

Consumer & Retail
 Personal Products
 Equity – India

Dabur India (DABUR)

Neutral

Target price (INR) 190.00
 Share price (INR) 205.95
 Potential return (%) -6.4

Performance	1M	3M	12M
Absolute (%)	7.7	17.2	57.6
Relative ^A (%)	7.1	13.9	32.1

Index^A BOMBAY SE SENSITIVE INDEX

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 Bloomberg DABUR IN

Market cap (USDm) 3,799
 Market cap (INRm) 178,918

Enterprise value (INRm) 177,539
 Free float (%) 22

Note: (V) = volatile (please see disclosure appendix)

N: Potential Hobi Kozmetic acquisition small but positive

- ▶ **Newspaper reports Dabur in talks to acquire Hobi Kozmetic, a Turkish personal products company**
- ▶ **Acquisition could add c4% to revenues and be value accretive / EPS accretive by c1-2% in the first year**
- ▶ **We maintain our Neutral rating and our PE-based target price of INR190**

Economic Times reports that Dabur is in talks to acquire Hobi Kozmetic, a Turkish personal products company. Dabur will not confirm that it is close to finalising an acquisition of Hobi Kozmetic, drawing attention to the fact that it is in talks with more than one company (source: Reuters).

Could be strategically positive... Hobi Kozmetic makes hairstyling, hair-care, skincare and bath and shower products under the brand names Hobby and New Era and it has a presence in more than 30 countries. Our channel checks indicate annual revenues of cINR1.3b, c4% of Dabur's existing revenues. Hobi Kozmetic would give Dabur a presence in Turkey and help take Hobi Kozmetic products into its existing operations in the MENA region.

...and possibly value / EPS accretive. Recent international acquisitions of this type have taken place at c2x sales. Assuming a net profit margin of 15% for Hobi, we estimate acquisition of Hobi Kozmetic could be value / EPS accretive by c1-2%. The acquisition may have to be financed by debt, but at 2x sales we estimate the purchase price would be just c20% of shareholders' funds, so gearing should not be a problem.

No change to our valuation – remain Neutral. We value Dabur on 24x FY12e EPS. Dabur's PE has averaged 22x over the last three years, within a band of 13-28x. We believe that given the better quality of growth – strong volumes, and almost all categories growing – Dabur stock deserves a premium of 10% over its historical average.

22 July 2010

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Dabur: Snapshot Financials (INRm)

Year to Mar	Sales	y-o-y	EBIT	y-o-y	Net profit	y-o-y	EPS (INR)	PE	ROE	ROA
FY09	28,054	18.8%	4,212	14.7%	3,912	17.1%	4.51	45.7x	54.5%	24.4%
FY10e	33,657	20.0%	5,773	37.0%	5,035	28.7%	5.79	35.6x	50.3%	24.7%
FY11e	39,038	16.0%	6,675	15.6%	5,916	17.5%	6.80	30.3x	44.0%	24.0%
FY12e	45,261	15.9%	7,992	19.7%	6,963	17.7%	8.01	25.7x	41.1%	23.5%

Source: Company, HSBC

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Financials & valuation

Financial statements

Year to	03/2009a	03/2010e	03/2011e	03/2012e
Profit & loss summary (INRm)				
Revenue	28,054	33,657	39,038	45,261
EBITDA	4,705	6,330	7,340	8,676
Depreciation & amortisation	-492	-557	-664	-684
Operating profit/EBIT	4,212	5,773	6,675	7,992
Net interest	-232	-132	-139	-140
PBT	4,448	6,028	7,147	8,462
HSBC PBT	4,448	6,028	7,147	8,462
Taxation	-540	-985	-1,236	-1,506
Net profit	3,912	5,035	5,916	6,963
HSBC net profit	3,912	5,035	5,916	6,963

Cash flow summary (INRm)

Cash flow from operations	3,420	4,077	5,650	6,687
Capex	-1,388	-4,500	-400	-400
Cash flow from investment	-2,352	-2,643	10	-10
Dividends	-1,517	-2,158	-2,492	-2,931
Change in net debt	566	-170	-3,176	-3,756
FCF equity	1,996	-423	5,250	6,287

