Company In-Depth

9 May 2007 | 9 pages

Dabur India (DABU.BO)

Hold: 4QFY07 Strong, But No Visible Re-Rating Triggers

Rating change ☐
Target price change ☑
Estimate change ☑

- **Strong 4Q, but valuations cap stock price** – Dabur's 4QFY07E results were strong – sales grew 20%, with strong across-the-board recovery, while pre-exceptional profits grew 35% yoy, ahead of our estimates. However, at 23.9x FY08E P/E, we see the stock fairly valued and do not see near-term re-rating potential.
- **Solid across the board growth** – 4Q sales grew solid 20%. Most segments grew over 15% in FY07, with hair oils (16%), shampoos (31%), health supplements (20%), oral care (24%), home care (35%) and foods (28%) leading the pack. Key laggards were digestives (6%) and consumer health (8%) segments. Management has indicated 15%+ sales growth ahead.
- **Price hikes to mitigate cost pressures** — 4Q EBITDA margins declined 100bps mainly on account of higher raw material costs (up 209bps) and higher advertising expenditure (up 193bps). Dabur has affected price hikes in March, which should mitigate margin pressures. Management has indicated 'slight' improvement in margins in future.
- **Revising earnings estimates, target price** – We are trimming our FY08E-FY09E EPS estimates by 2.3%-2.5%, post FY07 results, incorporating slightly higher raw material costs. We raise our target price to Rs100 (Rs93 earlier), maintaining our 23x target P/E multiple, but rolling forward to mid-FY09E. Given that we are already approaching mid-FY08, we expect the valuations to start discounting mid-FY09E.

Hold/Low Risk	**2L**
Price (08 May 07)	Rs94.70
Target price	Rs100.00
from Rs93.33	
Expected share price return	5.6%
Expected dividend yield	1.9%
Expected total return	**7.5%**
Market Cap	Rs81,715M
	US$2,015M

Price Performance (RIC: DABU.BO, BB: DABUR IN)

Statistical Abstract

Year to 31 Mar	Net Profit (RsM)	Diluted EPS (Rs)	EPS growth (%)	P/E (x)	P/B (x)	ROE (%)	Yield (%)
2006A	2,141	2.49	37.4	38.0	16.4	49.7	1.2
2007A	2,830	3.29	32.2	28.8	16.7	57.4	1.6
2008E	3,410	3.97	20.5	23.9	17.1	70.8	1.9
2009E	3,956	4.60	16.0	20.6	16.8	82.6	2.1
2010E	4,539	5.28	14.7	17.9	15.7	90.6	2.3

Source: Powered by dataCentral

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See Appendix A-1 for Analyst Certification and important disclosures.

