9 February 2021

Dabur India – BUY

CMP :Rs.529.0
Target Price :Rs.633.0
Upside : 20%+
Stop Loss :Rs.462.0 (Closingbasis)

Investment Thesis

Recently, the stock price of Dabur India Ltd. (Dabur) corrected by ~5% from 52-week high of Rs.552.55 despite reporting good set of numbers in the recent quarters as Dabur is one of the biggest beneficiary of increased healthawareness in a post-Covid world.

Dabur has emerged from a general FMCG company to a less traditional consumer-oriented healthcare company, focused to new-age consumers. It has developed a well-diversified product portfolio catering to different segments. Dabur is re-branding its product range, like Pudin Hara, Chyawanprash, Hajmola and Dashmularishta as more youth-oriented under its 'Getting the future ready' strategy. Presently, ~35% of its domestic revenue comes from health-positioned brands, which it plans to increase gradually over time. We believe, competition raised from Patanjali has subsided significantly, resulting in high double-digit growth of Dabur Red and Dabur Honey (that competes with Patanjali). We believe, Dabur will grow by double-digit growth, driven by high volume growth with focus on power brands and low unit price products in FY20-22E.

Dabur generates ~45% of its revenue from rural market as against ~35% for the industry. Domestic FMCG sales growth moderated due to rural slowdown post lockdown, liquidity crunch and prolonged winter, which impacted hair care and foods segments in FY20. The international business growth remained muted due to continued weakness in MENA region and adverse currency in Turkey, Nigeria and Pakistan. We believe steady focus on expanding direct reach in rural areas would augment the volume growth in future. Out of the total 6.6 lakh villages in India, 66,000 generate ~50% of rural FMCG sales. Dabur has a direct reach to 44,000 of these villages, which it plans to increase to 51,000 by FY21E.

Financials

- During the past 5 years, revenue of Dabur grew at a CAGR of 2.1% while PAT grew at a CAGR of 6.3% in the same period.

Consol. (Rs.Mn)	FY18	FY19	FY20	FY21E	FY22E
Revenue	77,219	85,150	86,846	99,873	114,854
EBITDA	16,174	17,396	17,924	20,612	23,704
% growth	7.2	7.6	3.0	15.0	15.0
PAT	13,544	14,423	14,450	16,689	19,276
EPS (INR)	7.7	8.2	8.2	9.4	10.9
P/E (x)	68.6	64.6	64.5	55.9	48.4
RoE (%)	24.1%	26.0%	22.2%	23.4%	24.6%

- Dabur has reported 16.0% YoY growth in revenue in Q3FY21 to Rs.27,288mn driven by 18.1% YoY volume growth supported by strong traction in health supplement, oral care, OTC & ethical businesses.

Stock Data

Market Cap (Rs. Mn)	9,31,610
Market Cap ($ Mn)	12,761.8
Shares O/S (in Mn)	1,767.1
Avg. Volume (3 month)	2,652,000
52-Week Range (Rs.)	552.55/ 386.05

Shareholding Pattern

Promoters	67.87%
FIIs	18.52%
Institutions	5.93%
Others (incl. body corporate)	7.68%

Performance (%)	1M	6M	1Yr
Absolute	-1.6%	2.3%	8.2%
BSE FMCG	-2.0%	8.7%	9.3%

Key Ratios

Div Yield	0.6%
TTM PE	58.4x
ROE	23.0%
TTM EPS (Rs.)	9.0/-

- Dabur's higher penetration led growth continued in health supplementand oral care segments with 34.7% and 28% jump in sales, respectively. New products (launched in the last three quarters) contributing 4-5% to the sales in Q3FY21.
- EBITDA of Dabur has increased by 16.5% YoY to Rs.5,742mn in Q3FY21. However, EBITDA margin has only improved by 9bps to 21.0% in Q3FY21as the company has significanly (170 bps) increased its media spends largely investing behind core/power brands.

Key Business Highlights

- Dabur is amongst the top FMCG companies in India, operate in key consumer products categories like Hair Care, Oral Care, Health Supplements, Digestives, OTC &Ethicals, Skin Care, Home Care and Foods. Dabur is also a leader in Ayurvedic products with a portfolio of over 250 Herbal/Ayurvedic products.
- Flagship brands of Dabur consist of Dabur Amla, Dabur Chyawanprash, Vatika, Réal, Dabur Red Toothpaste, Babool, Hajmola, Dabur Honey, Glucose, Fem and Odonil.
- It has a wide distribution network, covering over 5.3 million retail outlets with a high penetration in both urban and rural markets. Dabur's international business spread into the US, Egypt, Nigeria, Bangladesh and Nepal and contributes ~26% to revenues.

