BAJAJ CORP LTD.

Industry	Con. Staples
Bloomberg	BJCOR IN
BSE Code	533229
NSE Code	BAJAJCORP

Tuesday, July 17, 2018

RATING	BUY
CMP	411
Price Target	490
Previous Target	570
Potential Upside	19%

Stock Info

52wk Range H/L	525/381
Mkt Capital (Rs Cr)	6051
Free float (%)	33%
Avg. Vol 1M (,000)	43
No. of Shares (Crore)	15
Promoters Pledged %	51%

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Strong volume growth led by rural recovery

Key Highlights

- ☑ Bajajcorp has reported strong volume growth of 9%YoY led by green shoot in rural demand, strong traction from modern trade(grew by 36% YoY) and lower base (-8% in Q1FY18). Volume of its flagship brand Almond Drop Hair Oil(ADHO) grew by 11% YoY while Nomarks has reported a growth of 4%.

- ☑ Despite inflation in key raw material, price like LLP (up by 20%) and Refined Oil (up by 14%) , the company improved its gross margin by 146 bps on account of forward coverage and freight optimization post GST .

- ☑ Backing its earlier stance of lowering its overdependence on one brand, BAJAJCORP has relaunched NO MARKS. The company had entered into the value added coconut oil segment by launching Bajaj Coco Jasmine Hair oil in Maharashtra in Q4FY18.

- ☑ Witnessed Market share gain: ADHO reported all time higher market share in volume and value terms, an improvement of 140 and 110 bps YoY , to 59.4% and 61.8% respectively.

1Q FY19 Result:

BAJAJCORP's result for Q1FY19 remained mixed. Revenue grew by 12% YoY to Rs 221 cr, which is inline of our estimates of Rs 224 cr, led by strong volume growth in domestic business. Modern trade(MT) continues to show its strong traction with 36% YoY growth while International and CSD remained laggards with a decline of 94% and22% YoY respectively. Despite inflation in key raw material, price like LLP (up by 20%) and Refined Oil (up by 14%) , the company improved its gross margin by 146 bps(while- 67 bps QoQ) due to forward coverage and freight optimization post GST.EBITDA margin improved by 51 bps YoY, impacted by higher employ. cost by 142 bps. PAT was impacted by lower other income of Rs 1cr(Vs Rs 11 cr in Q1FY18) and declined by 2% YoY.

View and Valuation:

BAJAJCORP has reported mixed set of numbers for Q1FY19, sales remained inline, grew by 12% YoY while PAT declined by 2% due to lower other income. Positive for this quarter was 9% overall volume growth although on a weak base and solid market share gain in ADHO in value and volume terms by 110 and 140 bps YoY respectively. Going forward, we expect double digit revenue growth for the company led by strong rural demand on the back of better monsoon, government rural initiatives and new product launches. Company's strong balance sheet can be leveraged for any inorganic opportunity. Dividend yield of ~3% makes BAJAJCORP more attractive. But considering lower other income and almost flat margin outlook in FY19e due to volatility in key inputs we have reduced our target price from Rs 570 to Rs490(29 xFY20e EPS).

Key Risks to our rating and target

- ♦ Sharp rise in the prices of crude and LLP.
- ♦ Higher other expenses.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	800	797	828	940	1065
EBITDA	274	264	254	284	322
EBIT	269	258	247	277	315
PAT	196	218	211	221	252
EPS (Rs)	13	15	14	15	17
EPS growth (%)	14%	11%	-3%	4%	14%
ROE (%)	41%	44%	43%	44%	49%
ROCE (%)	55%	51%	49%	53%	59%
BV	33	34	33	34	35
P/B (X)	12	12	14	12	12
P/E (x)	29	27	32	27	24

1Q FY 19 Results Mixed:

Financials	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	197	204	208	222	221	12.1%	-0.1%	797	828	4.0%
Other Income	11	8	4	1	1	-89.4%	36.8%	39	24	-38.0%
COGS	69	67	64	73	74	7.5%	1.9%	269	269	0.1%
Gross Margin	65.1%	67.0%	69.0%	67.3%	66.6%	1.5%	-0.7%	66%	67%	1.2%
Employee Cost	17	19	19	20	22	30.8%	10.7%	61	77	25.5%
Other Expenses	51	59	57	57	56	10.1%	-1.8%	203	228	12.4%
EBITDA	61	58	68	72	69	14.0%	-3.8%	264	254	-3.7%
EBITDA Margin	31%	29%	33%	32%	31%	0.5%	-1.2%	33%	31%	-2.4%
Depreciation	2	2	2	2	1	-2.9%	-18.4%	5	7	38.6%
EBIT	59	57	66	70	68	14.4%	-3.4%	258	247	-4.5%
Interest	0	0	0	0	0	-0.6%	-31.5%	1	1	18.9%
PBT	70	64	70	70	69	-1.9%	-2.7%	297	270	-9.1%
Exceptional								18		-100.0%
Tax	15	14	15	15	15	-1.0%	-1.9%	60	59	-2.2%
PAT	55	51	55	55	54	-2%	-3.0%	218	211	-3.3%
PAT Margin	28%	25%	27%	25%	24%	-3.6%	-0.7%	27%	25%	-1.9%

Witnessed strong volume growth backed by strong come back of rural demand and MT

Bajajcorp has reported strong volume growth of 9% led by green shoot in rural demand, strong traction from modern trade (grew by 36% YoY) and lower base (-8% in Q1FY18). Rural is showing strong signs of recovery and growing faster than urban. Volume of its flagship brand Almond Drop Hair Oil(ADHO) grew by 11% YoY(Offtake growths in rural remained 1.3X higher than urban in both value and volume terms)while No marks has reported a growth of 4%.Modern Trade(MT) growth remained 2.5 times higher than the General Trade(GT) in Q1FY19.The company has doubled its rural direct reach in the last 1 year. Going forward, rural and MT to play important role in company growth trajectory.

Despite rise in key inputs, company is able to improve margin

Despite inflation in key raw material, price like LLP (up by 20%),crude (up by ~50% from last years low) and Refined Oil (up by 14%) , the company improved its gross margin by 146 bps on account of forward coverage and freight optimization post GST . Light Liquid Paraffin(LLP) and Refined Veg. Oil accounts for ~31% and ~13% respectively to the total raw material cost. Rising crude oil also impacted the packaging cost of the company. Going forward, we expect crude to remained in this range while company's measures of curtailing its impact and hike in prices with lower promotion will certainly give some cushion to the margin.

Lower other income led to decline in profits

BAJAJCORP's PAT for this quarter declined by 2% to Rs 54 cr largely due to lower other income. Other income for this quarter remained Rs 1cr vs Rs 11 cr in the previous year, impacted by MTM loss of Rs. 5.47 cr. The company has ~90% of its investment in top rated bonds.

BAJAJCORP's Q1FY19 result concall update:

- ✓ Rural is showing strong signs of recovery and growing faster than urban.
- ✓ Growth in light hair oil is coming back.
- ✓ Management expects to maintain present growth trajectory going forward led by better monsoon and increase in the disposable income in rural areas.
- ✓ The company may take another price hike if required.
- ✓ The company is revamping its international business and aspires to make it of 100cr by 2020(~10% of the overall revenue).Expects growth in IB to come from Q3FY19
- ✓ Management expects anti blemish category to grow at the CAGR of 25-30%+ over coming few years.
- ✓ CSD continues to struggle with little hope of recovery in FY19.

Exhibit: ADHO volume growth

Vol. of ADHO grew by 11% YoY led by strong rural demand(Offtake gr. in rural remained 1.3X than urban).

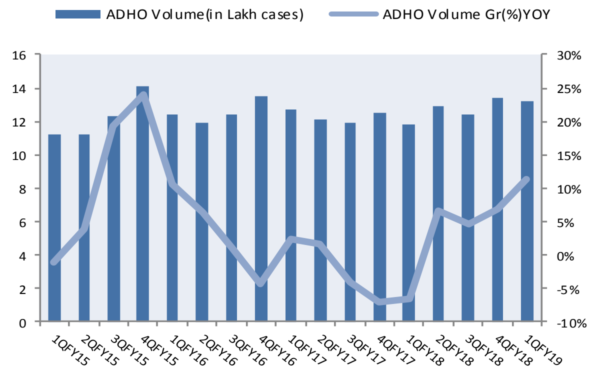


Exhibit: Marketshare gain

ADHO reported all time higher market sh. in vol. and value , an improve. of 140 and 110 bps YoY, to 59.4% & 61.8% .