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Fiscal year end 31-Mar	2006	2007	2008E	2009E	2010E
Valuation Ratios					
P/E adjusted (x)	38.0	28.8	23.9	20.6	17.9
EV/EBITDA adjusted (x)	28.3	23.0	19.3	17.8	15.4
P/BV (x)	16.4	16.7	17.1	16.8	15.7
Dividend yield (%)	1.2	1.6	1.9	2.1	2.3
Per Share Data (Rs)					
EPS adjusted	2.49	3.29	3.97	4.60	5.28
EPS reported	2.49	3.29	3.97	4.60	5.28
BVPS	5.78	5.68	5.52	5.63	6.03
DPS	1.17	1.50	1.83	2.00	2.17
Profit & Loss (RsM)					
Net sales	18,659	21,890	25,065	28,242	31,686
Operating expenses	-16,062	-18,801	-21,257	-23,813	-26,595
EBIT	**2,597**	**3,089**	**3,808**	**4,429**	**5,091**
Net interest expense	-165	-154	-42	-42	-42
Non-operating/exceptionals	134	259	120	120	120
Pre-tax profit	**2,566**	**3,195**	**3,886**	**4,507**	**5,169**
Tax	-300	-373	-466	-541	-620
Extraord./Min.Int./Pref.div.	-124	9	-10	-10	-10
Reported net income	**2,141**	**2,830**	**3,410**	**3,956**	**4,539**
Adjusted earnings	2,141	2,830	3,410	3,956	4,539
Adjusted EBITDA	2,866	3,497	4,113	4,429	5,091
Growth Rates (%)					
Sales	24.9	17.3	14.5	12.7	12.2
EBIT adjusted	44.8	19.0	23.3	16.3	14.9
EBITDA adjusted	38.2	22.0	17.6	7.7	14.9
EPS adjusted	37.4	32.2	20.5	16.0	14.7
Cash Flow (RsM)					
Operating cash flow	**1,863**	**5,254**	**4,039**	**4,084**	**4,531**
Depreciation/amortization	269	408	305	0	0
Net working capital	-274	2,024	314	117	-18
Investing cash flow	**739**	**5,095**	**-200**	**0**	**0**
Capital expenditure	-2,400	-200	-200	0	0
Acquisitions/disposals	3,139	5,295	0	0	0
Financing cash flow	**-1,233**	**-3,831**	**-3,555**	**-3,878**	**-4,201**
Borrowings	-466	-923	0	0	0
Dividends paid	-714	-2,909	-3,555	-3,878	-4,201
Change in cash	**1,368**	**6,517**	**284**	**206**	**330**
Balance Sheet (RsM)					
Total assets	**10,601**	**12,894**	**14,019**	**15,151**	**16,492**
Cash & cash equivalent	807	1,751	2,033	2,253	2,566
Accounts receivable	744	1,224	1,401	1,589	1,782
Net fixed assets	5,125	4,917	4,812	4,700	4,579
Total liabilities	**5,576**	**7,960**	**9,223**	**10,271**	**11,268**
Accounts payable	3,028	4,074	4,642	5,325	5,955
Total Debt	1,043	120	120	120	120
Shareholders' funds	**5,025**	**4,934**	**4,796**	**4,880**	**5,223**
Profitability/Solvency Ratios (%)					
EBITDA margin adjusted	15.4	16.0	16.4	15.7	16.1
ROE adjusted	49.7	57.4	70.8	82.6	90.6
ROIC adjusted	45.4	42.9	51.8	58.9	65.7
Net debt to equity	4.7	-33.0	-39.9	-43.7	-46.8
Total debt to capital	17.2	2.4	2.5	2.4	2.3

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Revising estimates, target price

We are revising our FY08E and FY09E EPS estimates for Dabur following FY07 results and introducing FY10E to our model. We are trimming our FY08E and FY09E estimates by 2.3%-2.5% to build in slightly higher raw material costs. Our earnings revision summary is enumerated below:

Figure 1. Earnings Revision Summary

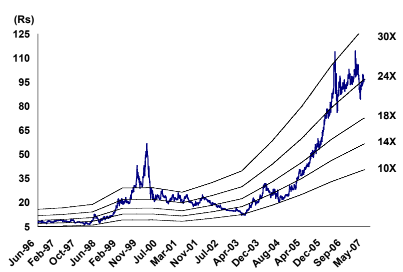
	EPS (Rs)			Net Profit (Rs Mils)			DPS (Rs)		
	Old	New	% Change	Old	New	% Change	Old	New	% Change
2008E	4.1	4.0	-2.5	3,501.4	3,409.9	-2.6	1.8	1.8	0.2
2009E	4.7	4.6	-2.3	4,050.7	3,956.4	-2.3	1.5	2.0	33.3

Source: Company Reports and CIR Estimates

We are also revising our target price, increasing it to Rs100 from Rs93 earlier. Our target price is based on our earlier 23x target P/E multiple. However, we are now rolling forward our target P/E from FY08E to mid-FY09E, given that we are already approaching mid-FY08 and the market is likely to start discounting 1-year forward earnings to the stock valuations.

