

# Dabur India

## Positive outlook keep us optimistic on near term

Dabur India Ltd. (DABUR) 1QFY24 performance was in-line with expectation as indicated in the pre-quarterly update. But the big takeaway from earnings was the positive commentary on near term growth and margin outlook. Going forward, company expects volume growth to be better in the domestic business as rural demand recovery signs are already visible. This will be well supported by investment behind power brands as well as innovations. Even on international business, moderation of inflation and distribution changes will lead to double digit growth for the fiscal. Improving gross margin profile, due to benign RM, gives enough ammunition to aggressively invest in A&P in near term and also deliver EBITDA margin in the band of 19-20% for FY24. We continue to maintain our ADD rating with a revised target price (TP) of Rs625 (Rs590 earlier).

### Result Highlights (Consolidated)

- 1QFY24 headline performance: Revenues grew by 10.9% YoY to Rs31.3bn (vs est. Rs31.05bn). EBITDA was up 11.2% YoY to Rs6.05bn (vs est. Rs6bn). Adjusted PAT (APAT) was up 5.4% YoY to Rs4.6bn (vs est. Rs4.6bn). Ex-Amortization, PAT growth stood at 8% YoY.
- Underlying Volume growth stood at 3% for the India FMCG business (in-line with est.) leading to 8% revenue growth. International Business reported a growth of 20.6% in Constant Currency (CC) terms (10.2% in Rs terms).
- Gross margin improves 80bps QoQ to 46.6% (+70bps YoY). Higher A&P spends (up ~100bps YoY) was partly offset by savings in other expenses, which meant that EBITDA margin was up 10bps YoY to 19.3%.

### Key Highlights from Earnings Call

- Rural across the board is seeing recovery. In the near term, with a little negative impact from beverage portfolio, mid-single volume growth should be possible in the India business as other portfolio grows in mid-to-high single digit.
- Material inflation during 1QFY24 reduced from high single digit to low single digit leading to QoQ improvement in gross margin. If the current inflation becomes deflation going forward, company might surprise on EBITDA margins.

### View & Valuation

We are currently building 9.9% revenue CAGR over FY23-FY25E. Key drivers: (a) Focus on gaining market share in key categories - DABUR's Power Brand strategy of focusing on nine of its major brands - that account for a majority (>70%) of the company's consolidated revenue will continue to pay dividend in the medium to long term. (b) Play on rural growth as distribution continues to expand - direct coverage will touch ~1.5mn outlets by end of FY24. Also, village coverage has seen a significant jump to 100k villages across the country from 59,217 villages in FY21. Ahead-of-the-curve investments and expected improvement in rural demand augurs well for Dabur. (c) Expanding TAM through power platform strategy and innovations gives decent visibility for medium-term growth. At operating level, we expect ~15.5% EBITDA CAGR over FY23-FY25E (~200bps EBITDA margin expansion as we expect gross margin profile to revert to earlier levels by FY25). As gross margin improves, company is prioritizing normalizing its A&P spends before seeing benefits at operating level. Dabur is currently trading at 50x/43x on FY24E/FY25E EPS, discount to its historical average, as we build in ~16.2% EPS CAGR. With improving commentary, we continue to have an ADD rating on the stock with a revised TP of Rs625 (Rs590 earlier), valuing it at ~48x March'2025E EPS (3yr/5yr avg. fwd. multiple: ~54x/52x).

### Exhibit 1: Actual vs estimate

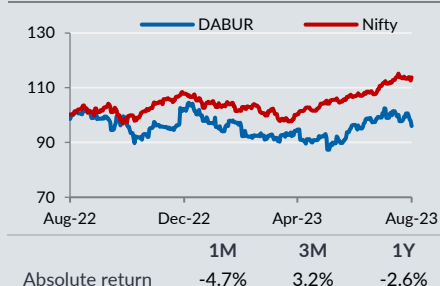
Rsmn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	31,305	31,047	31,188	0.8	0.4
EBITDA	6,047	5,980	6,013	1.1	0.6
EBITDA Margin (%)	19.3	19.3	19.3	0.1	0.0
Adjusted PAT	4,639	4,587	4,621	1.1	0.4

