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INSTITUTIONAL EQUITIES

May 02, 2024

RESULT REPORT Q4 FY24 | Sector: Consumer Staples

Dabur India

Maintain Dabur as our preferred pick for FY25

Dabur India Ltd. (DABUR) 4QFY24 operating performance was better than our estimate. Rural growth which grew 200bps ahead of urban growth in 3Q for Dabur, grew at ~8% this quarter, 400bps ahead of urban on the back of moderating inflation, distribution infrastructure expansion and building of rural centric portfolio. Within the domestic categories, Oral Care and Digestives growth were big positives but Health Supplements, Hair oils and Beverages partially suppressed the overall revenue performance. YoY gross margin improvement aided Dabur deliver decent operating margin even after taking a hit from 'Namaste's' legal cost regarding ongoing litigation. With optimism around continued rural recovery led volume growth improvement, near-term margin visibility & valuation comfort, makes us maintain our BUY rating and as a preferred top pick for FY25 within the FMCG pack with a revised target price (TP) of Rs665.

4QFY24 Result Highlights

- **Headline performance:** Consolidated revenues grew by 5.1% YoY (7.3% CC growth) to Rs28.15bn (vs est. Rs28.38bn). EBITDA was up 13.9% YoY to Rs4.67bn (vs est. Rs4.49bn). Like to like (LTL; excluding legal cost for Namaste) operating profit growth stood at 16%. Adjusted PAT (APAT) was up 16.3% YoY to Rs3.5bn (vs est. Rs3.4bn). LTL PAT growth stood at 22.7%.
- **India Business Volume growth** (including Badshah) stood at 4.2% (vs est. of 4.0% YoY). International Business (26% to consol. sales in 4QFY24) reported a growth of 12% in Constant Currency (CC) terms (3.4% in Rs terms).
- **Consol. gross margin** was up 280bps YoY to 48.6% (flat QoQ). Increase in overheads: A&P spends up ~90bps YoY (media spends grew by 21.1% in the Consolidated business and by 15.2% in the India business), other expenses up 20bps YoY and employee cost were up ~50bps YoY, meant that EBITDA margin was up by 130bps YoY to 16.6%.
- **Standalone** revenue, EBITDA & APAT grew by 5.2%, 10.8% & 1.9% YoY, respectively. Gross/EBITDA margin up 170bps/80bps YoY to 45.9%/16.5%.
- **FY24 Consol.** revenue, EBITDA and APAT grew by 7.6%, 10.9% and 8.0% YoY, respectively. Gross margin was up 240bps YoY to 48% while EBITDA margin stood at 19.4% (up 60bps YoY).

Key highlights from conference call (detailed takeaways below)

(1) Rural grew by 8% ahead of urban which grew by 4% in 4QFY24 for Dabur.

(2) Dabur expects to grow its topline in the low double digits primarily led by high single digit volume growth and 2-3% pricing growth. In FY25, Dabur would aim for ~20% EBITDA margin.

View & Valuation

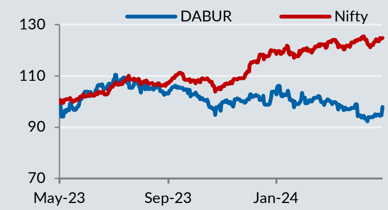
We now build 10.5% revenue CAGR over FY24-FY26E driven by: (a) Focus on gaining market share in key categories - DABUR's Power Brand strategy of focusing on nine of its major brands –accounts for >70% of the company's consolidated revenue, will continue to pay dividend in the medium to long term. (b) Distribution continues to expand – rural coverage expanded from 100k to 122k villages in FY24 which is highest in the industry. The direct reach of the company now stands at ~1.42mn outlets with a total reach of ~7.9mn outlets. Ahead-of-the-curve investments and anticipated demand improvement in rural augurs well for Dabur, signs already seen in 3Q & 4QFY24. (c) Expanding TAM through power platform strategy and innovations gives decent visibility for medium-term growth. At operating level, we expect ~13.9% EBITDA CAGR over FY24-FY26E (~120bps EBITDA margin expansion with gross margin expansion of 150bps). 'Namaste' litigations remain an overhang and it might take 1-1.5 yeas more to settle. Dabur is currently trading at ~43x/38x on FY25E/FY26E EPS, discount to its historical average, as we build in 15.6% EPS CAGR over FY24-26E. Improved commentary, better near-term earnings visibility, & valuation comfort, makes us maintain our BUY rating and as a preferred top pick for FY25 within the FMCG pack with a revised TP of Rs665 (Rs650 earlier).

