

BAJAJ CORP LTD.

NEUTRAL

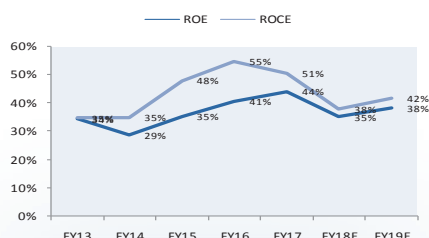
14-Jul-17

INDUSTRY - Con. Staples
BSE Code - 533229
NSE Code - BAJAJCORP
NIFTY - 9892

Company Data

CMP	406
Target Price	410
Previous Target Price	455
Upside	1%
52wk Range H/L	436/340
Mkt Capital (Rs Cr)	5,994
Av. Volume (,000)	73

RoE & ROCE

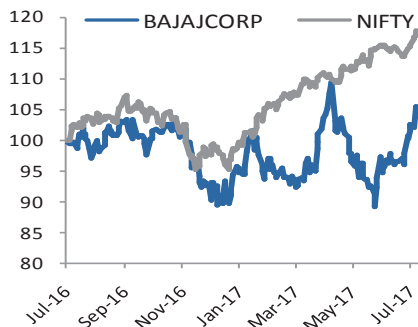


Shareholding patterns %

	1QFY18	4QFY17	3QFY17
Promoters	66.9	66.9	66.9
Public	33.1	33.1	33.1
Total	100.0	100.0	100.0

Stock Performance %

	1Mn	3Mn	1Yr
Absolute	8.2	(3.5)	3.2
Rel. to Nifty	5.3	(11.0)	(13.6)



Key Highlights of the Report:

- ✓ BAJAJCORP has reported mixed set of numbers for 1QFY18. Reported sales Rs 197 cr (Vs our expectation of Rs 207 cr) whereas PAT remained in line to our estimates.
- ✓ Sales declined by 3% YoY to Rs 197 cr led by 7% YoY decline in volume of Almond Drop Hair Oil(ADHO).
- ✓ EBITDA margin declined by 402 bps YoY to 30.7% led by 40 bps, 179 bps, 184 bps increase in COGS, employee ex. and other expenses
- ✓ Key positive remained, regaining of market share in ADHO by 30 bps (YTD Jun17) which was lost in FY17.
- ✓ Presently company is trading at 30 times of FY19E EPS of Rs13.4. In our opinion it is fairly valued at this price. Considering GST related uncertainties we have downgraded this stock from HOLD to Neutral and changed our target from Rs 455 to Rs 410.

Financials/Valu	FY15	FY16	FY17	FY18E	FY19E
Net Sales	826	876	797	691	804
EBITDA	239	274	264	205	231
EBIT	234	269	258	197	223
PAT	211	235	233	178	198
EPS (Rs)	11.7	13.3	14.8	12.0	13.4
EPS growth (%)	16%	14%	11%	-19%	12%
ROE (%)	35%	41%	44%	35%	38%
ROCE (%)	48%	55%	51%	38%	42%
BV	33	33	34	34	35
P/B (X)	10.3	11.8	12.1	11.8	11.5
P/E (x)	29.1	29.0	27.4	33.6	30.1

Segment wise Revenue and Volume Analysis:

- ✓ Almond Drops Hair Oil (ADHO) volume declined by 7% YoY and realization improved by 4% YoY in Q1FY18.
- ✓ Kailash Parvat Cooling Oil's volume declined by 1% YoY and realization improved by 49% YoY in Q1FY18.
- ✓ Volume of Nomarks declined by 15% YoY in Q1FY18 whereas realization improved by 11%. The company is prototyping Nomarks in two states but planning to extend it 4 more states going forward.
- ✓ Amla Hair Oil's volume declined by 29% YoY while realization remained flat in this quarter.
- ✓ Brahmi Amla Hair Oil's volume declined by 20% YoY while realization improved by 4% in Q1FY18.

