

**Entering spices and expanding the addressable market**

**CMP: INR 532**

**Rating: Accumulate**

**Target Price: INR 598**

**Stock Info**

BSE	500096
NSE	DABUR
Bloomberg	DABUR:IN
Reuters	DABU.NS
Sector	Personal Products
Face Value (INR)	1
Equity Capital (INR cr)	177
Mkt Cap (INR cr)	95,835
52w H/L (INR)	620/ 482
Avg Yearly Volume (in 000')	1,847

**Shareholding Pattern %**

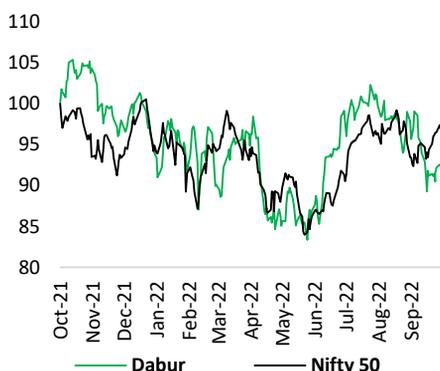
(As on June, 2022)

Promoters	67.2
FII	20.2
DII	2.8
Public & Others	9.8

**Stock Performance (%)**

	1m	3m	12m
Dabur	(3.5)	(4.7)	(8.6)
Nifty 50	4.3	6.6	(2.6)

**Dabur Vs Nifty**



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- Dabur's Q2FY23 Net Revenue grew by 5.99% YoY to INR 2,986 Cr (+5.81% QoQ). This barely missed our quarterly revenue estimate of INR 3,001 Cr by 0.5%.
- Q2FY23 Gross Margin contracted by 346bps YoY 45.38% (-48bps QoQ).
- Q2FY23 EBITDA de-grew by 1.25% YoY to INR 724 Cr (+12.39% QoQ). EBITDA Margin contracted by 178bps YoY to 24.24% (+142bps QoQ). This marginally missed our quarterly EBITDA estimate of INR 702 Cr by 3.13%, and our EBITDA Margin estimate of 23.4%.
- Q2FY23 PAT de-grew 2.84% YoY to INR 491 Cr (+11.32% QoQ). PAT Margin contracted by 149bps YoY to 16.44% (+81bps QoQ). This beat our quarterly PAT estimate of INR 443 Cr by 10.96%.
- On a sequential basis, Dabur has reported a well rounded growth. The bottom-line performance of Dabur beat our estimates, while the top line numbers barely missed them by a sliver. This was despite the commodity inflation that plagued the industry. Continued focus on cost optimization and price increases across the business has protected margins and maintained them in a healthy range.

**Q2FY23 Conference Call Highlights:**

**Acquisition of Badshah Masala:** Dabur is to acquire a 51% stake in Badshah Masala- a leading player in spices and condiments having a majority market share in Gujarat, Telangana, and Maharashtra. The remaining 59% will be acquired in 5 years. Dabur plans to take advantage of the synergies that will come from distribution. This will also expand Dabur's addressable market and aid in reaching the INR 500 cr target for the foods segment.

**Market share gains:** Dabur had market share gains across 95% of its portfolio led by chyawanprash, honey, digestive powders, hair oils, shampoo, toothpaste, odonos, and Real juice.

**Ecommerce:** All different verticals are doing well. It is currently 9% of sales. All NPDS are launched online first for testing, then to modern and general trade once they have scaled up. It helps create demand and is more economical vs the mass market. Products like baby care, apple cider vinegar, juices, drinks, edible oils, flax seeds, chia seeds, peanut butter, etc. have sold well.

**Valuation & Outlook:** As inflation eases up into Q3, we expect to see sequential margin expansion. The company's growth trajectory is promising as it has gained market shares across 95% of the product portfolio despite commodity inflation reaching unsustainable levels in Q2. Dabur has begun the process of acquiring Badshah Masala which will lead to the unlocking of many synergies and NPDS in the domestic spice market. We assign a TP of INR 598, valued at a P/E of 49x its FY24E EPS of INR 12.2. We recommend that investors Accumulate the stock.

