



Dabur India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,782	DABUR IN
S&P CNX: 4,079	REUTERS CODE
	DABU.BO

9 May 2007

Neutral

Previous Recommendation: Neutral

Rs94

Equity Shares (m)	862.9
52-Week Range	118/71
1,6,12 Rel. Perf. (%)	-3/-9/-19
M.Cap. (Rs b)	81.4
M.Cap. (US\$ b)	2.0

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
03/07A	22,337	2,822	3.3	24.5	28.7	17.0	58.8	52.0	3.7	23.3
03/08E	25,958	3,488	4.0	23.2	23.3	12.6	54.1	58.6	3.0	18.4
03/09E	29,575	4,241	4.9	21.6	19.2	9.6	50.2	54.2	2.6	15.5

- ✘ Dabur reported consolidated gross sales of Rs5.8b and adjusted PAT of Rs769m for 4QFY07 against our estimate of Rs5.6b and Rs723m respectively. The difference in PAT is largely due to a lower tax rate in 4QFY07.
- ✘ Revenues grew 20.1% YoY, indicating acceleration in sales momentum in various categories. Hair Care (sales growth of 15.8% for FY07 v/s 13% for 9MFY07), Glucose (sales growth of 27% for FY07 v/s 25% for 9MFY07), Honey (sales growth of 15.4% for FY07 v/s 12.7% for 9MFY07), Home Care (sales growth of 35.1% for FY07 v/s 27.5% for 9MFY07), and Oral Care – all registered strong growth.
- ✘ EBITDA grew just 12.5% YoY, as EBITDA margins declined 100bp. Lower taxes (tax rate at 6.5% in 4QFY07 v/s 11.2% in 4QFY06) and higher other income resulted in higher adjusted PAT growth of 22.7% to Rs769m.
- ✘ Foods business grew 28% for FY07 compared to 29.7% in 9MFY07. Margins were under severe pressure (down 680bp YoY to 11.1% in 4QFY07) due to higher input costs and overheads. The management expects margins to revert to FY06 levels during the current year. Long-term margin expansion seems unlikely from FY06 levels.
- ✘ Dabur has launched new products in Skin Care, Juices, Home Care and Health Supplements, which if successful would boost long-term growth potential. We have revised our estimates to factor higher growth rate in Hair Care, Oral Care and Health Supplements. We now estimate topline growth at 16.7% for FY08 v/s 13.3% earlier and at 13.9% for FY09 v/s 12.4% earlier. We have also factored higher raw material costs, translating in lower EBITDA margin estimates of 16.5% for FY08 and FY09 as compared to our earlier estimates of 17.1% and 17.9%, respectively. Our EPS estimates remain unchanged at Rs4 for FY08 and at Rs4.9 for FY09. The stock trades at 23.3x FY08E EPS and 19.2x FY09E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY06				FY07				FY06	FY07
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q		
Gross Sales	4,147	4,675	5,374	4,799	4,755	5,641	6,176	5,765	18,996	22,337
YoY Change (%)	20.4	26.0	26.0	21.5	14.7	20.7	14.9	20.1	23.6	17.6
Total Exp	3,655	3,870	4,547	4,016	4,116	4,668	5,172	4,884	16,087	18,840
EBITDA	492	805	827	783	639	973	1,004	881	2,908	3,497
Margins (%)	11.9	17.2	15.4	16.3	13.4	17.3	16.3	15.3	15.3	15.7
Depreciation	-76	-84	-83	-69	-97	-106	-115	-90	-312	-408
Interest	-40	-47	-53	-24	-41	-55	-31	-28	-164	-154
Other Income	18	38	56	22	53	38	33	71	134	259
PBT	394	713	747	713	554	851	891	834	2,566	3,195
Tax	-50	-85	-86	-80	-80	-123	-115	-54	-300	-373
Rate (%)	12.6	12.0	11.5	11.2	14.5	14.5	12.9	6.5	11.7	11.7
PAT	345	627	661	633	474	727	776	780	2,266	2,822
YoY Change (%)	55.6	41.3	40.0	46.4	37	16	17	23	44.3	24.5
Minority Interest	4	17	-12	-6	9	-6	17	-11	3.2	8.7
Extraordinary Inc/(Exp)	0	0	0	-127	0	65	0	0	-127	0
Reported PAT	349	644	649	500	482	787	793	769	2,142	2,830

