BUY
Target Price
600

Rural Seeing Sustained Signs of Recovery; Maintain BUY

Est. Vs. Actual for Q2FY25: Revenue – MISS ; EBITDA – BEAT ; PAT – BEAT

Changes in Estimates post Q2FY25

FY26E/FY27E – Revenue -3%/-3%; **EBITDA** -7%/-3%; **PAT** -7%/-3%

Recommendation Rationale

- **Missed the topline:** Dabur's Q2FY25 revenue missed expectations, with consolidated sales declining 5.5% YoY due to inventory correction in General Trade. The India business degrew by 8% YoY, while the international business registered strong constant currency growth of 13% YoY in Q2FY25. **Management highlighted that the inventory correction is an exceptional one-time event and has guided for mid-to-high single-digit revenue growth in H2FY25.**
- **Rural Market resilience**: The rural segment continued to outperform the urban market by 130 bps. However, management noted that while urban consumption appears to have bottomed out, it is expected to improve with the festive season and favourable winter conditions. Dabur remains focused on expanding its rural reach, with plans to increase its footprint from 1.22 Lc villages to 6 Lc over the long term, underscoring significant growth potential in rural markets.
- **Gross margins improved by 102bps to 49.3%** (vs. our estimates 49%) driven by cost savings initiatives, selective price increases, and a focus on premiumisation. However, EBITDA margins declined by 238bps YoY to 18.2% due to higher operating expenses.
- **New Acquisition:** Dabur announced the acquisition of a 51% stake in Sesa Care Pvt Ltd, bringing the SESA brand under its portfolio. This acquisition is expected to strengthen Dabur's position in the premium Ayurvedic hair oil segment, a key growth area.

Sector Outlook: Positive

Company Outlook & Guidance: We maintain our BUY rating on the stock as rural recovery is likely to happen.

Current Valuation: 45x Sep'26 EPS (**Earlier Valuation: 50x Sep'26 EPS**).

Current TP: **Rs 600/share** (**Earlier TP: Rs 710/share**).

Recommendation: With an upside potential of 10% from the CMP, we **maintain our BUY rating on the stock.**

Financial Performance: The company's consolidated revenue declined by 5.5% YoY to Rs 3,029 Cr due to inventory correction in GT within the India business. The international business grew by 13% YoY in constant currency terms. Management highlighted that with the festive season and favourable winter conditions, it expects a recovery in both rural and urban markets in the coming quarters. Gross margins stood at 49.3%, up 102 bps YoY, while EBITDA margins were at 18.2%, down by 238 bps due to higher Opex. The company reported a PAT of Rs 425 Cr, down by 17.5% YoY.

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	QoQ (%)	YoY (%)	Axis Est.	Variance (%)
Net Sales	3,029	-9.6	-5.5	3,052	-0.8
EBITDA	553	-15.6	-16.4	542	1.9
EBITDA Margins (%)	18.2	-131 bps	-238 bps	17.8	47 bps
Net Profit	425	-15.0	-17.5	408	4.2
EPS (Rs)	2.4	-15.0	-17.5	2.3	4.2

Source: Company, Axis Research

(CMP as of 30th October 2024)

CMP (Rs)	546
Upside /Downside (%)	10%
High/Low (Rs)	672/489
Market cap (Cr)	96936
Avg. daily vol.(6m) Shrs. '000	3620
No. of shares (Cr)	177

Shareholding (%)

	Mar-24	Jun-24	Sep-24
Promoter	66.3	66.2	66.3
FIIs	15.8	15.0	15.1
MFs / UTI	6.0	6.3	6.2
Banks / FIs	0.1	0.1	0.1
Others	11.8	12.5	12.4

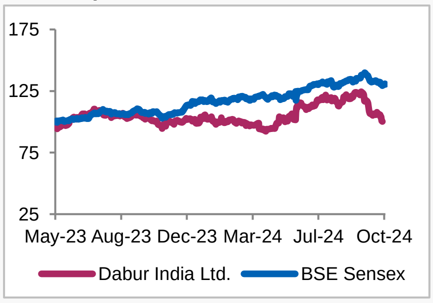
Financial & Valuations

Y/E Mar (Rs Cr)	FY25E	FY26E	FY27E
Net Sales	13,299	14,646	16,241
EBITDA	2,550	2,823	3,310
Net Profit	1,939	2,171	2,571
EPS (Rs.)	11.0	12.3	14.6
PER (x)	49.7	44.4	37.5
EV/EBITDA (x)	37.1	33.1	27.8
P/BV (x)	9.1	8.4	7.5
ROE (%)	18.3	18.9	20.0

