Stock Update

Dabur India Ltd.

June 03, 2022

RETAILRESEARCH

Dabur India Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
FMCG	Rs. 521.7	Buy in Rs 517-523 band and add more on dips to Rs 467-474 band	Rs. 566	Rs. 605	2 quarters

HDFC Scrip Code	DABIND
BSE Code	500096
NSE Code	DABUR
Bloomberg	DABUR:IN
CMP - Jun 02, 2022	521.7
Equity Capital (Rs Cr)	176
Face Value (Rs)	1
Equity Share O/S (Cr)	176
Market Cap (Rs Cr)	92231
Book Value (Rs)	47.4
Avg. 52 Wk Volumes	2153557
52 Week High	658.8
52 Week Low	488.4

Share holding Pattern % (Mar, 2022)	
Promoters	67.38
Institutions	24.26
Non Institutions	8.36
Total	100.0

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

Founded in 1884 in Bengal by Dr. SK Burman to mass produce and dispense Ayurvedic medicines for diseases such as cholera, malaria and plague, Dabur India Ltd. (Dabur), the world's largest Ayurvedic and natural healthcare company, has come full circle in the pandemic year of 2020-21. Turning opportunity into crisis, Dabur came out firing on all cylinders, bolstering its time tested Ayurveda portfolio by introducing a slew of products in formats as varied as powders to capsules.

Over the past few years, Ayurveda has gained currency with the new-age consumers seeking traditional remedies for their health and personal care needs. The demand for Ayurvedic Healthcare products, particularly in preventive healthcare and immunity building witnessed a surge in the wake of the Covid-19 pandemic. While many companies have joined the immunity bandwagon, Dabur, with its 136-year-old heritage, traditional herbal positioning, and strong R&D, claims the 'right to win' here.

Besides healthcare, Dabur has strong positioning in various categories including fruit juices (#1), oral care and hair care (#2), all of which have natural/Ayurveda at its heart. Dabur is a unique play on fast-growing Ayurveda sector. Dabur's positioning as world leader in Ayurveda/Herbal products, renowned portfolio of brands, demonstrated ability to create new categories and sub-categories further backed by superior distribution network makes it well placed to capture lifestyle changes-led growth in the consumer goods space, while giving it an edge over competitors.

Valuation & Recommendation:

Dabur's revenue and EBITDA margin in Q4FY22 were marginally below expectations owing to lower than expected sales growth in Home Care segments while EBITDA margins declined by 90bps to 18%, as 130/60bps increase in raw material /other exp. was partially offset by 40/60bps decrease in employee/Ad spends respectively. Further, the company's revenue growth was impacted by the slowdown in rural demand. While the rural overhang will continue in H1FY23, with good monsoon predictions, rural demand can improve in H2FY23. Health supplement/OTC products are on a high base and missing COVID-driven health-oriented consumption. Consumer-centric innovation, investments behind the power brands, network expansion (especially in the rural market) and sustained market share gains in key categories would help the company to drive company's growth medium term.

The company undertook calibrated price hikes across its products to mitigate the impact of higher input prices. Dabur is amongst the best companies to manage its margins in high inflation environment, given its diversified product, raw material portfolio, and the limited sensitivity of RM vs. peers. Higher pricing power across its portfolio is only being strengthened by continued market share gains in 99% of its portfolio. Thereby, we do not expect a material impact on EBITDA margin in FY23 (high base of other expenses and cut-down in A&P could support). Thus, pertaining to above factors and as highlighted in our initiating coverage report (Link) on the company, Dabur remains amongst our preferred picks in FMCG space.

We think the base case fair value of the stock is Rs 566 (44.5x FY24E EPS) and the bull case fair value of is Rs 605 (47.5x FY24E EPS). Investors can buy the in stock Rs 517-523 band (41x FY24E EPS) and add more on dips in Rs 467-474 (41x FY24E EPS) band.

Financial Summary

Particulars (Rs Cr)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY20	FY21	FY22	FY23E	FY24E
Operating Income	2517.8	2336.8	8%	2941.8	-14%	8,685	9,562	10,889	11,773	12,838
EBITDA	453.6	442.5	3%	627.5	-28%	1,792	2,018	2,254	2,412	2,761
APAT	358.1	377.8	-5%	503.3	-29%	1,525	1,693	1,739	1,963	2,249
Diluted EPS (Rs)	2.0	2.1	-5%	2.8	-29%	8.6	9.6	9.8	11.1	12.7
RoE-%						24.9	23.7	21.7	22.1	22.6
P/E (x)						60.4	54.4	53.0	47.0	41.0
EV/EBITDA						50.5	43.6	38.7	35.9	31.1

(Source: Company, HDFC sec)

Q4FY22 Result Update

Dabur's net revenue grew by 8% YoY (vs +25% in Q4FY21 and +8% in Q3FY22), impacted by the slowdown in rural demand. Home & Personal care (HPC) posted 2% YoY growth, with two-year CAGR at 17%. Health supplement posted 7% YoY growth, with two-year CAGR at 15%. F&B posted 33% YoY growth, with two-year CAGR at 31%. On a three-year CAGR, F&B, oral care, health supplement, OTC, home care and hair care clocked 11/7/5/5/4/1%.

