

Industry  
Bloomberg  
BSE CODE

Consum. Staples  
BAJAJCON IN  
533229

## EBITDA margin impacted by higher other expenses

RATING	BUY
CMP	316
Price Target	430
Potential Upside	36%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	474/308
Mkt Capital (Rs Cr)	4646
Free float (%)	33%
Avg. Vol 1M (,000)	467
No. of Shares (Crs)	15
Promoters Pledged %	64%

### 1QFY20 Result Update

- BAJAJCON reported mixed set of numbers in 1QFY20 wherein revenue remained in line with our expectation and grew by 8.5% to Rs.240 cr. on the back of volume growth of 5.2% YoY in ADHO led by improved penetration .
- Cool Almond drop which was launched in 4QFY19 has attained a market share of 1.3 % in cooling oils in June 2019 (Within 3 months of launch) while Nomarks sunscreen (launched in 4QFY19) is also doing well in both modern trade and e-commerce channels.
- Gross margin improved by 114 bps to 67.7% YoY (vs. expect. of 66.5% YoY) led by stable input prices while EBITDA margin declined by 188 bps to 29.3% (vs. expect. of 31.2% YoY) mainly impacted by higher other expenses.
- Other expenses increased by 410 bps YoY to 29.5% YoY due to addition of rent expenses with respect of new Guwahati factory, higher advertising and legal expenses while employee expense reduced by 107 bps to 8.9% due to rationalization of employees expenses.
- The Company reported PAT of Rs. 59 cr. (vs. expect. of Rs. 61 cr.) with PAT growth of 9.1% YoY while PAT margin increased by 13 bps to 24.4% YoY mainly due to higher other income. Other income remained on higher side to Rs 6cr(vs Rs 1cr in Q1FY19) due to MTM gain in AAA rated bonds.

### View and Valuation

Bajajcon's has reported mixed set of numbers for Q1FY20, sales was up by 9% YoY to Rs 240 cr(vs expec. Rs 240 cr) while EBITDA growth remained 2% YoY to Rs 70 cr(vs expec. Rs 75 cr) impacted by higher other expenses(up by 26% YoY) backed by investment behind brands, legal expenses and rent paid with respect to new Guwahati factory. Going forward, we expect better traction from modern trade, International business and CSD (new orders after name registration) while headwinds related general trade to remain overhang considering slower rural growth for at least a quarter. Company's effort towards distribution expansion and brand building will put cushion to the slower demand growth. On margin front, expansion in gross margin and rationalization of employee cost is expected to negate the impact of higher other expenses, hence we expect stable Ebitda margin going ahead. Considering valuation comfort and higher dividend yield (~4%), we remain positive on BAJAJCON and maintain BUY with previous target price of 430, largely no change in our sales and PAT estimates for FY20e and FY21e.

### Key Risks to our rating and target

- Further slowdown in rural growth may impact the volume of ADHO.
- Higher volatility in crude oil prices.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	797	828	918	1006	1121
EBITDA	264	254	274	304	363
EBIT	258	247	267	297	356
PAT	218	211	222	249	295
EPS (Rs)	15	14	15	17	20
EPS growth (%)	11%	-3%	5%	12%	18%
ROE (%)	44%	43%	47%	55%	63%
ROCE (%)	51%	49%	54%	62%	72%
BV	34	33	32	31	32
P/B (X)	12.1	13.9	9.9	10.2	9.9
P/E (x)	27.4	32.5	21.0	18.7	15.8

