

Dabur India Ltd

REDUCE

CMP Rs535

Target Rs550

Upside 2.8%

Reduced healthcare momentum and margin headwinds offset by recovery in other segments

Result Highlights

- ✓ **Quarter results** – Soft results with 25.4% growth in revenue from a weak base with 30% growth in India (25.4% volume growth) and 19% growth in international business, margins flat at 18.9% and PAT growth of 25.5%; impacted by pipeline correction.
- ✓ **Portfolio mix** – Healthcare grew 23% with share gains in chyawanprash and honey and strong growth in OTC/ethicals, HPC grew 33% led by share gains in oral care, hair oils and shampoo, F&B grew 28% led by share gains in juices and traction in foods business.
- ✓ **Margins** – Significant commodity inflation impacted GMs by 40bps, A&P spends higher by 120bps; offset by strong cost savings to maintain stable margins at 18.9%.
- ✓ **Outlook** – Localised restrictions leading to last mile supply chain disruptions but company better prepared, current production close to normal, discretionary portfolio to get impacted in near-term but offset by strong traction seen since mid-April in immunity building healthcare portfolio.

Valuation and view - The 4Q performance was weak impacted by pipeline inventory correction and normalization of strong growth seen in healthcare in last couple of quarters. Margins could not move up despite 3% price hike and strong cost savings given 6% inflation in commodities and higher A&P spends. The international business got back on track and is likely to sustain a double-digit growth rate. While the F&B and HPC categories are expected to recover well in FY22, the key overhangs would be a moderation in healthcare portfolio and pressure on margins which can constrain the NPD pipeline. Although we like Dabur's increased aggression, growth focus, strong rural reach expansion strategy amidst an expanding Ayurveda/herbal market, current valuations limit upside potential, especially given the growth and margin headwinds in FY22. The pandemic lasting longer than expected could again help the healthcare portfolio regain lost momentum, which would be an upside risk to our estimates. For now, we expect range-bound performance for the stock **and model in revenue/EBITDA/PAT CAGR of 11%/11%/13% over FY21-23E. We assume coverage with a REDUCE rating with a PT of Rs 550 based on 45x FY23E earnings, in-line with its 5-yr average.**

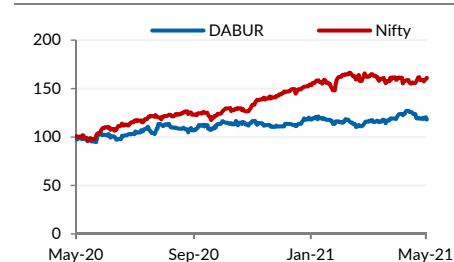
Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Net sales	23,368	18,654	25.3%	27,288	-14.4%
EBITDA	4,425	3,523	25.6%	5,742	-22.9%
EBITDAM (%)	18.9%	18.9%		21.0%	
Depreciation	666	588	13.2%	572	16.5%
Interest	86	86	0.8%	69	25.8%
Other income	850	758	12.2%	809	5.0%
PBT	4,522	3,606	25.4%	5,911	-23.5%
Tax	744	587	26.8%	975	-23.7%
Minority interest	(5)	4		15	
JV/Associate	(6)	(4)		(1)	
Adjusted PAT	3,778	3,012	25.5%	4,920	-23.2%
Exceptional item	0	200		0	
Reported PAT	3,778	3,212	17.6%	4,920	-23.2%
PATM (%)	16.2%	16.1%		18.0%	
EPS (Rs)	2.1	1.7		2.8	

Stock data (as on May 07, 2021)

Nifty:	14,823
52 Week h/l (Rs)	582 / 421
Market cap (Rs/USD mn)	944866 / 12853
Outstanding Shares	1,767
6m Avg t/o (Rs mn):	1,699
Div yield (%):	0.9
Bloomberg code:	DABUR IN
NSE code:	DABUR

Stock performance



	1M	3M	1Y
Absolute return	-3.4%	2.5%	21.8%

Shareholding pattern (As of Mar'21 end)

Promoter	67.9%
FII+DII	25.0%
Others	7.1%

Financial Summary

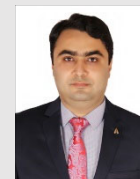
(Rs mn)	FY21	FY22e	FY23e
Net Revenue	95,617	1,05,882	1,17,854
YoY Growth	9.9	10.7	11.3
EBIDTA	20,027	21,706	24,455
Margins (%)	20.9	20.5	20.8
PAT	16,933	19,098	21,602
YoY Growth	17.7	18.0	18.3
ROE	23.8	23.5	23.6
ROCE	27.4	27.3	28.4
EPS	9.6	10.8	12.2
P/E	55.3	49.0	43.4
EV/EBITDA	46.3	42.4	37.2