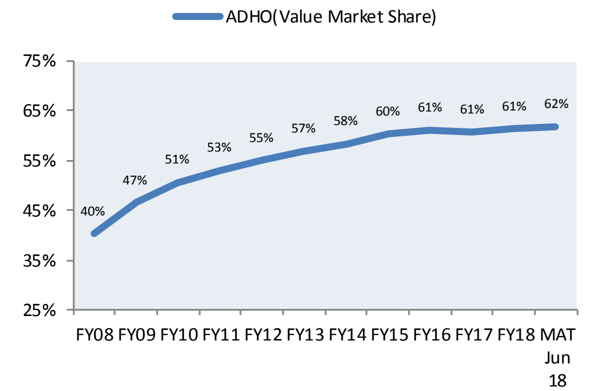


Exhibit: Sales and Sales growth

Sales remained inline, grew by 12% YoY to Rs 221cr backed by strong rural and MT growth.

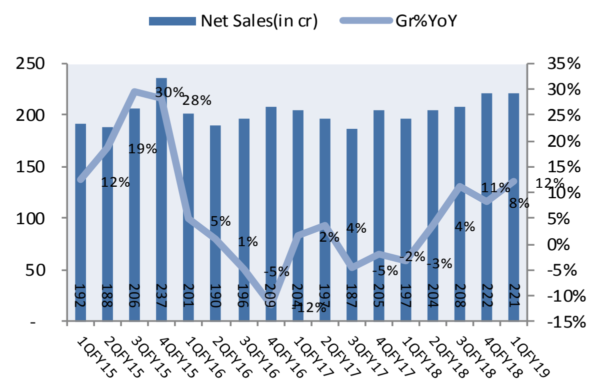


Exhibit: PAT and PAT growth

BAJAJCORP's PAT for this quarter declined by 2% to Rs 54 cr largely due to lower other income.

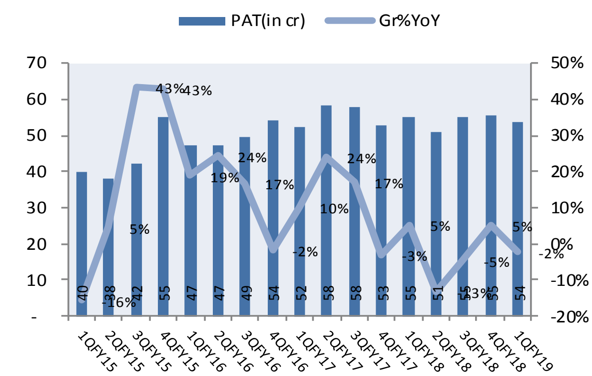


Exhibit:Gross and EBITDA margin

The company improved its gross margin by 146 bps on account of forward cov. and freight optimization post GST .

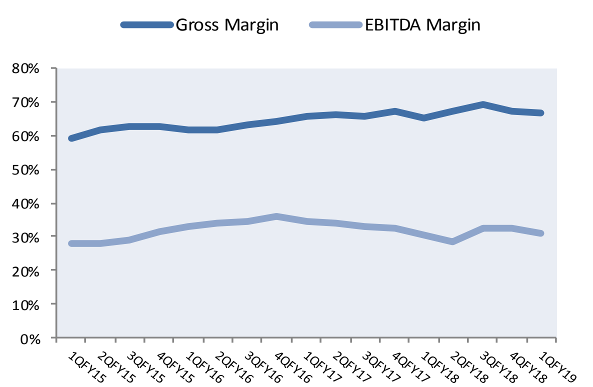
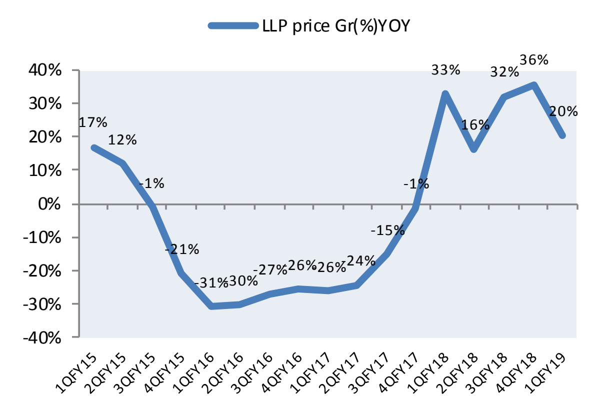


