Dabur India

02 May 2024

Steady quarter marked by market share gains and rural recovery

RESULT UPDATE

Sector: FMCG	**Rating: BUY**
CMP: Rs 524	**Target Price: Rs 609**

Stock Info

Sensex/Nifty	74,611/ 22,648
Bloomberg	DABUR IN
Equity shares (mn)	1767
52-wk High/Low	Rs 597/489
Face value	Rs 1
M-Cap	Rs929bn/US$ 11.1bn
3-m Avg volume	US$ 12.2mn

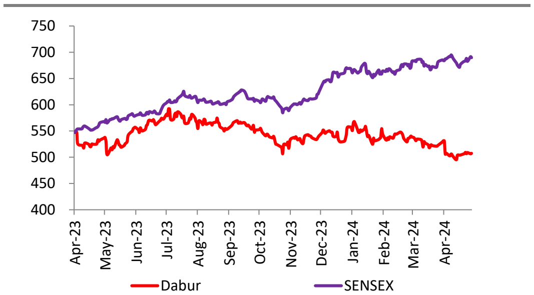
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Sales	124,040	136,388	151,067
PAT	18,113	21,037	23,997
EPS (Rs)	10.2	11.9	13.5
PE (x)	51.3	44.2	38.7
EV/EBITDA (x)	38.2	33.4	29.1
P/BV (x)	9.4	8.5	7.7
EV/Sales	7.4	6.7	6.0
RoE (%)	19.2	20.2	20.8
RoCE (%)	23.7	24.8	25.8
NWC (days)	12	32	32
Net gearing (x)	0.1	0.1	0.1

Shareholding Pattern (%)

	Mar24	Dec23	Sep23
Promoter	66.3	66.3	66.2
–Pledged	-	-	-
FII	15.8	16.5	18.4
DII	12.5	11.7	9.8
Others	5.5	5.6	5.6

Stock Performance (1-year)



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Dabur's 4Q performance was in-line with our expectations with revenue growth of 5%/14%/16% YoY growth in revenue/EBITDA/PAT and domestic volume growth of 4.2% (including Badshah). International business grew strongly at 12%. HPC grew 8.7% with the rural recovery driving LUP sales, F&B remained flat given the high base while healthcare declined 1.5% impacted by delayed winter. Sharp gross margin expansion of 279 bps led by softening of inflation and superior segment mix was invested in higher A&P spends (up 86 bps YoY) and legal costs on the US entity litigation resulted in EBITDA margin expansion of 128 bps to 16.6%.

Both HPC and healthcare should grow in high single-digits in FY25 with continued share gains, product innovation and expanding distribution reach. F&B should revert to mid-teens growth in FY25 after a flattish FY24 with aggressive portfolio expansion in both foods and beverages. Moderation in inflation and distribution restructuring in international markets should drive double-digit growth there as well. Margins stayed below 20% for FY24 despite a superior segment mix given the pick-up in A&P spends and the US litigation costs, but should reach 20% in FY25. Considering the aggression shown in extending product categories and distribution expansion driving share gains across categories, we build in 10.4%/15.1% revenue/EPS CAGR over FY24-26E and reiterate our BUY, with a revised target price of Rs 609 (earlier Rs 630), based on 45x FY26E earnings, in-line with other HPC peers. Dabur remains one of our top HPC picks given improving execution, aggressive innovation, medium-term margin expansion potential and opportunities in healthcare, rural markets and possible M&A.

Key quarter takeaways: 1) India revenue grew 5.2% in value and 4.2% in volume terms (including Badshah), international revenue grew 12% CC, 2) Rural growth was ahead of urban mainly due to the aggressive distribution expansion in rural markets, 3) Gross margin expansion of 279 bps YoY to 48.6% was led by lower raw material cost, however consolidated EBITDA margin expanded by only 128bps to 16.6%, 4) Healthcare declined 1.5% due to 9.1% decline in health supplements and muted 0.6% growth in OTC & Ethicals, 16% growth in Digestives was driven by good traction in Hajmola franchise & Pudin Hara, 5) HPC grew 8.7%, led by strong 22% growth in Oral care, 7.5% growth in Home care (market share gains Odonil and Odomos), 6.1% growth in Shampoo, 0.6% growth in Skin care while Hair oils declined 2.5%, 6) F&B growth stood flat with 1.5% decline in beverages and 20.7% growth in Foods (including Badshah) 7) Margin guidance of 20% for FY25 despite legal costs (Rs 200mn per quarter) given expected GM improvement.

