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SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

03 August 2023

## Dabur India

Growth coming back gradually; margin normalization to take more time

### RESULT UPDATE

Sector: FMCG

Rating: HOLD

CMP: Rs 555

Target Price: Rs 590

#### Stock Info

Sensex/Nifty	65,241/ 19,382
Bloomberg	DABUR IN
Equity shares (mn)	1772
52-wk High/Low	Rs 610/504
Face value	Rs 1
M-Cap	Rs983bn/US\$ 12bn
3-m Avg volume	US\$ 13mn

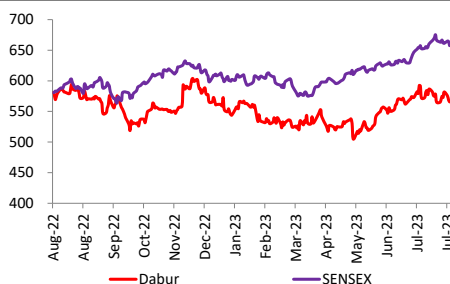
#### Financial Snapshot (Rs mn)

Y/E Mar	FY23	FY24E	FY25E
Sales	115,299	125,777	140,681
PAT	17,013	19,689	23,239
EPS (Rs)	9.6	11.1	13.1
PE (x)	57.8	49.9	42.3
EV/EBITDA (x)	45.1	39.6	33.3
P/BV (x)	11.0	9.9	8.8
EV/Sales	8.5	7.7	6.8
RoE (%)	19.6	20.8	22.1
RoCE (%)	23.9	25.0	26.8
NWC (days)	22	32	32
Net gearing (x)	0.1	0.1	0.1

#### Shareholding Pattern (%)

	Jun23	Mar23	Dec22
Promoter	66.2	66.2	66.2
–Pledged	-	-	-
FII	19.4	19.7	20.5
DII	8.8	8.3	7.5
Others	5.6	5.7	5.8

#### Stock Performance (1-year)



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Dabur's numbers were in-line with our expectations with revenue growth of 10.9% YoY, domestic volume growth of 3%, flat EBITDA margin at 19.3% and Adj. PAT growth of 3.7% YoY. Key growth drivers were double-digit growth in healthcare and HPC business (unseasonal rains and high base impacted beverages) and 20.6% CC growth in international business, gross margin expansion led by softening of inflation and superior segment mix was invested in higher A&P spends.

Key quarter takeaways are: 1) India revenue (72.8% of total sales) grew at 8%, with international revenue expanding at 20.6% CC, 2) Gross margin expansion of 74 bps YoY to 46.6% was led by lowering of raw material cost and lower beverage contribution, however consolidated EBITDA margin remained flat at 19.3%, led by higher ad spends, 3) Healthcare revenue grew 10% YoY with market share gains across sub categories, 4) Home and Personal care revenue was up 11%, led by market share gains in home, oral, skin and hair care categories, 5) F&B revenue remained flat for the quarter as beverages were impacted due to unseasonal rains in North and West, 6) International business (~23.4% total sales) delivered 20.6% revenue growth in constant currency (CC) terms, 7) strong rural recovery at 8% ahead of market growth of 4%.

Both HPC and healthcare should grow close to double digits in FY24 with continued share gains, product innovation and expanding distribution reach. F&B should grow close to mid-single digit growth with aggressive portfolio expansion in both foods and beverages partially offset by muted peak season beverage sales. Stable currency and distribution restructuring in international markets should drive double-digit growth there as well. Margins should stay below 20% for FY24 as well despite a superior segment mix given high inflation in foods basket and expected pick up in A&P spends. We now build in marginally better growth and see 10.5%/16.9% revenue/PAT CAGR over FY23-25E, which is in-line with peers. We maintain our HOLD rating, with a revised target price of Rs 590 (earlier Rs 578), based on 45x FY25E earnings.

