

November 02, 2023

RESULT REPORT Q2 FY24 | Sector: Consumer Staples

Dabur India

2H earnings expectation robust; Upgrade to BUY

Dabur India Ltd. (DABUR) 2QFY24 performance was largely in-line with expectation. Even after taking a hit from 'Namaste's' legal cost regarding litigation, it has delivered 20.6% EBITDA margin. In 2HFY24, management is targeting to deliver high single-digit to low double-digit growth. On margins, it is now aiming to deliver slightly better than the earlier FY24 target of 19.5%. In terms of the lawsuit on one of Dabur's step-down subsidiary - Namaste, the management has assured that legal cost will be minimal (it was Rs360mn in 1Q, expected to be Rs200mn in 2Q and lower amount quarter after quarter), revenue impact is also low as portfolio contributes <1% of revenues (US relaxer revenues contributes even lower) and also continues to believe that there is no merit to the claims. It will remain an overhang as litigations are usually long drawn. There is valuation comfort post recent correction, this along with visibility of better earnings going forward makes us upgrade the stock to BUY from ADD earlier with a revised target price (TP) of Rs640.

Result Highlights (Consolidated)

- 2QFY24 headline performance: Consolidated revenues grew by 7.3% YoY to Rs32bn (vs est. Rs32.4bn). EBITDA was up 10% YoY to Rs6.6bn (vs est. Rs6.5bn). Like to like operating profit growth of 16% (ex-Namaste legal cost). Adjusted PAT (APAT) was up 5.1% YoY to Rs5.2bn (vs est. Rs5.1bn). PAT up 14.7% ex-legal cost & amortization.
- Underlying volume growth stood at 3% for the India FMCG business (vs est. of 4% YoY). International Business reported a growth of 23.6% in Constant Currency (CC) terms (10.4% in Rs terms).
- Consol. gross margin up 290bps YoY to 48.3% (up 170bps QoQ). Higher overheads: A&P spends up ~170bps YoY, other expenses up 50bps YoY and employee cost up 20bps YoY, meant that EBITDA margin was up by 50bps YoY to 20.6%.

Key near term outlook

- Management is looking at high single digit to low double-digit growth in balance half of FY24 with mid-single digit volume growth and around 3% pricing component.
- It expects to achieve 19.5% EBITDA margins or even better in FY24 on the back of deflation in commodity prices.

View & Valuation

We are currently building 9.7% revenue CAGR over FY23-FY26E. Key drivers: (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 - direct coverage will touch ~1.5mn outlets by end of FY24. Also, village coverage has seen a significant jump to 100k villages across the country from 59,217 villages in FY21. Ahead-of-the-curve investments and expected improvement in rural demand augurs well for Dabur. (c) Expanding TAM through power platform strategy and innovations gives decent visibility for medium-term growth. At operating level, we expect ~13.3% EBITDA CAGR over FY23-FY26E (~190bps EBITDA margin expansion as we expect gross margin expansion of 420bps). 'Namaste' litigations remain an overhang as they are usually long drawn. Dabur is currently trading at ~49x/42x/37x on FY24E/FY25E/FY26E EPS, discount to its historical average, as we build in ~14% EPS CAGR. With improving commentary, better near-term earnings visibility, and valuation comfort, we upgrade the stock to BUY from ADD earlier with a revised TP of Rs640 (Rs625 earlier), valuing it at ~47x Sept'2025E EPS (3yr/5yr avg. fwd. multiple: ~54x/52x).

Exhibit 1: Actual vs estimate

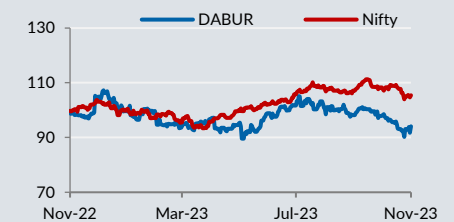
Rs mn	Actual	Estimate		% Variation	
		YES Sec	Consensus	YES Sec	Consensus
Revenue	32,038	32,409	32,318	(1.1)	(0.9)
EBITDA	6,609	6,547	6,524	0.9	1.3
EBITDA Margin (%)	20.6	20.2	20.2	0.4	0.4
Adjusted PAT	5,151	5,138	5,158	0.2	(0.1)

