



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

## Dabur India

02 February 2023

Sluggish volume and margin performance; favorable base, better pricing/mix and share gains should drive recovery in both

### RESULT UPDATE

Sector: FMCG Rating: HOLD

CMP: Rs 554 Target Price: Rs 587

#### Stock Info

|                    |                   |
|--------------------|-------------------|
| Sensex/Nifty       | 59,932/ 17,610    |
| Bloomberg          | DABUR IN          |
| Equity shares (mn) | 1767              |
| 52-wk High/Low     | Rs 610/482        |
| Face value         | Rs 1              |
| M-Cap              | Rs985bn/US\$ 12bn |
| 3-m Avg volume     | US\$ 12mn         |

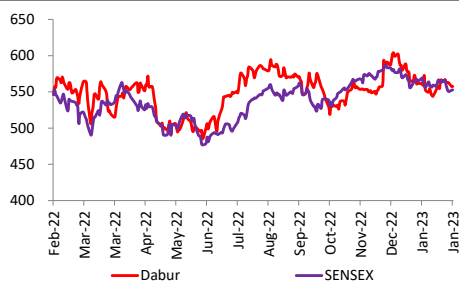
#### Financial Snapshot (Rs mn)

| Y/E Mar         | FY23E   | FY24E   | FY25E   |
|-----------------|---------|---------|---------|
| Sales           | 115,421 | 128,659 | 143,481 |
| PAT             | 18,463  | 21,404  | 24,718  |
| EPS (Rs)        | 10.4    | 12.1    | 14.0    |
| PE (x)          | 53.1    | 45.8    | 39.7    |
| EV/EBITDA (x)   | 42.8    | 36.7    | 31.5    |
| P/BV (x)        | 10.5    | 9.5     | 8.4     |
| EV/Sales        | 8.4     | 7.5     | 6.6     |
| RoE (%)         | 20.9    | 21.8    | 22.5    |
| RoCE (%)        | 25.2    | 26.6    | 27.7    |
| NWC (days)      | 20      | 20      | 20      |
| Net gearing (x) | 0.1     | 0.1     | 0.0     |

#### Shareholding Pattern (%)

|          | Dec 22 | Sept 22 | Jun 22 |
|----------|--------|---------|--------|
| Promoter | 66.2   | 67.2    | 67.2   |
| –Pledged | -      | -       | -      |
| FII      | 20.5   | 20.2    | 20.2   |
| DII      | 7.5    | 6.6     | 4.0    |
| Others   | 5.8    | 6.0     | 8.5    |

#### Stock Performance (1-year)



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Dabur reported a muted set of numbers with revenue growth of 3.4% YoY, domestic volume decline of 3%, margin decline of 130 bps and PAT decline of 5.4% YoY. A deterioration in market conditions in key states of UP and Bihar, high base and inflation impact were the key factors. Key quarter takeaways are: 1) India revenue (71.5% of 3Q total sales) grew at 3.3%, with international revenue expanding at 5.1%, 2) consolidated EBITDA margin dipped 130bps, with a 215bps cut in ad spends (from 8.1% to 5.9%) partially offsetting the 280bps decline in gross margins (combination of inferior mix and price hikes lagging inflation), 3) Healthcare revenue (39.7% of 3Q domestic sales) grew by 3% YoY, recording 8.4% 3-yr CAGR, with market share gains in health supplements, 4) Home and Personal care (HPC – 45.6% of 3Q sales) revenue was up 2.2% YoY, recording 8.7% 3-yr CAGR, led by market share gains in home, oral and hair care categories, 5) F&B (14.8% of 3Q) revenue grew at 6.4% YoY and 15.2% 3-yr CAGR, led by share gains in juices, 6) International business (~25.5% of 3Q total sales) delivered 14% revenue growth in constant currency (CC) terms, 7) e-commerce sales grew 40% increasing salience to 9%, 8) consolidated gross margin contracted 280bps YoY and EBITDA margin by 130bps YoY to 45.5% and 20% given inferior category and pack mix, and 9) Central region (UP and Bihar) saw decline due to insufficient rainfall, delay in winter and adverse sentiment.

