



Bajaj Corp

Sector: FMCG

Q1FY17 Result Update

CMP: ₹ 404

“Weak Sales growth, Margin Expansion continues”

Recommendation: BUY

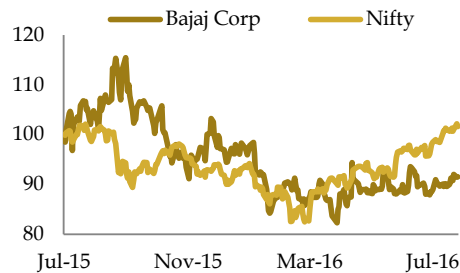
Market statistics

Current stock price (₹)	404
Shares O/S (cr.)	14.8
Mcap (₹ cr)	5,913
52W H/L (₹)	522/356
6m avg. volume	87,691
Bloomberg	BJCOR IN

Shareholding pattern

Promoters	66.86
Domestic Institution	2.28
Foreign Institution	24.96
Non-institution	5.90
of which more than 1%	
Baytree Investments (Mauritius) Pte Ltd	8.09
Matthews India Fund	4.44

Bajaj Corp vs Nifty



Capital efficiency & valuations

Particulars	FY16	FY17E	FY18E
ROE (%)	48.0	55.9	55.9
ROCE (%)	36.9	41.4	42.2
P/B(x)	12.0	10.5	8.6
P/E(x)	24.6	21.4	18.5
EPS (₹)	15.9	18.4	21.4
EV/OCF (x)	29.6	25.8	21.2

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Bajaj Corp, based on IND AS, has reported weak sales growth of 1.8% YoY to ₹2.04bn as compared to our expectation of 6.6% growth. ADHO (93% of sales) has shown 3.1% value growth with 2.2% volume growth. Nomarks remained under pressure and sales contracted by 16% during the quarter with 27% decline in volumes.

Gross Margin expansion continued and registered 400bps YoY expansion to 65.6%. LLP prices were down by 26% YoY & 5.4% QoQ. Refined oil prices grew by 3.9% YoY and -11.9% QoQ. Staff, Advertisement & Other expenses grew by 24%, 23% & -2% YoY, respectively. Hence, EBITDA Margin expanded by 170bps and stood at 34.7% of sales. EBITDA grew by 7% YoY.

Other income grew strongly by 26% and it was in-line with our expectation. Reported PAT saw a 10% growth to ₹522mn while APAT (excluding exceptional item) grew by 9% to ₹616mn - our expectation was ₹638mn.

Weakness persisting both in Urban & Rural impacts ADHO volume growth

ADHO has shown weak 2.2% volume growth (cases) in Q1FY17 largely due to sluggish demand both in Urban & Rural. Slowdown in Light Hair Oil category is also creating hindrance in uptick of volume growth for ADHO. Urban growth declined by 5% while rural grew mere 1.1%YoY. With favorable base of ADHO, pickup in urban demand and better monsoon can result into better sales performance in the subsequent quarters.

Nomarks slows down continues, maintain long term outlook positive

Nomarks reported dismal sales of ₹64mn in Q1FY17 (₹76mn in Q1FY16), de-growth by 15.8% YoY. Management's efforts of transforming Nomarks brand from problem solving to personal has not translated into growth of Nomarks. Hence, company has guided of new strategy which would be operational from next quarter for upliftment of Nomarks brand.

Highest EBITDA Margin of 34.7% in last 25 qtrs

LLP prices reduced by 26% YoY (contribute 26% of RM) while Vegetable oil prices increased by 3.9% (contribute 12% of RM) has resulted into gross margin expansion of +400bps YoY. Staff expenses grew strongly by 24% YoY due to higher attrition rate. A&P expenses grew by 8% while other expenses were down by 2% YoY, Hence EBITDA Margin expanded by 170bps to 34.7% - highest in last 5-6 years. Downward trajectory of LLP prices gives us confidence that Bajaj Corp would continue to expand gross margin for the few more quarters.

Outlook & Valuation

The current lull consumption environment has also been impacting strong brand like ADHO too. We believe Bajaj Corp would be among the first to gain benefit once consumption improves.

We maintain BUY Rating: We like the stock and expect several positives to come in the medium to long term. Our investment thesis is (1) Anticipation of healthy sales growth backed by better volume growth for ADHO in the medium term, (2) Better control on Nomarks business with strong gross margin, (3) Favorable product mix (lower sachet due to urban pickup) would translate into full price hike benefit, (4) Softening of LLP prices and (5) Despite healthy RoCE & high dividend payout, Bajaj Corp's valuation discount is high as compared to peers.

The stock trades at attractive valuation of 21.4x and 18.5x P/E of FY17 & FY18 our estimated EPS, respectively.

We maintain our BUY rating.



