



TM

## Dabur

03 August 2021

## Volumes surprise positively; valuation caps upside

## RESULT UPDATE

Sector: FMCG Rating: HOLD

CMP: Rs 614 Target Price: Rs 585

## Stock Info

Sensex/Nifty 53,823/ 16,130

Bloomberg DABUR IN

Equity shares (mn) 1,767

52-wk High/Low Rs 619/472

Face value Rs 1

M-Cap Rs1,085bn/USD 14.7bn

3-m Avg volume USD 26.8mn

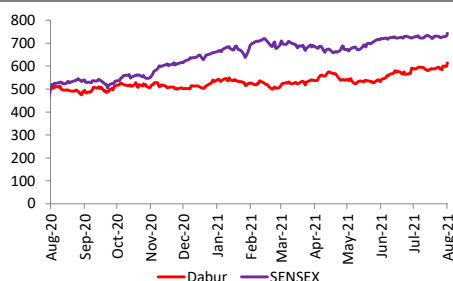
## Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Sales	95,617	108,769	121,551
PAT	16,960	18,800	21,848
EPS (Rs)	9.6	10.6	12.4
PE (x)	64.0	57.7	49.7
EV/EBITDA (x)	46.9	40.5	35.1
P/BV (x)	14.2	12.5	11.0
EV/Sales	9.8	8.6	7.6
RoE (%)	23.8	23.0	23.6
RoCE (%)	27.1	28.0	29.1
NWC (days)	15	18	18
Net gearing (x)	(0.1)	(0.2)	(0.3)

## Shareholding Pattern (%)

	Jun 21	Mar 21	Dec 20
Promoter	67.4	67.4	67.9
-Pledged	-	-	-
FII	20.6	19.8	18.5
DII	4.7	5.3	5.9
Others	7.4	7.5	7.7

## Stock Performance (1-year)



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Dabur reported an all-round beat in 1QFY22. Domestic revenues grew 35.4% YoY, driven by volume growth of 34.4% vs. consensus and our estimate of 18% YoY growth. Its 2-year CQGR was also impressive at 10.2%. The outperformance was led by a recovery in Foods and Home & Personal care (HPC) segments although on a favourable base and stable healthcare division growth. It continued to gain market share across key categories through its innovation-led strategy and increased distribution. Gross margin contracted 131bps YoY but EBITDA margin expanded 10bps YoY to 21.1% (vs. our estimates of 20.3%).

The management's focus on power brands (9 brands that account for ~70% of total sales), product innovation (~5-6% contribution to sales), growing distribution reach (in rural areas; direct reach of 1.3mn) and reorientation of marketing strategy should continue to yield positive results. The company's decision to expand its foods & beverage portfolio has increased the addressable market opportunity from Rs 18bn to ~Rs 80bn; this along with new product launches (targets contribution of 8-10% to sales) should aid growth. It expects rural (~45% of domestic revenues) growth rates to outperform urban, leading to market share led growth. The international business (~25.6% of total sales) is expected to deliver double-digit growth in FY22. The management expects to maintain, if not improve, EBITDA margins in FY22. However, growth moderation in its healthcare division (~39% of FY21 domestic revenues) - a key growth driver in FY21 (up 31.9% YoY) - due to subsiding COVID tailwinds and increasing competition remains a key concern. We increase our EPS estimates by 0.5-0.6% for FY22-23E and target P/E to 47x from 45x to factor in better growth visibility. Consequently, our target price is revised to Rs 585 from Rs 560; however, the current valuation leaves no margin of safety. We therefore reiterate HOLD and recommend waiting for a better entry point.