**Steady domestic volume growth at 3% and consol. revenue growth of 11%:** Dabur's consolidated revenue grew at 10.9% YoY, with domestic volume growth of 3%. Domestic revenue grew at ~8% YoY, led by steady growth in Healthcare and HPC. Revenue in the international business grew 20.6% YoY in CC terms (up 10.2% in INR) led by strong growth in Turkey, Egypt, sub-Saharan Africa, MENA region and Nepal. We expect a 10% CAGR in domestic revenue over FY23-25E led by 8% CAGR in HPC, 10% in healthcare and 12% in the foods business. International business is expected to grow at 12% CAGR over the same period.

**Double digit growth in Healthcare and HPC; beverages impacted by unseasonal rains:** In the healthcare division, Health Supplements grew 5.5% YoY – glucose portfolio was impacted due to unseasonal rains; excl. glucose healthcare growth stood at 10%, Chyawanprash and Honey continued to gain market share. Digestives grew 14.3% YoY driven by strong double-digit growth in Hajmola franchise. After lapping the high base of FY22, FY24 should see resumption of positive growth in the healthcare division with the new business head who has come in from Himalaya restructuring the business and increasing focus on doctor advocacy for driving penetration. In the HPC division, Oral care grew 10% YoY, toothpaste portfolio

growth was driven by Dabur Red; Hair oils revenue reported growth of 10% despite category growth of 3.7% in value terms, while shampoo/home care revenues grew at 9%/14.5% YoY, respectively. Shampoo gained 10bps market share, with mosquito repellent cream recording 340bps higher share and 10bps in the air freshener's category. The category should get back close to double digit growth in FY24 with a gradual recovery in category growth rates. In the F&B business, beverages portfolio remained flat - food portfolio grew 35% YoY excluding Badshah business, Badshah portfolio witnessed growth of 24%; beverages declined 2% on account of unseasonal rains in North and West. While juices growth can slow down to high single digits for FY24 on account of high base, increased contribution from drinks, further extension of *Real* portfolio, *Badshah* ramp-up and foods launches should drive close to 18-20% growth in the foods business from FY25 after a weak FY24.

**Margins to gradually normalize to ~20% plus by FY25:** Inflationary pressures reduced in crude linked raw materials coming down to 0.5% while food commodity basket inflation still stood at 11%. Consolidated gross margin grew 74 bps YoY to 46.6%, while EBITDA margin remained flat at 19.3%. Healthcare and HPC RM moderation are aiding gross margin expansion. With healthcare and HPC becoming more salient in Q2FY24 and Q3FY24, it will lead to gross margin expansion. Expansion in gross margin was offset by higher ad spends. (+30% YoY) during the quarter. Company expects ad spends to keep inching towards 8-9% of revenue going ahead thus impacting operating margins. We now expect margins to normalize to ~20% plus only in FY25 as the pack mix impact will take time to reverse.

**Maintain HOLD rating with revised TP of Rs 590:** We estimate 10.5% CAGR in revenue over FY23-25E. New products should continue to contribute ~3% to the topline. We expect EBITDA margin to expand 160bps by FY25E after dipping to 18.8% in FY23, aided by gross margin recovery, operating leverage and multiple cost-saving initiatives. We estimate adj. PAT CAGR of 16.9% over FY23-25E. We maintain our HOLD rating on the stock with a revised target price of Rs 590, based on 45x FY25E EPS.

