

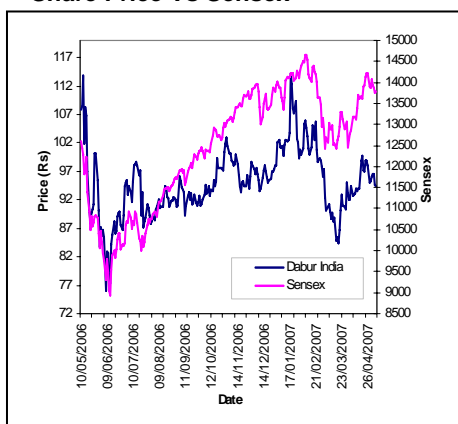
Dabur India
Neutral
CMP: Rs 94
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Q4FY2007 Result Update
Performance Highlights

- **Turnover and earnings continue to impress:** For Q4FY2007, Dabur India posted an impressive revenue growth of 20.1% to Rs 576.5cr (Rs 479.9cr), and a staggering PAT growth of 53.9% to Rs 76.9cr (Rs 50.0cr). The story was similar for FY2007, with consolidated revenues (net of excise) growing at 17.3% to Rs 2189.0cr (Rs 1865.8cr), and consolidated earnings (net of exceptional items) growing at 31.6% to Rs 283.0cr (Rs 215.1cr). The growth was led by a strong showing in the core categories of consumer care and foods.
- **Margins remain muted:** Like most other FMCG companies, Dabur felt the pinch of higher raw material prices, with its operating margin for the quarter declining by 100bps to 15.3% (16.3%). The raw material costs, led by rising prices of honey, sorbitol and liquid paraffin, increased by 210bps to 44.8% of sales and the advertising costs increased by a substantial 200bps to 11.3%. However, Dabur had some success in trimming down its overhead costs, with miscellaneous expenditure dropping by 240bps to 21.7% and staff costs declining to 6.9% of sales (7.5%). For FY2007, the OPM expanded slightly, by 60bps to 16.0% (15.4%). The company had taken price increases of 4-5% during FY2007, across categories, and hopes to mitigate the adverse impact of the increasing input costs over the next two quarters. With this in mind, we expect Dabur to maintain its operating margin at the current level and, therefore, estimate its OPM at 16.3% and 16.5%, for FY2008 and FY2009, respectively.
- **Mixed signals from segments:** The star performers for Dabur in FY2007 were the consumer care (CCD) and the foods divisions, which grew at 15.6% and at 28.0%, respectively (in volumes). However, the consumer health division disappointed in Q4FY2007, growing at 8% (versus the 12% growth seen over the preceding nine months). The international business division had an impressive showing, with the GCC markets growing by 29%, Egypt growing by 59% and Pakistan sales doubling to Rs 20 cr.

Sector	FMCG
Market Cap (Rs cr)	8137
Beta	0.9
52 WK High / Low	117 / 71
Avg Daily Volume	3,04,496
Face Value (Rs)	1
BSE Sensex	13771
Nifty	4067
BSE Code	500096
NSE Code	DABUR
Reuters Code	DABU.BO
Bloomberg Code	DABUR@IN

Shareholding Pattern (%)

Promoters	73.8
MF/Banks/Indian FIs	6.3
FII/ NRIs/ OCBs	11.7
Indian Public	8.2

Share Price Vs Sensex

Exhibit 1: Key Financials

Y/E March (Rs cr)	FY2006	FY2007E	FY2008E	FY2009E
Net Sales	1,866	2,189	2,517	2,863
(% Change)	24.4	17.3	15.0	13.8
Net Profit	215	283	345	404
(% Change)	35.4	31.6	21.9	17.2
Adj. EPS (Rs)	2.5	3.3	4.0	4.7
EBITDA Margin (%)	15.4	16.0	16.3	16.5
P/E (x)	37.6	28.6	23.4	20.0
ROE (%)	43.3	42.3	50.4	54.3
ROCE (%)	42.1	39.4	47.0	51.2
P/BV (x)	16.3	12.1	11.8	10.9
EV/Sales (x)	4.4	3.7	3.2	2.8
EV/EBITDA (x)	28.4	23.3	19.9	17.3

Source: Company, Angel Research

Segmental Information

Exhibit 2: Segmental Revenue

	Q4FY2007	Q4FY2006	% Growth	FY2007	FY2006	% Growth
Consumer Care	455.1	380.7	19.5	1766.9	1514.2	16.7
Consumer Health	39.3	39.2	0.3	162.2	148.6	9.2
Foods	70.3	51.5	36.5	260.0	201.2	29.2
Others	11.9	8.5	38.9	44.6	35.6	25.1
Total	576.5	479.9	20.1	2233.7	1899.6	17.6

Source: Company, Angel Research

Exhibit 3: Segmental PBT

	Q4FY2007	Q4FY2006	% Growth	FY2007	FY2006	% Growth
Consumer Care	111.9	91.9	21.8	429.8	355.5	20.9
Consumer Health	9.2	8.9	4.2	39.5	37.9	4.1
Foods	7.8	9.2	(15.7)	23.0	21.3	8.1
Others	0.3	0.4	(8.6)	1.2	1.0	18.3
Less: Interest	2.8	2.4		15.4	16.4	
Less: Unallocated exp.	43.1	36.7		158.7	142.8	
PBT	83.4	71.3	17.1	319.5	256.6	24.5

