Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

Stock Update

Result Update

Dabur India Ltd

One-offs impacted Q2 performance

Consumer Goods	Sharekhan code: DABUR
Reco/View: Buy ↔	CMP: **Rs. 547**
	Price Target: **Rs. 685** ↓

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)	✓		
Right Valuation (RV)	✓		

\+ Positive = Neutral – Negative

What has changed in 3R MATRIX

	Old		New
RS		↔	
RQ		↔	
RV		↔	

Company details

Market cap:	Rs. 96,937 cr
52-week high/low:	Rs. 672/489
NSE volume: (No of shares)	34.5 lakh
BSE code:	500096
NSE code:	DABUR
Free float: (No of shares)	59.8 cr

Shareholding (%)

Promoters	66.3
FII	15.3
DII	13.7
Others	4.8

Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	-12.5	-13.7	7.7	4.5
Relative to Sensex	-7.3	-11.9	0.4	-20.2

Sharekhan Research, Bloomberg

Summary

- Dabur India's (Dabur's) Q2FY2025 consolidated revenue declined by 5.5% y-o-y due to strategic initiative of general trade distributor inventory correction in the India business; OPM fell by 351 bps y-o-y to 18.2% owing to negative operating leverage.
- Revenue growth to recover to mid-to-high single-digits in H2; OPM to remain flat or marginally decline.
- Sesa's merger presents a strategic opportunity for Dabur to expand its presence in the Rs. 900 crore ayurvedic hair oil market - a key whitespace in Dabur's current hair oil portfolio. The deal is valued at 2.4x its FY2024 EV/Sales and 19-20x its FY2024 EV/EBITDA.
- Stock has corrected by 19% since its recent high and trades at 50x/41x/35x its FY25E/FY26E/FY27E earnings, respectively. We maintain Buy with a revised PT of Rs. 685.

Dabur's Q2FY2025 was a one-off quarter, as the company's strategic decision to correct distributor inventory in the GT (general trade) channel to enhance distributors' ROI impacted primary sales and led to 5.5% y-o-y decline in the consolidated revenue to Rs. 3,029 crore (India business revenue fell by ~8% y-o-y). Further, heavy rain and floods across various parts of the country impacted out-of-home consumption and consumer offtake. However, Dabur's India business reported market share gains across 95% of the portfolio and its rural demand outpaced urban demand by 130 bps in Q2. International business grew by 13% y-o-y (CC terms), aided by good growth in Egypt and SSA regions. Softening of raw-material inflation led to 102 bps y-o-y gross margin expansion to 49.3%, while OPM declined by 351 bps y-o-y to 18.2% due to negative operating leverage. Operating profit and PAT declined by 20.7% and 17.7% y-o-y to Rs. 553 crore and Rs. 418 crore, respectively. In H1FY2025, revenue grew by 0.7% y-o-y to Rs. 6,378 crore, OPM declined by 161 bps y-o-y to 18.9% and PAT declined by 5.4% y-o-y to Rs. 912 crore. The board has declared an interim dividend of Rs 2.75 per share for FY2025.

Key positives

- Rural demand outpaced urban demand by 130 bps in Q2.
- Dabur reported market share gains across 95% of its portfolio. MRC/beverages/air fresheners/digestives gained 510/240/220/160 bps market share, respectively.
- Foods' secondary sales grew by 20.6% y-o-y backed by 70% growth in edible oils and ghee.
- Egypt posted strong 72.8% y-o-y growth.

Key negatives

- Heavy monsoon and flooding led to 11.6% y-o-y decline in secondary sales of beverages.
- OPM fell by 351 bps y-o-y to 18.2%.