**Exhibit 1: Quarterly performance**

YE March (Rs mn)	Q1FY24	Q1FY23	Q4FY23	YoY (%)	QoQ (%)
<b>Net Revenues</b>	<b>31,305</b>	<b>28,224</b>	<b>26,778</b>	<b>10.9</b>	<b>16.9</b>
Cost of materials	14,378	12,751	13,013	12.8	10.5
(% of sales)	45.9	45.2	48.6		
Purchase of stock in trade	2,339	2,530	1,497	(7.6)	56.2
(% of sales)	7.5	9.0	5.6		
Employee cost	2,972	2,699	2,887	10.1	2.9
(% of sales)	9.5	9.6	10.8		
A&P	2,043	1,572	1,516	30.0	34.8
(% of sales)	6.5	5.6	5.7		
Others	3,524	3,236	3,766	8.9	(6.4)
(% of sales)	11.3	11.5	14.1		
<b>EBITDA</b>	<b>6,047</b>	<b>5,437</b>	<b>4,098</b>	<b>11.2</b>	<b>47.6</b>
<b>EBITDA margin (%)</b>	<b>19.3</b>	<b>19.3</b>	<b>15.3</b>		
Other income	1,098	1,006	1,207	9.2	(9.1)
<b>PBIDT</b>	<b>7,145</b>	<b>6,442</b>	<b>5,306</b>	<b>10.9</b>	<b>34.7</b>
Depreciation	966	676	1,020	43.0	(5.3)
Finance Cost	243	122	321	100.1	(24.3)
<b>PBT</b>	<b>5,936</b>	<b>5,645</b>	<b>3,964</b>	<b>5.2</b>	<b>49.7</b>
Tax	1,336	1,208	759	10.6	76.0
ETR (%)	22.5	21.4	19.1		
Deferred tax	31.6	22.2	275.9		
Minority interest	0.0	7.4	(80.7)		
PL of JV/associate	(2.0)	(3.4)	(1.9)		
<b>Adjusted PAT</b>	<b>4,566</b>	<b>4,403</b>	<b>3,008</b>	<b>3.7</b>	<b>51.8</b>
PATAMI margin	14.6	15.6	11.2		
Exceptional item	0	0	0		
<b>Reported PAT</b>	<b>4,566</b>	<b>4,403</b>	<b>3,008</b>	<b>3.7</b>	<b>51.8</b>
No. of shares (mn)	1,772	1,772	1,772		
<b>Adj EPS (Rs)</b>	<b>2.6</b>	<b>2.5</b>	<b>1.7</b>		

Source: Company, Systematix Institutional Research

**Exhibit 2: Change in estimates (Rs mn)**

	Old estimates		Revised estimates		Variation (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
<b>Net sales</b>	126,665	140,194	125,777	140,681	-1%	0%
<b>EBITDA</b>	24,383	28,039	24,526	28,699	1%	2%
<b>EBITDA margin</b>	19%	20%	20%	20%		
<b>Adj. PAT</b>	19,649	22,776	19,689	23,239	0%	2%

Source: Company, Systematix Institutional Research

## Call takeaways

**Rural recovery** – Rural FMCG market grew 4%; while rural for Dabur grew 8% vs urban growth at 10%.

**Volume growth** – Negative volumes in beverages dragged down overall volumes; healthcare volumes grew 6-7%; HPC volume growth stood at 7-8%; overall volume growth stood at 3% for 1QFY24; company expects mid-single to high-single digit volume growth going ahead.

**Margins** – Food inflation stood at 11%, Spices inflation at 19%, however benefits of Healthcare and HPC deflation are aiding gross margin expansion; healthcare and HPC will become more salient in Q2FY24 and Q3FY24 which will lead to gross margin expansion.

**Healthcare portfolio** – Rs 1.5 bn incremental sales from the Therapeutics division; Baby care business restricted to ecommerce until GTM is established; Baby care generated Rs 200 mn in FY23, target of Rs 500 mn in FY24; Healthcare expected to grow at high single digit or double digit in FY24 driven by single digit volume growth led by baby care.

**Oral Care** – Dabur has successfully taken share with shift towards naturals portfolio; natural category volume growth stood at 2.5% vs 7% for competitor vs 9% for Dabur; the Dabur Red fresh gel (value added product) has witnessed healthy sales, Rs 40-50 mn business now, expected to reach Rs 140-150 mn turnover by year end; market share gains expected in modern trade post dispute with Reliance being resolved; in next 5-6 years company expects naturals to form 50% of the oral care category.

**Beverages** – 30% of beverage consumption is out of home; decline in beverages stood at 25% for other companies vs 1.6% decline for Dabur; no. of transactions in beverages grew 4-5% for the company; Dabur targets 8% growth in beverages for FY24.

**Hair Oils** – Amla with its flanker brands gained share; earlier company was losing share in LUPs which has also increased now; Dabur Cool King launched in May received good initial response (25-30% growth), gained 15% relative market share in regions such as UP and Bihar despite summers being impacted by unseasonal rains.