While near-term growth outlook remains sluggish, medium-term growth outlook remains strong, given management's focus on power brands (8 brands that account for ~70% of total sales) to drive double-digit growth, with continued market share gains, product innovation and expanding distribution reach. The *Badshah* business consolidation from 4Q onwards would provide a further boost to the fast-growing foods business. Margins should get back above 20% plus from 2QFY24 onwards with a better mix and price hikes providing room for pick-up in Ad spends. However, given limited upside from current levels, we maintain our HOLD rating, with a revised target price of Rs 587, based on 45x 1HFY25E earnings, which is at marginal discount to last 5-year average multiple. This reflects slower earnings growth prospects amidst overall soft demand for HPC category, slowdown in the high-margin healthcare category and high EPS contribution from other income.

**3-year domestic revenue CAGR at 9.5%:** Dabur's consolidated revenue grew at 3.4% YoY, with domestic volumes declining 3% and pricing contributing 6%. Secondary sales volumes were positive at 3%. Domestic revenue grew at ~3.3% YoY, led by growth in across all segment F&B, Healthcare and HPC divisions, which grew at ~6.4% YoY (3-year CAGR of 15.2%), 3% YoY (3-year CAGR of 8.4%) and 2.2% YoY (3-year CAGR of 8.7%) respectively. Revenue in the international business grew 14% YoY in CC terms (up 5.1% in INR; 3-year CAGR at 8.2%), led by strong growth in Turkey (97%), Egypt (35%), sub-Saharan Africa (16.7%) and Nepal (8%). Consolidated gross margin contracted 280bps YoY to 45.5% due to RM inflation and weak product mix, while EBITDA margin contracted 130bps YoY. We expect rural growth to improve on the back of government spending and improved sentiment in the rural market after a couple of quarters while mass urban sentiment should gradually pick-up over the next few quarters as well.

Investors are advised to refer disclosures made at the end of the research report.

**Modest growth in across F&B, Healthcare and HPC segment:** In the healthcare division, revenues from health supplements (~60% of healthcare revenues) grew mere 0.4% YoY (3-year CAGR of 7.5%) reported positive growth trajectory after navigating high base of last 2 years of Covid. Further, company continued to gain market share in *Chyawanprash* and *Honey* within the health supplement category. Health supplements should get back to positive growth post January when the base normalizes. Digestives business grew 11.2% YoY (3-year CAGR of 7.5%), driven by sustained demand for Hajmola and successful launch of NPDs of LimCola and ChatCola variants. In the HPC division, oral care grew 2.6% YoY led by gain in market share and better growth in Herbal & Red toothpaste portfolio. Herbal segment enjoys 30% of market share in Herbal tooth paste category. Hair oils revenues declined 2.4% YoY due to down trading in rural segment and seen 5% decline in hair oil category, while shampoo/home care revenues grew at 3.6%/18.2% YoY, respectively. Shampoo gained 40bps market share, with mosquito repellent cream recording 540bps higher share and 410bps in the gel air freshener's category. In the F&B business, beverages portfolio grew 3.7% YoY (3-year CAGR of 14.3%) & food portfolio grew 34.5% YoY (3-year CAGR of 24.3%). Food business recorded Rs 350mn & beverages Rs 2850mn revenue for the quarter. Dabur surpassed the industry growth in juice and nectars, and improved its market share here by 250bps.

**Margins to improve sequentially onwards:** Inflationary pressure continued unabated in 3QFY23, with the company witnessing 8.5% YoY inflation. Dabur took an average price hike of 6% YTD. However, the hike could not completely mitigate the impact of inflation. Inflation in the healthcare and foods portfolio was fully passed on, given Dabur's leadership in this space, but the company continued to face inflationary pressure in hair oils and skincare, given the high competitive intensity. Management expects margins to recover from 2QFY24 and targets to maintain EBITDA margin around 20-21% for FY24. A&P expenses were significantly lower at 5.9% in Q3FY23 vs 8.1% in Q3FY22.

