

Downgrade to ADD; weak general trade health concerning

Consumer Goods ▶ Company Update ▶ October 2, 2024

TARGET PRICE (Rs): 650

We downgrade Dabur to ADD from BUY with TP cut from Rs750/sh to Rs650/sh, due to limited upside. We have been positive on Dabur given expected improvement in the demand setting from rural recovery (45% of revenue) and better winter demand (to aid mix). Q2 inventory correction is a surprise, where Dabur noted pipeline buildup. Channel hygiene (refer to report: [Addressing channel hygiene key for restoring distribution moat](#)) is an important issue with FMCG firms; restoration would be key for growth ahead. Unlike peers taking corrective measures over a period of time, Dabur has considered a one-time hit. Management sees growth rebound from Oct-24. Factoring in Q2 inventory correction (unlikely to reverse), we see earnings cut of 8-11% over FY25-27E. We take back execution premium from valuation and value Dabur at 47x P/E.

Dabur India: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	115,299	124,040	129,026	142,401	156,833
EBITDA	21,641	24,002	24,274	28,725	33,217
Adj. PAT	17,182	18,867	18,928	22,559	26,132
Adj. EPS (Rs)	9.7	10.6	10.7	12.7	14.7
EBITDA margin (%)	18.8	19.4	18.8	20.2	21.2
EBITDA growth (%)	(4.0)	10.9	1.1	18.3	15.6
Adj. EPS growth (%)	(6.0)	9.8	0.3	19.2	15.8
RoE (%)	19.8	20.0	18.5	20.5	21.9
RoIC (%)	44.3	41.1	39.5	46.6	55.0
P/E (x)	63.8	58.1	57.9	48.6	42.0
EV/EBITDA (x)	48.2	43.1	42.4	35.5	30.4
P/B (x)	12.2	11.1	10.4	9.6	8.8
FCFF yield (%)	1.0	1.4	1.3	1.9	2.2

Source: Company, Emkay Research

Q2FY25 inventory correction in general trade, focus on trade hygiene

There has been an inventory build-up in general trade over the past few quarters, given the muted demand. Consumer adoption of organized channels like quick commerce has been healthy, which has had a direct effect on demand from general trade, and therefore, the inventory build-up. With the build-up of inventory, ROIs of general trade distributors have been impacted. Dabur India is proactively taking action to support its general trade distributors, who have been reeling from an excess inventory situation. The company has deliberately reduced primary billing to general trade outlets in Q2. Overall demand for the products remains healthy, with modest demand expansion in Q2. Inventory correction is effective across the portfolio pan-India.

Q2FY25 result to hurt FY25 earnings show; expect rebound from FY26

Dabur India is likely to report mid-single digit revenue decline for Q2FY25. In India, we see high-single digit revenue decline (with ~9% volume decline), affected by the trade pipeline correction, and muted show in beverages impacted by weak out-of-home consumption. International business is likely to see double digit constant currency growth (mid-single digit growth on reported basis). The company is confident on growth revival from Q3. We remain positive on healthcare growth revival, where we see intense winter to aid (La-Nina effect). We see improving demand setting reflecting in high-single digit volume growth in 2HFY25. Affected by negative operating leverage and sustained marketing needs, consolidated EBITDA/earnings should decline ~17% YoY in Q2FY25.

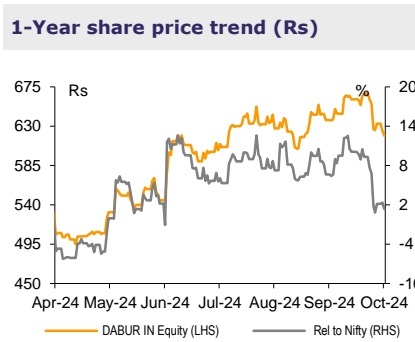
We remove execution premium; downgrade to ADD

Amid sustained hiccups and required corrective measures, we take back execution premium from the stock. Dabur has relatively underperformed (vs peers), and we expect this to continue in the near term. We remain hopeful of business recovery on the back of rural rebound and better winter sales. We downgrade to ADD from Buy. Any meaningful correction owing to tactical measures may offer entry opportunity, given long term fundamentals fall in place.

