

Industry
Bloomberg
BSE CODE

Consum. Staples
BAJAJCON IN
533229

RATING	HOLD
CMP	174
Price Target	189
Potential Upside	9%
Rating Change	↔
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	312/118
Mkt Capital (Rs Cr)	2569
Free float (%)	33%
Avg. Vol 1M (,000)	130
No. of Shares (Crs)	15
Promoters Pledged %	NA

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Higher other income and reduced tax boosted PAT

1QFY21 Result Update

- In 1QFY21, BAJAJCON reported numbers better than our expectations; Revenue declined by 18.4% YoY to Rs. 196 cr. impacted on account of complete lock down in first 15 days of 1QFY21 amidst COVID-19 outbreak.
- The Company's ADHO volumes declined by 23.5% YoY due to shut down of operation in first fortnight of 1QFY21, urban slowdown on account of lock down in containment zones, slowdown in modern trade channels due to shut down of malls and hyper markets. Thus all the above factors impacted sales in 3QFY20.
- The Company launched sanitizers in various SKU's under its Nomarks brand in order to meet the increasing demand of sanitizers on the wake of COVID-19. During the quarter sanitizer contributed to the extent of high single digit as % of total sales.
- Gross margin declined by 330 bps to 64.4% YoY impacted on account of adverse impact of product mix which included the launch of sanitizers while EBITDA margin declined by 31 bps to 29% YoY led by lower other expense.
- The Company reported PAT of Rs. 54 cr. (vs. expect. of Rs. 42 cr.) with PAT de-growth of 7.61% YoY and PAT margin at 27.6% YoY. PAT remained on higher side on account of higher other income and reduced tax rate.

View and Valuation

BAJAJCON has reported numbers better than our expectation despite the prevailing turbulence of COVID-19. As of now the company has started its operation and is working at full capacity. Going forward on demand front, rural demand is expected to remain higher than urban demand. The Company is focusing on increasing its rural reach as of now in order to ensure availability of ADHO. Sanitizers which the company had launched in 1QFY21 are also expected to show upwards trend amidst increasing rate of COVID cases. For the company. On trade channel front, with the opening up of lockdown in various states we expect positive movement from general trade channel while Modern trade channel is expected to remain muted and will stabilize with urban market stabilization. EBITDA margin is expected to remain impacted due to higher other expense on account of Ad & P expenditure (will decide A&P spends on fort night basis due to current prevailing situation) while benign input prices is expected to provide some cushion to margins. On PAT front, lower tax rate will ensure increased profitability. Thus, considering sluggish urban growth and current uncertain situation of lock down have kept our estimates unchanged and maintain our HOLD rating with a target price of Rs. 189.

Key Risks to our rating and target

- Extension of Lock down in COVID-19 affected regions.
- Steep increase in A&P expense.

Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20	FY21E
Net Sales	797	828	918	852	802
EBITDA	264	254	274	205	201
EBIT	258	247	267	199	196
PAT	218	211	222	185	186
EPS (Rs)	15	14	15	13	13
EPS growth (%)	11%	-3%	5%	-17%	0%
ROE (%)	44%	43%	47%	28%	26%
ROCE (%)	51%	49%	54%	30%	26%
BV	34	33	32	44	49
EV/Sales (X)	12.1	13.9	9.9	3.2	3.5
P/E (x)	27.4	32.5	21.0	11.2	13.8

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1QFY21 Results

Better than expectation

Fig in Rs Cr

FINANCIALS	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY%	QoQ%	FY18	FY19	YoY%
Net Sales	240	217	211	175	196	-18.4%	11.8%	918	852	-7.2%
Other Income	6	7	9	8	11	76.9%	26.3%	17	30	75.8%
COGS	77	71	68	56	70	-10.0%	25.3%	303	274	-9.9%
Gross Margin	68%	67%	68%	68%	64%	-3.3%	-3.8%	67%	68%	0.9%
Empl. Cost	21	20	19	22	21	0.1%	-4.4%	97	87	-10.6%
Other Exp.	71	63	69	74	48	-32.3%	-34.9%	243	287	17.7%
EBITDA	70	62	54	24	57	-19.2%	140.9%	274	205	-25.2%
EBITDA Mar.	29%	29%	26%	13%	29%	-0.3%	15.6%	30%	24%	-5.8%
Depreciation	1	1	1	1	1	8.1%	2.9%	7	6	-18.0%
EBIT	69	61	53	22	56	-19.8%	149.4%	267	199	-25.4%
Interest	0	2	1	1	0	8.3%	-56.8%	1	4	262.7%
PBT	75	66	61	30	66	-12.2%	121.1%	283	225	-20.5%
Excep. Item	-	-	-	-	-	-	-	-	-	-
Tax	16	8	11	5	11	-28.8%	121.8%	62	40	-34.7%
PAT	59	57	50	25	54	-7.6%	121.0%	222	185	-16.6%
PAT Margin	24%	26%	24%	14%	28%	3.2%	13.7%	24%	22%	-2.4%