Reco	: ADD
CMP	: Rs 555
Target Price	: Rs 625
Potential Return	: +12.6%

### Stock data (as on August 03, 2023)

Nifty	19,382
52 Week h/l (Rs)	611 / 504
Market cap (Rs/USD mn)	1002351 / 12113
Outstanding Shares (mn)	1,772
6m Avg t/o (Rs mn):	1,092
Div yield (%):	0.9
Bloomberg code:	DABUR IN
NSE code:	DABUR

### Stock performance



### Shareholding pattern (As of Jun'23 end)

Promoter	66.2%
FII+DII	28.3%
Others	5.5%

### Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	625	590

### Δ in earnings estimates

	FY24e	FY25e
EPS (New)	11.1	13.0
EPS (Old)	11.3	13.0
% change	-1.4	0.1

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenue	115,299	126,988	139,256
YoY Growth (%)	5.9	10.1	9.7
EBITDA	21,641	25,184	28,894
Margins (%)	18.8	19.8	20.7
PAT	17,072	19,747	23,048
EPS	9.6	11.1	13.0
YoY Growth (%)	-5.4	15.7	16.7
Pre-tax RoCE (%)	23.0	23.6	25.1
ROE (%)	19.7	20.5	21.5
P/E (x)	57.6	49.8	42.7
EV/EBITDA (x)	42.9	36.5	31.5

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	1QFY23	4QFY23	1QFY24	YoY (%)	QoQ (%)
Net Sales	28,224	26,778	31,305	10.9	16.9
COGS	15,281	14,510	16,717	9.4	15.2
<b>Gross margin %</b>	<b>45.9</b>	<b>45.8</b>	<b>46.6</b>	<b>0.7</b>	<b>0.8</b>
Employee costs	2,699	2,887	2,972	10.1	2.9
% of sales	9.6	10.8	9.5	-0.1	-1.3
Advertising costs	1,572	1,516	2,043	30.0	34.8
% of sales	5.6	5.7	6.5	1.0	0.9
Other expenses	3,236	3,766	3,524	8.9	-6.4
% of sales	11.5	14.1	11.3	-0.2	-2.8
<b>EBITDA</b>	<b>5,437</b>	<b>4,098</b>	<b>6,047</b>	<b>11.2</b>	<b>47.6</b>
<b>EBITDA margin %</b>	<b>19.3</b>	<b>15.3</b>	<b>19.3</b>	<b>0.1</b>	<b>4.0</b>
Depreciation	676	1,020	966	43.0	-5.3
EBIT	4,761	3,078	5,081	6.7	65.1
<b>EBIT margin %</b>	<b>16.9</b>	<b>11.5</b>	<b>16.2</b>	<b>-0.6</b>	<b>4.7</b>
Interest expense	122	321	243	100.1	-24.3
Other income	1,006	1,207	1,098	9.2	-9.1
PBT	5,645	3,964	5,936	5.2	49.7
Tax	1,231	1,035	1,368	11.1	32.1
Effective tax rate %	21.8	26.1	23.0	1.2	-3.1
<b>PAT</b>	<b>4,403</b>	<b>3,008</b>	<b>4,639</b>	<b>5.4</b>	<b>54.2</b>
<b>PAT margin %</b>	<b>15.6</b>	<b>11.2</b>	<b>14.8</b>	<b>-0.8</b>	<b>3.6</b>
<b>EPS</b>	<b>2.5</b>	<b>1.7</b>	<b>2.6</b>	<b>5.4</b>	<b>54.2</b>