**1Q surprises positively:** Dabur's consolidated revenues grew 31.9% YoY led by domestic volume growth of 34.4.3% YoY (vs. estimate of 18% YoY). On a QoQ basis as well, revenues grew 11.8% despite the impact of the 2<sup>nd</sup> COVID wave. In the domestic business, Home and Personal care (HPC - 45.1% of 1QFY22 domestic sales) and Foods and Beverages (F&B - 19.2% of 1QFY22 domestic sales) witnessed recovery with sales growth of 26.1% YoY (on a base of -14.1% YoY) and 80.4% YoY (on a base of -34.5% YoY), respectively. The Healthcare division (35.7% of 1QFY22 domestic sales) grew 30% YoY (on a base of 27.7% YoY). Healthcare revenues on a 2-year CQGR basis improved from 3.6% in 4QFY21 to 28.8% in 1QFY22. International business revenues grew 28.2% YoY (on a base of -21.7% YoY). Consolidated gross margin contracted 131bps YoY to 48.1% due to 9-10% inflation in raw material costs. EBITDA margin, however, expanded 10bps YoY to 20.1% led by price increases (3%), cost savings (Rs 200mn for the quarter), reduction in trade margins and promotional offers. Reported PAT grew 28.4% YoY.

**Recovery in HPC and Foods division offsets moderation in healthcare revenue:** In the healthcare division, revenues from health supplements (~60% of healthcare revenues) moderated to 24.5% YoY on a high base of 52.2% YoY; however, recovery in the HPC and Foods division offset the impact. In the HPC division, oral care/hair oils revenues grew 21.1%/38.4% YoY while Shampoo/Home care revenues grew 41.3%/30.6% YoY. The recovery in this segment was led by market share gains. As per management, Dabur gained a market share of 100bps YoY in oral care to 16.6%

and expects to become a No. 2 player in the category by the end of FY22. In hair oils as well, it gained 160bps YoY market share to 16-17% with a 60bps YoY gain in coconut hair oil. In foods, beverages grew 85% YoY (on a base of 34.5% YoY) while foods grew 17.8% YoY led by the increase in-home consumption. By launching low SKUs (Rs 10 and Rs 20), PET bottles and entering the fruit drinks market, Dabur has expanded its addressable market size from Rs 18bn to Rs 80bn. New products contributed to 8-10% of the foods division revenues and to 5-6% of the company's overall revenues.

**Maintains double-digit growth guidance with stable EBITDA margins:** The management has maintained its guidance of double-digit growth backed by a recovery in the HPC and F&B divisions, while growth in the healthcare division is likely to be muted due to a high base. It expects international businesses to deliver double-digit growth rates. It has initiated a price hike of 3% and might take calibrated price increases in 2H to mitigate the impact of raw material inflation. The company expects cost savings of Rs 1bn in FY22 (Rs 0.5bn in FY21) through its Samriddhi project. It plans to invest the benefits of cost-savings in ad spends to support power brands and new products while maintaining stable EBITDA margins in FY22 on a YoY basis. It plans to expand its direct coverage to 1.4mn outlets in FY22 from 1.3mn currently and increase the rural village coverage from 69,000 to 80,000 over the next 2 years. The company has also set up a different sales infrastructure for its Modern trade and e-commerce channels (6-7% of domestic sales in FY21).