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CONCALL TAKEAWAYS

- ✓ **Quarterly seasonality in 3Q and 4Q** – Healthcare salience has increased in past couple of years and portfolio is winter-centric and therefore 2Q and 3Q are strong while 4Q has seen a decline from the peak, HPC becomes more salient in 4Q, high competitive intensity in honey led to category shrinking.
- ✓ **FY22 outlook given high base** – Were targeting double-digit growth before COVID, no impact on April as momentum of March continued, if wave is limited to May and June, should be able to reach that target, have high base in 3Q, prepared with innovations and price increases.
- ✓ **2 yr CAGR of only 4.8% in India business vs double digit in last 2 quarters** – Secondary sales are similar to past few quarters, implemented CRS - Continued Replenishment System which impacted primary sales, fixed stockist level inventories, pipeline correction has happened in 4Q; market shares growing across categories, beverages business has recovered well, facing shortage of coconut water, earlier 25 days of pipeline now 17 days of pipeline inventory due to pre-season loading, have increased inventory levels in April due to pandemic concerns, impact of 70-75 crs due to this in 4Q.
- ✓ **250bps decline in India gross margins** – Unprecedented inflation of 5-6% in overall business – agri commodities like herbs and spices like amla, veg oils, packaging material, specialty chemicals, tried to pass by 3% price increase which is not good enough, will take another round of price hikes, margin pressure should remain in 1Q, prices should cool off in 2HFY22, cost optimization – 50crs savings in Samriddhi program in FY21, FY22 target of 100crs.
- ✓ **A&P spends** – Have been higher as remained aggressive on promoting both power brands and new products, 2Q and 3Q at 8%, 4Q at 6.8% vs 5.2% yoy, will maintain EBITDA margins, last year bonus reversals impacted margins somewhat, will invest GM savings on A&P, reducing A&P will be last priority if price hikes and cost savings are not enough.
- ✓ **Hair oils** – All leading players gaining market share, smaller players and premium players seem to have lost share, had lost share in 1QFY21, gained 70bps, registered 24% volume growth, 9.3% volume growth as per Nielsen, coconut 40% plus, perfumed 20% plus.
- ✓ **OTC and Healthcare** – Chyawanprash up 150% and double digit in honey, 170bps and 220bps market share gains, sales down from winter peak levels due to seasonality, ethical business continued to do well – last 15 days of April – HC business has got a spurt again, repeat purchases doing well even in HPC segment.
- ✓ **Stock outs** – Have seen some stock outs for coconut water business, some juice variants like amla, some medicines, not for big power brands; Capex – will be investing 550crs in next 4-5 years for greenfield Central India facility, taken 50acre land near Indore to augment capacity mainly for healthcare and HPC business.
- ✓ **Margin outlook** – Will not let margins shrink from FY21 levels, will use different media mix to sustain demand and volume growth.
- ✓ **Health supplements 2 yr CAGR dropped from 23% to 3%, 16% to 4% for OTC and ethical** – 150% growth in Chyawanprash, glucose down 17% which impacted growth rates of Healthcare, expect low single digit growth in HC in FY22 given high base, should be 34-35% of total sales.
- ✓ **Dabur Hommade** – In Hommade, target 100crs in FY22 from 70 crs this year, want 500crs in next 4 years given large opportunity in the foods space, tailwinds for RTC and RTE categories, will get into sauces and condiments, entered spices this year, have right to win given healthcare equity.
- ✓ **Competition** – Demand will outstrip supply in healthcare where capacity augmentation is required, less need for advertising; Foods – will handle competition given innovation, just