Steady domestic volume growth at 4.2% and consolidated revenue growth of 5.1%: Dabur's consolidated revenue grew at 5.1% YoY, with domestic volume growth of 4.2%. Domestic revenue grew at 5.2% YoY. Revenue in the international business grew 12% YoY in CC terms led by strong growth in Turkey, Egypt and SSA. We expect a 9.8% CAGR in domestic revenue over FY24-26E led by 9% CAGR in HPC, 9.6% in healthcare and 11.8% in the foods business. International business is expected to grow at 12% CAGR over the same period.

Healthcare impacted by delayed winters, high single-digit growth in HPC and flattish performance by F&B: In the healthcare division, Health Supplements saw 9.1% decline due to delay in winter season, market share of Chyawanprash grew 138 bps, glucose grew 9.3%; digestives grew 16% in Q4 led by good traction in Hajmola franchise and Pudin Hara, digestives market share gains stood at 210 bps; OTC & Ethicals growth remained muted at 0.6%, primarily impacted by delayed winters in parts of the segments, health juices and Shilajit performed well, Honitus / Baby Massage Oils gained 114 bps/ 70 bps market share respectively, classicals business saw double digit growth. HPC segment saw 8.7% growth during Q4FY24 led by 22% growth in Oral care, Dabur Red Bae Fresh Gel performed well, herbal segment continued to grow ahead of non-herbals; Home care grew 7.5% with a robust double-digit growth for Odomos (+600 bps MS gains), LVPs scaled up well, Odonil Air freshners gained 260 bps MS; Shampoo grew 6.1% led by Vatika franchise with continued market share gains; Hair Oils declined 2.5% however portfolio gained 115 bps market share; Skin care saw muted 0.6% growth however Gulabari brand registered strong double digit growth, bleach creams MS grew by 100 bps. F&B growth was flattish during Q4 – beverages declined 1.5%, impacted by a high base, Real Activ grew in double digits, J&N category saw 53 bps gain in market share; Foods (including Badshah) recorded 20.7% growth.

Margins expected at 20% plus for FY25: Consolidated gross margin grew 279bps YoY to 48.6%, while EBITDA margin expanded 86bps to 16.6%. Healthcare and HPC RM moderation are aiding gross margin expansion. Expansion in gross margin was offset by higher ad spends. (+21.1% YoY) during the quarter. Company expects ad spends to keep moving towards 8% of revenue going ahead thus impacting operating margins. We expect the company to deliver 20% margin in FY25 going up to 20.5% in FY26 despite building in the Namaste legal costs of c. Rs 200mn per quarter for the near-term given expectation of continued GM improvement led by RM moderation, cost efficiencies and continued premiumization across categories.