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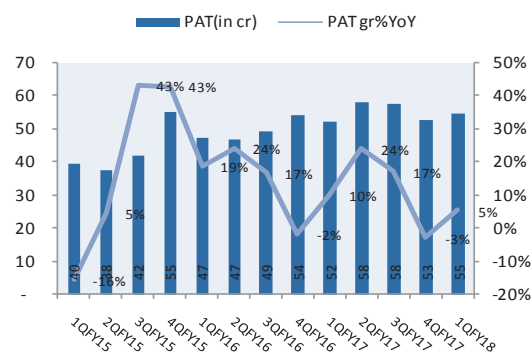
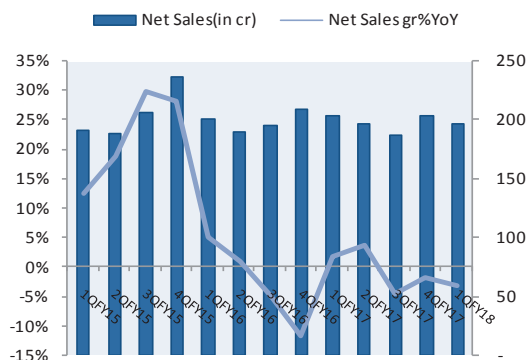
Quarterly Performance

Financials	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY %	QoQ%	FY16	FY17	YoY %
Net Sales	204	197	187	205	197	-3%	-3%	876	797	-9%
Other Income	8	15	14	2	11	32%	377%	29	39	38%
COGS	70	66	64	67	69	-2%	3%	298	269	-10%
Employee Cost	14	15	16	15	17	22%	11%	48	61	
Other Expenses	49	49	46	56	51	4%	-9%	257	203	-21%
EBITDA	71	67	61	66	61	-15%	-8%	274	264	-4%
Depreciation	1	1	1	1	2	51%	10%	5	5	9%
Interest	0	0	0	0	0	30%	-4%	0	1	348%
PBT	78	81	73	67	70	-11%	5%	297	297	0%
Tax	14	16	16	14	15	5%	5%	54	60	11%
PAT	52	58	58	53	55	5%	4%	196	218	11%

Q1FY18 Result Highlights:

- ✓ BAJAJCORP has reported mixed set of numbers for 1QFY18. Reported sales Rs 197 cr (Vs our expectation of Rs 207 cr) whereas PAT remained in line to our estimates.
- ✓ Sales declined by 3% YoY to Rs 197 cr led by 7% YoY decline in volume of Almond Drop Hair Oil(ADHO).
- ✓ Gross Margin declined by 40 bps YoY to 65.1% due to 33% increase in the price of Light Liquid Paraffin (LLP), one of the key input.
- ✓ During the quarter average price of LLP increased to Rs 58.28/Kg from Rs 43.91/Kg in corresponding quarter of previous year.
- ✓ EBITDA margin declined by 402 bps YoY to 30.7% led by 40 bps, 179 bps, 184 bps increase in COGS, employee expenses and other expenses respectively.
- ✓ PAT margin improved by 230 bps YoY to 27.8% from 25.5%. PAT margin improved in this quarter due to Rs 12 cr amortization charges which was present in Q1FY17, was not there in this quarter. PAT grew by 5% YoY to Rs 55 cr from Rs 52 cr.

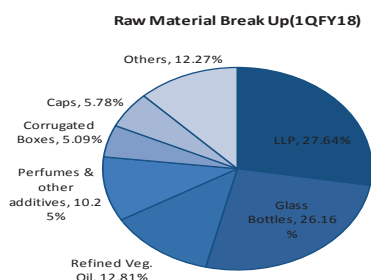
LLP price increase by 33% YOY to Rs 58.28/kg from Rs 43.91/kg



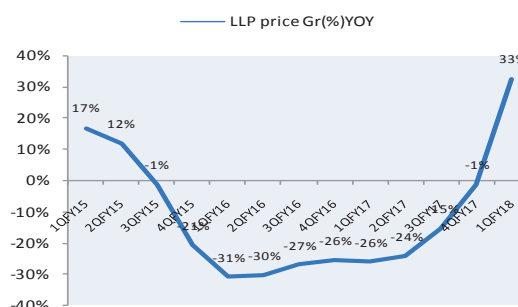
Margin %	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	YoY(+/-)	QoQ(+/-)	FY16	FY17	YoY(+/-)
Gross Margin	65.5%	66.4%	65.6%	67.3%	65.1%	-0.4%	-2.1%	66.0%	66.2%	0.2%
EBITDA Margin	34.7%	34.2%	32.8%	32.4%	30.7%	-4.0%	-1.7%	31.2%	33.1%	1.8%
PAT Margin	25.5%	29.6%	30.9%	25.7%	27.8%	2.3%	2.1%	22.4%	27.4%	5.0%

- ✓ Gross Margin declined by 40 bps YoY to 65.1% due to 33% increase in the price of Light Liquid Paraffin (LLP), one of the key input.
- ✓ EBITDA margin declined by 402 bps YoY to 30.7% led by 40 bps, 179 bps, 184 bps increase in COGS, employee expenses and other expenses respectively.
- ✓ PAT margin improved by 230 bps YoY to 27.8% from 25.5%. PAT margin improved in this quarter due to Rs 12 cr amortization charges which was present in Q1FY17, was not there in this quarter.

