

## Dabur India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 9,849	DABUR IN
	REUTERS CODE
S&P CNX: 2,975	DABU.BO

30 January 2006

**Buy**
**Rs116**
*Previous Recommendation: Buy*

		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
Equity Shares (m)	572.8	03/05A	15,370	1,570	2.7	44.2	42.7	9.1	43.1	35.6	2.1	15.5
52-Week Range	118/48	03/06E	18,868	2,161	3.7	37.6	31.0	6.7	43.4	39.8	1.8	11.6
1,6,12 Rel. Perf. (%)	5/30/79	03/07E	21,146	2,698	4.7	24.9	24.6	4.9	39.4	37.0	1.5	9.4
M.Cap. (Rs b)	66.5											
M.Cap. (US\$ b)	1.5											

- Results were in line with our estimates with Dabur reporting profit after tax (PAT) of Rs649m for 3QFY06.
- Revenues grew 26% YoY, buoyed by strong growth in the foods and health supplements. Management said that growth in rural markets has been picking up and the strong revenue growth witnessed during the quarter was largely driven by healthy rural offtake in some categories.
- EBITDA margins expanded 160bp to 15.4% in 3QFY06 driven primarily by savings on account of efficiencies on procurement of supplies and fiscal benefits resulting from commissioning of new manufacturing facilities Balsara. reported another quarter of profits against a loss in the corresponding quarter of the previous year, further raising margin expansion.
- PAT (before minority interest) was up 40.1% YoY. Other income was boosted during the quarter largely on the back of higher income from investments.
- We expect Dabur to report EPS of Rs3.7 for FY06E and Rs4.7 for FY07E respectively. We are introducing our EPS estimate for FY08 at Rs5.7. The stock is currently trading at 31x FY06E EPS, 24.6x FY07E EPS and 20.2x FY08E EPS. We maintain **Buy**.

QUARTERLY PERFORMANCE										(Rs Million)	
Y/E MARCH	FY05				FY06				FY05	FY06E	
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
<b>Net Sales</b>	<b>3,444</b>	<b>3,710</b>	<b>4,266</b>	<b>3,950</b>	<b>4,147</b>	<b>4,675</b>	<b>5,374</b>	<b>4,672</b>	<b>15,370</b>	<b>18,868</b>	
YoY Change (%)	21.9	16.3	10.8	15.1	20.4	26.0	26.0	18.3	15.6	22.8	
Total Exp	3,113	3,119	3,675	3,373	3,655	3,870	4,547	3,941	13,280	16,012	
<b>EBITDA</b>	<b>331</b>	<b>591</b>	<b>591</b>	<b>577</b>	<b>492</b>	<b>805</b>	<b>827</b>	<b>731</b>	<b>2,090</b>	<b>2,856</b>	
Margins (%)	9.6	15.9	13.8	14.6	11.9	17.2	15.4	15.6	13.6	15.1	
Depreciation	-65	-78	-57	-97	-76	-84	-83	-87	-296	-330	
Interest	-30	-34	-35	-26	-40	-47	-53	-60	-125	-200	
Non Recurring	0	0	0	0	0	0	0	0	0	0	
Other Income	18	21	21	32	18	38	56	17	92	129	
<b>PBT</b>	<b>255</b>	<b>500</b>	<b>520</b>	<b>486</b>	<b>394</b>	<b>713</b>	<b>747</b>	<b>601</b>	<b>1,761</b>	<b>2,455</b>	
Tax	-34	-56	-48	-53	-50	-85	-86	-73	-191	-294	
Rate (%)	13.3	11.2	9.2	10.9	12.6	12.0	11.5	12.1	10.8	12.0	
<b>PAT</b>	<b>221</b>	<b>444</b>	<b>472</b>	<b>433</b>	<b>345</b>	<b>627</b>	<b>661</b>	<b>528</b>	<b>1,570</b>	<b>2,161</b>	
YoY Change (%)	98.7	19.0	40.7	58.3	55.6	41.3	40.1	22.1	43.6	37.6	
Minority Interest	-6.1	-10.4	-0.1		4	17	-12	-11		-12.0	
<b>Reported PAT</b>	<b>215</b>	<b>434</b>	<b>472</b>	<b>433</b>	<b>349</b>	<b>644</b>	<b>649</b>	<b>517</b>	<b>1,570</b>	<b>2,161</b>	

