




Bajaj Consumer Care Ltd.

Industry Consum. Staples
Bloomberg BAJAJCON IN
BSE CODE 533229

Volumes impacted due to sluggishness in rural demand.

RATING	NEUTRAL
CMP	264
Price Target	259
Potential Upside	-2%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	398/193
Mkt Capital (Rs Cr)	3898
Free float (%)	33%
Avg. Vol 1M (,000)	1247
No. of Shares (Cr)	15
Promoters Pledged %	63%

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2QFY20 Result update

- ❑ In 2QFY20, BAJAJCON reported mixed set of numbers; revenue remained below than our estimates to Rs. 217 cr. with revenue growth of 2.1% YoY (vs. expect. of Rs. 234 cr.) and flat volume growth led by demand slowdown in rural as well as in urban.(rural growth remained lower than urban growth)
- ❑ Modern trade channel continued its strong growth momentum with 19% in 2QFY20; CSD started recovering from Aug-19(grew by 21% each in value and volume terms) while E-commerce and Pharma grew by 97% and 42% respectively in 2QFY20.
- ❑ The Company's International business which is a very small part of business, posted a volume growth of 2.95% in 2QFY20 led by 95% growth in Dubai market.
- ❑ Bajaj Cool Almond drop which was launched in 4QFY19 has attained the highest off-take (amongst new launches in Hair oil) in all India in value terms with a market share of 1% in cooling oils in Sep 2019(within 7 months of launch).
- ❑ Gross margin declined by 23 bps to 67.1% YoY (vs. expect. of 67.7% YoY) while EBITDA margin improved by 17 bps to 28.6% YoY (vs. expect. of 28.9% YoY) mainly on account of decline in employee expense(by 196 bps YoY).
- ❑ The Company reported PAT of Rs. 57 cr. (vs. expect. of Rs. 56 cr.) with PAT growth of 10.9% YoY while PAT margin increased by 211 bps to 26.4% YoY mainly due to lower provisioning of taxes by 8.7% as percentage of PBT(Rs 8 cr Vs Rs 14 cr in 2QFY19).

View and Valuation

BAJAJCON has reported mixed set of numbers, wherein sales remained below than our expectations while PAT grew in line due to lower provisioning of taxes as percentage of PBT by 8.7%. The Company's volumes remained flat impacted by tapering down of sales across channels. Going forward, we expect better traction from modern trade; International business and CSD channels while headwinds related to general trade channel may hamper the growth. Sluggish rural growth is a cause of concern. On Margin front, sharp increase in A&P spends from 16-18%of sales to 23-24%in coming years will impact EBITDA margin. Considering sluggish rural growth we have reduced our sales estimates for FY20e/FY21e by 4%/3% and taking account of higher ad expenses, we have reduced our PAT estimates by 1.4%/13%. Considering deterioration in ROE on the back of lower margin and dividend payout, we have changed our rating from ACCUMULATE to Neutral with the reduced target price of Rs 259.

Key Risks to our rating and target

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

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	797	828	918	965	1088
EBITDA	264	254	274	277	286
EBIT	258	247	267	271	279
PAT	218	211	222	242	248
EPS (Rs)	15	14	15	16	17
EPS growth (%)	11%	-3%	5%	9%	2%
ROE (%)	44%	43%	47%	43%	38%
ROCE (%)	51%	49%	54%	46%	41%
BV	34	33	32	38	45
EV/Sales (X)	12.1	13.9	9.9	6.9	5.9
P/E (x)	27.4	32.5	21.0	15.9	15.6

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2QFY20 Results Mixed Performance

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	Fig in Rs Cr
										YoY %
Net Sales	213	230	246	240	217	2.1%	-9.6%	828	918	10.9%
Other Income	7	7	2	6	7	-8.2%	9.6%	24	17	-30.4%
COGS	69	75	83	77	71	2.8%	-7.8%	269	303	12.6%
Gross Margin	67%	67%	66%	68%	67%	-0.2%	-0.6%	67%	67%	-0.5%
Empl. Cost	24	24	24	21	20	-15.7%	-5.2%	77	97	26.1%
Other Exp.	59	60	61	71	63	7.8%	-10.8%	228	243	6.8%
EBITDA	61	71	78	70	62	2.7%	-11.7%	254	274	8.1%
EBITDA Mar.	28%	31%	32%	29%	29%	0.2%	-0.7%	31%	30%	-0.8%
Depreciation	2	2	2	1	1	-20.9%	-0.1%	7	7	-3.9%
EBIT	59	69	76	69	61	3.3%	-12.0%	247	267	8.4%
Interest	0	0	1	0	2	657.8%	360.7%	1	1	-4.4%
PBT	66	77	77	75	66	-0.2%	-12.1%	270	283	5.0%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	14	17	17	16	8	-40.5%	-47.6%	59	62	4.9%
PAT	52	60	61	59	57	10.9%	-2.3%	211	222	5.0%
PAT Margin	24%	26%	25%	24%	26%	2.1%	2.0%	25%	24%	-1.4%

