ENAM Securities
India Research

Rs 94
Target Price: Rs.105
Potential Upside: 11%

RESULTS UPDATE

Dabur India

Relative to sector: **Neutral**

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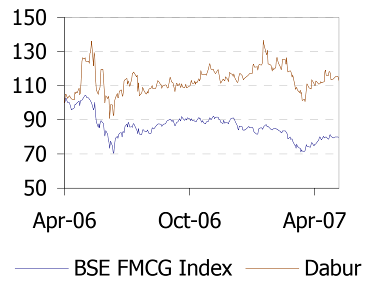
Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 863mn
Market cap	: Rs 81bn
52 week high/low	: Rs 118/ Rs 71
Avg. daily vol. (6mth)	: 1.4mn shares
Bloomberg code	: DABUR IN
Reuters code	: DABU.BO

Shareholding (%)		Mar-07	QoQ chg
Promoters	:	73.8	(0.2)
FIIs	:	10.5	0.6
MFs / UTI	:	0.5	(4.0)
Banks / FIs	:	5.8	3.1
Others	:	9.4	0.4

IMPRESSIVE UNDERLYING GROWTH

Dabur India (Dabur) reported consolidated revenues of Rs 5.8bn (↑ 20.1%), EBIDTA of Rs 881mn (↑12%) and Adj. PAT of Rs 769mn (↑23%) in Q4FY07, all of which were inline with our expectations. Although inflationary cost pressures contracted EBITDA margins by 100bps to 15.3%, higher other income and lower tax provisioning propped up Adj. PAT margins by 28bps to 13.3 in Q4FY07.

Key Highlights –FY07

- **Category analysis:** Revenue growth of 20% YoY was driven by growth in CCD (↑16%), IBD (↑29%) & the foods division (↑26%). Key CCD segments such as shampoo, oral care and health supplements managed to outperform category growth.
- **Well-managed cost pressures:** Rise in material cost (↑95bps) was offset by prudent cost management pertaining to employees (↓17bps), A&P spend (↓22bps) and other expenses (↓91bps), resulting in a 35bps increase in EBITDA margin to 15.7% in FY07.
- **Price increase:** Dabur took a 4-5% price increase across categories in FY07 and could see similar increases going forward. However the management continues to focus on volume growth rather than price increases that are largely cost led.
- **Retail venture:** The Company intends to set up ~350 stores in the health and beauty format by 2012 with a revenue target of Rs 17bn. The first store is likely to be launched in Q4FY08.
- **Earnings outlook:** Against an earnings growth of 36% CAGR over the last 5 years, we believe earnings growth will now moderate to 21% CAGR over the next 2 years. Dabur's unique positioning with a differentiated product portfolio and presence in high categories, supports high revenue visibility.

While we have not factored in the financial forecast for the retail venture, we believe the potential for losses from this venture looms over near term earnings. With a strong focus on volume driven revenue growth, we believe that the current valuations adequately factor in the growth and cost inflation concerns. At CMP (Rs 94), the stock trades at 24x FY08E and 20x FY09E earnings. We are upgrading the stock to sector **Neutral**.

Financial summary (Consolidated)

Y/E Mar	Net Sales (Rs mn)	Adj. PAT (Rs mn)	Consensus EPS* (Rs.)	EPS* (Rs.)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs.)
2006	18,659	2,246	-	3.9	(27)	21.1	53.3	49.3	16.6	2.5
2007	21,999	2,830	-	3.3	(16)	29.0	59.3	55.1	22.8	1.8
2008E	25,509	3,416	3.9	4.0	21	23.8	64.3	60.9	19.2	2.5
2009E	28,992	4,137	4.5	4.8	21	19.7	65.0	69.3	16.7	3.0