Source: Company, YES Sec

## Key Takeaways from Dabur's 1QFY24 Presentation & Earnings Call

- Witnessing signs of volume improvement in both urban and rural market indicating signs of recovery in demand.
- Rural across the board is seeing recovery. Rural for the FMCG market grew by 4% and Dabur grew ahead in rural versus the market at 8%. Urban growth was 10% for Dabur in 1Q. Rural recovery is helping the GT business growth.
- In MT, Dabur had some issue with Reliance MT which is now sorted so MT growth is now back for Dabur and growing at 18%.
- Ecom saw some issue and should recover soon. By end of year, Ecom should form ~9% of sales.
- 1Q has been a strong quarter for Dabur across geographies.
- Dabur's India business saw strong growth of 8% (4-year CAGR of 10%) on the back of robust growth in Healthcare and HPC portfolio. Beverages portfolio was impacted due to unseasonal rains in North & West India.
- Dabur gained market share in 90% of the portfolio.
- Direct reach now stands at 1.4mn outlets and will increase it to 1.5mn by end of FY24.
- Around 1lac villages covered now supported by 13k Yoddhas.
- International business: Moderation of inflation and distribution changes is leading to strong recovery in International business. Lost some sales in 1Q due to change of distributor. Next quarter will see an ironed-out growth. For full year, company expects a double digit 'Rs' growth and even higher CC growth.

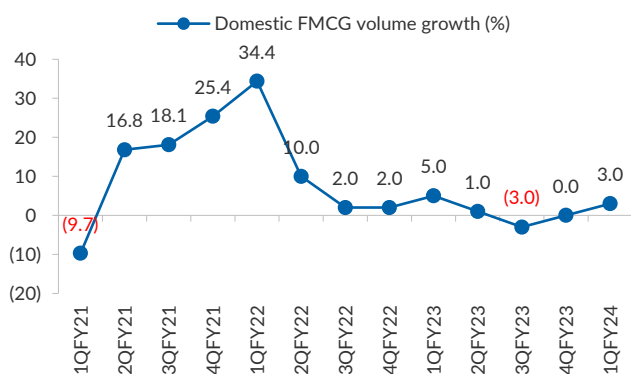
- Litigation has been filed against a subsidiary “Namaste LLC” in USA for hair relaxer products. It alleges that usage of such products leads to harmful effects. Namaste disputes the same and along with other defendants will defend this lawsuit. Company believes there is no legal merit in the case. The portfolio is less than 1% of consolidated revenues. Product liability insurance is in place. Matter is sub judice.
- Material inflation during the quarter reduced from high single digit to low single digit leading to QoQ improvement in gross margin. Food basket seeing around 11% inflation. Spices and food concentrates seeing inflation. Food saliency is higher in 1Q. Hydrocarbon linked RM seeing deflation but due to inventories Dabur did not see much benefit in 1Q. It expects to see QoQ gross margin improvement for next 2-3 quarters and will continue to invest gross margin improvement on media. It will take media spends to 8-9% of revenues. Post covering this, any gross margin improvement will flow through to EBIDTA margin. If the current 0.5% inflation becomes deflation going forward, company might surprise on EBITDA margins.
- As inflation is abated, company has increased A&P spends by 30% to drive long term sustainable growth for the business. This increase is also on a base where company had decided to cut back spends due to high inflation to maintain margins. Invested some part of consumer & trade promotion back into advertising this quarter along with upping the overall spends.
- Health Supplements: Glucose portfolio was impacted on account of unseasonal rains. Ex-Glucose, Health Supplements saw growth of 10%.
- Hair oil: Market share for hair oils portfolio improved by ~200bps to touch highest ever mark of 17.4%. Amla portfolio strategy (core+flanker) execution has been strong. Shelf share as well as distribution are going up.
- Foods: Hommade brand continued to perform well driven by innovation and portfolio expansion. Addition of Badshah Masala (saw 24% growth) to foods portfolio adding to the growth momentum.
- Recently established Therapeutics division, which includes a team of over 400 product specialists for advocacy and sales of our Healthcare portfolio to allopathic doctors. Targeting 70k Allopathic doctors in addition to the current 70k ayurvedic practitioners. This should accelerate growth for healthcare division.
- Healthcare: With the change in leadership, one major change brought for healthcare is the advocacy. With advocacy towards allopathic doctors and going to gynecologist & pediatrician, baby care will come to mainstream. Baby care exited at Rs200mn last year and is estimated at Rs500mn this year with this push. Second vector of growth for Healthcare would be investment behind power brands. Third vector of growth will new product introduction. Around 10% CAGR expected in healthcare this fiscal with new leadership.
- Inorganic growth: Dabur has money in balance sheet for acquisition. Company is continuously scouting for targets. It doesn't want to acquire an EBITDA margin dilutive brand. It is open to acquire a D2C brand also to strengthen urban play.
- Both the foods brands are doing well. While Hommade is restricted to North India, Badshah is strong & restricted to West India. Company is cross pollinating the portfolio between the brands in terms of distribution. It will start the cross pollination with West and then move to North. Both of them put together (Foods) are running at a run rate of Rs5bn next year.
- Oral care: Dabur will stick to the core (which is natural). The category grew by 2.5% in volumes while Dabur grew by 8-9% (versus 7% growth seen by market leader). Dabur red gained market share by 50bps, taking toothpaste market share to 16.9%. Gel portfolio, which was earlier missing, has now been plugged in and is contributing to oral care growth. In next 5-6 years, management expects natural to contribute 50% to the category.
- News on Dabur Honey: Dabur standby's the purity of Dabur Honey. Company follows all the regulations of manufacturing honey of FSSAI and also follows the regulations of the countries where it is exported. Most of the factories where Honey is produced are US FDA certified. Every batch is tested for all the parameters. The management has also questioned

