



Dabur India

STOCK INFO.	BLOOMBERG
BSE SENSEX: 13,033	DABUR IN
	REUTERS CODE
S&P CNX: 3,767	DABU.BO

1 Novemehr 2006

Neutral

Previous Recommendation: Neutral

Rs155

Equity Shares (m)	573.3
52-Week Range	174/79
1,6,12 Rel. Perf. (%)	8/-11/15
M.Cap. (Rs b)	88.6
M.Cap. (US\$ b)	1.9

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
03/06A	18,658	2,266	4.0	44.3	39.1	17.8	45.6	45.0	4.8	30.5
03/07E	22,264	2,856	5.0	26.0	31.0	14.5	46.7	50.2	3.9	24.5
03/08E	25,403	3,649	6.4	27.8	24.3	11.2	46.3	50.6	3.4	19.6

- Dabur's 2QFY07 results were below our expectations. Adjusted PAT for the quarter was Rs722m as against our estimate of Rs822m. This is largely due to a 200bp erosion in gross margin, led by changing sales mix and higher raw material prices.
- Revenues grew 20.7% YoY, driven by strong growth in Health Supplements (26.2%) Hair Oils (11.5%), Toothpaste (33%), Shampoos (26%), Foods (27%) and Home Care (21%). EBITDA margin expanded 10bp, as advertising cost declined 1.6% YoY. Adjusted PAT grew just 12%, following a 186% increase in provision for amortization and increase in MAT rate. Reported profit grew 22%, as one-time gain on sale of Daburgram unit and investments boosted other income.
- The management has given positive guidance on the sales growth front. Gross margins are likely to come to normal levels, as the company gets full benefits of price increases of last quarter. Management has also hinted at further price increases in the coming quarter.
- We expect new product launches to accelerate in the coming quarters, as the company is planning a couple of variants in Soaps and two variants of Chwayanprash. Dabur has hinted at launching more products in the high growth Personal Care area, which along with Health Supplements is tipped to be the next growth driver for the company.
- We believe that Dabur is well placed to capture the surge in consumer demand due to wide product portfolio and strong brands. Although the growth story is intact, current valuations seem rich looking at medium-term prospects. The stock is currently trading at 31x FY07E and 24.3x FY08E EPS. We maintain **Neutral**.

QUARTERLY PERFORMANCE

(Rs Million)

Y/E MARCH	FY 06				FY 07				FY 06	FY 07E
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Net Sales	4,147	4,675	5,374	4,462	4,755	5,641	6,450	5,418	18,658	22,264
YoY Change (%)	20.4	26.0	26.0	13.0	14.7	20.7	20.0	21.4	21.4	19.3
Total Exp	3,655	3,870	4,547	3,679	4,116	4,668	5,450	4,442	15,750	18,676
EBITDA	492	805	827	784	639	973	1,000	976	2,908	3,588
Margins (%)	11.9	17.2	15.4	17.6	13.4	17.3	15.5	18.0	15.6	16.1
Depreciation	-76	-84	-83	-69	-97	-106	-98	-74	-312	-374
Interest	-40	-47	-53	-24	-41	-55	-30	18	-164	-107
Other Income	18	38	56	22	53	38	75	39	134	205
PBT	394	713	747	713	554	851	947	960	2,566	3,311
Tax	-50	-85	-86	-80	-80	-123	-125	-126	-300	-455
Rate (%)	12.6	12.0	11.5	11.2	14.5	14.5	13.2	13.2	11.7	13.8
PAT	345	627	661	633	474	727	822	833	2,266	2,856
YoY Change (%)	55.6	41.3	40.0	46.4	37	16	24	32	44.3	26.0
Minority Interest	4	17	-12	-6	9	-6	-15	12	3.2	0.0
Extraordinary Inc/(Exp)	0	0	0	-127	0	65	0	0	0	65
Reported PAT	349	644	649	500	482	787	807	845	2,269	2,921

E: MOST Estimates

DABUR: SEGMENT-WISE PERFORMANCE (RS M)