Exhibit 1: Quarterly performance

YE March (Rs mn)	Q4FY24	Q4FY23	Q3FY24	YoY (%)	QoQ (%)
Net Revenues	**28,146**	**26,778**	**32,551**	**5.1**	**(13.5)**
Cost of materials	11,664	13,013	13,500	(10.4)	(13.6)
(% of sales)	41.4	48.6	41.5		
Purchase of stock in trade	2,804	1,497	3,228	87.3	(13.1)
(% of sales)	10.0	5.6	9.9		
Employee cost	3,162	2,887	3,106	9.5	1.8
(% of sales)	11.2	10.8	9.5		
A&P	1,837	1,516	2,445	21.1	(24.9)
(% of sales)	6.5	5.7	7.5		
Others	4,012	3,766	3,593	6.5	11.7
(% of sales)	14.3	14.1	11.0		
EBITDA	**4,668**	**4,098**	**6,678**	**13.9**	**(30.1)**
EBITDA margin (%)	**16.6**	**15.3**	**20.5**		
Other income	1,289	1,207	1,274	6.7	1.2
PBIDT	**5,957**	**5,306**	**7,952**	**12.3**	**(25.1)**
Depreciation	1,074	1,020	969	5.3	10.8
Finance Cost	352	321	365	9.7	(3.4)
PBT	**4,531**	**3,964**	**6,618**	**14.3**	**(31.5)**
Tax	1,135	759	1,521	49.5	(25.4)
ETR (%)	25.0	19.1	23.0		
Deferred tax	(20.2)	275.9	28.4		
Minority interest	(83.1)	(80.7)	(77.8)		
PL of JV/associate	(4.0)	(1.9)	(4.0)		
Adjusted PAT	**3,495**	**3,008**	**5,142**	**16.2**	**(32.0)**
PATAMI margin	12.4	11.2	15.8		
Exceptional item	0	0	0		
Reported PAT	**3,495**	**3,008**	**5,142**	**16.2**	**(32.0)**
No. of shares (mn)	1,772	1,772	1,772		
Adj EPS (Rs)	**2.0**	**1.7**	**2.9**		

Source: Company, Systematix Institutional Research

Exhibit 2: Change in Estimates

	Old estimates		Revised estimates		Variation (%)	
	FY25E	FY26E	FY25E	FY26E	FY24E	FY25E
Net sales	138,703	153,528	136,388	151,067	-1.7%	-1.6%
EBITDA	28,295	31,673	27,278	30,969	-3.6%	-2.2%
EBITDA margin	20.4%	20.6%	20.0%	20.5%		
Adj. PAT	21,971	24,810	21,037	23,997	-4.3%	-3.3%

Source: Company, Systematix Institutional Research

Conference call takeaways

Oral care – Dabur oral care penetration has reached 52%. Dabur holds no. 1 position in Orissa, Karnataka and Andhra Pradesh in the oral care space. Oral care category penetration in India stands at 90% with a growth rate of 7.5% compared to FMCG market growth rate of 6%. Dabur, Patanjali, GSK (Sensodyne volume share gains) have gained market share while Colgate and Himalaya has lost some market share. South India market performing well, led by increase in per capita consumption and population in south preferring more functional products.

Health supplements – Down stocking was seen in Chyawanprash due to delayed winters. Company has modified/ modernized formats for Chyawanprash – capsules, gummies to extend the usage and relevance of the category and thereby increase the penetration. Chyawanprash category penetration has seen a dip. Company has also extended Chyawanprash advocacy across doctor channel. Hajmola's new versions (20-22% of the franchise) are witnessing healthy growth. Company is looking at extension of the brand through the unbranded digestive category. Baby care portfolio is around Rs 400-450 mn vs Rs 200 mn last year. Baby super pants doing well on ecommerce and the advocacy channel.

Odomos and Odonil - Market shares in mosquito repellent cream category expanded by 600 pbs and air freshener category expanded by 260 bps in FY24.

Therapeutic – Doctor advocacy vertical scaled up covering 1.1 lakh ayurvedic and allopathic doctors with a turnover of Rs 1.2 bn.

Beverages – Double digit growth target in beverages for FY25.

Hair Oil – Hair oil category grew 8% in value while Dabur grew 12% in value in FY24.

Spices controversy impact – Dabur is compliant with the regulatory norms in domestic market for ethylene oxide limit. For international too, Badshah meets the necessary requirements. Large opportunity in the category as majority of the market is still unbranded. Company has resorted to price cuts in the masala business due to reduction in inflation. Margins are expected to grow led by high price hikes initiated earlier.

Premiumization – 18% of company's portfolio is premium. Power brands premiumization and growth in ecommerce and MT is driving premiumization.

NPD – NPD contribution in foods at 4.6%, 2% in HPC, 4% in healthcare. 3.5% NPD at company level in FY24.

Rural vs urban – Rural growth for Dabur stood at 8% vs 4% in urban. Dabur is more of a rural centric, ayurvedic portfolio which performs better in rural. Rural has recovered majorly over past 2-3 months. Dabur's village coverage has increased to 1.2 lakh villages with 21,500 Yoddhas.