General Trade channel remained sluggish; Modern trade posted strong growth

General trade channel remained subdued impacted due to slowdown in both rural as well as urban demand. General trade, accounted for 84.43% of sales (value terms) grew by 0.78% in value terms while in volume terms its declined by 2.20% in 2QFY20 respectively. Modern trade salience has increased from 7.60% in 1QFY20 to 9.79% in 2QFY20 in value term with a value and volume growth of 19.11% & 14.04% in 2QFY20. The Procedural issues with regard to name change of the company in Canteen Stores Department (contributed 3.04% to the revenue in 2QFY20) channel has been resolved and grew by 20.97% in value terms with 20.79% volume growth. The Company's International business which is a very small part of business, posted a volume growth of 2.95% in 2QFY20 led by 95% growth in Dubai. E Commerce and Pharma channels grew by 97% and 42% respectively in 2QFY20.

Lower employee expenses helped in the expansion of EBITDA margin

Gross margin declined by 23 bps to 67.1% YoY (vs. expect. of 67.7% YoY) while EBITDA margin improved by 17 bps to 28.6% YoY (vs. expect. of 28.9% YoY) mainly on account of decline in employee expense (by 196 bps YoY). Other expenses increased by 156 bps which got compensated by decline in employee expense to the extent of 196 bps YoY. PAT stood at Rs. 57 cr. with increase in PAT margin increased by 211 bps to 26.4% YoY mainly due to lower tax.

Concall Highlights

- The Management expects Industry growth to remain flat over next 4-6 quarters led by slowdown in rural growth but the Company aspires to grow in double digit and increase market share from 10% to 20% in total Hair oil category.
- Promoters sold 22% stake in Bajaj Consumer Care in secondary market and repaid entire Personal debt at promoter level.
- The Company currently does not have any Personal debt at promoter group level and no further debt will be taken at promoter group level going further.
- No further pledges of Bajajcon consumer stock by the promoters going ahead.
- The New CEO of the company will be finalized by Jan-2020.
- The Company with the help of Bain consultants implemented Bain strategy in West Bengal and the initial result remained positive as the Primary sales stood at 14%(compounded) vs. 2% declined of Total Hair oil in West Bengal for last three months.
- The Company after successful implementation of Bain strategy in West Bengal will target another big state (from 1-Nov-19) for total Hair oil category in that state and then may implement the strategy PAN India (in middle of 1QFY21) post analyzing the performance from 2nd state.
- The Company will significantly increase its A&P spends (can go up to 23%-24% from currently 16-18%) going forward as they implement Bain strategy PAN India.
- The Company's major focus will be to increase market share and may compromise on margins over next 12-18 months.
- The Company has already achieved cost saving (mainly driven by cut down in employee cost) of Rs. 4-5 cr. as of 2QFY20 out of full year target of Rs. 16 cr. and expects to achieve the remaining by Jun-20.

Exhibit: Direct Coverage

Direct Coverage increased from 5.11 lacs outlets in Q1-19 to 5.15 lacs outlets in Q2-19.

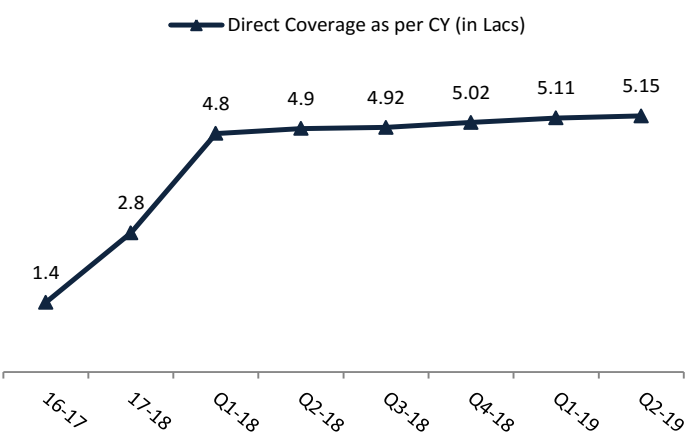


Exhibit: ADHO volume growth

ADHO volumes remained impacted due to sluggishness in general trade channels.