the timing of the research, which was put out just before the results. Dabur believes such research is motivated and is done to malign the market leader's image. Dabur is confident that post the controversy, it will emerge much stronger like it did earlier.

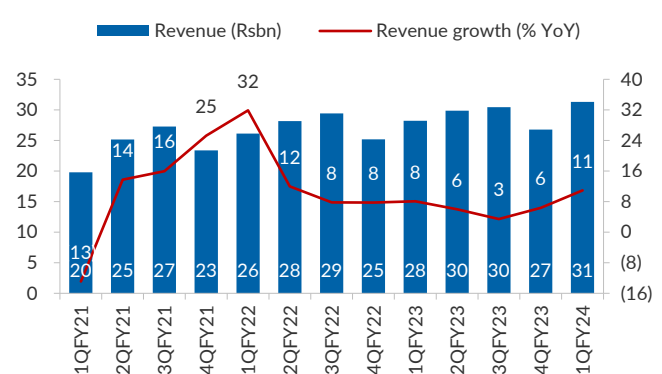
- OTC and Ethical is almost 50:50 of the total OTC& Ethicals turnover. Margin profiles are also pretty similar because, once Ethicals portfolio crosses the threshold level of turnover, it moves to OTC.
- Hajmola innovations now contributing to 10% of Hajmola revenues.
- Volume growth: If we look at the volume growth across verticals, volume growth in beverage has been very muted because beverage season wasn't in favour, which dragged the overall volume growth of the company down. Ex-Foods, volume growth for the quarter was ~6%. In healthcare, while there was a 6-7% of price increase impact, the overall business has grown by 12%, so there is a 6-7% of a volume growth in healthcare business. In HPC business, where the price increase wasn't very high, volume growth has been in the range of around 7-8% and going forward, this should be the volume growth. So company is looking at mid-single to high-single volume growth going forward in healthcare & HPC. This along with a little negative impact from beverage portfolio, mid-single volume growth should be there in the business in the near term.
- Rural-urban mix: Rural should keep inching up from here onwards and the gap between urban & rural should keep narrowing. Dabur is highly salient in rural with 45-50% of business coming out of rural.
- Dabur has not seen any signs of upgrading but that said, the price increase impact has kind of moderated now.
- Around 75% of the portfolio is power brands (none of the power brands are less than Rs500mn). Except Pudinhara (which is in the range of Rs600-700mn), rest all the portfolio are above Rs1b
- NPD's: Expect 3-4% innovation to sales ratio for FY24.
- Capex: Rs4-4.5bn for FY24. Company has already done around Rs16bn in 1QFY24.

