Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Dabur India Ltd

Good Q1 update; volume growth trend to improve

Consumer Goods	Sharekhan code: DABUR

Reco/View: Buy	↔	CMP: Rs. 623	Price Target: Rs. 715	↔

↑ 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		↔	

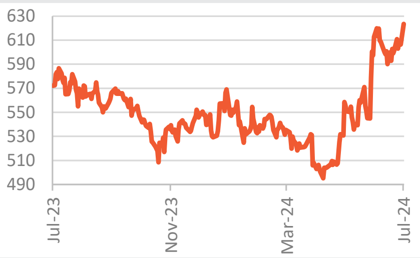
Company details

Market cap:	Rs. 1,10,451 cr
52-week high/low:	Rs. 634/489
NSE volume: (No of shares)	29.3 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	1.7	23.9	12.7	8.9
Relative to Sensex	-2.5	16.9	0.6	-13.6

Sharekhan Research, Bloomberg

Summary

- Dabur India (Dabur) to post mid to high single-digit revenue growth in Q1FY2025 with domestic volume growth of mid-single digits.
- Gross margins and OPM to remain high y-o-y; operating profit to grow marginally ahead of revenue growth. We expect Revenue/PAT to grow by 6%/7% y-o-y respectively in Q1.
- With an expected normal monsoon and government's continued focus on macro-economic growth, the company expects demand to accelerate in the coming months.
- The stock is currently trading at 52x/44x its FY2025E/26E earnings, respectively. We maintain Buy with an unchanged price target of Rs. 715.

Dabur India (Dabur) started FY2025 on expected lines with revenues expected to grow by mid-to-high single-digit while uptick in margins to help PAT growth to stay marginally ahead of revenue growth. HPC and Healthcare segments are expected to grow in high single-digits, while Badshah Masala continued to perform well, boosting the foods category. Scorching summers affected the out-of-home sales impacting some portion of beverage category sales. Gross margins are likely to witness some expansion on account of rollover price increases and cost-saving initiatives. With higher ad spends, the operating profit to grow marginally ahead of revenue growth. We expect Dabur's revenues to grow by 6% y-o-y; gross margins to expand by 140 bps y-o-y; OPM to expand by 44 bps y-o-y to 19.8% and operating profit to grow by 9% y-o-y.

- **Revenues to grow by mid-to-high single digits; margins to improve y-o-y:** Q1FY2025 pre-quarter update provides a glimpse of better revenue growth of mid-to-high single-digit with rural demand picking-up on sequential basis. The domestic volume growth is expected to be in mid-single digit. This is despite travel and out-of-home consumption getting hit due to scorching summer impacting lower-unit pack sales of beverages category. HPC and Healthcare segments are expected to grow in high single-digits, while Badshah Masala continued to perform well boosting the foods category. Currency depreciation in Turkey and Egypt to impact the rupee growth for the international business. Gross margins and OPM to remain high y-o-y; operating profit to grow marginally ahead of revenue growth.
- **Revenue and PAT to grow by 6% and 7% respectively:** We expect Dabur's consolidated revenues to grow by 6% y-o-y driven by ~8% y-o-y growth in the domestic business. Health supplements, oral care and home care category revenues are expected to grow by 8-9%. We expect gross margins to improve by 140 bps y-o-y to 48% while OPM would expand by 44 bps y-o-y to 19.8% (management has guided for OPM to remain at ~20%). Operating profit and PAT to grow by 9% and 7%, y-o-y, respectively. It is a decent start to FY2025 and the management expects demand to improve going ahead with expected better monsoon and continued focus by the government on macro-economic growth.
- **Eyeing a rural recovery; expects high single-digit volume growth in FY2025:** After several quarters of a lull, Dabur's rural growth was 8%, while urban growth came in at 4% in Q4FY2024. The management expects this trend to continue in the quarters ahead as monsoon is expected to be good, followed by support of government-led initiatives. Distribution expansion, higher marketing spends, and introduction of rural-specific portfolio has helped the company post good performance in rural markets. Its village presence has increased from 1 lakh villages at FY2023-end to 1.22 lakh villages at FY2024-end. Recovery in rural demand will benefit categories such as hair oil, shampoos, OTC-driven healthcare products and small packs in the beverages space. Recovery in rural consumption will help Dabur's domestic volume growth improve to mid-to-high single-digits in FY2025.

Our Call

View - Retain Buy with an unchanged PT of Rs. 715: 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 expansion, investments in power brands and new launches, while profitability is expected to improve, as raw material inflation eases and operating leverage improves. It currently trades at 52x/44x its FY2025E/26E EPS, respectively. Dabur remains one of our preferred picks in the FMCG space and is a play on expected recovery in the rural growth. We retain our Buy on the stock with an unchanged PT of Rs. 715.