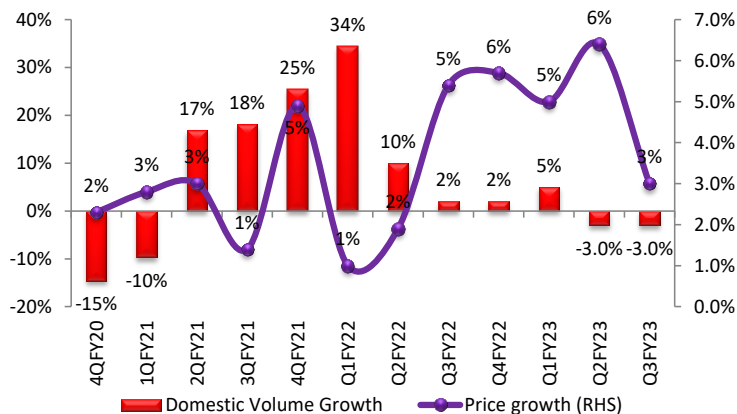
**Maintain HOLD rating with revised TP of Rs 587:** We estimate 11.5% CAGR in revenue over FY23-25E. New products should continue to contribute ~5% to the topline. We expect EBITDA margin to expand 120bps by FY25E after dipping to 19.8% in FY23E, aided by price hikes and multiple cost-saving initiatives. We estimate adj. PAT CAGR of 15.7% over FY23-25E. We maintain our HOLD rating on the stock with a revised target price of Rs 587, based on 45x 1HFY25E EPS.

## Exhibit 1: Quarterly performance

| YE March (Rs mn)           | Q3FY23        | Q3FY22        | Q2FY23        | YoY (%)      | QoQ (%)      |
|----------------------------|---------------|---------------|---------------|--------------|--------------|
| <b>Net Revenues</b>        | <b>30,432</b> | <b>29,418</b> | <b>29,865</b> | <b>3.4</b>   | <b>1.9</b>   |
| Cost of materials          | 12,973        | 11,938        | 13,425        | 8.7          | (3.4)        |
| (% of sales)               | 42.6          | 40.6          | 45.0          |              |              |
| Purchase of stock in trade | 3,609         | 3,258         | 2,889         | 10.8         | 24.9         |
| (% of sales)               | 11.9          | 11.1          | 9.7           |              |              |
| Employee cost              | 2,908         | 2,730         | 2,876         | 6.5          | 1.1          |
| (% of sales)               | 9.6           | 9.3           | 9.6           |              |              |
| A&P                        | 1,796         | 2,371         | 1,518         | (24.2)       | 18.3         |
| (% of sales)               | 5.9           | 8.1           | 5.1           |              |              |
| Others                     | 3,047         | 2,846         | 3,150         | 7.1          | (3.3)        |
| (% of sales)               | 10.0          | 9.7           | 10.5          |              |              |
| <b>EBITDA</b>              | <b>6,099</b>  | <b>6,275</b>  | <b>6,007</b>  | <b>(2.8)</b> | <b>1.5</b>   |
| <b>EBITDA margin (%)</b>   | <b>20.0</b>   | <b>21.3</b>   | <b>20.1</b>   |              |              |
| Other income               | 1,008         | 967           | 1,233         | 4.2          | (18.2)       |
| <b>PBIDT</b>               | <b>7,107</b>  | <b>7,242</b>  | <b>7,240</b>  | <b>(1.9)</b> | <b>(1.8)</b> |
| Depreciation               | 709           | 632           | 705           | 12.2         | 0.6          |
| Finance Cost               | 189           | 111           | 151           | 70.7         | 25.6         |
| <b>PBT</b>                 | <b>6,209</b>  | <b>6,500</b>  | <b>6,385</b>  | <b>(4.5)</b> | <b>(2.8)</b> |
| Tax                        | 1,394         | 1,424         | 1,455         | (2.1)        | (4.1)        |
| ETR (%)                    | 22.5          | 21.9          | 22.8          |              |              |
| Deferred tax               | 40.8          | 31.5          | 18.3          |              |              |
| Minority interest          | 7.1           | 10.3          | 8.0           |              |              |
| PL of JV/associate         | (7.6)         | (1.1)         | (3.4)         |              |              |
| <b>Adjusted PAT</b>        | <b>4,759</b>  | <b>5,033</b>  | <b>4,901</b>  | <b>(5.4)</b> | <b>(2.9)</b> |
| PATAMI margin              | 15.6          | 17.1          | 16.4          |              |              |
| Exceptional item           | 0             | 0             | 0             |              |              |
| <b>Reported PAT</b>        | <b>4,759</b>  | <b>5,033</b>  | <b>4,901</b>  | <b>(5.4)</b> | <b>(2.9)</b> |
| No. of shares (mn)         | 1,772         | 1,767         | 1,772         |              |              |
| <b>Adj EPS (Rs)</b>        | <b>2.7</b>    | <b>2.8</b>    | <b>2.8</b>    |              |              |

