

18 September 2023

India | Equity Research | Company Update

Dabur India

Consumer Staples & Discretionary

Expansion into adjacencies through power platform to drive faster growth

The theme for Dabur's analyst meet was 'portfolio enhancement'. It provided a strategy to redefine core for younger India (stronger scientific claims, new-age formats, aspirational packaging) while boosting the total addressable market (TAM) by expanding into adjacencies through power platforms. In our view, its power platform strategy appears to increase business complexity (a key concern for consensus) which Dabur intends to manage through its organisational strengths. Driving premiumisation is unlikely to be an easy journey for Dabur (middle class and rural India positioned). In the short term, Mohit Malhotra (CEO) spoke about consistent rural recovery and urban demand getting stronger with improving gross margin being partially reinvested into ad spends. Maintain ADD.

Increasing focus on ayurveda, again

Ayurveda is going through a transformation with an opportunity for Dabur to create an ecosystem for Ayurveda. Firstly, consumers are increasingly favouring natural alternatives (including ayurveda), and allopathic doctors are willing to prescribe a more holistic approach to patients backed by scientific evidence. Dabur being a dominant player in ayurveda has taken up the responsibility to make it attractive again. It has plans to spearhead this complementary medical approach through Dabur therapeutics focusing on increasing doctor coverage and advocacy (through strong scientific claims).

Redefine core for younger India

Dabur plans to increase the attractiveness of its portfolio for younger India through a) stronger scientific claims, b) increasing relevance through new-age formats, and c) aspirational packaging. In our view, contemporising the portfolio would be an easier journey while changing brand perception in consumer's mind would be a much longer journey.

TAM enhancement through power platform architecture

Dabur has further plans to increase TAM by expanding into new adjacencies through power brands with continued focus to drive growth in its core. As a result, it has tripled its TAM over the last 4 years with pick-up in its innovation pace to 4% in FY23 from 1.4% in FY19. Addressing concerns on increasing business complexity may be a key driver to success.

Financial Summary

Y/E March (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	1,08,080	1,14,406	1,29,420	1,45,131
EBITDA	22,538	21,641	24,938	29,784
EBITDA Margin (%)	20.7	18.8	19.1	20.4
Net Profit	18,242	17,072	19,022	22,978
EPS (Rs)	10.3	9.6	10.7	13.0
EPS % Chg YoY	7.7	(6.6)	11.4	20.8
P/E (x)	54.8	58.7	52.7	43.6
EV/EBITDA (x)	44.3	46.3	39.8	33.0
RoCE (%)	17.6	14.2	14.5	16.0
RoE (%)	22.6	19.1	19.1	20.9

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Market Data

Market Cap (INR)	1,002bn
Market Cap (USD)	12,052mn
Bloomberg Code	DABUR IN
Reuters Code	DABU.BO
52-week Range (INR)	611 /504
Free Float (%)	33.0
ADTV-3M (mn) (USD)	11.7

Price Performance (%)	3m	6m	12m
Absolute	(0.1)	8.9	1.3
Relative to Sensex	8.3	19.0	14.7

ESG Disclosure	2021	2022	Change
ESG score	42.8	52.2	9.3
Environment	22.5	42.1	19.6
Social	27.2	35.6	8.4
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

04-08-2023: [Q1FY24 results review](#)

05-05-2023: [Q4FY23 results review](#)

Premiumisation and other enablers

Premium products are currently ~8-9% of its portfolio (defined as 20% higher than average selling price of that category) given Dabur has been positioned around middle class and rural India. It has plans to increase premiumisation by ~300-400bps in its portfolio gradually (which we believe has lacked for Dabur vs peers). We believe premiumisation may be a key driver for improving Dabur's profitability.

Channel specific GTM strategy (distribution expansion and efficiency improvement), building right capabilities (younger leadership team, fast fail approach, P&L responsibility), operational excellence and digitisation are other growth enablers.