Concall Highlights

Macro:

- The hair oil industry continued to see severe sequential slowdown (till march-20, the MAT growth stood at 2.8% which declined sharply in Apr-May (50% and 25% respectively)) and the growth rate cumulatively for Apr-May declined by 38%/33% respectively in value and volume terms majorly reflecting consumers preference towards low cost hair oil considering market situation.
- The Management do not expect immediate recovery or immediate crash in Hair oil market.
- As of now, the economy hair oils are doing better than premium hair oil.

1QFY21 Result Update:

- As per the Management, rural market remained less impacted than urban market. During April and May the total hair oil off take decline in rural and urban markets stood at 30% and 44%.
- To ensure rural distribution reach the company has scaled up its van operations in May-June and reaches 50000 villages across 15 states.
- Gross Margin decline during the quarter was on account of adverse impact of product mix which included the launch of sanitizers.
- In 1QFY21, the company launched Sanitizers under Nomarks brand in small as well as large packs to cater to the increasing demand amidst pandemic.
- Sanitizer contributed to the extent of high single digit as % of total sales.
- As per the Management, sales lost in the month of March-20 stood at Rs. 63 cr.
- Contribution of Sachets to the total sales stood at 14% (vs. 17%-18% earlier) since last few quarters.

Management Guidance:

- The Company is currently focussing on availability of its products in both rural and urban market, specific channels and geographies and new opportunities amidst COVID-19.
- The Management expects July sales to be lower than June quarter on account of extension of lock down in various states.
- The Management expects Modern trade channel to stabilise with urban market stabilisation.
- E-commerce will remain area of focus for the company.
- Management expects uncertainty to remain for few months with surge of lockdown in various states which will impact top line and the company will continue to re-evaluate their strategy to cope up with the situation.
- The major focus of the company is to drive top line with absolute EBITDA growth as of now.
- The Company is exploring the merger and acquisition options.
- Ad spends will continue to remain at the Pre-COVID level going forward. Dialling down of Ad spends will happen only when markets gets closed down as the company dialled down A&P for last 3 months in 1QFY21. The Company will operate fort night to fortnight with regard to A&P spends.
- The Management, do not expect dividend distribution policy will undergo substantial changes. The Company is currently focusing on conserving cash keeping in view the prevailing uncertain scenario.

Exhibit: Distribution Reach-Retail Outlets

The Company is currently focusing on increasing rural reach because rural is performing better than urban.

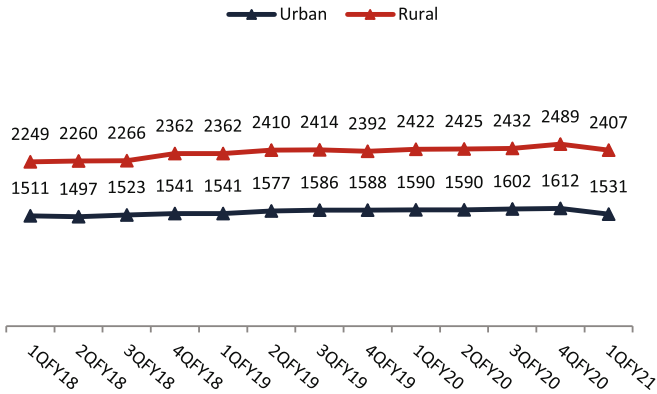


Exhibit: ADHO volume growth

Volumes in urban market remained impacted due to lockdown and slowdown overall hair oil Industry.

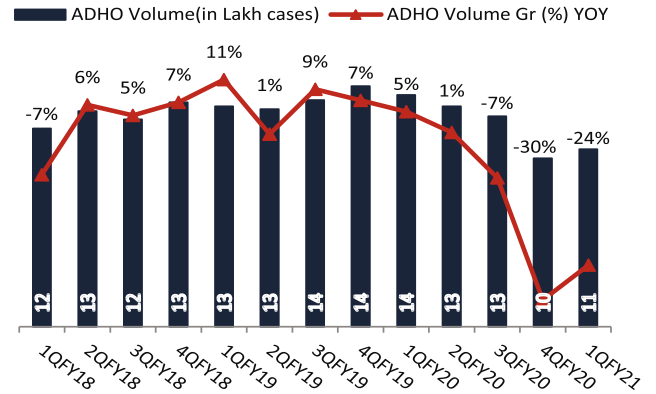


Exhibit: Sales and Sales growth

Sales remained impacted due to volumes de-growth on account of nationwide lock down due to COVID-19.