Reco	: BUY
CMP	: Rs 530
Target Price	: Rs 640
Potential Return	: +20.7%

Stock data (as on Nov 02, 2023)

Nifty	19,133
52 Week h/l (Rs)	611 / 504
Market cap (Rs/USD mn)	916319 / 11009
Outstanding Shares (mn)	1,772
6m Avg t/o (Rs mn):	1,021
Div yield (%):	1.0
Bloomberg code:	DABUR IN
NSE code:	DABUR

Stock performance



	1M	3M	1Y
Absolute return	-3.8%	-6.2%	-5.7%

Shareholding pattern (As of Sep'23 end)

Promoter	66.2%
FII+DII	28.3%
Others	5.5%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	ADD
Target Price	640	625

Δ in earnings estimates

	FY24e	FY25e	FY26e
EPS (New)	10.9	12.7	14.3
EPS (Old)	11.1	12.9	NA
% change	-1.8	-1.4	NA

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Revenue	125,852	139,886	152,173
YoY Growth (%)	9.2	11.2	8.8
EBIDTA	24,943	28,469	31,517
Margins (%)	19.8	20.4	20.7
PAT	19,333	22,572	25,342
EPS	10.9	12.7	14.3
YoY Growth (%)	13.2	16.8	12.3
Pre-tax RoCE (%)	23.2	24.8	26.0
ROE (%)	20.2	21.2	22.0
P/E (x)	48.6	41.6	37.1
EV/EBITDA (x)	35.2	30.5	27.2

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Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs. Mn)	2QFY23	1QFY24	2QFY24	YoY (%)	QoQ (%)	1HFY23	1HFY24	YoY (%)
Net Sales	29,865	31,305	32,038	7.3	2.3	58,089	63,343	9.0
COGS	16,314	16,717	16,557	1.5	-1.0	31,595	33,274	5.3
Gross margin %	45.4	46.6	48.3	2.9	1.7	45.6	47.5	1.9
Employee costs	2,876	2,972	3,155	9.7	6.1	5,575	6,127	9.9
% of sales	9.6	9.5	9.8	0.2	0.4	9.6	9.7	0.1
Advertising costs	1,518	2,043	2,165	42.6	6.0	3,090	4,209	36.2
% of sales	5.1	6.5	6.8	1.7	0.2	5.3	6.6	1.3
Other expenses	3,150	3,524	3,553	12.8	0.8	6,386	7,077	10.8
% of sales	10.5	11.3	11.1	0.5	-0.2	11.0	11.2	0.2
EBITDA	6,007	6,047	6,609	10.0	9.3	11,444	12,656	10.6
EBITDA margin %	20.1	19.3	20.6	0.5	1.3	19.7	20.0	0.3
Depreciation	705	966	983	39.5	1.7	1,381	1,950	41.2
EBIT	5,303	5,081	5,626	6.1	10.7	10,063	10,706	6.4
EBIT margin %	17.8	16.2	17.6	-0.2	1.3	17.3	16.9	-0.4
Interest expense	151	243	281	86.9	15.8	272	525	92.8
Other income	1,233	1,098	1,164	-5.6	6.0	2,238	2,262	1.1
PBT	6,385	5,936	6,508	1.9	9.6	12,030	12,444	3.4
Tax	1,473	1,368	1,443	-2.1	5.5	2,704	2,810	3.9
Effective tax rate %	23.1	23.0	22.2	-0.9	-0.9	22.5	22.6	0.1
PAT	4,901	4,639	5,151	5.1	11.0	9,304	9,789	5.2
PAT margin %	16.4	14.8	16.1	-0.3	1.3	16.0	15.5	-0.6
EPS	2.8	2.6	2.9	5.1	11.0	5.3	5.5	5.2