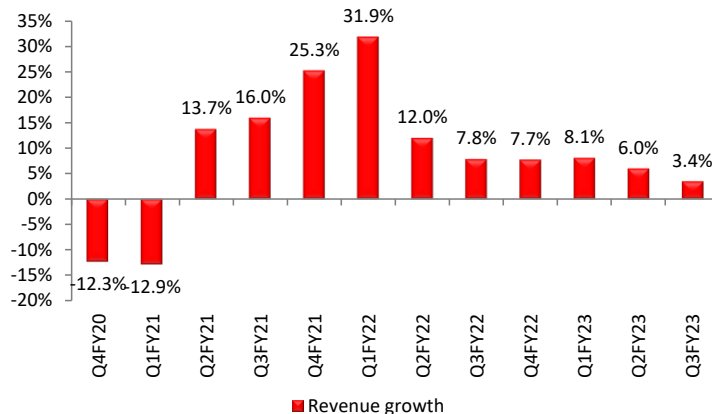
Source: Company, Systematix Institutional Research

## Exhibit 2: Domestic volume declined 3% YoY

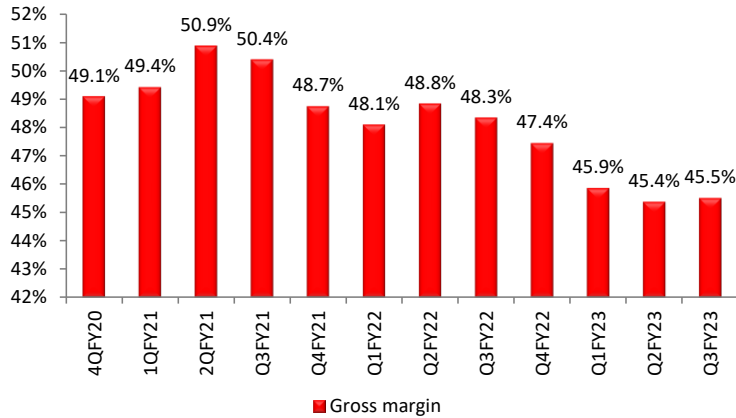


Source: Company, Systematix Institutional Research

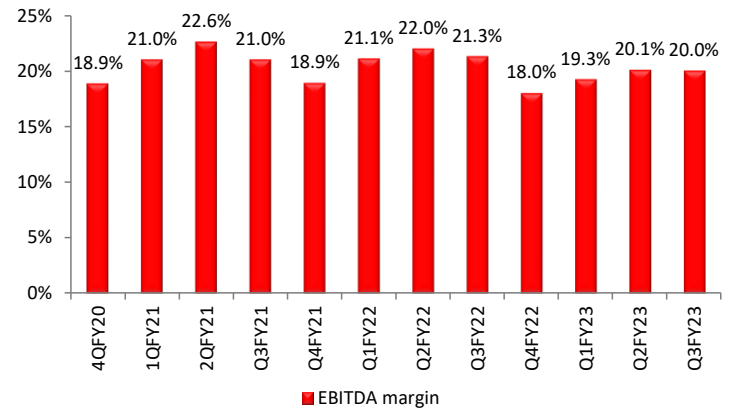
## Exhibit 3: Overall revenue grew 3.4% YoY