Gross margins contracted by 130bps YoY (vs -35bps in Q4FY21 and -205bps in Q3FY22) to 47.4%. Employee/other expenses grew by 4/14% YoY (17/17% in Q4FY21) while A&P spends were down 3% YoY. EBITDA margin contracted by 92bps YoY (+5bps in Q4FY21 and +29bps in Q3FY22) to 18%. Reported PAT decreased by 21.8% YoY which includes an exceptional item - an impairment of goodwill in respect of Hobi Kozmetic, Turkey, amounting to Rs. 85 crore provided due to steep devaluation in Turkish currency over the past one year.

Key business highlights:

Health Supplements

Health supplements segment recorded 9.7% YoY growth (2-year CAGR at 13.6%) led by double digit growth in Dabur Honey and Glucose-D.

Market share in Chyawanprash category increased by ~250 bps while in honey category, it increased by ~300 bps

Digestives and OTC & Ethicals

Digestives portfolio saw muted growth (1.2% YoY) on account of the localized lockdowns due to Omicron Covid wave.

The growth in OTC & Ethicals (7.5% YoY) was driven by good growth in Honitus and Health Juices.

Oral Care

Oral care segment recorded 1.1 % growth vs. 2 year CAGR at 19.9%.

While the toothpaste market recorded a 5% decline, Dabur's toothpaste portfolio recorded 2.1% growth driven by good growth in Meswak, Dabur Red and Dabur Herb'l. This helped company to increase toothpaste market share by ~20 bps.

Haircare

While category is seeing volume declines to the tune of ~7%, Dabur's hair oils portfolio recorded 2.6% growth on a high base of 24.6%.

Both perfumed oils and coco oils portfolios saw increases in market share as the market share for hair oils portfolio improved by ~70 bps.

Shampoos portfolio continued on strong growth trajectory, growing at 5.6% despite a high base of 33.4% growth.

Foods and Beverages (F&B)

The F&B segment reported robust y-o-y and two-year CAGR growth of 33.5% and 30.5%, respectively. The beverages portfolio reported robust y-o-y growth of 35% and 2-year CAGR growth of 31% led by strong momentum across both in-home and out-of-home categories.

Market share of Real increased by ~610 bps as company grabbed market share from unorganised as well as from the organised players due to its widened offering in juices and nectars category.

Drinks and milkshakes added to the total addressable market expansion and are seeing good traction.

For the year, the Foods portfolio crossed Rs 100 Cr in gross sales levels. Hommade brand continued to perform well driven by innovation and portfolio expansion.

The edible oil portfolio was expanded by adding Cold Pressed Groundnut and Virgin coconut oils.

International Business
International Business recorded a constant currency growth of 10.7%.

The Sub-Sahara business saw a 25% growth. Egypt grew by 12% and Namaste business clogged a robust double-digit growth.

Turkey business was impacted by steep currency devaluation but saw 47% growth in constant currency terms.

Other key highlights:
With penetration levels of honey and Chyawanprash expected to improve in the coming years, health supplement business is expected to post steady growth in the coming years (revenues stood flat in FY22). However with other segments such as F&B and HPC expected to post strong growth, the contribution of HC segment is expected to stabilise at 30% in the medium term.

Dabur's direct reach has expanded to 1.3 million outlets across India. It has invested in expanding its rural coverage, which currently stands at 90,000 villages (added 30,000 villages in FY22).

Innovation continued to be the cornerstone of its strategy, and the new launches contributed around 5% of revenues.

E-commerce channel currently contributes 6-7% of total revenues. The management aims to increase the contribution to ~20% in next 4-5 years driven by higher advertisement and promotional spends on digital platforms, and launch of e-commerce exclusive products

With high cash balance (~Rs 6,000 Cr), Dabur is scouting for acquisitions and is open to inorganic as well as organic route if it's a right fit.

Key risks

Inflation in input costs – It is exposed to commodity price fluctuations in a wide range of materials which are drawn from the agriculture and petroleum value chains. Dabur executed ~5.6% price increases to negate ~12.5% inflation in raw material and expected to be around 7-8% for next year too; so company is to take price increases accordingly as situation unfolds. Sustained rise in input costs or inability to pass the costs going ahead may affect profitability in near term.