**OTC and Ethical** – Hajmola grew 15% led by innovations, Pudín hara impacted by rains, Lal tail grew 15-16% and gained market share; Honitus grew 30% with market share gains; Shilajit grew at 20% 4 year CAGR; OTC and ethical have margins similar to company.

**Acquisitions** – Dabur is open for acquisitions in the D2C space in categories such as personal care, skin care and ayurvedic; company is looking at a premium play to strengthen its urban business; Badshah is witnessing healthy growth in West; Hommade (grew 33-34%) doing well in North; company is leveraging Badshah's distribution in North for Hommade and leveraging Dabur's distribution for Badshah in the North; this will aid in taking the foods portfolio to +Rs5 bn in revenue in FY25.

**International business** – Growth to pick-up with changes in distribution; in Q1 sales were impacted due to change in distributor; company expects double digit growth in both INR and CC terms in international business during FY24.

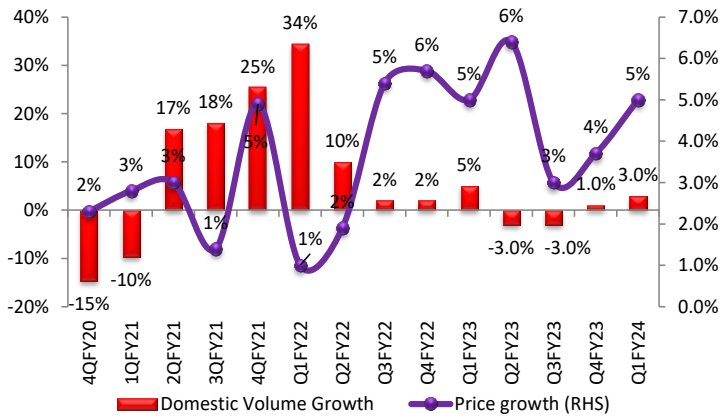
**NPD** – New Product Development contribution stood at 3% across verticals during 1QFY24; for emerging channels such as ecommerce NPD stood at 10%.

**Distribution** – General trade forms 70% of the business; company is appointing more sub-stockists; direct distribution currently at 1.4 mn outlets; targets 1.5 mn outlets by year end.

**Ad spends** – Investments earlier made in consumer promotions now invested in advertising; company expects ad spends to form 8-9% of revenue going ahead.

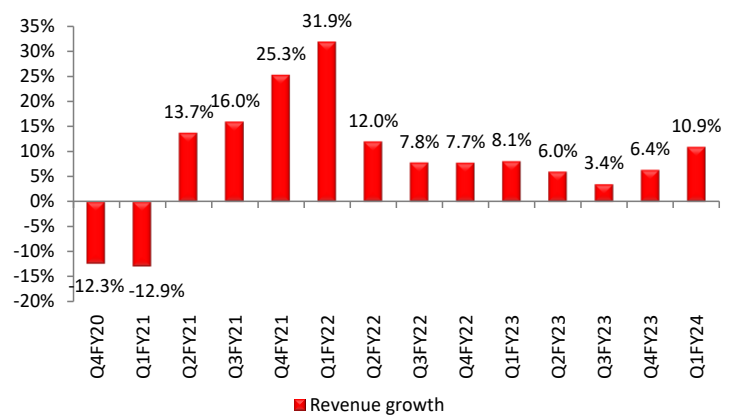
**Capex** – Rs 4-4.5 bn capex to be incurred in FY24.

