

## Dabur India

Rs94.3  
UNDERPERFORMER

## RESULT NOTE

Mkt Cap: Rs81bn; US\$2bn

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**Result:** FY07

**Comment:** Status Quo!

**Last report:** 19 January 2007 (Price Rs112\*; Recommendation: Underperformer)  
 (\*: Adjusted to ex-bonus price)

## Key valuation metrics

Year to March 31 (Rs m)	Net revenues	yoy chg (%)	Net Profit	EPS (Rs)	yoy chg (%)	EV/EBITDA (x)	PER (x)
FY06	18,521	24.0	2,267	4.0	44.4	18.7	23.8
FY07	21,722	17.3	2,821	3.3	(17.0)	23.2	28.7
FY08E	25,047	15.3	3,457	4.0	22.5	18.6	23.5
FY09E	29,028	15.9	4,184	4.9	21.0	15.3	19.4

In line with our expectations, Dabur India (Dabur) has reported revenue growth of 17.3% at Rs21.7bn in FY07 with most of the categories growing at strong double digit. However, input cost increase of 19% and ASP spend increase of 13% have restricted margin expansion to 27bp. PAT has grown at 24.4% to Rs2.82bn in FY07.

We like the fact that Dabur continues to source growth from its core operations of hair oil and health supplements as also from growth propellers like oral care, home care and foods. Dabur has also announced plans to enter the retail industry through a chain of 350 stores (Rs1.4bn of equity infusion) positioned on 'Beauty and Wellness' platform and targets to reach revenue base of Rs17bn in the next 5 years. Furthermore, with the competitive landscape intensifying in the FMCG sector, we believe Dabur will explore inorganic growth opportunities (domestic & international markets). While we remain positive over the growth drivers in Dabur, the key monitorable will be Dabur's ability to make itself count in largest opportunity space like soaps & toiletries as also execution of the retail foray. Dabur has underperformed the Sensex by ~19% over the last one year and we believe that even at current valuations of 19.4x FY09E earnings operational gains from the business are fairly captured. Maintain Underperformer.

## HIGHLIGHTS OF FY07 RESULTS

## □ Growth – in line with expectations

Dabur has reported revenue growth of 17.3% in FY07 at Rs21.7bn, which is in line with our estimates. The core operations of hair oil and shampoos grew by 13% and 31% respectively. Top line growth was further helped by growth in key segments in the consumer care division (CCD) like oral care (23.7% growth), home care (35.1% growth), health supplements (19.5%) and the foods division which grew by 28%. The international business across different segments contributed 29.3% to the overall growth, which also propelled the top-line. Dabur has witnessed strong growth in the Gulf market, besides Rs200m of revenues flowing in from recently entered Pakistan market. We believe that Dabur is well poised to sustain the growth momentum on the back of fast growing foods, home care, oral care and international operations. Our only concern area pertains to Dabur's inability to make itself count in the largest FMCG segment of soaps and toiletries (Rs45bn category), wherein even after one year of operations, Vatika Soap contributes ~Rs200m of revenues.

**Segmental revenues & growth**

Break-up (Rs m)	% of total Revenues	% Growth
CCD		
Hair Care	22.4	15.8
Home Care	4.8	35.1
Oral Care	15.0	23.7
Health Supplements	15.0	19.5
Digestives & Candles	6.1	6.1
Baby & Skin Care	4.8	-
<b>Total CCD</b>	<b>68.0</b>	
CHD	7.0	8.0
Foods	11.0	28.0
International Business	13.0	29.3
Others	1.0	-
<b>Total</b>	<b>100.0</b>	

Source: Company

**□ Margin expansion – just 27bp**

After having witnessed margin expansion of 471bp over FY03-06, Dabur's EBITDA margins in FY07 has grown by merely 27bp. While this partly reflects slowing down of incremental gains from units in tax holiday zones, Dabur has also felt the heat of higher input cost (Foods in particular) and ASP spend increase of 13%. EBITDA margins have improved just marginally from 15.71% in FY06 to 15.98% in FY07. We expect margins to improve in the current year mainly on the back of improved contribution from the foods and international business segments and Dabur's ability to take price hikes to offset input cost increases.

**Cost structure**

	FY07	FY06
Net sales (Rs m)	21,722	18,521
Material cost (%)	41.20	40.65
Staff cost (%)	7.64	7.34
Advertising cost (%)	13.28	13.20
Other expenditure (%)	22.06	23.41
Operating margin (%)	15.98	15.71

Source: Company, SSKI Research

**□ Retail foray – Beauty and Wellness**

Dabur has announced plans to enter the fast growing retail industry through a chain of Beauty & Wellness stores. Dabur plans to open 350 stores in next 5 years, and the first store is expected to be opened by the end of FY08. While Dabur plans an equity infusion Rs1.4bn in the venture and targets Rs17bn in sales over the next five years, the business is expected to breakeven only in its fourth year of operations.