Rise in competitive intensity - The domestic FMCG business continues to witness intense competition with multiple established players, including some large multinational players as well as domestic companies. There have been increased activities by FMCG companies in the ayurvedic and herbal segment in the last few years. With increased marketing and promotion, awareness among consumers towards natural and herbal products is likely to have improved, leading to expansion of the market segment. Nevertheless, Dabur being an established player with a sizeable market share had faced competitive pressure in the past and remains exposed to risks of heightened competition.

Exchange Rate Fluctuations - Being a transnational enterprise, it is exposed to risks from fluctuations in exchange rates and economy related risks in the respective geographies. However, the company does take appropriate measures to hedge its overall forex exposure.

About the company

Dabur was established by Dr S K Burman in 1884 in Kolkata. Incorporated in 1936, the company operates in key consumer product categories like Hair Care, Oral Care, Health Care, Skin Care, Home Care and Foods. Dabur marries age-old traditional wisdom with modern-day Science to develop products for consumers across generations and geographies. Dabur's FMCG portfolio today includes 8 Power Brands with distinct brand identities -- Dabur Chyawanprash, Dabur Honey, Dabur PudinHara, Dabur Lal Tail and Dabur Honitus in the Healthcare space; Dabur Amla and Dabur Red Paste in the Personal Care category; and Réal in the Food & Beverages category. In addition, Vatika is an International Power Brand. Dabur offers products in over 100 countries across the globe and has manufacturing facilities at 20 locations—12 in India and one each in the UAE, South Africa, Sri Lanka, Egypt, Turkey, Nigeria, Nepal and Bangladesh. The company has built a strong distribution network of over 6.9 million retail outlets in India as of March 2021.

Financials

Income Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Net Revenues	**8515**	**8685**	**9562**	**10889**	**11773**	**12838**
Growth (%)	***10.3***	***2.0***	***10.1***	***13.9***	***8.1***	***9.1***
Operating Expenses	6775	6892	7544	8635	9360	10078
EBITDA	**1740**	**1792**	**2018**	**2254**	**2412**	**2761**
Growth (%)	***7.5***	***3.0***	***12.6***	***11.7***	***7.0***	***14.4***
EBITDA Margin (%)	***20.4***	***20.6***	***21.1***	***20.7***	***20.5***	***21.5***
Depreciation	177	220	240	253	267	285
Other Income	296	305	325	393	442	491
EBIT	**1563**	**1572**	**1778**	**2001**	**2145**	**2476**
Interest expenses	60	50	31	39	33	21
PBT	**1724**	**1728**	**2072**	**2270**	**2555**	**2946**
Tax	279	280	361	526	588	692
Adj. PAT	**1444**	**1525**	**1693**	**1739**	**1963**	**2249**
Growth (%)	***5.7***	***5.7***	***11.0***	***2.7***	***12.8***	***14.6***
EPS	8.2	8.6	9.6	9.8	11.1	12.7

Balance Sheet

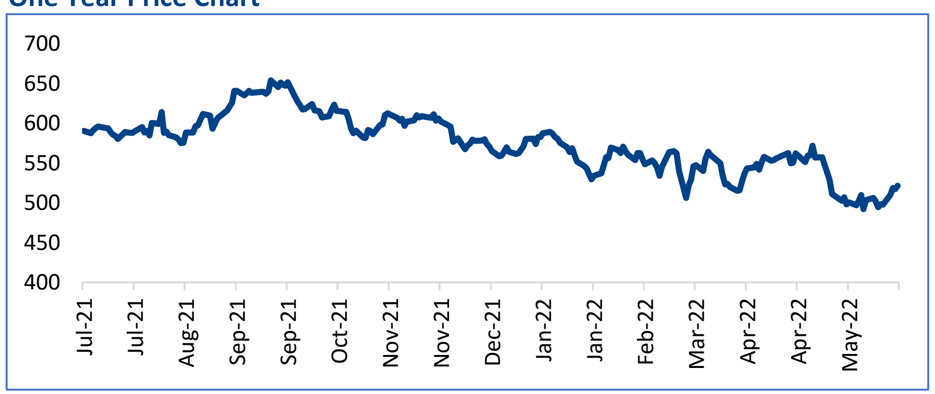
Particulars (Rs Cr) - As at March	FY19	FY20	FY21	FY22	FY23E	FY24E
SOURCE OF FUNDS						
Share Capital	177	177	177	177	177	177
Reserves	5455	6429	7487	8205	9239	10294
Shareholders' Funds	**5632**	**6606**	**7664**	**8381**	**9416**	**10471**
Minority Interest	31	36	37	41	36	31
Total Debt	529	472	485	1007	987	967
Net Deferred Taxes	23	-5	-75	82	82	82
Other non-current liablities	60	63	63	64	70	77
Total Sources of Funds	**6275**	**7172**	**8173**	**9574**	**10590**	**11628**
APPLICATION OF FUNDS						
Net Block & Goodwill	1633	1917	1907	2057	2041	2036
CWIP	81	171	170	168	168	168
Other Non-Curr. Assets	167	619	227	127	139	153
Total Non-Current Assets	**1881**	**2707**	**2304**	**2351**	**2348**	**2357**
Inventories	1301	1380	1734	1911	2178	2327
Debtors	834	814	562	646	699	762
Cash & Equivalents	3687	3612	5477	6790	7762	8806
Other Current Assets	399	484	404	334	359	385
Total Current Assets	**6220**	**6289**	**8177**	**9682**	**10998**	**12279**
Creditors	1981	1947	2313	2388	2675	2917
Other Current Liab & Provisions	181	212	272	321	332	342
Total Current Liabilities	**2162**	**2160**	**2585**	**2710**	**3006**	**3259**
Net Current Assets	4058	4130	5592	6972	7991	9020
Total Application of Funds	**6275**	**7172**	**8173**	**9574**	**10590**	**11628**

