

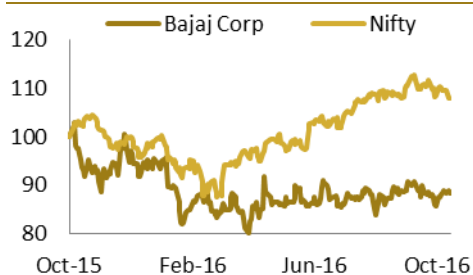
### Market statistics

Current stock price (₹)	385
Shares O/S (cr.)	14.8
Mcap (₹ cr)	5,685
52W H/L (₹)	439/325
6m avg. volume	101,227
Bloomberg	BJCOR IN

### Shareholding pattern

Promoters	66.86
Domestic Institution	4.46
Foreign Institution	23.40
Non-institution	5.28

### Bajaj Corp vs Nifty



### Capital efficiency & valuations

Particulars	FY17E	FY18E	FY19E
ROE (%)	55.9	51.5	44.8
ROCE (%)	41.4	40.5	37.7
P/B(x)	10.4	8.8	7.4
P/E(x)	22.3	20.4	19.1
EPS (₹)	17.3	18.9	20.2
EV/OCF (x)	27.8	24.9	23.7

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**Bajaj Corp, based on IND AS, has reported sales de-growth of 4.8% YoY to ₹1.86bn – better than our expectation of -6.4%. ADHO (94% of sales) declined by 2.7% YoY resulted due to by 4.2% decline in volumes. This performance was on expected lines in wake of demonetization event & weak demand. Nomarks continue to remain under pressure and sales contracted by 35% during the quarter with 36% decline in volumes.**

**Gross Margin expansion continued and registered 258bps YoY expansion to 65.6%. LLP prices were down by 15.2% YoY & grew by 4.1% on QoQ. Refined oil prices were down by 10.4% YoY & grew by 7.1% QoQ. Postponement of launch of new Ad Campaign from nov to dec resulted into Ad spends de-growth by 15% YoY. Their focus on expansion of eminence manpower led to 37% growth in employee expenses. Other expenses too grew by 13%YoY. Hence, EBITDA declined by 9.8% YoY & EBITDA Margin contracted by 9bps and stood at 32.7% of sales.**

**Other income grew strongly by 76.8% to ₹138mn - much higher than our expectation. Hence, Reported PAT saw a 17.1% growth to ₹577mn while APAT (excluding exceptional item) de-grew by 1.4% to ₹577mn - our expectation was ₹584mn.**

### Demonetization disrupts distribution channel impacting ADHO.

ADHO sales picked up in Oct but introduction of Demonetization in mid nov led nearly 30% dip in sales till nov end. However, consumer offtakes improved in dec but there is de-stocking happening at wholesaler level. As per industry sources, wholesalers 80% of sales get unaccounted, hence demonetization drive would bring them under the ambit of taxation, possibly preventing them to hold huge stocks. Wholesaler channel of Bajaj Corp forms 40% of sales has dropped by 30%. Management stated that the wholesaler overhang can continue in near term while GST implementation would further impact the performance. However, company is looking forward to improve its direct reach thereby reducing its dependence on wholesaler channel. We expect with favorable base of ADHO, pickup in urban demand and better monsoon can provide cushion to challenging operating environment and would result into better sales performance in the subsequent quarters.

### Nomarks performance disappoints, new strategy underway

Nomarks reported dismal sales of ₹53mn in Q3FY17 (₹81mn in Q3FY16), de-growth by 35.0% YoY. Company has undertaken new strategy in one state to start with, depending on its results; strategy would be replicated in other states also.

### Robust International Sales growth of 72% YoY

International Sales (5% of sales) saw whopping growth of 72% in Q3FY17. Management plans to expand in Russia, Indonesia & Egypt in next couple of qtrs. Company expects to garner ₹ 700mn in FY17.