Valuation

- Dabur is better placed compared to its peers given its presence in high-margin countries and categories. Of late, Dabur's international business, which contributes 26% to its consolidated revenue, has seen growth issues. Hyperinflation in Egypt, demand slowdown in GCC countries on account of fall in crude oil prices and adverse currency fluctuation has dented its performance in the Middle East and North Africa (MENA) region. However, due to the recent spike in crude oil prices, this highly profitable MENA region is expected to report a better performance. Dabur has been able to maintain 20-21% EBITDA margin, which will improve further once there is improvement in overseas business. It has taken a price hike of 1.5% during the quarter, which it expects to remain at ~2% for the year. It also expects to maintain operating margins at 20-21% going ahead.
- Dabur has a strong set of brands, of which, three brands generate more than Rs.10bn revenue each (Amla, Real and Vatika) and another 16 bring in at least Rs.1bn each. This hasn't stopped the efforts at innovation/re-innovation or re-positioning. Thus, Dabur is targeting several youth-centric products and categories such as milk shakes and drinking yoghurt, now being test marketed and will be soon rolled out nationally. In fact, in the recent past it has successfully rolled out several products/variants like Chyawanprash Sugar Free, HajmolaAnardana and Odomos roll-on and wear-on patches.
- With developed a well-diversified product portfolio, decline in competition from Patanjali, plans to increase rural reach, increase in margin due to benign cost inflation and plans to target youth-oriented brands, we value Dabur at 58.0x FY22E EPS of Rs.10.90 to arrive at target price of Rs.633.00, an upside of ~20%.

Risk & Concern

- Rural India is largely dependent on monsoons and Dabur's ~50% of the domestic sales comes from rural India. Thus, below normal rainfall can affect the volumes growth of Dabur going ahead.
- Sudden rise in inflation caused by supply disruptions of crude oil could bring operating margins under pressure.
- Any increase in competitions from ayurvedic oriented company like Patanjali may pressure on growth of Dabur.

Graphs & Charts

Figure 1: Net Sales Trend

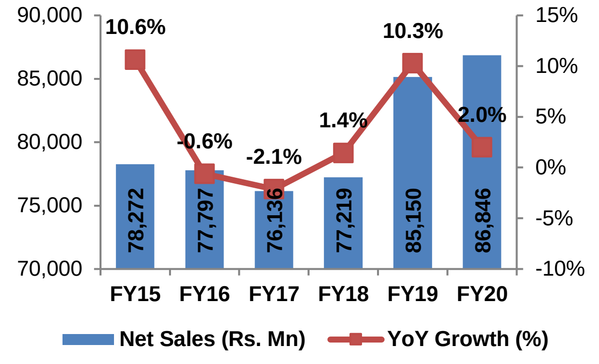


Figure 2: EBITDA & EBITDA Margin Trend

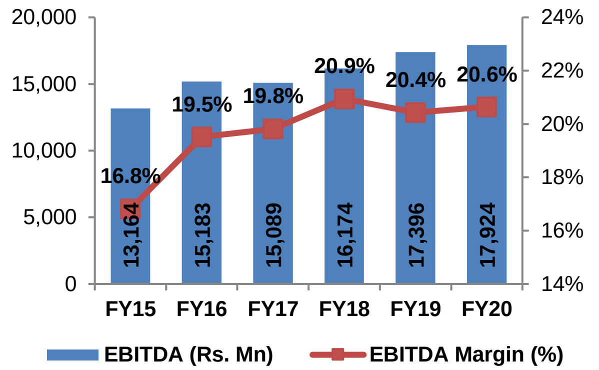


Figure 3: PAT Trend

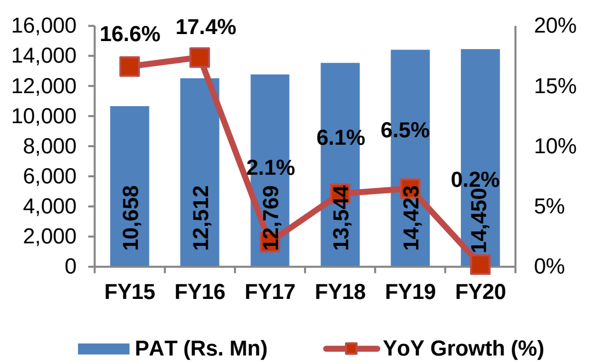
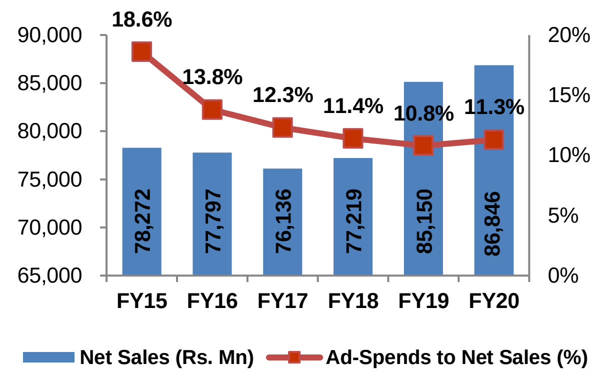


Figure 4:Ad-Spend to Net Sales Trend



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