INR Cr	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Revenues	9,562	10,889	11,845	12,947	14,203	15,614
YoY growth (%)	9.9	13.9	8.8	9.3	9.7	9.9
Operating profit	2,003	2,254	2,511	2,771	3,051	3,404
OPM (%)	20.9	20.7	21.2	21.4	21.5	21.8
Reported PAT	1,607	1,654	1,882	2,070	2,273	2,530
YoY growth (%)	(8.3)	2.9	13.8	10.0	9.8	11.3
EPS (Rs)	9.6	9.9	11.1	12.2	13.4	14.8
P/E (x)	55.5	54.0	47.7	43.6	39.8	35.9
Price/Book (x)	12.3	11.2	9.7	8.3	7.2	6.3
EV/EBITDA (x)	44.9	39.6	35.0	31.2	27.7	24.3
Debt/Equity (x)	0.1	0.2	0.1	0.1	0.1	0.1
RoE (%)	22.5	20.6	22.7	21.4	20.2	19.3
RoCE (%)	21.9	20.4	19.4	18.7	17.9	17.4

Source: Company & Arihant Research

Quarterly and Segment Wise Result

Consolidated (INR Cr)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
<b>Net Revenue</b>	<b>2986</b>	<b>2822</b>	<b>2818</b>	<b>5.81%</b>	<b>5.99%</b>
Raw Material Costs	1631	1528	1442	6.76%	13.17%
Gross Profit	1,355	1,294	1,376	4.70%	-1.52%
Gross Margin	45.38%	45.86%	48.84%	-48bps	-346bps
Employee costs	288	270	270	6.55%	6.64%
Other Expenses	467	481	486	-2.90%	-3.89%
Other Non Operating Income	123	101	112	22.61%	9.64%
<b>EBITDA</b>	<b>724</b>	<b>644</b>	<b>733</b>	<b>12.39%</b>	<b>-1.25%</b>
EBITDA margin %	24.24%	22.82%	26.02%	142bps	-178bps
Depreciation	70	68	63	4.25%	11.27%
<b>EBIT</b>	<b>654</b>	<b>577</b>	<b>670</b>	<b>13.35%</b>	<b>-2.43%</b>
Finance costs	15	12	8	23.95%	82%
Share of Profit/Loss from Joint Venture	-0	-0	-0	0.00%	-19%
<b>PBT</b>	<b>638</b>	<b>564</b>	<b>661</b>	<b>13.13%</b>	<b>-3.48%</b>
Tax Expense	147	123	156	19.61%	-6%
Effective tax rate %	23.07%	21.81%	23.57%	125bps	-50bps
<b>PAT</b>	<b>491</b>	<b>441</b>	<b>505</b>	<b>11.32%</b>	<b>-2.84%</b>
Add: Other Comprehensive Income	19	-68	27	-128.15%	-348.74%
<b>Consolidated PAT</b>	<b>510</b>	<b>373</b>	<b>533</b>	<b>36.91%</b>	<b>-4.24%</b>
PAT margin %	16.44%	15.63%	17.93%	81bps	-149bps
<b>EPS (INR)</b>	<b>2.77</b>	<b>2.48</b>	<b>2.85</b>	<b>11.69%</b>	<b>-2.81%</b>

Segment Wise Consolidated (INR Cr)	Q2FY23	Q1FY23	Q2FY22	Q-o-Q	Y-o-Y
<b>Segment Revenue</b>					
Consumer care business	2411	2136	2387	12.88%	0.98%
Food business	499	609	370	-18.01%	34.94%
Retail business	26	26	18	2.03%	43.35%
Other segments	41	42	35	-2.86%	18.20%
Unallocated other operating revenue	9	10	7	-6.34%	26.81%
<b>Total Segment Revenue</b>	<b>2986</b>	<b>2822</b>	<b>2818</b>	<b>5.81%</b>	<b>5.99%</b>
<b>Segment Results</b>					
Consumer care busines	564	479	602	17.74%	-6.32%
Food business	93	100	67	-6.45%	38.45%
Retail business	0	0	-1	350.00%	-51.09%
Other segments	4	5	3	-5.48%	40.85%
<b>Total Segment Results</b>	<b>661</b>	<b>583</b>	<b>672</b>	<b>13.37%</b>	<b>-1.55%</b>

Source: Company & Arianth Research

**Q2FY23 Conference Call Highlights:**

**Badshah Masala brand:** Has about 4-5% market share in its core markets of Gujarat, Maharashtra, and Telangana as the #2 player. It is a lucrative, large market with a size of INR 1,500 Cr. Since the market is unorganized and Badshah is a branded player, there is a lot of scope to gain shares through portfolio expansion and leveraging the brand equity. The margins are accretive to the foods business. Expansion will take place in the key states first, then onto Rajasthan, and then to all- India where Dabur has a presence. It can be distributed through 80,000 of Daburs' outlets- this scale up will happen over time.

**Badshah channel mix and geographical distribution:** Revenues are from Telangana (10%), Gujarat (40%), and Maharashtra (35%). Ecommerce is 0% of their revenues vs 9% for Dabur, Modern trade is 3% vs 10% for Dabur, and General trade is 97%. Thus there is a lot of scaling up that Dabur can do for Badshah.