Conference Call Highlight

- ❖ **Weak Q1FY17 performance:** Management mentioned that Q1FY17 performance was subdued due to (1) Slowdown in both Rural & Urban (2) Decline in Light Hair Oil Category
- ❖ **No Price upward revision:** Management mentioned that they refrained themselves from taking price hike as they don't have any pressure on gross margin, volumes are not improving and also competition is avoiding price hike.
- ❖ **Marginal decline in Market Share in key States due to re-launch of Keo Karpin:** Bajaj Corp's volume market share declined to 57.4% in Q1FY17 largely due to slow growth in UP & Bihar regions on account of Keo Karpin re-launch. Management is confident of regaining market share as Bajaj Corp invests more than Keo Karpin.
- ❖ **LLP prices continue to drop while Vegetable oil prices are increasing:** Gross Margin continue to expand in Q1FY17 as LLP prices continue to maintain downward trajectory and stood at ₹ 43.9 per kg. Management mentioned LLP prices would be largely remain at this level going ahead.
- ❖ **Amla Hair Oil doing well, expanded to 11 states:** Management mentioned that Amla hair oil is gaining acceptance and market share has gone up. Now they have started selling in 11 states and they expect healthy growth in coming quarters.
- ❖ **Working on New Strategy to uplift Nomarks brand:** Nomarks faced negative growth of 15.8% YoY in the quarter. Management efforts of transforming Nomarks brand from problem solving to personal care has not showing positive results hence, company is focusing to come up with new strategy for revival & position it as personal care.
- ❖ **Robust International Sales growth of 82% growth.** Exports grew strongly by 82% growth which forms 4% of sales.

**Exhibit 1. Quarterly Performance**

Particulars (₹ mn)	Q1FY16	Q1FY17	YoY Chg (%)
Net Sales	2,001	2,037	1.8
Other Operating Income	7	6	-22.2
Total Income	2,009	2,043	1.7
Gross Profit	1,236	1,339	8.3
Gross Margin %	62	66	400bps
Staff	111	138	24.1
% of Net Sales	5.6	6.8	122bps
Advertisements	153	188	23.0
% of Net Sales	12.3	13.0	72bps
Promotion	93	77	-17.3
% of Net Sales	4.6	3.8	-87bps
Other Expenses	216	227	5.0
% of Net Sales	10.8	11.1	34bps
EBITDA	664	710	6.9
EBITDA Margin%	33.0	34.7	170bps
Reported PAT	474	522	10.2
Adjusted PAT	566	616	8.9

Source: Company, Trust

Exhibit 2. Revenue Breakup (₹ mn)

Brands	Q1FY16	Q1FY17	Sales Gr. (%)	Vol Gr. (%)
ADHO	1,831	1,887	3.1	2.2
KPCO	13	6	(49.6)	0.6
BAHO	27	24	(11.9)	(16.1)
AHO	43	42	(2.1)	-
OTHERS	12	15	20.7	8.2
NOMARKS	76	64	(15.8)	(27.4)
Total	2,001	2,037	1.8	0.8

Source: Company, Trust

Exhibit 3. Revenue Mix (%)

Brands	Q1FY16	Q1FY17
ADHO	91.5	92.6
KPCO	0.6	0.3
BAHO	1.3	1.2
AHO	2.1	-
OTHERS	0.6	0.7
Nomarks	3.8	3.1
Total	100.0	100.0

Source: Company, Trust

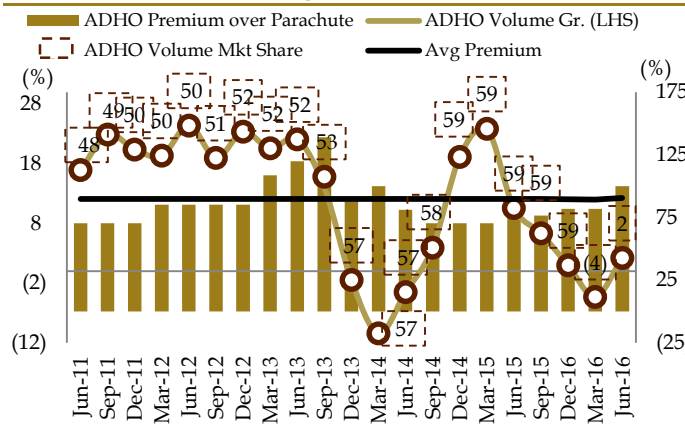


Exhibit 4. ADHO Market Share

Market Share (%)	FY08	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Q1FY17
Value	40.3	46.5	50.7	53.0	55.0	56.9	58.4	59.7	60.7	60.2
Volume	38.4	44.1	48.0	49.1	51.9	54.5	56.6	57.7	58.0	57.4