**□ Growth propeller – well placed**

We continue to like the Dabur's business model and its portfolio of brands which continue to have strong double digit growth. We believe that while Dabur will continue to take distribution gains to scale up oral care and home care portfolio, foods business will grow on the back of new product launches and entry in ready to eat segment. International operations are also expected to sustain the growth momentum at over 25%, as Dabur enters into newer markets and also scales up operations in the existing markets like Pakistan (where it has plans to set up a manufacturing plant). Furthermore, with the competitive landscape intensifying in the FMCG sector, we believe Dabur will explore inorganic growth opportunities (domestic & international).

## ❑ Valuations capturing growth – Maintain Underperformer

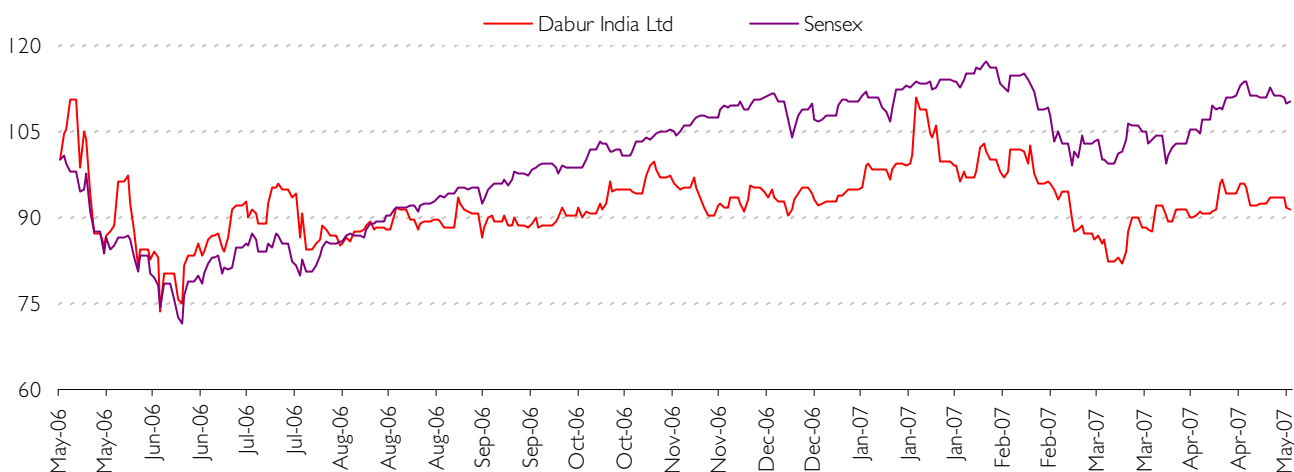
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### Quarterly results (UPDATE)

Quarterly results (Rs Mn)	Q4FY06	FY06	Q1FY07	Q2FY07	Q3FY07	Q4FY07	FY07E	FY08E	FY09E
<b>Net Sales</b>	<b>4,799</b>	<b>18521</b>	<b>4,755</b>	<b>5,641</b>	<b>6,176</b>	<b>5,765</b>	<b>21,722*</b>	<b>25,047*</b>	<b>29,028*</b>
% yoy	21.5	20.5	14.7	20.7	14.9	20.1	17.3	15.3	15.9
<b>EBITDA</b>	<b>787</b>	<b>2,909</b>	<b>639</b>	<b>973</b>	<b>1,004</b>	<b>881</b>	<b>3,472</b>	<b>4,213</b>	<b>4,957</b>
EBITDA %	16.4	15.7	13.4	17.3	16.3	15.3	16.0	16.8	17.1
Net interest	24	164	41	55	31	28	154	150	104
Depreciation	69	312	97	106	115	90	410	437	477
Other Income	22	134	53	103	33	71	259	324	405
<b>Profit before Tax</b>	<b>716</b>	<b>2,567</b>	<b>554</b>	<b>916</b>	<b>891</b>	<b>834</b>	<b>3,168</b>	<b>3,951</b>	<b>4,781</b>
Tax	80	300	80	123	115	54	347	494	598
<b>Profit After Tax</b>	<b>637</b>	<b>2,267</b>	<b>474</b>	<b>792</b>	<b>776</b>	<b>780</b>	<b>2,821</b>	<b>3,457</b>	<b>4,184</b>
% yoy	47.1	44.6	38.3	25.4	19.9	20.8	24.4	22.5	21.0

\*Note: Net sales per balance sheet

### Price performance



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2. Neutral: Within 0-10% to Index
3. Underperformer: Less than 10% to Index

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