Dabur India (DABU.BO)

Buy: 2QFY08 – Strong Growth Momentum Continues

- **Strong 2QFY08 –** Dabur's 2QFY08 consolidated net profit growth was strong at 23% driven by 13% sales growth and 104bps margin expansion. We expect the robust growth for Dabur to continue driven by its strong brand franchise and product pipeline.
- **Strong sales growth –** In 2QFY08, Foods and international businesses grew between 25-30%. Consumer care division (CCD) posted 14.6% growth. However, Dabur is struggling to scale up its Consumer Health Division (CHD). While management has indicated that steps are being taken to grow this business, we remain concerned about CHD being a drag on overall growth.
- **Margin expansion despite cost pressure –** Dabur's EBITDA margin expanded 104 bps despite raw material cost pressure. Overall raw material costs remained flat as % of sales mainly due to price hikes and an improving product mix. We expect margin expansion to sustain albeit at a lower pace.
- **Maintain Buy (1L)** – Dabur is one of the best run consumer businesses in India. Its niche positioning in the herbal segment insulates it from strong competitive intensity. We believe Dabur will continue to deliver above par growth. Maintain Buy (1L).

Buy/Low Risk	1L
Price (24 Oct 07)	Rs108.60
Target price	Rs125.00
Expected share price return	15.1%
Expected dividend yield	1.7%
Expected total return	**16.8%**
Market Cap	Rs93,831M US$2,370M

Price Performance (RIC: DABU.BO, BB: DABUR IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,141	2.49	37.4	43.6	18.8	49.7	1.1
2007A	2,830	3.29	32.2	33.0	19.1	57.4	1.4
2008E	3,475	4.04	22.8	26.9	19.4	71.7	1.7
2009E	4,287	4.99	23.4	21.8	17.8	85.3	1.8
2010E	5,078	5.91	18.5	18.4	15.3	89.5	2.0

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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2QFY08 Result Review

Figure 1. Dabur India: Consolidated P&L (Rupees in Millions, Percent)

	2QFY07	2QFY08	% YoY Change
Net Sales	**5,543.8**	**6,257.6**	**12.9**
Total Expenses	-4,570.6	-5,097.6	11.5
EBITDA	**973.2**	**1,160.0**	**19.2**
EBITDA Margin (%)	*17.3*	*18.3*	*104 bps*
Interest	-54.7	-42.4	-22.5
Depreciation & Amortisation	-105.7	-97.5	-7.8
Other Income	61.6	76.3	23.9
PBT	**874.4**	**1,096.4**	**25.4**
Tax	-123.4	-138.7	12.4
Tax Rate (%)	*14.1*	*12.7*	*-146 bps*
Net Profit	**751.0**	**957.7**	**27.5**
PAT Margin (%)	*13.3*	*15.1*	*179 bps*
Exceptional items	41.1	0.0	nm
Minority Interest	-5.6	8.2	nm
Net Profit After Minorities & Exceptionals	**786.5**	**965.9**	**22.8**

Source: Company Reports

Figure 2. Dabur India: 2QFY08 Key Costs (Rupees in Millions, Percent)

	2QFY07	2QFY08	% YoY Change
Net Sales	5,641.3	6,343.2	12.4
Raw Material Cost	**2,452.0**	**2,750.4**	**12.2**
% of Sales	*43.5*	*43.4*	*-11 bps*
Advertising Cost	**525.6**	**611.7**	**16.4**
% of Sales	*9.3*	*9.6*	*33 bps*
Staff Cost	**441.7**	**488.9**	**10.7**
% of Sales	*7.8*	*7.7*	*-12 bps*
Other Expenditure	**1,151.3**	**1,246.6**	**8.3**
% of Sales	*20.4*	*19.7*	*-76 bps*

Source: Company Reports

Figure 3. Dabur India: Consolidated Segmental Details (Rupees in Millions, Percent)

Revenues	**2QFY07**	**2QFY08**	**% YoY Change**
Consumer Care Business	4,314.6	4,963.1	15.0
% of sales	*76.5*	*78.2*	*176 bps*
Consumer Health Business	468.3	432.8	-7.6
% of sales	*8.3*	*6.8*	*-148 bps*
FMCG Sub Total	***4,782.9***	***5,395.9***	***12.8***
% of sales	*84.8*	*85.1*	*28 bps*
Foods Business	**721.7**	**830.7**	**15.1**
% of sales	*12.8*	*13.1*	*30 bps*
Others	**136.7**	**116.6**	**-14.7**
% of sales	*2.4*	*1.8*	*-59 bps*
EBITDA			
Consumer Care Business	1,114.3	1,225.1	9.9
Consumer Health Business	115.5	105.2	-8.9
FMCG Sub Total	***1,229.8***	***1,330.3***	***8.2***
Foods Business	99.2	113.6	14.5
Others	2.5	64.5	2,480.0
Less: Interest and Finance Charges	-54.7	-42.4	-22.5
Less: Unallocable expenditure	-402.4	-369.6	-8.2
PBT	**874.4**	**1,096.4**	**25.4**
EBITDA Margin (%)			
Consumer Care Business	25.8	24.7	-114 bps
Consumer Health Business	24.7	24.3	-36 bps
FMCG Sub Total	25.7	24.7	-106 bps
Foods Business	13.7	13.7	-7 bps
Others	1.8	55.3	5349 bps

