Indiabulls

DABUR INDIA LIMITED RESEARCH

EQUITY RESEARCH **September 21, 2007**

Results Review

Share Data

Market Cap	Rs. 93.1 bn
Price	107.75
BSE Sensex	16,564.23
Reuters	DABUR IN
Bloomberg	DABU.BO
Avg. Volume (52 Week)	0.4mn
52-Week High/Low	Rs. 176.30/83.40
Shares Outstanding	863.9

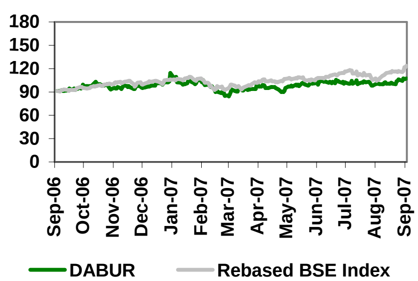
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	3.7	4.1
+/- (%)	13.6%	10.0%
PER (x)	29.0x	26.4x
EV/ Sales (x)	3.6x	3.2x
EV/ EBITDA (x)	22.4x	20.1x

Shareholding Pattern (%)

Promoters	74
FIIs	10
Institutions	7
Public & Others	9

Relative Performance



Dabur India Limited **Hold**

Going steady

Dabur India Limited (DIL) registered strong performance in Q1'08 with net sales increasing 20.1% yoy, driven by revenue growth of 18.7% yoy in 'Consumer Care Business', 38.7% yoy in 'Foods Business' and 34.3% yoy in 'Others' segment. Inspite of inflationary cost pressures during the quarter, EBITDA margins showed improvement by 63 bps yoy and stood at 15%. Net profit rose sharply by 29% yoy during Q1'08, driven by higher prices and increased volumes during the quarter. During FY07, the Company revised its prices upward in the range of 2.5% to 4%. However, during Q1'08 only marginal adjustment in prices was done. Growth in net profit was also supported by 46% yoy growth in other income, which stood at Rs. 77.1 mn during the quarter.

Taking in view the Company's consolidated performance, we expect the net sales to grow at a CAGR of 16.4% to Rs. 29.8 bn in FY09E. EBITDA is expected to grow at a CAGR of 11.7% to Rs. 4.7 bn and net profit at a CAGR of 11.8% to Rs. 3.5 bn in FY09E.

At the current levels, we expect a limited upside of 8.6% and maintain the target price of Rs. 117 for FY08E. Based on our analysis we downgrade the rating from Buy to **Hold**.

Key Figures (Consolidated)

Quarterly Data	1Q'07	4Q'07	1Q'08	YoY%	QoQ%
(Figures in Rs mn, except per share data)					
Net Sales	4,755	5,765	5,709	20.1%	(1.0%)
EBITDA	692	952	869	25.6%	(8.7%)
Net Profit	482	769	622	29.0%	(19.1%)
Margins(%)					
EBITDA	14.4%	16.3%	15.0%		
NPM	10.0%	13.2%	10.8%		
Per Share Data (Rs.)					
Normalised EPS	0.6	0.9	0.7	30.9%	(18.2%)

Result Highlights

- Driven by segmental growth, net sales registered an upside of 20.1% yoy.
- EBITDA margins rose to 15% in Q1'08, showing improvement by 63 bps.
- On the back of higher other income and reduced effective tax rate, net profit grew by a robust 29% yoy.
- Consumption of raw material increased to 42.7% of net sales, increasing by 178 bps yoy, whereas, A&P and staff cost remained relatively flat during the quarter.
- Other expenditure and sales tax paid registered a decline by 97 bps and 142 bps respectively.

Satisfactory performance from Consumer Care Business

Consumer Care Business which contributes around 79.1% to revenue and 85.9% to EBIT, recorded 18.7% yoy growth during Q1'08. The growth in Consumer Care was driven by 15.4% growth in Oral Care, 24% in Vatika Shampoos (as against the category growth of 15%) and robust growth of 30% in Health Supplements. However, Vatika Hair Oil declined during the quarter as price differential to plain coconut oil remained high and also because of the planned reduction in inventories.

Sluggish growth in Consumer Health Division

Consumer Health Division which operated at an EBIT margin of 26.7%, recorded marginal growth in revenues by 1.7% yoy. However, the overall growth in this division was sluggish because of the decline registered in some of the major products. The division is planning to increase the growth rate by introducing a number of new products, new campaigns and new packaging during the quarter.

Dabur growing at an excellent pace in international markets

International Business recorded a strong growth of 54% yoy with an impressive performance across all markets. The growth was driven by GCC, Egypt and Pakistan. GCC recorded yoy growth of 60%, Egypt 51% and Pakistan 130%. The new manufacturing unit at Ras Al Khaimah in UAE for manufacturing Dabur products for the Middle East and African markets is underway with finalisation of layout and equipment. International Business contributes around 13% to total group revenues and is currently growing at 2-3 times the pace of the domestic business.

Merger of Dabur Foods with Dabur India Limited

Dabur Foods, a 100% subsidiary of Dabur India Limited, which is one of the fastest growing divisions of the Dabur Group, got merged with DIL effective from 1st April 2007. With this merger, the Foods portfolio will be integrated completely with the core FMCG business and is expected to yield significant benefits in terms of cost and revenue synergies. The Company is working out a plan to capture the huge potential of the food business and the benefits of integration on both back as well as front end.

Key Events

Change in Chairmanship of DIL

- Mr. V.C. Burman stepped down as the Director and Chairman of the Company. Dr. Anand Burman, who was earlier holding the Vice Chairman's office, is now appointed as the new Chairman of Dabur India Limited.

Dabur all set for the retail front

- With the incorporation of a wholly owned subsidiary H & B Stores Limited, the Company's retail venture is underway for its launch. The Company is panning to open around 30 stores by early August next year, whereas, 8-10 stores will be opened during the current fiscal year.

Increase in paid-up share capital

- The paid-up share capital of the Company was increased by approx. Rs. 1 mn on 24th May 2007, consequent upon the allotment of 10,14,953 equity shares of Re. 1/- each on the exercise of stock options by the employees.

Key Risks

Rising competitive threats

- Competitive pressures from other FMCG companies and foreign players entering the Indian market, pose a threat to Company's market share.

Strengthening of rupee

- Strenghthening of Indian rupee is also a risk to our EPS estimates as Dabur's share from international business is increasing constantly.

Outlook and Valuation

Impressive growth but limited upside expected from the current levels

We expect DIL's net sales to grow at a CAGR of 16.4% to Rs. 29.8 bn in FY09E. EBITDA is expected to grow at a CAGR of 11.7% to Rs. 4.7 bn and net profit at a CAGR of 11.8% to Rs. 3.5 bn in FY09E. Inspite of Dabur growing extensively in the international markets and impressive growth in its Food business, we feel that much of this growth has been factored in its current price and are a expecting a limited upside of 8.6%.

Based on our analysis of the Company's quarterly results, we downgrade our rating from Buy to **Hold.**

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%
EBITDA	2,180	3,042	3,757	4,210	4,690	11.7%
Net Profit	1,558	2,142	2,830	3,220	3,541	11.8%
Margins(%)						
EBITDA	14.5%	16.2%	16.9%	16.0%	15.5%	
NPM	10.4%	11.4%	12.7%	12.3%	11.7%	
Per Share Data (Rs.)						
Normalised EPS	1.8	2.5	3.3	3.7	4.1	11.8%
PER (x)	20.4x	33.0x	32.9x	29.0x	26.4x	

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