E: MOST Estimates

DABUR - SEGMENTAL RESULTS (RS M)

	4QFY07	4QFY06	CH.	FY07	FY06	CH.
Net Sales						
Consumer Care	4,551	3,807	20	17,669	15,142	17
Consumer Health	393	392	0	1,622	1,486	9
Foods	703	515	37	2,600	2,012	29
Others	119	85	39	446	356	25
Total	5,765	4,799		22,337	18,996	
EBIT						
Consumer Care	1,119	919	22	4,298	3,555	21
Consumer Health	92	89	4	395	379	4
Foods	78	92	-16	30	213	8
Others	3	4	-9	12	10	18
Total EBIT	1,293	1104		4,936	4,158	
less interest	28	24	16	154	164	-6
unallocable exp/ inc.	431	367	17	1,587	1,428	11
Total PBT	834	713	17	3,195	2,566	24
EBIT Margin %						
Consumer Care	24.6	24.1		24.3	23.5	
Consumer Health	23.5	22.6		24.3	25.5	
Foods	11.1	17.9		8.9	10.6	
Others	2.7	4.1		2.8	2.9	

Source: Company/ Motilal Oswal Securities

Success of new products leads to higher topline growth

Dabur's 4QFY07 topline growth of 20.1% to Rs5.76b shows that sales momentum is picking up. The company's focus on niche product segments and innovation is reflecting in success of new launches and higher topline growth. Although some of the earlier growth drivers (Packed Juices, Consumer Health Division, Skin Care and Toilet Cleaners) seem to be running out of steam, other well established and large product segments (Oral Care, Home Care, Hair Care and Health Supplements) have gathered considerable sales momentum.

The company has launched numerous new products during the year, including *Vatika Root Strengthening Shampoo*, *Chawyanprash Sugar-free*, *Dabur Swassamrit*, *Lemon-flavored Hajmola Candy*, *Vatika Orange Peel Soap*, *Dabur Almond Oil*, *Odomos Coil*, *Active Soya Juices*, and new variants of *Real Twist Drinks*. Products introduced in the last two years contribute 8-10% of sales. We believe that *Chawyanprash* variants, *Odomos*, Juices and Toilet Soaps have the potential to substantially accelerate growth.

Chawyanprash – new variants hold the key

Chawyanprash grew by 20.3% on a higher base on the back of a 5% price increase during the year. New variants like *Chawyanshakti* contributed Rs45m to sales and the traditional product contributed to the growth. The company has test-launched the sugar-free variant of *Chawyanprash* to tap the growing number of health conscious people. In addition, the company is planning the test launch of *Chawyanjyoti*, a chocolate-based health supplement targeting children. The management has guided double-digit growth for *Chawyanprash*, which could substantially accelerate if some of these new launches succeed. Our estimates factor in 12% growth in FY08 and 10% growth in FY09.

Oral care – Babool enables 130bp gain in market share

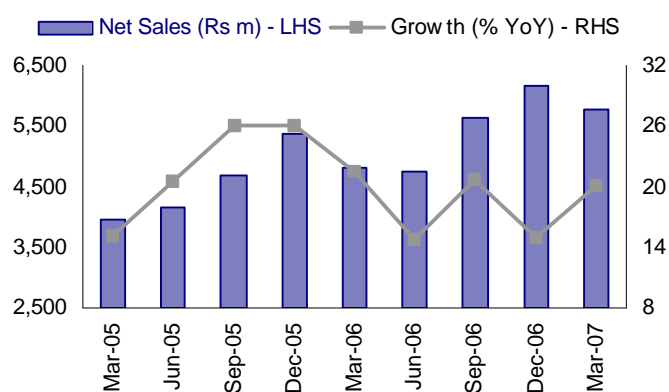
Dabur's toothpaste category grew 28% in FY07 (v/s 33% in 9MFY07), with 17.6% growth in *Red Toothpaste*, 49.3% growth in *Babool* and 4.5% growth in *Meswak*. *Babool's* market share increased from 5.8% to 7.4% in 4QFY07. *Red Toothpowder* grew 7.2% in FY07 in a de-growing toothpowder market, as against a decline last year. The management has ascribed *Babool's* success to a unique positioning in lower-priced products, which have been growing at higher-than-industry growth rates. We expect *Babool* and *Red Toothpaste* to grow at above industry growth rates due to their clear positioning in the economy and ayurvedic segments.