Reco	:	**BUY**
CMP	:	Rs 525
Target Price	:	Rs 665
Potential Return	:	+26.7%

Stock data (as on May 02, 2024)

Nifty	22,648
52 Week h/l (Rs)	597 / 489
Market cap (Rs/USD mn)	899753 / 10782
Outstanding Shares (mn)	1,772
6m Avg t/o (Rs mn):	1,047
Div yield (%):	1.0
Bloomberg code:	DABUR IN
NSE code:	DABUR

Stock performance



	1M	3M	1Y
Absolute return	-1.2%	-3.6%	-2.1%

Shareholding pattern (As of Dec'23 end)

Promoter	66.3%
FII+DII	28.3%
Others	5.5%

∆ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	665	650

∆ in earnings estimates

	FY25e	FY26e
EPS (New)	12.2	13.9
EPS (Old)	12.5	14.0
% change	-2.1%	-1.0%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	124,040	137,905	151,574
YoY Growth (%)	7.6	11.2	9.9
EBIDTA	24,002	27,622	31,141
Margins (%)	19.4	20.0	20.5
PAT	18,427	21,651	24,638
EPS	10.4	12.2	13.9
YoY Growth (%)	7.9	17.5	13.8
Pre-tax RoCE (%)	22.4	23.9	25.3
ROE (%)	19.6	20.6	21.3
P/E (x)	50.5	43.0	37.8
EV/EBITDA (x)	36.1	31.2	27.4

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Exhibit 1: Actual vs estimate

Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	28,146	28,376	28,348	(0.8)	(0.7)
EBITDA	4,668	4,486	4,586	4.0	1.8
EBITDA Margin (%)	*16.6*	*15.8*	*16.2*	*0.8*	*0.4*
Adjusted PAT	3,499	3,420	3,427	2.3	2.1

Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	4QFY23	3QFY24	4QFY24	YoY (%)	QoQ (%)	FY23	FY24	YoY (%)
Revenue	**26,778**	**32,551**	**28,146**	**5.1**	**-13.5**	**115,299**	**124,040**	**7.6**
COGS	14,510	16,728	14,468	-0.3	-13.5	62,687	64,470	2.8
Gross margin %	***45.8***	***48.6***	***48.6***	***2.8***	***0.0***	***45.6***	***48.0***	***2.4***
Employee costs	2,887	3,106	3,162	9.5	1.8	11,370	12,396	9.0
% of sales	*10.8*	*9.5*	*11.2*	*0.5*	*1.7*	*9.9*	*10.0*	*0.1*
Advertising costs	1,516	2,445	1,837	21.1	-24.9	6,403	8,491	32.6
% of sales	*5.7*	*7.5*	*6.5*	*0.9*	*-1.0*	*5.6*	*6.8*	*1.3*
Other expenses	3,766	3,593	4,012	6.5	11.7	13,198	14,682	11.2
% of sales	*14.1*	*11.0*	*14.3*	*0.2*	*3.2*	*11.4*	*11.8*	*0.4*
EBITDA	**4,098**	**6,678**	**4,668**	**13.9**	**-30.1**	**21,641**	**24,002**	**10.9**
EBITDA margin %	***15.3***	***20.5***	***16.6***	***1.3***	***-3.9***	***18.8***	***19.4***	***0.6***
Depreciation	1,020	969	1,074	5.3	10.8	3,110	3,992	28.4
EBIT	3,078	5,709	3,594	16.8	-37.0	18,532	20,010	8.0
EBIT margin %	*11.5*	*17.5*	*12.8*	*1.3*	*-4.8*	*16.1*	*16.1*	*0.1*
Interest expense	321	365	352	9.7	-3.4	782	1,242	58.7
Other income	1,207	1,274	1,289	6.7	1.2	4,454	4,824	8.3
PBT	3,964	6,618	4,530	14.3	-31.5	22,203	23,592	6.3
Tax	1,035	1,550	1,114	7.7	-28.1	5,174	5,474	5.8
Effective tax rate %	*26.1*	*23.4*	*24.6*	*-1.5*	*1.2*	*23.3*	*23.2*	*-0.1*
PAT	**3,008**	**5,142**	**3,499**	**16.3**	**-32.0**	**17,072**	**18,431**	**8.0**
PAT margin %	***11.2***	***15.8***	***12.4***	***1.2***	***-3.4***	***14.8***	***14.9***	***0.1***
EPS	**1.7**	**2.9**	**2.0**	**16.3**	**-32.0**	**9.6**	**10.4**	**8.0**