E: MOSt Estimates

## Foods continues to drive growth

Dabur's food business continued to drive growth with revenues from this business growing 48.4% YoY for 9MFY06. Real, the company's flagship brand in the Foods segment, reported growth of 45.4% YoY for 9MFY06. Health Supplements, led by strong growth in Chyawanprash during the quarter, grew 11% YoY. International Business Division's growth for the quarter was low, primarily due to certain restructuring activities being undertaken in the segment.

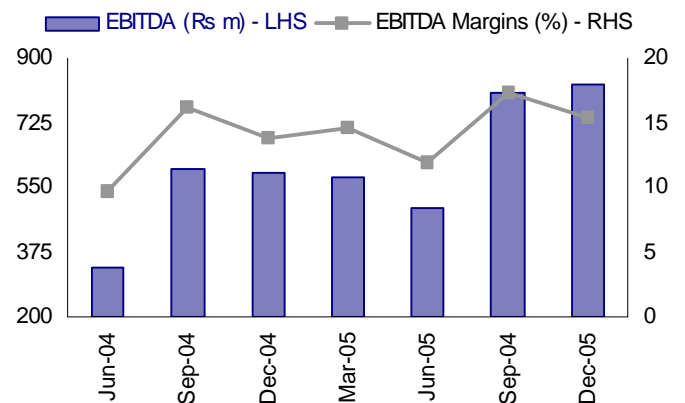
### CATEGORIES WISE GROWTH

CATEGORIES	GROWTH (%)	REMARKS
Hair Care	4.6	Amla Hair Oil, grew 5.2%. Vatika Hair Oil remained stagnant primarily due to prevailing low coconut oil prices.
Health Supplements	11	Chywanprash grew 8% and recorded market share of 68% in December 2005 (highest in 3 years). Glucose D grew 51% YoY.
Oral Care	13	Toothpowder growth bounced back and grew 14% YoY during 3QFY06. The company recorded a decline of 7% on a YoY basis for 9MFY06.
Baby & Skin Care	36	Vatika Soap launched in September 2005 clocked sales of Rs130m for the quarter.
Digestives	5	Hajmola tablets grew 10.3% YoY and Pudín Hara recorded growth of 32% YoY.
Home Care	41	Odomos, Odonil and Sanifresh grew 42%, 55% and 46% respectively.
Consumer Health Division	31.3	Honitus cough syrup recorded a growth of 52%.
Foods	48.4	Real brand grew 45.4% YoY, while Activ grew approximately 100% YoY.
International Business Division	20.8	Growth was maintained in GCC (Saudi Arabia, UAE etc) with sales growing 35% during the quarter.

All figures are for 9MFY06.

Source: Company/Motilal Oswal Securities

### EBITDA MARGIN MOVEMENT



Source: Company/Motilal Oswal Securities

## Efficiencies and Balsara's profitability drive margins

Dabur's operating margins expanded 155bp YoY in 3QFY06, driven by savings from new manufacturing units and better efficiencies in sourcing key raw materials such as edible oil, honey etc. Management expects higher packing material costs (due to high crude prices) to impact overall raw material costs during FY07. Management had already taken certain price increases (approximately 5%) in some products during 1HFY06 to combat cost inflation.

## Balsara integration is on track

Balsara's profitability has contributed to the overall margin expansion for Dabur. Balsara clocked revenues of Rs1.38b for 9MFY06 and earned profit of Rs105m. Balsara's successful integration has been driving margins northward and management is confident of expanding operating margins to the level of Dabur India. Further, management has been successful in expanding the reach of Balsara's products through Dabur India's distribution network, thereby increasing profitability.