Vatika and lower-priced segment oils power growth

Hair Care sales growth accelerated to 15.8% in FY07 as against 13% in 9MFY07. Hair Oil sales growth accelerated to 13% in FY07 from 10.3% in 9MFY07 while Shampoo sales grew 31.1% in FY07 v/s 28.1% in 9MFY07. *Vatika Shampoo* emerged as the fastest growing brand in the shampoo category, growing 38.9% in volume terms in FY07 as against category growth of 12%. This can partly be attributed to the successful launch of its *Root Strengthening Shampoo*.

In the value-for-money (VFM) segment, *Anmol Coconut Oil* grew by 44.4% in FY07 as the company entered the pure coconut oil market, which has been experiencing a void after the exit of HLL (*Nihar*). We expect this brand to gain further ground in the coming months. *Amla Hair Oil* also gained due to 5% price increase during the year. The company is contemplating another round of price increase in oils, which would enable it to maintain double-digit growth in FY08 and FY09.

HAIR CARE: SALES TREND



Source: Company/ Motilal Oswal Securities

Consumer Health Division growth disappoints

Dabur's Consumer Health Division (CHD) reported 8% growth in FY07 against 12.4% growth in 9MFY07. *Honitus Cough Syrup* grew 20%, *Nature Care* grew over 20%, and *Shilajit* and *Shankhpushpi* grew in double-digits. The management has attributed low growth to delay in certifications for new products and the time required to strengthen the distribution chain. We have factored 13% growth in CHD business in FY08 and FY09.

Home Care – Sanifresh sales disappoint

Overall, Home Care brands grew by 35.1% in FY07 v/s 27.5% in 9MFY07 due to 28.5% growth in *Odonil* and 71% growth in *Odomos*. *Odomos* growth accelerated due to rising incidence of dengue and chikangunya fever. *Odomos Coils* launched in 1QFY07 were extended to newer geographies while *Odomos Mats* grew by 12%.

Sanifresh continued to disappoint in terms of sales growth. Management foresees good potential in brands like *Odomos* and *Odonil* in new products like coils and air fresheners, which could boost the growth rates in the coming year.

CATEGORIES-WISE GROWTH

CATEGORIES	GR. (%)	REMARKS
Hair Care	15.8	Amla Hair Oil grew 8.6%, Anmol Coconut grew 44.4%, and Vatika shampoos grew 31.1%.
Health Supplements	19.5	Chywanprash grew by 20.3% Glucose & Honey grew 26.9% YoY and 15.4% YoY respectively.
Oral Care	16.4	Toothpaste portfolio led the growth with 27.9% YoY growth. Babool grew 49.3% YoY, Meswak 4.5% YoY growth, Red Toothpaste 7% YoY.
Baby & Skin Care	0.0	Gulabari sales grew by 2% and Dabur Lal Tail grew by 11%
Digestives	6.1	Hajmola tablets grew 10.5% YoY and Hajmola Candy 18.4%
Home Care	27.5	Odonil, Odomos and Sanifresh grew 28.2%, 71.1% respectively.
Consumer Health Division	8	Honitus and Nature care led growth
Foods	28	Real grew by 28.4%. Margins under pressure.
International Business Div.	29.3	GCC markets grew 29%, while Egypt grew by 59% and Pakistan sales doubled to Rs200m.

All figures are for FY07 Source: Company/ Motilal Oswal Securities

Dabur Foods – material costs and rising competition impact margins

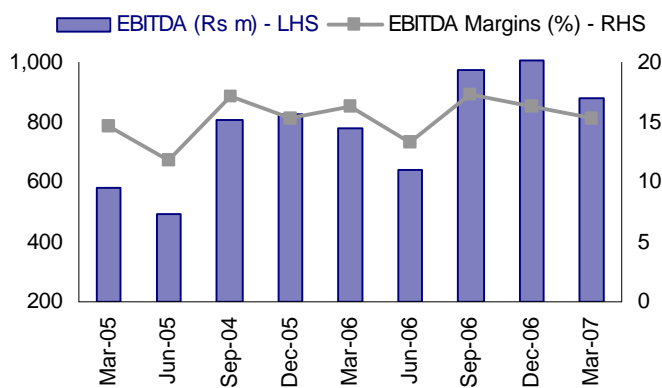
Dabur Foods reported sales growth of 28% in FY07 v/s 29.7% in 9MFY07, indicating growing competition in the packet juice market. PBIT margins in Foods dropped sharply from 17.9% in 4QFY06 to 11.1% in 4QFY07. New launches in the segment include *Active Fruit Soya Juices* in three flavors, *Real Apple Nectar* and three variants launched under *Real Twist* – Mango Apple, Mango Pineapple.