Organized vs unorganized – Hair oil, oral care, home care being more urban the unorganized play is limited. In skin care for products such as Gulabari there is good competition from unorganized but the company tries to gain share by value offerings. In health care too, the unorganized play is on the lower side while its higher in the beverages side of business.

Distribution – Emerging channels such as ecommerce and modern trade were the fastest growing channels driving urban growth and contributed to 19-20% of the India business. Ecommerce is c. 9-10% of the business with 30% of it coming from quick commerce. Company expanded reach to 1.22 lakh villages through 22,000 yoddhas. Direct reach stands at 1.42 mn outlets (headroom to take it to 2 mn outlets). Total reach stood at 79 lakh outlets.

A&P spends - Digital spends stood at 30% of total media spends. Company targets to increase A&P spends to c. 8% of revenue in FY25.

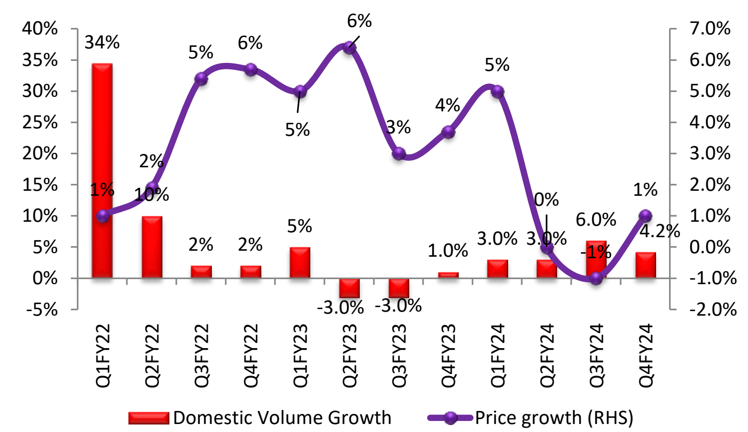
Legal costs – To be c. Rs 800-900 mn for FY25/ FY26 respectively.

Volume and growth outlook – Company targets to grow volumes in mid-high single digit while a revenue growth rate in the range of high-single to low double digits.

Pricing growth – Pricing growth to be around 3% in FY25 driven by 1% price growth in F&B, 4% in healthcare and 2% in HPC.

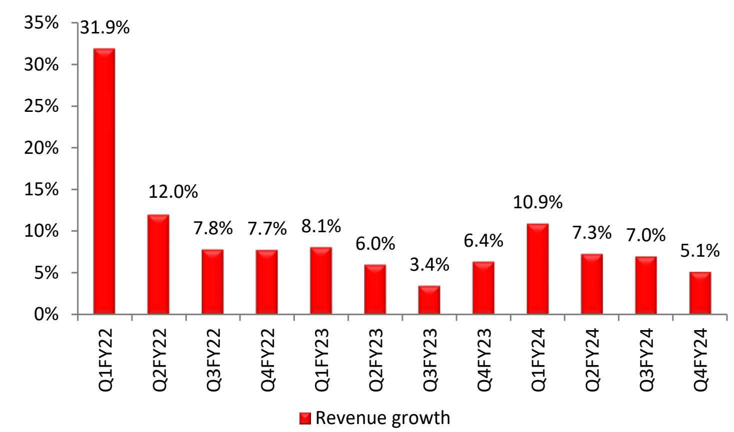
Margins – Gross margins will continue to expand but not as much as seen in last 1-1.5 years which was led by drastic price rise. Samriddhi project is expected to bring in benefit of Rs1 bn in FY25. Company targets to take operating margins to +20% moving ahead.

