

INVESTMENT RESEARCH



FUNDAMENTAL COVERAGE - BAJAJ CORP LIMITED

Dated : 14th March 2017

BUY	
Price ₹	366
Fair Value	440
Upside	20%
Div Yield	4.3%
Tenure	1 Year
Sensex	29442.63
Nifty	9087.00
Group/Index	B / S&P BSE 500

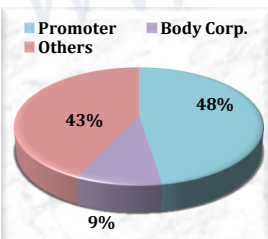
Stock Details	
M.cap (₹ in cr)	5399
Equity (₹ In cr)	14.75
52 wk H/L ₹	438.30/340
Face Value ₹	1.00
NSE code	BAJAJCORP
BSE code	533229

Key Valuation Ratios	
RONW	37%
P/E	21.79
P/BV	8.1
EV/EBIDTA	18.66

IN ₹

Key Financial Data	
EV (₹ in cr)	5381.61
BV (₹ in cr)	45.08
NW (₹ in cr)	664.98
EPS (TTM)	16.80

Share Holding Pattern



Investment Rationale

Diversification of existing product portfolio ➤ **Enhance profitability in future**

*Company diversified its existing product portfolio from hair oil to skin care products under **NO MARKS** brand.*

No mark registered net sales of around ₹ 5.3 crore sales in Dec'16 quarter. The business is improving, but **new products planned will be launched only in April'17 onwards.**

Company testing out the new strategy of focusing on No Marks Cream in one state at a time, the results of which will be known in a couple of month's time. So, if the results turn out to be positive sometime in the **first quarter of next year**, company will see this being rolled out in more states, thereby expand the footprint of the strategy.

*The acquisition of the **No marks brand** is a strategic move as it enhances its presence in the personal care market and gives us an entry in to the skin care category, would augurs well for the company & enhance profitability, going forward.*

Almond Drops has created a unique positioning for itself through initiatives like product differentiation (Almond based), focused marketing, unique packaging (glass vs. plastic used by competition etc.)

Company is 2nd largest player in the overall hair oils segment with **Key brand - Bajaj Almond Drops Hair Oil**, is the market leader with over 59.9% market share of LHO market with premium positioning and commands one of the highest per unit price in the industry.

Market share gains from other hair oil segments ---

Company convert coconut hair oil users to light hair oil users through sampling, product innovation and creating awareness about product differentiation including communicating the advantages of switching to lighter hair oils. **Aim for a value market share of 10% on Total Hair Oil category by 2017-18**

Its flagship brand **Bajaj Almond Drops** posted a volume decline of 4%, which was lower than expected, despite demonetization. While quarterly revenues have been the lowest in the past 11 quarters, clearly underlining the impact of demonetization, its operational profitability was at four quarters high. Lower expenditure on advertising and other expenses helped the company post operating margin of 32.8%. **With a market leadership in the light hair oil market, the company commands strong pricing power.**

Consumer demand, which has been subdued for the past several quarters, was significantly impacted in November due to the cash crunch. The demand at direct retail channels nevertheless recovered in the subsequent month mainly due to the company rolling out extra incentives and discounts to the trade to push sales. However, the cash-driven wholesale trade channel is yet to bounce back to the pre-demonetization levels. *Going ahead, certain trends such as down trading and weakness in rural demand, which were prevalent even before the demonetization, are likely to continue in the near term. Raw material prices have started climbing up that may prompt companies to increase prices in a bid to maintain profitability. The recovery in volumes is expected to be gradual and will depend upon normalization of business in the wholesale trade channel.*



Source: Google

VALUATION (₹ In Cr except per share)	
FY 18Est. Earnings	285.52
Equity Share Capital	14.75
FV	1.00
No. of Equity Shares	14.75
EPS(FY18 Est.)	19.36
Estimated P/E Ratio	23
Estimated Price/share	440