Y/E MARCH	Q2 FY07	Q2 FY06	CH.(%)	H1 FY07	H1 FY06	CH.(%)
Net Sales						
Consumer Care	4,315	3,688	17	8,121	6,993	16
Consumer Health	468	384	22	793	705	12
Foods	722	501	44	1,269	955	33
Others	137	102	34	214	169	26
Total	5,641	4,675		10,396	8,822	
EBIT						
Consumer Care	1,114	906	23	1,960	1,500	31
Consumer Health	116	117	(1)	199	211	(5)
Foods	99	53	88	136	117	16
Others	3	2	14	2	2	(10)
Total EBIT	1,332	1078		2297	1,830	
less interest	55	47	18	96	87	10
unallocable exp	361	319	13	732	636	15
Total PBT	916	713	28	1,470	1,107	33
EBIT Margin (%)						
Consumer Care	25.8	24.6		24.1	21.4	
Consumer Health	24.7	30.4		25.1	29.8	
Foods	13.7	10.6		10.7	12.3	
Others	1.8	2.2		0.9	1.2	

Source: Company/ Motilal Oswal Securities

Health Supplements and Hair Care drive growth

Health Supplements and Hair Care were the chief drivers in Consumer Care, with growth rates of 26.2% and 11.5%, respectively. Chwayanprash grew by nearly 39.8% despite it being the off-season for the product. Shampoos grew 26% due to strong demand for Personal Care products. Hair Oils reported better growth due to pick up in Anmol coconut oil, which grew by 60%. This brand contributes Rs200m to total sales and is predominant in the North and the East. It has good potential due to market consolidation in the coconut oil market. The management expects Anmol to be a Rs1b brand in another three years. The management hinted at the launch of two new variants of Chywanprash. The variants will be targeted at diabetics (Sugar Free) and children (Chocolate Malt). Success of the variants could accelerate growth for Health Supplements.

Consumer Health - back on the growth path

Consumer Health reported 23% sales growth after a slack first quarter (ERP implementation had adversely impacted performance). Honitus grew 116% while Nature Care and

Shilajit grew 25% and 11%, respectively. The division reported 1% decline in EBIT, as margins declined by 570bp due to aggressive brand building initiatives. Consumer Health offers excellent long-term potential and the company is taking initiatives to accelerate growth rates through increased advertising and improving the availability of products.

Oral Care - dream run continues

Dabur India's Oral Care portfolio, which includes Dabur Red (toothpaste and toothpowder), Babool and Meswak, grew 24%. The toothpaste category grew 33%, while toothpowder grew 17.6%. All the three toothpaste brands - Red, Babool and Meswak gained ground, with sales growth of 26.7%, 51% and 12%, respectively. Strong focus on the mass market and aggressive brand building were the chief factors behind the aggressive growth. The management expects growth to continue in the coming quarters, as the category growth has accelerated to 16% (A C Nielsen estimate).

Home Care - consolidating gains

Home Care brands grew 21% due to 27% growth in Odonil and 26% growth in Odomos. Odomos growth accelerated due to rising incidence of dengue fever. Sanifresh sales grew just 18%, as the company faced quality issues with the product. Dabur has re-launched the brand as Sanifresh Thick and hopes to clock better growth in the coming quarters. Home Care holds huge growth potential for the company. Penetration is currently low and the category is witnessing high double-digit growth rates.

Dabur Foods - strong bounce-back

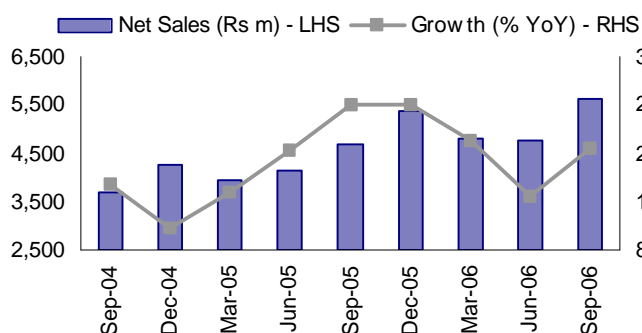
Dabur Foods reported strong bounce-back during the quarter, with sales growing 33%. Overall, Foods sales grew 44% and PBIT margins expanded 310bp during the quarter. The company undertook 4-5% price increase across brands in the Foods segment. Long-term growth potential appears encouraging due to category growth of 30-35% and strong market share enjoyed by the company.