Growth Remains Strong, But Valuations Cap Stock Price

Figure 2. P/E Band Chart



Source: Citigroup Investment Research

While Dabur's overall growth remains strong, we believe that current valuations at 23.9x FY08E P/E, which are at the higher end of Dabur's historical trading band, cap re-rating potential for the stock. As such, we also do not see any near-term re-rating triggers, with the exception of a potential acquisition. Dabur's management has been eyeing acquisitions for the last 2 years (after a successful integration of Balsara), but have been unable to conclude one, owing mainly to high valuations demanded by most target companies. We understand from the management that it continues to explore in-organic growth opportunities, though it would be wary of paying excessive valuations. We believe that in the current environment, it may be difficult for Dabur, given that valuation benchmarks have risen significantly since it acquired Balsara about two years ago.

On the growth side, management has guided at steady sales growth ahead and expects over 15% sales growth in FY08E. While margins have been under pressure, the company has taken price hikes and expects a minor EBITDA margin improvement in FY08E (we estimate 50bps margin improvement to 16.4%). As such, we forecast sales growth CAGR of 13% and net profit CAGR of 17% over FY07E-FY10E. Steady sales and earnings growth should provide downside support to the stock valuations. Our key operating assumptions are enumerated below:

Figure 3. Dabur – Key Operating Assumptions (Rupees in Million; Percent)

Year to March 31	2006	2007E	2008E	2009E	2010E
DOMESTIC BUSINESS	**12,118**	**13,646**	**15,070**	**16,615**	**18,098**
Growth (%)	9.1	12.6	10.4	10.3	8.9
Total Hair Care Sales (Rs.)	4312	4886	5489	6135	6817
Total Oral Care Sales	2188	2402	2597	2794	2872
Total Foods	1101	1308	1528	1788	2049
Less refused sales FPD	93.8	93.8	93.8	93.8	93.8
Total sales from Family prod. Div.	7508	8502	9520	10623	11644
Total Ayurvedics	1758	2013	2177	2354	2524
Total Digestives	1555	1654	1735	1822	1913
Total MA/Child Care	984	1102	1237	1390	1563
Less: Refused sales - HCPD	71.7	68.1	64.7	61.5	58.4
Total Health Care Product Div Sales	4225	4701	5085	5504	5941
EXPORTS	**385.0**	**442.8**	**464.9**	**488.1**	**512.5**
Others - trading	1387.8	1457.2	1457.2	1457.2	1457.2
Excise	337.2	447.1	500.6	759.4	838.8
DABUR INTERNATIONAL	**2688.8**	**3455.9**	**4319.9**	**5183.9**	**6117.0**
DABUR FOODS	**1,686**	**2,192**	**2,740**	**3,289**	**3,881**
BALSARA	**1,800**	**2,340**	**2,808**	**3,370**	**3,976**
Less : Inter segment sales	686	754	830	913	1,004
GROSS SALES	**18,995.7**	**22,337**	**25,566**	**29,002**	**32,525**
Total cost of materials	8,077	9,711.0	11,019	12,429	13,963
% of Sales	43.3%	44.4%	44.0%	44.0%	44.1%
Other Operating Expenses	7,715	8,682	9,934	11,071	12,311
% of Sales	41.3%	39.7%	39.6%	39.2%	38.9%
EBITDA	**2,866**	**3,497**	**4,113**	**4,742**	**5,412**
% of Sales	15.4%	16.0%	16.4%	16.8%	17.1%

Source: Company Reports and CIR Estimates

4QFY07 Result Analysis

Solid 4Q sales growth of 20% driven by strong across-the-board growth. 4Q EBITDA margins declined by 100bps, mainly on account of raw material cost pressures and higher advertising expenditure. Management has indicated that price hikes are likely to mitigate the raw material cost pressures in future. The company has affected price hikes in March, and the full impact of these price hikes will be visible from 1QFY08. Net profit growth was, however, stronger at 23%, buoyed by a lower tax rate and higher non-operating income.