Target Price – 12M	Sep-25
Change in TP (%)	(13.3)
Current Reco.	ADD
Previous Reco.	BUY
Upside/(Downside) (%)	5.0
CMP (01-Oct-24) (Rs)	619.0

Stock Data	DABUR
52-week High (Rs)	672
52-week Low (Rs)	489
Shares outstanding (mn)	1,772.3
Market-cap (Rs bn)	1,097
Market-cap (USD mn)	13,088
Net-debt, FY14E (Rs mn)	-6,434
ADTV-3M (mn shares)	3
ADTV-3M (Rs mn)	1,816.2
ADTV-3M (USD mn)	21.7
Free float (%)	33.8
Nifty-50	25,797
INR/USD	83.8
Shareholding, Jun-24	
Promoters (%)	66.2
FPIs/MFs (%)	15.0/13.6

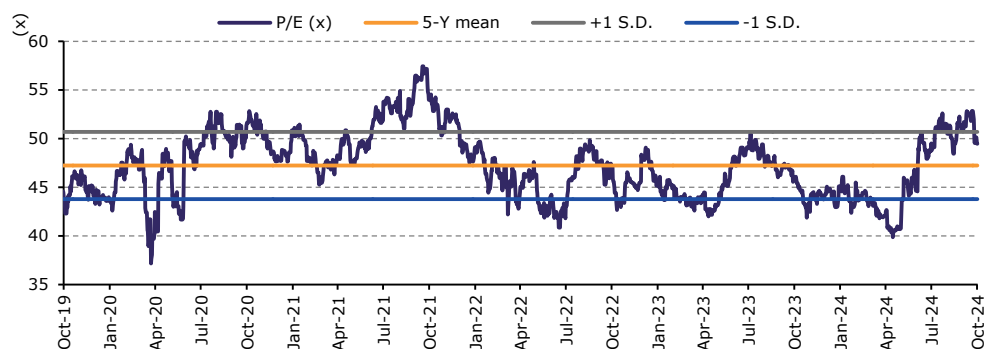
Price Performance (%)	1M	3M	12M
Absolute	(2.8)	1.3	12.2
Rel. to Nifty	(5.0)	(5.2)	(14.6)



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Exhibit 1: Dabur India – One year forward P/E (on consensus)



Source: Bloomberg, Emkay Research

Exhibit 2: Changes to Emkay estimates

(Rs mn)	New estimates			Old estimates			Changes to our estimates		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	127,798	141,026	155,319	134,200	148,267	163,481	-5%	-5%	-5%
Growth	4.2%	10.4%	10.1%	9.4%	10.5%	10.3%			
EBITDA	24,274	28,725	33,217	27,055	31,509	35,614	-10%	-9%	-7%
Growth	1.1%	18.3%	15.6%	12.7%	16.5%	13.0%			
EBITDA margin	19.0%	20.4%	21.4%	20.0%	21.0%	21.6%			
Adj PAT	18,928	22,559	26,132	21,195	24,892	28,408	-11%	-9%	-8%
Growth	0.3%	19.2%	15.8%	12.3%	17.4%	14.1%			
EPS (Rs)	10.7	12.7	14.7	12.0	14.0	16.0	-11%	-9%	-8%

Source: Company, Emkay Research

Exhibit 3: Emkay vs Consensus estimates

(Rs mn)	Emkay estimates			Consensus estimates			Emkay estimate vs consensus		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Net sales	127,798	141,026	155,319	135,596	149,531	163,870	-6%	-6%	-5%
Growth	4.2%	10.4%	10.1%	10.6%	10.3%	9.6%			
EBITDA	24,274	28,725	33,217	27,018	30,605	34,237	-10%	-6%	-3%
Growth	1.1%	18.3%	15.6%	12.6%	13.3%	11.9%			
EBITDA margin	19.0%	20.4%	21.4%	19.9%	20.5%	20.9%			
Adj PAT	18,928	22,559	26,132	20,909	23,817	26,898	-9%	-5%	-3%
Growth	0.3%	19.2%	15.8%	10.8%	13.9%	12.9%			
EPS (Rs)	10.68	12.73	14.75	11.80	13.47	15.26	-9%	-6%	-3%