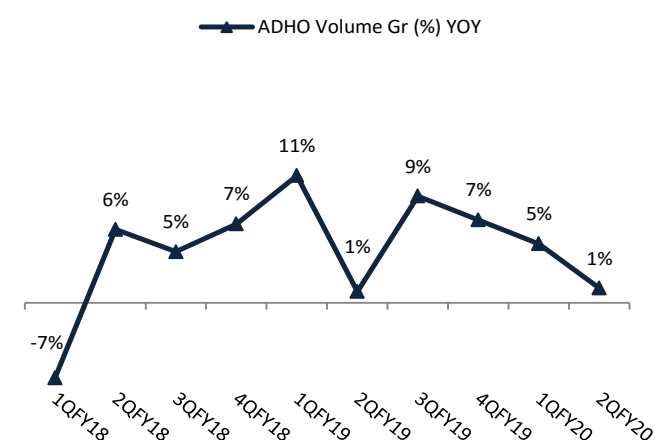


Exhibit: Sales and Sales growth

Sales remained impacted due to rural as well urban demand slow down.

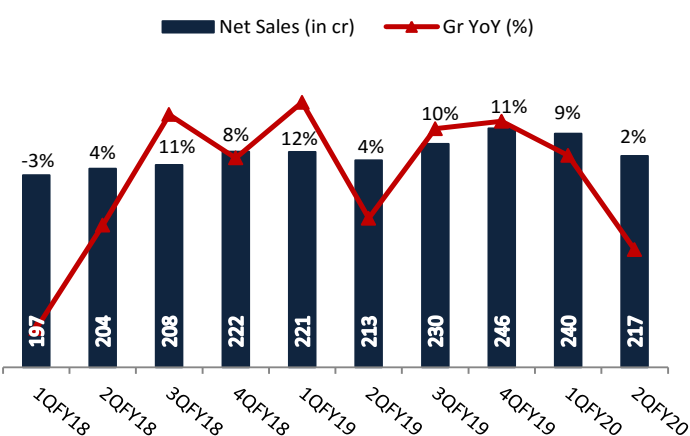


Exhibit: Gross Margin and EBITDA Margin

EBITDA margin improved by 17 bps to 28.6% YoY mainly due to decline in empl. Exp.(by 196 bps YoY).

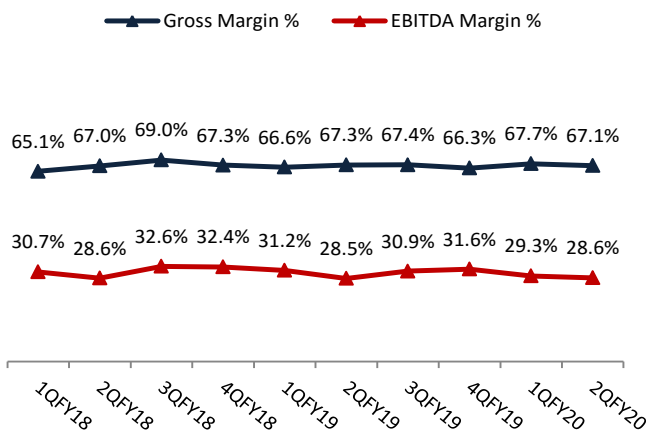


Exhibit: LLP price trend

LLP which generally accounts for ~30% of the COGS of Bajajcon declined by 1.6%YoY while RMO went up by 0.7%.

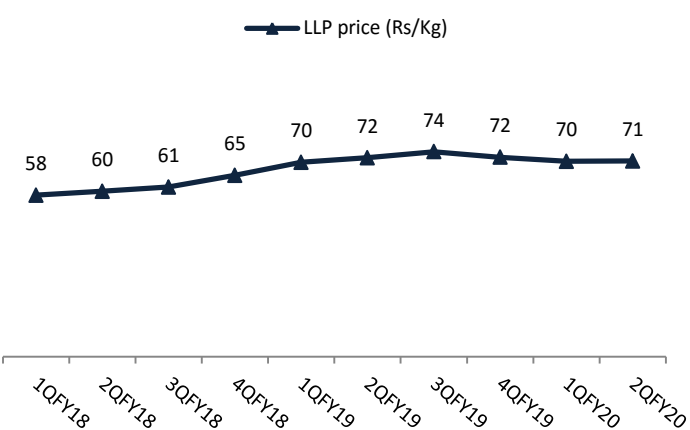
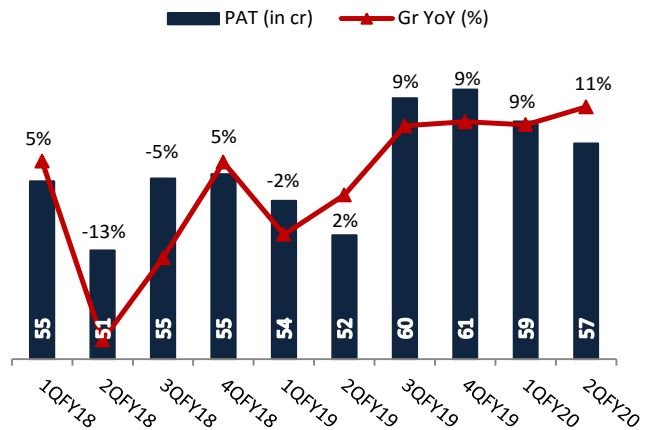


Exhibit: PAT and PAT Growth

PAT grew 10.9%YoY to Rs. 57 cr. while PAT margin stood at 26.4% YoY.