Management Commentary

- Rural demand is resilient and has outpaced urban growth for last three quarters. A better monsoon and government push will support rural demand in the coming quarters. The management believes urban consumption has bottomed out and expects to see an improvement going forward (expects urban growth to rise q-o-q to 3-3.5% from 2.8% in Q2).
- Management indicated that in the rural market, focus would be on distribution expansion, while in the urban market it plans to do consolidation of distributors. The company plans to increase direct reach in both rural and urban markets.
- Inventory correction was completed in one month. ROI of distributors to improve with reduction in inventory days from 30 to 21 days. It aims to further bring down inventory days to 19 days by December.
- Management has guided that revenue growth will recover to mid-to-high single-digits and OPM will remain flat or marginally decline in H2.
- Dabur has gained ~120 bps market share in perfumed hair oil (Amla, Sarso Amla, and almond oil) from a single largest player in the market.
- Premiumisation and product launches in Odonil and Odomos will enable home care portfolio to grow in double-digits to grow from ~Rs. 700 crore to ~Rs. 1,000 crore in 2 to 3 years.
- Dabur has grown ahead of category and gained market share in oral care. It has aggressive vectors in place to drive growth. In the international business, oral care will be second growth driver (after hair care) and has become the No. 2 & No. 3 player across regions.
- Chyavanprash reported secondary growth of 12.6%. The company has launched trail pack of Rs. 65 to improve penetration.
- Hair oil is Rs. 2,000 crore business for Dabur, with 16% market share. Dabur's gross margin is at 44%, while Sesa's gross margin is at 57% (merger is margin accretive). Distribution of Sesa is lower at 1.3 lakh vs 3.5-4 lakh of Dabur, Sesa is a national brand with strong presence in key markets, while it has low presence in international markets, proving scope for growth.
- Within the beverage portfolio 1) Coconut water has bounced back with 200 bps market share gains, 2) Active 100% juices was not impacted due to season, 3) Drinks have delivered 16% growth excluding the North-East, and 4) Nectar business (70-80% of portfolio) has declined by 12%, versus category's decline of 9%.

Revision in earnings estimates - We have reduced our earnings estimates for FY2025E and FY2026E by 9% and 6% to factor in impact of one-time inventory correction at the GT level in Q2 and little lower margins than earlier estimated due to input cost inflation. We have introduced FY2027 estimates through this note.

Our Call

View – Retain Buy with a revised PT of Rs. 685: Dabur's Q2 performance was affected by inventory correction at GT level. It expects revenue growth to recover to mid-to-high single digits in H2 with flat to marginal decline in the OPM. Revenue growth in the medium term will be driven by market share gains, distribution expansion, investments in power brands and new launches, while profitability is expected to improve, as raw-material inflation eases and operating leverage improves. It currently trades at 50x/41x/35x its FY2025E/FY2026E/FY2027E EPS, respectively. We retain our Buy on the stock with a revised price target (PT) of Rs. 685.

Key Risks

Heightened competition in key categories or a slowdown in demand would act as a key risk to our earnings estimates in the near to medium term.

Valuation (Consolidated) Rs cr

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues	11,530	12,404	12,960	14,753	16,644
OPM (%)	18.8	19.4	19.5	20.3	20.8
Adjusted PAT	1,703	1,812	1,939	2,371	2,789
% YoY growth	-6.9	6.4	7.0	22.3	17.7
Adjusted EPS (Rs.)	9.6	10.2	10.9	13.4	15.7
P/E (x)	57.0	53.5	50.0	40.9	34.8
P/B (x)	10.8	9.8	9.1	8.1	7.2
EV/EBITDA (x)	45.0	40.8	38.5	32.3	27.8
RoNW (%)	19.6	19.2	18.9	21.0	21.9
RoCE (%)	22.1	21.5	21.6	24.1	25.7