**Exhibit 3: Dabur witnessed 3% volume growth this quarter**

**Exhibit 4: Consol. revenues grew 10.9% YoY**

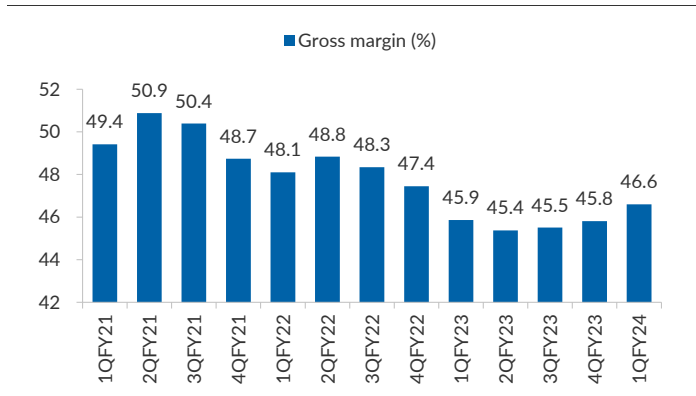


Source: Company, YES Sec



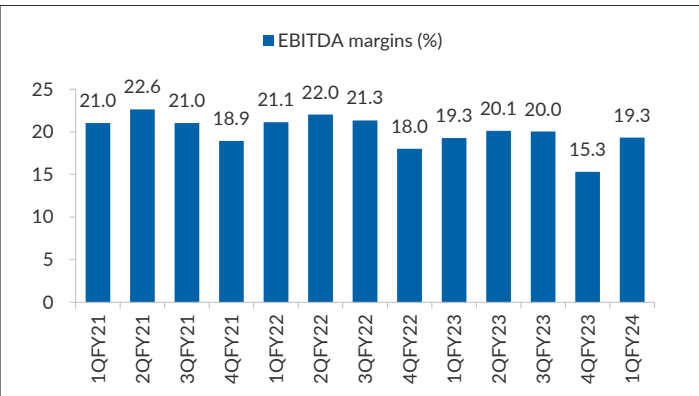
Source: Company, YES Sec

**Exhibit 5: Gross margin was up by 80bps QoQ to 46.6%**



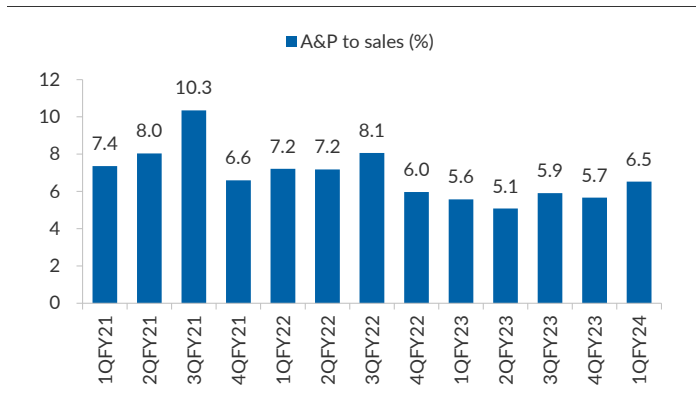
Source: Company, YES Sec

**Exhibit 6: While EBITDA margin was up just 10bps YoY to 19.3%**



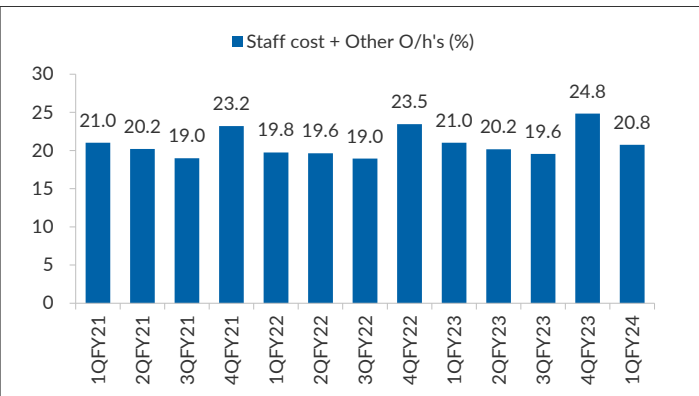