CATEGORY-WISE REVENUE GROWTH

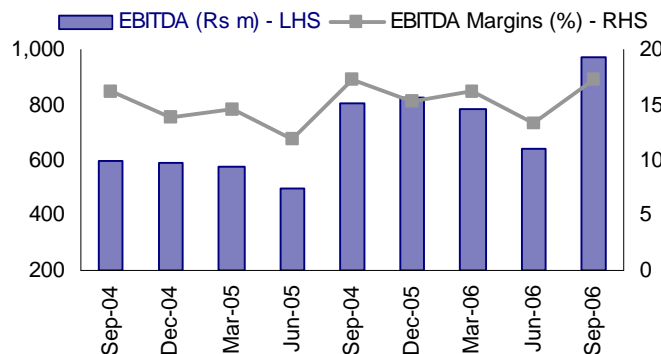
CATEGORIES	GR. (%)	REMARKS
Hair Care	11.5	Amla Hair Oil grew 9.3%, Anmol Coconut grew 60%, and Vatika shampoos grew 26%.
Health Supplements	26.2	Chywanprash grew by 39.8% Glucose & Honey grew 23% YoY and 13.4% YoY respectively.
Oral Care	24	Toothpaste portfolio led the growth with 33% YoY growth. Babool grew 51% YoY, Meswak 12% YoY growth, Red Toothpaste 26.7% YoY.
Baby & Skin Care	0%	Production shift of Gulabari
Digestives	3	Hajmola tablets grew 7% YoY and Hajmola Candy 10.1%
Home Care	21	Odonil, Odomos and Sanifresh grew 27%, 26% and 18% respectively.
Consumer Health Division		23 Honitus and Nature care led growth
Foods	27	Real & Activ grew 29% YoY. International Business Division 31 GCC markets grew 19%, while Egypt and Nigeria grew by 56% and 29%.

Source: Company/ Motilal Oswal Securities

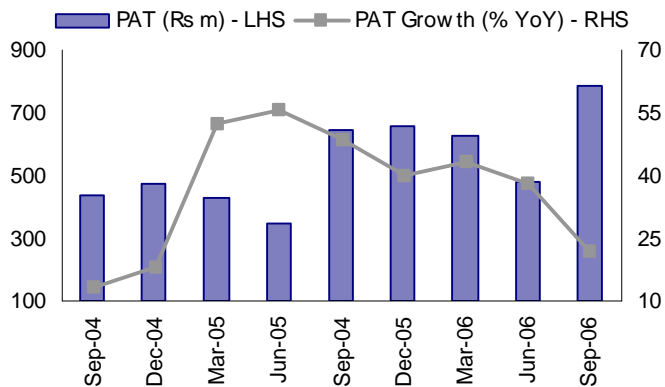
QUARTERLY SALES TREND



QUARTERLY EBITDA TREND



QUARTERLY PAT TREND



Source: Company/ Motilal Oswal Securities

Material costs increase; selective price increases likely

Dabur reported 200bp decline in gross margins, mainly due to higher material costs and change in sales mix. The company undertook selective price increases of 2.5% on the average portfolio, which would be fully reflected in the coming quarters. The management has also hinted at further price increases in the coming quarters, which would enable the company to increase profit margins.

Dabur plans to aggressively launch new products. It intends to launch two variants in toilet soaps and two new variants of Chywanprash. The management seems particularly upbeat about the prospects of sugar-free and chocolate variants of the health supplements, which could significantly increase the growth rates for the company.