Financial Details

Balance Sheet

Fig in Rs Cr

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	544	643
Networth	519	489	481	494	492	467	559	657
Debt	-	-	10	15	13	25	25	25
Other Non Current Liab	0	1	1	1	1	0	0	0
Total Capital Employed	519	489	491	509	506	492	584	682
Net Fixed Assets (incl CWIP)	194	142	97	119	130	134	133	144
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	1	0	0	0	0
Non Current Assets	237	186	151	164	176	180	180	190
Inventory	39	39	50	42	47	61	64	72
Debtors	8	13	25	27	32	37	39	44
Cash & Bank	129	134	58	5	13	13	125	207
Other Current Assets	165	195	282	344	339	312	294	302
Current Assets	342	382	415	426	432	425	523	626
Creditors	41	51	44	40	60	72	76	86
Provisions	-	-	-	0	0	1	1	1
Other Current Liabilities	19	27	31	13	12	14	15	17
Curr Liabilities	60	79	74	80	101	113	118	133
Net Current Assets	282	303	340	346	331	312	405	492
Total Assets	579	568	566	590	608	605	703	816

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	672	826	800	797	828	918	965	1,088
Change (%)	11%	23%	-3%	0%	4%	11%	5%	13%
Other Income	40	32	29	39	24	17	34	39
EBITDA	186	239	274	264	254	274	277	286
Change (%)	8%	29%	14%	-4%	-4%	8%	1%	3%
Margin (%)	28%	29%	34%	33%	31%	30%	29%	26%
Depr & Amor.	4	5	5	5	7	7	6	7
EBIT	182	234	269	258	247	267	271	279
Int. & other fin. Cost	6	0	0	1	1	1	3	3
EBT	216	266	297	297	270	283	302	314
Exp Item	(29)	(47)	(47)	(18)	-	-	-	-
Tax	38	46	54	60	59	62	59	67
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	149	173	196	218	211	222	242	248
Adjusted PAT	172	211	235	233	211	222	242	248
Change (%)	-10%	16%	14%	11%	-3%	5%	9%	2%
Margin(%)	22%	21%	25%	27%	25%	24%	25%	23%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	29%	35%	41%	44%	43%	47%	43%	38%
ROCE	35%	48%	55%	51%	49%	54%	46%	41%
Asset Turnover	1	1	1	1	1	2	1	1
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	79	82
P/E	23	29	29	27	32	21	16	16
Price / Book Value	6	10	12	12	14	10	7	6
EV/EBITDA	17	20	21	23	27	17	13	13
FCF per Share	(1)	14	12	12	11	11	15	16
Div Yield	2.8%	3.4%	3.0%	2.8%	2.6%	4.4%	3.2%	3.2%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	216	266	297	297	270	283	302	314
(inc)/Dec in Working Capital	(15)	13	(28)	7	(14)	(39)	(4)	(6)
Non Cash Op Exp	4	5	5	5	7	7	6	7
Int Paid (+)	-	-	0	1	1	1	3	3
Tax Paid	(39)	(46)	(53)	(58)	(59)	(61)	(59)	(67)
others	(40)	(32)	(29)	(39)	(24)	(17)	-	-
CF from Op. Activities	126	207	193	212	180	176	248	252
(inc)/Dec in FA & CWIP	(147)	(1)	(17)	(36)	(19)	(9)	(28)	(18)
Free Cashflow	(21)	206	176	176	161	167	220	234
(Pur)/Sale of Inv	34	(21)	(86)	(53)	28	49	21	-
others	117	2	109	73	28	29	22	(0)
CF from Inv. Activities	4	(20)	6	(15)	37	69	15	(18)
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	10	5	(2)	12	-	-
Int. Paid	-	-	(0)	(1)	(1)	(1)	(3)	(3)
Div Paid (inc tax)	(112)	(204)	(204)	(204)	(213)	(249)	(148)	(149)
others	-	-	-	-	-	-	-	1
CF from Fin. Activities	(112)	(204)	(194)	(200)	(216)	(238)	(151)	(153)
Inc(Dec) in Cash	17	(16)	5	(3)	1	7	112	82
Add: Opening Balance	3	20	4	9	5	7	13	125
Closing Balance	20	4	9	5	7	13	125	207

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