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## Mixed Performance

### 1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ %	FY18	FY19	YoY %
Net Sales	221	213	230	246	240	8.5%	-2.2%	828	918	10.9%
Other Income	1	7	7	2	6	409.9%	220.0%	24	17	-30.4%
COGS	74	69	75	83	77	4.8%	-6.5%	269	303	12.6%
Gross Margin	67%	67%	67%	66%	68%	1.1%	1.5%	67%	67%	-0.5%
Empl. Cost	22	24	24	24	21	-3.1%	-10.3%	77	97	26.1%
Other Exp.	56	59	60	61	71	26.0%	15.7%	228	243	6.8%
EBITDA	69	61	71	78	70	2.0%	-9.3%	254	274	8.1%
EBITDA Mar.	31%	28%	31%	32%	29%	-1.9%	-2.3%	31%	30%	-0.8%
Depreciation	1	2	2	2	1	-13.1%	-24.9%	7	7	-3.9%
EBIT	68	59	69	76	69	2.3%	-8.9%	247	267	8.4%
Interest	0	0	0	1	0	43.0%	-30.2%	1	1	-4.4%
PBT	69	66	77	77	75	9.1%	-3.3%	270	283	5.0%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	15	14	17	17	16	9.1%	-3.3%	59	62	4.9%
PAT	54	52	60	61	59	9.1%	-3.2%	211	222	5.0%
PAT Margin	24%	24%	26%	25%	24%	0.1%	-0.3%	25%	24%	-1.4%

#### Witnessed strong growth in Modern trade while GT remained sluggish

BAJAJCON's sales grew by 8.5% YoY to Rs. 240 cr. led by Almond Hair Oil's (ADHO) volume growth of 5.2% in 1QFY20 on the back of distribution expansion and improved penetration. The Company's ADHO is now available in over 40 lakh outlets. Penetration increase in ADHO at 21% as per MAT Mar 19. General trade (GT) which accounted for 89.47% (value terms) remained sluggish in Q1FY20 and grew by 2.60% & 6.04% in volume and value terms respectively backed by slowdown across market especially rural. Whereas, Modern trade (MT), 7.60% (value term) to the company's revenue, posted a value growth of 20.64% while volume growth stood at 13.15% in 1QFY20. Canteen Stores Department channel remained subdued in this quarter on account of lack of orders due to Company's procedural issues with regard to name change of the company and the same is expected to resolve by July-19 while the company's new launch Nomarks sunscreen has done well in modern trade and e-commerce channels.

#### EBITDA Margin remained impacted led by higher other expenses

Stable input prices led to gross margin expansion. The Gross margin expanded by 114 bps to 67.7% YoY. Landed cost of LLP and RPO went up by 0.5% and 2.6% over corresponding previous quarter. EBITDA margin declined by 188 bps to 29.3% YoY impacted by increase in other expenses to the extent of 410 bps due to addition of rent expenses with respect of new Guwahati factory, higher advertising and legal expenses. Going forward, cost optimization will lead to lower other expenses as percentage of sales

## Concall Highlights

- Slow down in off take of hair oil witnessed. Category's Volume off take growth remained 4.4% on YoY basis largely driven by low priced Amla as compared to 8.7% growth in Q1FY19.
- This slowdown was driven by moderation in growth in rural. The off take volume growth in ADHO for rural and urban area stood at 4.8% and 4.1% respectively. CSD: no sign of stability is visible.
- No billing from canteen stores in Q1FY20 on account of lack of orders due to company's procedural issues with regard to name change of the company and the same is expected to resolve by July-19. Company took price increase of ~3.7% in April'19.
- The growth in turnover excluding CSD stood at 10%.
- The more visible results of the cost optimization efforts of the company will be seen from 2QFY20. Focus area will be production, supply chain, IT and Man power optimization.
- Ad spend will remain higher in FY20 but there no new launches in next 1-2 quarters. The company will focus on existing brands.

## New Launches Performance

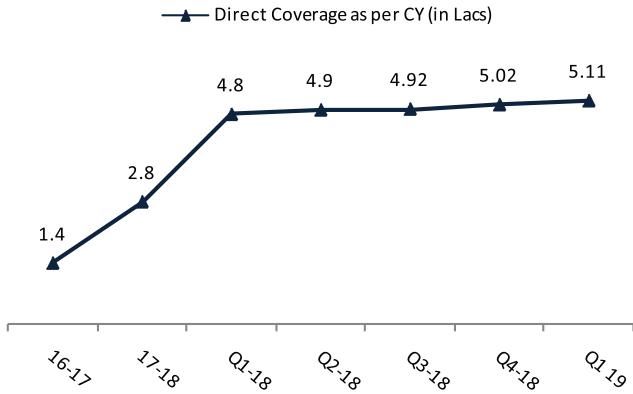
- Bajaj Cool Almond drop is doing well and has market share of 1.3 % in cooling oils in June 2019. (Within 3 months of launch)
- New launch Nomarks sunscreen has done well in modern trade and e-commerce channels.