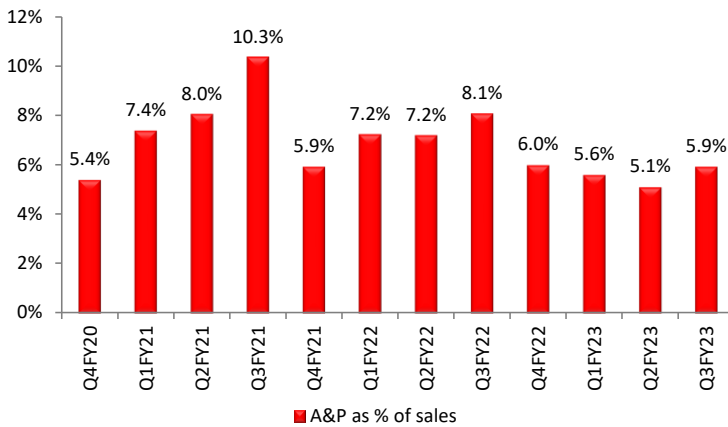
Source: Company, Systematix Institutional Research

**Exhibit 4: Gross margin declined 280bps YoY**

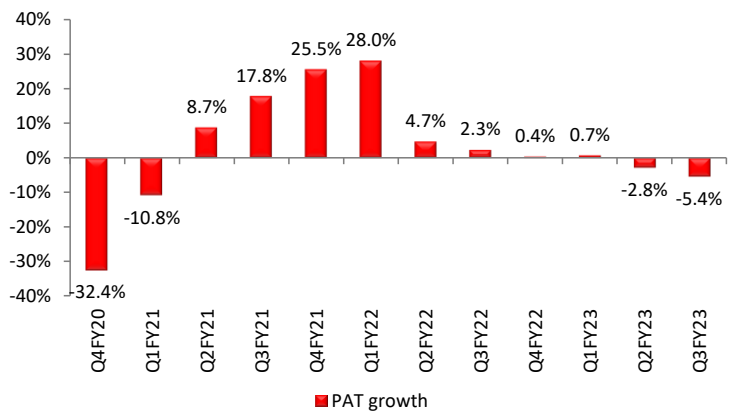
Source: Company, Systematix Institutional Research

**Exhibit 5: EBITDA margin declined 130bps YoY**

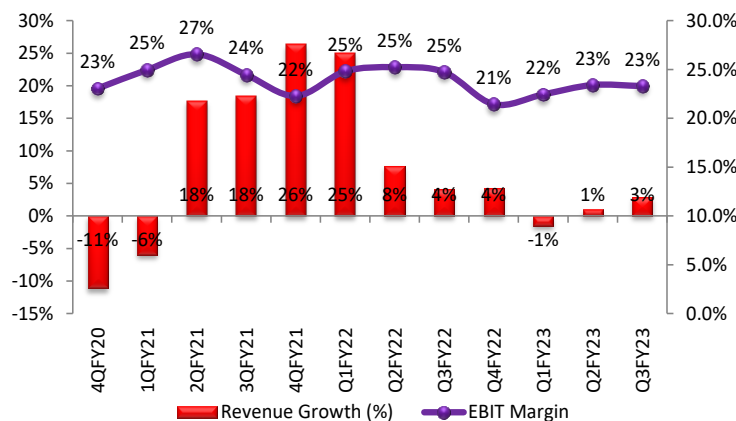
Source: Company, Systematix Institutional Research

**Exhibit 6: A&P expenses were lower by 215bps YoY**

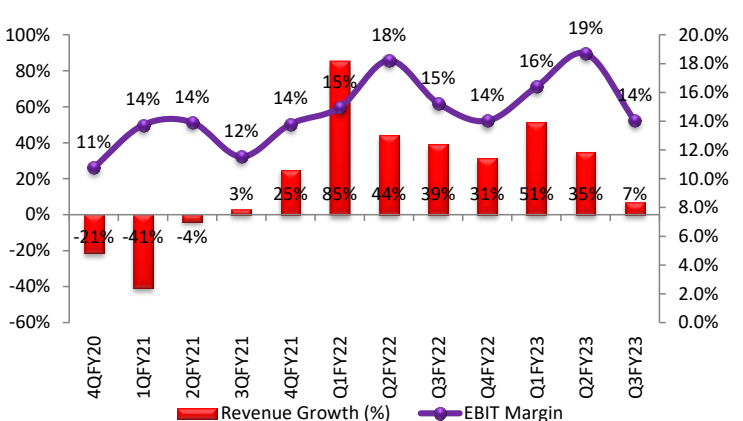
Source: Company, Systematix Institutional Research