Valuation and view

We believe that Dabur is well placed to capture the surge in consumer demand due to wide product portfolio and strong brands. Although the growth story is intact, current valuations seem rich looking at medium-term prospects. The stock is currently trading at 31x FY07E and 24.3x FY08E 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 estimates 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

- 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 Rs5 for FY07E and Rs6.4 for FY08E, a CAGR of 24.5% over FY06-08E.
- Dabur is currently trading at 31x FY07E EPS and 24.3x FY08E EPS. We maintain **Neutral**.

Sector view

- We are positive on the sector. The sector is showing strong volume growth across product categories with improving pricing power for leading players.
- Companies with low competitive pressures and brought product portfolios will be able to better with stand any slowdown in a particular segment.
- Longer term prospects bright, given rising incomes and low penetration.

COMPARATIVE VALUATIONS

		DABUR	MARICO	GCPL
P/E (x)	FY07E	31.0	22.5	0.0
	FY08E	24.3	17.8	0.0
P/BV (x)	FY07E	14.5	9.5	21.2
	FY08E	11.2	7.0	15.9
EV/Sales (x)	FY07E	3.9	2.1	24.5
	FY08E	3.4	1.8	17.9
EV/EBITDA (x)	FY07E	24.5	13.6	4.0
	FY08E	19.6	11.0	3.4

SHAREHOLDING PATTERN (%)

	SEPO6	JUN.06	SEPO5
Promoter	74.0	74.1	76.7
Domestic Inst	6.3	6.4	4.7
Foreign	11.3	10.3	9.8
Others	8.4	9.3	8.8

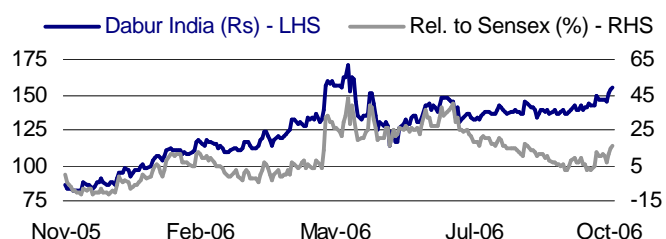
EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY07	5.0	4.8	3.2
FY08	6.4	5.8	9.9

TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
155	150	-3.2	Neutral

STOCK PERFORMANCE (1 YEAR)



INCOME STATEMENT						(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E					
Net Sales	14,941	18,658	22,264	25,403	28,776					
Change (%)	18.2	24.9	19.3	14.1	13.3					
Total Expenditure	-12,853	-15,750	-18,676	-21,064	-23,693					
EBITDA	2,088	2,908	3,588	4,339	5,083					
Change (%)	31.2	39.3	23.4	20.9	17.2					
Margin (%)	14.0	15.6	16.1	17.1	17.7					
Depreciation	-295	-312	-374	-388	-400					
Int. and Fin. Charges	-124	-164	-107	-54	-48					
Other Income - Recurring	92	134	205	322	512					
Profit before Taxes	1,761	2,566	3,311	4,218	5,148					
Change (%)	41.8	45.7	29.0	27.4	22.0					
Margin (%)	11.8	13.8	14.9	16.6	17.9					
Tax	-151	-265	-389	-485	-592					
Deferred Tax	-40	-35	-66	-84	-103					
Tax Rate (%)	-10.8	-11.7	-13.8	-13.5	-13.5					
Profit after Taxes	1,570	2,266	2,856	3,649	4,453					
Change (%)	43.6	44.3	26.0	27.8	22.0					
Margin (%)	10.5	12.1	12.8	14.4	15.5					
Exceptional Items	0	0	65	0						
Minority Interest	-12	3	0	0	0					
Reported PAT	1,558	2,269	2,921	3,649	4,453					