Change in Estimates (%)

Y/E Mar	FY26E	FY27E
Sales	-3%	-3%
EBITDA	-7%	-3%
PAT	-7%	-3%

Relative performance



Source: Ace Equity, Axis Securities

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Outlook

FMCG companies have been facing a rural slowdown for the last few quarters due to high consumer inflation impacting wallet share, which in turn has affected overall volume growth. However, rural growth has outpaced urban as rural areas continue to see a sustained recovery. Looking ahead, the company's strategic focus on expanding rural distribution networks, along with anticipated improvements in rural demand driven by factors such as a normal monsoon, moderation in core inflation, and increased government expenditure, is expected to support the company's performance in the coming quarters. We remain confident in Dabur's long-term growth story, supported by: (1) Management's focus on strong execution through market share gains, go-to-market initiatives, and deeper rural penetration, (2) Robust management capabilities, and (3) Ongoing investments in brand distribution infrastructure and innovations. These factors reinforce our confidence in the company's long-term growth prospects.

Valuation & Recommendation

We estimate Revenue/EBITDA/PAT CAGR of 9%/11%/12% over FY24-27E and **maintain our BUY rating on the stock with a revised TP of Rs 600/share.** The TP implies an upside of 10% from the CMP.

Segmental Performance

- **Healthcare (~30.7% of sales):** In Q2FY25, the healthcare portfolio experienced a 4%YoY growth, driven by positive performance across key segments.
- **Health Supplements**: Dabur's flagship product, Chyawanprash, continued to consolidate its market leadership with further gains in market share. The company's focus on product innovation was evident with the launch of the premium "Khajurprash" variant, which received a favourable response from consumers. Additionally, Dabur's targeted monsoon campaign for Chyawanprash resonated well, resulting in notable secondary growth of 12.6% in this category and a 20 bps increase in market share, bringing it to 61%. Household penetration for Chyawanprash has also risen by 1 Mn homes compared to pre-COVID levels. Furthermore, Dabur Honey outpaced category growth, securing a 60 bps increase in market share.
- **Digestives:** Dabur's digestives portfolio demonstrated strong performance, with Hajmola Jeera Drink experiencing increased consumer engagement. The category as a whole gained 160 bps in market share, supported by a sales growth of 6% YoY.
- **OTC & Ethicals**: The Dabur health juices and Dabur Baby range maintained robust growth momentum, with both recording double-digit gains. Health juices and Shilajit each posted an impressive YoY growth of 20%, while the baby care segment surged by 30%. Additionally, Honitus outperformed the category, achieving further market share gains.

HPC (~53.1% of sales)

- Dabur's Home and Personal Care (HPC) segment delivered a 6% YoY growth in Q2FY25, driven by strategic price hikes in coconut oil and market share gains across multiple categories.
- **Oral Care:** Dabur strengthened its position in the oral care segment, gaining 45 basis points in market share. Dabur Red Toothpaste, its flagship brand, continues to lead in regions like Odisha and Tamil Nadu. Notably, Dabur Red became India's first Ayurvedic toothpaste to receive Indian Dental Association accreditation. In international markets, Dabur's oral care portfolio experienced strong traction, especially in Egypt and MENA, where it now ranks as a top player, growing volumes by 70-80%.
- **Hair Oils:** Dabur maintained its leadership in the hair oils segment with a 40 bps increase in market share. The recent acquisition of Sesa Care adds the premium SESA brand to Dabur's portfolio, enhancing its Ayurvedic offerings and creating significant revenue and margin synergies. This strategic addition supports Dabur's premiumization goals and expands its distribution through Dabur's extensive network, capitalizing on the high demand for Ayurvedic hair care.
- **Home Care:** Home care reported a robust 9%YoY growth, with strong performances from air fresheners and mosquito repellent creams, gaining 220 and 510 bps, respectively. Dabur expanded the Odonil line with new premium air fresheners and launched Odomos in a liquid vaporizer format, anticipating double-digit growth for home care, to grow the segment to Rs1,000 Cr over the next few years.
- **Foods and Beverage (~16.3% of sales) –** Dabur's Foods and Beverages segment declined by 11% YoY in Q2FY25, mainly due to heavy monsoons impacting demand in the beverage category. Despite these challenges, Dabur gained 240bps in market share within beverages, supported by a shift toward premium products like coconut water and fizzy fruit drinks, which contributed to improved margins. Dabur saw strong performance, with a 20.6% YoY rise in secondary sales. Edible oils and ghee grew by 70%, while Badshah spices maintained a solid growth trajectory at 15%. The Foods business, including Badshah, is expected to exceed Rs 500 Cr in FY25, as Dabur remains focused on aggressive growth in this segment.

