

Bajaj Corp Ltd.

Industry Consum. staples
Bloomberg BJCOR IN
BSE CODE 533229

Strong volume growth backed by increased penetration

RATING	BUY
CMP	384
Price Target	481
Potential Upside	25%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	525/340
Mkt Capital (Rs Cr)	5665
Free float (%)	33%
Avg. Vol 1M (,000)	84
No. of Shares (Cr)	15
Promoters Pledged %	70%

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Key Highlights -

- BAJAJCORP's Q3FY19 numbers were above than our estimates. Sales grew by 10% YoY to Rs 230 cr while company reported a PAT of Rs 60 cr, a growth of 9% YoY.
- Company's overall volume growth remained 7% for this quarter while its flagship brand ADHO's volume grew by 9%YoY.
- The company's gross margin declined by 163 bps YoY due to higher LLP and vegetable oil prices. EBITDA margin deteriorated by 166 bps owing to decline in gross margin and investment in manpower.
- Company is having the direct reach of 4.92 lac outlets in the country, targeting to hit 5.4 lacs by end of FY19.

3Q FY19 Results-

Bajajcorp's sales grew by 10% YoY to Rs 230 cr. Major positives remained better volume growth of ADHO, coming back of CSD and better traction from International business(IB) which have grown by 9%, 35% and 12% respectively in Q3FY19. Modern Trade continues to do well and grew by 28% YoY. Offtake growth for Nomarks remained strong with the gain in market share. EBITDA margin declined by 166 bps YoY led by higher COGS & Employee expenses. COGS is high because of old inventory (high cost LLP), which is expected to last till Feb. Other expenses declined by 118 bps YoY.

View and Valuation.

Bajajcorp's numbers for Q3FY19 remained better than our expectations; volume grew by 9% (Vs expec. of 5%) on the back of expansion of distribution reach and rural demand revival. Sales growth for the quarter was 10% while PAT grew by 9%YoY. Going forward we expect better volume growth to continue led by improvement in category growth (gradual uptick in light hair oil grew by -1.9%,2.7%,2.9% & 5.5% in FY15,FY16,FY17 and FY18), improvement in rural demand on the back of government stimulus and new launches(plans 2 launches in Q4FY19). The company is presently trading at the attractive dividend yield of ~4%. Considering better volume growth than our expectations we have increased our volume estimates by 3%and 1% for FY19 and FY20 respect. and accordingly we have revised our sales and PAT estimates by 2% / 3% and 1% / 2%. We maintain BUY rating on BAJAJCORP with the revised target price of Rs 481(27x FY20e eps).

Key Risks to our rating and target

- Tapering down of ADHO's volume growth and Volatility in crude oil prices.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	800	797	828	917	1040
EBITDA	274	264	254	279	317
EBIT	269	258	247	272	310
PAT	196	218	211	228	263
EPS (Rs)	13	15	14	15	18
EPS growth (%)	14%	11%	-3%	8%	16%
ROE (%)	41%	44%	43%	48%	54%
ROCE (%)	55%	51%	49%	56%	62%
BV	33	34	33	32	33
P/B (X)	12	12	14	12	12
P/E (x)	29	27	32	25	22

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3Q FY 19 Results Better than expectation

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	208	222	221	213	230	10.3%	7.9%	797	828	4.0%
Other Income	4	1	1	7	7	65.0%	3.5%	39	24	-38.0%
COGS	64	73	74	69	75	16.2%	7.7%	269	269	0.1%
Gross Margin	69%	67%	67%	67%	67%	-1.6%	0.1%	66%	67%	1.2%
Employee Cost	19	20	22	24	24	24.8%	0.0%	61	77	25.5%
Other Expenses	57	57	56	59	60	5.5%	1.8%	203	228	12.4%
EBITDA	68	72	69	61	71	4.7%	17.3%	264	254	-3.7%
EBITDA Mar.	33%	32%	31%	28%	31%	-1.7%	2.5%	33%	31%	-2.4%
Depreciation	2	2	1	2	2	-9.5%	4.8%	5	7	38.6%
EBIT	66	70	68	59	69	5%	17.6%	258	247	-4.5%
Interest	0	0	0	0	0	-69%	-61.9%	1	1	18.9%
PBT	70	70	69	66	77	9.2%	16.4%	297	270	-9%
Exceptional	-	-	-	-	-			18	-	
Tax	15	15	15	14	17	10.2%	16.4%	60	59	-2%
PAT	55	55	54	52	60	9.0%	16.3%	218	211	-3%
PAT Margin	27%	25%	24%	24%	26%	-0.3%	1.9%	27%	25%	-2%