Source: Company, YES Sec

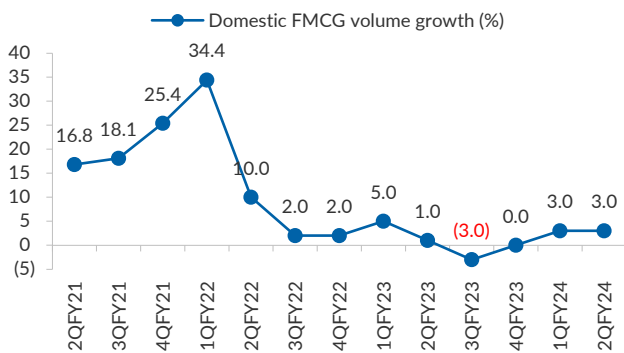
- **1HFY24 Consol.:** Revenue, EBITDA and APAT grew by 9%, 10.6% and 5.2% YoY, respectively. Gross/EBITDA margin up 190bps/30bps YoY to 47.5%/20%, respectively.
- **Standalone** revenue, EBITDA and APAT grew by 3%, 7.6% and 6.2% YoY, respectively. Gross/EBITDA margin up 320bps/90bps YoY to 46.8%/21.8%, respectively.

Key takeaways from Dabur's 2QFY24 conference call/interview

- Uneven rainfall and deficient monsoon affected rural demand. Dabur expects a recovery going forward.
- Like to like operating profit growth for 2QFY24 stood at 16% YoY (ex- Namaste legal cost).
- Beverages business impacted on account of uneven distribution of rainfall and shift in festive season. Thus, Beverages loading got impacted in 2Q and should be compensated in 3Q. Beverages portfolio was affected especially in North India which is a significant part of the portfolio.
- Overall rural sentiment seeing some green shoots, has moved from negative territory to positive. On lower base, rural recovery should happen. Even Dabur's trajectory in rural improving. In South, rural getting impacted the most. Followed by West, then North & East. North should pick-up along with Central India. There is also issue of credit in South market.
- Chawanprash had flattish growth due to extension in the festive season. The management believes the growth to come back in 2HFY24.
- Foods on track to achieve Rs5bn of exit revenue (Foods + Badshah).

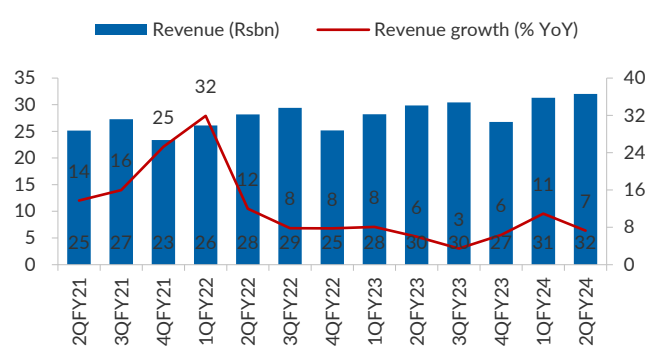
- Moderation in inflation and change in distribution structure has led to improvement in international growth.
- Gross Margin up 300bps due to material deflation; A&P has thus been upped. However, petroleum linked commodities have still not seen deflation.
- Home care is underpenetrated. Urbanization is leading to tailwind for the category. Out of home consumption is catching up.
- Company will ramp-up spend in Oral care, home care, HPC & Chyawanprash. Not so much in Beverage portfolio.
- Legal cost regarding Namaste was Rs360mn in 2Q. It will likely be around Rs200mn for next quarter and a lower amount quarter after quarter.
- The lawsuit is not on Dabur products or brand, it is on a product sold (hair straightening relaxer) by one of Dabur's step-down subsidiary Namaste. Namaste revenue is around USD45-50mn out of which USD25mn is relaxer business, which is getting impacted due to the litigation. US market contributes 60% of the portfolio so 40% of the relaxer is still not impacted.
- International should deliver high double digit CC growth in 2H.
- Management is looking at high single digit to low double-digit growth in balance half of FY24 with mid-single digit volume growth and around 3% pricing component.
- Management expects to achieve 19.5% EBITDA margins or even better in FY24 on the back of deflation in commodity prices.

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



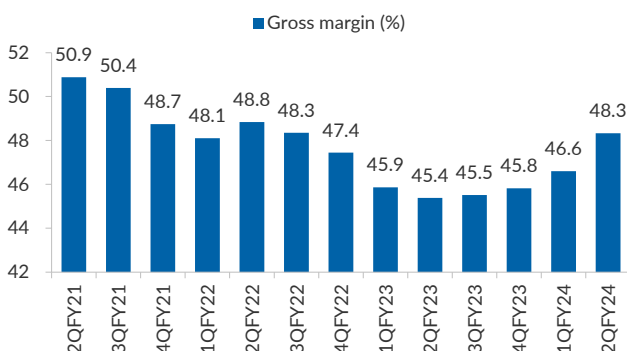
Source: Company, YES Sec

Exhibit 4: Consol. revenues grew 7.3% YoY (CC growth of 10.4% YoY)