**Exhibit 3: Domestic volume grew 3% YoY**



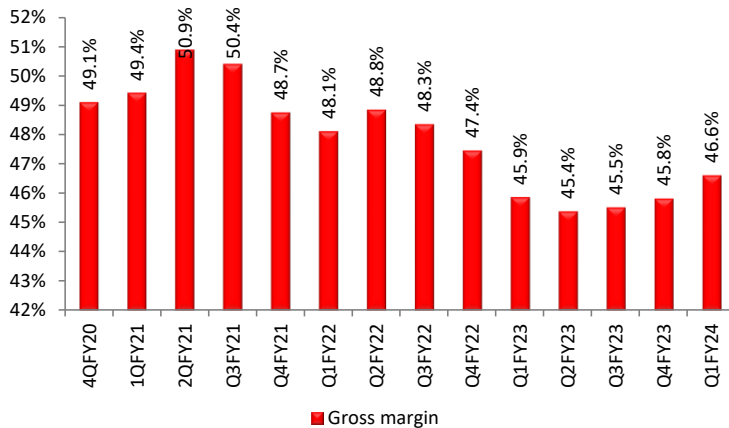
Source: Company, Systematix Institutional Research

**Exhibit 4: Overall revenue grew 10.9% YoY**



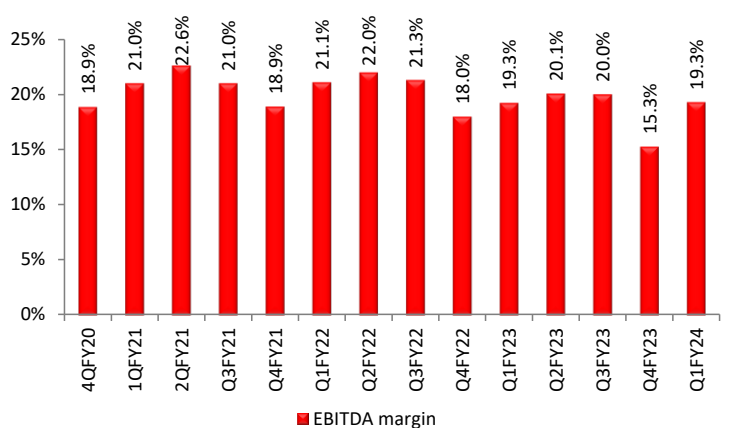
Source: Company, Systematix Institutional Research

**Exhibit 5: Gross margin expanded 74bps YoY**



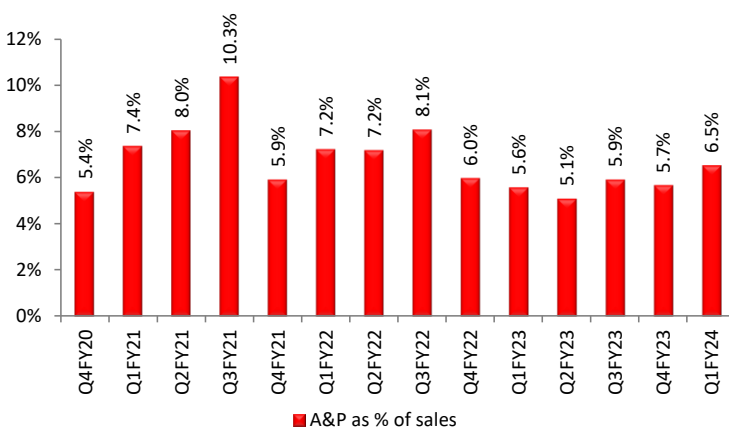
Source: Company, Systematix Institutional Research

**Exhibit 6: EBITDA margin grew 6bps YoY**



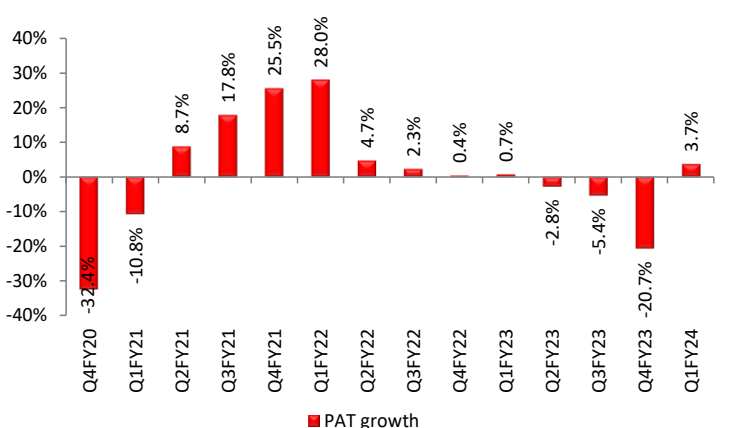
Source: Company, Systematix Institutional Research