## Rural demand picking up

Dabur's management said that they are witnessing strong pick up in demand in rural areas, and in certain categories, rural demand has been higher than urban demand. Further,

management also said they expected this demand to remain strong given the increase in disposable incomes of the rural population, given three successive good monsoons. Management also clarified that revenue growth in rural areas is largely volume led as there have been hardly any price increases taken by the company.

### **Valuation and view**

We believe that Dabur is witnessing strong traction in its core portfolio (Chyawanprash, etc.). Further, revenue growth in Foods and increasing profitability of Balsara are leading to strong growth in revenues and margins respectively. We expect the company's margins to expand

further in FY07, driven by Balsara's improving profitability and strong revenues in the Foods and International Business segments. Further, the company continues to be on the lookout for inorganic acquisitions to consolidate its position in various segments.

We expect the company to report EPS of Rs3.7 in FY06 and Rs4.7 in FY07 respectively. We are introducing our FY08 EPS estimate at Rs5.7. We expect the company to report an EPS CAGR of 27% over FY05-FY08E, and believe that the current premium valuations will sustain given the strong growth potential. The stock is currently trading at 31x FY06E EPS, 24.6x FY07E EPS and 20.2x FY08E EPS. We maintain **Buy**.

## Dabur India: an investment profile

### Company description

Dabur is the 5<sup>th</sup> largest listed consumer company and the 2<sup>nd</sup> largest amongst Indian owned companies. Dabur is a market leader in *Chyawanprash* category and is increasing its presence in other traditional categories like oral care, household care and foods. Dabur's acquisition of Balsara has given it an entry in toothpaste and household care.

### Key investment arguments

- ✍ Dabur's acquisition of Balsara has given the company access to toothpaste and household care categories, with a relatively underpenetrated and large (total size – Rs20b) household care category.
- ✍ We estimate an EPS CAGR of 28% over FY05-07E driven by Balsara acquisition. Valuations are attractive considering the growth.

### Key investment risks

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

### Recent developments

- ✍ The Board of Directors declared a Bonus issue of 1:1.
- ✍ Entered the personal wash segment with the launch of its new Vatika – Honey & Saffron Soap.
- ✍ Test marketed a health drink.

### Valuation and view

- ✍ We have an EPS forecasts of Rs3.7 for FY06, Rs4.7 for FY07 and Rs5.7 for FY08, a CAGR of 28% over FY05-08E.
- ✍ The stock is trading at 31x FY06E EPS, 24.6x FY07E EPS and 20.2x FY08E EPS. We maintain **Buy**.

### Sector view

- ✍ We are neutral on the sector. There are signs of volume pickup, but input cost pressure remains
- ✍ Companies with low competitive pressures (like ITC) will be better off.
- ✍ Longer term prospects bright, given rising incomes and low penetration.

#### COMPARATIVE VALUATIONS

		DABUR	MARICO	GCPL
P/E (x)	FY06E	31.0	23.3	26.3
	FY07E	24.6	18.8	22.1
P/BV (x)	FY06E	6.7	8.4	56.1
	FY07E	4.9	6.6	46.4
EV/Sales (x)	FY06E	1.8	2.0	4.6
	FY07E	1.5	1.7	4.1
EV/EBITDA (x)	FY06E	11.6	16.1	23.3
	FY07E	9.4	12.3	19.9

#### SHAREHOLDING PATTERN (%)

	DEC.05	SEP.05	DEC.04
Promoters	76.7	76.7	78.2
Domestic Institutions	4.6	4.7	6.5
FII's/FDI's	8.8	9.8	5.5
Others	9.9	8.8	9.8