Corporate Governance Transparency Ratio's				
Year End	201603	201503	201403	201303
Tax Rate %	21.52	21.09	20.48	20.30
Receivable day	8.04	4.78	2.27	4.60
Div. Payout %	90.15	102.51	69.32	59.40

Hair Care Portfolio

Bajaj Almond Drops Hair Oil - A premium perfumed hair oil containing almond oil and Vitamin E

Competitors - Keo Karpin (Dey's Medical), Hair & Care (Marico)

Bajaj Kailash Parbat Cooling Oil - An ayurvedic formulation containing Sandal & Almond extracts

Competitors: Himani Navratna

Bajaj Brahmi Amla Hair Oil - Traditional heavy hair oil. Brand has been in existence since 1953

Competitors - Dabur Amla, Dabur Sarson Amla

Bajaj Amla - Variant in the low price amla hair oil segment catering to price conscious consumers

Competitors - Shanti Badam Amla Hair Oil (Marico)

Bajaj Jasmine Hair Oil - A Jasmine flower perfumed hair oil. In demand due to cultural significance.

Geographical Presence:-

Overseas business of Bajaj Corp Ltd. is constantly increasing its global footprints with focus on international business. market our personal care brands in more than 30 countries, with primary focus in SAARC, Gulf & Middle-East, ASEAN and African regions. Outlook has been very encouraging with business growing at 72% during Q3. The international business now contributes over 5% of total turnover. **The plans to enter larger markets like Russia, Indonesia and Egypt are well under way and should see the rollout in the next couple of quarters.**

Go for acquisitions → tap rural market for growth

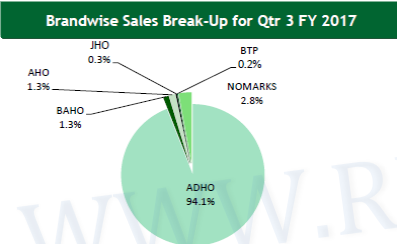
Company plans to pursue acquisitions targeting niche brands and tap rural areas to push growth, particularly in light hair oil segment, where it aims to have a market share of 65%. Company will seek inorganic growth opportunities in the FMCG and hair oil market as part of growth strategy to focus on targeting niche brands which can benefit from BCL's strong distribution network so that they can be made pan India brands.

Emphasizing on the importance of rural market in its strategy, the company would tap the increase in disposable income of rural India and convert rural consumer from unbranded to branded products by providing them with an appropriate value proposition.

Quarterly performance:-

Rewarding growth of light hair-oil in the period April to December is 2.1% whereas the total hair oil has grown by 1.5%. There is a minor change in the proportion of sales of Bajaj Almond Drops coming from the rural areas. In the third quarter, 42.5% of its off-take from the rural areas whereas in the previous quarter this figure was 43.6%. This actually shows that post demonetization urban off-takes have recovered faster, the rural off-takes are still not back to the normal levels. Despite the adverse external scenario the ASP stand has gone up to ₹ 24.85 crores which is 13.33% of sales, this is against ₹ 23.03 crores that was spent on ASP during the same quarter in the last year, last year the spend was 11.77% of sales

Crude prices have started rising and therefore the price of LLP also has risen. However, sufficient stock of LLP with us and hence the rise of LLP has not yet affected us. Against an average price of ₹54.7 per kg in the first quarter of the last financial year the LLP price in this quarter was ₹ 46.37 per kg. The price of refined mustard oil has also weakened to ₹ 83.97 a kg as against ₹93.67 a kg last year in the same quarter.



Quarterly Results

Company closed the third quarter of financial year 2017 with a turnover of ₹186.4 crores, which translates to a decline in turnover of around 4.75% over the same quarter in the preceding financial year. The EBITDA for the quarter was ₹ 62.32 crores, it is 33.44% of sales, but is lower by 9.44% over the same quarter in the previous year. The PBT and the PAT were ₹ 73.47 crores and ₹ 57.79 crores. The PAT for the year has grown by 17.2% over the same quarter in the previous year.