Source: Bloomberg, Emkay Research

Exhibit 4: Key assumptions

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Growth								
Domestic sales	0.9%	13.2%	14.5%	5.5%	8.4%	3.8%	10.6%	10.4%
- Home and personal care	0.0%	9.5%	12.7%	5.2%	8.1%	2.9%	9.4%	9.4%
- Healthcare	5.9%	31.9%	4.8%	-6.9%	4.2%	4.9%	11.2%	11.4%
- Foods and Beverages	-5.7%	-5.8%	48.8%	30.0%	15.4%	4.6%	12.5%	11.2%
International sales	6.3%	2.3%	20.9%	1.9%	6.5%	5.2%	9.6%	9.3%
Consolidated sales	2.2%	10.3%	13.7%	5.7%	7.6%	4.0%	10.4%	10.1%
Consolidated EBITDA	3.0%	11.7%	12.5%	-4.0%	10.9%	1.1%	18.3%	15.6%
Consolidated Adj. PAT	0.0%	9.6%	7.7%	-5.8%	9.8%	0.3%	19.2%	15.8%
As a % of revenue (%)								
Gross margin	50.0%	50.0%	48.2%	45.6%	48.0%	48.8%	49.8%	50.3%
Employee costs	11.0%	10.9%	10.0%	10.0%	10.1%	10.4%	10.1%	9.8%
Advertisement	7.6%	8.3%	7.2%	5.6%	6.9%	7.3%	7.4%	7.4%
Other operating costs	11.1%	10.0%	10.5%	11.6%	12.0%	12.2%	11.9%	11.7%
EBITDA margin	20.6%	21.0%	20.7%	18.8%	19.4%	18.8%	20.2%	21.2%
Effective tax rate	15.3%	17.6%	22.3%	23.1%	22.4%	23.5%	23.5%	24.0%
Per share data								
Adj EPS (Rs)	8.74	9.58	10.32	9.70	10.65	10.68	12.73	14.75
DPS (Rs)	3.00	4.75	5.20	5.20	5.50	6.50	7.75	8.50
Pay-out	34.3%	49.6%	50.4%	53.6%	51.7%	60.9%	60.9%	57.6%
Balance Sheet								
Capex (Rs mn)	4.0	3.1	3.7	4.9	5.6	4.9	4.0	4.0
Inventory days (no. of)	59	67	65	65	58	59	60	60
Receivable days (no. of)	35	22	22	27	27	27	27	27
Payable days (no. of)	63	74	68	70	72	70	70	70
Avg ROE (post tax)	25.2%	23.7%	22.7%	19.8%	20.0%	18.5%	20.5%	21.9%
Avg ROCE (pre-tax)	23.8%	23.2%	22.8%	19.2%	19.5%	18.1%	20.4%	22.3%
Avg ROIC (pre-tax)	44.9%	47.5%	58.9%	46.7%	45.1%	43.1%	51.2%	62.7%

Source: Company, Emkay Research

Dabur India: Consolidated Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	115,299	124,040	129,026	142,401	156,833
Revenue growth (%)	5.9	7.6	4.0	10.4	10.1
EBITDA	21,641	24,002	24,274	28,725	33,217
EBITDA growth (%)	(4.0)	10.9	1.1	18.3	15.6
Depreciation & Amortization	2,891	3,117	3,320	3,566	3,822
EBIT	18,750	20,885	20,954	25,159	29,395
EBIT growth (%)	(6.3)	11.4	0.3	20.1	16.8
Other operating income	1,034	1,424	1,228	1,376	1,513
Other income	4,454	4,824	5,307	5,837	6,421
Financial expense	782	1,242	1,276	1,200	1,057
PBT	22,422	24,467	24,984	29,796	34,759
Extraordinary items	0	0	0	0	0
Taxes	5,174	5,474	5,871	7,002	8,342
Minority interest	67	126	185	235	285
Income from JV/Associates	0	0	0	0	0
Reported PAT	17,072	18,427	18,488	22,119	25,692
PAT growth (%)	(1.8)	7.9	0.3	19.6	16.2
Adjusted PAT	17,182	18,867	18,928	22,559	26,132
Diluted EPS (Rs)	9.7	10.6	10.7	12.7	14.7
Diluted EPS growth (%)	(6.0)	9.8	0.3	19.2	15.8
DPS (Rs)	5.2	5.5	6.5	7.8	8.5
Dividend payout (%)	54.0	52.9	62.3	62.1	58.6
EBITDA margin (%)	18.8	19.4	18.8	20.2	21.2
EBIT margin (%)	16.3	16.8	16.2	17.7	18.7
Effective tax rate (%)	23.1	22.4	23.5	23.5	24.0
NOPLAT (pre-IndAS)	14,424	16,212	16,030	19,247	22,340
Shares outstanding (mn)	1,771.8	1,772.0	1,772.0	1,772.0	1,772.0