Exhibit 3: Domestic volumes grew 4.2% (including Badshah)



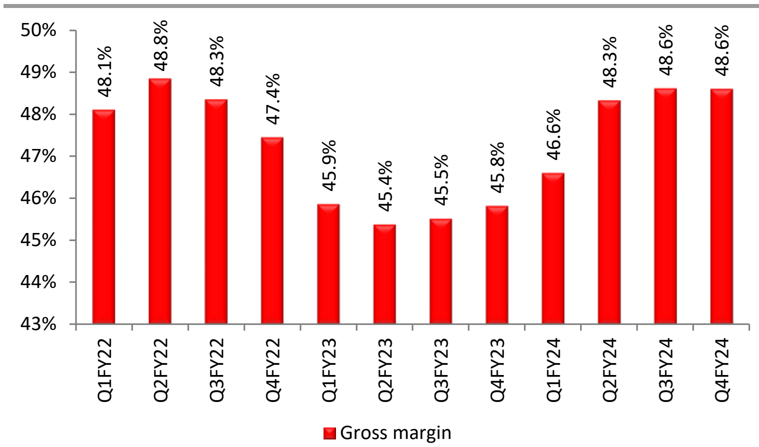
Source: Company, Systematix Institutional Research

Exhibit 4: Overall revenue grew 5.1% YoY



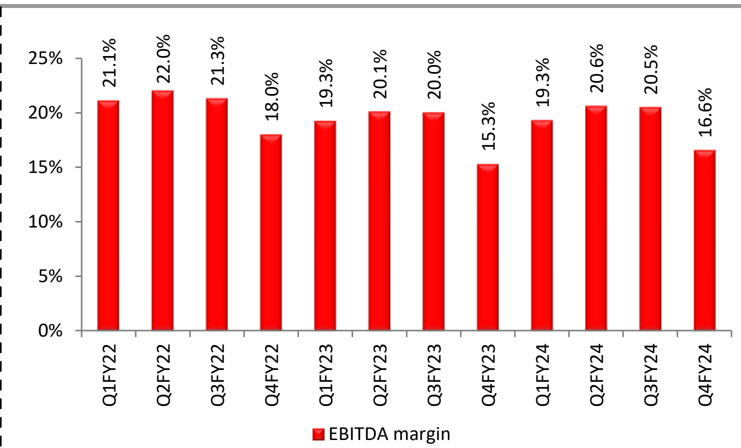
Source: Company, Systematix Institutional Research

Exhibit 5: Gross margin expanded 279bps YoY



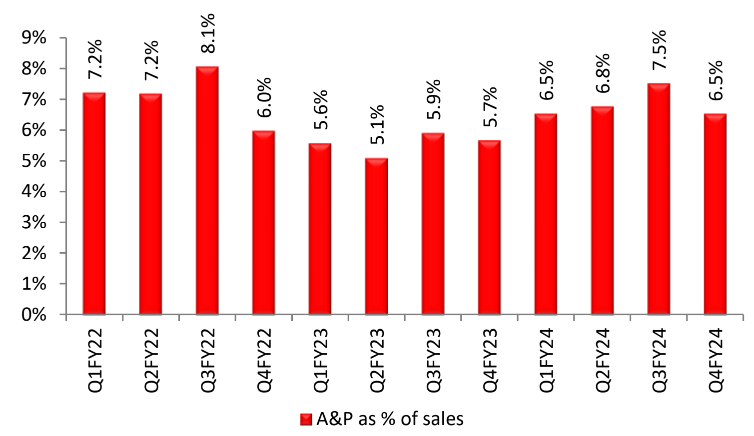
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margin grew 128bps YoY



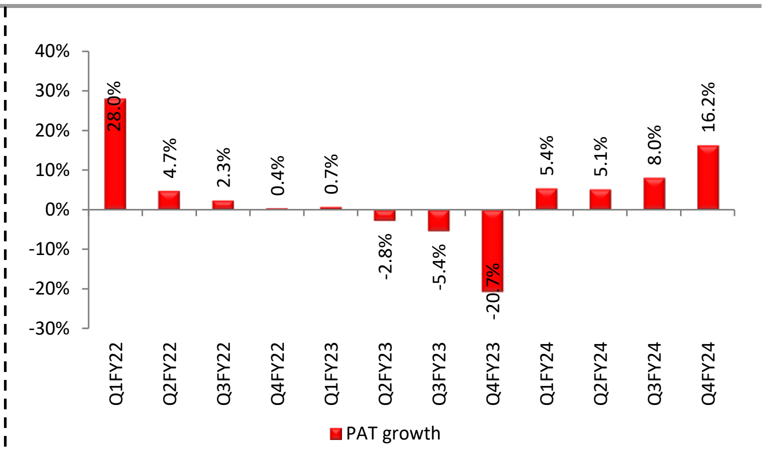
Source: Company, Systematix Institutional Research