Source: Company; Sharekhan estimates

Q2 – One-off quarter

Dabur's consolidated revenues fell by 5.5% y-o-y to Rs. 3,029 crore impacted by one-off factors in the domestic business such as company's strategic decision to correct distributor inventory in the GT (general trade) channel to enhance channel partners' ROI, which impacted primary sales and heavy rain and floods across various parts of the country, which impacted out of home consumption and consumer offtake. Revenues were in line with ours and the average street expectation of Rs. 3,016 crore and Rs. 3,064 crore, respectively. In India business, the HPC, HC and F&B segments declined by 8.1%, 9.8% and 20.7% y-o-y, respectively. Dabur's India business reported market share gains across 95% of the portfolio and its rural demand outpaced urban demand by 130 bps in Q2. International business grew by 13% y-o-y (CC terms), aided by good growth in Egypt and SSA regions. As anticipated, the softening of raw-material inflation led to 102 bps y-o-y gross margin expansion to 49.3%. However, negative operating leverage led to a 351 bps y-o-y contraction in OPM to 18.2%, higher than our expectation of 17.3% and in line with average street expectation of 18%. Operating profit declined by 20.7% y-o-y to Rs. 553 crore, while adjusted PAT fell by 17.7% y-o-y to Rs. 418 crore against our and average street expectation of Rs. 384 crore and Rs. 425 crore, respectively. In H1FY2025, revenue grew by 0.7% y-o-y to Rs. 6,378 crore, OPM declined by 161 bps y-o-y to 18.9% and PAT declined by 5.4% y-o-y to Rs. 912 crore. The board has declared an interim dividend of Rs 2.75 per share for FY2025.

One-off quarter for Domestic business; international business grew 13% y-o-y (CC terms)

Home and personal care (HPC):

- Revenue declined by 8.1% y-o-y (secondar sales up by 6% y-o-y) to Rs. 1,035 crore. All verticals witnessed market share gains in Q2. Two-year CAGR at 6.9%.
- Homecare portfolio reported secondary sales growth of 9.1% y-o-y. Air fresheners witnessed 220 bps market share gains.
- Oral care portfolio grew by 5.3% (secondary), with 45 bps market share gains.
- Hair oils portfolio grew by 3.8% (secondary) y-o-y and gained 40 bps market share.
- Shampoos secondary sales grew by 3.2% y-o-y, with 22 bps market share gains.
- The skincare portfolio stood flat on secondary sales basis. Bleach creams portfolio registered a 40-bps increase in market share.

Healthcare (HC):

- Revenues declined by 9.8% y-o-y (secondar sales higher by 4% y-o-y) to Rs. 598 crore. Two-year CAGR at 6.5%.
- Health supplements grew by 2.8% (secondary), with Chyawanprash continuing to strengthen its market leadership by gaining market share. Monsoon campaign for Dabur Chyawanprash was well received by consumers. Honey witnessed 60 bps market share gains.
- Digestives' secondary sales grew by 6.3% y-o-y, with market share gains of 160 bps.
- OTC and ethicals' secondary sales stood flat y-o-y. Dabur health juices and Dabur Baby care range continued its strong growth momentum and grew in double digits. Honitus grew ahead of the category and gained market share.

Foods & Beverages (F&B):

- Revenue declined by 20.7% y-o-y (secondar sales down by 11% y-o-y) to Rs. 317 crore. Two-year CAGR at 10.1%.
- Secondary sales of beverages declined by 11.6% y-o-y due to heavy monsoon and flooding. However, the portfolio gained market share of ~240 bps in Q2.
- Foods secondary sales grew by 20.6% y-o-y driven by 70% y-o-y growth in Edible Oils and ghee.
- Badshah spices portfolio recorded 15% y-o-y growth (secondary) and gained market share.

International business:

- International business revenue grew by 13% y-o-y on CC terms to Rs. 847 crore (grew by 3.3% in Rupee terms).
- Egypt business grew by 72.8%, the Sub-Saharan Africa business rose 26.1%, Turkey business was up 3.1%. Middle East business posted growth of 9.8% and Namaste grew marginally by 0.6%. However, SAARC region posted a slight decline of 0.6%.