Source: Company, YES Sec

- **Segmental**: Consol. consumer care was up 5.1% YoY with segment EBIT margin up ~180bps YoY to 20.3%. Foods segment saw a growth of 1.3% YoY with segment EBIT margin down 80bps YoY to 12.8%.
- **Category growths (YoY)**: Health Supplements was down by 9.1% YoY. Oral care was up 22% YoY with toothpaste business reporting 23% growth. Hair oil was down 2.5% YoY. Digestives reported a strong 16% growth. Shampoo was up by 6.1% YoY. Home care business grew by 7.5% YoY. Skin care was up 0.6% YoY. OTC and Ethicals business grew by 0.6% YoY. Beverages de-grew by 1.5%% while Foods (incl. Badshah) saw growth of 20.7%.

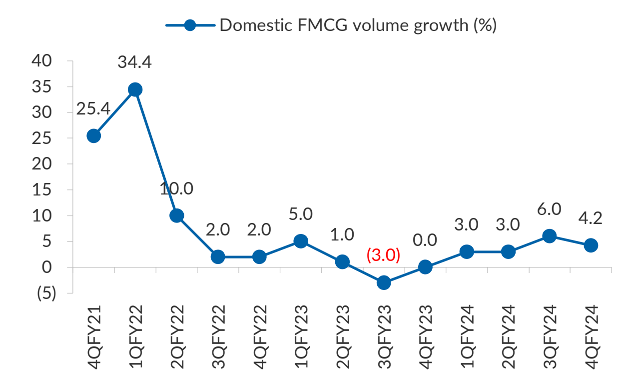
Takeaways from Dabur’s 4QFY24 conference call

- **Macro**: Operating environment in-line with previous quarter. Rural grew ahead of urban led by rolling back of prices. Rural grew by 8% and urban grew by 4% in 4QFY24 for Dabur. Dabur expects rural recovery to continue after multiple years of subdued growth. It would be benefitted from the same since it has deeper rural penetration now.
- **Outlook**: Dabur expects to grow its topline in the low double digits primarily led by high single digit volume growth and 2-3% pricing growth.