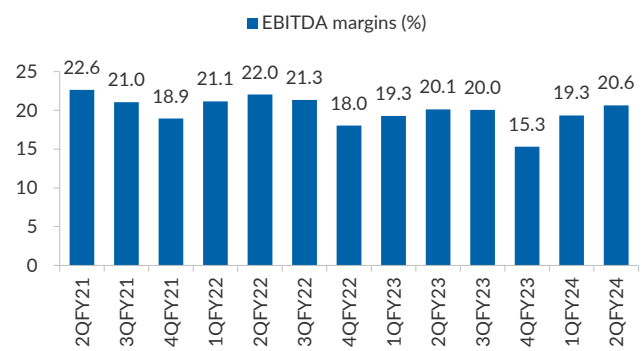
Source: Company, YES Sec

Exhibit 5: Gross margin improves further to 48.3%



Source: Company, YES Sec

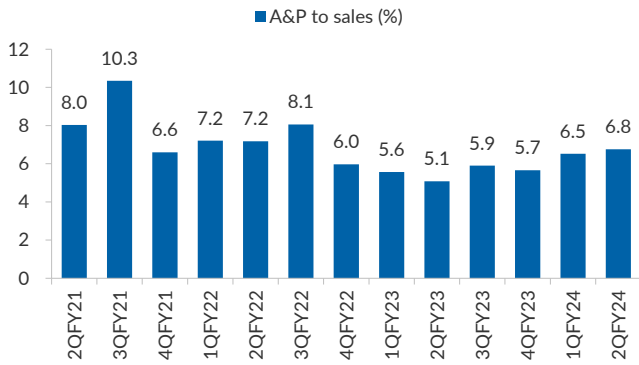
Exhibit 6: EBITDA margin was up 50bps YoY to 19.3%



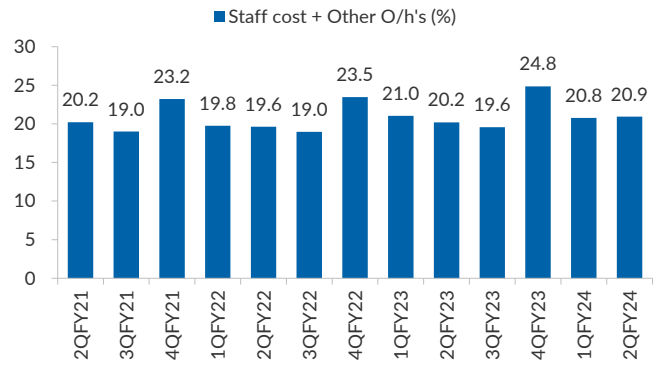
Source: Company, YES Sec

Exhibit 7: As Consol. A&P spends went up 170bps YoY (~43% up on absolute basis)