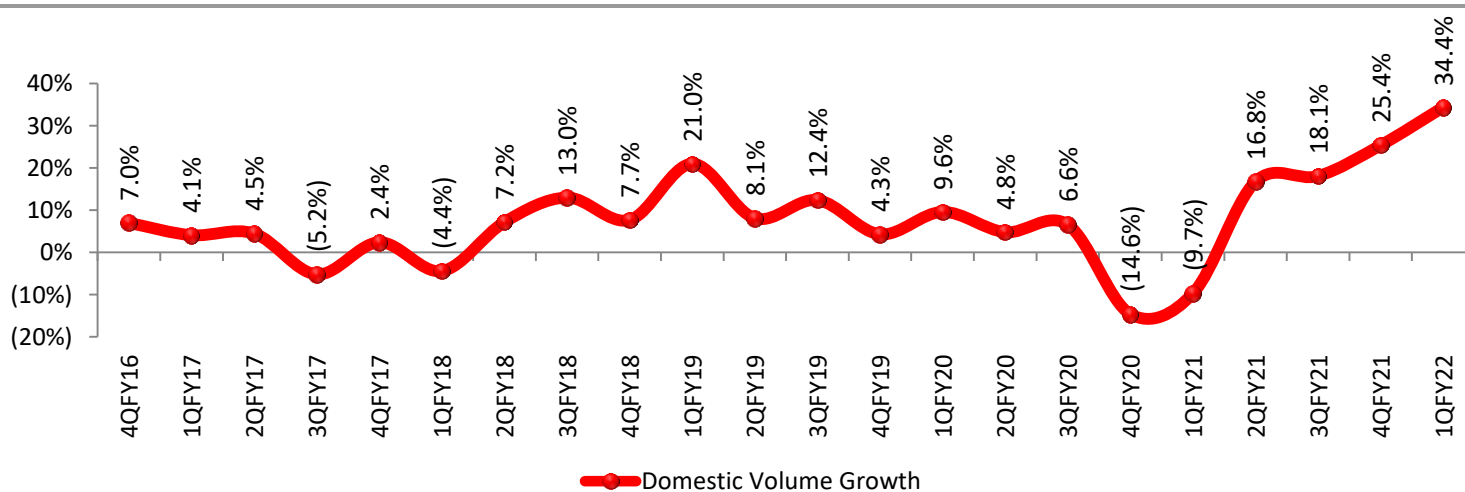
**Valuations rich; maintain HOLD:** We increase our EPS estimates by 0.5-0.6% for FY22-23. We estimate revenue CAGR of 12.7% over FY21-23E led by domestic volume/revenue CAGR of 9.6%/13.5% and a 9.7% CAGR in the international business. New products should continue to contribute 5-6% to the topline. EBITDA margin is likely to expand 60bps over FY21-23 to 21.5% in FY23 aided by cost-saving efforts. We estimate adj. PAT CAGR of 13.5% over FY21-23E. We value the company at a P/E of 47x FY23E EPS (vs. 45x earlier) given improved growth visibility. We maintain our **HOLD** rating as the valuation of 49.7x FY23E EPS remains rich.

Exhibit 1: Quarterly performance

YE March (Rs mn)	1QFY22	1QFY21	4QFY21	YoY (%)	QoQ (%)
<b>Net Revenues</b>	<b>26,115</b>	<b>19,800</b>	<b>23,368</b>	<b>31.9</b>	<b>11.8</b>
Cost of materials	11,435	7,993	9,496	43.1	20.4
(% of sales)	43.8	40.4	40.6		
Purchase of stock in trade	2,118	2,023	2,482	4.7	(14.7)
(% of sales)	8.1	10.2	10.6		
Employee cost	2,582	2,238	2,684	15.4	(3.8)
(% of sales)	9.9	11.3	11.5		
A&P	1,884	1,456	1,542	29.3	22.2
(% of sales)	7.2	7.4	6.6		
Others	2,576	1,924	2,740	33.9	(6.0)
(% of sales)	9.9	9.7	11.7		
<b>EBITDA</b>	<b>5,520</b>	<b>4,166</b>	<b>4,425</b>	<b>32.5</b>	<b>24.8</b>
<b>EBITDA margin (%)</b>	<b>21.1</b>	<b>21.0</b>	<b>18.9</b>		
Other income	848	718	850	18.2	(0.2)
<b>PBIDT</b>	<b>6,369</b>	<b>4,884</b>	<b>5,275</b>	<b>30.4</b>	<b>20.7</b>
Depreciation	613	567	666	8.1	(7.9)
Finance Cost	75	78	86	(4.2)	(13.1)
<b>PBT</b>	<b>5,681</b>	<b>4,238</b>	<b>4,522</b>	<b>34.0</b>	<b>25.6</b>
Tax	1,263	793	2,213	59.3	(42.9)
ETR (%)	22.2	18.7	48.9		
Deferred tax	33.5	32.1	(1,469.6)		
Minority interest	(5.3)	(4.8)	(5.3)		
PL of JV/associate	(0.7)	0.1	(5.9)		
<b>Adjusted PAT</b>	<b>4,388</b>	<b>3,418</b>	<b>3,778</b>	<b>28.4</b>	<b>16.1</b>
PATAMI margin	16.8	17.3	16.2		
Exceptional item	0	0	0		
<b>Reported PAT</b>	<b>4,388</b>	<b>3,418</b>	<b>3,778</b>	<b>28.4</b>	<b>16.1</b>
No. of shares (mn)	1,767	1,767	1,767		
<b>Adj EPS (Rs)</b>	<b>2.5</b>	<b>1.9</b>	<b>2.1</b>		