Other Key Takeaways

Acquisition

- **Dabur is set to acquire a 51% stake in Sesa Care Pvt Ltd.** This acquisition will integrate the SESA Ayurvedic hair oil brand into Dabur's portfolio, reinforcing its position in the premium Ayurvedic market. It opens significant opportunities for market expansion across various regions and distribution channels. Currently reaching 650,000 outlets, SESA will benefit from Dabur's expansive network of 4.5 Mn retail points, enhancing distribution efficiency. Current gross margins for SESA stand at 57% in hair oil, compared to Dabur's blended gross margins of 44% in the same category, which is likely to drive margins for Dabur in the coming years.
- On the international front, SESA's stronghold in Bangladesh, where it commands a 90% share in the Ayurvedic segment, complements Dabur's growth ambitions. The acquisition is projected to boost Dabur's gross margins through economies of scale while addressing unmet consumer demands in Ayurvedic hair care. As a recognized brand ranked third in the Ayurvedic hair oil category, SESA presents a strategic opportunity for Dabur to penetrate the Rs 900 Cr Ayurvedic hair oil market—a significant gap in its existing offerings. The merger promises substantial revenue and cost synergies, allowing Dabur to leverage its extensive distribution capabilities and category expertise to expand SESA's footprint both domestically and internationally.

International Business

- International business recorded a growth of 18.4% in constant currency terms. This was on the back of strong performance in Egypt, which grew by 73%, the MENA business by 10%, Sub-Saharan Africa by 26%, and Turkey by 3.1%. The management highlighted that the Middle East and North Africa, which is the most margin-accretive geography in the entire region, is performing well. Oral care profitability is high, and Dabur is doubling down on the oral care business in the international market, which will drive margins further.

Distribution Channel

- The management has highlighted that in India, the GT is declining as quick commerce and e-commerce gain traction. Dabur is enhancing relationships with e-commerce platforms, achieving a 70% growth in quick commerce, outpacing the FMCG sector's 50% growth. While modern trade (MT) visibility is currently limited, the company expects growth through strategic investments. In fact, quick commerce is also impacting MT, which is evident in the challenges faced by a few companies. Dabur's strategic focus is on consolidating urban markets and expanding rural distribution via sub-stockists. The ultimate goal is to increase direct reach in both urban and rural areas while reducing reliance on wholesale and growing alongside quick commerce as it enters metro markets.

Key Risks to Our Estimates and TP

- Increase in competitive intensity, prolonged demand recovery, RM inflation, and advertisement spends.

Change in Estimates

	Old		New		% change	
	FY26E	FY27E	FY26E	FY27E	FY26E	FY27E
Revenue	15,146	16,679	14,646	16,241	-3%	-3%
EBITDA	3,020	3,418	2,823	3,310	-7%	-3%
PAT	2,322	2,655	2,171	2,571	-7%	-3%
EPS	13.1	15	12.3	14.6	-7%	-3%

Source: Company, Axis Securities

Results Review

Rs Cr	Q2FY24	Q1FY25	Axis Sec Est.	Q2FY25	YoY growth %	QoQ growth (%)	Axis Sec Var
Domestic Volume growth (% YoY)	**3%**	**5%**	**-10%**	**-8%**	**-11 bps**	**-14 bps**	**2 bps**
Net Sales	**3,204**	**3,349**	**3,052**	**3,029**	**(5.5)**	**(9.6)**	**(0.8)**
Gross Profits	**1,548**	**1,600**	**1,496**	**1,494**	**(3.5)**	**(6.6)**	**(0.1)**
Gross Margin (%)	**48.3**	**47.8**	**49.0**	**49.3**	**102 bps**	**155 bps**	**33 bps**
Staff costs	315	323	331	339	7.4	4.9	2.3
Ad spends	217	236	249	226	4.2	(4.3)	(9.4)
Other operating expenses	355	387	373	377	6.2	(2.4)	1.1
EBITDA	**661**	**655**	**542**	**553**	**(16.4)**	**(15.6)**	**1.9**
EBITDA margin (%)	**20.6**	**19.6**	**17.8**	**18.2**	**-238 bps**	**-131 bps**	**47 bps**
Depreciation	98	109	111	111	12.9	1.7	(0.3)
EBIT	563	546	431	442	(21.5)	(19.1)	2.4
Other Income	116	129	132	152	30.2	17.1	14.8
Interest Cost	28	33	33	47	68.4	45.1	42.3
PBT	**651**	**643**	**530**	**546**	**(16.2)**	**(15.1)**	**3.0**
Tax rate (%)	22.2	23.0	23.0	23.5	137 bps	49 bps	53 bps
PAT	**515**	**500**	**408**	**425**	**(17.5)**	**(15.0)**	**4.2**
EPS	**2.9**	**2.8**	**2.3**	**2.4**	**(17.5)**	**(15.0)**	**4.2**