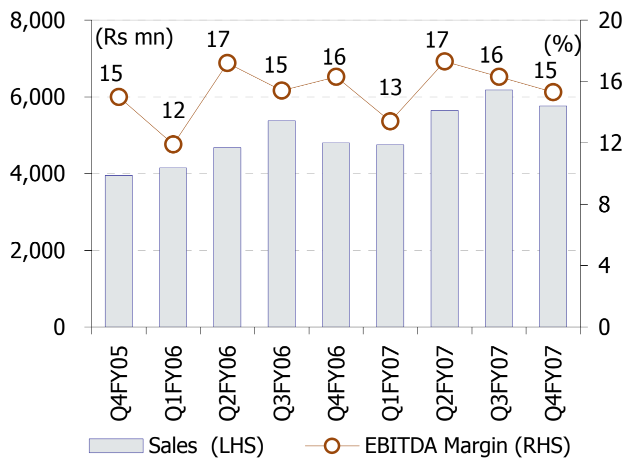
Source: *Consensus broker estimates, Company, ENAM estimates *Note: Bonus shares of 1:1 and 1:2 were issued in Jan-06 & Jan-07 respectively.

Results update (Consolidated)

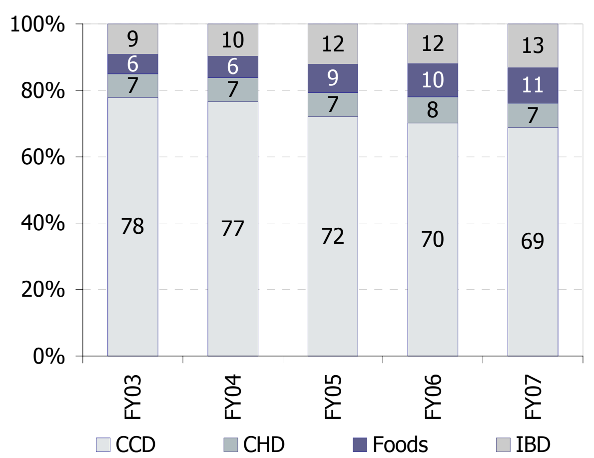
(Rs mn)	Quarter ended Mar-07	Mar-06	% Chg	Dec-06	% Chg	12 months ended Mar-08E	Mar-07	% Chg
Net Sales	**5,765**	**4,799**	**20.1**	**6,176**	**(6.7)**	**25,509**	**21,999**	**16.0**
EBIDTA	**881**	**783**	**12.5**	**1,004**	**(12.2)**	**4,183**	**3,497**	**19.6**
Other income	71	22	223.7	33	116.8	210	259	(18.9)
PBIDT	**952**	**805**	**18.2**	**1,037**	**(8.2)**	**4,393**	**3,756**	**17.0**
Depreciation	90	69	30.9	115	(21.9)	303	400	(24.1)
Interest	28	24	15.9	31	(9.2)	164	154	5.9
PBT	**834**	**713**	**17.1**	**891**	**(6.3)**	**3,927**	**3,202**	**22.6**
Tax	54	80	(31.9)	115	(52.7)	510	381	34.0
Minority Interest	11	6	82.0	(17)	-	-	(9)	-
Adjusted PAT	**769**	**627**	**22.7**	**793**	**(3.0)**	**3,416**	**2,830**	**20.7**
Extra ordinary income/ (exp.)	-	(127)	-	-	-	-	-	-
Reported PAT	**769**	**500**	**53.8**	**793**	**(3.0)**	**3,416**	**2,830**	**20.7**
No. of shares (mn)	863	573	-	574	-	863	863	-
EBIDTA margins (%)	15.3	16.3	-	16.3	-	16.4	15.9	-
PBIDT margins (%)	16.5	16.8	-	16.8	-	17.2	17.1	-
EPS - annualized (Rs.)	**3.6**	**4.4**	**(18.5)**	**5.5**	**(35.5)**	**4.0**	**3.3**	**20.7**

Source: Company, ENAM estimates

Revenue & EBITDA trend (consolidated)