Balance sheet summary (INRm)

Intangible fixed assets	0	0	0	0
Tangible fixed assets	5,592	9,594	9,330	9,045
Current assets	9,508	10,928	15,567	20,945
Cash & others	1,484	1,677	4,877	8,656
Total assets	18,891	22,784	27,359	32,673
Operating liabilities	7,064	7,155	8,280	9,536
Gross debt	2,276	2,299	2,322	2,345
Net debt	792	621	-2,555	-6,311
Shareholders funds	8,188	11,832	15,056	18,849
Invested capital	6,551	11,690	11,740	11,798

Ratio, growth and per share analysis

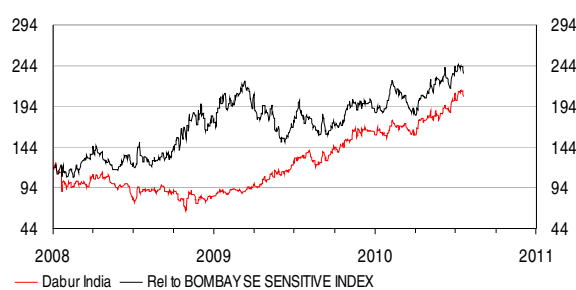
Year to	03/2009a	03/2010e	03/2011e	03/2012e
Y-o-y % change				
Revenue	18.8	20.0	16.0	15.9
EBITDA	14.9	34.5	16.0	18.2
Operating profit	14.7	37.0	15.6	19.7
PBT	15.7	35.5	18.6	18.4
HSBC EPS	17.8	28.4	17.5	17.7
Ratios (%)				
Revenue/IC (x)	4.8	3.7	3.3	3.8
ROIC	62.6	51.8	46.0	54.7
ROE	54.5	50.3	44.0	41.1
ROA	24.4	24.7	24.0	23.5
EBITDA margin	16.8	18.8	18.8	19.2
Operating profit margin	15.0	17.2	17.1	17.7
EBITDA/net interest (x)	20.3	48.1	53.0	62.0
Net debt/equity	9.6	5.2	-16.9	-33.4
Net debt/EBITDA (x)	0.2	0.1	-0.3	-0.7
CF from operations/net debt	432.1	656.3		
Per share data (INR)				
EPS reported (fully diluted)	4.51	5.79	6.80	8.01
HSBC EPS (fully diluted)	4.51	5.79	6.80	8.01
DPS	1.75	2.25	2.65	3.11
Book value	9.49	13.61	17.31	21.67

Valuation data

Year to	03/2009a	03/2010e	03/2011e	03/2012e
EV/sales	6.3	5.3	4.5	3.8
EV/EBITDA	37.5	28.0	23.7	19.6
EV/IC	26.9	15.2	14.8	14.4
PE*	45.7	35.6	30.3	25.7
P/Book value	21.7	15.1	11.9	9.5
FCF yield (%)	1.1	-0.2	3.0	3.6
Dividend yield (%)	0.8	1.1	1.3	1.5

Note: * = Based on HSBC EPS (fully diluted)

Price relative



Source: HSBC

Note: price at close of 21 Jul 2010

Acquisition of Hobi Kozmetic would be small, but positive

We think acquisition of Hobi Kozmetic by Dabur would allow Dabur to strengthen its MENA presence and cross-pollinate products across geographies. Although small in terms of sales volume, it could give Dabur a foothold in Turkey and bring synergies to the top and bottom line.

Analysis of potential Hobi Kozmetic acquisition – Value / EPS accretive by c1-2% (annualised, 1st year of operation)

	INRm
Sales in FY10	1300
Sales in FY11e (15% growth assumed)	1495
Net margin	15%
Net profit FY11e	224.25
Acquisition price (2x FY10 sales)	2600
Implied PE of acquisition at FY11 earnings	11.5942
Fair value (@20x PE)	4485
Value accretion	1885
Value accretion per share	2.166667
Value accretion %	1.1%
Debt	2600
Post-tax cost of debt	5%
Interest paid	130
Net profit accretion	94.25
EPS accretion	0.108333
EPS accretion %	1.6%

Source: HSBC

In the table below, we calculate value accretion at 1.1% and EPS accretion at 1.6% (annualised). As we assume the debt would be paid off by the end of the first year, from the second year onwards EPS accretion could be higher at nearly 4%. We note that synergies could add to this number in the long run.