Strong volume growth led by improving penetration and rural demand revival

ADHO's volume growth for this quarter remained 9% led by strong traction from rural market and distribution expansion. The company's efforts led strong penetration increase for ADHO to 19% (MAT Q3-18) vs 17.4% (MAT Q3-17) with a 12% increase in Households. Off take growth continues to be strong; value and volume offtake growth for the month of Oct-Nov'18 remained strong 21% each respectively while volume and value Market share expanded by ~110 and ~150 bps respectively for ADHO. Nomark has also performed well, for the period of Oct-Nov'18 offtake grew by 49%. The company targets to expand its direct reach to 5.4 lakhs by the end of FY19. The company has reduced its wholesale contribution from 60% to 33% over last 2.5 years.

Inflation in key input prices impacted the margins

Increase in adjusted landed cost of LLP and Refined Oil by 21% and 13% respectively impacted the gross margin by 163 bps YoY in this quarter. Old inventory (high cost LLP), which is expected to last till Feb, after which management expects improvement in gross margins. While EBITDA margin deteriorated by 166 bps owing to decline in gross margin and investment in manpower. Decline in other expense by 119 bps YoY has put some cushion to the EBITDA margin decline.

Concall Highlights

- Rural continues to grow better, while urban retail remains stable.
- Improving demand trend from wholesale witnessed.
- Mgmt expects better growth in volume to sustain going forward.
- Mgmt is expecting to hit 5.4 lacs outlets in direct coverage by end of FY19.
- Company is planning to launch 2 new products in Q4FY19.
- Canteen store has grown fastest among other verticals with 35% value growth on the back of negative growth in previous quarters. But the mgmt is not sure about its growth going forward, confusion remains.
- Modern trade channel grew by 28% YoY while International business growth remained 12%.
- Post Feb. 2019, Company will see improvement in gross margins on the back of low price LLP purchase. Stock of old inventory (high cost LLP) will last till Feb.
- Curtailment in discounting & Cashback in E-Commerce channel is expected to positively impact sales of Bajaj Consumer Care.
- ADHO volume grew by 9.4% in Q3FY19 led by better growth in rural, distribution ramp up and improved sales of Rs. 10 SKU.
- Source of growth for medium to long term- Company is aimed at gaining Market share in total hair oil segment.
- The company is open for acquisitions provided it has reasonable valuations. The company is looking to acquire small and regional brands.
- Mgmt is expecting better growth from international market (IB) going forward on the back of its expansion in Key markets like in SAARC countries (Nepal, Bangladesh), in Middle-east (KSA, Saudi-Arabia, UAE) and Southeast Asia (Indonesia).

Exhibit: Direct Coverage

The company is ramping up its direct reach. It has reduced its wholesale dependence from 60% to 33% over the last 2.5 yrs.

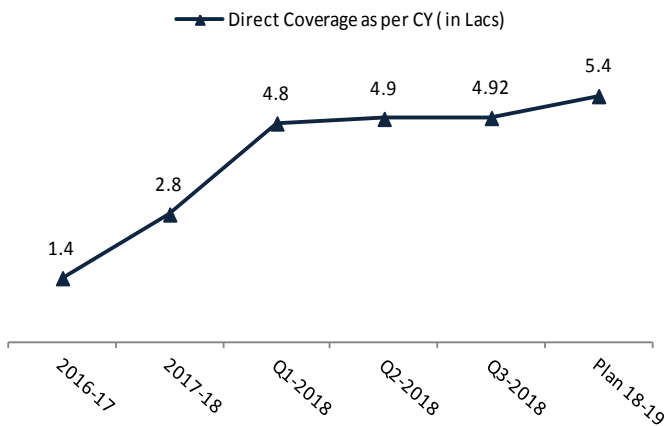


Exhibit: ADHO volume growth

ADHO Vol. grew by 9% YoY backed by revival in rural growth and distribution ramp up.