Exhibit 8: Other operating expenses were up 80bps YoY



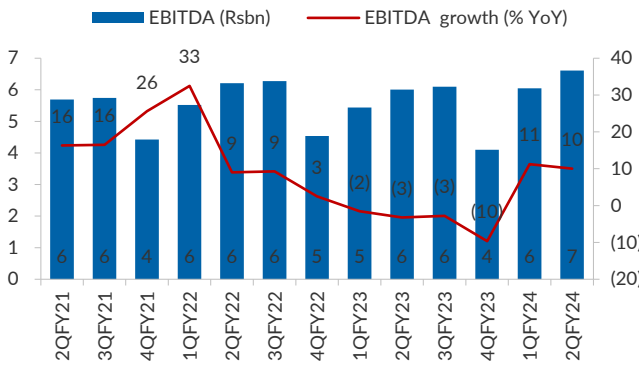
Source: Company, YES Sec



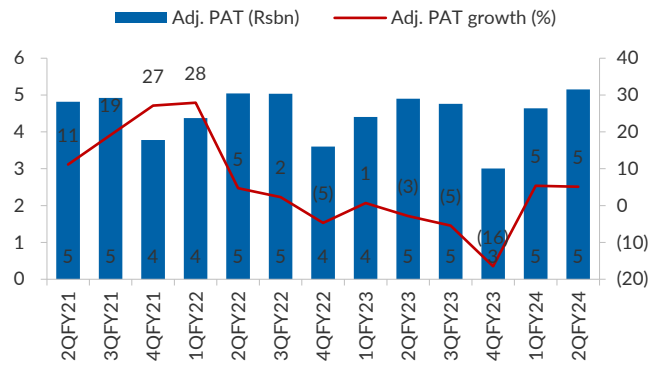
Source: Company, YES Sec

Exhibit 9: EBITDA was thus up 10% YoY; Like to like operating profit growth of 16% (ex-Namaste legal cost)

Exhibit 10: APAT was up 5.1% YoY; Ex-Legal cost and Amortization, PAT growth stood at 14.7% YoY

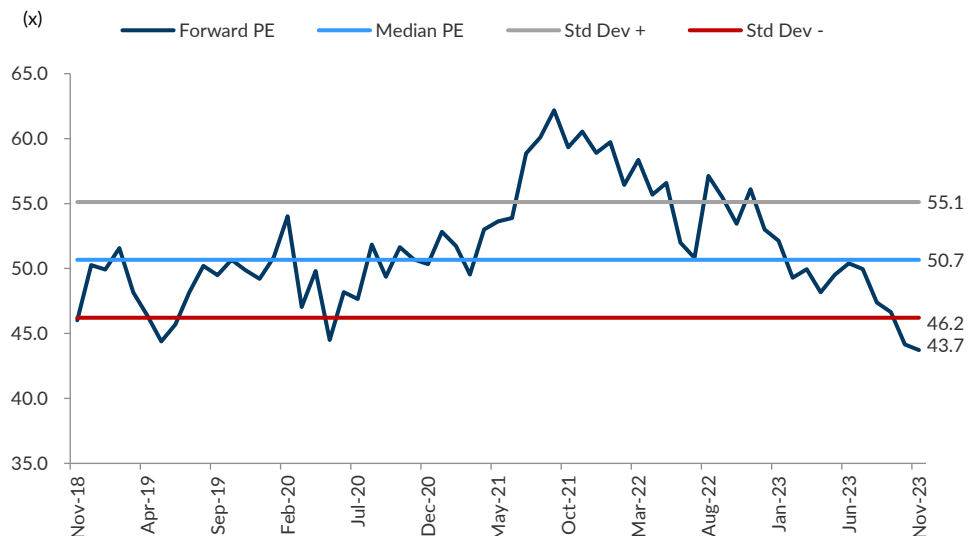


Source: Company, YES Sec



Source: Company, YES Sec

Exhibit 11: Currently trading at ~44x 1-yr fwd EPS



Source: Company, YES Sec

ANNUAL FINANCIALS

Exhibit 12: Balance Sheet

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	1,768	1,772	1,772	1,772	1,772
Reserves	82,451	92,643	104,591	113,350	121,950
Net worth	84,219	94,414	106,363	115,122	123,721
Deferred tax liability	816	889	889	889	889
Total liabilities	95,107	106,737	117,186	124,444	133,044
Gross block	37,901	51,778	56,278	59,278	61,278
Depreciation	17,334	20,044	23,988	28,148	32,488
Net block	23,079	35,787	36,342	35,182	32,842
Capital work-in-progress	1,675	1,751	2,102	2,312	2,543
Investments	62,196	62,653	63,758	67,315	71,085
Inventories	19,114	20,242	21,939	23,802	25,321
Debtors	6,462	8,488	10,456	11,167	11,710
Cash	5,701	3,259	9,142	13,772	20,943
Loans & advances	595	594	712	855	1,026
Other current assets	4,017	3,750	4,094	4,503	4,954
Total current assets	35,888	36,332	46,343	54,099	63,953
Creditors	20,180	21,866	23,096	25,669	27,998
Other current liabilities & provisions	7,552	7,920	8,263	8,794	9,381
Total current liabilities	27,732	29,786	31,360	34,463	37,379
Net current assets	8,157	6,547	14,984	19,636	26,574
Total assets	95,107	106,737	117,186	124,445	133,045