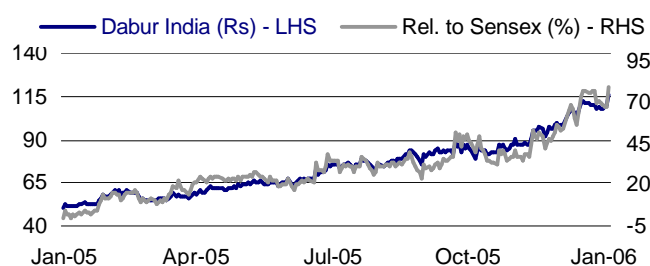
#### EPS: INQUIRE FORECAST VS CONSENSUS (RS)

	INQUIRE FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY06	3.7	4.8	-22.4
FY07	4.7	5.8	-19.2

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
116	132	13.7	Buy

#### STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT					
(RS MILLION)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Gross Sales (incl excise)</b>	<b>12,642</b>	<b>15,370</b>	<b>18,868</b>	<b>21,146</b>	<b>23,719</b>
Change (%)	-2.6	21.6	22.8	2.1	12.2
Total Expenditure	-11,054	-13,281	-16,012	-17,810	-19,800
<b>EBITDA</b>	<b>1,588</b>	<b>2,088</b>	<b>2,856</b>	<b>3,336</b>	<b>3,919</b>
Change (%)	0.8	31.5	36.7	16.8	17.5
Margin (%)	2.6	13.6	15.1	15.8	16.5
Depreciation	-249	-280	-330	-345	-366
Int. and Fin. Charges	-153	-124	-200	-119	-110
Other Income - Recurring	52	77	129	165	247
<b>Profit before Taxes</b>	<b>1,238</b>	<b>1,761</b>	<b>2,455</b>	<b>3,037</b>	<b>3,691</b>
Change (%)	16.4	42.3	39.4	23.7	21.5
Margin (%)	9.8	11.5	13.0	14.4	15.6
Tax	-114	-151	-258	-304	-369
Deferred Tax	-35	-40	-36	-35	-35
Tax Rate (%)	-2.0	-10.8	-2.0	-11.1	-10.9
<b>Profit after Taxes</b>	<b>1,089</b>	<b>1,570</b>	<b>2,161</b>	<b>2,698</b>	<b>3,287</b>
Change (%)	17.1	44.2	37.6	24.9	21.8
Margin (%)	8.6	10.2	11.5	12.8	13.9
Minority Interest	0	-12	-15	-17	-17
<b>Reported PAT</b>	<b>1,089</b>	<b>1,558</b>	<b>2,146</b>	<b>2,681</b>	<b>3,270</b>

BALANCE SHEET					
(RS MILLION)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
Share Capital	286	286	286	286	286
Reserves	2,575	3,353	4,693	6,555	8,875
<b>Net Worth</b>	<b>2,861</b>	<b>3,639</b>	<b>4,980</b>	<b>6,841</b>	<b>9,161</b>
Minority Interest	144	152	187	149	94
Loans	1,245	1,509	1,509	1,509	1,509
<b>Capital Employed</b>	<b>4,250</b>	<b>5,300</b>	<b>6,676</b>	<b>8,499</b>	<b>10,764</b>
Gross Block	4,121	4,815	7,115	7,465	7,815
Less: Accum. Depn.	-1,621	-1,870	-2,200	-2,545	-2,911
<b>Net Fixed Assets</b>	<b>2,501</b>	<b>2,945</b>	<b>4,915</b>	<b>4,920</b>	<b>4,904</b>
Investments	1,298	2,333	1,465	3,092	5,162
<b>Curr. Assets, L&amp;A</b>	<b>3,398</b>	<b>4,075</b>	<b>4,482</b>	<b>4,817</b>	<b>5,187</b>
Inventory	1,548	2,031	2,438	2,681	2,949
Account Receivables	712	759	760	851	953
Cash and Bank Balance	202	147	147	147	147
Others	937	1,138	1,138	1,138	1,138
<b>Curr. Liab. and Prov.</b>	<b>2,939</b>	<b>3,997</b>	<b>4,178</b>	<b>4,322</b>	<b>4,481</b>
Current Liabilities	2,137	3,044	3,225	3,370	3,529
Provisions	802	953	953	953	953
<b>Net Current Assets</b>	<b>459</b>	<b>78</b>	<b>305</b>	<b>495</b>	<b>706</b>
Miscellaneous Expense	66	58	66	66	66
Deferred Tax Liability	-74	-114	-74	-74	-74
<b>Application of Funds</b>	<b>4,250</b>	<b>5,300</b>	<b>6,676</b>	<b>8,499</b>	<b>10,764</b>