Figure 4. Dabur's Consolidated Profit and Loss Summary (Rupees in Millions, Percent)

	4QFY06	4QFY07	% Change	FY06	FY07	% Change
Net Sales	**4,799.3**	**5,764.9**	**20.1**	**18,995.7**	**22,337.2**	**17.6**
Total Expenses	-4,015.9	-4,883.8	21.6	-16,087.5	-18,839.8	17.1
EBITDA	**783.4**	**881.1**	**12.5**	**2,908.2**	**3,497.4**	**20.3**
EBITDA Margin (%)	*16.3*	*15.3*	*-104 bps*	*15.3*	*15.7*	*35 bps*
Interest	-23.9	-27.7	15.9	-163.9	-153.8	-6.2
Depreciation & Amortization	-68.7	-89.9	30.9	-311.8	-407.8	30.8
Other Income	21.9	70.9	223.7	133.7	259.1	93.8
PBT	**712.7**	**834.4**	**17.1**	**2,566.2**	**3,194.9**	**24.5**
Tax	-79.6	-54.2	-31.9	-300.2	-373.2	24.3
Tax Rate (%)	*11.2*	*6.5*	*-467 bps*	*11.7*	*11.7*	*-2 bps*
Net Profit	**633.1**	**780.2**	**23.2**	**2,266.0**	**2,821.7**	**24.5**
PAT Margin (%)	13.2	13.5	34 bps	11.9	12.6	70 bps
Exceptional Items	-127.4	0.0	-100.0	-127.4	0.0	-100.0
Minority Interest	-6.1	-11.1	82.0	3.2	8.7	171.9
Net Profit After Minorities	**499.6**	**769.1**	**53.9**	**2,141.8**	**2,830.4**	**32.2**
No of shares	573.3	862.9	50.5	573.3	862.9	50.5
EPS(Rs)	0.9	0.9	2.3	3.7	3.3	-12.2

Cost Details	4QFY06	4QFY07	% Change	FY06	FY07	% Change
Raw Material Cost	**2,051.5**	**2,584.8**	**26.0**	**8,077.2**	**9,710.8**	**20.2**
% of Sales	*42.7*	*44.8*	*209 bps*	*42.5*	*43.5*	*95 bps*
Advertising Cost	**448.3**	**650.0**	**45.0**	**2,216.8**	**2,558.6**	**15.4**
% of Sales	*9.3*	*11.3*	*193 bps*	*11.7*	*11.5*	*-22 bps*
Staff Cost	**392.8**	**395.3**	**0.6**	**1,449.6**	**1,666.7**	**15.0**
% of Sales	*8.2*	*6.9*	*-133 bps*	*7.6*	*7.5*	*-17 bps*
Other Expenditure	**1,123.3**	**1,253.7**	**11.6**	**4,343.9**	**4,903.7**	**12.9**
% of Sales	*23.4*	*21.7*	*-166 bps*	*22.9*	*22.0*	*-91 bps*

Source: Company

Dabur India

Company description

Dabur India is a leading player in ayurveda-based (traditional science) products in India, with presence in the personal-care, health-care and pharmaceutical segments. The company has a niche in several FMCG categories.

Investment thesis

We rate Dabur as Hold/Low Risk (2L). In our view, Dabur is one of the best consumer businesses in India, deriving its competitive advantage from its niche position that is based on its herbal product portfolio. The company has strong brands covering personal care, oral care, health care and foods segments. All are based on Ayurvedic (ancient Indian herbal) formulations. Its niche position makes Dabur less susceptible to competition from multinational players like HLL and P&G, in our view. Growth rates for its business have picked up recently, with its core domestic business growing more than 10%. Additionally, the company has new growth drivers – foods and international businesses – that are growing rapidly (more than 20%). The margin expansion trend should continue with operating leverage from its new businesses contributing. Additionally, the company is exploring inorganic growth opportunities that could add further impetus to growth. The company has already demonstrated its capability in managing acquisitions after turning around *Balsara* within six months of acquiring the company. However, at current valuations (22x F08E P/E), we believe that the growth potential is priced in. Still, the growth momentum should provide downside support to the stock price, in our view.

