

Below Estimates; Healthcare growth moderates as Covid-led tailwinds recede

CMP: INR 535

Rating: Reduce

Target Price: INR 498

Stock Info

BSE	500096
NSE	DABUR
Bloomberg	DABUR IN
Reuters	DABUR.NS
Sector	Personal care
Face Value (INR)	1
Equity Capital (INR Cr)	177
Mkt Cap (INR cr)	94,487
52w H/L (INR)	582/421
Avg Yearly Vol (in 000')	3226

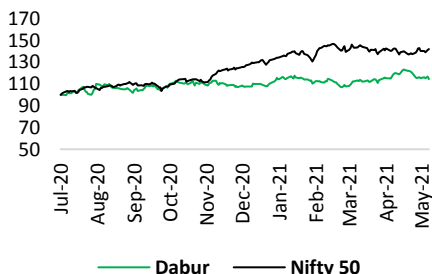
Shareholding Pattern %

(As on March, 2021)

Promoters	67.38
Public & Others	32.62

Stock Performance (%)	3m	6m	12m
Dabur	-3.36	1.4	20.9
Nifty	-0.68	20.8	61.1

Dabur Vs Nifty



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Dabur India earnings were below our estimates on all fronts due to lower volume growth (25.4% YoY). Profit for the quarter grew by 34.0%YoY/-23.2% QoQ to INR 377.29 cr against our estimate of INR 421 cr during Q4FY20. Consolidated revenue stood at INR 2,337 cr ,below our estimate of INR 2,393 Cr registering a growth of 25.3%YoY/-14.4%QoQ. Reported EBITDA grew by 25.6%YoY/-22.9%QoQ to INR 442 Cr, below our estimate of INR 508 Cr, while EBITDA margin contracted by 211bps QoQ/5bps YoY. The company's board of directors also recommended a dividend of INR 3 per share.

Q4FY21 Segment Highlights

- In FY21, India FMCG business recorded a growth of 14.7% driven by volume growth of 12.4%. IB registered growth of 3.4% YoY.
- Toothpaste market share improved by 120bps YoY in Q4. Red Toothpaste continued to see good demand momentum. Newly launched Dabur Dant Rakshak and Dabur herbal range continue to do well. Dabur Lal Dant Manjan, witnessed growth of 23% during Q4. Dabur Red touched Rs 10bn mark in FY21.
- The company has planned capex of INR 550 cr in next 4-5 years to set up greenfield facility in central India, to cater to demand across India. It has bought 50 acre land in Indore to augment its capacity, especially Healthcare. We believe this will aid penetration in healthcare in the long term, which is currently a low penetrated category.
- In FY21, Dabur generated INR 100 cr from the sanitizer business. However, Hygiene business has plateaued over the period. Management is not hopeful of the sanitizer business as it is not profitable and sustainable, however, it will continue to focus on soap category
- Rural contributes 45-47% of Dabur's revenue. The management believes that rural will not be as impacted as urban due to the pandemic. Rural would continue on a recovery path as the government may announce fiscal stimulus and due to good monsoon prediction.

Valuations

At CMP of INR 535, Dabur India is trading at a FY23 P/E of 46.2x to its EPS of INR 11.6. The management targets high single digit volume growth in FY22E. It expects to maintain operating margin 20-21% with price increases and cost saving measures. While Rural is expected to sustain a healthy growth trend in FY22 too. Also the company is continuously increasing its direct reach (E-commerce grew 2x YoY (5-6% of domestic sales).The segment's increased salience will continue to drive premiumization).

We value Dabur at PE of 43x to its FY23E EPS of INR 11.6, which yields a Target Price of INR 498. **We assign a Reduce rating on the stock.**

YE March (INR Cr)	Net Sales	EBITDA	PAT	EPS (INR)	EBITDA Margin %	RoE (%)	P/E (x)
FY19	8,533	1,740	1,446	8.2	20.4%	25.7%	63.3
FY20	8,704	1,792	1,448	8.2	20.6%	21.9%	65.2
FY21	9,562	2,003	1,695	9.6	20.9%	22.1%	55.7
FY22E	10,293	2,111	1,818	10.3	20.5%	19.7%	52.0
FY23E	11,281	2,346	2,047	11.6	20.8%	19.3%	46.2