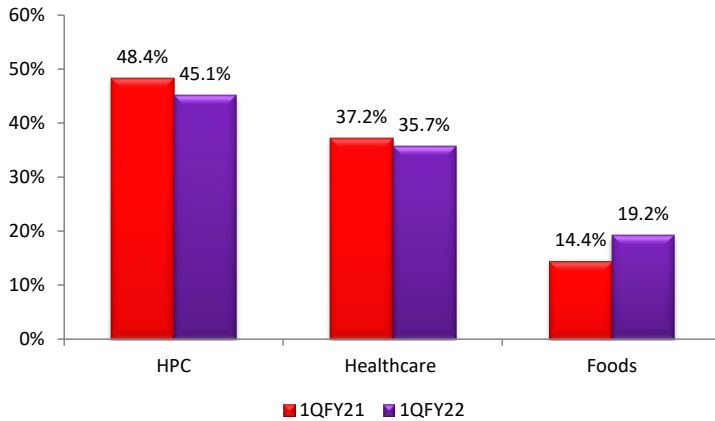
Source: Company, Systematix Institutional Research

Exhibit 2: Domestic volume growth of 34.4% YoY ahead of our estimate of 18% YoY



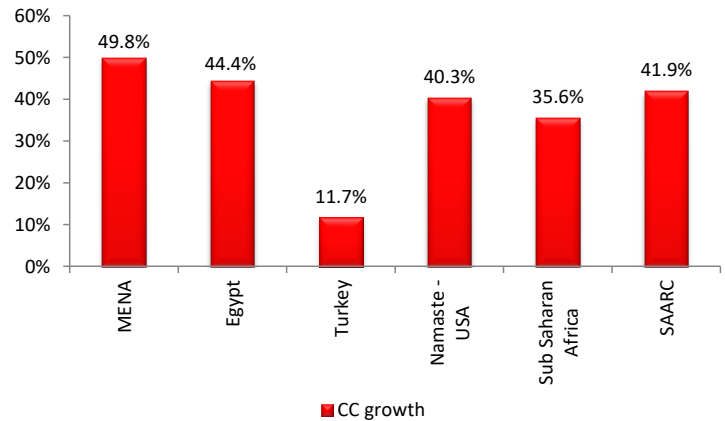
Source: Company, Systematix Institutional Research

Exhibit 3: Foods revenues outperform other two segments



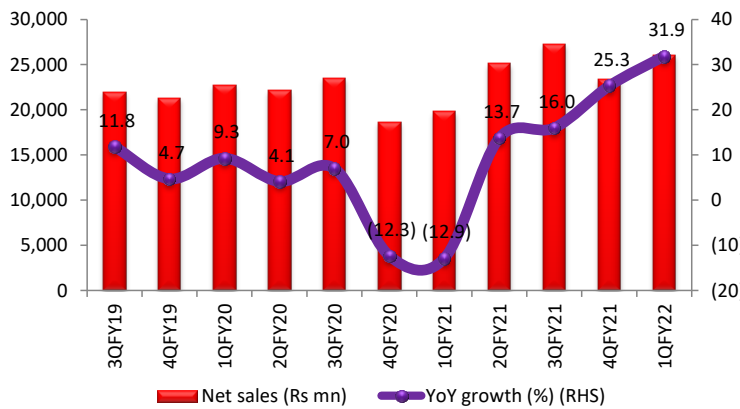
Source: Company, Systematix Institutional Research