The management has attributed lower margins to sharp increase in prices of imported orange juice concentrate and market shift in favor of lower value-added products like nectars and drinks. We believe this trend is also a result of rising competition due to mushrooming of new players. This factor, along with huge discounts offered in modern trade has resulted in rising sales of the *Real* brand while 100% juice brand, *Active* has seen lower growth rates. The management has indicated higher margins during FY08 due to lower orange juice concentrate prices. We have factored in 25-30% growth for the coming couple of years as against 30-40% growth earlier.

Rising input costs – a growing concern, margin estimates lowered

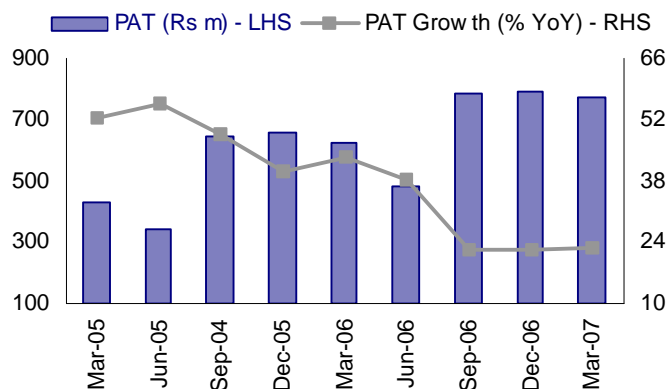
Raw material prices increased by 210bp to 44.8% sales in 4QFY07, led by honey, sorbitol, packaging and liquid paraffin. Some of these prices are likely to soften, but the inflationary tendency in maize, edible oils and dextrose is likely to impact in the coming quarters. The company has already taken selective price increases of 4-5% during the year. It expects ad spend to stabilize at 11-12%. We have factored ad-spend at 11.5% of sales and increase in raw material costs in our estimates. The management has indicated selective price increase to ward off the cost pressures in the coming year. Our estimates factor in lower EBITDA margins of 16.5% for FY08 and FY09, compared to our earlier estimates of 17.1% and 17.9%, respectively.

EBITDA MARGIN TREND



Source: Company/ Motilal Oswal Securities

PAT TREND



Source: Company/ Motilal Oswal Securities

Retail Initiatives – gains only in the long-term

Dabur has announced its retail foray – setting up specialty beauty and health stores. The company is targeting 400 stores in five years to achieve sales of Rs17b. The stores are expected to be 1,500-2,000 sq ft, with substantial contribution from imported products in shelf-space. The venture will be rolled out through a 100% subsidiary and Dabur will fund it to the extent of Rs1.4b. The management expects the venture to break even in the fourth year. Although consolidated sales will get a boost, profits are likely to take a hit during the first few years due to initial expenses. Our estimates do not factor in any impact of the retail venture.

Valuation and view

We have revised our estimates to factor higher growth rate in Hair Care, Oral Care and Health Supplements. We now estimate topline growth at 16.7% for FY08 v/s 13.3% earlier and at 13.9% for FY09 v/s 12.4% earlier. We have also factored higher raw material costs, translating in lower EBITDA margin estimates of 16.5% for FY08 and FY09 as compared to our earlier estimates of 17.1% and 17.9%, respectively. Our EPS estimates remain unchanged at Rs4 for FY08 and at Rs4.9 for FY09. The stock trades at 23.3x FY08E EPS and 19.2x FY09E EPS. We maintain **Neutral**.

Dabur India: an investment profile

Company description

Dabur is the 4th largest listed consumer company and the 2nd largest amongst Indian owned companies. Dabur is a market leader in *Paked Juices* category and is increasing its presence in other traditional categories like oral care, household care. Dabur's acquisition of Balsara has given it an entry in toothpaste and household care.

