Narnolia™

# BAJAJ CORP LTD.

## NEUTRAL

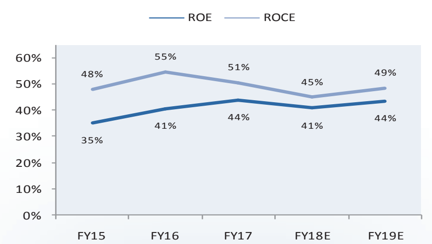
16-Oct-17

| | |
|---|---|
| INDUSTRY - | Con. Staples |
| Bloomberg Code- | BJCOR IN |
| BSE Code - | 533229 |
| NSE Code - | BAJAJCORP |
| NIFTY - | 10167 |

### Company Data

| | |
|---|---|
| CMP | 414 |
| **Target Price** | **410** |
| Previous Target Price | 410 |
| **Upside** | **-1%** |
| 52wk Range H/L | 450/340 |
| Mkt Capital (Rs Cr) | 6,112 |
| Av. Volume (,000) | 194 |

### RoE & ROCE

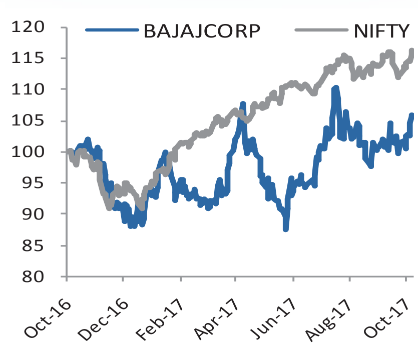



### Shareholding patterns %

| | 2QFY18 | 1QFY18 | 4QFY17 |
|---|---|---|---|
| Promoters | 67 | 67 | 67 |
| Public | 33 | 33 | 33 |
| Total | 100 | 100 | 100 |

### Stock Performance %

| | 1Mn | 3Mn | 1Yr |
|---|---|---|---|
| Absolute | 4.5 | 4.7 | 3.4 |
| Rel.to Nifty | 2.1 | 0.7 | (13.5) |





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### Key Highlights of the Report:

- ☑ BAJAJCORP has reported mixed set of numbers for 2QFY18. Sales grew by 4% YoY to Rs 204 cr after 3 consecutive quarters of negative growth while PAT declined by 13% YoY.
- ☑ Volume of its flagship brand, Almond Drops Hair Oil(ADHO) grew by 6% YoY, better than 7 previous quarters.
- ☑ Gross margin improved by 64 bps YoY while EBITDA margin remained dampener, declined by 558 bps.
- ☑ Employee cost and other expenses increased by 32% and 21% YoY respectively.
- ☑ Volume has seen green shoots while margin remained dampener. We believe that margin pressure will continue for few more quarters led by higher employee and other expenses. Presently company is trading at 27 times of FY19E EPS.Considering subdued margin outlook,We maintain our Neutral rating on this stock with the previous price target of Rs 410.

| Financials/Valu | FY15 | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|
| Net Sales | 826 | 876 | 797 | 829 | 937 |
| EBITDA | 239 | 274 | 264 | 244 | 270 |
| EBIT | 234 | 269 | 258 | 236 | 262 |
| PAT | 173 | 196 | 218 | 208 | 229 |
| EPS (Rs) | 12 | 13 | 15 | 14 | 15 |
| EPS growth (%) | 16% | 14% | 11% | -5% | 10% |
| ROE (%) | 35% | 41% | 44% | 41% | 44% |
| ROCE (%) | 48% | 55% | 51% | 45% | 49% |
| BV | 33 | 33 | 34 | 34 | 35 |
| P/B (X) | 10 | 12 | 12 | 12 | 12 |
| P/E (x) | 29 | 29 | 27 | 29 | 27 |

### Segment wise Analysis:

- ✓ ADHO volume for this quarter grew by 6 % YoY whereas realization declined by 2% on the back of passing of lower GST rate benefit to the consumer.
- ✓ Volume of Nomarks declined by 7% YoY albeit lower than previous quarter while realization had improved by 6%YoY.
- ✓ Brahmi Amla Hair Oil(BAHO) had shown handsome growth of 28% YoY. Revenue from BAHO remained Rs 4 cr in this quarter.
- ✓ Overall volume grew by 5%, better than previous seven quarters while realization declined by 1% YoY.
- ✓ International business went down by 15.4% YoY in Q2FY18 due to decline in Middle East and North Africa(MENA) business by 35% YoY.