- **Gross Margin**: Gross margins should improve in the mid to long term led by cost optimization measures. Savings in gross margins to be utilized in media spends.
- **EBITDA Margin**: Adjusted for legal cost, EBITDA margin for FY24 would have been around 20.4%. In FY25, Dabur would aim for ~20% EBITDA margin. Currently, margins are aided by Healthcare business (higher margin business).
- **Legs of growth**: Dabur to have two legs of growth, Premiumization and Distribution. Premiumization leg would be driven by e-commerce and MT channels while distribution would be aided deepening of rural penetration.
- **Power brand strategy**: The growth in Power brands have been lower than the overall average growth of the company. The company plans to launch new products in each of its Power brands to achieve long term growth.
- **Distribution**: The rural coverage expanded from 100,000 to 122,000 villages in FY24 which is highest in the industry. The direct reach of the company now stands at ~1.42mn outlets with a total reach of ~7.9mn outlets. Dabur now also has 21.5k Yoddhas. E-commerce and Modern trade channels recorded the fastest growth. E-commerce channel share is now 9-10%.
- **Pricing**: The pricing growth will primarily be driven by hikes in Healthcare and HPC portfolio (3-4%) resulting in weighted average pricing growth of ~3% for FY25.
- **Competition**: Gross Margins are similar to the competitors in all the categories where Dabur is present. The management has hired consultants to improve the efficiencies in the operations. Due to lower scale of categories in comparison to its competition, the company has higher overheads.
- **Beverages**: Muted performance due to high base and unseasonal rains in this fiscal. There were supply chain problems too. DABUR is confident to achieve double digit growth for FY25. The company is seeing competitive intensity in this category from unorganized players.
- **Oral care**: The category is growing ahead (at 7-7.5%) compared to FMCG growth of 6-6.5% despite higher penetration. Toothpaste gel clocked Rs400mn topline in FY24. The growth is led by robust demand in South Indian markets. Brands like Colgate and Himalaya looks to have lost volume market share while Dabur and GSK have gained. Competition from unorganized players in this category is limited. DABUR is now 2nd largest player in this category. In Oral care, Dabur has already become no. 1 player in Orissa, Karnataka and AP markets.
- **Home & Personal care (HPC)**: Registered double-digit growth in Odomos. The company launched Odomos in LVP format which is gaining traction. There was significant market share gain of 600bps and 260bps in Odomos and Odonil.
- **Health Supplements**: While there was a market share gain in Chyawanprash and Dabur Glucose, the category was affected by delayed and skewed winter which led to limited up-stocking and now is facing down-stocking. Trying to modernize the format (capsule, power, gummies, et.) for Chyawanprash to make it more relevant.
- **Badshah**: Dabur is complying with domestic regulator 'FSSAI'. In the International business, the company said the content of ethylene oxide is within the permissible limits and it is on the safer side compared to peers. The management said that it sees limited upside due to the issue and it does not open any opportunity for their spice portfolio. Badshah witnessed over 20% growth last year, driven partly by price adjustments and partly by increased volume. Some roll back of pricing already initiated to stimulate volume growth as deflation has started in the spice market. Growth expectation is ~20% on the back of distribution expansion. Margins for this category to expand in FY25.
- **Hair Oil**: Dabur believes it has a right to win in Indulekha and margins are higher than overall company's margins. Despite negative growth, the company has gained market share by 115bps.

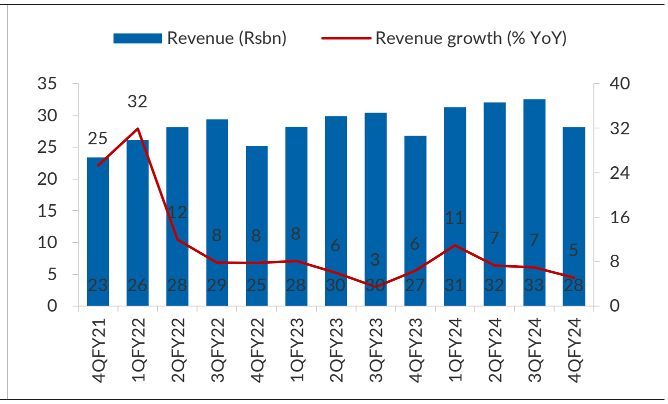
- **Digestives**: The management plans to extend Hajmola brand in other white spaces where unorganized players are dominant.
- **Namaste India**: The legal cost with respect to Namaste India to be Rs800-900mn in FY25 which would be evenly spread throughout the quarters. The management said that the company is well provided for this contingent liability. Legal proceeding regarding Namaste is expected to continue for 1-1.5 years.
- **Saliency of 4Q** has gone down from 25% five years ago (pre-Covid) to 22-23% currently primarily because of weak winter portfolio demand and subdued performance of beverages. This has led to operating deleverage and hence have impacted margin profile for the 4th quarter. Additionally, earlier A&SP used to be the least in 4Q but this has increased in recent years. However, the company is doing new launches in Power brands to address the situation.
- **International business** seen robust growth of 12% (cc terms) led by strong performance in countries like Turkey and Egypt. Currency devaluation impacted international INR revenue growth.
- **Others**: Premium portfolio contribution is now ~18%. New Product Development (NPD) contribution is 3.5% to the overall portfolio. Dabur had a joint business planning with Reliance and Zepto to address the gaps in the market. Consumer activism not to impact the margins since the consumers would be willing to pay the premium.