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 the 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)	64.9	61.0	51.7	43.7
P/B (x)	12.3	11.2	10.1	9.0
EV/EBIDTA (x)	51.2	46.4	40.2	34.5
RoNW (%)	19.6	19.2	20.6	21.8
RoCE (%)	22.1	21.5	23.2	25.1

Source: Company; Sharekhan estimates

Outlook and Valuation

■ Sector view - H2FY2025 will be better as compared to H1

Rural growth is gradually picking up with modest improvement in the demand. Expectations of a better monsoon and likely stimulus in the upcoming budget will further boost recovery in the coming quarters. Though monsoon started with a delay, the spread of the monsoon is good and we expect rainfall to pick-up in the coming months. The government has already increased its focus on rural markets by incentivizing through welfare schemes and increasing MSPs of various crops. We expect volume growth to be much better in H2FY2025, which will provide consumer goods companies to post decent earnings growth. If the commodity/key input prices move up from the current level, then consumer goods companies will opt for price hikes in coming quarters. Increase in the commodity prices will reduce the competition from small/regional players in various markets. Thus, overall growth trends remain positive for most companies under our coverage.

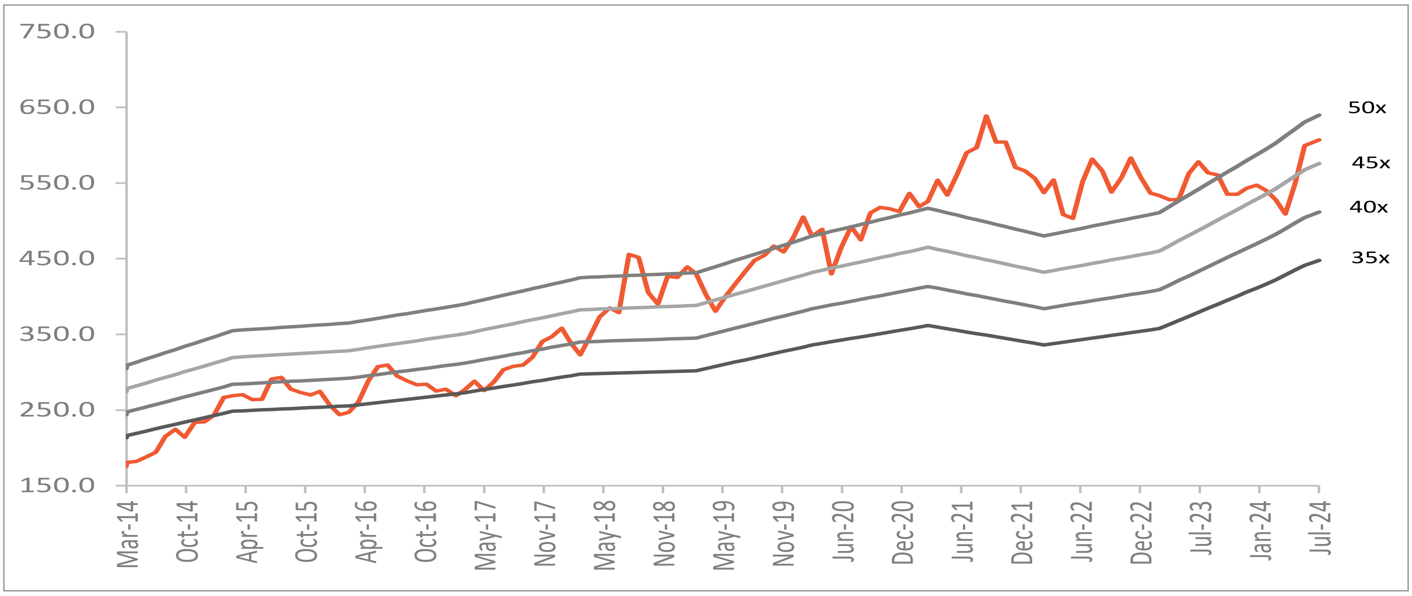
■ Company outlook - Medium-term growth driven by product launches, wider distribution

FY2024 numbers were decent, with revenues 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, 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 a 12% and 18% CAGR during FY2024-26E.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 715

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 expansion, investments in power brands and new launches, while profitability is expected to improve, as raw material inflation eases and operating leverage improves. It currently trades at 52x/44x its FY2025E/26E EPS, respectively. Dabur remains one of our preferred picks in the FMCG space and is a play on expected recovery in the rural growth. We retain our Buy on the stock with an unchanged PT of Rs. 715.

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	54.9	47.6	41.6	40.7	34.5	30.7	39.0	42.5	45.7
Hindustan Unilever	61.4	55.1	48.8	43.0	39.6	34.8	25.9	28.1	30.8
Dabur India	61.0	51.7	43.7	46.4	40.2	34.5	21.5	23.2	25.1

Source: Company; Sharekhan Research

About the company

Dabur is one of India's leading FMCG companies with revenue of over Rs. 12,000 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 (Old data)

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