Source: Company, YES Sec

**Exhibit 7: As Consol. A&P spends went up 100bps YoY (~30% up on absolute basis)**



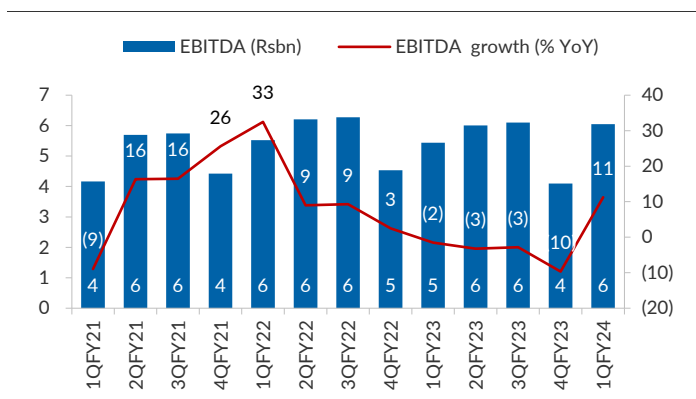
Source: Company, YES Sec

**Exhibit 8: Other operating expenses were slightly down YoY**

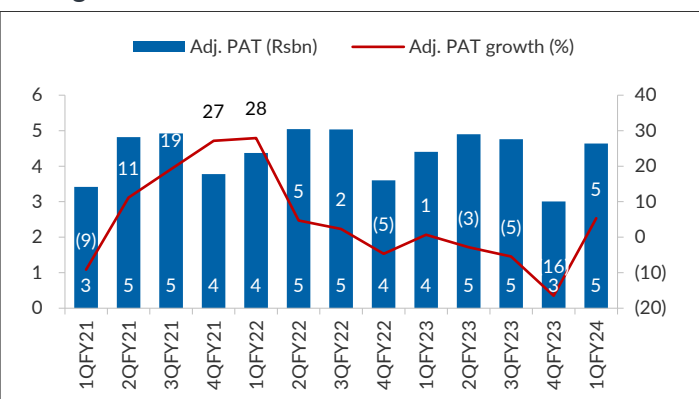


Source: Company, YES Sec

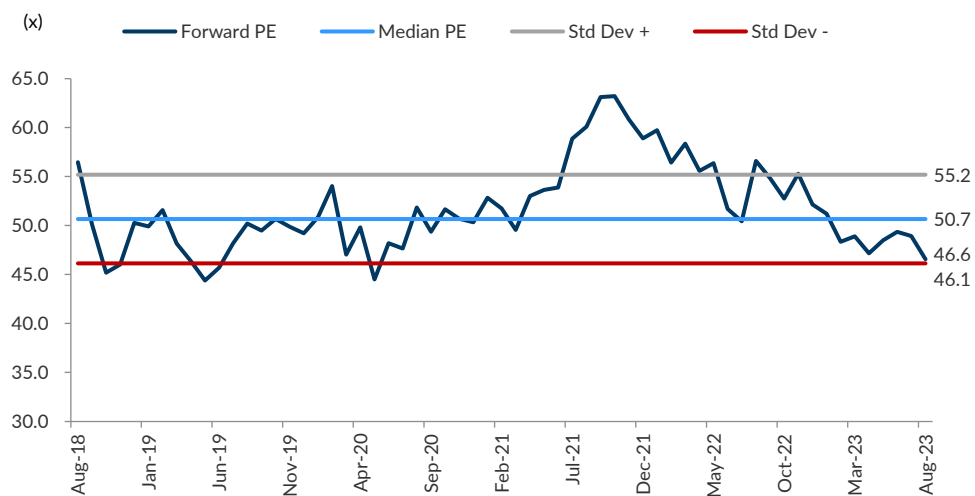
**Exhibit 9: EBITDA was thus up 11.2% YoY**