During the quarter, the company which sells cosmetics, toiletries and other personal care products, had benefited from lower expenses, which stood at ₹126.93 crore as against ₹ 129.41 crore in the same quarter last fiscal, down 1.91 %.

Besides, it also had higher other income of ₹13.75 crore as compared with ₹7.77 crore in the year-ago period. Moreover, in the year-ago quarter, the company had exceptional items of ₹11.74 crore leading to lower profit.

Graphical presentation Q3 FY 2016-17 & 9M FY 2017 Results:

Quarterly & Nine Months Results Analysis	Standalone Results						₹ in crores		
	Particulars	Quarter Ended			% change Q-0-Q	% change Y-0-Y	Nine Months Ended		% change Y-0-Y
		Q3 FY 17	Q2 FY 17	Q3 FY 16			9M FY 17	9M FY 16	
Revenue	186.39	196.14	195.70	-4.97%	-4.76%	586.27	585.40	0.15%	
EBITDA	74.97	82.11	75.56	-8.70%	-0.78%	236.41	221.08	6.93%	
EBITDA %	40.22%	41.86%	38.61%	-	-	40.32%	37.77%	-	
PBT	73.47	74.17	62.69	-0.94%	17.20%	214	182.72	17.12%	
PBT%	39.42%	37.81%	32.03%	-	-	36.50%	31.21%	16.95%	
PAT	57.79	58.29	49.31	-0.86%	17.20%	168.29	143.72	17.10%	
PAT %	31.00%	29.72%	25.20%	-	-	28.71%	24.55%	16.92%	
EPS	3.92	3.95	3.34	-0.76%	17.37%	11.41	9.74	17.15%	

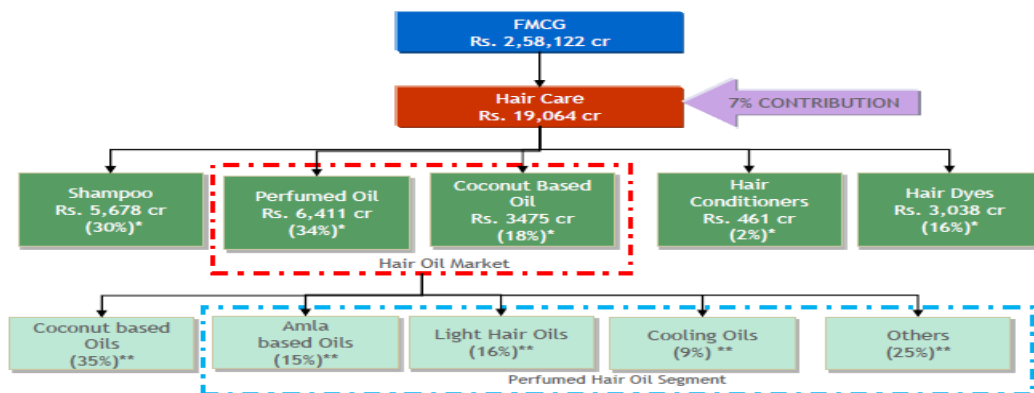
Company Overview

Bajaj Corp Ltd is part of Bajaj Group which has interests in varied industries including Sugar, Consumer Goods, Power Generation and Infrastructure Development. One of India's leading FMCG companies with major brands in hair care category such as Almond Drops, Brahmi Amla. The group has been in the business for over eight decades and is part of one of the oldest business houses of the country, the Shishir Bajaj Group.

Manufactures and markets other major brands i.e. Brahmi Amla, Bajaj Kailash Parbat Cooling Oil and Jasmine (all hair oil brands), Black tooth powder and skincare products under No marks brand including launching of New Product i.e. Bajaj Amla Hair Oil

Industry Overview

The recovery in growth in 2015 - 16 has been lackluster however it is expected to strengthen in the coming year in 2016 - 17 due to a number of factors such as boost in demand from the implementation of 7th Pay recommendations and OROP.