Exhibit 7: A&P expenses were higher by 86bps YoY



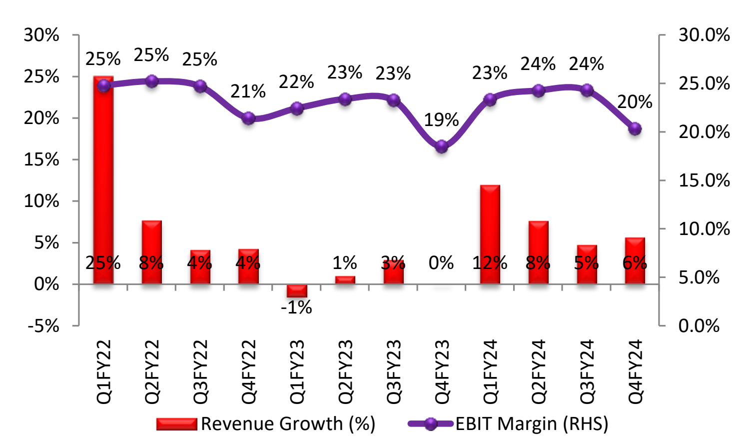
Source: Company, Systematix Institutional Research

Exhibit 8: Consol Adj. PAT grew 16.2% YoY



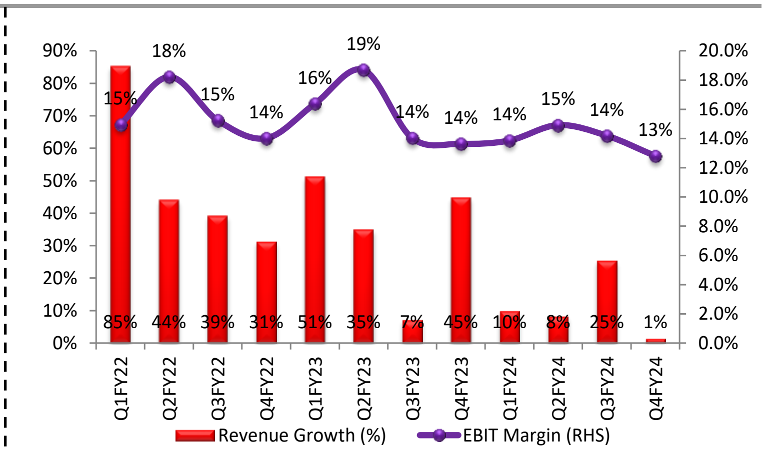
Source: Company, Systematix Institutional Research

Exhibit 9: Consumer care business reported growth of 6%



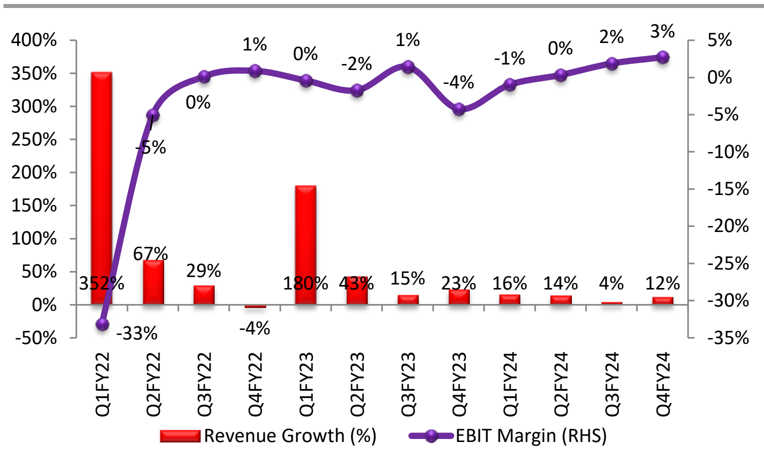
Source: Company, Systematix Institutional Research