Valuation

We believe Dabur is a steady growth company, thus we value it based on P/E. Our target price of Rs100 is based on 23x mid-FY09E P/E. We benchmark our target multiple against sector leaders such as HLL and ascribing it a 15% discount to HLL. Our target multiple for Dabur is 23x in view of 1) Our more positive stance on Dabur's growth potential given the pick-up in its core domestic business growth; 2) Our recent upgrade of the consumer sector to Overweight from Underweight, based on improving demand and pricing power; and 3) The recent increase in our valuation multiple for HLL, and thus our corresponding discount for Dabur relative to HLL. We forecast a 24% EPS growth CAGR for F2006-09E for Dabur, which is at the higher end of our Indian consumer universe. We believe this should offer downside support for the stock price.

On EV/EBITDA, we ascribe a discount to frontline names such as HLL. Our target price of Rs100 is based on 15x-16x mid FY09E EV/EBITDA, which puts the stock at about a 15-20% discount to HLL. This is at a marginal premium to the Sensex, which we believe reflects the optimism related to the demerger of the consumer businesses, improved cash flow streams and potential upside from the turnaround at Balsara.

We principally use P/E to value the stock because we believe Dabur is a steady growth company and is unlikely to face cyclical earnings patterns.

Risks

We believe Dabur is a steady growth company. As such, our Low Risk rating is consistent with our quantitative risk-rating system, which tracks 260-day historical share price volatility. The key downside risks to our target price include: (1) lower-than-expected sales growth in the event of rural demand not picking up; (2) emerging competition in Dabur’s product segments, which could exert pricing pressure; and (3) changes in excise tax norms, which would negate the savings from new facilities in excise-exempt locations. Upside risks to our target price include: (1) better-than-expected sales growth due to good monsoons; and (2) Dabur may not pass on any excise benefits to consumers and might retain all of its savings if rural-led demand accelerates.

Appendix A-1

Analyst Certification

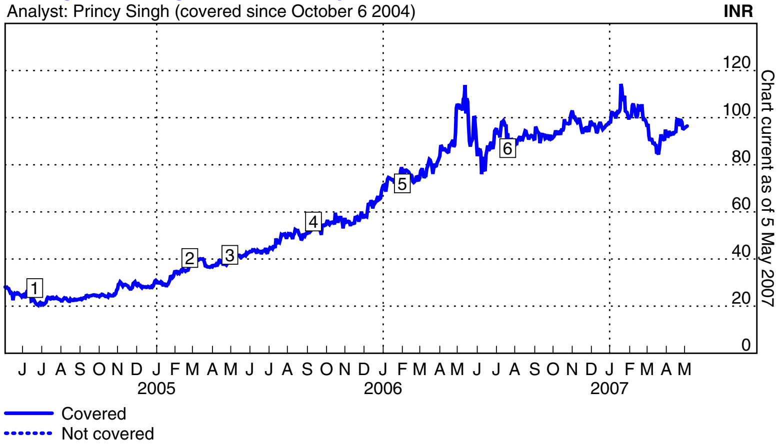
I, Princy Singh, research analyst and the author of this report, hereby certify that all of the views expressed in this research report accurately reflect my personal views about any and all of the subject issuer(s) or securities. I also certify that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

IMPORTANT DISCLOSURES

Dabur India (DABU.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh (covered since October 6 2004)



#	Date	Rating	Target Price	Closing Price
1:	21 Jun 04	1L	*30.00	21.93
2:	24 Feb 05	1L	*44.67	37.43
3:	29 Apr 05	1L	*48.00	38.75
4:	12 Sep 05	*2L	*55.67	52.70
5:	1 Feb 06	*3L	*60.00	77.87
6:	20 Jul 06	*2L	*93.33	93.37

*Indicates change.

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% of companies in each rating category that are investment banking clients	42%	50%	42%

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