Sharekhan by BNP PARIBAS

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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		↔	

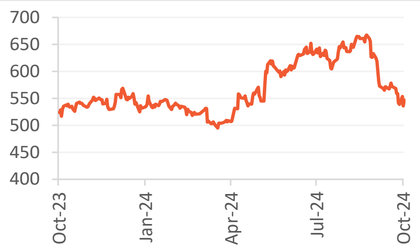
Company details

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