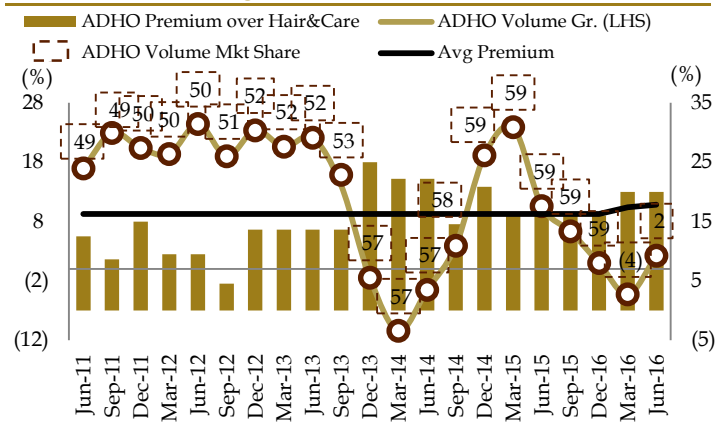
Source: Company, Trust

Exhibit 5. ADHO has consistently expanded market share despite rise/fall in the price premium over Parachute hair oil, it defines the strong price power of the ADHO...



Source: Company, Trust

Exhibit 6. ADHO has consistently expanded market share despite rise/fall in the price premium over Hair & Care, it defines the strong price power of the ADHO...



Source: Company, Trust

Exhibit 7. State-wise Market Share

States	LHO Volume Saliency (%)			ADHO Market Share (%)		
	Q1FY16	Q1FY17	Change	Q1FY16	Q1FY17	Change
Punjab	5.8	4.0	-180bps	53.8	54.9	110bps
Haryana	5.5	6.0	50bps	60.4	57.3	-310bps
Delhi	5.9	6.0	10bps	59.3	55.5	-380bps
Rajasthan	8.6	6.0	-260bps	48.2	46.0	-220bps
Uttar Pradesh	21.5	25.0	350bps	63.4	62.1	-130bps
HP-JK	1.0	1.0	0bps	0.0	50.6	
Uttaranchal	1.0	1.0	0bps	59.9	59.9	0bps
Assam	5.1	3.0	-210bps	59.9	66.7	680bps
Bihar	5.1	8.0	290bps	77.2	76.9	-30bps
Jharkhand	1.3	2.0	70bps	74.9	68.8	-610bps
North East		1.0	na		44.5	na
Orissa	1.3	2.0	70bps	62.3	67.7	540bps
West Bengal	7.4	7.0	-40bps	47.0	42.5	-450bps
Gujarat	5.9	4.0	-190bps	53.1	55.7	260bps
Madhya Pradesh	12.3	10.0	-230bps	61.3	57.5	-380bps
Chhattisgarh	3.7	4.0	30bps	75.8	71.8	-400bps
Maharashtra	6.3	7.0	70bps	59.7	58.3	-140bps
Karnataka	1.2	1.0	-20bps	60.9	67.6	670bps
Andhra Pradesh	1.4	1.0	-40bps	36.9	49.1	1,220bps
Tamil Nadu	0.5	0.0	-50bps	23.6	34.2	1,060bps
Kerala	0.1	0.0	-10bps	23.5	25.1	160bps
Total	100.0	100.0	0bps	58.9	57.7	-120bps

Source: Company, Trust

**Exhibit 8. Key Raw Material Trend**

Particulars	Jun-14	Sep-14	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16
LLP									
(% of total RM)	39.0	37.5	34.4	34.4	32.8	31.2	30.3	26.7	25.7
(% of total sales)	16.0	14.7	13.1	13.1	11.5	11.0	10.3	0.0	0.0
Price (₹/kg)	86.0	84.3	75.0	62.4	59.5	58.8	54.7	46.4	43.9
YoY Growth (%)	16.9	11.9	(1.1)	(20.8)	(30.8)	(30.2)	(27.1)	(25.6)	(26.2)
QoQ Growth (%)	9.1	(2.0)	(11.0)	(16.8)	(4.6)	(1.2)	(7.0)	(15.2)	(5.4)
Refined Oil									
(% of total RM)	9.4	9.0	9.5	9.5	10.7	12.0	14.0	11.5	11.9
(% of total sales)	3.9	3.5	3.6	3.6	3.8	4.2	4.8	0.0	0.0
Price (₹/kg)	70.2	70.0	70.9	74.0	73.2	82.0	93.8	86.2	76.0
YoY Growth (%)	(2.4)	(1.2)	(6.9)	(2.1)	4.2	17.2	32.2	16.4	3.9
QoQ Growth (%)	(7.2)	(0.3)	1.3	4.4	(1.2)	12.1	14.3	(8.1)	(11.9)