Raw Material Break Up in Q1FY18



33% YoY Increase in the price of LLP



Market share of ADHO (Value wise) improved by 30 bps to 61%.

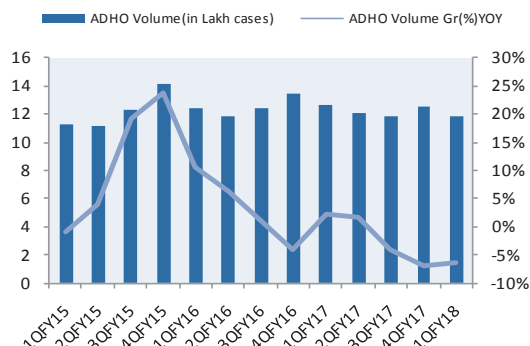
Concall Highlights(Q1FY18):

- ✓ Volume growth will come back in Q3 and Q4 of FY18.
- ✓ International business grew by 26.3% in this quarter led by better performance from Bangladesh. The company is witnessing stress in MENA region.
- ✓ ADHO has gained market share in value term by 30 bps YoY. ADHO market share remained 61% (YTD Jun17).
- ✓ From Q3FY18, advertisement and promotion expenses will go up as company expects till that time distribution channel will stabilize and need of brand building arise.
- ✓ 31-31.5% EBITDA margin is sustainable.
- ✓ BAJAJCORP's 50-55% volume comes from wholesale. The company is planning to expand its direct reach so that in future, company will have a stable distribution channel.
- ✓ Company's overall distribution reach went up to 3.8 mn outlets and direct distribution to 575000 outlets.
- ✓ Due to volatility in crude oil prices, company has not entered into long term contract on LLP yet.
- ✓ The company is ready to launch 3 new products. It will be launched when distribution channel will stabilize.
- ✓ Tax rate: more or less same to Mat rate.

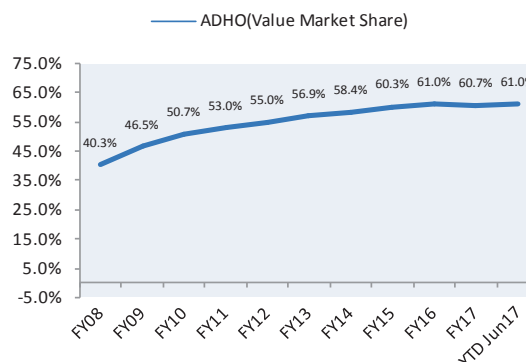
Investment Arguments:

- ✓ **Strong Brand Presence and Market Share:** BAJAJCORP has strong presence in light hair oil market with the brand name of Bajaj Almond Drop Hair Oil. It is the market leader in light hair oil with a healthy market share(value wise) of 61%. Last year company's market share had declined by 30 bps but now company has regained it. In a tough environment regaining as well as retaining its market share shows strong brand loyalty.
- ✓ **Revival in Hair Oil demand:** Hair oil market was reeling with demand pressure for last two years. But after many quarters, management tone has turn bullish. Management has indicated that volume of ADHO grew by above 6% in April and May but destocking in the month June considering confusion related GST dent the overall volume this quarter. We expect demand to come back sharply from September as cannel refilling will start. Last year normal monsoon and so far better monsoon this year gives us confidence of revival in demand from rural market going forward. Major presence of BAJAJCORP in rural market may augur well for BAJAJCORP in times to come.
- ✓ **Strong Balance sheet with reasonable dividend yield:** BAJAJCORP has strong balance sheet with no long term borrowing and negligible short term borrowings of Rs 15 cr. The company maintained dividend payout above 75% for last 3 years and at present price its dividend yield is approx. 2.8%. Above 2% dividend yield is a handsome cash flow for investors and will give comfort to hold investment for long term.