FMCG sector has grown at an annual average of about 11 % over the last decade. The overall FMCG market is expected to increase at CAGR of 14.7 % to touch US\$ 110.4 billion during 2012-2020, with the rural FMCG market anticipated to increase at a CAGR of 17.7 % to reach US\$ 100 billion during 2012-2025. Food products is the leading segment, accounting for 43 % of the overall market. Personal care (22 %) and fabric care (12 %) come next in terms of market share.

The FMCG market's penetration levels as well as per capita consumption in most product categories like toothpaste, skin care, hair wash etc is still low in India, which indicates the untapped market potential. Increasing population, particularly the middle class, teenagers and the rural segment, provides an opportunity to manufacturer of FMCG products.

Hair Oil Industry

Hair care market is considered an established market in India. Due to greater importance of hair care, the demand for hair care products like regular and expert shampoos, conditioners, hair colors and hair oils are increasing rapidly, **thereby providing high momentum to the Indian hair care market.** With the income levels of middle class population growing, the hair care market in India is going through a major paradigm shift. **With a surge in the Indian markets with varieties of oil like perfume oil, light oil and many more, hair oil is expected to lead the sector in future as well.**

During 2015-16 the market share grew by only 0.2% and the strain on volume growths was apparent. The backbone of the growth of the brand has been the double digit growths in the rural areas. This year the Bajaj Drops Almond Drops brand grew by just 4.7% in volumes. In comparison the brand grew 7% in the rural areas, with this 42.4% of the brand sales come from the rural areas.

Skin care

Like almost all the other segments within the FMCG industry the Skin Care segment also did not showed a low single digit volume growth. However in this segment specialized products such as the Anti Blemish/Anti mark Segment grew by 21.6% in value terms. Within this segment the growth was driven by Cream segment which grew by 22.1% on year to year basis.

SWOT Analysis

STRENGTHS

1. Strong brand portfolio
2. Enter in skin care product portfolio with **NOMARKS** brand
3. Good distribution network
4. Good brand visibility owing to TVCs and print ads campaigns
5. Non-stickiness adds to the product value
6. Packaging ensures its almond oil proposition is well visible

OPPORTUNITIES

1. To use non-traditional promotional strategies in order to penetrate the market
2. Try to introduce a packaging which not only speaks of its almond oil proposition but also doesn't break that easily

RISKS & CONCERNS

Raw material risk:- Any additional increase in prices of raw materials could hurt the operating margins of company. company is constantly exploring opportunities for hedging the cost of LLP through long term contracts, increasing existing storage facilities for LLP, adding new suppliers etc. The volatility in costs for packaging materials (another key input) is being tackled through advance contracts and developing new suppliers for packaging materials.

Inflation: Inflationary tendencies in the economy and weakening of macroeconomic indicators can impact the spending power of the consumer because of which down trading from branded products to non branded can occur which can affect the operating performance of the company.

Competition: The company operates in the highly competitive FMCG market with competitors who may have enhanced ability to spend more aggressively on advertising and marketing and more elasticity to respond to changing business & economic conditions.

Regulatory framework: Any unanticipated changes in regulatory framework pertaining to economic benefits and other related issues can affect its operations and profitability.

Valuation Conclusion

Company's growth will be fuelled by strengthening existing product portfolio as well as expansion in newer categories such as skin care products under **NOMARKS** brand. Acquisition of the No marks brand is a strategic move as it enhances its presence in the personal care market and gives us an entry in to the skin care category. It widens the Company's position in the personal care sector as Bajaj Almond Drop Hair Oil is already the third largest brand in the overall hair oil category. **The profitability of the company depends directly on the revenue generation of this premium brand. NOMARKS has a small export sale, through which enhance several times in the next couple of years by leveraging export infrastructure in the GCC, SAARC and the ASEAN region.**

Company plans to pursue acquisitions targeting niche brands and tap rural areas to push growth, particularly in light hair oil segment, can benefit BCL's strong distribution network so that they can be made pan India brands.

