

Bajaj Consumer Care Ltd.

Industry	Consum. Staples
Bloomberg	BAJAJCON IN
BSE CODE	533229

Sales inline while margin impacted by inflation in key input

RATING	BUY
CMP	318
Price Target	430
Potential Upside	35%

Rating Change	↔
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	510/308
Mkt Capital (Rs Cr)	4694
Free float (%)	33%
Avg. Vol 1M (,000)	411
No. of Shares (Cr)	15
Promoters Pledged %	70%

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4QFY19 Result update

- BAJAJCON reported mixed set of numbers for Q4FY19 wherein Sales grew by 10.9% to Rs.246 cr (expec. Rs.247 cr) led by ADHO volume growth of ~7.3% led by continuous gain in market share, better traction from rural and strong comeback of International business (value growth of 56%).
- The Company reported overall volume growth 5% in Q4FY19 while excluding CSD it will come to 7%. For the full year FY19, overall volume growth remained 5.4%. E-commerce reported remarkable growth rate of 150% in 4QFY19. Modern trade continues to do well with growth of 20% while CSD degrown by 15% in 4QFY19.
- In Q4FY19, the company has launched two new products: Bajaj Cool Almond Drops non-sticking light hair oil with cooling feature; Bajaj Nomarks Antimarks Ayurvedic Sunscreen providing protection from sunmarks through Ayurveda.
- Gross margin declined by 100 bps to 66.3% on account of higher input prices while EBITDA margin declined by 79 bps to 31.6% led by decline in GM%, decreased lower(as compared to decline in gross margin) due to lower other expenses by 91 bps backed by cost saving measures. Employees benefit expenses increased by 70 bps to 9.7%led by accounting of ESOP.
- The company has reported PAT growth of 9.4% YoY to Rs.61 cr (vs expec. Rs.65 cr) while PAT margin declined by 33 bps to 24.7% YoY. Other income declined on QoQ to Rs 2 cr from Rs 7 cr in Q3FY19 , largely due mark to market (MTM) losses.

View and Valuation

Bajajcon's numbers for Q4FY19 remained mixed, sales came in line with our expectation of Rs 246 cr (expectation Rs 247 cr) while the company reported PAT of Rs 61 cr(expectation Rs 65 cr) on the back of decline in gross margin by 100 bps YoY to 66.3%. ADHO's volume grew by 7% (expectation 8%) led by better demand growth in rural areas and market share gain. Going forward, we expect rural demand for Hair Oil to improve further going ahead on the back of government initiatives like higher MSP, direct benefit transfer each. On the new product launches front, the company has launched two new products in this quarter, Bajaj Cool Almond Drops and Nomarks Ayurvedic Antimarks Sunscreens. The company has more products lying for launches in time to come. On margin front, cost saving initiatives are expected to arrest margin contraction going ahead. Considering company's thrust on launching new products and cost saving initiatives, we remain positive on the stock but taking account of slightly lower volume and inflation in key inputs, we have reduced FY20e, Sales and PAT estimates by 2%each while keep valuing it at 25x, we recommend BUY with the target price of Rs.430(Rs.440 earlier).

Key Risks to our rating and target

- Slowdown in rural led by tight liquidity may impact the volume of ADHO.
- Volatility in key input prices .

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	800	797	828	918	1012
EBITDA	274	264	254	274	311
EBIT	269	258	247	267	303
PAT	196	218	211	222	254
EPS (Rs)	13	15	14	15	17
EPS growth (%)	14%	11%	-3%	5%	14%
ROE (%)	41%	44%	43%	47%	55%
ROCE (%)	55%	51%	49%	54%	63%
BV	33	34	33	32	31
P/B (X)	11.8	12.1	13.9	9.9	10.3
P/E (x)	29.0	27.4	32.5	21.0	18.5

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4QFY19 Results**Mixed numbers**

<i>Financials</i>	<i>4QFY18</i>	<i>1QFY19</i>	<i>2QFY19</i>	<i>3QFY19</i>	<i>4QFY19</i>	<i>YoY %</i>	<i>QoQ%</i>	<i>FY18</i>	<i>FY19</i>	<i>YoY %</i>
Net Sales	222	221	213	230	246	10.9%	7.0%	828	918	10.9%
Other Income	1	1	7	7	2	118.0%	-74.7%	24	17	-30.4%
COGS	73	74	69	75	83	14.2%	10.7%	269	303	12.6%
Gross Margin	67%	67%	67%	67%	66%	-1.0%	-1.1%	67%	67%	-0.5%
Empl. Cost	20	22	24	24	24	19.5%	-0.8%	77	97	26.1%
Other Exp.	57	56	59	60	61	6.9%	2.7%	228	243	6.8%
EBITDA	72	69	61	71	78	8.2%	9.4%	254	274	8.1%
EBITDA Mar.	32%	31%	28%	31%	32%	-0.8%	0.7%	31%	30%	-0.8%
Depreciation	2	1	2	2	2	-5.6%	0.6%	7	7	-3.9%
EBIT	70	68	59	69	76	8.5%	9.6%	247	267	8.4%
Interest	0	0	0	0	1	40.2%	517.5%	1	1	-4.4%
PBT	70	69	66	77	77	9.7%	0.9%	270	283	5.0%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	15	15	14	17	17	10.7%	1.0%	59	62	4.9%
PAT	55	54	52	60	61	9.4%	0.9%	211	222	5.0%
PAT Margin	25%	24%	24%	26%	25%	-0.3%	-1.5%	25%	24%	-1.4%