Key investment arguments

- Broad product portfolio, no single product category is more than 10% of sales, thereby risk to growth is low in case of single categories slow down.
- We estimate 17.5% topline and 25% PAT CAGR over FY06-08E.

Key investment risks

- Dabur's core portfolio consists of mature categories like Chyawanprash and Toothpowder, which are showing signs of slow down.

Recent developments

- Increase in paid-up share capital from Rs860m to Rs862.9m due to exercise of stock options and allotment of bonus shares.
- Launched Vatika Root Strengthening Shampoo, Chawyanprash Sugar-free, Dabur Swassamrit, Lemon-flavored Hajmola Candy, Vatika Orange Peel Soap, Dabur Almond Oil, Odomos Coil, and new variants in Real Twist Drinks.

Valuation and view

- We estimate EPS at Rs4 for FY08 and Rs4.9 for FY09, a CAGR of 23% over FY07-09.
- The stock trades at 23.3x FY08E EPS and 19.2x FY09E EPS. We maintain **Neutral**.

Sector view

- We have a cautious view on the sector, on the back of inflationary tendency in the economy, which might impact volumes as well as profit margins of companies.
- Companies with low competitive pressures and broad product portfolios will be able to better withstand any slowdown in a particular segment.
- Longer-term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		DABUR	MARICO	GCPL
P/E (x)	FY08E	4.0	22.0	19.8
	FY09E	4.9	17.7	16.8
P/BV (x)	FY08E	12.6	14.4	28.9
	FY09E	9.6	10.1	28.1
EV/Sales (x)	FY08E	3.0	1.9	2.8
	FY09E	2.6	1.6	2.4
EV/EBITDA (x)	FY08E	18.4	13.8	15.6
	FY09E	15.5	11.4	13.3

SHAREHOLDING PATTERN (%)

	MAR-07	DEC-06	MAR-06
Promoter	73.8	74.0	74.1
Domestic Inst	6.3	7.2	6.3
Foreign	11.1	10.5	10.4
Others	8.8	8.4	9.2

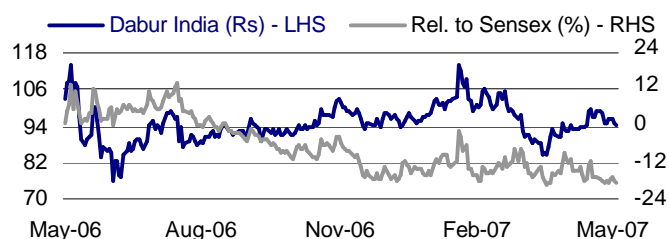
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	4.0	3.9	3.0
FY09	4.9	4.5	8.3

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
94	-	-	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Gross Sales	15,370	18,996	22,337	25,958	29,575	
Change (%)	21.6	23.6	17.6	16.2	13.9	
Total Expenditure	-13,281	-16,087	-18,840	-21,684	-24,684	
EBITDA	2,088	2,908	3,497	4,273	4,891	
Change (%)	31.2	39.3	20.3	22.2	14.5	
Margin (%)	13.6	15.3	15.7	16.5	16.5	
Depreciation	-295	-312	-408	-421	-442	
Int. and Fin. Charges	-124	-164	-154	-137	-60	
Other Income - Recurring	92	134	259	253	436	
Profit before Taxes	1,761	2,566	3,195	3,968	4,824	
Change (%)	41.8	45.7	24.5	24.2	21.6	
Margin (%)	11.5	13.5	14.3	15.3	16.3	
Tax	-151	-265	-387	-440	-536	
Deferred Tax	-40	-35	14	-40	-48	
Tax Rate (%)	-10.8	-11.7	-11.7	-12.1	-12.1	
Profit after Taxes	1,570	2,266	2,822	3,488	4,241	
Change (%)	43.6	44.3	24.5	23.6	21.6	
Margin (%)	10.2	11.9	12.6	13.4	14.3	
Exceptional Items	0	-127	0	0	0	
Minority Interest	-12	3	9	0	0	
Reported PAT	1,558	2,142	2,830	3,488	4,241	