Exhibit 4: International business grew 34.2% in CC terms in 1Q



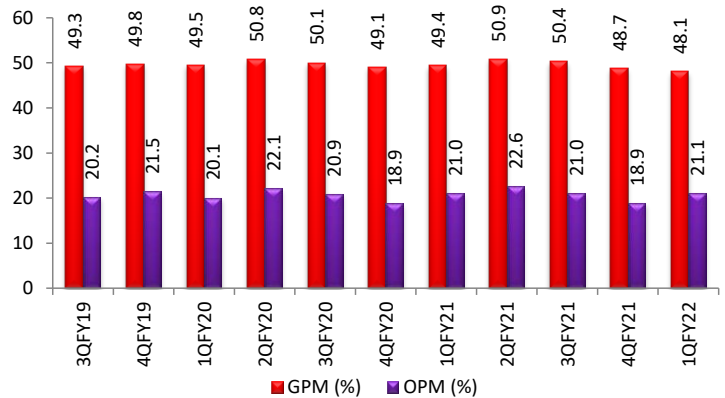
Source: Company, Systematix Institutional Research

Exhibit 5: Revenues up 31.9% YoY and 11.8% QoQ



Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA margins improve to 21.1% despite gross margin pressure



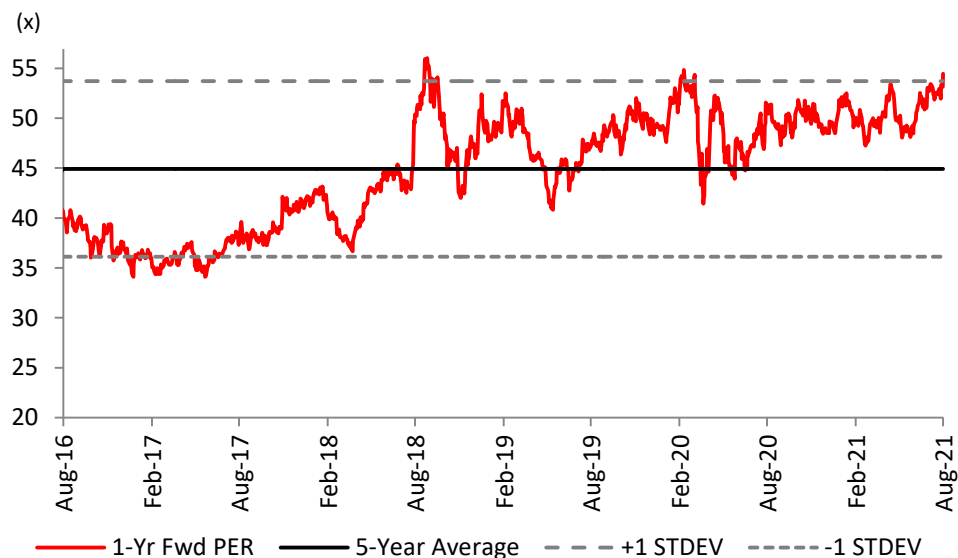
Source: Company, Systematix Institutional Research

Exhibit 7: Domestic business: Category-wise growth

Category growth (YoY)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22
Hair care	12%	3%	1%	-20%	-23%	-2%	14%	26%	38%
Oral care	11%	4%	9%	-16%	1%	24%	28%	42%	21%
Skin care	12%	1%	0%	-24%	-13%	38%	9%	39%	-5%
Home care	11%	7%	3%	-18%	-31%	-10%	-1%	22%	31%
Health Supplements	20%	14%	12%	-10%	53%	71%	35%	18%	25%
Digestives	18%	10%	16%	-9%	-12%	3%	0%	19%	16%
OTC & Ethicals	14%	4%	4%	-21%	22%	40%	29%	37%	51%
Foods	2%	-5%	-2%	-21%	-34%	-4%	5%	28%	80%

Source: Company, Systematix Institutional Research

Exhibit 8: Currently trading at 54.4x one-yr fwd P/E



Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Change in estimates

	New estimates		Old estimates		Changes to estimate	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	108,769	121,551	106,994	119,635	1.7%	1.6%
EBITDA	22,968	26,147	22,518	25,664	2.0%	1.9%
EBITDA margin	21.1	21.5	21.0	21.5	7bps	6bps
PAT	18,800	21,848	18,685	21,747	0.6%	0.5%
EPS	10.6	12.4	10.57	12.30	0.6%	0.5%