Proposed Merger of Sesa care with Dabur India

- Dabur has announced that it has entered into an agreement to merge Sesa Care Private Limited (Sesa), which is a leading brand in the Ayurvedic hair care market with a strong brand equity.
- As part of the transaction, Dabur will acquire 51% of the total paid up cumulative Redeemable preference shares (CRPS) of Sesa from its existing shareholder, True North (a private equity fund), for Rs. 12.59 crore at face value. The enterprise value is estimated to be in the range of Rs. 315-325 crore, including debt of Rs. 289 crore, which will be backed by Dabur's corporate guarantee. Share swap for the equity shares and remaining 49% of the total paid up CRPS of Sesa will be decided at the time of filing scheme of merger. The deal is attractively valued at 2.4x FY2024 EV/Sales and 19-20x FY2024 EV/ EBITDA. The merger is expected to be completed within ~15 to 18 months subject to regulatory approvals.
- Sesa is a leading brand with strong recall and No. 3 position in the ayurvedic hair oil category, presenting a strategic opportunity for Dabur to expand its presence in the Rs. 900 crore ayurvedic hair oil market - a key whitespace in Dabur's current hair oil portfolio. The brand has ~11% market share in India.
- Sesa reported revenue of ~Rs. 133 crore and ~13% EBITDA margin in FY2024, with potential to expand both revenue and margins on the back of significant synergies. Its key markets are India and Bangladesh (~13% revenue contribution in FY2024). It has its own manufacturing facility in Himachal Pradesh.
- Ayurvedic hair oil category has high single digit penetration in India, which provides good headroom for growth. Dabur plans to leverage its Pan-India distribution network to scale up Sesa brand in the domestic market. Further, it plans expansion in key international markets.
- Dabur expects to unlock significant cot synergies through this merger as Sesa's portfolio has premium pricing with a superior gross margin profile. Going ahead, Dabur aims to optimize cost by reducing overlaps, capture synergies in procurement and supply chain and enhance efficiency of operations.

Multiple levers in place to drive growth in coming years

- **Strong focus on oral care:** In the oral care portfolio, Dabur aims to strengthen its domestic business and expand in international markets. In the India business, it plans to ramp up the gels segment, drive premiumization by filling white spaces and continue to deliver strong growth in Dabur Herb'l & Meswak portfolio on the back of superior formulations and claims. In the international market, it plans to invest in capacity expansion to service increased demand in UAE and Egypt, which are recording strong double-digit growth and expand distribution network in new geographies such as Morocco, Algeria, Eastern Europe and CIS.
- **Scale up home care and skin care driven by significant headroom for growth:** Within the homecare portfolio, Odonil maintains leadership in blocks segment while Odomos liquid vaporiser is expected to record double-digit growth in key markets. In the skin care portfolio, Dabur aims to fill the white spaces in the portfolio with plans to enter the premium ayurvedic skincare segment and expand the Gulabari franchise.
- **Foods to become Rs. 500 crore franchise in FY25:** Foods portfolio is expected to continue its double-digit trajectory with the company's focus on 1) strengthening the Badshah product range (led by market share gains in the core markets, expanding into adjacent geographies and filling up white spaces in portfolio through newer variants and SKUs), 2) expanding the Homemade franchise and 3) scaling up the premium oils and ghee portfolio.

Results (Consolidated) **Rs cr**

Particulars	Q2FY25	Q2FY24	y-o-y (%)	Q1FY25	q-o-q (%)
Total Revenue	**3,028.6**	**3,203.8**	**-5.5**	**3,349.1**	**-9.6**
Materials	1,534.3	1,655.7	-7.3	1,748.7	-12.3
Employee cost	338.8	315.5	7.4	322.9	4.9
Ad Promotions	225.6	216.5	4.2	235.9	-4.3
Other expenditure	377.3	319.3	18.2	386.6	-2.4
Total Expenditure	2,476.0	2,507.0	-1.2	2,694.1	-8.1
Operating Profit	**552.6**	**696.9**	**-20.7**	**655.0**	**-15.6**
Other Income	151.5	116.4	30.2	129.4	17.1
Interest Expenses	47.4	28.1	68.4	32.7	45.1
Depreciation	111.0	87.3	27.1	109.1	1.7
Profit before tax	**545.7**	**697.8**	**-21.8**	**642.7**	**-15.1**
Tax	128.4	156.3	-17.9	148.1	-13.3
Adjusted PAT	**417.3**	**541.5**	**-22.9**	**494.6**	**-15.6**
Extra-ordinary gain/loss	0.0	-34.9	-	0.0	-
Minority interest	-0.2	-0.5	-51.0	0.2	-
Reported PAT	**417.5**	**507.0**	**-17.7**	**494.4**	**-15.5**
Adjusted EPS (Rs.)	2.4	3.1	-22.9	2.8	-15.6
			bps		**bps**
GPM (%)	49.3	48.3	102	47.8	155
OPM (%)	18.2	21.8	-351	19.6	-131
NPM (%)	13.8	16.9	-312	14.8	-99
Tax rate (%)	23.5	22.4	113	23.0	49