Source: Company, YES Sec; Note: Through this note we introduce FY26 estimates

Exhibit 13: Income statement

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenue	108,887	115,299	125,852	139,886	152,173
% Growth	14.1	5.9	9.2	11.2	8.8
COGS	56,397	62,687	65,400	70,888	76,391
Staff costs	10,800	11,370	12,623	13,885	15,161
Selling and Distribution	11,703	10,853	14,020	16,884	18,568
Other expenses	7,449	8,748	8,866	9,760	10,537
Total expenses	86,349	93,658	100,909	111,417	120,656
EBITDA	22,538	21,641	24,943	28,469	31,517
% growth	12.5	(4.0)	15.3	14.1	10.7
EBITDA margin (%)	20.7	18.8	19.8	20.4	20.7
Other income	3,932	4,454	4,720	5,390	6,059
Interest costs	386	782	962	735	675
Depreciation	2,529	3,110	3,944	4,160	4,340
Profit before tax (before exceptional items)	23,555	22,203	24,757	28,964	32,561
Exceptional items	-659	0	0	0	0
Tax	5,455	5,174	5,694	6,662	7,489
Adjusted PAT	18,051	17,072	19,333	22,572	25,342
Reported PAT	17,392	17,072	19,333	22,572	25,342

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PAT margin (%)	15.4	14.3	14.8	15.5	16.0
% Growth	6.7	(5.9)	11.9	17.0	12.4

Source: Company, YES Sec

Exhibit 14: Cash flow statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
PAT	18,811	17,242	19,063	22,302	25,072
Depreciation	2,529	3,110	3,944	4,160	4,340
Other income	(2,349)	(3,867)	(3,758)	(4,655)	(5,384)
(Inc.)/dec. in working capital	(968)	(1,601)	(2,554)	(23)	233
Cash flow from operations	18,023	14,884	16,695	21,784	24,261
Capital expenditure (-)	(3,692)	(4,857)	(4,850)	(3,210)	(2,231)
Net cash after capex	14,331	10,027	11,845	18,574	22,030
Inc./(dec.) in investments	(17,016)	(2,117)	7,520	1,833	2,288
Cash from investing activities	(20,708)	(6,974)	2,670	(1,377)	57
Dividends paid (-)	(9,723)	(9,213)	(11,020)	(13,543)	(16,472)
Inc./(dec.) in total borrowings	5,152	233	(1,500)	(1,500)	0
Others	(334)	(1,372)	(962)	(735)	(675)
Cash from financial activities	(4,905)	(10,352)	(13,481)	(15,778)	(17,147)
Opening cash balance	13,291	5,701	3,259	9,143	13,772
Closing cash balance	5,701	3,259	9,143	13,772	20,943
Change in cash balance	(7,589)	(2,442)	5,883	4,629	7,171

Exhibit 15: Growth and Ratio matrix

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Per share (Rs)					
EPS	10.2	9.6	10.9	12.7	14.3
Book value	47.5	53.3	60.0	65.0	69.8
DPS	5.2	5.2	6.2	7.6	9.3
Valuation (x)					
EV/sales	8.1	7.7	7.0	6.2	5.6
EV/EBITDA	39.0	40.9	35.2	30.5	27.2
P/E	51.9	55.0	48.6	41.6	37.1
P/BV	11.2	10.5	9.2	8.5	7.8
Return ratios (%)					
RoCE	27.2	23.0	23.2	24.8	26.0
RoE	22.5	19.7	20.2	21.2	22.0
ROIC	79.7	58.9	52.8	59.7	69.9
Profitability ratios (%)					
Gross margin	48.2	45.6	48.0	49.3	49.8
EBITDA margin	20.7	18.8	19.8	20.4	20.7
PAT margin	15.4	14.3	14.8	15.5	16.0
Liquidity ratios (%)					
Current ratio	1.3	1.2	1.5	1.6	1.7

Y/E March	FY22	FY23	FY24E	FY25E	FY26E
Quick ratio	0.6	0.5	0.8	0.9	1.0
Solvency ratio (%)					
Debt to Equity ratio	0.1	0.1	0.1	0.1	0.1
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	3.9	4.5	5.3
Debtor days	20	24	27	28	27
Inventory days	118	115	118	118	117
Creditor days	127	122	125	126	128

Source: Company, YES Sec; * pre-tax

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DISCLOSURE OF INTEREST

Name of the Research Analyst : Vishal Punmiya

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

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