**Healthcare business after covid:** The business grew 70% over covid. There has been some de growth visible in Q2. The company plans on revamping the portfolio to bring it to the 30% mark. Chawanprash has gained 1,500bps of market leadership over the last 3 years through NPDs. Pre covid honey had lost to Patanjali, but they are now doing continuous product innovations in honey leading to heavy market share gains.

**Outlets:** Added 1.5 lakh outlets over pre covid levels. There is further expansion into rural areas. Dabur is also creating new product packaging for these markets.

**Inflation:** Is currently at 10%, expected to come down to 6% next quarter. Margins should improve then as the effect of higher pricing kicks in.

**Q2FY23 Conference Call Highlights:**

**NPD:** Comprise about 10% of revenues.

**Ad spends:** have been cut down 20% this quarter because of high inflation. Overall ad spends will remain in the range of 15%.

**Indore Plant:** ATR expected is about 3x (INR 900 cr of turnover) by FY27.

**Rural Recovery:** This is the 1<sup>st</sup> in the past 6 quarters where rural demand lagged behind urban demand (growth of 1% vs 6%). This was despite all the infrastructure put up and the high village reach. Bad monsoon in the Hindi belt led to this slowdown encouraged by credit and liquidity pressure. The festive season gives some hope for growth, especially in the healthcare business.

**EBITDA Margins:** To remain in the range of 20-21% for the whole year.

**Middle East Market:** Is facing an inflation of 30% because the portfolio is largely HPC (crude denominated). A 20% price increase was taken which led to lowered demand.

**Capex:** They will be setting up infrastructure to ramp up the drinks portfolio en route to make the F&B business an INR 500 cr one.

Financial Summary

Consolidated Income Statement (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Revenue</b>	<b>9,562</b>	<b>10,889</b>	<b>11,845</b>	<b>12,947</b>	<b>14,203</b>	<b>15,614</b>
Net Raw Materials	4774	5640	6159	6745	7371	8088
Advt & Promotion	784	778	841	932	1023	1124
Employee Cost	1033	1080	1125	1243	1363	1530
Other Expenses	967	1137	1208	1256	1395	1468
<b>Total Expenditure</b>	<b>7559</b>	<b>8635</b>	<b>9334</b>	<b>10176</b>	<b>11152</b>	<b>12210</b>
<b>EBITDA</b>	<b>2,003</b>	<b>2,254</b>	<b>2,511</b>	<b>2,771</b>	<b>3,051</b>	<b>3,404</b>
Depreciation	(240)	(253)	(273)	(288)	(304)	(322)
Interest expense	(31)	(39)	(51)	(52)	(51)	(51)
Other income	325	393	395	397	399	401
Exceptional items	-	(85)	-	-	-	-
<b>Profit before tax</b>	<b>2,057</b>	<b>2,270</b>	<b>2,582</b>	<b>2,828</b>	<b>3,095</b>	<b>3,432</b>
Taxes	(361)	(526)	(612)	(670)	(733)	(813)
Minorities and other	1	2	-	-	-	-
<b>Reported Net profit</b>	<b>1,695</b>	<b>1,742</b>	<b>1,970</b>	<b>2,158</b>	<b>2,361</b>	<b>2,619</b>
Other Comprehensive income	(88)	-88	-88	-88	-88	-88
<b>Net profit</b>	<b>1,607</b>	<b>1,654</b>	<b>1,882</b>	<b>2,070</b>	<b>2,273</b>	<b>2,530</b>
Consolidated Balance Sheet (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Equity capital	177	177	177	177	177	177
Reserves	7,487	8,205	9,556	11,095	12,838	14,838
<b>Net worth</b>	<b>7,664</b>	<b>8,381</b>	<b>9,733</b>	<b>11,272</b>	<b>13,015</b>	<b>15,015</b>
Minority Interest	37	41	41	41	41	41
Debt	724	1,286	1,271	1,256	1,241	1,226
Deferred tax liab (net)	14	82	178	282	397	524
<b>Total liabilities</b>	<b>8,438</b>	<b>9,790</b>	<b>11,222</b>	<b>12,851</b>	<b>14,694</b>	<b>16,805</b>
Fixed assets	1,812	1,968	1,716	1,628	1,545	1,471
Capital Work In Progress	147	168	184	206	234	266
Other Intangible assets	45	40	42	45	54	66
Goodwill	336	251	251	251	251	251
Investments	3,575	5,437	6,937	8,637	10,237	12,037
Other non current assets	156	104	66	72	79	87
<b>Net working capital</b>	<b>274</b>	<b>362</b>	<b>560</b>	<b>706</b>	<b>727</b>	<b>763</b>
Inventories	1,734	1,911	2,139	2,380	2,580	2,808
Sundry debtors	562	646	691	755	829	911
Other current assets	388	298	329	396	414	477
Sundry creditors	(1,915)	(2,018)	(2,204)	(2,374)	(2,571)	(2,849)
Other current liabilities & Prov	(494)	(476)	(395)	(450)	(525)	(584)
<b>Cash</b>	<b>1,329</b>	<b>570</b>	<b>512</b>	<b>264</b>	<b>423</b>	<b>606</b>
Other Financial Assets	763	891	954	1,043	1,144	1,258
<b>Total assets</b>	<b>8,438</b>	<b>9,790</b>	<b>11,222</b>	<b>12,851</b>	<b>14,694</b>	<b>16,805</b>
Consolidated Cah Flow Statement (INR Cr)	FY21	FY22	FY23E	FY24E	FY25E	FY26E
Profit before tax	2,057	2,270	2,582	2,828	3,095	3,432
Depreciation	240	253	273	288	304	322
Tax paid	(361)	(526)	(612)	(670)	(733)	(813)
Working capital Δ	429	(88)	(198)	(146)	(21)	(37)
Goodwill	(0)	85	-	-	-	-
<b>Operating cashflow</b>	<b>2,365</b>	<b>1,994</b>	<b>2,045</b>	<b>2,300</b>	<b>2,644</b>	<b>2,904</b>
Capital expenditure	(232)	(429)	(38)	(221)	(249)	(281)
<b>Free cash flow</b>	<b>2,133</b>	<b>1,565</b>	<b>2,007</b>	<b>2,079</b>	<b>2,395</b>	<b>2,624</b>
Equity raised	43	(229)	177	177	177	177
Investments	(1,586)	(1,862)	(1,500)	(1,700)	(1,600)	(1,800)
Others	586	(70)	(27)	(98)	(117)	(133)
Debt financing/disposal	26	563	(15)	(15)	(15)	(15)
Dividends paid	(592)	(707)	(707)	(707)	(707)	(707)
Other items	(93)	(18)	7	16	26	39
<b>Net Δ in cash</b>	<b>518</b>	<b>(759)</b>	<b>(58)</b>	<b>(248)</b>	<b>159</b>	<b>183</b>
<b>Opening Cash Flow</b>	<b>811</b>	<b>1,329</b>	<b>570</b>	<b>512</b>	<b>264</b>	<b>423</b>
<b>Closing Cash Flow</b>	<b>1,329</b>	<b>570</b>	<b>512</b>	<b>264</b>	<b>423</b>	<b>606</b>