**Exhibit 7: A&P expenses were higher by 96bps YoY**

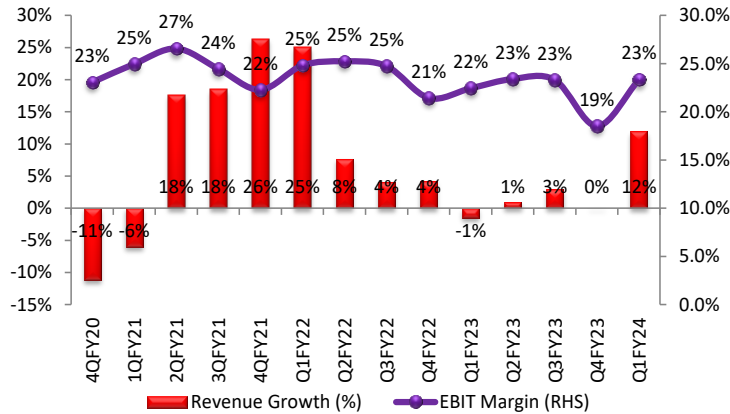


Source: Company, Systematix Institutional Research

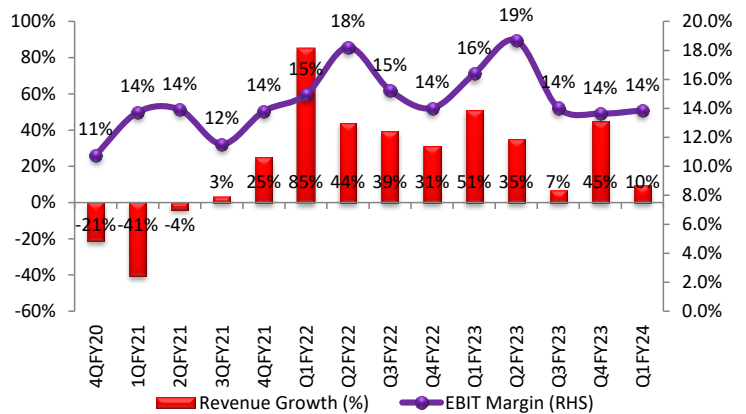
**Exhibit 8: Consol Adj. PAT grew 3.7% YoY**



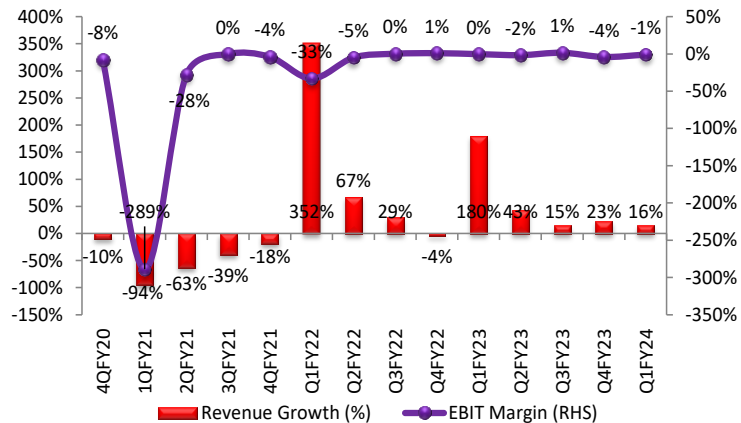
Source: Company, Systematix Institutional Research