**Exhibit 7: Consol PAT declined 5.4% YoY**

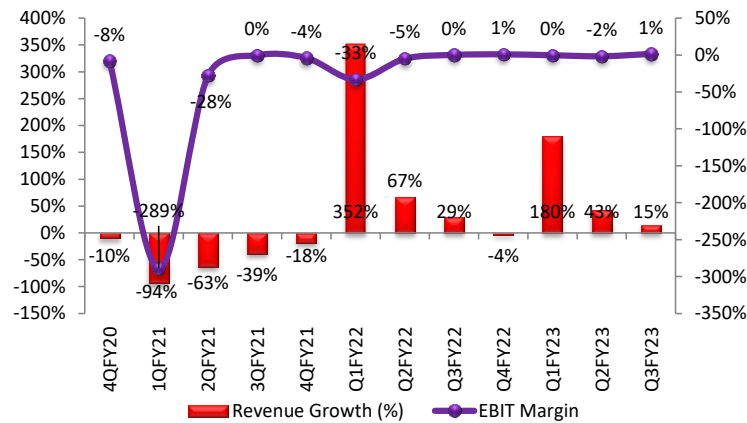
Source: Company, Systematix Institutional Research

**Exhibit 8: Consumer care business grew 3% YoY**

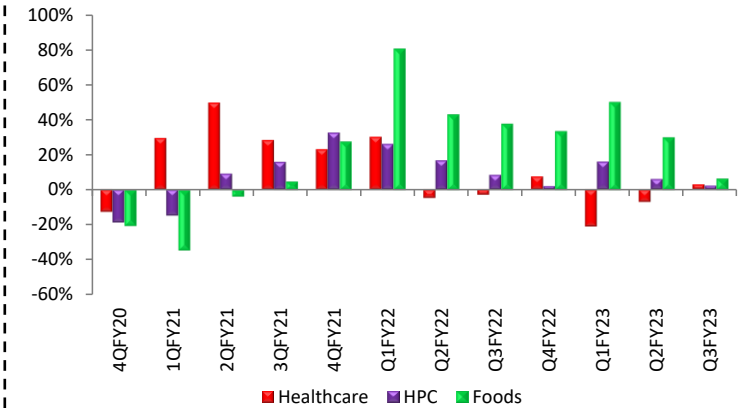
Source: Company, Systematix Institutional Research

**Exhibit 9: Food business reported growth of 7%**

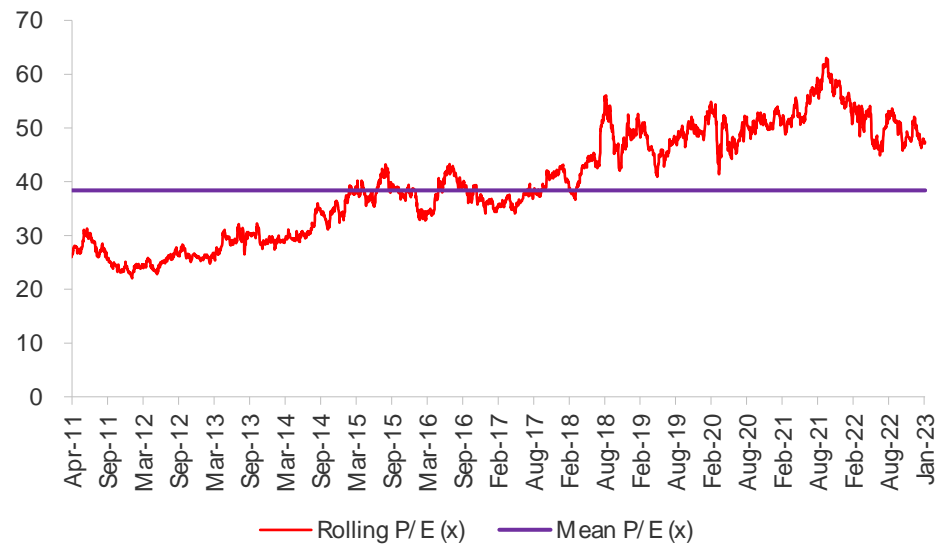
Source: Company, Systematix Institutional Research

