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Dabur India Limited—Buy—85—INR

Sector — FMCG (personal care)
Regd.Off. — 8/ 3, Asaf Ali Road, New Delhi, Delhi-110 002
Listed — NSE, BSE.

Company overview—

Established in 1884, Dabur India Ltd is the largest Indian FMCG and ayurvedic products company. The group comprises Dabur Finance, Dabur Nepal Pvt Ltd; Dabur Egypt Ltd, Dabur Overseas Ltd and Dabur International Ltd. Products groups include health care, food products, natural gums & allied chemicals, pharma, and veterinary products. The leading brands are Dabur Amla, Dabur Chyawanaprash, Vatika, Hajmola, Lal Dant Manjan, Pudina Hara and the Real range of fruit juices. In 2001, Dabur set up a 100 per cent subsidiary Dabur Oncology plc in the UK with an investment of \$16 million. The hive-off of the oncology business is part of the company's strategy to focus on its core businesses of fast-moving consumer goods products and over-the-counter drugs. Company has restructured its pharmaceutical business and has virtually separated it from FMCG business. Under the new set up, the pharmaceutical business would continue to remain under the ambit of Dabur India but would function as a separate business unit internally with a separate business head and functional heads. This new business unit would also maintain separate books of accounts.

Products & Services—

Dabur India is into business of manufacturing and selling of ayurvedic medicines, baby care, ayurvedic, natural and herbal personal and health products and processed foods either directly or indirectly through its subsidiaries. Dabur presents range of herbal and personal care products. Bringing together the gentle touch of nature and Ayurveda's wisdom. Backed by the unfailing quality of Dabur Products. Hair oil, Fairness face pack, Shampoo, Tooth paste, red gel, lal dant manjan, dabur binaca toothbrush, vatika hair oil, anmol sarso aawla, vatika heena conditioning shampoo, vatika anti-dandruff shampoo. Instead of this in food range of REAL active natural juice, dabur homemade, dabur honey etc., are the few Successful brands of company. Dabur laid out a growth strategy -- new product introductions, brand extensions to new segments, and focus on new geographies. This strategy has paid rich dividends for Dabur and has delivered sales growth ahead of the consumer non-durable sector average. Balsara's acquisition complements Dabur's growth strategy as it provides entry to a new product segment (household care), extends Dabur's oral care portfolio ('white' toothpaste), and improves its distribution muscle in Western and Southern India (focus areas for Dabur), as well as strengthening its international business because Balsara exports to Middle East markets where Dabur is trying to grow its business.

In oral care, Balsara has a 6% market share and has three brands, Promise, Babool and Meswak based on herbal formulations. In the household care segment, Balsara's product range includes air fresheners under the Odonil brand, insect repellent branded Odomos, toilet cleaners under the Sanifresh brand and dishwashers under the Odopic brand. All of these have fairly

strong brand equity and Balsara has invested significantly behind these brands over the years. All these product segments have significant growth potential, owing to low penetration levels.

Dabur's international business is profitable and has operating margins only slightly below those of the domestic business. According to management, there is further potential for expanding margins for the international business. International operations have a footprint in 25 countries spread over six continents; however, a major part of its business is concentrated in the Middle East. The company also has four manufacturing facilities located in UAE, Bangladesh and Egypt. According to management, the company is looking to expand its presence in the Middle East, the Indian Subcontinent, Russia and Africa. For the developed markets in the US and Europe, Dabur is looking at alliances with distributors, focusing mainly on over-the counter herbal healthcare products.

Financials—

Financials for 3rd Quarter 2007

Financial Results	Rs. lakhs
Net Sales	61759.00
Other Income	327.00
Gross Income	62086.00
Increase/Decrease in Stock	1125.00
Consumption of Raw Materials	26142.00
Staff Cost	4367.00
Total Expenditure Excluding Other Expenditure	31634.00
Other Expenditure	20087.00
Total Expenditure	51721.00
Interest	305.00
Profit Before Depreciation & Taxes	10060.00
Depreciation	1151.00
Profit Before Tax	8909.00
Provision for Taxation	1152.00
Other Provisions	-170.00
Net Profit	7927.00
Face Value of Share (in Rs.)	1.00
Basic EPS (in Rs.)	1.38

Recent developments—

Dabur is planning to set up a plant at Tegubehar, 220 km from Shimla. Company is planning to set up this plant in order to produce high quality honey at a high-tech processing plant in Kullu valley of Himachal Pradesh. Dabur is in the process of buying land from the government in the location. However, the value of the plant is not known. Company also plans to train locals in the art of bee-keeping and buy raw honey and process at the company's plant.

Dabur International, 100% subsidiary of the company has promoted a subsidiary company in Ras Al Khaimah, UAE with the name of "Naturelle LLC". Naturelle LLC has also become step down subsidiary company of the company, pursuant to provisions of Companies Act, 1956. Naturelle LLC has been established with the object of manufacturing and trading cosmetics, foodstuffs, personal care products, home care products, health foods and ayurvedic preparations.

Dabur is all set to establish a major manufacturing facility in Pakistan by March 2008. This is as part of the economic cooperation among the SAARC countries. Company expects revenues of Rs 750 million in the first year of operations in Pakistan. The project is aimed at tapping the high potential Pakistan and Afghanistan markets for cosmetic, ayurvedic medicines and health food. These products are already popular in the region through grey market. The company currently operates in Pakistan through its subsidiary Asia Consumer Care. It also operates in Bangladesh and Nepal. Dabur is also in the early stages of negotiation with Sri Lanka for setting up a similar facility as their products are popular there as well. Apart from SAARC countries, Dabur exports to Europe and America. The company is also planning to strengthen its research and development operations and is likely to infuse more capital towards it. Dabur is also looking at the option of outsourcing its R&D activities mainly in the healthcare segment.

Dabur India has plans to enter into the retail space and invest Rs. 1,400 million by 2010. The company will establish its presence in the retail market in India with a chain of stores on the health and beauty format ranging from 1,500 sq ft to 6,000 sq ft in size. V C Burman, chairman of the company said, Retail is the next big focus area for Dabur India. H&B Stores plans to set up 350 retail stores across India in 5 years and expand it to over 1,000 stores by its 10th year of operation. The company has created a 100% subsidiary "H&B Stores" for its retail foray. This venture is also synergistic with the company's current portfolio of ayurvedic & herbal products and would add significantly to the company's distribution footprint.

Valuation—

International business and foods subsidiary are likely to be significant contributors to growth in future. Except this, company's retail foray will also provide boost to the revenue growth. We expect the sales contribution of Dabur's international business to increase to a CAGR of 20% by FY07-09. At CMP, stock is trading at 24.7 X multiple of its FY2008 Estimated EPS and 21.4 X multiple of its FY2009 Estimated EPS. We recommend investors to BUY "Dabur India" for long-term investment prospective.

We invite Readers to send Feedback, stock and subscription queries at E-mail Id- investment_guru1@yahoo.com

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