**Exhibit 10: APAT was up 5.4% YoY; Ex-Amortization, PAT growth stood at 8% YoY**



**Exhibit 11: Currently trading at ~46x 1-yr fwd EPS**



Source: Company, YES Sec

## ANNUAL FINANCIALS

**Exhibit 12: Balance Sheet**

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Share capital	1,767	1,768	1,772	1,772	1,772
Reserves	75,235	82,451	92,643	105,234	114,253
Net worth	77,002	84,219	94,414	107,006	116,025
Deferred tax liability	(40)	816	889	889	889
<b>Total liabilities</b>	<b>81,795</b>	<b>95,107</b>	<b>106,737</b>	<b>117,829</b>	<b>125,848</b>
Gross block	34,430	37,901	51,778	56,278	59,278
Depreciation	15,361	17,334	20,044	23,934	27,979
Net block	22,429	23,079	35,787	36,396	35,352
Capital work-in-progress	1,473	1,675	1,751	2,102	2,312
Investments	41,596	62,196	62,653	63,758	67,315
Inventories	17,343	19,114	20,242	22,137	23,719
Debtors	5,616	6,462	8,488	10,551	11,144
Cash	13,290	5,701	3,259	9,664	15,044
Loans & advances	1,285	595	594	712	855
Other current assets	5,259	4,017	3,750	4,094	4,503
<b>Total current assets</b>	<b>42,793</b>	<b>35,888</b>	<b>36,332</b>	<b>47,158</b>	<b>55,265</b>
Creditors	19,153	20,180	21,866	23,306	25,583
Other current liabilities & provisions	7,345	7,552	7,920	8,281	8,813
<b>Total current liabilities</b>	<b>26,497</b>	<b>27,732</b>	<b>29,786</b>	<b>31,586</b>	<b>34,396</b>
<b>Net current assets</b>	<b>16,296</b>	<b>8,157</b>	<b>6,547</b>	<b>15,572</b>	<b>20,869</b>
<b>Total assets</b>	<b>81,795</b>	<b>95,107</b>	<b>106,737</b>	<b>117,829</b>	<b>125,848</b>

Source: Company, YES Sec

**Exhibit 13: Income statement**

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	95,466	108,887	115,299	126,988	139,256
<b>% Growth</b>	<b>9.9</b>	<b>14.1</b>	<b>5.9</b>	<b>10.1</b>	<b>9.7</b>
COGS	47,739	56,397	62,687	66,242	70,520
Staff costs	10,335	10,800	11,370	12,661	13,848
Selling and Distribution	11,163	11,703	10,853	14,234	16,349
Other expenses	6,202	7,449	8,748	8,667	9,645
<b>Total expenses</b>	<b>75,439</b>	<b>86,349</b>	<b>93,658</b>	<b>101,804</b>	<b>110,362</b>
<b>EBITDA</b>	<b>20,027</b>	<b>22,538</b>	<b>21,641</b>	<b>25,184</b>	<b>28,894</b>
<i>% growth</i>	<b>12.9</b>	<b>12.5</b>	<b>(4.0)</b>	<b>16.4</b>	<b>14.7</b>
<i>EBITDA margin (%)</i>	<b>21.0</b>	<b>20.7</b>	<b>18.8</b>	<b>19.8</b>	<b>20.7</b>
Other income	3,253	3,932	4,454	4,946	5,530
Interest costs	308	386	782	855	708
Depreciation	2,401	2,529	3,110	3,890	4,044
<b>Profit before tax (before exceptional items)</b>	<b>20,570</b>	<b>23,555</b>	<b>22,203</b>	<b>25,386</b>	<b>29,673</b>
Exceptional items	0	-659	0	0	0
Tax	3,611	5,455	5,174	5,839	6,825
<b>Adjusted PAT</b>	<b>16,933</b>	<b>18,051</b>	<b>17,072</b>	<b>19,747</b>	<b>23,048</b>
<b>Reported PAT</b>	<b>16,933</b>	<b>17,392</b>	<b>17,072</b>	<b>19,747</b>	<b>23,048</b>