**Exhibit 10: Retail business grew 15%**

Source: Company, Systematix Institutional Research

**Exhibit 11: All segments reported positive growth**

Source: Company, Systematix Institutional Research

**Exhibit 12: Currently trades at 44.8x one-year forward earnings**

Source: Company, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

| YE: Mar (Rs mn)         | FY21          | FY22            | FY23E           | FY24E           | FY25E           |
|-------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| <b>Revenue</b>          | <b>95,617</b> | <b>1,08,887</b> | <b>1,15,421</b> | <b>1,28,659</b> | <b>1,43,481</b> |
| Gross profit            | 47,727        | 52,490          | 53,209          | 60,984          | 70,162          |
| GP margin (%)           | 49.9%         | 48.2%           | 46.1%           | 47.4%           | 48.9%           |
| <b>Operating profit</b> | <b>20,027</b> | <b>22,538</b>   | <b>22,796</b>   | <b>26,246</b>   | <b>30,131</b>   |
| OP margin (%)           | 20.9%         | 21%             | 19.8%           | 20.4%           | 21.0%           |
| Depreciation            | 2,401         | 2,529           | 2,811           | 3,012           | 3,213           |
| EBIT                    | 17,626        | 20,009          | 19,984          | 23,234          | 26,918          |
| Interest expense        | 308           | 386             | 653             | 568             | 483             |
| Other income            | 3,253         | 3,932           | 4,364           | 4,800           | 5,281           |
| Profit before tax       | 20,570        | 23,555          | 23,696          | 27,467          | 31,716          |
| Taxes                   | 3,611         | 5,264           | 5,213           | 6,043           | 6,977           |
| Tax rate (%)            | 17.6%         | 22.3%           | 22.0%           | 22.0%           | 22.0%           |
| <b>Adj. PAT</b>         | <b>16,950</b> | <b>18,273</b>   | <b>18,463</b>   | <b>21,404</b>   | <b>24,718</b>   |
| Exceptional loss        | -             | 850             | -               | -               | -               |
| Net profit              | 16,950        | 17,423          | 18,463          | 21,404          | 24,718          |
| <b>EPS</b>              | <b>9.6</b>    | <b>9.9</b>      | <b>10.4</b>     | <b>12.1</b>     | <b>14.0</b>     |

Source: Company, Systematix Institutional Research

### Balance Sheet

| YE: Mar (Rs mn)               | FY21          | FY22          | FY23E           | FY24E           | FY25E           |
|-------------------------------|---------------|---------------|-----------------|-----------------|-----------------|
| Equity capital                | 1,767         | 1,767         | 1,767           | 1,767           | 1,767           |
| Reserves                      | 74,868        | 82,045        | 91,276          | 1,01,979        | 1,14,338        |
| Debt                          | 4,833         | 8,677         | 7,677           | 6,677           | 5,677           |
| Deferred tax liab (net)       | 139           | 816           | 816             | 816             | 816             |
| Other non current liabilities | 1,014         | 3,919         | 2,688           | 2,916           | 3,167           |
| <b>Total liabilities</b>      | <b>82,621</b> | <b>97,224</b> | <b>1,04,224</b> | <b>1,14,155</b> | <b>1,25,765</b> |
| Fixed Asset                   | 19,590        | 21,355        | 21,543          | 21,531          | 21,317          |
| Investments                   | 41,989        | 62,592        | 62,592          | 62,592          | 62,592          |
| Other Non-current Assets      | 4,959         | 3,958         | 4,265           | 4,606           | 1,684           |
| <b>Inventories</b>            | <b>17,343</b> | <b>19,114</b> | <b>17,392</b>   | <b>19,387</b>   | <b>21,620</b>   |
| Sundry debtors                | 5,616         | 6,462         | 9,487           | 10,575          | 11,793          |
| <b>Cash &amp; equivalents</b> | <b>14,925</b> | <b>7,451</b>  | <b>13,873</b>   | <b>23,276</b>   | <b>37,801</b>   |
| Loans and Advances            | 4,050         | 3,346         | 3,997           | 4,401           | 393             |
| Sundry creditors              | 19,153        | 20,180        | 20,554          | 22,912          | 25,551          |
| Other current liabilities     | 6,698         | 6,873         | 8,370           | 9,300           | 10,338          |
| <b>Total Assets</b>           | <b>82,621</b> | <b>97,224</b> | <b>1,04,224</b> | <b>1,14,155</b> | <b>1,21,311</b> |