Exhibit:LLP price growth trend

Light Liquid Paraffin(LLP) accounts for ~31% to the total raw material cost,up by 20% 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	490	504
Networth	483	519	489	481	494	492	505	519
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	518	532
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	53	60
Debtors	10	8	13	25	27	32	37	42
Cash & Bank	189	129	134	58	5	13	24	29
Other Current Assets	197	165	195	282	344	339	336	341
Current Assets	432	342	382	415	426	432	450	471
Creditors	49	41	51	44	40	60	68	77
Provisions	-	-	-	-	0	0	0	0
Other Current Liabilities	22	19	27	31	13	12	14	16
Curr Liabilities	71	60	79	74	80	101	114	130
Net Current Assets	361	282	303	340	346	331	335	342
Total Assets	555	579	568	566	590	608	633	662

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	**607**	**672**	**826**	**800**	**797**	**828**	**940**	**1,065**
Change (%)		11%	23%	-3%	0%	4%	13%	13%
Other Income	40	40	32	29	39	24	6	23
EBITDA	**172**	**186**	**239**	**274**	**264**	**254**	**284**	**322**
Change (%)		8%	29%	14%	-4%	-4%	12%	13%
Margin (%)	28%	28%	29%	34%	33%	31%	30%	30%
Depr & Amor.	4	4	5	5	5	7	7	7
EBIT	**169**	**182**	**234**	**269**	**258**	**247**	**277**	**315**
Int. & other fin. Cost	0	6	0	0	1	1	1	1
EBT	**208**	**216**	**266**	**297**	**297**	**270**	**282**	**336**
Exp Item	-	(29)	(47)	(47)	(18)	-	-	-
Tax	42	38	46	54	60	59	61	84
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	166	149	173	196	218	211	221	252
Adjusted PAT	**166**	**172**	**211**	**235**	**233**	**211**	**221**	**252**
Change (%)		-10%	16%	14%	11%	-3%	4%	14%
Margin(%)	27%	22%	21%	25%	27%	25%	23%	24%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
ROE	34%	29%	35%	41%	44%	43%	44%	49%
ROCE	35%	35%	48%	55%	51%	49%	53%	59%
Asset Turnover	1.1	1.2	1.5	1.4	1.4	1.4	1.5	1.6
Debtor Days	6.0	4.5	5.9	11.6	12.6	14.3	14.3	14.3
Inv Days	21.6	21.4	17.4	22.9	19.5	20.5	20.5	20.5
Payable Days	29.7	22.0	22.7	19.9	18.4	26.4	26.4	26.4
Int Coverage	2,055	31	1,737	1,188	251	201	209	238
P/E	20	23	29	29	27	32	27	24
Price / Book Value	7	6	10	12	12	14	12	12
EV/EBITDA	18	17	20	21	23	27	21	19
FCF per Share	7.6	(1.4)	14.0	11.9	12.0	10.9	13.4	16.6
Div Yield	3%	3%	3%	3%	3%	3%	3%	3%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	209	216	266	297	297	270	282	336
(inc)/Dec in Working Capital	(7)	(15)	13	(28)	7	(14)	(1)	(2)
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)	(61)	(84)
others	(40)	(40)	(32)	(29)	(39)	(24)	-	-
CF from Op. Activities	**123**	**126**	**207**	**193**	**212**	**180**	**227**	**259**
(inc)/Dec in FA & CWIP	(11)	(147)	(1)	(17)	(36)	(19)	(30)	(15)
Free Cashflow	112	(21)	206	176	176	161	198	244
(Pur)/Sale of Inv	135	34	(21)	(86)	(53)	28	7	-
others	(134)	117	2	109	73	28	15	(0)
CF from Inv. Activities	**(10)**	**4**	**(20)**	**6**	**(15)**	**37**	**(7)**	**(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)	(208)	(238)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	**(111)**	**(112)**	**(204)**	**(194)**	**(200)**	**(216)**	**(209)**	**(239)**
Inc(Dec) in Cash	2	17	(16)	5	(3)	1	10	5
Add: Opening Balance	**1**	**3**	**20**	**4**	**9**	**5**	**13**	**24**
Closing Balance	3	20	4	9	5	7	24	29

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