Exhibit 3: Dabur witnessed 4.2% domestic FMCG volume growth this quarter



Source: Company, YES Sec

Exhibit 4: Consol. revenues grew 5.1% YoY (CC growth of 7.3% YoY)



Source: Company, YES Sec

Exhibit 5: Gross margin was flat QoQ at 48.6%

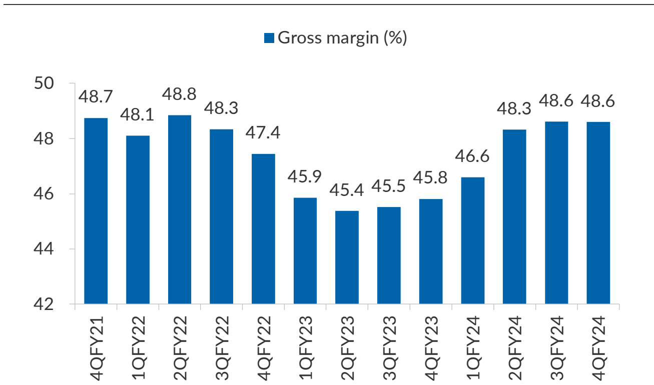
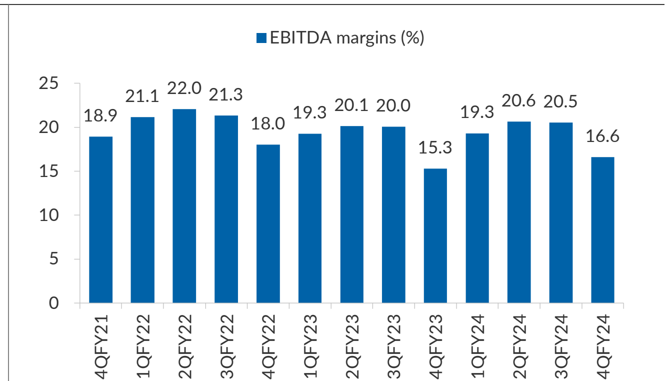


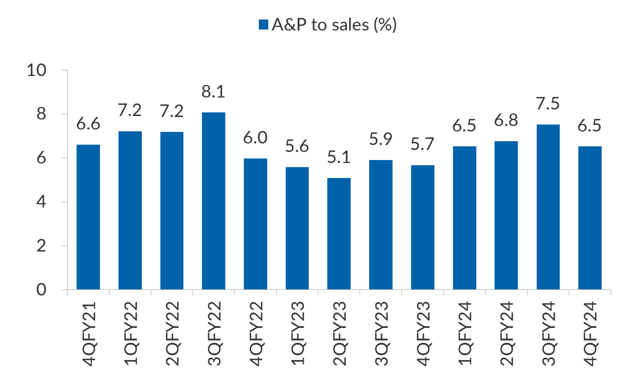
Exhibit 6: EBITDA margin was up 130bps YoY to 16.6%



Source: Company, YES Sec

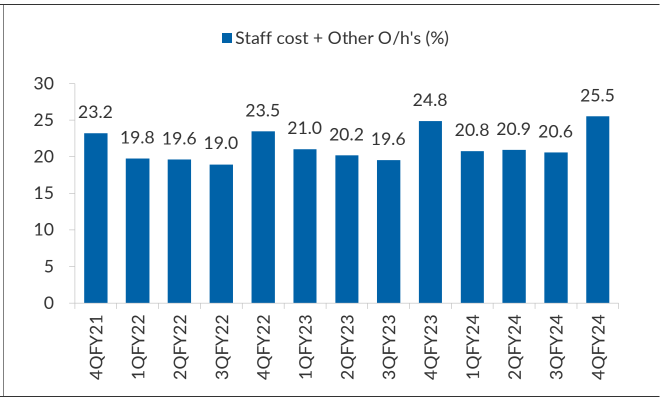
Source: Company, YES Sec

Exhibit 7: As Consol. A&P spends went up 90bps YoY (up 21.1% on absolute basis)