Exhibit 10: Food business reported growth of 1%



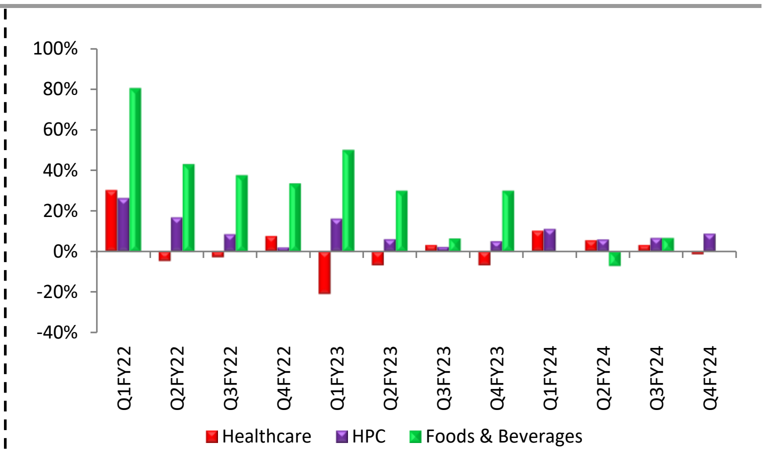
Source: Company, Systematix Institutional Research

Exhibit 11: Retail business grew 12%



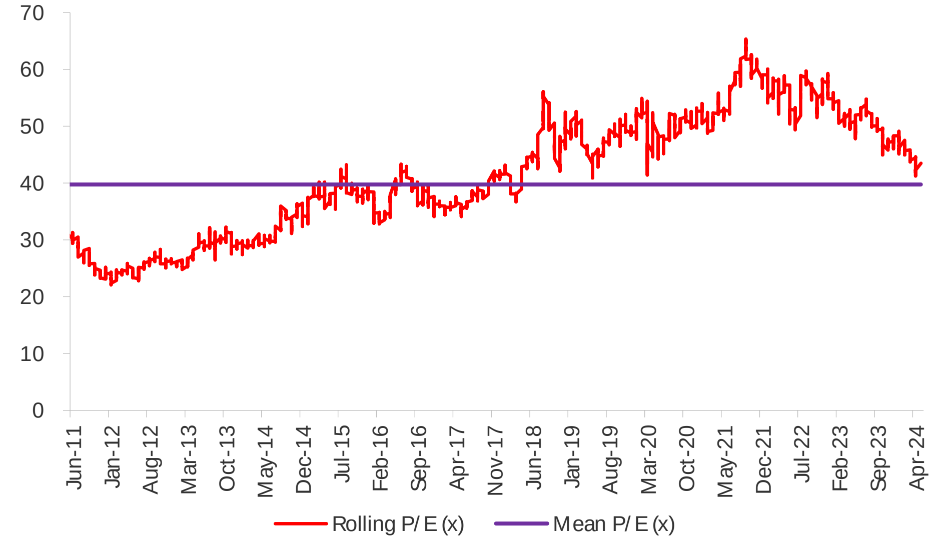
Source: Company, Systematix Institutional Research

Exhibit 12: Muted performance in healthcare and F&B



Source: Company, Systematix Institutional Research

Exhibit 13: Currently trades at 43.5x one-year forward earnings



Source: Company, Systematix Institutional Research

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	**1,08,887**	**1,15,299**	**1,24,040**	**1,36,388**	**1,51,067**
Gross profit	52,490	52,612	59,571	66,693	74,325
GP margin (%)	48.2%	45.6%	48.0%	48.9%	49.2%
Operating profit	**22,538**	**21,641**	**24,002**	**27,278**	**30,969**
OP margin (%)	21%	18.8%	19.4%	20.0%	20.5%
Depreciation	2,529	3,110	3,992	4,117	4,500
EBIT	20,009	18,532	20,010	23,160	26,469
Interest expense	386	782	1,242	1,323	1,341
Other income	3,932	4,454	4,824	5,307	5,837
Profit before tax	23,555	22,203	23,593	27,144	30,965
Taxes	5,264	5,174	5,474	6,107	6,968
Tax rate (%)	22.3%	23.3%	23.2%	22.5%	22.5%
Adj. PAT	**18,273**	**17,013**	**18,113**	**21,037**	**23,997**
Exceptional loss	850	-	-	-	-
Net profit	17,423	17,013	18,113	21,037	23,997
EPS	**9.9**	**9.6**	**10.2**	**11.9**	**13.5**