Source: Company & Arianth Research

## Ratios

Ratio analysis	FY21	FY22	FY23E	FY24E	FY25E	FY26E
<b>Growth matrix (%)</b>						
Revenue growth	9.9	13.9	8.8	9.3	9.7	9.9
EBITDA growth	11.7	12.5	11.4	10.3	10.1	11.6
Net profit growth	2.9	2.8	13.1	9.5	9.4	10.9
<b>Profitability ratios (%)</b>						
EBITDA margin	20.9	20.7	21.2	21.4	21.5	21.8
Net profit margin	17.7	16.0	16.6	16.7	16.6	16.8
RoCE	21.9	20.4	19.4	18.7	17.9	17.4
RoNW	22.5	20.6	22.7	21.4	20.2	19.3
RoA	19.0	16.9	18.3	17.5	16.7	16.1
<b>Per share ratios</b>						
EPS	9.6	9.9	11.1	12.2	13.4	14.8
Dividend per share	3.4	4.0	4.0	4.0	4.0	4.0
Book value per share	43.4	47.4	55.1	63.8	73.6	84.9
<b>Valuation ratios</b>						
P/E	55.5	54.0	47.7	43.6	39.8	35.9
P/B	12.3	11.2	9.7	8.3	7.2	6.3
EV/EBIDTA	44.9	39.6	35.0	31.2	27.7	24.3
<b>Payout (%)</b>						
Dividend payout	34.9	40.6	35.9	32.8	29.9	27.0
Tax payout	17.6	23.2	23.7	23.7	23.7	23.7
<b>Liquidity ratios</b>						
Debtor days	21.1	21.4	21.0	21.0	21.0	21.0
Inventory days	130.8	122.0	125.0	127.0	126.0	125.0
Creditor days	91.2	84.1	85.0	84.0	83.0	84.0
<b>Leverage ratios</b>						
Interest coverage	67.8	62.0	51.5	55.6	61.4	68.8
Net debt / equity	(0.1)	0.1	0.1	0.1	0.1	0.0
Net debt / op. profit	(0.3)	0.3	0.3	0.4	0.3	0.2

Source: Company &amp; Arian Research

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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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