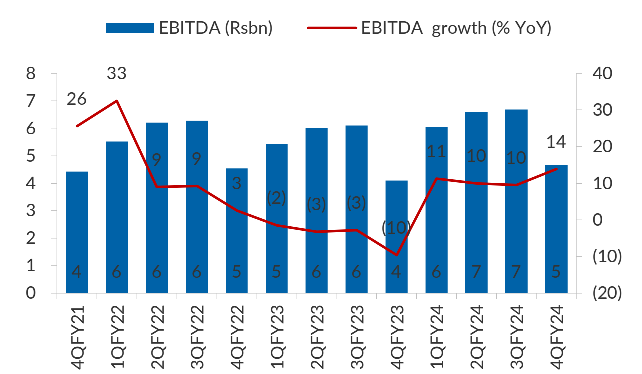
Source: Company, YES Sec

Exhibit 8: Other operating expenses were up 60bps YoY



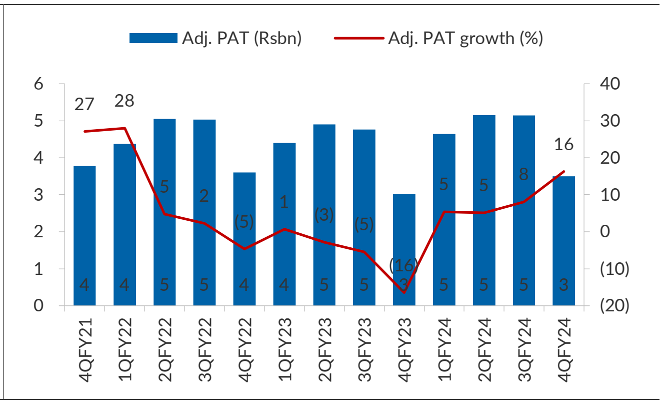
Source: Company, YES Sec

Exhibit 9: EBITDA was up 13.9% YoY; Like to like (ex-legal cost for Namaste) operating profit growth stood at ~16%



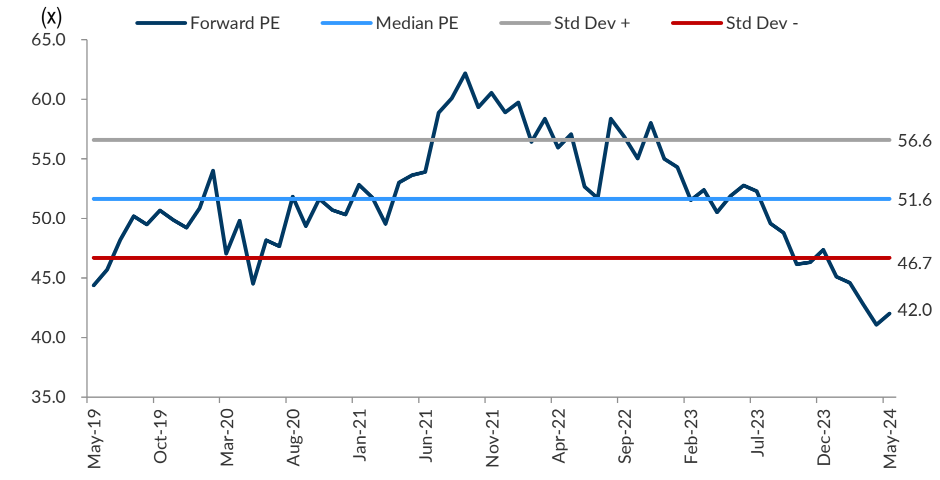
Source: Company, YES Sec

Exhibit 10: APAT was up 16.2% YoY; LTL (ex-Legal cost) PAT growth stood at 22.7% YoY