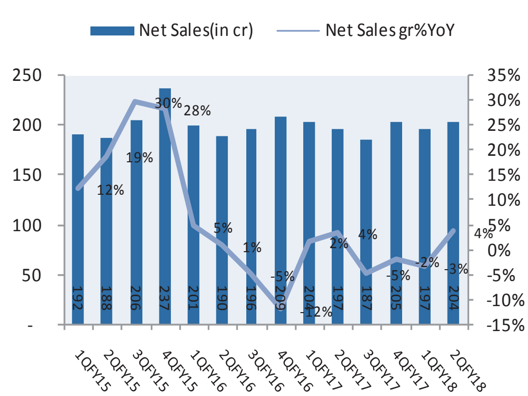
## Quarterly Performance

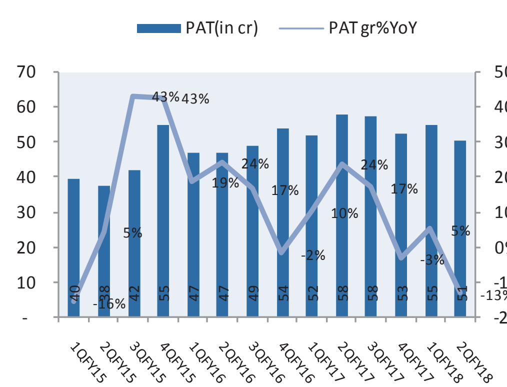
| Financials | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | YoY % | QoQ% | FY16 | FY17 | YoY % |
|---|---|---|---|---|---|---|---|---|---|---|
| Net Sales | 197 | 187 | 205 | 197 | 204 | 4% | 3% | 876 | 797 | -9% |
| Other Income | 15 | 14 | 2 | 11 | 8 | -47% | -28% | 29 | 39 | 38% |
| COGS | 66 | 64 | 67 | 69 | 67 | 2% | -2% | 298 | 269 | -10% |
| Employee Cost | 15 | 16 | 15 | 17 | 19 | 32% | 15% | 48 | 61 | 29% |
| Other Expenses | 49 | 46 | 56 | 51 | 59 | 21% | 16% | 257 | 203 | -21% |
| EBITDA | 67 | 61 | 66 | 61 | 58 | -13% | -4% | 274 | 264 | -4% |
| Depreciation | 1 | 1 | 1 | 2 | 2 | 45% | 3% | 5 | 5 | 9% |
| Interest | 0 | 0 | 0 | 0 | 0 | 14% | -4% | 0 | 1 | 348% |
| PBT | 81 | 73 | 67 | 70 | 64 | -20% | -8% | 297 | 297 | 0% |
| Tax | 16 | 16 | 14 | 15 | 14 | -13% | -8% | 54 | 60 | 11% |
| PAT | 58 | 58 | 53 | 55 | 51 | -13% | -8% | 196 | 218 | 11% |

ADHO has maintained its leadership in light hair oil segment with marketshare of 61%.

### Green Shoots visible in volume but margin remained dampener:

- ✓ Bajajcorp's sales for this quarter grew by 4% YoY led by 6% volume growth in its flagship brand ADHO.ADHO has maintained its leadership with market share of 61% in light hair oil segment.
- ✓ Overall volume grew by 5%, better than previous seven quarters while realization declined by 1% YoY.
- ✓ International business went down by 15.4% YoY in Q2FY18 due to decline in Middle East and North Africa(MENA) business by 35% YoY.Management expects it to back on track in coming few quarters.
- ✓ Sales from general trade improved by 7% YoY while modern trade has shown positive growth of 21% YoY.Canteen Stores Department(CSD) sales declined by 21% YoY.
- ✓ EBITDA margin contracted by 558 bps YoY and 213 bps QoQ due to 206 bps and 415 bps YoY increase in employee and other expenses respectively.
- ✓ PAT margin declined by 479 bps YoY and 301 bps QoQ to 24.8%.PAT for this quarter declined by 13% to Rs 51 cr.