Strong growth across categories

Sales growth for the company remained 11% in 4QFY19 with domestic growth of 10.2% while international business grew by 56.4%. Strong growth continued with better traction from rural markets while urban remained stable. E-commerce emerging as growth driver although on a very small base, reported a growth of 150% in 4QFY19. Wholesale trade is showing signs of improvement while in CSD, no stability is visible & degrown by 15% in 4QFY19. New Products: In March'19, the Company launched Bajaj cool Almond Drops & Bajaj Nomarks Sunscreen in 4QFY19 which has been received well by market. Re-launch done previously in FY19 for increasing penetration of Bajaj Almond drops & Nomarks is very successful & yielding good results.

Margins got impacted by higher input prices

Gross margin declined by 100 bps to 66.3% on account of higher prices of key raw & packing materials. Majorly impacted by the inflation in key inputs i.e. LLP (contri. ~30% to COGS) gone up by 10% & glass bottles (contri. ~25% to COGS) was up by 6% while EBITDA margin contracted by 79 bps to 31.6% led by decline in gross margin, declined lower (as compared to decline in gross margin) due to lower other expenses by 91 bps YoY to 24.9%. Employees benefit expenses increased by 70 bps to 9.7%.

Concall Highlights

- Rural is doing well for hair oil market, there is no slowdown noticed. Difference between rural & urban is widening, rural growth have out grown urban growth by 450 bps.
- There is no slowdown in demand trend.
- CSD: no sign of stability is visible.
- Alternate channels grew by 21.8% led by Ecommerce business which grew by 150%+ and now company's brand is sold through various e-commerce sites.
- Company took price increase of ~3.7% in April'19.
- ADHO volume growth for 4QFY19 is 7.3-7.4%. Its 5.8% for FY19 (considering decline in IB) & India growth rate would be 7.37%.
- For 1QFY20, company is covered with current rates of LLP (Rs. 69.99/Kg).

New launch & Re-launches update

- 4QFY19 saw significant rise in market share of ADHO, value MS went up to 64%. Re-launch of Bajaj Almond drops remained very successful.
- The Company launched Bajaj cool Almond Drops and Bajaj Nomarks Sunscreen in 4QFY19

Other highlights

- BAJAJCON is engaged with Bain & Co., it will help to speed up the growth of its brands.
- Other income is majorly treasury income & there is reduction in other income largely due mark to market (MTM) losses.
- Tax rate for FY20: will remain under MAT rate at 21.5%.
- A&P expense will remain same in percentage terms (~16-18%), absolute figures will go up.
- Restructuring of International Business (IB) has now started showing positive results. IB grew by 56.4% in 4QFY19 & expected to grow more in coming quarters.
- IB contributed 4.5 – 5% to total sales (FY19).

Exhibit: Direct Coverage

Direct Coverage increased from 2.8 lacs to 5.02 lacs outlets in FY19.

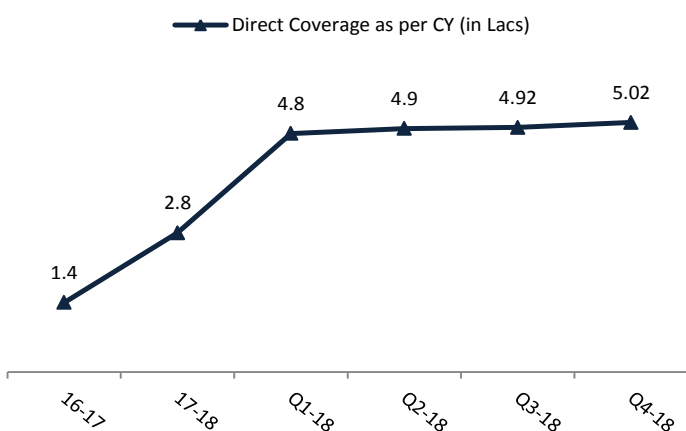


Exhibit: ADHO volume growth

ADHO relaunch activation continued in Q4 led to increased penetration & volume growth of 7%.