Source: Company, YES Sec

Exhibit 11: Currently trading at ~42x 1-yr forward earnings



Source: Company, YES Sec

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Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	1,768	1,772	1,772	1,772	1,772
Reserves	82,451	92,643	101,259	113,516	121,831
Net worth	84,219	94,414	103,031	115,288	123,603
Deferred tax liability	816	889	1,027	1,027	1,027
Total liabilities	**95,107**	**106,737**	**117,341**	**125,599**	**131,914**
Gross block	37,901	51,778	58,367	61,867	63,867
Depreciation	17,334	20,044	24,036	28,305	32,768
Net block	23,079	35,787	38,381	37,613	35,150
Capital work-in-progress	1,675	1,751	2,091	2,300	2,530
Investments	62,196	62,653	69,987	73,486	77,160
Inventories	19,114	20,242	19,470	19,676	21,061
Debtors	6,462	8,488	8,987	10,081	11,072
Cash	5,701	3,259	6,664	3,553	7,673
Loans & advances	595	594	633	760	912
Other current assets	4,017	3,750	5,611	5,891	6,186
Total current assets	35,888	36,332	41,364	39,961	46,904
Creditors	20,180	21,866	24,217	24,391	26,303
Other current liabilities & provisions	7,552	7,920	10,265	3,370	3,527
Total current liabilities	27,732	29,786	34,482	27,761	29,830
Net current assets	8,157	6,547	6,882	12,200	17,074
Total assets	**95,107**	**106,737**	**117,341**	**125,599**	**131,914**

Source: Company, YES Sec

Exhibit 13: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	108,887	115,299	124,040	137,905	151,574
% Growth	***14.1***	***5.9***	***7.6***	***11.2***	***9.9***
COGS	56,397	62,687	64,470	70,608	76,516
Staff costs	10,800	11,370	12,396	14,022	15,442
Selling and Distribution	11,703	10,853	8,491	15,736	17,681
Other expenses	7,449	8,748	14,682	9,916	10,795
Total expenses	86,349	93,658	100,038	110,283	120,434
EBITDA	22,538	21,641	24,002	27,622	31,141
% growth	***12.5***	***(4.0)***	***10.9***	***15.1***	***12.7***
EBITDA margin (%)	*20.7*	*18.8*	*19.4*	*20.0*	*20.5*
Other income	3,932	4,454	4,824	5,379	5,666
Interest costs	386	782	1,242	1,016	746
Depreciation	2,529	3,110	3,992	4,268	4,464
Profit before tax (before exceptional items)	23,555	22,203	23,593	27,718	31,597
Exceptional items	-659	0	4	0	0
Tax	5,455	5,174	5,474	6,375	7,267
Adjusted PAT	18,051	17,072	18,427	21,651	24,638
Reported PAT	17,392	17,072	18,431	21,651	24,638

Y/E March (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PAT margin (%)	15.4	14.3	14.3	15.1	15.7
% Growth	***6.7***	***(5.9)***	***6.4***	***17.8***	***14.0***

Source: Company, YES Sec

Exhibit 14: Cash flow statement

Y/E March (Rsmn)	FY22	FY23	FY24	FY25E	FY26E
PAT	18,811	17,242	18,197	21,343	24,330
Depreciation	2,529	3,110	3,992	4,268	4,464
Other income	(2,349)	(3,867)	(3,582)	(4,364)	(4,920)
(Inc.)/dec. in working capital	(968)	(1,601)	3,069	(8,429)	(754)
Cash flow from operations	**18,023**	**14,884**	**21,676**	**12,818**	**23,120**
Capital expenditure (-)	(3,692)	(4,857)	(6,928)	(3,709)	(2,230)
Net cash after capex	**14,331**	**10,027**	**14,748**	**9,109**	**20,890**
Inc./(dec.) in investments	(17,016)	(2,117)	(2,206)	5,786	1,991
Cash from investing activities	**(20,708)**	**(6,974)**	**(9,134)**	**2,077**	**(239)**
Dividends paid (-)	(9,723)	(9,213)	(9,746)	(12,991)	(16,015)
Inc./(dec.) in total borrowings	5,152	233	1,850	(4,000)	(2,000)
Others	(334)	(1,372)	(1,242)	(1,016)	(746)
Cash from financial activities	**(4,905)**	**(10,352)**	**(9,138)**	**(18,006)**	**(18,760)**
Opening cash balance	13,291	5,701	3,259	6,663	3,552
Closing cash balance	5,701	3,259	6,663	3,552	7,673
Change in cash balance	(7,589)	(2,442)	3,404	(3,111)	4,120