## Other highlights

- The Company has maintained cover on Light Liquid Paraffin (LLP) till October 2019 which constitutes major raw material.

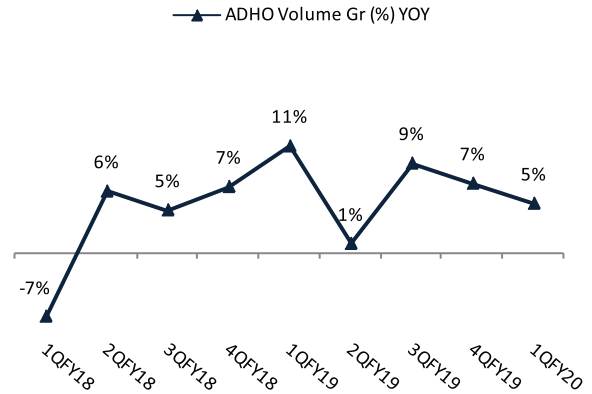
## Exhibit: Direct Coverage

Direct Coverage increased from 4.8 lacs to 5.11 lacs outlets in 1QFY19.



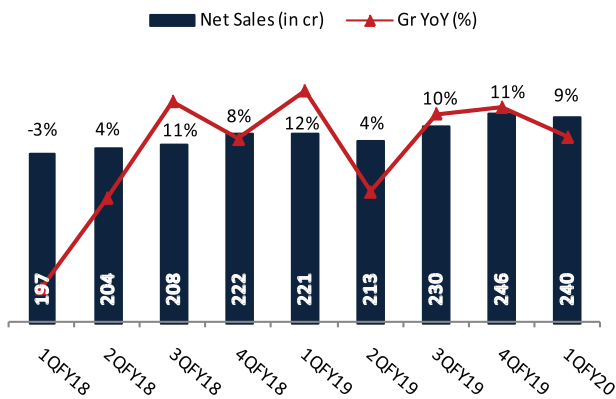
## Exhibit: ADHO volume growth

ADHO volume growth stood at 5.2% YoY on the back of improved penetration.



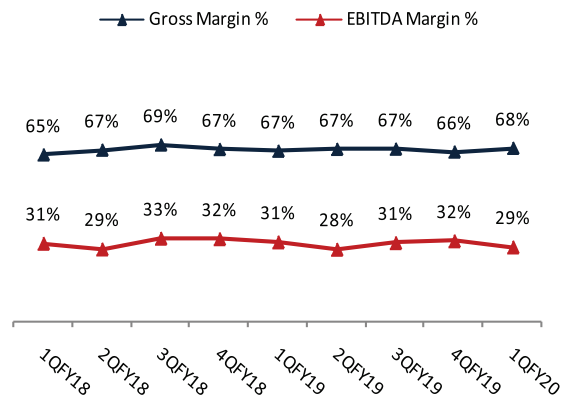
## Exhibit: Sales and Sales growth

Sales remained impacted due to slow down in hair oil driven by moderation in growth in rural market.



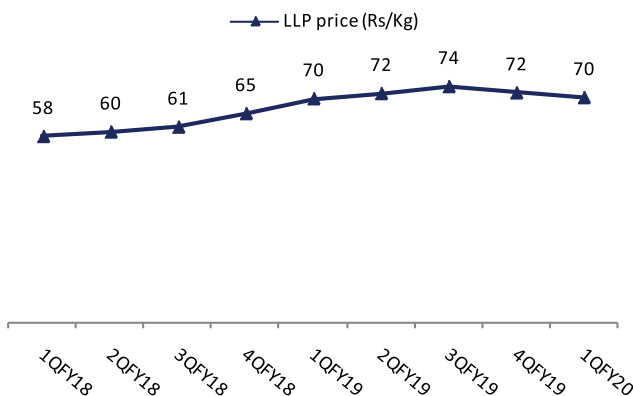
## Exhibit: Gross Margin and EBITDA Margin

GROSSM. expansion led by stable input prices while EBITDAM. remained impacted due to higher other exp.