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - H2FY2025 will be better as compared to H1

Monsoons were above normal and well spread out, which will help agri production to be better in the current year. This will not only boost rural consumption but will also help agri inflation to stabilise in the near term. Management of some consumer goods companies have indicated double-digit revenue growth in H2FY2025 driven by mix of volume and price-led growth. Global uncertainties will lead to volatility in the raw material prices and currency movement. This will put pressure on the margins of consumer goods companies in the quarters ahead. Companies might opt for a gradual price increase to mitigate the impact of higher raw material prices. We expect operating profit growth to be lower as compared to revenue growth in the near term. On the other hand, a rise in commodity prices will reduce competitive intensity from small/regional players in the quarters ahead. Thus, overall growth trends remain positive for most companies under our coverage.

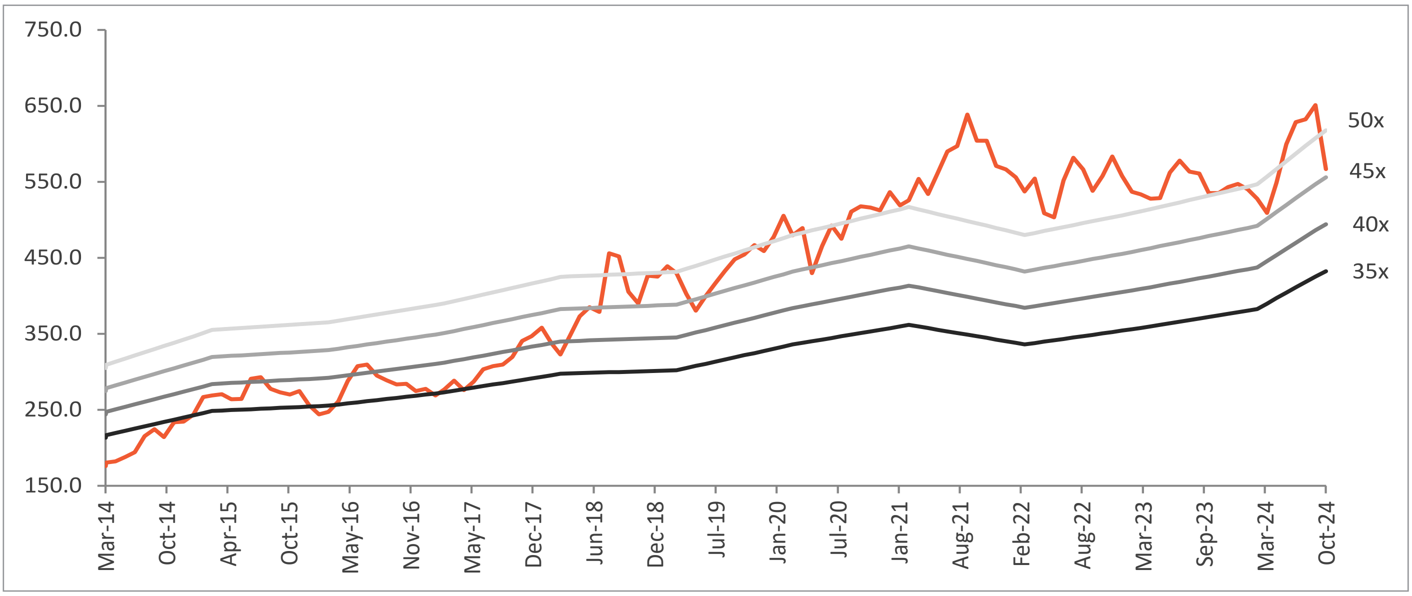
■ Company outlook - Medium-term growth driven by product launches, wider distribution