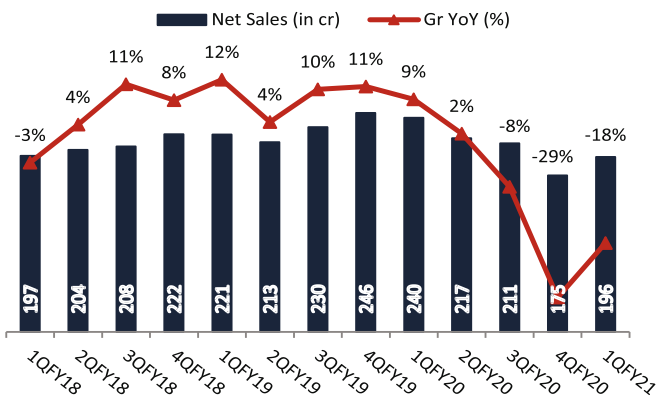


Exhibit: Gross Margin and EBITDA Margin

Gross Margin decline was on account of adverse impact of product mix which included the launch of sanitizers.

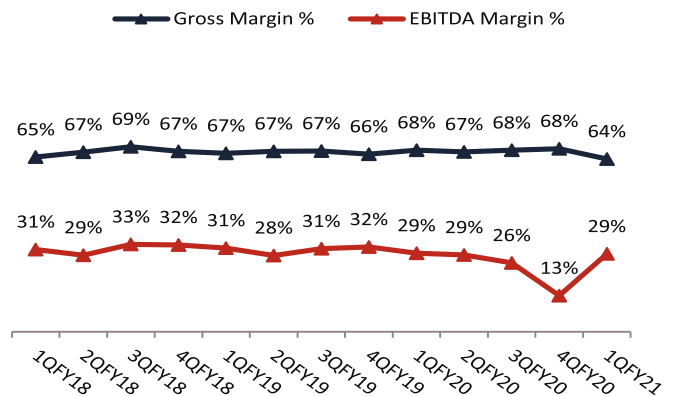


Exhibit: Employee and Other expense trend

Other expense remained lower due to dialling down of A&P spends amidst COVID-19.

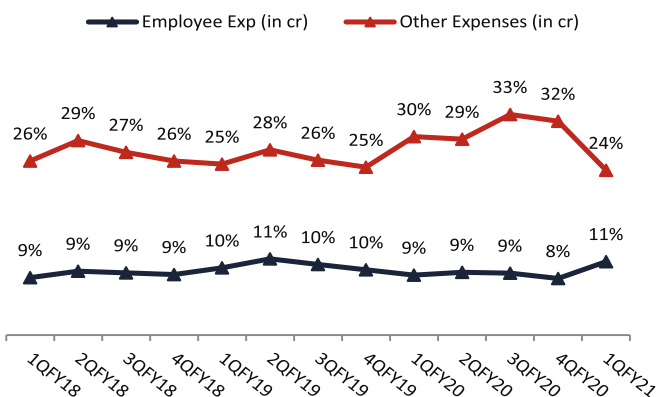
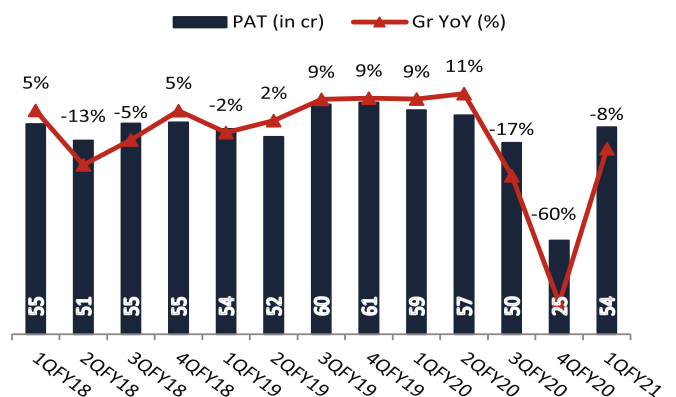


Exhibit: PAT and PAT Growth

PAT de-grew by 7.6% YoY to Rs. 54 cr. while PAT margin stood at 27.6% YoY.