Source: Company, Emkay Research

Cash flows					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	22,422	24,467	24,984	29,796	34,759
Others (non-cash items)	0	0	0	0	0
Taxes paid	(4,945)	(4,939)	(5,871)	(7,002)	(8,342)
Change in NWC	(1,601)	1,011	(1,185)	304	(45)
Operating cash flow	14,884	19,721	18,092	22,901	25,704
Capital expenditure	(4,857)	(5,609)	(4,928)	(4,000)	(4,000)
Acquisition of business	0	(5,783)	(7,500)	(10,000)	(15,000)
Interest & dividend income	0	0	0	0	0
Investing cash flow	(5,660)	(7,522)	(7,121)	(8,163)	(12,579)
Equity raised/(repaid)	4	0	0	0	0
Debt raised/(repaid)	488	(635)	0	0	0
Payment of lease liabilities	0	0	0	0	0
Interest paid	(779)	(1,067)	(1,276)	(1,200)	(1,057)
Dividend paid (incl tax)	(9,213)	(9,658)	(11,518)	(13,733)	(15,062)
Others	(815)	(253)	(440)	(440)	(440)
Financing cash flow	(10,315)	(11,612)	(13,234)	(15,373)	(16,559)
Net chg in Cash	(1,091)	587	(2,264)	(635)	(3,434)
OCF	14,884	19,721	18,092	22,901	25,704
Adj. OCF (w/o NWC chg.)	16,485	21,321	19,277	22,597	25,749
FCFF	10,027	14,112	13,164	18,901	21,704
FCFE	9,245	12,870	11,888	17,701	20,647
OCF/EBITDA (%)	68.8	82.2	74.5	79.7	77.4
FCFE/PAT (%)	53.8	68.2	62.8	78.5	79.0
FCFF/NOPLAT (%)	69.5	87.0	82.1	98.2	97.2

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	1,772	1,772	1,772	1,772	1,772
Reserves & Surplus	87,961	96,891	103,861	112,248	122,878
Net worth	89,733	98,663	105,633	114,020	124,650
Minority interests	4,682	4,368	4,553	4,787	5,072
Deferred tax liability (net)	910	1,090	1,090	1,090	1,090
Total debt	11,738	13,651	13,651	13,651	13,651
Total liabilities & equity	107,062	117,772	124,927	133,548	144,463
Net tangible fixed assets	31,734	34,099	35,154	34,714	34,018
Net intangible assets	0	0	0	0	0
Net ROU assets	1,869	1,962	2,061	2,164	2,272
Capital WIP	1,751	2,322	2,000	2,000	2,000
Goodwill	4,053	4,051	4,051	4,051	4,051
Investments [JV/Associates]	78	73	73	73	73
Cash & equivalents	65,833	75,917	81,154	90,519	102,085
Current assets (ex-cash)	33,094	34,764	36,647	40,472	44,217
Current Liab. & Prov.	29,482	33,455	34,153	38,282	41,982
NWC (ex-cash)	3,612	1,309	2,495	2,191	2,236
Total assets	107,062	117,772	124,927	133,548	144,463
Net debt	(54,096)	(62,266)	(67,503)	(76,868)	(88,435)
Capital employed	107,062	117,772	124,927	133,548	144,463
Invested capital	39,399	39,459	41,700	40,956	40,305
BVPS (Rs)	50.6	55.7	59.6	64.3	70.3
Net Debt/Equity (x)	(0.6)	(0.6)	(0.6)	(0.7)	(0.7)
Net Debt/EBITDA (x)	(2.5)	(2.6)	(2.8)	(2.7)	(2.7)
Interest coverage (x)	0.0	0.0	0.0	0.0	0.0
RoCE (%)	22.9	22.9	21.6	24.0	25.8

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	63.8	58.1	57.9	48.6	42.0
P/CE(x)	54.6	49.9	49.3	42.0	36.6
P/B (x)	12.2	11.1	10.4	9.6	8.8
EV/Sales (x)	9.1	8.4	8.1	7.2	6.5
EV/EBITDA (x)	48.2	43.1	42.4	35.5	30.4
EV/EBIT(x)	55.6	49.5	49.1	40.5	34.3
EV/IC (x)	26.5	26.2	24.7	24.9	25.0
FCFF yield (%)	1.0	1.4	1.3	1.9	2.2
FCFE yield (%)	0.8	1.2	1.1	1.6	1.9
Dividend yield (%)	0.8	0.9	1.1	1.3	1.4
DuPont-RoE split					
Net profit margin (%)	14.9	15.2	14.7	15.8	16.7
Total asset turnover (x)	1.1	1.1	1.1	1.1	1.1
Assets/Equity (x)	1.2	1.2	1.2	1.2	1.2
RoE (%)	19.8	20.0	18.5	20.5	21.9
DuPont-RoIC					
NOPLAT margin (%)	12.5	13.1	12.4	13.5	14.2
IC turnover (x)	3.5	3.1	3.2	3.4	3.9
RoIC (%)	44.3	41.1	39.5	46.6	55.0
Operating metrics					
Core NWC days	(23.6)	(25.7)	(27.6)	(25.4)	(25.2)
Total NWC days	11.4	3.9	7.1	5.6	5.2
Fixed asset turnover	2.4	2.1	2.0	2.1	2.1
Opex-to-revenue (%)	26.9	28.7	29.5	29.1	28.6