Source: Arihant Research, Company Filings, Ace Equity, Bloomberg

Q4FY21 Financial Performance

INR Cr (consolidated)	Q4FY21	Q3FY21	Q4FY20	Q-o-Q	Y-o-Y
Net Revenue	2,337	2,729	1,865	-14.4%	25.3%
Material Cost	1,198	1,354	950	-11.5%	26.1%
Employee cost	268	274	230	-2.1%	16.6%
Other Expenses	428	527	333	-18.7%	28.4%
EBITDA	442	574	352	-22.9%	25.6%
<i>EBITDA margin %</i>	<i>18.9%</i>	<i>21.0%</i>	<i>18.9%</i>	<i>-211bps</i>	<i>5bps</i>
Other Income	85	81	76	5.0%	12.2%
Depreciation	67	57	59	16.5%	13.2%
EBIT	461	598	369	-22.9%	24.8%
Finance cost	9	7	9	25.8%	0.8%
Exceptional Item	-1	-0	-20.4		
PBT	452	591	340	-23.6%	32.7%
Tax Expense	74	97	59	-23.7%	26.8%
Effective tax rate %	16.5%	16.5%	17.2%	-3bps	-78bps
PAT	377.29	493.5	282	-23.5%	34.0%
Share of (loss)/profit of joint venture	-1	1	0		
Consolidated PAT	377.82	492.0	281.17	-23.2%	34.4%
<i>PAT margin %</i>	<i>16.2%</i>	<i>18.0%</i>	<i>15.1%</i>	<i>-186bps</i>	<i>110bps</i>
EPS (INR)	2.1	2.8	1.6	-23.0%	34.6%

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

Conference Call Highlights

- E-com continued to outperform with a growth of 2x. It currently contributes 5-6% of sales. Recently launched e-commerce innovations such as apple cider vinegar, baby care range, value-added honey performed very well.
- Healthcare contribution increased from 33.9% in FY20 to 39.0% in FY21. Dabur expects healthcare contributions to be about 34-35% in FY22E, depending upon how NPDP perform. While Healthcare fetches high gross margins, the company has also invested in A&SP spends for the category. With price increases, and cost savings, the management believes EBITDA margins will sustain and are not likely to shrink, going ahead. Commodity prices are likely to cool off in H2FY22E.
- Dabur is expected to increase its distribution reach to 1.4mn outlets by 2022, from 1.3mn presently. Dabur covers 60,000 villages and targets to reach 80,000 villages in next two years.
- New products contribute 5% to company's revenue. Healthcare NPDP contribution is 2-3%. NPDP is likely to contribute 4-5% in FY22 as well.
- Dabur does not expect to cut back on advertisement spends. To protect margins, it would take calibrated pricing actions and use different advertising mix elements (digital, trade/ consumer promotions, etc) to ensure the demand doesn't suffer and targeted volume growth is achieved.
- Despite stiff competition, Hair oils MS improved ~70bps. Perfumed oils and coconut oils portfolios reported double digit growth.
- The company implemented CRS (continuous replenishment system) in sales system due to which pre-season loading did not take place in Q4. Pipeline has corrected to 17 days from 25 days earlier. Pre-season loading is prominent in key segments like Juices, glucose D, hair oil, Pudina hara. However, the company is increasing inventory in healthcare and extended credit lines due to lockdown situation.

Income Statement (INR Cr)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Revenues	8,533	8,704	9,562	10,293	11,281
<i>Change (%)</i>	10.5%	2.0%	9.9%	7.6%	9.6%
Raw materials	4,309	4,360	4,789	5,157	5,640
Gross Profit	4,224	4,343	4,773	5,136	5,640
Employee costs	938	948	1,033	1,120	1,204
Other expenses	1,547	1,603	1,737	1,906	2,091
Total Expenses	6,793	6,911	7,559	8,182	8,935
EBITDA	1,740	1,792	2,003	2,111	2,346
Other Income	296	305	325	371	429
Depreciation	177	220	240	254	271
Interest	60	50	31	32	32
PBT	1,799	1,828	2,057	2,196	2,472
Extra-ordinary	75	100	0	0	0
PBT after ext-ord.	1,724	1,728	2,057	2,196	2,472
Tax	279	280	361	379	425
<i>Rate (%)</i>	16.2%	16.2%	17.6%	17.2%	17.2%
PAT	1,445	1,448	1,696.0	1,818	2,047
Share of profit/(loss) of associates for the year	1	0	0	0	0
Consolidated PAT	1,446	1,448	1,695	1,818	2,047
<i>Change (%)</i>	6.8%	0.1%	17.1%	7.2%	12.6%