Sales Mix Trend



Source: Company, ENAM Research

Category Analysis –FY07

Category	% of sales	Growth YoY	Remarks
Consumer Care Div.	69	16	All major categories in the CCD division grew in strong double digits to deliver a robust growth of 15.6% YoY in FY07.
- Hair Care	22	16	Hair oils grew by 13% YoY backed by Amla Hair oil (↑11.4%), Anmol coconut oil (↑ 44.4%) and Anmol mustard (↑ 28.3%). The shampoo portfolio grew by 31%, outperforming the category growth of 12% for they year.
- Oral Care	15	17	Oral care grew at 23.7% in volume terms as against category growth(market) of 15.3%. The toothpaste segment grew by 27.9% YoY. Babool again led the pack with a 49.3% YoY growth. Dabur's share in toothpaste category increased by 130 bps to 10.4%. Toothpowder also grew by 7% in FY07 against negative growth last year.
- Health Supplements	15	19	All three major brands in the category once again recorded strong double-digit growth with Chyawanprash (↑20%), Glucose (↑27%) and Honey (↑15%). Chyawanprash's sugar free variant is currently being test marketed. Market share for Chyawanprash was maintained at 58%.
- Digestives & Candies	7	6	Hajmola brands continued the growth trend with tablets (↑10.5%) & candy (↑18.4%). Lemon flavor variant was launched in Hajmola tablets.
- Baby & Skin Care	5	(1)	Growth in Gulabari (↑2%) remained flat once again; Lal Tail was up by 11% YoY. A third Vatika soap variant was launched.
- Home Care	5	35	Odonil air freshner grew by 28.2% YoY. Odomos mosquito repellant brand grew by 71% in FY07. Odomos coil launched in Q1FY07 expanded its reach.
Consumer Heath Div.	7	9	Growth in the CHD was impacted as the business is being consolidated due to the acquisition in FY06. Distribution systems were also rationalized. We believe this is one time & have estimated a 10% YoY growth in CHD for FY08E.
Foods	11	26	Foods category posted robust growth and crossed the Rs 2bn sales mark. 'Real' fruit juices posted a growth of 28% YoY with new launches in the Activ range & Real portfolio. 3 variants were launched under Real Twist.
International Business	13	29	GCC and Egypt markets grew by a strong 29% and 59% respectively in FY07. Exports have started to new markets in the Middle East & North Africa. Sales in Pakistan once again doubled to reach Rs 200mn.
Total sales	**100**	**18**	**We estimate the revenue growth for the consolidated entity at 16% and 14%, for FY08E and FY09E respectively.**

Source: Company Note: the above forecast does not include retail venture.

Retail Vision 2012
Premium H&B
Revenue – Rs 17 bn
Stores – 350 nos.

Dabur's retail foray

Dabur unveiled its retail roadmap in Q4FY07 with a bold plan of 350 stores on the health & beauty (H&B) format with target revenue of Rs 17bn by 2012. Dabur will infuse Rs 1.4bn as equity into the subsidiary with additional debt after a couple of years, to establish its presence in the retail market in India. The retail venture will operate through a wholly-owned subsidiary, H&B Stores Limited under a separate brand name. Dabur plans to cater primarily to the upper-class urban consumer and plans to establish stores ranging from 1,500 sq ft to 6,000 sq ft in size, with initial rollouts in Metros and Tier-I cities. The first such store is likely to be launched in Q4FY08. The retail team is likely to be in place by Q1FY08.

The product mix will cover pharmacy and OTC health, personal care, baby care, cosmetics, and general merchandise. While the range of categories is wide, the focus of the proposition will be health and beauty. The stores will maintain a balance between own/private labels and Dabur's own brands.

In terms of performance, Dabur expects to start generating profits by the fourth year of operations with revenue exceeding Rs 10bn. According to the management the total retail market size in India is estimated to be USD 258bn, of which H&B retail accounts for USD 34bn (13%). This presents a huge opportunity, as organized retail penetration of the H&B market is very low at 2%.

The management expects the retail venture to generate profits in FY2011 with margins similar to other international players in the H&B retail space. Considering the nascent stage of the venture, we believe more clarity will emerge in terms of the planned rollout and investments, once the retail team is in place. We have not included the retail venture into our financial forecast for FY08E & FY09E.