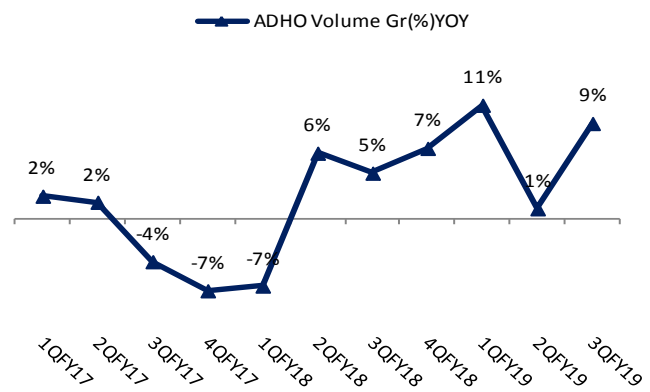


Exhibit: Sales and Sales growth

Sales grew by 10% YoY to Rs 230 cr (vs our expectation of Rs 221 cr) led by better volume growth in ADHO.

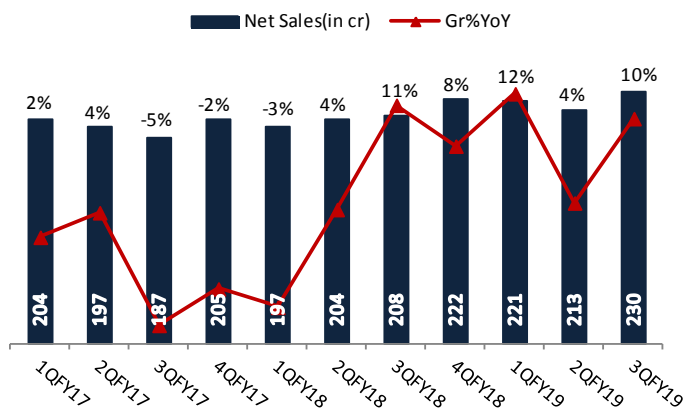


Exhibit: Gross Margin and EBITDA Margin

The company's gross margin declined by 163 bps YoY due to higher LLP and vegetable oil prices.

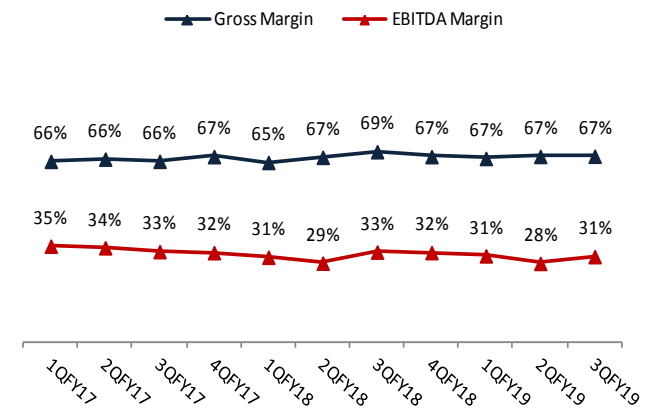


Exhibit: LLP price trend

LLP prices which is one of major contributor in COGS, went up by 21% YoY in Q3FY19.

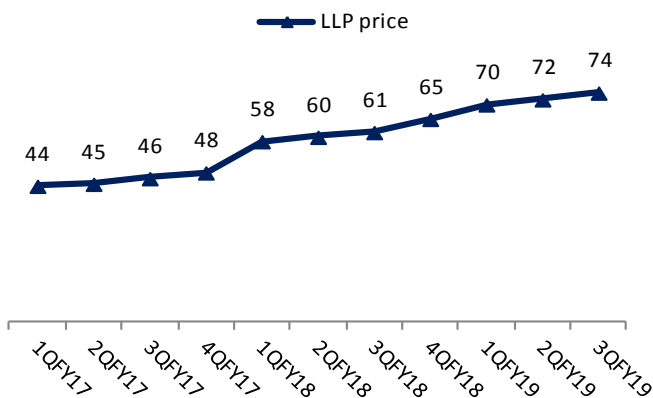
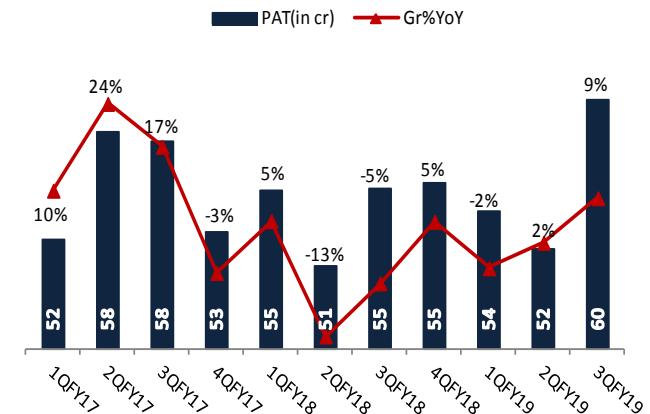