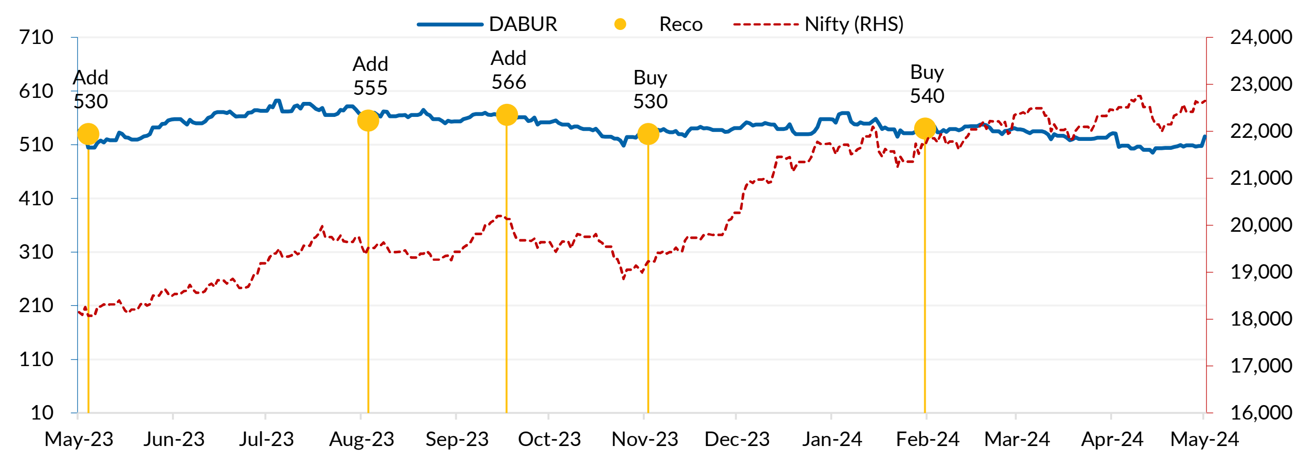
Exhibit 15: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Per share (Rs)					
EPS	10.2	9.6	10.4	12.2	13.9
Book value	47.5	53.3	58.1	65.1	69.8
DPS	5.2	5.2	5.5	7.3	9.0
Valuation (x)					
EV/sales	8.0	7.6	7.0	6.3	5.6
EV/EBITDA	38.6	40.5	36.1	31.2	27.4
P/E	51.4	54.5	50.5	43.0	37.8
P/BV	11.1	10.4	9.4	8.4	7.8
Return ratios (%)					
RoCE	27.2	23.0	22.4	23.9	25.3
RoE	22.5	19.7	19.6	20.6	21.3
ROIC	79.7	58.9	52.8	56.4	60.1
Profitability ratios (%)					
Gross margin	48.2	45.6	48.0	48.8	49.5
EBITDA margin	20.7	18.8	19.4	20.0	20.5
PAT margin	15.4	14.3	14.3	15.1	15.7
Liquidity ratios (%)					
Current ratio	1.3	1.2	1.2	1.4	1.6
Quick ratio	0.6	0.5	0.6	0.7	0.9
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1

Y/E March	FY22	FY23	FY24	FY25E	FY26E
Turnover ratios					
Total asset turnover ratio (x)	1.1	1.1	1.1	1.1	1.1
Fixed asset turnover ratio (x)	5.3	3.6	3.6	4.1	4.9
Debtor days	20	24	26	25	25
Inventory days	118	115	112	101	97
Creditor days	127	122	130	126	121

Source: Company, YES Sec; * pre-tax

Recommendation Tracker



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