Source: Company, Systematix Institutional Research

## FINANCIALS (CONSOLIDATED)

### Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>85,331</b>	<b>87,036</b>	<b>95,617</b>	<b>108,769</b>	<b>121,551</b>
RM Cost	35,061	36,856	38,064	43,725	48,256
Purchase of trad. Goods	8,030	6,746	9,825	11,177	12,490
<b>Gross Profits</b>	<b>42,240</b>	<b>43,434</b>	<b>47,727</b>	<b>53,867</b>	<b>60,805</b>
Employee costs	9,379	9,477	10,335	11,161	12,054
Selling & Admin costs	15,466	16,033	17,366	19,738	22,604
<b>Total Expenses</b>	<b>67,935</b>	<b>69,112</b>	<b>75,590</b>	<b>85,801</b>	<b>95,405</b>
<b>EBITDA</b>	<b>17,396</b>	<b>17,924</b>	<b>20,027</b>	<b>22,968</b>	<b>26,147</b>
Depreciation	1,769	2,205	2,401	2,525	2,640
Other income	2,962	3,053	3,253	3,903	4,684
<b>EBIT</b>	<b>18,588</b>	<b>18,772</b>	<b>20,878</b>	<b>24,346</b>	<b>28,191</b>
cost	596	495	308	244	181
<b>PBT</b>	<b>17,993</b>	<b>18,277</b>	<b>20,570</b>	<b>24,102</b>	<b>28,010</b>
Taxes	2,786	2,797	3,611	5,302	6,162
<b>Adj. PAT</b>	<b>15,206</b>	<b>15,479</b>	<b>16,960</b>	<b>18,800</b>	<b>21,848</b>
Extraordinaries/Exceptional	753	1,000	-	-	-
<b>Reported PAT</b>	<b>14,453</b>	<b>14,479</b>	<b>16,960</b>	<b>18,800</b>	<b>21,848</b>
No. of shares (mn)	1,766	1,767	1,767	1,767	1,767
<b>Adj. EPS</b>	<b>8.6</b>	<b>8.8</b>	<b>9.6</b>	<b>10.6</b>	<b>12.4</b>

Source: Company, Systematix Institutional Research

### Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
<b>PBT</b>	<b>17,993</b>	<b>17,276</b>	<b>20,560</b>	<b>24,102</b>	<b>28,010</b>
Add: Depreciation	1,769	2,205	2,401	2,525	2,640
Add:	(2,366)	(2,001)	(2,300)	(3,659)	(4,504)
Less: taxes paid	(3,507)	(3,089)	(3,213)	(5,302)	(6,162)
Add: other adjustments	1,284	2,325	(186)	-	-
Less: WC changes	(181)	(579)	3,884	(1,167)	(35)
<b>Total OCF</b>	<b>14,991</b>	<b>16,136</b>	<b>21,147</b>	<b>16,499</b>	<b>19,949</b>
OCF w/o WC changes	15,172	16,716	17,263	17,665	19,984
Capital expenditure	(2,344)	(4,175)	(3,112)	(3,000)	(3,000)
Change in investments	5,713	(994)	(10,946)	-	-
/Dividend reced.	-	-	-	-	-
<b>Total ICF</b>	<b>3,369</b>	<b>(5,168)</b>	<b>(14,058)</b>	<b>(3,000)</b>	<b>(3,000)</b>
Free Cash Flows	12,648	11,962	18,035	13,499	16,949
Share issuances	5	1	0	-	-
Change in borrowings	(2,917)	(3,968)	(407)	(1,000)	(1,000)
Dividends	(15,970)	(6,178)	(5,921)	(8,837)	(9,721)
payment	-	-	-	3,659	4,504
Others	-	(285)	194	-	-
<b>Total FCF</b>	<b>(18,882)</b>	<b>(10,430)</b>	<b>(6,134)</b>	<b>(6,178)</b>	<b>(6,217)</b>
<b>Net change in cash</b>	<b>(522)</b>	<b>538</b>	<b>955</b>	<b>7,321</b>	<b>10,732</b>
Opening cash & CE	899	379	917	1,872	9,193
Closing cash & CE	377	917	1,872	9,193	19,925