Source: Company, Trust



Financials

P&L Statement

Y/E Mar (` mn)	FY14	FY15	FY16	FY17E	FY18E
Net Revenues	6,717	8,256	8,764	9,440	10,824
% Growth	10.7	22.9	6.2	7.7	14.7
Raw Material	2,688	3,162	2,980	3,101	3,545
Staff	342	390	475	531	594
Other Expenses	1,828	2,312	2,572	2,657	3,034
Total Expenditures	4,857	5,864	6,027	6,289	7,174
EBITDA	1,860	2,392	2,737	3,150	3,650
% Growth	7.6	28.6	14.4	15.1	15.9
EBITDA Margins (%)	27.7	29.0	31.2	33.4	33.7
Other Income	401	316	286	344	400
Interest	59	1	2	2	-
Depreciation	43	49	49	52	57
Profit Before Tax	2,159	2,658	2,972	3,441	3,993
Provision for tax	384	462	538	671	800
Effective tax rate (%)	20.5	21.1	21.5	21.1	21.0
Reported PAT	1,489	1,727	1,964	2,514	3,009
% Growth	(11.0)	15.9	13.7	28.0	19.7
Adjusted Net Profit	1,717	2,098	2,344	2,718	3,156
% Growth	2.5	22.2	11.7	16.0	16.1

Balance Sheet

₹ mn (Y/E Mar)	FY14	FY15	FY16	FY17E	FY18E
Share Capital	148	148	148	148	148
Net Worth	5,192	4,886	4,808	5,546	6,780
Total Non-Current Liabilities	4	5	107	107	107
Total Current Liabilities	597	788	744	785	883
Total	5,793	5,679	5,659	6,438	7,769
Fixed Assets	1,936	1,424	972	765	879
Non-Current Investments	-	-	-	-	-
Long Term Loans & Advances	6	7	109	117	135
Currents Investments	1,568	1,837	2,707	2,707	2,707
Inventories	395	393	502	541	620
Sundry Debtors	84	133	254	273	313
Cash and Bank	1,292	1,342	578	1,507	2,587
Other Current Assets	44	68	65	65	65
Short Term Loans and Advances	38	46	43	33	33
Total	5,793	5,679	5,659	6,438	7,769



Cash flow

₹ mn (Y/E Mar)	FY14	FY15	FY16	FY17E	FY18E
Pre-tax profit	2,159	2,658	2,972	3,185	3,809
Depreciation	43	49	49	52	57
Total tax paid	(393)	(459)	(532)	(671)	(800)
Chg in working capital	(150)	135	(276)	(17)	(39)
Other operating activities	(402)	(316)	(284)	(344)	(400)
Cash flow from oper. (a)	1,258	2,066	1,929	2,205	2,628
Capital expenditure	(1,467)	(7)	(168)	(100)	(100)
Chg in investments	335	(206)	(837)	-	-
Other investing activities	1,167	18	1,064	344	400
Cash flow from inv. (b)	35	(195)	59	244	300
Free cash flow (a+b)	(209)	2,059	1,760	2,105	2,528
Equity raised/(repaid)	-	-	-	0	0
Debt raised/(repaid)	-	-	100	-	-
Dividend (incl. tax)	(1,122)	(2,035)	(2,041)	(1,776)	(1,776)
Other financing activities	-	-	(1)	-	-
Cash flow from fin. (c)	(1,122)	(2,035)	(1,942)	(1,776)	(1,776)
Net chg in cash (a+b+c)	172	(165)	46	673	1,152

Key Ratios

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
Raw Material Cost/Sales (%)	40.0	38.3	34.0	32.9	32.8
Manpower Cost/Sales (%)	5.1	4.7	5.4	5.6	5.5
Operating & Other Cost/Sales (%)	27.2	28.0	29.3	28.2	28.0
Revenue Growth (%)	10.7	22.9	6.2	7.7	14.7
EBITDA Margins (%)	27.7	29.0	31.2	33.4	33.7
EBITDA Growth (%)	7.6	28.6	14.4	15.1	15.9
Net Income Margins (%)	25.6	25.4	26.7	28.8	29.2
ROCE (%)	30.2	29.6	36.9	41.4	42.2
ROE (%)	35.1	35.0	48.0	55.9	55.9

Valuation Parameters

Y/E Mar	FY14	FY15	FY16	FY17E	FY18E
EPS (₹.)	11.6	14.2	15.9	18.4	21.4
P/E (x)	18.6	28.5	24.6	21.4	18.5
BV (₹)	32.7	35.2	33.1	32.6	37.6
P/BV (x)	6.2	12.2	12.0	10.5	8.6
EV/EBITDA (x)	16.5	24.4	20.8	18.1	15.3
PCE (x)	18.2	27.8	24.0	21.0	18.1
Net Debt/Equity (x)	(0.2)	(0.3)	(0.1)	(0.3)	(0.4)
EV/Sales (x)	4.6	7.1	6.5	6.0	5.2



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