Dabur posted ~6%/18% y-o-y revenue/PAT decline in Q2FY2025, with OPM falling by 351 bps y-o-y to 18.2%. With rural sentiments improving, management expects to deliver good performance in the rural market in the coming quarters, while it expects urban slowdown to have bottomed out and expects recovery going ahead. We expect growth momentum in the domestic business to recover in the coming quarters, driven by market share gains in key categories, improving category penetration, strong traction in product launches, and expansion in distribution reach. Revenue and PAT are expected to post a 10% and 16% CAGR during FY2024-FY2027E.

■ Valuation - Maintain Buy with a revised PT of Rs. 685

Dabur's Q2 performance was affected by inventory correction at GT level. It expects revenue growth to recover to mid-to-high single digits in H2 with flat to marginal decline in the OPM. Revenue growth in the medium term will be driven by market share gains, distribution expansion, investments in power brands and new launches, while profitability is expected to improve, as raw-material inflation eases and operating leverage improves. It currently trades at 50x/41x/35x its FY2025E/FY2026E/FY2027E EPS, respectively. We retain our Buy on the stock with a revised price target (PT) of Rs. 685.

One-year forward PE band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Marico	55.9	51.7	43.4	41.3	37.9	32.2	41.4	42.5	46.4
Hindustan Unilever	60.6	57.0	52.3	42.5	40.6	37.2	25.9	26.9	29.2
Dabur India	53.5	50.0	40.9	40.8	38.5	32.3	21.5	21.6	24.1

Source: Company; Sharekhan Research

About company

Dabur is one of India's leading FMCG companies with revenue of over Rs. 12,000 crore (FY2024). The company operates in key consumer product categories such as hair care, oral care, healthcare, and skin care based on Ayurveda. Dabur India's FMCG portfolio today includes eight distinct power brands: Dabur Chyawanprash, Dabur Honey, Dabur Honitus, Dabur PudinHara, and Dabur Lal Tail in the healthcare space; DaburAmla and Dabur Red Paste in the personal care category; and Real in the F&B category. The company has a large presence in rural India (especially in northern and eastern parts of India). Further, the company has a substantial international presence (in regions such as the Middle East, North America, and SAARC), contributing ~25% to total revenue.

Investment theme

Dabur's positioning as an Ayurvedic products company with a focus on herbal and natural products in the healthcare and personal care segments and a strong presence in the juices segment makes it a formidable play in the domestic market. Further, the company's international presence de-risks its business model when demand slows down in the domestic market. The company continues to leverage its urban and rural presence by enhancing its distribution network and product launches. Focus on the health/hygiene portfolio, continuous innovation, investment behind brands, leveraging power brands, and consumer-connect initiatives are some of the key growth drivers for Dabur in the near to medium term.

Key Risks

- **Slowdown in rural demand:** Any slowdown in rural demand would affect volume growth.
- **Increased input prices:** Any significant increase in the prices of key raw materials would affect profitability and earnings growth.
- **Increased competition in highly penetrated categories:** Increased competition in highly penetrated categories such as hair care and oral care would act as a threat to revenue growth.

Additional Data

Key management personnel

Mohit Burman	Chairman
Mohit Malhotra	Chief Executive Officer
Ankush Jain	Chief Financial Officer
A K Jain	Vice President Finance, Company Secretary and Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Life Insurance Corp. India	3.53
2	Blackrock Inc.	1.68
3	Mirae Asset Global Investments Co.	1.41
4	The Vanguard Group Inc.	1.33
5	NPS Trust A/c Uti Retirement Solutions	1.33
6	ICICI Prudential AMC	1.22
7	First Sentier Investors ICVC	0.97
8	HDFC AMC	0.94
9	First Sentier Global Umbrella Fund PLC/Ireland	0.71
10	SBI Funds Management Ltd	0.63

Source: Bloomberg

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/ weak realisation environment resulting in margin pressure and detoriating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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by BNP PARIBAS

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