BALANCE SHEET		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Share Capital	286	573	863	863	863	
Reserves	3,353	4,397	3,933	5,585	7,593	
Net Worth	3,639	4,971	4,796	6,448	8,456	
Minority Interest	152	55	40	55	55	
Loans	1,509	1,043	1,600	500	500	
Capital Employed	5,300	6,068	6,436	7,002	9,010	
Gross Block	4,675	5,515	6,170	6,670	6,870	
Less: Accum. Depn.	-1,870	-2,090	-2,380	-2,765	-3,171	
Net Fixed Assets	2,805	3,425	3,790	3,905	3,699	
Goodwill	140	1,700	0	0	0	
Investments	2,333	421	810	2,815	5,684	
Curr. Assets, L&A	4,075	4,711	6,410	6,016	6,454	
Inventory	2,031	2,128	2,570	2,946	3,159	
Account Receivables	759	744	1,420	1,067	1,134	
Cash and Bank Balance	147	512	610	451	465	
Others	1,138	1,328	1,810	1,552	1,695	
Curr. Liab. and Prov.	3,997	4,361	4,510	5,577	6,557	
Current Liabilities	3,044	3,028	3,620	3,640	4,139	
Provisions	953	1,333	890	1,937	2,418	
Net Current Assets	78	350	1,900	439	-104	
Miscellaneous Expense	58	329	200	134	68	
Deferred Tax Liability	-114	-158	-264	-290	-338	
Application of Funds	5,300	6,068	6,436	7,003	9,010	

E: MOST Estimates

RATIOS						
Y/E MARCH	2005	2006	2007E	2008E	2009E	
Basic (Rs)						
EPS	5.4	3.7	3.3	4.0	4.9	
Cash EPS	6.5	4.3	3.8	4.5	5.4	
BV/Share	12.7	8.7	5.6	7.5	9.8	
DPS	2.5	1.8	1.8	2.2	2.6	
Payout %	45.9	46.9	55.5	54.7	53.6	
Valuation (x)						
P/E	17.3	25.2	28.7	23.3	19.2	
Cash P/E	14.6	22.0	25.1	20.8	17.4	
EV/Sales	1.7	2.9	3.7	3.0	2.6	
EV/EBITDA	12.5	18.6	23.3	18.4	15.5	
P/BV	7.4	10.9	17.0	12.6	9.6	
Dividend Yield (%)	2.7	1.9	1.9	2.3	2.8	
Return Ratios (%)						
RoE	43.1	45.6	58.8	54.1	50.2	
RoCE	35.6	45.0	52.0	58.6	54.2	
Working Capital Ratios						
Debtor (Days)	18	14	23	15	14	
Asset Turnover (x)	2.9	3.1	3.5	3.7	3.3	
Leverage Ratio						
Debt/Equity (x)	0.4	0.2	0.3	0.1	0.1	

CASH FLOW STATEMENT		(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E	
OP/(loss) before Tax	1,793	2,596	3,090	3,852	4,449	
Int./Div. Received	92	134	259	253	436	
Depreciation and Amort.	295	312	408	421	442	
Interest Paid	-124	-164	-154	-137	-60	
Direct Taxes Paid	-151	-265	-387	-440	-536	
(Incr)/Decr in WC	326	92	-1,452	1,303	556	
CF from Oper.	2,231	2,706	1,764	5,252	5,287	
Extraordinary Items	0	1	0	0	0	
(Incr)/Decr in FA	-694	-842	-654	-500	-201	
(Pur)/Sale of Investments	-1,035	1,912	-389	-2,005	-2,869	
CF from Invest.	-1,729	1,071	-1,042	-2,505	-3,070	
Issue of Shares	0	0	0	0	0	
(Incr)/Decr in Debt	264	-466	557	-1,100	0	
Dividend Paid	-716	-1,004	-1,570	-1,908	-2,273	
Others	-105	-1,943	389	103	69	
CF from Fin. Act.	-557	-3,412	-624	-2,905	-2,204	
Incr/Decr of Cash	-55	364	98	-159	13	
Add: Opening Balance	202	147	512	610	451	
Closing Balance	147	512	610	451	465	

N O T E S



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Dabur India

- | | |
|---|----|
| 1. Analyst ownership of the stock | No |
| 2. Group/Directors ownership of the stock | No |
| 3. Broking relationship with company covered | No |
| 4. Investment Banking relationship with company covered | No |

This information is subject to change without any prior notice. MOST reserves the right to make modifications and alternations to this statement as may be required from time to time. Nevertheless, MOST is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.