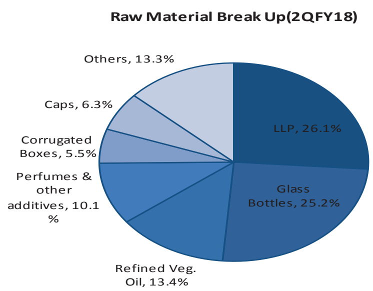


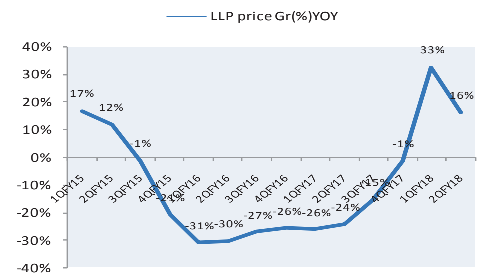
| Margin % | 2QFY17 | 3QFY17 | 4QFY17 | 1QFY18 | 2QFY18 | YoY(+/-) | QoQ(+/-) | FY16 | FY17 | YoY(+/-) |
|---|---|---|---|---|---|---|---|---|---|---|
| Gross Margin | 66.4% | 65.6% | 67.3% | 65.1% | 67.0% | **0.6%** | **1.9%** | 66.0% | 66.2% | **0.2%** |
| EBITDA Margin | 34.2% | 32.8% | 32.4% | 30.7% | 28.6% | **-5.6%** | **-2.1%** | 31.2% | 33.1% | **1.8%** |
| PAT Margin | 29.6% | 30.9% | 25.7% | 27.8% | 24.8% | **-4.8%** | **-3.0%** | 22.4% | 27.4% | **5.0%** |

- ✓ Gross margin for this quarter improved by 64 bps YoY and 186 bps QoQ to 67% on the back of input tax credit receipt.
- ✓ EBITDA margin contracted by 558 bps YoY and 213 bps QoQ due to 206 bps and 415 bps YoY increase in employee and other expenses respectively. Other expenses was higher mainly due to higher advertising expenses (on Nomarks & ADHO) and expenses related to expansion of direct reach
- ✓ PAT margin declined by 479 bps YoY and 301 bps QoQ to 24.8%. Provisioning for tax remained 171 bps higher than previous quarter.

### Raw Material Break Up in Q2FY18




### 16% YoY Increase in the price of LLP




## Concall Highlights(Q2FY18):

- ✓ Volume of Light hair oil industry have slowed down a bit to 2.6% while Bajaj Almond Oil has grown to 4.8% YoY in this quarter.
- ✓ The company has estimated GST refund of Rs 6.4 cr for July-Sep.17 as it has plants in HP, Uttarakhand and North East (tax free zones). If we consider this margin would have been [illegible]
- ✓ The company has taken MRP cut in 300 and 500 ml pack to pass GST rate benefit to the consumers.
- ✓ The company has launched Brahmi Ayurvedic Amla oil in this quarter and planning to launch at least one differentiated product every quarter. Next product will be launched in Nov. and Dec. in this year.
- ✓ International business went down by 15.4% YoY in Q2FY18 due to decline in MENA business by 35% YoY.
- ✓ Witnessed slight reduction in the prices of Light Liquid Paraffin(LLP) as well as refined mustard oil during this quarter. The company doesn't envisage lowering of LLP price going ahead, hence started buying at current prices. Present inventory will last till Dec.2017.
- ✓ Sales to CSD(Canteen Stores Department), which now contributing under than 5% of company's revenue, declined by 21% in this quarter. According to management it will remain subdued for rest of the year.
- ✓ Share of wholesaler to overall sales has shrunk to 40% from 60% after implementation of GST in Q2FY18.