Dabur India Ltd

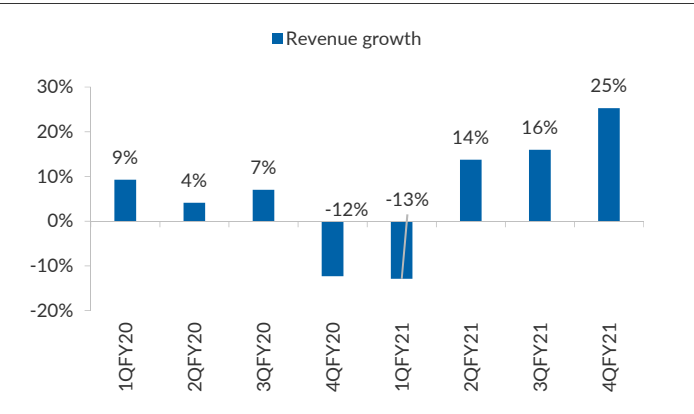
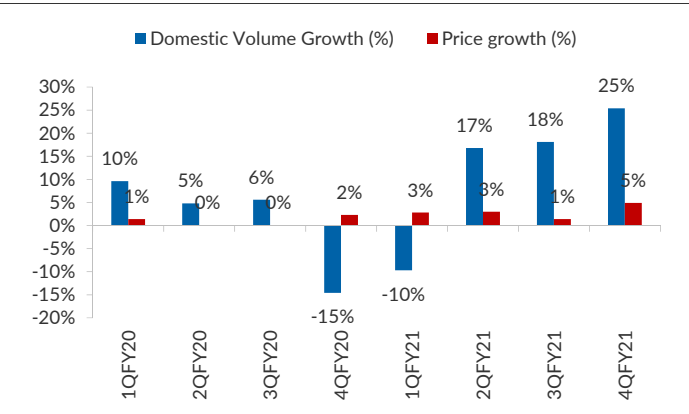
10% market share in J&C; HPC – differentiated proposition in oral care, limited pricing power in hair oil, shampoo is virgin territory, skin care and home care has low competition with high pricing power.

- ✓ **International business outlook** – 3% growth in FY21, business turned around well, 21% CC growth in 4Q, expect to sustain momentum in FY22 and grow double digits in FY22.
- ✓ **Distribution reach** – Expanded direct reach to 1.3mn outlets in FY21, FY22 target of 1.4mn; rural coverage expansion will continue – 60k villages in FY21, FY22 target of 80k villages in 2 years, separate vertical of e Com and MT being pushed.
- ✓ **FY22 innovation outlook** – FY21 was phenomenal year, will consolidate and broaden the segments which company entered in FY21.
- ✓ **Muted performance in juices over last 5 years** - High Rs 100 price point, COVID and declining category, were earlier restricted to 1500cr market of juices, now entered larger 7000cr market of drinks, also entered foods.
- ✓ **Rural outlook** – Don't expect much impact of pandemic, expect more stimulus announcements from the government which will sustain income levels, 45-47% business comes from rural markets.

CHARTS

Exhibit 2: Strong volume growth aided by Healthcare and HPC albeit on low base

Exhibit 3: Similar trend for consolidated revenue growth

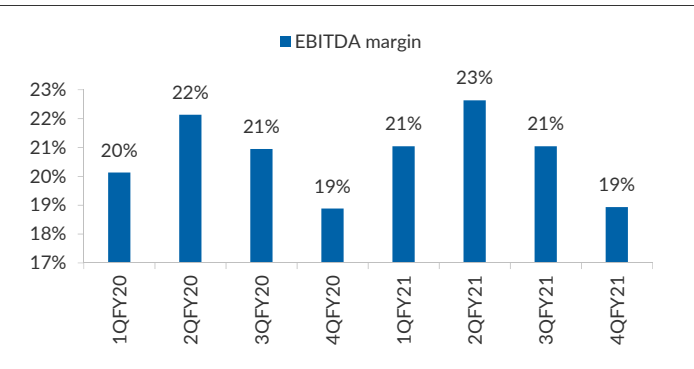
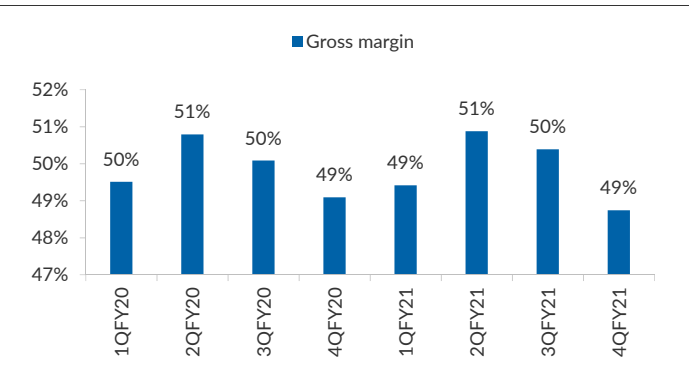