Furthermore, product diversification, brand name as well as increase in standard of living, urbanization would facilitate company to grow in near future.

Estimating the share price of the company as per P/E valuation, putting the estimated P/E of FY18E at 23x & the estimated EPS at ₹ 19.36, the estimated share price for next 1 year tenure turns around to be ₹ 440.

Therefore, we recommend to BUY this script.

Quarterly Results (₹ in cr except per share) unaudited					
Particulars	LTM	201612	201609	201606	201603
Net Sales	794.5	186.4	196.2	203.7	208.3
EBITDA	288.4	75.0	75.5	67.6	70.4
Depreciation	4.6	1.3	1.1	1.0	1.2
Op Income	283.8	73.7	74.4	66.6	69.2
Misc.Inc (Exp.)	43.6	13.8	14.9	8.4	6.6
Interest Exp	0.8	0.2	0.2	0.2	0.2
EBT	283.0	73.5	74.2	66.4	69.0
Taxes	60.4	15.7	15.9	14.2	14.7
Net Inc(Reg)	222.6	57.8	58.3	52.2	54.3
Extraord. Items	(25.1)	-	(6.6)	(9.2)	(9.2)
Rep Net Inc	247.7	57.8	64.9	61.4	63.5
EPS	15.1	3.9	4.0	3.5	3.7
Adj. EPS	16.8	3.9	4.4	4.2	4.3

Income Statement and Estimates (₹ in Cr except per share)						
Particulars	201403	201503	201603	2017E	2018E	2019E
Sales	670.68	823.82	874.22	795.05	890.45	1015.12
Oth. operating Income	1.05	1.80	2.19	2.74	3.45	4.35
Total Inc. from operations	671.73	825.62	876.41	797.79	893.90	1019.46
Operating EBITA	153.06	187.4	221.81	249.54	269.66	339.42
Profit & Loss						
Total Inc. from operations	671.73	825.62	876.41	797.79	893.90	1019.46
TOTAL EXPENDITURE	514.34	633.35	649.71	543.69	619.47	674.88
EBITDA	157.39	192.27	226.70	254.09	274.43	344.58
Depreciation	(4.33)	(4.87)	(4.89)	(4.55)	(4.77)	(5.16)
Reported profit before othinc., fin.cost,tax & excp. Item	153.06	187.40	221.81	249.54	269.66	339.42
Goodwill amortization	-	-	-	-	-	-
Reported profit before othinc., fin.cost,tax & excp. Item	153.06	187.40	221.81	249.54	269.66	339.42
OTHER INCOME	40.13	31.55	28.60	52.56	97.30	123.52
Profit from ordinary act. Before Fin.Cost, TAX & Exp.Items	193.19	218.95	250.41	302.10	366.96	462.94
Net financials						
Interest income	-	-	-	-	-	-
Interest expenses	(5.88)	(0.13)	(0.23)	(0.86)	(0.91)	(1.06)
Net Financial Items	(5.88)	(0.13)	(0.23)	(0.86)	(0.91)	(1.06)
Reported Pre-tax profit	187.31	218.82	250.18	301.24	366.05	461.89
Reported Tax charge	(38.36)	(46.15)	(53.83)	(66.27)	(80.53)	(101.61)
Reported Net profit	148.95	172.67	196.35	234.97	285.52	360.27
Minorities	-	-	-	-	-	-
P/L OF ASSOCIATE CO.	-	-	-	-	-	-
Reported NP after min. Interest	148.95	172.67	196.35	234.97	285.52	360.27
Extra Ordinary income	(22.72)	(37.06)	(36.87)	-	-	-
Reported Net Income after extra ordinary items	171.67	209.73	233.22	234.97	285.52	360.27

