30 January 2008 | 7 pages

Dabur India (DABU.BO)

Results

Buy: 3QFY08 - Ahead of Expectations

- **Earnings momentum continues** – Dabur 3QFY08 consolidated net profit growth of 19% was ahead of our estimates; driven by a 14% sales growth. While flat EBITDA margins disappointed, sales growth was slightly ahead of our estimates.
- **Core domestic business remains strong** – Foods and Consumer care division grew by 15%. In addition, consumer health business has shown improvement with growth increasing to 7%. Growth is likely to improve significantly on account of product re-engineering initiatives.
- **Margin growth muted** – Despite a 160bps reduction in raw material costs, margin were flat in 3QFY08 due to higher advertising and other expenses, mainly as other expenses were incurred for the H & B store rollout. Stripping off for these costs, EBITDA margins would have been higher by 100bps.
- **New business initiatives –** Dabur's health & beauty stores are expected to start operations by March this year. Management has earmarked funds of Rs1.4bn over the next three years with a target RoE of 30-40%. Management is also working on expanding its skin care portfolio with some launches expected over the next 2-3 quarters.
- **Reiterate Buy (1L)** – With its strong positioning in the herbal health care segment, strong product pipeline and new initiatives, Dabur is well positioned to deliver strong growth. We maintain Buy/Low Risk (1L) with a target price of Rs125.

Buy/Low Risk	**1L**
Price (30 Jan 08)	Rs98.05
Target price	Rs125.00
Expected share price return	27.5%
Expected dividend yield	1.9%
Expected total return	**29.4%**
Market Cap	Rs84,717M
	US$2,156M

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

Statistical

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	39.4	17.0	49.7	1.2
2007A	2,830	3.29	32.2	29.8	17.3	57.4	1.5
2008E	3,475	4.04	22.8	24.3	17.5	71.7	1.9
2009E	4,287	4.99	23.4	19.7	16.1	85.3	2.0
2010E	5,078	5.91	18.5	16.6	13.8	89.5	2.2

Source: Powered by dataCentral

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

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3QFY08 Result Review

Figure 1. Dabur: 3QFY08 Consolidated Results Summary (Rupees in Million, Percent)

	3QFY07	3QFY08	% YoY Change
Net Sales	**5,663.6**	**6,496.8**	**14.7**
Total Expenses	-4,659.8	-5,334.1	14.5
EBITDA	**1,003.8**	**1,162.7**	**15.8**
EBITDA Margin (%)	*17.7*	*17.9*	*17 bps*
Interest	-30.5	-43.5	42.6
Depreciation & Amortisation	-115.1	-105.0	-8.8
Other Income	32.7	49.3	50.8
PBT	**890.9**	**1,063.5**	**19.4**
Tax	-115.2	-138.7	20.4
Tax Rate (%)	*12.9*	*13.0*	*11 bps*
Net Profit	**775.7**	**924.8**	**19.2**
PAT Margin (%)	*13.5*	*14.2*	*54 bps*
Exceptional items	0.0	0.0	nm
Minority Interest	17.0	20.2	18.8
PAT After Minorities & Exceptional items	**792.7**	**945.0**	**19.2**

Key Costs	**3QFY07**	**3QFY08**	**% YoY Change**
Raw Material Cost	2,726.6	3,022.8	10.9
% of Sales	*48.1*	*46.5*	*-162 bps*
Advertising Cost	730.9	854.8	17.0
% of Sales	*12.9*	*13.2*	*25 bps*
Staff Cost	436.7	521.6	19.4
% of Sales	*7.7*	*8.0*	*32 bps*
Other Expenditure	765.6	934.9	22.1
% of Sales	*13.5*	*14.4*	*87 bps*

Source: Company Reports

Figure 2. Dabur (Consolidated): 3QFY08 Segmental Details (Rupees in Million, Percent)