Medium-term aspirations

Overall, Dabur aspires to grow 1.5x of market growth rate with market share gains across portfolio. Across business segments, it has medium-term aspirations to a) reach ~INR 50bn in healthcare segment (~INR 25.8bn in FY23); b) reach ~INR 70bn in HPC segment (~INR 38.5bn in FY23) with double-digit revenue growth, market share gains and premiumisation led gross margin expansion; c) double-digit growth in foods & beverages segment.

Valuation and risks

Our earnings estimates remain unchanged, modelling revenue / EBITDA / PAT CAGR of 13 / 17 / 16 (%) over FY23-25E. We maintain **ADD** rating with DCF-based unchanged target price of INR 625. At our target price, the stock will trade at 48x P/E multiple Mar'25E. Key downside risks: Sustained weakness in consumption demand, slower-than-expected pick-up in rural demand.

Exhibit 1: Transition from power brands to power platforms, food & beverages



Source: I-Sec research, Company data

Exhibit 2: Transition from power brands to power platforms, BPC



Source: I-Sec research, Company data

Exhibit 3: Transition from power brands to power platforms, healthcare



Source: I-Sec research, Company data

Exhibit 4: Scaling existing categories by entering new adjacencies



Source: I-Sec research, Company data

Exhibit 5: Distribution expansion and efficiency improvement

Total Reach (mn outlets)	6.7	7.9	8.5
Direct Reach (mn outlets)	1.1	1.4	1.6
Village Coverage (In '000s)	44	101	120
Yoddhas	0	11,804	20,000
Chemist Coverage (In '000s)	216	270	300
EDGE Score (Assortment)	Was not being tracked earlier	88	100 +
	FY19	FY23	Near Term Target

Source: I-Sec research, Company data

Exhibit 6: Fearless approach (fast-fail approach)



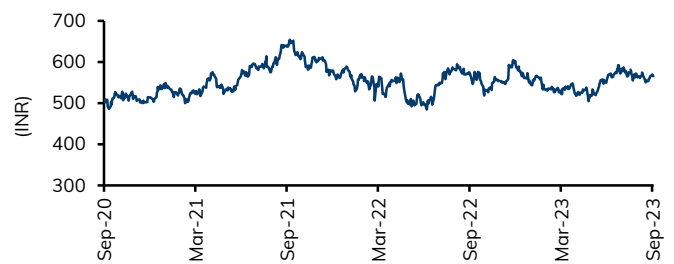
Source: I-Sec research, Company data

Exhibit 7: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	66.2	66.2	66.2
Institutional investors	28.0	28.2	28.3
MFs and others	3.0	3.4	3.4
Fis/Banks	4.5	5.0	4.2
FIIIs	20.5	19.8	20.7
Others	5.8	5.6	5.5

Source: Bloomberg

Exhibit 8: Price chart



Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Sales	1,08,080	1,14,406	1,29,420	1,45,131
Operating Expenses	86,349	93,658	1,05,512	1,16,502
EBITDA	22,538	21,641	24,938	29,784
EBITDA Margin (%)	20.7	18.8	19.1	20.4
Depreciation & Amortization	2,529	3,110	3,698	3,973
EBIT	20,009	18,532	21,240	25,810
Interest expenditure	386	782	899	963
Other Non-operating Income	3,932	4,454	4,411	5,024
Recurring PBT	23,555	22,203	24,753	29,872
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	5,264	5,174	5,778	6,944
PAT	18,291	17,030	18,975	22,928
Less: Minority Interest	(49)	42	46	51
Extraordinaries (Net)	850	-	-	-
Net Income (Reported)	19,141	17,030	18,975	22,928
Net Income (Adjusted)	18,242	17,072	19,022	22,978