The *Economic Times* also states that “Dabur CEO Sunil Duggal had last month told ET that the company was looking to buy one mid-sized or two small-sized companies every year. Middle East, sub-Saharan Africa, Turkey and Indonesia as key markets, adding that hair, oral and skin care would be its focus areas”. We would view these as positive as and when they happen provided that they are at the right price and synergistic either in terms of product or geography.

Valuation

We value Dabur on a PE of 24x FY12e EPS, or a target price of INR190. Dabur stock’s PE has averaged 22x over the last three years, within a band of 13-28x. We believe that given the better quality of growth – strong volumes, and almost all categories participating in the growth – Dabur stock deserves a premium of 10% over its historical average. We maintain our Neutral rating on the stock.

Downside risks: 1) A grim macroeconomic environment or an inflationary situation that may impact consumer spending and affect volume growth for FMCG companies; 2) raw material cost inflation higher than estimated, which may adversely impact margins; 3) retail losses deeper than we estimate; 4) competitive pressures are increasing in the FMCG industry, which could affect revenue or costs or both by requiring higher ad spend than previously estimated; 5) price competition may lead to lower unit realisations and margin compression; 6) synergies expected with FCPL do not flow through.

Upside risks: Price increases being higher than necessary to offset cost inflation; PE multiple expansion on the back of entry into new categories; value-accretive acquisitions.

Disclosure appendix

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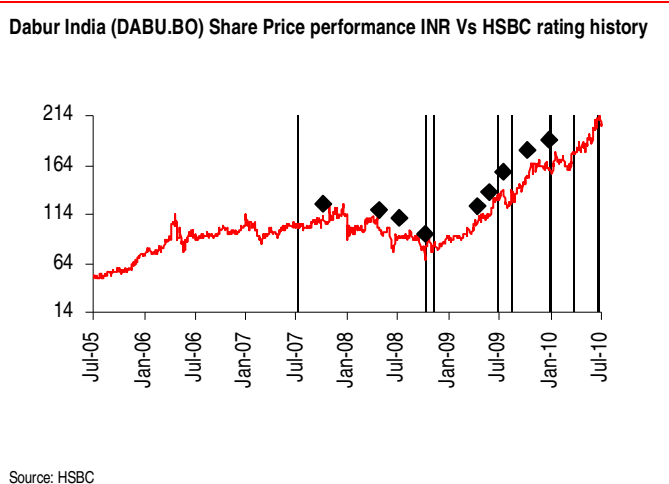
stocks which we do not consider volatile may in fact also behave in such a way. Historical volatility is defined as the past month's average of the daily 365-day moving average volatilities. In order to avoid misleadingly frequent changes in rating, however, volatility has to move 2.5 percentage points past the 40% benchmark in either direction for a stock's status to change.

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Neutral (Hold)	35%	(18% of these provided with Investment Banking Services)
Underweight (Sell)	13%	(19% of these provided with Investment Banking Services)

Share price and rating changes for long-term investment opportunities



Recommendation & price target history

From	To	Date
Overweight (V)	Overweight	24 July 2007
Overweight	Neutral (V)	31 October 2008
Neutral (V)	Overweight (V)	24 November 2008
Overweight (V)	Neutral (V)	13 July 2009
Neutral (V)	Overweight (V)	01 September 2009
Overweight (V)	Overweight	18 January 2010
Overweight	Neutral	16 April 2010
Neutral	Neutral	09 July 2010
Target Price	Value	Date
Price 1	125.00	24 October 2007
Price 2	118.00	16 May 2008
Price 3	110.00	29 July 2008
Price 4	94.50	31 October 2008
Price 5	123.00	30 April 2009
Price 6	137.00	15 June 2009
Price 7	158.00	05 August 2009
Price 8	180.00	26 October 2009
Price 9	190.00	18 January 2010

Source: HSBC

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Company	Ticker	Recent price	Price Date	Disclosure
DABUR INDIA	DABU.BO	205.95	21-Jul-2010	2

Source: HSBC

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