Source: Company, Systematix Institutional Research

### Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,766	1,767	1,767	1,767	1,767
Reserves and surplus	54,551	64,290	74,868	84,830	96,958
<b>Net worth</b>	<b>56,317</b>	<b>66,058</b>	<b>76,635</b>	<b>86,598</b>	<b>98,725</b>
Minority	313.8	364.6	366.9	366.9	366.9
<b>Total Debt</b>	<b>5,243</b>	<b>4,671</b>	<b>4,833</b>	<b>3,833</b>	<b>2,833</b>
Other LT liabilities	641	676	647	647	647
<b>Total sources</b>	<b>62,514</b>	<b>71,769</b>	<b>82,482</b>	<b>91,444</b>	<b>102,572</b>
Net Block	19,170	22,011	21,924	22,399	22,759
Investment property	521	516	505	505	505
Net deferred tax	(231)	46	40	40	40
Other assets	1,842	6,433	2,494	2,494	2,494
CWIP	638	1,466	1,473	1,473	1,473
Investments	33,588	28,003	41,596	41,596	41,596
<b>Cash</b>	<b>3,282</b>	<b>8,114</b>	<b>13,290</b>	<b>20,611</b>	<b>31,343</b>
Inventories	13,005	13,796	17,343	17,284	19,315
Debtors	8,336	8,139	5,616	7,450	8,325
Other current assets	3,986	4,844	4,050	4,204	4,239
<b>Current Assets</b>	<b>28,608</b>	<b>34,892</b>	<b>40,299</b>	<b>49,549</b>	<b>63,222</b>
Creditors	14,554	14,822	19,153	19,370	21,646
Other CL	7,067	6,775	6,698	7,242	7,873
<b>Current Liabilities</b>	<b>21,621</b>	<b>21,596</b>	<b>25,851</b>	<b>26,612</b>	<b>29,519</b>
<b>Net Working Capital</b>	<b>6,987</b>	<b>13,296</b>	<b>14,449</b>	<b>22,936</b>	<b>33,704</b>
<b>Total Uses</b>	<b>62,514</b>	<b>71,769</b>	<b>82,482</b>	<b>91,444</b>	<b>102,572</b>

Source: Company, Systematix Institutional Research

### Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
Yoy growth in Revenue	10.1	2.0	9.9	13.8	11.8
Yoy growth in EBITDA	7.6	3.0	11.7	14.7	13.8
Yoy growth in Net income	10.9	1.7	9.5	10.9	16.2
Effective tax rate	22.6	25.5	24.6	22.0	22.0
EBITDA margin	20.4	20.6	20.9	21.1	21.5
PAT margin	17.8	17.8	17.7	17.3	18.0
ROACE (pre-tax)	28.9	28.0	27.1	28.0	29.1
ROAE	26.8	25.3	23.8	23.0	23.6
Net debt to equity (x)	0.0	(0.1)	(0.1)	(0.2)	(0.3)
Inventory days	56	58	66	58	58
Debtors days	36	34	21	25	25
Payable days	62	62	73	65	65
NWC days	29	30	15	18	18
<b>Per share numbers (Rs)</b>					
Reported earnings	8.6	8.8	9.6	10.6	12.4
Dividend	2.8	3.0	4.8	5.0	5.5
Free cash	7.2	6.8	10.2	7.6	9.6
Book Value	31.9	37.4	43.4	49.0	55.9
<b>Valuations (x)</b>					
Price to diluted earnings	71.3	70.1	64.0	57.7	49.7
EV / EBITDA	54.6	52.7	46.9	40.5	35.1
Price to sales	11.1	10.9	9.9	8.7	7.8

Source: Company, Systematix Institutional Research

## Institutional Equities Team

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