DABUR INDIA LIMITED RESEARCH

EQUITY RESEARCH — December 20, 2007

RESULTS REVIEW

Share Data

Market Cap	Rs. 96 bn
Price	Rs. 111.1
BSE Sensex	19,162.57
Reuters	DABUR IN
Bloomberg	DABU.BO
Avg. Volume (52 Week)	0.4mn
52-Week High/Low	Rs. 176.30/83.40
Shares Outstanding	864.0

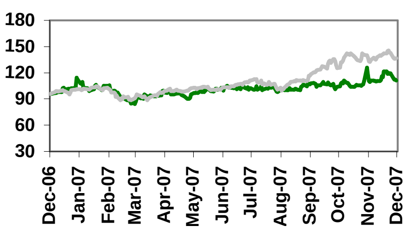
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	3.8	4.4
+/- (%)	15.7%	16.1%
PER (x)	29.3x	25.3x
EV/ Sales (x)	3.7x	3.3x
EV/ EBITDA (x)	24.0x	20.7x

Shareholding Pattern (%)

Promoters	74
FIIs	11
Institutions	7
Public & Others	8

Relative Performance



Dabur India Limited — Hold

Subdued performance

Dabur India Limited (DIL) reported lower than expected growth for Q2'08 with net sales growing at 12.9% yoy to Rs. 6.3 bn in comparison to Rs. 5.5 bn in Q2'07. The subdued performance in the second quarter was owing to negative growth of 7.6% yoy in the Consumer Health Division due to intense restructuring and consolidation process along with slower growth of 15.1% in the Foods Business due to reduced focus on low margin exports of food concentrates. Furthermore, disruption of supplies from Nepal on account of large scale flooding in the eastern part of the country affected the volumes of the Foods Business.

During the quarter, adjusted net profit increased substantially by 39.8% yoy to Rs. 1 bn while adjusted net profit margin increased by a massive 321 bps yoy.

Taking in view the Company's consolidated performance, we expect the net sales and earnings to grow at a CAGR of 16.4% and 15.9% over FY07-09E, respectively.

At the current price, the stock is trading at a forward PE of 25.3x for FY09E. We expect a limited upside from these levels and hence, maintain our Hold rating on the stock.

Result Highlights

- Net sales for Q2'08 registered a slower growth of 12.9% yoy to Rs. 6.3 bn while for H1'08 the increase was 16% yoy.
- Adj. EBITDA for the quarter improved significantly by 27% yoy to Rs. 1.2 bn while Adj. EBITDA margin expanded 220 bps yoy to 19.8%.

Key Figures (Consolidated)

Quarterly Data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H1'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	5,544	5,613	6,258	12.9%	11.5%	10,231	11,871	16.0%
Adj. EBITDA	973	792	1,236	27.0%	56.0%	1,613	1,952	21.1%
Adj. Net Profit	745	622	1,042	39.8%	67.5%	1,228	1,588	29.4%
Margins(%)								
Adj. EBITDA	17.6%	14.1%	19.8%			15.8%	16.4%	
Adj. NPM	13.4%	11.1%	16.7%			12.0%	13.4%	
Per Share Data (Rs.)								
Adj. EPS	0.8	0.7	1.1	34.6%	54.2%	1.4	1.8	33.2%

- Consumption of raw materials dipped 28 bps yoy to 44% of net sales, advertisement and publicity cost expanded 29 bps to 9.8% whereas staff cost remained relatively flat at 7.8%.
- Other income for Q2'08 improved 23.9% yoy to Rs. 76.3 mn and increased to 1.2% of net sales.
- Adjusted net profit for the quarter increased sharply by 39.8% yoy and net profit margins expanded by a steep 321 bps yoy to 16.7%.

Segmental Highlights

Slower pace of Consumer Care reflected in the Company's top line growth

Consumer Care Division (CCD) (which contributed around 78.2% to total revenue and major portion of EBIT) recorded growth of 15% yoy to Rs. 5 bn during Q2'08. Oral Care category performed exceedingly well during the quarter with 28% yoy growth (Babool – 49%, Dabur Red Toothpaste – 42%, Meswak – 27%) driven by 42.5% yoy growth in the toothpaste portfolio. Despite cut throat competition in the toothpaste segment, the Company was able to expand its market share by a sharp 180 bps yoy to 12.3%. The health supplements category posted a growth of 8.9% yoy during the quarter and 17.1% yoy during H1'08, while sales in the digestives category bounced back with an improvement of 16.3% yoy. However, the skin care category declined due to the underperformance of the soap segment, registering growth of mere 9.4% yoy during the first half of the fiscal FY08E.

Consumer Health Division (CHD) undergoing consolidation phase

Consumer Health Division (CHD) registered negative growth of 7.6% yoy to Rs. 432.8 mn with division undergoing a consolidation phase and all key initiatives planned for the next two quarters. To name a few, restaging of the Asvas portfolio, relaunch of Honitus lozenges and churans, new product launches in Ayurvedic OTC segment for women's health, etc. However, some brands like Dashmularishta, Lavan Bhaskar Churna and Classical portfolio registered healthy double digit growth rates.

International Business recorded a growth of 17% yoy during the quarter and 31% yoy in the first half. Sales in the GCC and the African regions performed well, whereas sales in the Indian Subcontinent were below expectations during Q2'08. Implementation of the new manufacturing unit

UAE unit likely to commence commercial production by the end of FY08E

at Ras Al Khaimah, UAE, for manufacturing Dabur products for Middle East and African markets is in full swing and the unit is expected to be operational by the end of the current fiscal. The Company is planning an additional capital expenditure of Rs. 36 crores for expanding its international business.