Source: Company, Axis Securities

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Net sales	**12,404**	**13,299**	**14,646**	**16,241**
Growth, %	7.6	7.2	10.1	10.9
Raw material expenses	(6,447)	(6,834)	(7,517)	(8,194)
Employee expenses	(1,240)	(1,364)	(1,500)	(1,650)
Other Operating expenses	(2,317)	(2,551)	(2,806)	(3,087)
EBITDA (Core)	**2,400**	**2,550**	**2,823**	**3,310**
Growth, %	10.9	6.2	10.7	17.3
Margin, %	19.4	19.2	19.3	20.4
Depreciation	(399)	(429)	(444)	(459)
EBIT	**2,001**	**2,121**	**2,379**	**2,852**
Growth, %	8.0	6.0	12.2	19.9
Margin, %	16.1	15.9	16.2	17.6
Interest paid	(124)	(133)	(144)	(154)
Other Income	482	531	584	642
Non-recurring Items	-	-	-	-
Pre-tax profit	**2,359**	**2,518**	**2,819**	**3,339**
Tax provided	(547)	(579)	(648)	(768)
Profit after tax	**1,811**	**1,939**	**2,171**	**2,571**
Net Profit	**1,811**	**1,939**	**2,171**	**2,571**
Growth, %	6.1	7.0	12.0	18.4
Net Profit (adjusted)	**1,811**	**1,939**	**2,171**	**2,571**
Unadj. shares (Cr)	177	177	177	177

Source: Company, Axis Securities

Balance Sheet

(Rs Cr)

As of 31st Mar	FY24	FY25E	FY26E	FY27E
Cash & bank	666	1,568	2,700	4,239
Marketable securities at cost	1,667	1,667	1,667	1,667
Debtors	899	964	1,061	1,177
Inventory	1,947	2,087	2,299	2,549
Loans & advances	14	14	14	14
Total current assets	5,686	6,792	8,234	10,139
Investments	5,266	5,266	5,266	5,266
Gross fixed assets	6,215	6,415	6,615	6,815
Less: Depreciation	(2,400)	(2,829)	(3,273)	(3,732)
Add: Capital WIP	232	232	232	232
Net fixed assets	4,047	3,818	3,574	3,315
Total assets	**15,123**	**16,000**	**17,197**	**18,843**
Current liabilities	3,930	4,105	4,368	4,679
Provisions	68	68	68	68
Total current liabilities	3,999	4,173	4,437	4,748
Non-current liabilities	821	821	821	821
Total liabilities	4,820	4,994	5,257	5,569
Paid-up capital	177	177	177	177
Reserves & surplus	9,689	10,391	11,326	12,661
Shareholders' equity	10,303	11,005	11,940	13,275
Total equity & liabilities	**15,123**	**16,000**	**17,197**	**18,843**

Source: Company, Axis Securities

Cash Flow (Rs Cr)

Y/E Mar	FY24	FY25E	FY26E	FY27E
Pre-tax profit	2,359	2,518	2,819	3,339
Depreciation	399	429	444	459
Chg in working capital	159	(31)	(46)	(54)
Total tax paid	(529)	(579)	(648)	(768)
Other operating activities	-	-	-	-
Cash flow from operating activities	**2,387**	**2,338**	**2,569**	**2,975**
Capital expenditure	(693)	(200)	(200)	(200)
Chg in investments	263	-	-	-
Chg in marketable securities	(930)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing activities	**(1,361)**	**(200)**	**(200)**	**(200)**
Free cash flow	1,027	2,138	2,369	2,775
Equity raised/(repaid)	(40)	-	-	(0)
Debt raised/(repaid)	263	-	-	-
Dividend (incl. tax)	(975)	(1,236)	(1,236)	(1,236)
Other financing activities	-	-	-	-
Cash flow from financing activities	**(782)**	**(1,236)**	**(1,236)**	**(1,236)**
Net chg in cash	244	901	1,132	1,539