Y/E March (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PAT margin (%)	17.2	15.4	14.3	15.0	15.9
% Growth	12.8	6.7	(5.9)	14.8	16.9

Source: Company, YES Sec

## Exhibit 14: Cash flow statement

Y/E March (Rsmn)	FY21	FY22	FY23	FY24E	FY25E
PAT	17,347	18,811	17,242	19,547	22,848
Depreciation	2,401	2,529	3,110	3,890	4,044
Other income	(2,485)	(2,349)	(3,867)	(4,092)	(4,823)
(Inc.)/dec. in working capital	3,884	(968)	(1,601)	(2,621)	83
<b>Cash flow from operations</b>	<b>21,147</b>	<b>18,023</b>	<b>14,884</b>	<b>16,724</b>	<b>22,153</b>
Capital expenditure (-)	(3,112)	(3,741)	(4,857)	(4,850)	(3,210)
<b>Net cash after capex</b>	<b>18,035</b>	<b>14,282</b>	<b>10,027</b>	<b>11,874</b>	<b>18,943</b>
Inc./(dec.) in investments	(6,724)	(16,966)	(2,117)	7,746	1,974
<b>Cash from investing activities</b>	<b>(9,836)</b>	<b>(20,708)</b>	<b>(6,974)</b>	<b>2,895</b>	<b>(1,236)</b>
Dividends paid (-)	(5,921)	(9,723)	(9,213)	(10,861)	(13,829)
Inc./(dec.) in total borrowings	(20)	5,036	233	(1,500)	(1,000)
Others	(193)	(218)	(1,372)	(855)	(708)
<b>Cash from financial activities</b>	<b>(6,134)</b>	<b>(4,905)</b>	<b>(10,352)</b>	<b>(13,216)</b>	<b>(15,536)</b>
Opening cash balance	8,114	13,291	5,701	3,259	9,663
Closing cash balance	13,291	5,701	3,259	9,663	15,044
Change in cash balance	5,177	(7,589)	(2,442)	6,404	5,381

## Exhibit 15: Growth and Ratio matrix

Y/E March	FY21	FY22	FY23	FY24E	FY25E
<b>Per share (Rs)</b>					
EPS	9.6	10.2	9.6	11.1	13.0
Book value	43.6	47.6	53.3	60.4	65.5
DPS	4.8	5.2	5.2	6.1	7.8
<b>Valuation (x)</b>					
EV/sales	9.7	8.5	8.1	7.2	6.5
EV/EBITDA	46.4	40.9	42.9	36.5	31.5
P/E	57.9	54.3	57.6	49.8	42.7
P/BV	12.8	11.7	11.0	9.6	8.8
<b>Return ratios (%)</b>					
RoCE	27.3	27.2	23.0	23.6	25.1
RoE	23.7	22.5	19.7	20.5	21.5
ROIC	59.5	79.7	58.9	53.5	60.8
<b>Profitability ratios (%)</b>					
Gross margin	50.0	48.2	45.6	47.8	49.4
EBITDA margin	21.0	20.7	18.8	19.8	20.7
PAT margin	17.2	15.4	14.3	15.0	15.9
<b>Liquidity ratios (%)</b>					
Current ratio	1.6	1.3	1.2	1.5	1.6



Y/E March	FY21	FY22	FY23	FY24E	FY25E
Quick ratio	1.0	0.6	0.5	0.8	0.9
<b>Solvency ratio (%)</b>					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	1.2	1.1	1.1	1.1	1.1
Fixed asset turnover ratio (x)	5.0	5.3	3.6	3.9	4.4
Debtor days	26	20	24	27	28
Inventory days	119	118	115	117	119
Creditor days	130	127	122	124	127

Source: Company, YES Sec; \* pre-tax

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