Reduced focus on export of food concentrates due to lower margins

Food Business grew 15.1% yoy during Q2'08 and 25.3% yoy during H1'08. The Company has reduced its focus on low margin export of food concentrates. As a result, the concentrate business declined 28% yoy during the quarter and 16% yoy during the first half. However, the branded business continued its growth momentum with 26% yoy increase during the quarter and 31% yoy for H1'08. Inspite of the rising competition, both juice and the culinary brands performed well. The Real franchise grew 25% yoy and homemade category by a massive 83% yoy. The division expanded its Real Activ Juice portfolio with the introduction of 100% vegetable juice in two flavours. A third flavour is likely to be introduced in the next quarter.

Key Events

- The Board has approved the Scheme of Amalgamation of its wholly owned subsidiary "Dabur Foods Limited" with the Company w.e.f. the appointed date of 1st April 2007, which is pending for approval with the Hon'ble High Court of Delhi.
- The paid-up share capital of the Company has increased by approx. Rs. 0.1 mn on 10th Aug 2007, consequent upon the allotment of 108,027 equity shares of Re. 1/- each on the exercise of stock options by the employees.

Key Risks

- Increasing competition among FMCG companies and rising inclination of foreign players to make way towards the Indian market, pose a threat to Company's earnings.
- Appreciation of Indian rupee against all major currencies pose a risk to our rating as Dabur is extending its roots in the international markets at

a fast pace and its dependency on international business is increasing over time.

Outlook

DIL reported the lowest growth rate in the last 1-2 years of 12.9% yoy in Q2'08 due to supply dislocations, corrections as well as business consolidation. Despite lower than expected results, the macro level fundamentals of DIL still hold good. The Company has been able to make judicious price increases in the CCD to counter the effect of inflationary pressures. The CCD has grown around 16.7% yoy in the first half of FY08E, out of which around 2.5% is attributable to price increases. However, the CHD has been registering slower growth for the past two quarters owing to the change in management, alteration in the organisational structure and a lot of ground level corrections. Consequent to such sequence of changes, the Company is expecting CHD to regain its growth trajectory in the upcoming quarters.

Foray into retail venture and commissioning of new plant at UAE likely to add to the Company's valuations

Dabur is also planning to launch its chain of health and beauty stores by the beginning of the next calendar year. Initially the Company is planning to open around four to six stores in the fourth quarter of FY08E while around 30 to 40 stores would be added by the end of FY09E. Most of the stores would be in the area of 1,500 to 3,000 square feet. DIL is planning to infuse a capital expenditure of around Rs. 140 crores into the retail venture. Due to the initial gestation period we do not expect the business to contribute to the bottom line in the near future.

DIL's upcoming manufacturing facility at Ras Al Khaimah, UAE, for catering the growing demand of Middle East and African markets is also in full sway, and the unit is likely to commence production by the end of FY08E.

Taking in view the Company's consolidated performance, we expect the net sales and earnings to grow at a CAGR of 16.4% and 15.9% over FY07-09E, respectively.

At the current price, the stock is trading at a forward PE of 25.3x for FY09E. We expect a limited upside from these levels and hence, maintain our Hold rating on the stock.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY07-09E)
Net Sales	14,941	18,658	21,966	25,907	29,775	16.4%
Adj. EBITDA	1,660	2,571	3,497	4,042	4,690	15.8%
Adj. Net Profit	1,558	1,805	2,830	3,280	3,807	16.0%
Margins(%)						
Adj. EBITDA	11.1%	13.8%	15.9%	15.6%	15.8%	
Adj. NPM	10.4%	9.7%	12.9%	12.7%	12.8%	
Per Share Data (Rs.)						
Adj. EPS	1.8	2.5	3.3	3.8	4.4	15.9%
PER (x)	20.4x	33.0x	34.0x	29.3x	25.3x	

Disclaimer

This report is not for public distribution and is only for private circulation and use. The Report should not be reproduced or redistributed to any other person or person(s) in any form. No action is solicited on the basis of the contents of this report.

This material is for the general information of the authorized recipient, and we are not soliciting any action based upon it. This report is not to be considered as an offer to sell or the solicitation of an offer to buy any stock or derivative in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Indiabulls Securities Limited. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. You are advised to independently evaluate the investments and strategies discussed herein and also seek the advice of your financial adviser.

Past performance is not a guide for future performance. The value of, and income from investments may vary because of changes in the macro and micro economic conditions. Past performance is not necessarily a guide to future performance.

This report is based upon information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied upon as such. Any opinions expressed here in reflect judgments at this date and are subject to change without notice. Indiabulls Securities Limited (ISL) and any/all of its group companies or directors or employees reserves its right to suspend the publication of this Report and are not under any obligation to tell you when opinions or information in this report change. In addition, ISL has no obligation to continue to publish reports on all the stocks currently under its coverage or to notify you in the event it terminates its coverage. Neither Indiabulls Securities Limited nor any of its affiliates, associates, directors or employees shall in any way be responsible for any loss or damage that may arise to any person from any error in the information contained in this report.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject stock and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. No part of this material may be duplicated in any form and/or redistributed without Indiabulls Securities Limited prior written consent.

The information given herein should be treated as only factor, while making investment decision. The report does not provide individually tailor-made investment advice. Indiabulls Securities Limited recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a financial adviser. Indiabulls Securities Limited shall not be responsible for any transaction conducted based on the information given in this report, which is in violation of rules and regulations of National Stock Exchange or Bombay Stock Exchange.