Segment Revenue	3QFY07	3QFY08	% YoY Change
Consumer Care Business	4,644.3	5,330.1	14.8
% of sales	*80.6*	*80.9*	*37 bps*
Consumer Health Business	407.5	434.9	6.7
% of sales	*7.1*	*6.6*	*-47 bps*
FMCG Sub Total	**5,051.8**	**5,765.0**	**14.1**
% of sales	***87.6***	***87.5***	***-10 bps***
Foods Business	592.4	680.7	14.9
% of sales	*10.3*	*10.3*	*6 bps*
Others	121.0	140.8	16.4
% of sales	*2.1*	*2.1*	*4 bps*

Segment Result	3QFY07	3QFY08	% YoY Change
Consumer Care Business	1,219.0	1,469.0	20.5
Consumer Health Business	103.1	106.0	2.8
FMCG Sub Total	**1,322.1**	**1,575.0**	**19.1**
Foods Business	16.6	48.3	191.0
Others	7.2	4.1	-43.1
Less: Interest and Finance Charges	-30.5	-43.5	42.6
Less: Unallocable expenditure	-424.5	-520.4	22.6
PBT	**890.9**	**1,063.5**	**19.4**

Segment EBIT Margin(%)	3QFY07	3QFY08	% YoY Change
Consumer Care Business	26.2	27.6	131 bps
Consumer Health Business	25.3	24.4	-93 bps
FMCG Sub Total	26.2	27.3	115 bps
Foods Business	2.8	7.1	429 bps
Others	6.0	2.9	-304 bps

Source: Company Reports

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 strategy

We rate Dabur as Buy, Low Risk (1L). 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 25%). 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.

Valuation

We believe Dabur is a steady growth company, thus we value it based on P/E. Our target price of Rs125 is based on 25x FY09E P/E. We benchmark our target multiple against average Sensex premium of 40%-50% that the Dabur stock has enjoyed historically. Our target multiple for Dabur is 25x in view of 1) our more positive stance on Dabur's growth potential given the pickup in its core domestic business growth; 2) Dabur's above sector average growth profile and 3) maintaining the stock's relative premium range of 40%-50% to Sensex P/E, given that the Sensex P/E itself has re-rated significantly. We forecast a 22% EPS growth CAGR for F2007-10E for Dabur, which is at the higher end of our Indian consumer universe. We believe this should offer downside support for the stock price.

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

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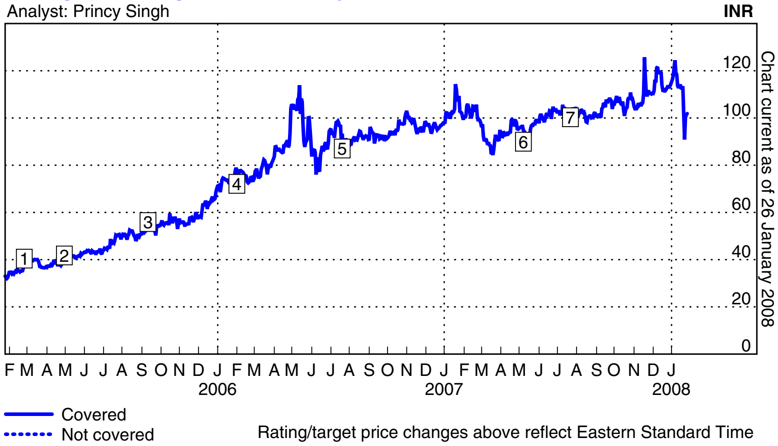
Dabur India (DABU.BO)

Ratings and Target Price History - Fundamental Research

Analyst: Princy Singh



#	Date	Rating	Target Price	Closing Price
1:	24 Feb 05	1L	*44.67	37.43
2:	29 Apr 05	1L	*48.00	38.75
3:	12 Sep 05	*2L	*55.67	52.70
4:	1 Feb 06	*3L	*60.00	77.87
5:	20 Jul 06	*2L	*93.33	93.37
6:	8 May 07	2L	*100.00	94.70
7:	23 Jul 07	*1L	*125.00	100.35

*Indicates change.

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