ADHO Volume and Volume growth



ADHO market share improved by 30 bps YoY



View & Valuation

BAJAJCORP has reported mixed set of numbers for 1QFY18. The company has reported sales Rs 197 cr (Vs our expectation of Rs 207 cr) whereas PAT remained in line to our estimates. Key positive remained, regaining of market share in ADHO by 30 bps (YTD Jun17) which was lost in FY17. Going forward we expect sharp drop in volume in Q2FY18 due to destocking led by GST however expect volume to come back because of refilling of the retail channel in September onwards but how long this phase will take we are not clear about. Presently company is trading at 30 times of FY19E EPS of Rs13.44. In our opinion it is fairly valued at this price. Considering GST related uncertainties and volatilities related to crude oil price we have downgraded this stock from HOLD to Neutral and changed our target from Rs 455 to Rs 410.

Financials Snap Shot

Income Statement

	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Revenue from Operation	876	797	691	804
Change (%)	6%	-9%	-13%	16%
Other Operating Income	29	39	31	32
EBITDA	274	264	205	231
Change (%)	14%	-4%	-22%	12%
Margin (%)	31%	33%	30%	29%
Dep & Amortization	5	5	8	8
EBIT	269	258	197	223
Interest & other finance cost	0	1	1	1
Other Income				
EBT	297	297	228	254
Exceptional Item	(47)	(18)	-	-
Tax	54	60	50	56
Minority Int & P/L share of Ass.	-	-	-	-
Reported PAT	196	218	178	198
Adjusted PAT	235	233	178	198
Change (%)	11%	-1%	-24%	12%
Margin(%)	27%	29%	26%	25%

Balance Sheet

	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
Share Capital	15	15	15	15
Reserves	466	479	491	504
Networth	481	494	506	519
Debt	10	15	15	15
Other Non Current Liab	1	1	1	1
Total Capital Employed	491	509	521	534
Net Fixed Assets (incl CWIP)	97	119	117	116
Non Current Investments	-	-	-	-
Other Non Current Assets	-	1	-	-
Non Current Assets	151	164	161	160
Inventory	50	42	40	46
Debtors	25	27	20	23
Cash & Bank	58	12	31	13
Other Current Assets	282	344	329	360
Current Assets	415	426	419	442
Creditors	44	40	34	40
Provisions	-	0	-	-
Other Current Liabilities	31	13	24	28
Curr Liabilities	74	80	59	68
Net Current Assets	340	346	361	374
Total Assets	566	590	580	603

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
ROE	41%	44%	35%	38%
ROCE	55%	51%	38%	42%
Asset Turnover	1.5	1.4	1.2	1.3
Debtor Days	11	13	11	11
Inventory Days	21	19	21	21
Payable Days	18	18	18	18
Interest Coverage	1,169	251	189	213
P/E	29	27	34	30
Price / Book Value	11.8	12.1	11.8	11.5
EV/EBITDA	20	21	27	24
FCF per Share	12	12	13	13
Dividend Yield	3.0%	2.8%	2.3%	2.6%

Assumptions

Y/E March	FY16	FY17	FY18E	FY19E
ADHO Volume growth	3%	-2%	-10%	19%
ADHO Pricing growth	2%	-3%	-3%	3%

Cash Flow Statement

	Rs in Crores			
Y/E March	FY16	FY17	FY18E	FY19E
PBT	297	297	228	254
(inc)/Dec in Working Capital	(28)	7	12	(2)
Non Cash Op Exp	5	5	8	8
Interest Paid (+)	0	1	1	1
Tax Paid	(53)	(58)	(50)	(56)
others	(25)	(28)	-	-
CF from Op. Activities	193	212	199	206
(inc)/Dec in FA & CWIP	(17)	(36)	(7)	(7)
Free Cashflow	176	176	192	199
(Pur)/Sale of Investment	(86)	(53)	19	(30)
others	83	44	0	(0)
CF from Inv. Activities	6	(15)	12	(37)
inc/(dec) in NW	-	-	-	-
inc/(dec) in Debt	10	5	-	-
Interest Paid	-	-	(1)	(1)
Dividend Paid (inc tax)	(204)	(204)	(166)	(185)
others	-	-	-	-
CF from Fin. Activities	(194)	(200)	(167)	(186)
Inc(Dec) in Cash	5	(3)	44	(18)
Add: Opening Balance	-	-	12	31
Closing Balance	5	(3)	56	13