**Exhibit 9: Consumer care business reported growth of 12%**

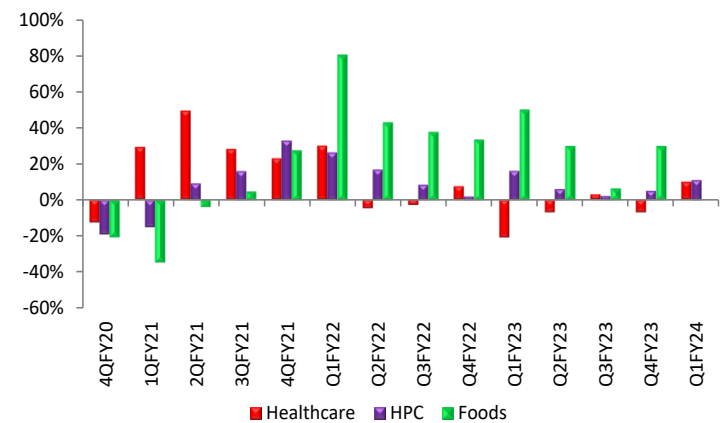
Source: Company, Systematix Institutional Research

**Exhibit 10: Food business reported growth of 10%**

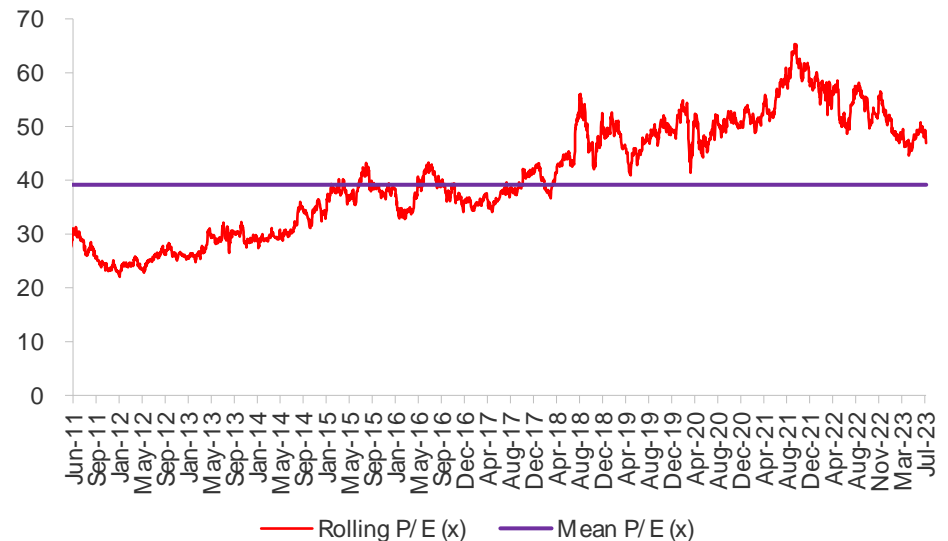
Source: Company, Systematix Institutional Research

**Exhibit 11: Retail business grew 16%**

Source: Company, Systematix Institutional Research

**Exhibit 12: HPC and Healthcare reported positive growth**

Source: Company, Systematix Institutional Research

**Exhibit 13: Currently trades at 46.9x one-year forward earnings**

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Revenue</b>	<b>95,617</b>	<b>1,08,887</b>	<b>1,15,299</b>	<b>1,25,777</b>	<b>1,40,681</b>
Gross profit	47,727	52,490	52,612	59,618	68,793
GP margin (%)	49.9%	48.2%	45.6%	47.4%	48.9%
<b>Operating profit</b>	<b>20,027</b>	<b>22,538</b>	<b>21,641</b>	<b>24,526</b>	<b>28,699</b>
OP margin (%)	20.9%	21%	18.8%	19.5%	20.4%
Depreciation	2,401	2,529	3,110	3,420	3,615
EBIT	17,626	20,009	18,532	21,107	25,084
Interest expense	308	386	782	764	679
Other income	3,253	3,932	4,454	4,899	5,389
Profit before tax	20,570	23,555	22,203	25,242	29,794
Taxes	3,611	5,264	5,174	5,553	6,555
Tax rate (%)	17.6%	22.3%	23.3%	22.0%	22.0%
<b>Adj. PAT</b>	<b>16,950</b>	<b>18,273</b>	<b>17,013</b>	<b>19,689</b>	<b>23,239</b>
Exceptional loss	-	850	-	-	-
Net profit	16,950	17,423	17,013	19,689	23,239
<b>EPS</b>	<b>9.6</b>	<b>9.9</b>	<b>9.6</b>	<b>11.1</b>	<b>13.1</b>