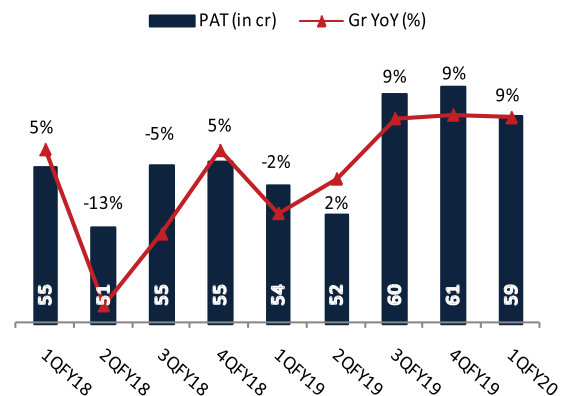
## Exhibit: LLP price trend

Light Liquid Paraffin (LLP) (contri. ~30% to COGS) increased by 0.5%YoY favouring gross margin expansion.



## Exhibit: PAT and PAT Growth

PAT grew 9.1%YoY to Rs. 59 cr while PAT margin with PAT margin stood at 24.4%.



## Financial Details

### Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	15	15	15	15	15	15	15	15
Reserves	504	474	466	479	478	453	442	456
<b>Networth</b>	<b>519</b>	<b>489</b>	<b>481</b>	<b>494</b>	<b>492</b>	<b>467</b>	<b>457</b>	<b>471</b>
Debt	-	-	10	15	13	25	25	25
Other Non Current Liab	0	1	1	1	1	0	0	0
<b>Total Capital Employed</b>	<b>519</b>	<b>489</b>	<b>491</b>	<b>509</b>	<b>506</b>	<b>492</b>	<b>482</b>	<b>496</b>
Net Fixed Assets (incl CWIP)	194	142	97	119	130	134	132	143
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	1	0	0	0	0
<b>Non Current Assets</b>	<b>237</b>	<b>186</b>	<b>151</b>	<b>164</b>	<b>176</b>	<b>180</b>	<b>179</b>	<b>189</b>
Inventory	39	39	50	42	47	61	67	74
Debtors	8	13	25	27	32	37	41	46
Cash & Bank	129	134	58	5	13	13	22	19
Other Current Assets	165	195	282	344	339	312	297	305
<b>Current Assets</b>	<b>342</b>	<b>382</b>	<b>415</b>	<b>426</b>	<b>432</b>	<b>425</b>	<b>427</b>	<b>444</b>
Creditors	41	51	44	40	60	72	79	88
Provisions	-	-	-	0	0	1	1	1
Other Current Liabilities	19	27	31	13	12	14	15	17
<b>Curr Liabilities</b>	<b>60</b>	<b>79</b>	<b>74</b>	<b>80</b>	<b>101</b>	<b>113</b>	<b>123</b>	<b>137</b>
<b>Net Current Assets</b>	<b>282</b>	<b>303</b>	<b>340</b>	<b>346</b>	<b>331</b>	<b>312</b>	<b>303</b>	<b>307</b>
<b>Total Assets</b>	<b>579</b>	<b>568</b>	<b>566</b>	<b>590</b>	<b>608</b>	<b>605</b>	<b>605</b>	<b>633</b>

### Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>672</b>	<b>826</b>	<b>8,584</b>	<b>797</b>	<b>828</b>	<b>918</b>	<b>1,006</b>	<b>1,121</b>
Change (%)	11%	23%	33%	0%	4%	11%	10%	11%
Other Income	40	32	664	39	24	17	23	22
<b>EBITDA</b>	<b>186</b>	<b>239</b>	<b>45%</b>	<b>264</b>	<b>254</b>	<b>274</b>	<b>304</b>	<b>363</b>
Change (%)	8%	29%	8%	-4%	-4%	8%	11%	19%
Margin (%)	28%	29%	98	33%	31%	30%	30%	32%
Depr & Amor.	4	5	565	5	7	7	7	7
<b>EBIT</b>	<b>182</b>	<b>234</b>	<b>91</b>	<b>258</b>	<b>247</b>	<b>267</b>	<b>297</b>	<b>356</b>
Int. & other fin. Cost	6	0	18	1	1	1	1	1
<b>EBT</b>	<b>216</b>	<b>266</b>	<b>492</b>	<b>297</b>	<b>270</b>	<b>283</b>	<b>319</b>	<b>377</b>
Exp Item	(29)	(47)	-	(18)	-	-	-	-
Tax	38	46	171	60	59	62	69	82
Minority Int & P/L share of Ass.	-	-	(0)	-	-	-	-	-
Reported PAT	149	173	320	218	211	222	249	295
<b>Adjusted PAT</b>	<b>172</b>	<b>211</b>	<b>320</b>	<b>233</b>	<b>211</b>	<b>222</b>	<b>249</b>	<b>295</b>
Change (%)	(0)	16%	51%	11%	-3%	5%	12%	18%
Margin(%)	22%	21%	4%	27%	25%	24%	25%	26%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	29%	35%	41%	44%	43%	47%	55%	63%
ROCE	35%	48%	55%	51%	49%	54%	62%	72%
Asset Turnover	1	1	1	1	1	2	2	2
Debtor Days	5	6	12	13	14	15	15	15
Inv Days	21	17	23	19	21	24	24	24
Payable Days	22	23	20	18	26	29	29	29
Int Coverage	31	1,737	1,188	251	201	228	231	277
P/E	23	29	29	27	32	21	19	16
Price / Book Value	6	10	12	12	14	10	10	10
EV/EBITDA	17	20	21	23	27	17	15	13
FCF per Share	(1)	14	12	12	11	11	15	19
Div Yield	2.8%	3.4%	3.0%	2.8%	2.6%	4.4%	4.6%	5.0%

### Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	216	266	297	297	270	283	319	377
(inc)/Dec in Working Capital	(15)	13	(28)	7	(14)	(39)	(6)	(6)
Non Cash Op Exp	4	5	5	5	7	7	7	7
Int Paid (+)	-	-	0	1	1	1	1	1
Tax Paid	(39)	(46)	(53)	(58)	(59)	(61)	(69)	(82)
others	(40)	(32)	(29)	(39)	(24)	(17)	-	-
<b>CF from Op. Activities</b>	<b>126</b>	<b>207</b>	<b>193</b>	<b>212</b>	<b>180</b>	<b>176</b>	<b>252</b>	<b>298</b>
(inc)/Dec in FA & CWIP	(147)	(1)	(17)	(36)	(19)	(9)	(28)	(18)
Free Cashflow	(21)	206	176	176	161	167	224	280
(Pur)/Sale of Inv	34	(21)	(86)	(53)	28	49	21	-
others	117	2	109	73	28	29	22	(0)
<b>CF from Inv. Activities</b>	<b>4</b>	<b>(20)</b>	<b>6</b>	<b>(15)</b>	<b>37</b>	<b>69</b>	<b>15</b>	<b>(18)</b>
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	10	5	(2)	12	-	-
Int. Paid	-	-	(0)	(1)	(1)	(1)	(1)	(1)
Div Paid (inc tax)	(112)	(204)	(204)	(204)	(213)	(249)	(257)	(281)
others	-	-	-	-	-	-	-	1
<b>CF from Fin. Activities</b>	<b>(112)</b>	<b>(204)</b>	<b>(194)</b>	<b>(200)</b>	<b>(216)</b>	<b>(238)</b>	<b>(258)</b>	<b>(282)</b>
Inc(Dec) in Cash	17	(16)	5	(3)	1	7	9	(2)
<b>Add: Opening Balance</b>	<b>3</b>	<b>20</b>	<b>4</b>	<b>9</b>	<b>5</b>	<b>7</b>	<b>13</b>	<b>22</b>
Closing Balance	20	4	9	5	7	13	22	19

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