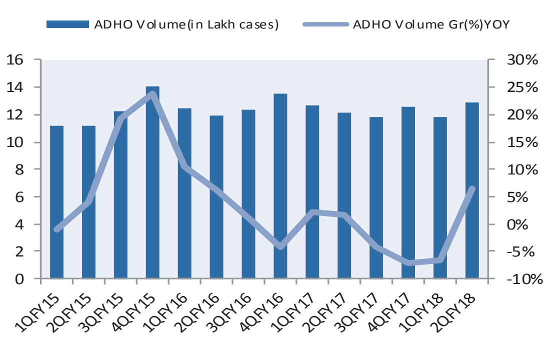
International business went down by 15.4% due to 35% YoY decline in MENA business.

## Investment Arguments:

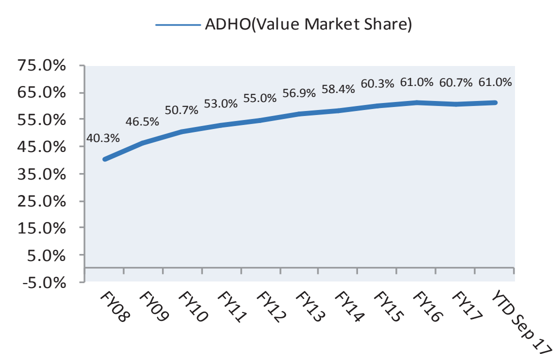
- ✓ **Strong Brand Presence and Market Share:** BAJAJCORP has strong presence in light hair oil market with the brand name of Bajaj Almond Drop Hair Oil. It is the market leader in light hair oil with a healthy market share(value wise) of 61%. Last year company's market share had declined by 30 bps but 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 to boost growth:** Hair oil market was reeling with demand pressure for last 3 years. We expect hair oil industry to do better going forward and first signs of this are quite visible in Q2FY18 result of Bajajcorp. Volume of its flagship brand, Almond Drops Hair Oil (ADHO) grew by 6% YoY, better than 7 previous quarters. This growth came largely from urban market. We expect rural to join urban growth going ahead considering moderate monsoon in this year and government rural initiatives. The company is also increasing it direct distribution reach which will also help company to garner better volume growth going ahead.
- ✓ **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.

### Green shoots visible in volume of ADHO




### ADHO's market share remained stable




### View & Valuation

Bajajcorp is a leading consumer company which has presence in hair oil and other beauty products. It has reported mixed set of number for this quarter. Sales grew by 4% YoY to Rs 204 cr while PAT declined by 13% YoY in Q2FY18. Volume of its flagship brand, Almond Drops Hair Oil (ADHO) grew by 6% YoY which is higher in last 7 quarters. Volume has seen green shoots while margin remained dampener led by 206 bps increase in employee cost and 415 bps increase in other expenses YoY. We believe margin to remain under stress as investment related to building managerial bench strength will continue while new product launches will keep advertising expenses higher. International business, which was growth driver for Bajajcorp for previous few quarters, declined by 15% YoY due to headwind in MENA region. Business to CSD (contributes approx. 5% of revenue) declined by 21% in this quarter and it is expected to remain subdued for rest of the year. Considering subdued margin outlook and headwind related to international business, we maintain our Neutral rating on this stock with the previous target price of Rs 410. Presently company is trading at 27 times of FY19E EPS.