Source: Company, Emkay Research

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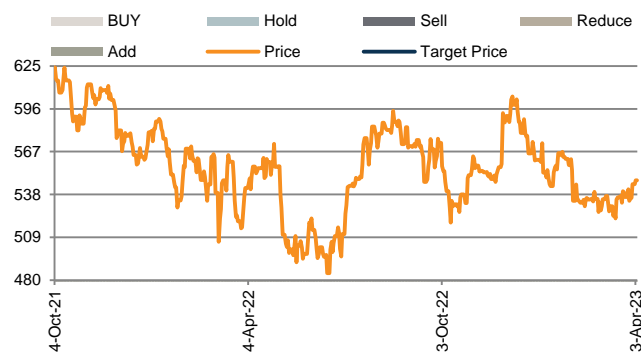
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
24-Sep-24	656	750	Buy	Nitin Gupta
24-Sep-24	656	750	Buy	Nitin Gupta
02-Aug-24	628	750	Buy	Nitin Gupta
02-Aug-24	628	750	Buy	Nitin Gupta
15-Jul-24	632	750	Buy	Nitin Gupta
15-Jul-24	632	750	Buy	Nitin Gupta
07-Jul-24	606	700	Buy	Nitin Gupta
07-Jul-24	606	700	Buy	Nitin Gupta
04-Jul-24	606	700	Buy	Nitin Gupta
04-Jul-24	606	700	Buy	Nitin Gupta
26-Jun-24	602	700	Buy	Nitin Gupta
26-Jun-24	602	700	Buy	Nitin Gupta
15-Jun-24	609	700	Buy	Nitin Gupta
15-Jun-24	609	700	Buy	Nitin Gupta
04-Jun-24	578	660	Buy	Nitin Gupta
04-Jun-24	578	660	Buy	Nitin Gupta
08-May-24	557	660	Buy	Nitin Gupta
08-May-24	557	660	Buy	Nitin Gupta
08-May-24	557	660	Buy	Nitin Gupta
08-May-24	557	660	Buy	Nitin Gupta
03-May-24	532	660	Buy	Nitin Gupta
03-May-24	532	660	Buy	Nitin Gupta
15-Apr-24	495	660	Buy	Nitin Gupta
15-Apr-24	495	660	Buy	Nitin Gupta
07-Apr-24	508	660	Buy	Nitin Gupta
07-Apr-24	508	660	Buy	Nitin Gupta
05-Apr-24	508	660	Buy	Nitin Gupta
05-Apr-24	508	660	Buy	Nitin Gupta
14-Mar-24	530	660	Buy	Nitin Gupta
14-Mar-24	530	660	Buy	Nitin Gupta
01-Feb-24	554	660	Buy	Nitin Gupta
01-Feb-24	554	660	Buy	Nitin Gupta
23-Jan-24	525	660	Buy	Nitin Gupta
23-Jan-24	525	660	Buy	Nitin Gupta
07-Jan-24	569	660	Buy	Nitin Gupta
07-Jan-24	569	660	Buy	Nitin Gupta
04-Jan-24	566	650	Buy	Nitin Gupta
04-Jan-24	566	650	Buy	Nitin Gupta
12-Dec-23	549	650	Buy	Nitin Gupta
12-Dec-23	549	650	Buy	Nitin Gupta
30-Nov-23	538	650	Buy	Nitin Gupta
30-Nov-23	538	650	Buy	Nitin Gupta
24-Nov-23	537	650	Buy	Nitin Gupta
24-Nov-23	537	650	Buy	Nitin Gupta
03-Nov-23	536	650	Buy	Nitin Gupta
03-Nov-23	536	650	Buy	Nitin Gupta
20-Oct-23	525	650	Buy	Nitin Gupta
20-Oct-23	525	650	Buy	Nitin Gupta
19-Oct-23	526	650	Buy	Nitin Gupta
19-Oct-23	526	650	Buy	Nitin Gupta
06-Oct-23	547	650	Buy	Nitin Gupta
06-Oct-23	547	650	Buy	Nitin Gupta
03-Oct-23	554	650	Buy	Nitin Gupta
03-Oct-23	554	650	Buy	Nitin Gupta

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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