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Equity capital	1,767	1,767	1,772	1,772	1,772
Reserves	74,868	82,045	87,961	97,805	1,09,425
Debt	4,833	8,677	9,990	8,990	7,990
Deferred tax liab (net)	139	816	889	889	889
Other non current liabilities	1,014	3,919	8,312	7,032	7,267
<b>Total liabilities</b>	<b>82,621</b>	<b>97,224</b>	<b>1,08,923</b>	<b>1,16,488</b>	<b>1,27,343</b>
Fixed Asset	19,590	21,355	21,321	22,151	22,536
Investments	41,989	62,592	63,045	63,045	63,045
Other Non-current Assets	4,959	3,958	4,102	4,403	1,461
<b>Inventories</b>	<b>17,343</b>	<b>19,114</b>	<b>20,242</b>	<b>22,743</b>	<b>25,438</b>
Sundry debtors	5,616	6,462	8,488	11,027	12,334
<b>Cash &amp; equivalents</b>	<b>14,925</b>	<b>7,451</b>	<b>17,682</b>	<b>21,314</b>	<b>34,085</b>
Loans and Advances	4,050	3,346	3,136	3,794	4,180
Sundry creditors	19,153	20,180	21,866	22,743	25,438
Other current liabilities	6,698	6,873	7,226	9,246	10,298
<b>Total Assets</b>	<b>82,621</b>	<b>97,224</b>	<b>1,08,923</b>	<b>1,16,488</b>	<b>1,27,343</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
PBIT	20,878	23,941	22,986	26,006	30,473
Depreciation	2,401	2,529	3,110	3,420	3,615
Tax paid	(3,611)	(5,264)	(5,174)	(5,553)	(6,555)
Working capital Δ	4,024	(710)	(904)	(2,802)	(640)
<b>Other operating items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Operating cashflow	23,693	20,496	20,017	21,070	26,893
Capital expenditure	(2,316)	(4,293)	(3,076)	(4,250)	(4,000)
<b>Free cash flow</b>	<b>21,377</b>	<b>16,202</b>	<b>16,941</b>	<b>16,820</b>	<b>22,893</b>
Equity raised	2,023	(1,055)	(1,880)	-	-
Investments	(13,471)	(20,604)	(453)	-	-
Debt financing/disposal	161	3,844	1,314	(1,000)	(1,000)
Interest Paid	(308)	(386)	(782)	(764)	(679)
Dividends paid	(8,395)	(9,190)	(9,213)	(9,844)	(11,620)
Other items	3,785	3,715	4,305	(1,580)	3,177
<b>Net Δ in cash</b>	<b>5,173</b>	<b>(7,474)</b>	<b>10,231</b>	<b>3,631</b>	<b>12,771</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY21	FY22	FY23	FY24E	FY25E
Revenue growth (%)	9.9	13.9	5.9	9.1	11.9
Op profit growth (%)	11.7	12.5	-4.0	13.3	17.0
Net profit growth (%)	9.5	7.8	-6.9	15.7	18.0
OPM (%)	20.9	20.7	18.8	19.5	20.4
Net profit margin (%)	17.7	16.8	14.8	15.7	16.5
RoCE (%)	27.4	27.5	23.9	25.0	26.8
RoNW (%)	23.8	22.8	19.6	20.8	22.1
EPS (Rs)	9.6	10.3	9.6	11.1	13.1
DPS (Rs)	4.8	5.2	5.2	5.6	6.6
BVPS (Rs)	43.4	47.4	50.6	56.2	62.8
Debtor days	21	22	27	32	32
Inventory days	66	64	64	66	66
Creditor days	73	68	69	66	66
P/E (x)	57.8	53.7	57.8	49.9	42.3
P/B (x)	12.8	11.7	11.0	9.9	8.8
EV/EBITDA (x)	48.4	43.6	45.1	39.6	33.3

Source: Company, Systematix Institutional Research



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