Source: Company, Systematix Institutional Research

### Cash Flow

| YE: Mar (Rs mn)           | FY21          | FY22           | FY23E         | FY24E         | FY25E         |
|---------------------------|---------------|----------------|---------------|---------------|---------------|
| PBIT                      | 20,878        | 23,941         | 24,348        | 28,034        | 32,198        |
| Depreciation              | 2,401         | 2,529          | 2,811         | 3,012         | 3,213         |
| Tax paid                  | (3,611)       | (5,264)        | (5,213)       | (6,043)       | (6,977)       |
| Working capital Δ         | 4,024         | (710)          | (82)          | (200)         | (220)         |
| Other operating items     | -             | -              | -             | -             | -             |
| <b>Operating cashflow</b> | <b>23,693</b> | <b>20,496</b>  | <b>21,865</b> | <b>24,804</b> | <b>28,214</b> |
| Capital expenditure       | (2,316)       | (4,293)        | (3,000)       | (3,000)       | (3,000)       |
| <b>Free cash flow</b>     | <b>21,377</b> | <b>16,202</b>  | <b>18,865</b> | <b>21,804</b> | <b>25,214</b> |
| Equity raised             | 2,023         | (1,055)        | -             | 0             | -             |
| Investments               | (13,471)      | (20,604)       | -             | -             | -             |
| Debt financing/disposal   | 161           | 3,844          | (1,000)       | (1,000)       | (1,000)       |
| Interest Paid             | (308)         | (386)          | (653)         | (568)         | (483)         |
| Dividends paid            | (8,395)       | (9,190)        | (9,231)       | (10,702)      | (12,359)      |
| Other items               | 3,785         | 3,715          | (1,559)       | (132)         | 3,153         |
| <b>Net Δ in cash</b>      | <b>5,173</b>  | <b>(7,474)</b> | <b>6,422</b>  | <b>9,403</b>  | <b>14,525</b> |

Source: Company, Systematix Institutional Research

### Ratios

| YE: Mar               | FY21 | FY22 | FY23E | FY24E | FY25E |
|-----------------------|------|------|-------|-------|-------|
| Revenue growth (%)    | 9.9  | 13.9 | 6.0   | 11.5  | 11.5  |
| Op profit growth (%)  | 11.7 | 12.5 | 1.1   | 15.1  | 14.8  |
| Net profit growth (%) | 9.5  | 7.8  | 1.0   | 15.9  | 15.5  |
| OPM (%)               | 20.9 | 20.7 | 19.8  | 20.4  | 21.0  |
| Net profit margin (%) | 17.7 | 16.8 | 16.0  | 16.6  | 17.2  |
| RoCE (%)              | 27.4 | 27.5 | 25.2  | 26.6  | 27.7  |
| RoNW (%)              | 23.8 | 22.8 | 20.9  | 21.8  | 22.5  |
| EPS (Rs)              | 9.6  | 10.3 | 10.4  | 12.1  | 14.0  |
| DPS (Rs)              | 4.8  | 5.2  | 5.2   | 6.1   | 7.0   |
| BVPS (Rs)             | 43.4 | 47.4 | 52.6  | 58.7  | 65.7  |
| Debtor days           | 21   | 22   | 30    | 30    | 30    |
| Inventory days        | 66   | 64   | 55    | 55    | 55    |
| Creditor days         | 73   | 68   | 65    | 65    | 65    |
| P/E (x)               | 57.9 | 53.7 | 53.1  | 45.8  | 39.7  |
| P/B (x)               | 12.8 | 11.7 | 10.5  | 9.5   | 8.4   |
| EV/EBITDA (x)         | 48.5 | 43.6 | 42.8  | 36.7  | 31.5  |

Source: Company, Systematix Institutional Research

## Institutional Equities Team

|                          |                          |                         |                                  |
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