Balance Sheet (INR Cr)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Sources of Funds					
Share Capital	177	177	177	177	177
Reserves & Surplus	5,455	6,429	7,487	9,030	10,436
Net Worth	5,632	6,606	7,664	9,207	10,613
Loan Funds					
MI, Deferred Tax & other liabilities	524	467	483	921	1,061
Capital Employed	6,215	7,131	8,199	10,179	11,725
Application of Funds					
Gross Block	2,828	3,332	3,484	3,883	4,282
Less: Depreciation	1,195	1,415	1,655	1,909	2,180
Net Block	1,600	1,917	1,829	1,974	2,102
CWIP	64	147	147	147	147
Other non current assets	502	954	559	559	559
Current tax assets	2	2	5	5	5
Net fixed assets	2,168	3,019	2,540	2,685	2,813
Investments					
Debtors	834	814	562	592	649
Inventories	1,301	1,380	1,734	1,861	2,040
Cash & bank balance	328	811	1,329	2,879	4,551
Loans & advances & other CA	415	508	425	839	882
Total current assets	2,877	3,491	4,159	6,192	7,890
Current liabilities	2,032	1,994	2,397	2,594	2,874
Provisions	190	228	251	251	251
Net current assets	655	1,268	1,511	3,346	4,764
Total Assets	6,215	7,131	8,199	10,179	11,725

Cash Flow Statement (INR Cr)

Year End-March	FY19	FY20	FY21	FY22E	FY23E
PBT	1,799	1,828	2,057	2,196	2,472
Depreciation	177	220	240	254	271
Interest & others	-236	-256	-295	-340	-397
Cash flow before WC changes	1,741	1,792	2,002	2,111	2,346
(Inc)/dec in working capital	-8	-157	403	-375	1
Operating CF after WC changes	1,732	1,635	2,405	1,736	2,347
Less: Taxes	-279	-280	-361	-379	-425
Operating cash flow	1,454	1,355	2,044	1,357	1,922
(Inc)/dec in F.A + CWIP	-28	-482	-400	-399	-399
(Pur)/sale of investment	410	96	-912	0	0
Cash flow from investing	382	-386	-1,311	-399	-399
Free cash flow (FCF)	1,426	873	1,644	958	1,523
Loan raised/(repaid)	-305	-57	16	437	141
Equity raised	0	0	0	0	0
Interest & others	-1,088	-1,120	-1,036	-821	-757
Dividend	-351	-283	-530	-569	-641
Cash flow from financing activities	-1,814	-486	-496	592	149
Net inc/(dec) in cash	22	482	237	1,550	1,672
Opening balance of cash	306	328	811	1,329	2,879
Closing balance of cash	328	811	1,329	2,879	4,551

Key Ratios

Year End-March	FY19	FY20	FY21	FY22E	FY23E
Per share (INR)					
EPS	8.2	8.2	9.6	10.3	11.6
CEPS	9.2	9.4	10.9	11.7	13.1
BVPS	31.9	37.4	43.4	52.1	60.0
DPS	2.0	1.6	3.0	3.2	3.6
Payout (%)	24.2%	19.5%	31.3%	31.3%	31.3%
Valuation (x)					
P/E	63.3	65.2	55.7	52.0	46.2
P/CEPS	56.4	56.6	48.8	45.6	40.8
P/BV	16.2	14.3	12.3	10.3	8.9
EV/EBITDA	52.7	50.9	45.3	42.4	37.5
Dividend Yield (%)	0.4%	0.3%	0.6%	0.6%	0.7%
Return ratio (%)					
EBIDTA Margin	20.4%	20.6%	20.9%	20.5%	20.8%
PAT Margin	16.9%	16.6%	17.7%	17.7%	18.1%
ROE	25.7%	21.9%	22.1%	19.7%	19.3%
ROCE	25.1%	22.0%	21.5%	18.2%	17.7%
Leverage Ratio (%)					
Total D/E	0.2	0.1	0.1	0.1	0.1
Net D/E	0.0	-0.1	-0.1	-0.2	-0.3
Turnover Ratios					
Asset Turnover (x)	1.4	1.2	1.2	1.0	1.0
Inventory Days	56	58	66	66	66
Receivable Days	36	34	21	21	21
Payable days	95	93	93	92	93

Source: Arianth Research, Company Filings, Ace Equity, Bloomberg

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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