Dabur India Ltd.

Cash Flow Statement

Particulars (Rs Cr)	FY19	FY20	FY21	FY22	FY23E	FY24E
Reported PBT	1,725	1,728	2,072	2,270	2,555	2,946
Non-operating & EO items	166	233	-325	-389	-447	-496
Interest Expenses	-200	-200	31	39	33	21
Depreciation	177	220	240	253	267	285
Working Capital Change	-18	-58	798	55	-53	9
Tax Paid	-351	-309	-361	-526	-588	-692
OPERATING CASH FLOW (a)	**1,499**	**1,614**	**2,455**	**1,702**	**1,767**	**2,072**
Capex	-225	-400	-28	-493	-300	-280
Free Cash Flow	1,274	1,213	2,427	1,209	1,467	1,792
Investments	317	-365	-1,348	-2,062	-250	-250
Non-operating income	244	248	325	393	442	491
INVESTING CASH FLOW (b)	**337**	**-517**	**-1,051**	**-2,161**	**-108**	**-39**
Debt Issuance / (Repaid)	-240	-358	13	523	-20	-20
Interest Expenses	-52	-29	-31	-39	-33	-21
FCFE	2,128	1,483	1,422	-943	1,711	2,074
Share Capital Issuance	0	0	-44	-93	0	0
Dividend	-1,597	-618	-592	-928	-928	-1,193
FINANCING CASH FLOW (c)	**-1,888**	**-1,043**	**-654**	**-538**	**-981**	**-1,234**
NET CASH FLOW (a+b+c)	**-52**	**54**	**751**	**-997**	**678**	**799**

One Year Price Chart



Key Ratios

Particulars	FY19	FY20	FY21	FY22	FY23E	FY24E
Profitability Ratios (%)						
EBITDA Margin	20.4	20.6	21.1	20.7	20.5	21.5
EBIT Margin	18.4	18.1	18.6	18.4	18.2	19.3
APAT Margin	17.0	17.6	17.7	16.0	16.7	17.5
RoE	25.5	24.9	23.7	21.7	22.1	22.6
RoCE	23.1	23.5	22.4	20.0	19.9	20.6
Solvency Ratio (x)						
Net Debt/EBITDA	-1.8	-1.8	-2.5	-2.6	-2.8	-2.8
Net D/E	-0.6	-0.5	-0.7	-0.7	-0.7	-0.7
PER SHARE DATA (Rs)						
EPS	8.2	8.6	9.6	9.8	11.1	12.7
CEPS	9.2	9.9	10.9	11.3	12.6	14.3
BV	31.9	37.4	43.4	47.4	53.3	59.2
Dividend	4.0	4.5	4.8	4.8	6.3	7.8
Turnover Ratios (days)						
Debtor days	35.7	34.2	21.4	21.7	21.7	21.7
Inventory days	55.7	58.0	66.2	64.1	67.5	66.1
Creditors days	84.9	81.8	88.3	80.1	82.9	82.9
VALUATION						
P/E	63.8	60.4	54.4	53.0	47.0	41.0
P/BV	16.4	14.0	12.0	11.0	9.8	8.8
EV/EBITDA	51.6	50.5	43.6	38.7	35.9	31.1
EV / Revenues	10.7	10.5	9.2	8.0	7.4	6.7
Dividend Yield (%)	0.8	0.9	0.9	0.9	1.2	1.5

(Source: Company, HDFC sec)

HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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