer goods companies post decent PAT growth in FY2025.

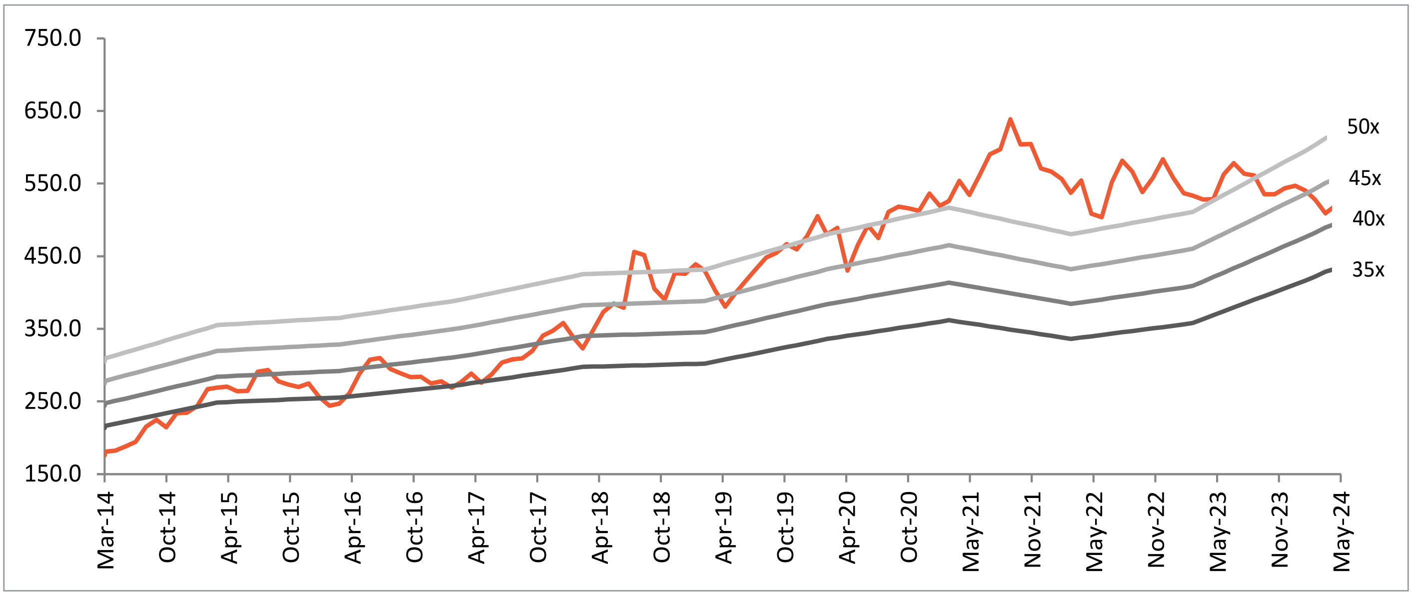
■ Company outlook - Medium-term growth driven by product launches, wider distribution

Dabur's FY2024 numbers were decent, with revenue growing by 7.6% y-o-y (volume growth at 5.5%), OPM up by 58 bps y-o-y and PAT increasing by 6.5% y-o-y. With rural sentiments improving for the company backed by multiple strategies coupled with stable raw material prices, management expects to continue to deliver good performance in rural market and has maintained OPM guidance at 19.5% for FY2024. 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, homecare and personal care are expected to achieve high single-digit to low double-digit growth, and food and beverages business is expected to double in the next 4-5 years. Revenue and PAT are expected to post 12% and 20% CAGR during FY2023-26E.

■ Valuation - Maintain Buy with a revised PT of Rs. 615

Dabur's management expects performance to recover in the coming quarters with improving 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 in power brands and new launches, while profitability is expected to improve, as raw material inflation eases and operating leverage improves. Stock has corrected by 12% from its 52-week high and trades at 44x/37x its FY2025E/FY2026E EPS. We believe valuations have almost bottomed-out and with an expected recovery in the rural demand, Dabur should post better performance in the coming quarters providing some boost to valuations. Hence, we maintain a Buy with a revised price target of Rs. 615.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Marico	43.7	39.2	34.7	31.8	28.6	25.1	42.8	45.3	45.1
Hindustan Unilever	52.8	48.0	42.4	36.9	33.9	29.8	25.9	27.7	30.6
Dabur India	51.3	43.5	36.7	39.1	33.8	29.0	21.5	23.2	25.1

Source: Company, Sharekhan estimates

About company

Dabur is one of India's leading FMCG companies with revenue over Rs. 12,400 crore (FY2024). 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	3.53
2	Blackrock Inc	1.80
3	Mirae Asset Global Investments Co	1.58
4	NPS Trust A/c Uti Retirement Solut	1.33
5	Vanguard Group Inc/The	1.32
6	First State Investments ICVC	1.23
7	ICICI Prudential AMC	0.90
8	HDFC AMC	0.80
9	SBI Pesion Funds pvt Ltd	0.65
10	Alliance Bernstein Holding LP	0.62

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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