EPS and Dividend						
Dividend Paid	(103.25)	(177.00)	(177.00)	(176.93)	(177.17)	(178.15)
Retained earnings	68.42	32.73	56.22	58.04	108.36	182.12
Reported EPS	10.10	11.71	13.31	15.93	19.36	24.43
Adjusted EPS	11.64	14.22	15.81	15.93	19.36	24.43
DPS - originally declared	7.00	12.00	12.00	12.00	12.01	12.08

Number Of Shares						
Opening Balance	14.75	14.75	14.75	14.75	14.75	14.75
Issued during the Period	-	-	-	-	-	-
Closing Balance	14.75	14.75	14.75	14.75	14.75	14.75
FV	1.00	1.00	1.00	1.00	1.00	1.00
Wtd. Avg. no. of shares	14.75	14.75	14.75	14.75	14.75	14.75

Note:- The figures shown in the brackets means NEGATIVE.

BALANCE SHEET						
Particulars	201403	201503	201603	2017E	2018E	2019E
Equity & Liabilities						
Shareholders' Fund						
Share Capital	14.75	14.75	14.75	14.75	14.75	14.75
Reserves and Surplus	504.49	473.81	466.05	524.09	632.44	814.56
Minority Interests	-	-	-	-	-	-
Total Shareholders' Fund	519.24	488.56	480.80	538.84	647.19	829.31
Non-Current Liabilities						
Long-term Borrowings	-	-	-	-	-	-
Other Long term Liabilities	-	-	-	-	-	-
Deferred Tax Liability	0.39	0.55	0.68	0.82	1.02	1.23
Long term Provisions	-	-	-	-	-	-
Total Non-Current Liabilities	0.39	0.55	0.68	0.82	1.02	1.23
Current Liabilities						
Short term Borrowings	-	-	10.00	11.21	12.57	14.10
Trade Payables	40.55	51.43	43.51	39.89	60.61	73.40
other current liability	19.10	27.38	30.90	34.30	40.23	45.88
Short term Provisions	-	-	-	-	-	-
Total current Liabilities	59.65	78.81	84.41	85.41	113.41	133.38
Total Equity & Liabilities	579.28	567.92	565.89	625.09	761.61	963.94
Assets						
Non-Current Assets						
Fixed Assets						
Tangible fixed Assets	193.55	142.42	97.16	103.78	111.53	120.64
G/W on consolidation	43.00	43.00	43.00	43.00	43.00	43.00
Non-current Investments						
Long term Loans & advances	0.69	0.67	10.90	12.22	13.70	14.93
Other Non current Assets						
Deferred tax receivables	-	-	-	-	-	-
Total Non-Current Assets	237.24	186.09	151.06	159.00	168.22	178.57
Current Assets						
Current Investments	156.84	183.66	270.69	295.90	320.80	370.50
Inventories	39.45	39.27	50.19	43.08	59.00	66.27
Trade Receivables	8.37	13.26	25.35	23.14	29.50	35.68
Cash & cash Equivalents	129.20	134.18	57.79	93.32	173.28	301.28
Short Term Loans & advances	3.78	4.65	4.26	4.28	4.54	4.81
Other current Assets	4.40	6.80	6.55	6.38	6.26	6.83
Total current Assets	342.04	381.82	414.83	466.09	593.38	785.37
Total Assets	579.28	567.92	565.89	625.09	761.61	963.94
Cash & cash equivalents	129.20	134.18	57.79	93.32	173.28	301.28
Other int. bearing assets	156.84	183.66	270.69	295.90	320.80	370.50
Interest-bearing debt	19.10	27.38	40.90	45.52	52.80	59.97
Net interest-bearing debt	-	-	-	-	-	-
Net gearing (%)	-	-	-	-	-	-

Investments						
Tangible assets						
Gross capex	-	(0.77)	(17.00)	(11.17)	(12.51)	(14.27)
Sale of fixed assets	-	0.04	0.19	-	-	-
Net capex	-	(0.73)	(16.81)	(11.17)	(12.51)	(14.27)
Depreciation tangibles	-	(4.87)	(4.89)	(4.55)	(4.77)	(5.16)

Note:- The figures shown in the brackets means **NEGATIVE**.