## Financials Snap Shot

### Income Statement

Rs in Crores

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|
| **Revenue from Operation** | 876 | 797 | 829 | 937 |
| *Change (%)* | *6%* | *-9%* | *4%* | *13%* |
| *Other Operating Income* | 29 | 39 | 31 | 33 |
| EBITDA | *274* | *264* | *244* | *270* |
| Change (%) | 14% | -4% | -7% | 11% |
| **Margin (%)** | **31%** | **33%** | **29%** | **29%** |
| *Dep & Amortization* | *5* | *5* | *8* | *8* |
| *EBIT* | 269 | 258 | 236 | 262 |
| *Interest & other finance cost* | *0* | *1* | *1* | *1* |
| Other Income | | | | |
| EBT | 297 | 297 | 266 | 293 |
| Exceptional Item | **(47)** | **(18)** | - | - |
| Tax | 54 | 60 | 59 | 64 |
| Minority Int & P/L share of Ass. | - | - | - | - |
| *Reported PAT* | *196* | *218* | *208* | *229* |
| **Adjusted PAT** | **235** | **233** | **208** | **229** |
| *Change (%)* | *11%* | *-1%* | *-11%* | *10%* |
| Margin(%) | 27% | 29% | 25% | 24% |

### Key Ratios

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|
| ROE | 41% | 44% | 41% | 44% |
| ROCE | 55% | 51% | 45% | 49% |
| Asset Turnover | 1.5 | 1.4 | 1.4 | 1.5 |
| Debtor Days | 11 | 13 | 11 | 11 |
| Inventory Days | 21 | 19 | 21 | 21 |
| Payable Days | 18 | 18 | 18 | 18 |
| Interest Coverage | 1,169 | 251 | 225 | 250 |
| *P/E* | 29 | 27 | 29 | 27 |
| Price / Book Value | 11.8 | 12.1 | 12.0 | 11.7 |
| *EV/EBITDA* | *20* | *21* | *24* | *21* |
| FCF per Share | 12 | 12 | 15 | 16 |
| Dividend Yield | 3.0% | 2.8% | 2.6% | 2.9% |

### Assumptions

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|
| ADHO Volume growth | 3% | -2% | 4% | 11% |
| ADHO Pricing growth | 2% | -3% | 0% | 2% |

### Balance Sheet

Rs in Crores

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|
| Share Capital | 15 | 15 | 15 | 15 |
| Reserves | 466 | 479 | 493 | 508 |
| **Networth** | **481** | **494** | **508** | **523** |
| *Debt* | *10* | *15* | *15* | *15* |
| Other Non Current Liab | 1 | 1 | 1 | 1 |
| Total Capital Employed | *491* | *509* | *523* | *538* |
| *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 | 47 | 54 |
| *Debtors* | *25* | *27* | *24* | *27* |
| Cash & Bank | 58 | 12 | 31 | 15 |
| **Other Current Assets** | **282** | **344** | **330** | **362** |
| *Current Assets* | 415 | *426* | *433* | *457* |
| Creditors | 44 | 40 | 41 | 47 |
| Provisions | - | *0* | - | - |
| Other Current Liabilities | 31 | 13 | 29 | 33 |
| Curr Liabilities | 74 | 80 | 70 | 80 |
| **Net Current Assets** | **340** | **346** | **362** | **377** |
| *Total Assets* | *566* | *590* | *594* | *617* |

### Cash Flow Statement

Rs in Crores

| Y/E March | FY16 | FY17 | FY18E | FY19E |
|---|---|---|---|---|
| PBT | 297 | 297 | 266 | 293 |
| (inc)/Dec in Working Capital | (28) | 7 | 10 | (1) |
| Non Cash Op Exp | 5 | 5 | 8 | 8 |
| Interest Paid (+) | 0 | 1 | 1 | 1 |
| Tax Paid | (53) | (58) | (59) | (64) |
| others | (25) | (28) | - | - |
| **CF from Op. Activities** | **193** | **212** | **227** | **236** |
| *(inc)/Dec in FA & CWIP* | *(17)* | *(36)* | *(7)* | *(7)* |
| *Free Cashflow* | *176* | *176* | *220* | *229* |
| (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)** | **(194)** | **(214)** |
| others | - | - | - | - |
| **CF from Fin. Activities** | (194) | (200) | (195) | (215) |
| Inc(Dec) in Cash | 5 | (3) | 44 | (16) |
| Add: Opening Balance | **-** | **-** | **12** | **31** |
| Closing Balance | 5 | (3) | 56 | 15 |