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	1,767	1,772	1,772	1,772	1,772
Reserves	82,045	87,961	96,891	1,07,409	1,19,408
Debt	8,677	9,990	11,581	10,581	9,581
Deferred tax liab (net)	816	889	1,027	1,027	1,027
Other non current liabilities	3,919	8,312	8,568	7,054	7,322
Total liabilities	**97,224**	**1,08,923**	**1,19,839**	**1,27,843**	**1,39,110**
Fixed Asset	21,355	21,321	21,919	21,801	21,302
Investments	62,592	63,045	69,708	69,708	69,708
Other Non-current Assets	3,958	4,102	4,372	1,357	1,493
Inventories	**19,114**	**20,242**	**19,470**	**24,662**	**27,316**
Sundry debtors	6,462	8,488	8,987	11,957	13,244
Cash & equivalents	**7,451**	**17,682**	**23,457**	**27,356**	**38,188**
Loans and Advances	3,346	3,136	5,010	5,884	6,476
Sundry creditors	20,180	21,866	24,217	24,662	27,316
Other current liabilities	6,873	7,226	8,866	10,222	11,301
Total Assets	**97,224**	**1,08,923**	**1,19,839**	**1,27,843**	**1,39,110**

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBIT	23,941	22,986	24,834	28,467	32,306
Depreciation	2,529	3,110	3,992	4,117	4,500
Tax paid	(5,264)	(5,174)	(5,474)	(6,107)	(6,968)
Working capital Δ	(710)	(904)	2,390	(7,236)	(799)
Other operating items	-	-	-	-	-
Operating cashflow	**20,496**	**20,017**	**25,742**	**19,240**	**29,039**
Capital expenditure	(4,293)	(3,076)	(4,590)	(4,000)	(4,000)
Free cash flow	**16,202**	**16,941**	**21,152**	**15,240**	**25,039**
Equity raised	(1,055)	(1,880)	562	-	-
Investments	(20,604)	(453)	(6,663)	-	-
Debt financing/disposal	3,844	1,314	1,591	(1,000)	(1,000)
Interest Paid	(386)	(782)	(1,242)	(1,323)	(1,341)
Dividends paid	(9,190)	(9,213)	(9,745)	(10,518)	(11,998)
Other items	3,715	4,305	120	1,500	133
Net Δ in cash	**(7,474)**	**10,231**	**5,774**	**3,900**	**10,832**

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
Revenue growth (%)	13.9	5.9	7.6	10.0	10.8
Op profit growth (%)	12.5	-4.0	10.9	13.6	13.5
Net profit growth (%)	7.8	-6.9	6.5	16.1	14.1
OPM (%)	20.7	18.8	19.4	20.0	20.5
Net profit margin (%)	16.8	14.8	14.6	15.4	15.9
RoCE (%)	27.5	23.9	23.7	24.8	25.8
RoNW (%)	22.8	19.6	19.2	20.2	20.8
EPS (Rs)	10.3	9.6	10.2	11.9	13.5
DPS (Rs)	5.2	5.2	5.5	5.9	6.8
BVPS (Rs)	47.4	50.6	55.7	61.6	68.4
Debtor days	22	27	26	32	32
Inventory days	64	64	57	66	66
Creditor days	68	69	71	66	66
P/E (x)	50.7	54.6	51.3	44.2	38.7
P/B (x)	11.1	10.4	9.4	8.5	7.7
EV/EBITDA (x)	41.2	42.6	38.2	33.4	29.1

Source: Company, Systematix Institutional Research

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