Source: Company, Angel Research

Exhibit 4: PBT Margins

	Q4FY2007	Q4FY2006	FY2007	FY2006
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, Angel Research

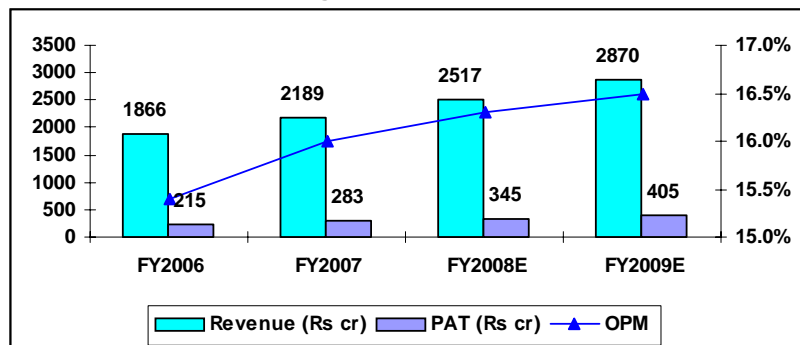
Key Developments

Retail Venture

During Q4FY2007, Dabur announced its retail plans and setup a wholly owned subsidiary – H&B Stores Ltd – to cater exclusively to the specialty ‘Health and Beauty’ format. The company plans to kickstart the chain toward the end of FY2008, with an initial equity investment of Rs 140cr, to be followed by a second, debt-based, capital infusion of around Rs 100cr over the next 3-4 years. Dabur has targeted revenues of Rs 1700cr from this venture by year five and is quite confident of breaking even by year four. The size of the stores will vary from 1,500 sq ft to 6,000 sq ft, and the company has a target revenue of Rs 25,000 per sq ft from these. However, since the project is still on the cards, with very little groundwork in place, we have not included its revenues into our estimates.

Price Increases

Dabur has taken a 4-5% price increase in FY2007, across categories, in an effort to face rising input costs. The management, however, has indicated that, going forward, the company will continue to focus on volumes and not realisations, thus minimising the scope for margin expansion.

Exhibit 5: Revenues, Earnings and the OPM


Source: Company, Angel Research

Outlook and Valuation

We have revised our earlier revenue estimates to factor in the poor showing of the consumer health division and the higher base effect of the consumer care division. We have also expanded our estimates to FY2009. Our margin estimates remain stable around the 16-16.5% mark, to account for Dabur's rising input costs and the cost of setting-up the retail venture. We expect Dabur to report a turnover growth of 15.0% and 13.8%, and a PAT growth of 21.9% and 17.2%, in FY2008 and FY2009, respectively. At the CMP, the stock is trading at 23.4x its FY2008E EPS of Rs 4.0, and at 20.0x its FY2009E EPS of Rs 4.7, respectively. As we stated earlier, in the absence of any concrete plans, we have not factored in the future impact of Dabur's retail venture. Although Dabur is likely to maintain a growth momentum of 15-20%, going forward, we feel that such growth is already factored into the CMP. Therefore, **we maintain a Neutral view on the stock.**

Exhibit 6: Q4FY2007 Performance Update

Y/E March (Rs cr)	Q4FY2007	Q4FY2006	% Chg	FY2007	FY2006	% Chg
Net Sales	576.5	479.9	20.1	2189.0	1865.8	17.3
Cost of Goods Sold	258.5	205.2	26.0	971.1	807.7	20.2
(% of Sales)	44.8%	42.7%		44.4%	43.3%	
Staff Costs	39.5	36.2	9.3	166.7	145.0	15.0
(% of Sales)	6.9%	7.5%		7.6%	7.8%	
Advertising	65.0	44.8	45.0	255.9	221.7	15.4
(% of Sales)	11.3%	9.3%		11.7%	11.9%	
Other Expenses	125.4	115.5	8.6	445.7	404.9	10.1
(% of Sales)	21.7%	24.1%		20.4%	21.7%	
Total Expenditure	488.4	401.6	21.6	1839.3	1579.3	16.5
Operating Profit	88.1	78.3	12.5	349.7	286.6	22.0
OPM	15.3%	16.3%		16.0%	15.4%	
Interest	2.8	2.4	15.9	15.4	16.4	(6.1)
PBDT	85.3	76.0	12.4	334.4	270.2	23.8
(% of Sales)	14.8%	15.8%		15.3%	14.5%	
Depreciation	9.0	6.9	30.9	40.8	26.9	51.5
Other Income	7.1	2.2	223.7	25.9	13.4	93.8
PBT (incl. Extraordinary Items)	83.4	71.3	17.1	319.5	256.6	24.5
(% of Sales)	14.5%	14.9%		14.6%	13.8%	
Provision for Taxation	5.4	8.0	(31.9)	37.3	30.0	24.3
(% of PBT)	6.5%	11.2%		11.7%	11.7%	
Reported PAT	78.0	63.3	23.2	282.2	226.6	24.5
Extraordinary Income/(Expense)	(1.11)	(13.35)		0.9	-11.4	
Adjusted PAT	76.9	50.0	53.9	283.0	215.1	31.6
PATM	13.3%	10.4%		12.9%	11.5%	
Equity shares (cr)	86.3	86.3		86.3	86.3	
Adjusted EPS (Rs)	0.9	0.6		3.3	2.5	

Source: Company, Angel Research



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