BALANCE SHEET						(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E					
Share Capital	286	573	573	573	573					
Reserves	3,353	4,397	5,538	7,315	9,484					
Net Worth	3,639	4,971	6,112	7,889	10,058					
Minority Interest	152	55	55	55	55					
Loans	1,509	1,043	640	500	500					
Capital Employed	5,300	6,068	6,806	8,443	10,612					
Gross Block	4,675	5,515	5,765	5,965	6,165					
Less: Accum. Deprn.	-1,870	-2,090	-2,429	-2,781	-3,145					
Net Fixed Assets	2,805	3,425	3,337	3,185	3,021					
Goodwill	140	1,700	1,700	1,700	1,700					
Investments	2,333	421	1,154	3,543	6,267					
Curr. Assets, L&A	4,075	4,711	5,384	5,631	6,161					
Inventory	2,031	2,128	2,449	2,650	2,843					
Account Receivables	759	744	867	918	965					
Cash and Bank Balance	147	512	328	402	477					
Others	1,138	1,328	1,740	1,661	1,876					
Curr. Liab. and Prov.	3,997	4,361	4,806	5,502	6,256					
Current Liabilities	3,044	3,028	3,240	3,476	3,717					
Provisions	953	1,333	1,566	2,026	2,539					
Net Current Assets	78	350	578	129	-95					
Miscellaneous Expense	58	329	263	197	131					
Deferred Tax Liability	-114	-158	-225	-309	-412					
Application of Funds	5,300	6,068	6,806	8,444	10,612					

E: Most Estimates

RATIOS					
Y/E MARCH	2005	2006	2007E	2008E	2009E
Basic (Rs)					
EPS	5.4	4.0	5.0	6.4	7.8
Cash EPS	6.5	4.5	5.7	7.0	8.5
BV/Share	12.7	8.7	10.7	13.8	17.5
DPS	2.5	18	2.9	3.5	4.0
Payout %	45.9	44.2	57.5	54.9	51.2
Valuation (x)					
P/E	28.4	39.1	31.0	24.3	19.9
Cash P/E	23.9	34.3	26.9	22.0	18.3
EV/Sales	2.9	4.8	3.9	3.4	2.9
EV/EBITDA	20.7	30.5	24.5	19.6	16.2
P/BV	12.2	17.8	14.5	11.2	8.8
Dividend Yield (%)	1.6	1.1	1.9	2.3	2.6
Return Ratios (%)					
RoE	43.1	45.6	46.7	46.3	44.3
RoCE	35.6	45.0	50.2	50.6	49.0
Working Capital Ratios					
Debtor (Days)	19	15	14	13	12
Asset Turnover (x)	2.8	3.1	3.3	3.0	2.7
Leverage Ratio					
Debt/Equity (x)	0.4	0.2	0.1	0.1	0.0

CASH FLOW STATEMENT						(RS MILLION)				
Y/E MARCH	2005	2006	2007E	2008E	2009E					
OP/(loss) before Tax	1,793	2,596	3,214	3,951	4,684					
Int./Div. Received	92	134	205	322	512					
Depreciation and Amort.	295	312	374	388	400					
Interest Paid	-124	-164	-107	-54	-48					
Direct Taxes Paid	-151	-265	-389	-485	-592					
(Incr)/Decr in WC	326	92	-412	523	299					
CF from Operations	2,231	2,706	2,885	4,645	5,255					
Extraordinary Items	0	1	65	0	0					
(Incr)/Decr in FA	-694	-842	-249	-200	-201					
(Pur)/Sale of Investments	-1,035	1,912	-733	-2,389	-2,724					
CF from Invest.	-1,729	1,071	-917	-2,589	-2,925					
Issue of Shares	0	0	0	0	0					
(Incr)/Decr in Debt	264	-466	-403	-140	0					
Dividend Paid	-716	-1,004	-1,642	-2,004	-2,282					
Others	-105	-1,943	-41	163	27					
CF from Fin. Activity	-557	-3,412	-2,086	-1,981	-2,255					
Incr/Decr of Cash	-55	364	-118	74	75					
Add: Opening Balance	202	147	512	328	402					
Closing Balance	147	512	393	402	477					

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Disclosure of Interest Statement	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

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