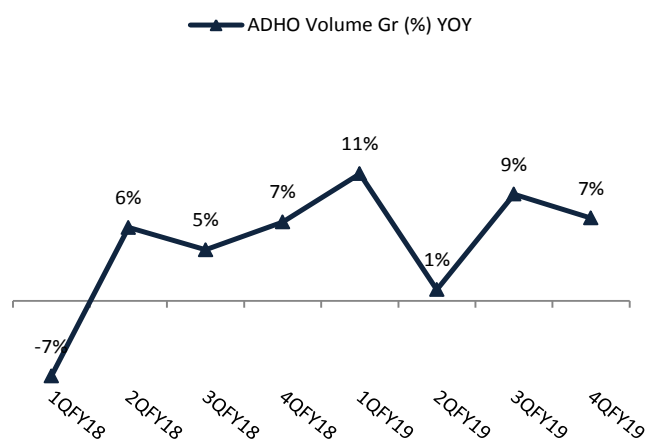


Exhibit: Sales and Sales growth

Sales grew by 11% led by ADHO's better volume growth backed by better rural growth & strong comeback of IB.

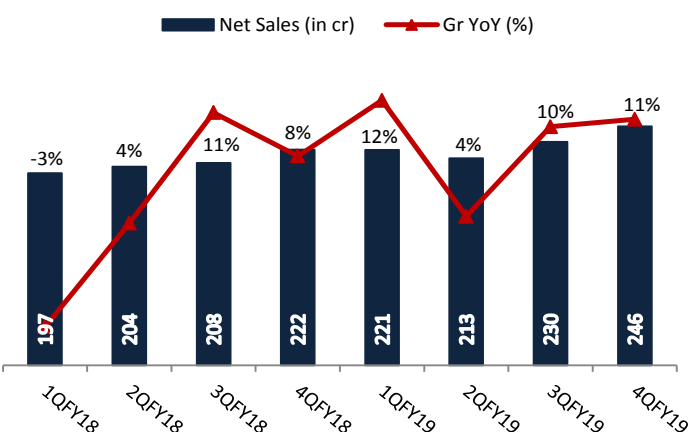


Exhibit: Gross Margin and EBITDA Margin

Margins got impacted majorly by inflation in LLP, refined mustard oil & glass bottle prices.

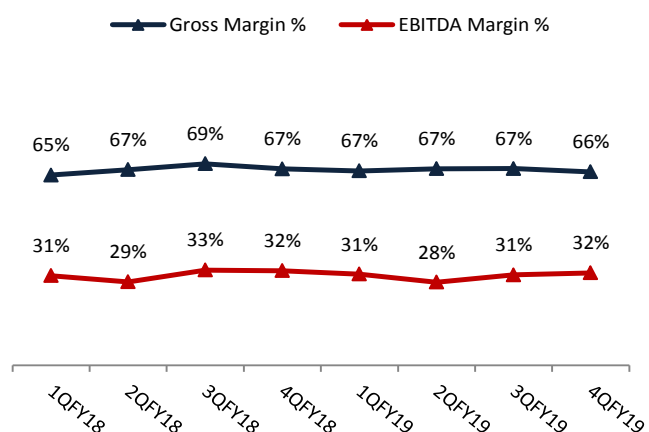


Exhibit: LLP price trend

Light Liquid Paraffin (LLP) (contri. ~30% to COGS) gone up by 10% in 4QFY19.

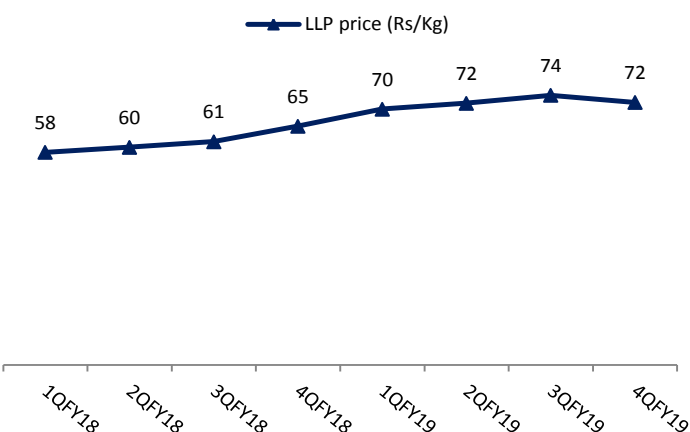
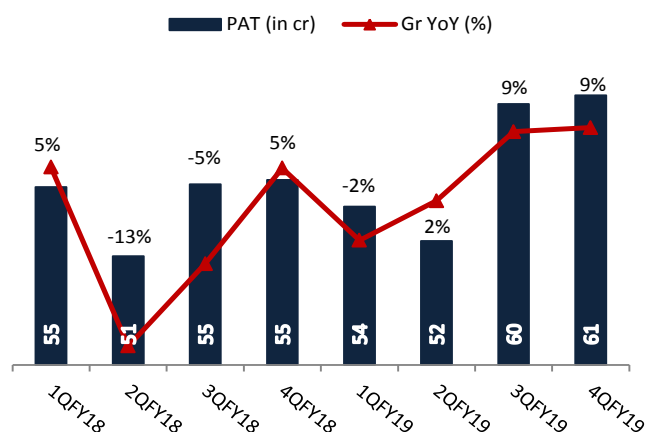


Exhibit: PAT and PAT Growth

PAT grew 9.4%YoY to Rs 61 cr while PAT margin deteriorated by 33 bps YoY to 24.7%.