Source: Company, YES Sec - Research

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Exhibit 4: Gross margin impacted by inflation in input costs

Exhibit 5: EBITDA margin further declined owing to higher A&P expenses

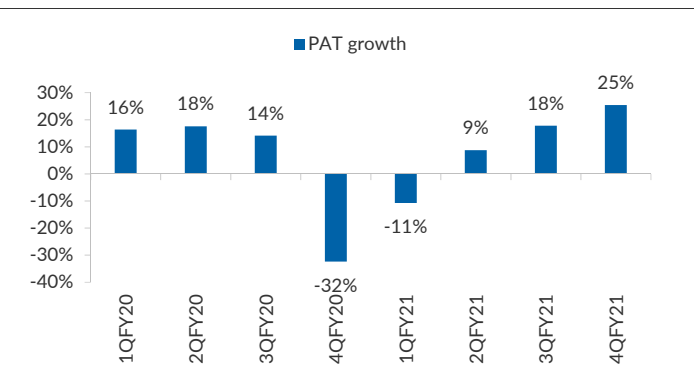
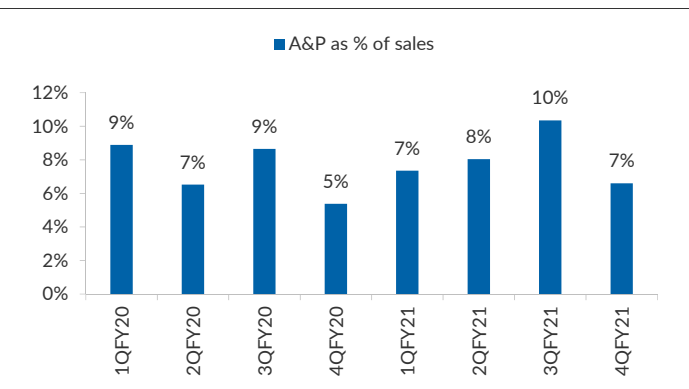


Source: Company, YES Sec - Research

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Exhibit 6: A&P spends higher yoy to push both power brands and new launches

Exhibit 7: Earnings growth in-line with revenue growth

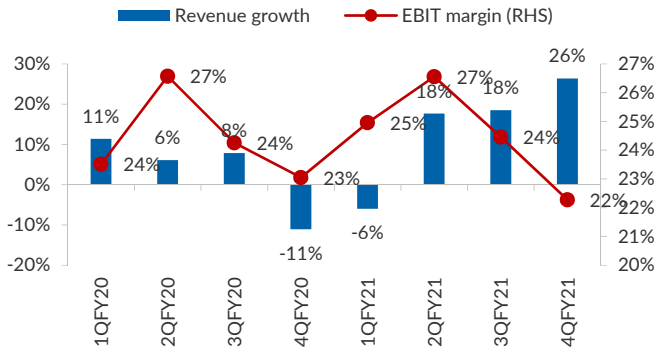


Source: Company, YES Sec - Research

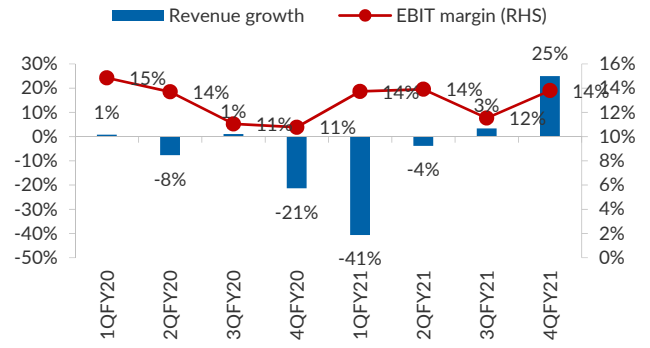
Source: Company, YES Sec - Research

Exhibit 8: Strong volume growth on low base in consumer care business with margins under pressure