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	43,168	42,490	58,155	72,516
of which cash & cash eqv.	14,247	10,624	22,463	32,887
Total Current Liabilities & Provisions	26,824	28,788	32,566	36,520
Net Current Assets	16,345	13,701	25,589	35,996
Investments	53,651	55,288	55,288	55,288
Net Fixed Assets	15,912	28,619	29,194	29,428
ROU Assets	-	-	-	-
Capital Work-in-Progress	1,675	1,751	1,751	1,751
Total Intangible Assets	7,167	7,167	7,167	7,167
Long Term Loans & Advances	1,266	1,208	1,366	1,532
Deferred Tax assets	-	-	-	-
Total Assets	96,015	1,07,734	1,20,356	1,31,162
Liabilities				
Borrowings	10,072	11,434	13,684	13,434
Deferred Tax Liability	816	889	889	889
Provisions	637	644	728	817
Other Liabilities	271	354	354	354
Equity Share Capital	1,768	1,772	1,772	1,772
Reserves & Surplus	82,045	87,961	98,294	1,09,313
Total Net Worth	83,813	89,733	1,00,066	1,11,085
Minority Interest	406	4,682	4,636	4,585
Total Liabilities	96,015	1,07,734	1,20,356	1,31,162

Source Company data, I-Sec research

Exhibit 11: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	29,770	30,335	26,687	31,211
% growth (YOY)	5.9	3.4	6.4	11.0
EBITDA	6,007	6,099	4,098	6,047
Margin %	20.2	20.1	15.4	19.4
Other Income	1,233	1,008	1,207	1,098
Extraordinaries	-	-	(297)	-
Adjusted Net Profit	4,901	4,759	3,008	4,639

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	18,023	14,884	19,843	23,630
Working Capital Changes	(968)	(1,601)	(123)	(59)
Capital Commitments	(3,741)	(5,091)	(4,273)	(4,207)
Free Cashflow	14,282	9,793	15,570	19,423
Other investing cashflow	(9,013)	(775)	(452)	(1,826)
Cashflow from Investing Activities	(12,755)	(5,865)	(4,725)	(6,033)
Issue of Share Capital	1	4	-	-
Interest Cost	(219)	(779)	(899)	(963)
Inc (Dec) in Borrowings	5,408	(3)	2,250	(250)
Dividend paid	(9,723)	(9,213)	(10,631)	(11,960)
Others	(372)	(361)	-	-
Cash flow from Financing Activities	(4,905)	(10,352)	(9,279)	(13,172)
Chg. in Cash & Bank balance	364	(1,334)	5,839	4,425
Closing cash & balance	14,611	9,290	28,301	37,312

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	10.3	9.6	10.7	13.0
Adjusted EPS (Diluted)	10.3	9.6	10.7	13.0
Cash EPS	11.7	11.4	12.8	15.2
Dividend per share (DPS)	5.2	5.2	6.0	6.8
Book Value per share (BV)	47.4	50.6	56.5	62.7
Dividend Payout (%)	50.4	54.0	55.9	52.0
Growth (%)				
Net Sales	13.7	5.9	13.1	12.1
EBITDA	12.5	(4.0)	15.2	19.4
EPS (INR)	7.7	(6.6)	11.4	20.8
Valuation Ratios (x)				
P/E	54.8	58.7	52.7	43.6
P/CEPS	48.1	49.6	44.1	37.2
P/BV	11.9	11.2	10.0	9.0
EV / EBITDA	44.3	46.3	39.8	33.0
P / Sales	9.3	8.8	7.7	6.9
Dividend Yield (%)	0.9	0.9	1.1	1.2
Operating Ratios				
Gross Profit Margins (%)	48.2	45.6	46.6	47.3
EBITDA Margins (%)	20.7	18.8	19.1	20.4
Effective Tax Rate (%)	22.3	23.3	23.3	23.2
Net Profit Margins (%)	16.8	14.8	14.6	15.7
Net Debt / Equity (x)	0.0	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.2)	0.0	(0.4)	(0.7)
Fixed Asset Turnover (x)	3.4	2.8	2.5	2.6
Working Capital Days	7	10	9	8
Inventory Turnover Days	72	69	70	71
Receivables Days	24	29	29	29
Payables Days	76	75	76	77
Profitability Ratios				
RoCE (%)	17.6	14.2	14.5	16.0
RoE (%)	22.6	19.1	19.1	20.9
RoIC (%)	58.3	42.9	40.4	48.6

Source Company data, I-Sec research

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