Financial Details

Balance Sheet

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	15	15	15	15	15	15	15	15
Reserves	468	504	474	466	479	478	453	443
Networth	483	519	489	481	494	492	467	457
Debt	-	-	-	10	15	13	25	25
Other Non Current Liab	1	0	1	1	1	1	0	0
Total Capital Employed	483	519	489	491	509	506	492	482
Net Fixed Assets (incl CWIP)	79	194	142	97	119	130	134	142
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	-	1	0	0	0
Non Current Assets	123	237	186	151	164	176	180	188
Inventory	36	39	39	50	42	47	61	67
Debtors	10	8	13	25	27	32	37	41
Cash & Bank	189	129	134	58	5	13	13	12
Other Current Assets	197	165	195	282	344	339	312	297
Current Assets	432	342	382	415	426	432	425	418
Creditors	49	41	51	44	40	60	72	80
Provisions	-	-	-	-	0	0	1	1
Other Current Liabilities	22	19	27	31	13	12	14	16
Curr Liabilities	71	60	79	74	80	101	113	124
Net Current Assets	361	282	303	340	346	331	312	294
Total Assets	555	579	568	566	590	608	605	607

Income Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	607	672	826	800	797	828	918	1,012
Change (%)		11%	23%	-3%	0%	4%	11%	10%
Other Income	40	40	32	29	39	24	17	22
EBITDA	172	186	239	274	264	254	274	311
Change (%)		8%	29%	14%	-4%	-4%	8%	13%
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	267	303
Int. & other fin. Cost	0	6	0	0	1	1	1	1
EBT	208	216	266	297	297	270	283	324
Exp Item	-	(29)	(47)	(47)	(18)	-	-	-
Tax	42	38	46	54	60	59	62	70
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	166	149	173	196	218	211	222	254
Adjusted PAT	166	172	211	235	233	211	222	254
Change (%)		-10%	16%	14%	11%	-3%	5%	14%
Margin(%)	27%	22%	21%	25%	27%	25%	24%	25%

Financial Details

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
ROE	34%	29%	35%	41%	44%	43%	47%	55%
ROCE	35%	35%	48%	55%	51%	49%	54%	63%
Asset Turnover	1	1	1	1	1	1	2	2
Debtor Days	6	5	6	12	13	14	15	15
Inv Days	22	21	17	23	19	21	24	24
Payable Days	30	22	23	20	18	26	29	29
Int Coverage	2,055	31	1,737	1,188	251	201	228	236
P/E	20	23	29	29	27	32	21	18
Price / Book Value	7	6	10	12	12	14	10	10
EV/EBITDA	18	17	20	21	23	27	17	15
FCF per Share	8	(1)	14	12	12	11	13	15
Div Yield	3.0%	2.8%	3.4%	3.0%	2.8%	2.6%	4.4%	4.6%

Cash Flow Statement

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	209	216	266	297	297	270	283	324
(inc)/Dec in Working Capital	(7)	(15)	13	(28)	7	(14)	(36)	(5)
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)	(62)	(70)
others	(40)	(40)	(32)	(29)	(39)	(24)	-	-
CF from Op. Activities	123	126	207	193	212	180	193	257
(inc)/Dec in FA & CWIP	(11)	(147)	(1)	(17)	(36)	(19)	(3)	(38)
Free Cashflow	112	(21)	206	176	176	161	190	219
(Pur)/Sale of Inv	135	34	(21)	(86)	(53)	28	57	21
others	(134)	117	2	109	73	28	(8)	22
CF from Inv. Activities	(10)	4	(20)	6	(15)	37	46	5
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	-	10	5	(2)	12	-
Int. Paid	-	-	-	(0)	(1)	(1)	(1)	(1)
Div Paid (inc tax)	(111)	(112)	(204)	(204)	(204)	(213)	(249)	(262)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(111)	(112)	(204)	(194)	(200)	(216)	(238)	(263)
Inc(Dec) in Cash	2	17	(16)	5	(3)	1	1	(1)
Add: Opening Balance	1	3	20	4	9	5	13	13
Closing Balance	3	20	4	9	5	7	14	12

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