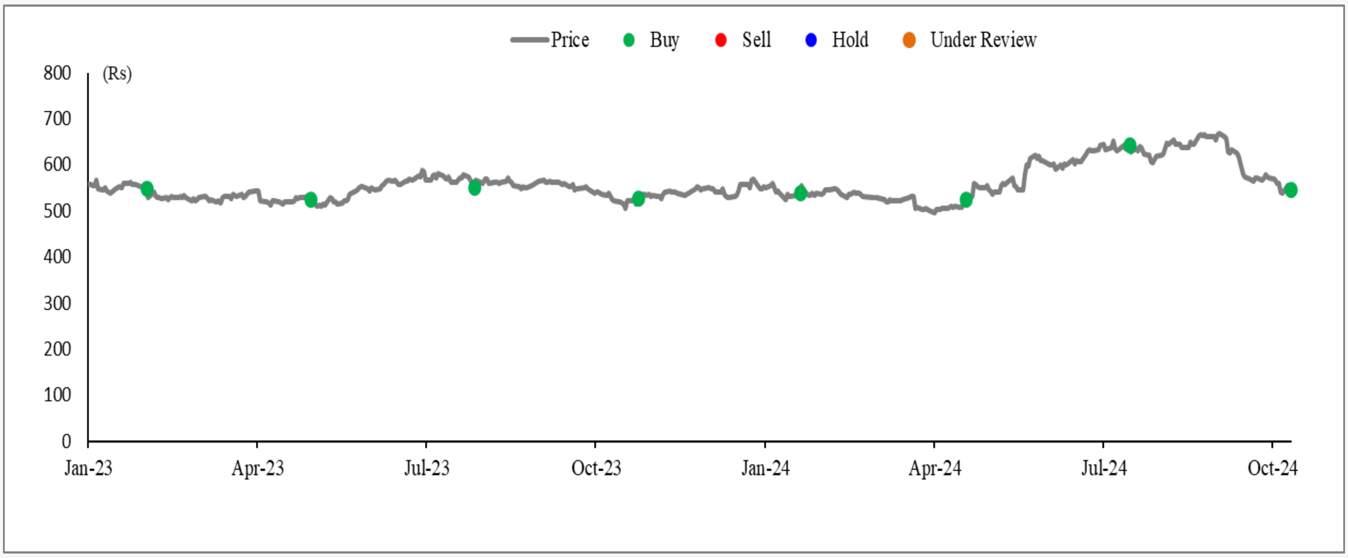
Source: Company, Axis Securities

Ratio Analysis (%)

	FY24	FY25E	FY26E	FY27E
Per Share data				
EPS (INR)	10.2	11.0	12.3	14.6
Growth, %	5.8	7.4	12.0	18.4
Book NAV/share (INR)	55.7	59.8	65.1	72.7
FDEPS (INR)	10.2	11.0	12.3	14.6
CEPS (INR)	12.5	13.4	14.8	17.2
CFPS (INR)	11.0	10.2	11.2	13.2
DPS (INR)	5.5	7.0	7.0	7.0
Return ratios				
Return on assets (%)	13.4	13.3	13.9	15.1
Return on equity (%)	18.4	18.3	18.9	20.0
Return on capital employed (%)	18.2	17.9	18.7	20.2
Turnover ratios				
Asset turnover (x)	3.0	3.3	3.8	4.5
Sales/Total assets (x)	0.9	0.9	0.9	0.9
Sales/Net FA (x)	3.2	3.4	4.0	4.7
Working capital/Sales (x)	(0.0)	(0.0)	(0.0)	(0.0)
Fixed capital/Sales (x)	-	-	-	-
Working capital days	(17.0)	(15.0)	(12.5)	(10.0)
Liquidity ratios				
Current ratio (x)	1.4	1.7	1.9	2.2
Quick ratio (x)	1.0	1.1	1.4	1.6
Interest cover (x)	16.1	15.9	16.6	18.5
Total debt/Equity (%)	0.1	0.1	0.1	0.1
Net debt/Equity (%)	0.1	(0.0)	(0.1)	(0.2)
Valuation				
PER (x)	53.4	49.7	44.4	37.5
Price/Book (x)	9.8	9.1	8.4	7.5
EV/Net sales (x)	7.7	7.1	6.4	5.7
EV/EBITDA (x)	39.9	37.1	33.1	27.8
EV/EBIT (x)	47.9	44.6	39.3	32.2

Source: Company, Axis Securities

Dabur India Price Chart and Recommendation History



Date	Reco	TP	Research
03-Feb-23	BUY	650	Result Update
05-May-23	BUY	485	Result Update
04-Aug-23	BUY	610	Result Update
03-Nov-23	BUY	635	Result Update
01-Feb-24	BUY	635	Result Update
03-May-24	BUY	620	Result Update
02-Aug-24	BUY	710	Result Update
31-Oct-24	BUY	600	Result Update

Source: Axis Securities

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