Source: Company Reports

Dabur India

Company description

Dabur India is a leading player in ayurveda-based (traditional science) products in India, with presence in the personal-care, health-care and pharmaceutical segments. The company has a niche in several FMCG categories.

Investment strategy

We rate Dabur as Buy, Low Risk (1L). In our view, Dabur is one of the best consumer businesses in India, deriving its competitive advantage from its niche position that is based on its herbal product portfolio. The company has strong brands covering personal care, oral care, health care and foods segments. All are based on Ayurvedic (ancient Indian herbal) formulations. Its niche position makes Dabur less susceptible to competition from multinational players like HLL and P&G, in our view. Growth rates for its business have picked up recently, with its core domestic business growing more than 10%. Additionally, the company has new growth drivers – foods and international businesses – that are growing rapidly (more than 25%). The margin expansion trend should continue with operating leverage from its new businesses contributing. Additionally, the company is exploring inorganic growth opportunities that could add further impetus to growth. The company has already demonstrated its capability in managing acquisitions after turning around Balsara within six months of acquiring the company.

Valuation

We believe Dabur is a steady growth company, thus we value it based on P/E. Our target price of Rs125 is based on 25x FY09E P/E. We benchmark our target multiple against average Sensex premium of 40%-50% that the Dabur stock has enjoyed historically. Our target multiple for Dabur is 25x in view of 1) our more positive stance on Dabur's growth potential given the pickup in its core domestic business growth; 2) Dabur’s above sector average growth profile and 3) maintaining the stock’s relative premium range of 40%-50% to Sensex P/E, given that the Sensex P/E itself has re-rated significantly. We forecast a 22% EPS growth CAGR for F2007-10E for Dabur, which is at the higher end of our Indian consumer universe. We believe this should offer downside support for the stock price.

We principally use P/E to value the stock because we believe Dabur is a steady growth company and is unlikely to face cyclical earnings patterns.

Risks

We believe Dabur is a steady growth company. As such, our Low Risk rating is consistent with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The key downside risks to our target price include: (1) lower-than-expected sales growth in the event of rural demand not picking up; (2) emerging competition in Dabur’s product segments, which could exert pricing pressure; and (3) changes in excise tax norms, which would negate the savings from new facilities in excise-exempt locations. Upside risks to our target price include: (1) better-than-expected sales growth due to good monsoons; and (2) Dabur may not pass on any excise benefits to consumers and might retain all of its savings if rural-led demand accelerates.

Appendix A-1

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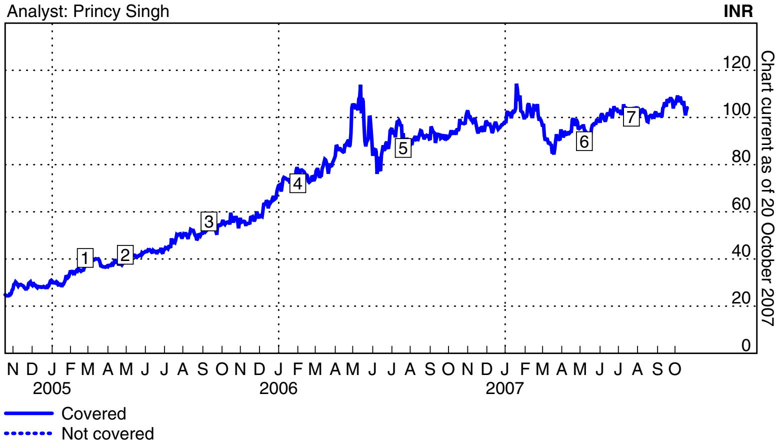
IMPORTANT DISCLOSURES

Dabur India (DABU.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh



#	Date	Rating	Target Price	Closing Price
1:	24 Feb 05	1L	*44.67	37.43
2:	29 Apr 05	1L	*48.00	38.75
3:	12 Sep 05	*2L	*55.67	52.70
4:	1 Feb 06	*3L	*60.00	77.87
5:	20 Jul 06	*2L	*93.33	93.37
6:	8 May 07	2L	*100.00	94.70
7:	23 Jul 07	*1L	*125.00	100.35

*Indicates change.

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