Exhibit: PAT and Growth

The Company has reported a PAT of Rs 60 cr (vs our expectation Rs 58 cr), a growth of 9% YoY.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	15	15	15	15	15	15	15	15
Reserves	468	504	474	466	479	478	459	473
Networth	483	519	489	481	494	492	473	488
Debt	-	-	-	10	15	13	13	13
Other Non Current Liab	1	0	1	1	1	1	1	1
Total Capital Employed	483	519	489	491	509	506	487	502
Net Fixed Assets (incl CWIP)	79	194	142	97	119	130	138	146
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	-	1	0	0	0
Non Current Assets	123	237	186	151	164	176	184	191
Inventory	36	39	39	50	42	47	52	59
Debtors	10	8	13	25	27	32	36	41
Cash & Bank	189	129	134	58	5	13	43	48
Other Current Assets	197	165	195	282	344	339	285	290
Current Assets	432	342	382	415	426	432	415	438
Creditors	49	41	51	44	40	60	66	75
Provisions	-	-	-	-	0	0	0	0
Other Current Liabilities	22	19	27	31	13	12	14	16
Curr Liabilities	71	60	79	74	80	101	112	127
Net Current Assets	361	282	303	340	346	331	304	311
Total Assets	555	579	568	566	590	608	599	629

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	607	672	826	800	797	828	917	1,040
Change (%)		11%	23%	-3%	0%	4%	11%	13%
Other Income	40	40	32	29	39	24	20	27
EBITDA	172	186	239	274	264	254	279	317
Change (%)		8%	29%	14%	-4%	-4%	10%	14%
Margin (%)	28%	28%	29%	34%	33%	31%	30%	31%
Depr & Amor.	4	4	5	5	5	7	7	7
EBIT	169	182	234	269	258	247	272	310
Int. & other fin. Cost	0	6	0	0	1	1	1	1
EBT	208	216	266	297	297	270	291	336
Exp Item	-	(29)	(47)	(47)	(18)	-	-	-
Tax	42	38	46	54	60	59	63	73
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	166	149	173	196	218	211	228	263
Adjusted PAT	166	172	211	235	233	211	228	263
Change (%)		-10%	16%	14%	11%	-3%	8%	16%
Margin(%)	27%	22%	21%	25%	27%	25%	25%	25%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	34%	29%	35%	41%	44%	43%	48%	54%
ROCE	35%	35%	48%	55%	51%	49%	56%	62%
Asset Turnover	1	1	1	1	1	1	2	2
Debtor Days	6	5	6	12	13	14	14	14
Inv Days	22	21	17	23	19	21	21	21
Payable Days	30	22	23	20	18	26	26	26
Int Coverage	2,055	31	1,737	1,188	251	201	206	234
P/E	20	23	29	29	27	32	25	22
Price / Book Value	7	6	10	12	12	14	12	12
EV/EBITDA	18	17	20	21	23	27	20	18
FCF per Share	8	(1)	14	12	12	11	14	17
Div Yield	3%	3%	3%	3%	3%	3%	4%	4%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	209	216	266	297	297	270	291	336
(inc)/Dec in Working Capital	(7)	(15)	13	(28)	7	(14)	(1)	(1)
Non Cash Op Exp	4	4	5	5	5	7	7	7
Int Paid (+)	-	-	-	0	1	1	1	1
Tax Paid	(43)	(39)	(46)	(53)	(58)	(59)	(63)	(73)
others	(40)	(40)	(32)	(29)	(39)	(24)	-	-
CF from Op. Activities	123	126	207	193	212	180	235	270
(inc)/Dec in FA & CWIP	(11)	(147)	(1)	(17)	(36)	(19)	(30)	(15)
Free Cashflow	112	(21)	206	176	176	161	205	255
(Pur)/Sale of Inv	135	34	(21)	(86)	(53)	28	57	-
others	(134)	117	2	109	73	28	15	(0)
CF from Inv. Activities	(10)	4	(20)	6	(15)	37	43	(15)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	10	5	(2)	-	-
Int. Paid	-	-	-	(0)	(1)	(1)	(1)	(1)
Div Paid (inc tax)	(111)	(112)	(204)	(204)	(204)	(213)	(247)	(248)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(111)	(112)	(204)	(194)	(200)	(216)	(248)	(249)
Inc(Dec) in Cash	2	17	(16)	5	(3)	1	29	6
Add: Opening Balance	1	3	20	4	9	5	13	43
Closing Balance	3	20	4	9	5	7	43	48

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