Financial Details

Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Share Capital	15	15	15	15	15	15	15	15
Reserves	504	474	466	479	478	453	638	712
Networth	519	489	481	494	492	467	653	727
Debt	-	-	10	15	13	25	20	25
Other Non Current Liab	0	1	1	1	1	0	0	0
Total Capital Employed	519	489	491	509	506	492	673	752
Net Fixed Assets (incl CWIP)	194	142	97	119	130	134	132	140
Non Current Investments	-	-	-	-	-	-	-	-
Other Non Current Assets	-	-	-	1	0	0	1	1
Non Current Assets	237	186	151	164	176	180	182	184
Inventory	39	39	50	42	47	61	63	59
Debtors	8	13	25	27	32	37	26	24
Cash & Bank	129	134	58	5	13	13	10	310
Other Current Assets	165	195	282	344	339	312	525	304
Current Assets	342	382	415	426	432	425	632	704
Creditors	41	51	44	40	60	72	81	76
Provisions	-	-	-	0	0	1	0	0
Other Current Liabilities	19	27	31	13	12	14	19	18
Curr Liabilities	60	79	74	80	101	113	141	133
Net Current Assets	282	303	340	346	331	312	491	571
Total Assets	579	568	566	590	608	605	815	887

Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
Revenue from Operation	672	826	800	797	828	918	852	802
Change (%)	11%	23%	-3%	0%	4%	11%	-7%	-6%
Other Income	40	32	29	39	24	17	30	35
EBITDA	186	239	274	264	254	274	205	201
Change (%)	8%	29%	14%	-4%	-4%	8%	-25%	-2%
Margin (%)	28%	29%	34%	33%	31%	30%	24%	25%
Depr & Amor.	4	5	5	5	7	7	6	5
EBIT	182	234	269	258	247	267	199	196
Int. & other fin. Cost	6	0	0	1	1	1	4	4
EBT	216	266	297	297	270	283	225	226
Exp Item	(29)	(47)	(47)	(18)	-	-	-	-
Tax	38	46	54	60	59	62	40	41
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	149	173	196	218	211	222	185	186
Adjusted PAT	172	211	235	233	211	222	185	186
Change (%)	-10%	16%	14%	11%	-3%	5%	-17%	0%
Margin(%)	22%	21%	25%	27%	25%	24%	22%	23%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
ROE	29%	35%	41%	44%	43%	47%	28%	26%
ROCE	35%	48%	55%	51%	49%	54%	30%	26%
Asset Turnover	1	1	1	1	1	2	1	1
Debtor Days	5	6	12	13	14	15	11	11
Inv Days	21	17	23	19	21	24	27	27
Payable Days	22	23	20	18	26	29	35	35
Int Coverage	31	1,737	1,188	251	201	228	47	52
P/E	23	29	29	27	32	21	11	14
Price / Book Value	6	10	12	12	14	10	3	4
EV/EBITDA	17	20	21	23	27	17	10	11
FCF per Share	(1)	14	12	12	11	11	12	11
Div Yield	2.8%	3.4%	3.0%	2.8%	2.6%	4.4%	1.4%	3.6%

Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21E
PBT	216	266	297	297	270	283	225	226
(inc)/Dec in Working Capital	(15)	13	(28)	7	(14)	(39)	21	2
Non Cash Op Exp	4	5	5	5	7	7	6	5
Int Paid (+)	-	-	0	1	1	1	4	4
Tax Paid	(39)	(46)	(53)	(58)	(59)	(61)	(48)	(41)
others	(40)	(32)	(29)	(39)	(24)	(17)	(30)	-
CF from Op. Activities	126	207	193	212	180	176	179	196
(inc)/Dec in FA & CWIP	(147)	(1)	(17)	(36)	(19)	(9)	(5)	(37)
Free Cashflow	(21)	206	176	176	161	167	174	159
(Pur)/Sale of Inv	34	(21)	(86)	(53)	28	49	(194)	216
others	117	2	109	73	28	29	27	24
CF from Inv. Activities	4	(20)	6	(15)	37	69	(173)	204
inc/(dec) in NW	-	-	-	-	-	-	-	-
inc/(dec) in Debt	-	-	10	5	(2)	12	(5)	5
Int. Paid	-	-	(0)	(1)	(1)	(1)	(4)	(4)
Div Paid (inc tax)	(112)	(204)	(204)	(204)	(213)	(249)	0	(112)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(112)	(204)	(194)	(200)	(216)	(238)	(9)	(111)
Inc(Dec) in Cash	17	(16)	5	(3)	1	7	(3)	289
Add: Opening Balance	3	20	4	9	5	7	13	10
Closing Balance	20	4	9	5	7	13	10	299

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