Exhibit 9: Foods business on recovery path



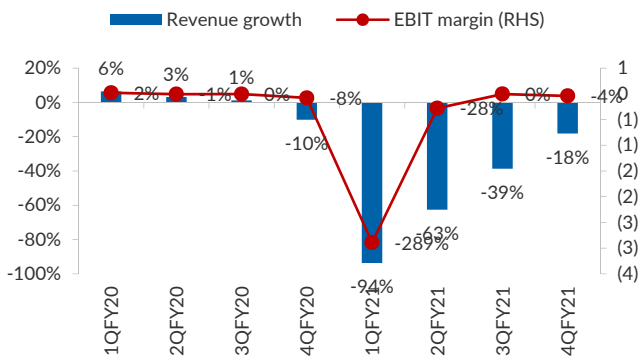
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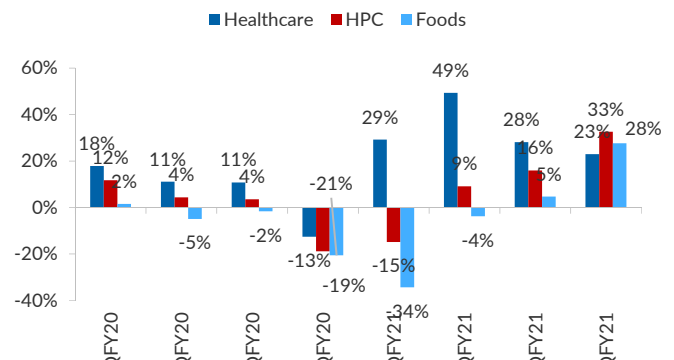
Source: Company, YES Sec - Research

Exhibit 10: ... While retail still lagging

Exhibit 11: Revenue growth led by Healthcare

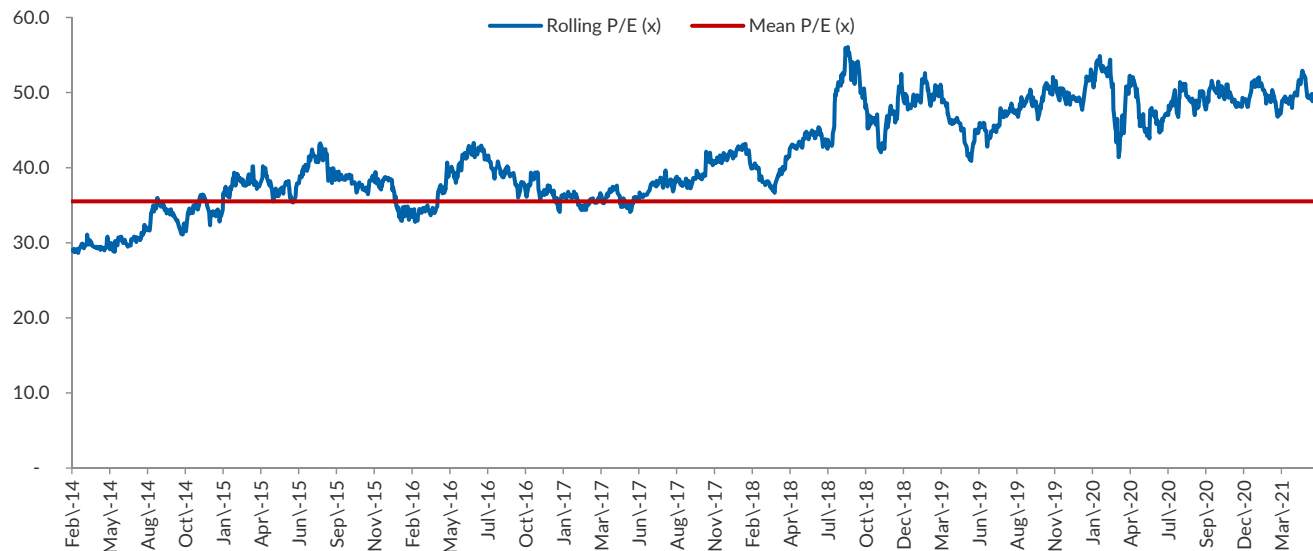


Source: Company, YES Sec - Research



Source: Company, YES Sec - Research

Exhibit 12: Currently trading at 49x one-yr fwd earnings



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 13: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Equity capital	1,766	1,767	1,767	1,767	1,767
Reserves	54,551	64,290	74,868	84,417	95,218
Net worth	56,631	66,422	77,002	86,551	97,352
Debt	5,243	4,671	4,833	3,833	2,833
Deferred tax liab (net)	231	174	139	(40)	(40)
Other non current liabilities	641	676	647	711	783
Total liabilities	62,746	71,944	82,621	91,055	100,927
Fixed Asset	19,478	19,676	19,590	19,549	19,338
Investments	34,109	28,518	41,989	41,989	41,989
Other Non-current Assets	3,927	8,816	4,959	5,182	5,619
Net Working Capital	3,706	5,182	1,158	2,520	2,776
Inventories	13,005	13,796	17,343	15,955	17,759
Sundry debtors	8,336	8,139	5,616	8,703	9,687
Loans and Advances	110	131	145	290	323
Sundry creditors	14,554	14,822	19,153	18,856	20,988
Other current liabilities	5,764	5,120	4,820	5,802	6,458
Provision	1,302	1,655	1,878	2,066	2,273
Cash & equivalents	1,526	9,752	14,925	21,816	31,205
Total Assets	62,746	71,944	82,621	91,055	100,927