CASH FLOW ANALYSIS						
Particulars	201403	201503	201603	2017E	2018E	2019E
EBIT	-	218.95	250.41	302.10	366.96	462.94
Depreciation	-	4.87	4.89	4.55	4.77	5.16
Depreciation (ex goodwill)	-	4.87	4.89	4.55	4.77	5.16
Movement in Inventories	-	0.18	(10.92)	7.11	(15.92)	(7.27)
Movement in Debtors	-	(4.89)	(12.09)	2.21	(6.36)	(6.18)
Movement in Creditors	-	10.88	(7.92)	(3.62)	20.72	12.79
Movement in other current Liab.	-	8.28	3.52	3.40	5.92	5.65
Other W.C Inc./decrease	-	14.56	18.80	-	-	-
Change in W.C	-	29.01	(8.61)	9.11	4.36	5.00
Tax paid	-	(46.15)	(53.83)	(66.27)	(80.53)	(101.61)
Operating Cash Flow	-	206.68	192.86	249.49	295.56	371.48
Net interest	-	(0.13)	(0.23)	(0.86)	(0.91)	(1.06)
Cash Earnings	-	206.55	192.63	248.63	294.65	370.42
Gross CapEx	-	(0.77)	(17.00)	(11.17)	(12.51)	(14.27)
Sale of fixed assets	-	0.04	0.19	-	-	-
Net CapEx	-	(0.73)	(16.81)	(11.17)	(12.51)	(14.27)
Free Cash Flow pre dividend	-	205.82	175.82	237.46	282.13	356.15
Dividend	-	(177.00)	(177.00)	(176.93)	(177.17)	(178.15)
Free Cash Flow post Dividend	-	28.82	(1.18)	60.53	104.97	178.00
Net acqui./disposals	-	-	-	-	-	-
Net cash flow	-	28.82	(1.18)	60.53	104.97	178.00

RATIO ANALYSIS						
Particulars	201403	201503	201603	2017E	2018E	2019E
Return on assets	59.27%	36.56%	41.14%	39.46%	41.18%	41.76%
Return on equity	66.12%	41.62%	48.12%	46.09%	48.15%	48.80%
ROCE	58.87%	37.12%	45.65%	48.80%	45.33%	45.84%
EBIT Margin	28.76%	26.52%	28.57%	37.87%	41.05%	45.41%
Pre tax margin	27.88%	26.50%	28.55%	37.76%	40.95%	45.31%
Net Profit Margin	25.56%	25.40%	26.61%	29.45%	31.94%	35.34%
Total asset turnover	2.32	1.44	1.55	1.34	1.29	1.18
Fixed asset turnover	6.94	4.91	7.32	7.94	8.30	8.78
Equity turnover	2.59	1.64	1.81	1.56	1.51	1.38
Current Ratio	5.73	4.84	4.91	5.46	5.23	5.89
Quick Ratio	5.07	4.35	4.32	4.95	4.71	5.39
Cash Ratio	2.17	1.70	0.68	1.09	1.53	2.26
Receivable Days	2.27	4.78	8.04	11.09	10.75	11.67
Inventory Days	14.00	22.68	25.13	31.31	30.07	33.87
Payable Days	13.36	26.51	26.23	28.37	28.86	35.85
Conversion Cycle (Days)	2.91	0.95	6.94	14.03	11.95	9.69
Financial Leverage Effect	0.92	0.92	0.97	1.08	0.96	0.96
Debt to Capital	0.04	0.05	0.08	0.08	0.08	0.07
Debt to Equity	0.04	0.06	0.09	0.08	0.08	0.07

Note:- The figures shown in the brackets means **NEGATIVE**.

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