E: Most Estimates

RATIOS					
Y/E MARCH	2004	2005	2006E	2007E	2008E
<b>Basic (Rs)</b>					
<b>EPS</b>	<b>1.9</b>	<b>2.7</b>	<b>3.7</b>	<b>4.7</b>	<b>5.7</b>
Cash EPS	4.7	6.5	8.7	10.6	12.8
BV/Share	10.0	12.7	17.4	23.9	32.0
DPS	2.0	2.5	2.5	2.8	3.0
Payout %	105.1	91.9	66.7	59.4	52.3
<b>Valuation (x)</b>					
P/E		42.7	31.0	24.6	20.2
Cash P/E		18.0	13.3	10.9	9.1
EV/Sales		2.1	1.8	1.5	1.2
EV/EBITDA		15.5	11.6	9.4	7.5
P/BV		9.1	6.7	4.9	3.6
Dividend Yield (%)		2.2	2.2	2.4	2.6
<b>Return Ratios (%)</b>					
RoE	38.1	43.1	43.4	39.4	35.9
RoCE	32.7	35.6	39.8	37.1	35.3
<b>Working Capital Ratios</b>					
Debtor (Days)	21	18	15	15	15
Asset Turnover (x)	3.0	2.9	2.8	2.5	2.2
<b>Leverage Ratio</b>					
Debt/Equity (x)	0.4	0.4	0.3	0.2	0.2

CASH FLOW STATEMENT					
(RS MILLION)					
Y/E MARCH	2004	2005	2006E	2007E	2008E
OP/(loss) before Tax	1,339	1,808	2,526	2,991	3,553
Int./Div. Received	52	77	129	165	247
Depreciation and Amort.	249	280	330	345	366
Interest Paid	-153	-124	-200	-119	-110
Direct Taxes Paid	-114	-151	-258	-304	-369
(Incr)/Decr in WC	2,128	326	-226	-190	-211
<b>CF from Operations</b>	<b>3,501</b>	<b>2,216</b>	<b>2,301</b>	<b>2,888</b>	<b>3,476</b>
Extraordinary Items	0	0	0	0	0
(Incr)/Decr in FA	334	-694	-2,300	-350	-350
(Pur)/Sale of Investments	-280	-1,035	868	-1,627	-2,070
<b>CF from Invest.</b>	<b>53</b>	<b>-1,729</b>	<b>-1,432</b>	<b>-1,977</b>	<b>-2,420</b>
(Incr)/Decr in Debt	-897	264	0	0	0
Dividend Paid	-572	-716	-716	-802	-859
Others	-2,306	-90	-153	-109	-197
<b>CF from Fin. Activity</b>	<b>-3,775</b>	<b>-542</b>	<b>-869</b>	<b>-911</b>	<b>-1,056</b>
<b>Incr/Decr of Cash</b>	<b>-221</b>	<b>-55</b>	<b>0</b>	<b>0</b>	<b>0</b>
Add: Opening Balance	423	202	147	147	147
<b>Closing Balance</b>	<b>202</b>	<b>147</b>	<b>147</b>	<b>147</b>	<b>147</b>



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**Disclosure of Interest Statement**

**Dabur India**

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

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