Exhibit 14: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	85,331	87,036	95,617	1,05,882	1,17,854
Operating profit	17,396	17,924	20,027	21,706	24,455
Depreciation	1,769	2,205	2,401	2,541	2,711
Interest expense	596	495	308	268	198
Other income	2,962	3,053	3,253	3,741	4,302
Profit before tax	17,993	18,277	20,570	22,637	25,847
Taxes	2,786	2,797	3,611	3,539	4,245
Minorities and other	(10)	0	10	-	-
Adj. profit	15,216	15,479	16,950	19,098	21,602
Exceptional items	753	1,000	-	-	-
Net profit	14,463	14,479	16,950	19,098	21,602

Exhibit 15: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
PBIT	18,588	18,772	20,878	22,905	26,045
Depreciation	1,769	2,205	2,401	2,541	2,711
Tax paid	(2,786)	(2,797)	(3,611)	(3,539)	(4,245)
Working capital Δ	798	(1,476)	4,024	(1,362)	(256)
Other operating items					
Operating cashflow	18,369	16,703	23,693	20,546	24,256
Capital expenditure	(5,311)	(2,402)	(2,316)	(2,500)	(2,500)
Free cash flow	13,058	14,301	21,377	18,046	21,756
Equity raised	(10,265)	563	2,023	-	-
Investments	4,485	5,591	(13,471)	-	-
Debt financing/disposal	(3,046)	(572)	161	(4,833)	-
Interest Paid	(596)	(495)	(308)	(268)	(198)
Dividends paid	(4,946)	(5,301)	(8,395)	(9,549)	(10,801)
Other items	(2,733)	(5,861)	3,785	(1,009)	(438)
Net Δ in cash	(4,042)	8,225	5,173	2,387	10,319

Exhibit 16: Du-pont analysis

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.8	0.8	0.8	0.8	0.8
Interest burden (x)	1.0	1.0	1.0	1.0	1.0
EBIT margin (x)	0.2	0.2	0.2	0.2	0.2
Asset turnover (x)	1.0	1.0	0.9	1.0	1.0
Financial leverage (x)	1.5	1.5	1.4	1.4	1.3
RoE (%)	26.8	25.3	23.8	23.5	23.6

Exhibit 17: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Growth matrix (%)					
Revenue growth	10.1	2.0	9.9	10.7	11.3
Op profit growth	7.6	3.0	11.7	8.4	12.7
EBIT growth	5.6	1.0	11.2	9.7	13.7
Net profit growth	10.9	1.7	9.5	12.7	13.1
Profitability ratios (%)					
OPM	20.4	20.6	20.9	20.5	20.8
EBIT margin	21.8	21.6	21.8	21.6	22.1
Net profit margin	17.8	17.8	17.7	18.0	18.3
RoCE	29.3	28.4	27.4	26.7	27.4
RoNW	26.8	25.3	23.8	23.5	23.6
RoA	17.8	17.4	16.8	16.9	17.4
Per share ratios					
EPS	8.6	8.8	9.6	10.8	12.2
Dividend per share	2.8	3.0	4.8	5.4	6.1
Cash EPS	9.6	10.0	10.9	12.2	13.8
Book value per share	31.9	37.4	43.4	48.8	54.9
	8.6	8.8	9.6	10.8	12.2
Valuation ratios					
P/E	61.5	60.5	55.3	49.0	43.4
P/CEPS	55.1	53.0	48.4	43.3	38.5
P/B	16.6	14.2	12.2	10.9	9.7
EV/EBIDTA	54.0	52.0	46.3	42.3	37.1
	61.5	60.5	55.3	49.0	43.4

Dabur India Ltd

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Payout (%)					
Dividend payout	33	34	50	50	50
Tax payout	15	15	18	16	16
Liquidity ratios					
Debtor days	36	34	21	30	30
Inventory days	56	58	66	55	55
Creditor days	62	62	73	65	65

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ADD: Potential return +5% to +15% over 12 months

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