### Outlook & Valuation

The current lull consumption environment coupled with Demonetization event has been impacting strong brand like ADHO too. We believe Bajaj Corp would be among the first to gain benefit once consumption improves & trade channel is streamlined. 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) Expectation of revival in Nomarks business (3) Aggressive on International Business (4) Despite healthy RoCE & high dividend payout, Bajaj Corp's valuation discount is high as compared to peers. The stock trades at attractive valuation of 20.4x and 19.1x P/E of FY18 & FY19 our estimated EPS, respectively. **We maintain our BUY rating.**



### Conference Call Highlight

- ❖ **CSD sales most impacted while modern trade posted strong growth:** Management mentioned that CSD sales declined by 13.5% while modern trade (5.2% of sales) jumps by 25% YoY- highest in last 3 quarters.
- ❖ **LLP & Vegetable oil rose on QoQ basis but still lower on YoY basis:** Gross Margin continues to expand in Q3FY17 as LLP & Vegetable prices are down by 15.2% & 10.4% YoY. While on QoQ basis, LLP & Vegetable prices moved up by 4.1% & 7.1%. Hence, we expect in coming qtrs, gross margin expansion would be limited.
- ❖ **Working on New Strategy to uplift Nomarks brand:** Nomarks faced negative growth of 35%YoY in the quarter. Company is focusing on one state which forms 40% of anti-marks category sales for prototyping new strategy. However, depending on results, strategy would be rolled out in other states.
- ❖ **Robust International Sales growth of 72% growth.** International sales during the quarter registered 72% growth YoY forming 5% of total company sales. Management guided that they planned to enter Russia, Indonesia and Egypt in next quarters. They also stated that Nomarks will lead in International Business and expects to contribute 75% of International Sales by 2-3 years. Expects ₹700mn sales from International in FY17
- ❖ **Automated Sales system to provide better monitoring of secondary sales:** Management mentioned that with the help of Automated Sales system, they would be able to monitor real time secondary sales. 600 largest distributors are connected with this system. This system would help to review order booking & measure productivity with 775 sales force linked with this system.

**Exhibit 1. Quarterly Performance**

Particulars (Rs mn)	Q1FY17	Q2FY17	Q3FY17
<b>Net Sales</b>	<b>2,037</b>	<b>1,961</b>	<b>1,864</b>
YoY Gr%	1.8	3.5	(4.8)
<b>Total Income</b>	<b>2,043</b>	<b>1,968</b>	<b>1,869</b>
YoY Gr%	1.7	3.5	(4.7)
<b>Gross Profit</b>	<b>1,339</b>	<b>1,306</b>	<b>1,225</b>
Gross Margin %	65.6	66.4	65.6
Staff	138	146	157
YoY Gr%	24.1	30.8	37.0
% of Net Sales	6.8	7.5	8.4
YoY Change	122bps	156bps	257bps
Advertisements	188	156	130
YoY Gr%	23.0	42.9	(15.3)
% of Net Sales	13.0	13.7	13.3
YoY Change	159bps	219bps	-87bps
Promotion	77	114	119
YoY Gr%	(17.3)	37.1	54.0
% of Net Sales	3.8	5.8	6.4
YoY Change	-87bps	142bps	243bps
Other Expenses	227	218	208
YoY Gr%	5.0	(0.9)	(1.8)
% of Net Sales	11.1	11.1	11.2
YoY Change	34bps	-49bps	33bps
<b>EBITDA</b>	<b>710</b>	<b>672</b>	<b>612</b>
YoY Gr%	6.9	3.8	(9.8)
<b>EBITDA Margin%</b>	<b>34.7</b>	<b>34.2</b>	<b>32.7</b>
YoY Change	170bps	9bps	-185bps
<b>Reported PAT</b>	<b>522</b>	<b>583</b>	<b>577</b>
YoY Gr%	10.2	23.7	17.1
<b>Adjusted PAT</b>	<b>615</b>	<b>635</b>	<b>577</b>
YoY Gr%	8.6	12.6	(1.4)

Source: Company, Trust

**Exhibit 2. Revenue Breakup (₹ mn)**

Brands	Q3FY16	Q3FY17	Sales Gr. (%)	Vol Gr. (%)
ADHO	1,802	1,753	(2.7)	(4.2)
KPCO	1	1	(33.3)	(22.5)
BAHO	25	23	(4.5)	(10.0)
AHO	36	25	(31.4)	(37.4)
OTHERS	12	9	(23.3)	(27.8)
NOMARKS	81	53	(34.9)	(36.3)
<b>Total</b>	<b>1,957</b>	<b>1,864</b>	<b>(4.8)</b>	<b>(6.5)</b>

Source: Company, Trust



**Exhibit 3. Revenue Mix (%)**

Brands	Q1FY16	Q2FY16	Q3FY16	Q1FY17	Q2FY17	Q3FY17
ADHO	91.5	91.0	92.1	92.6	92.4	94.0
KPCO	0.6	0.1	0.1	0.3	0.1	0.0
BAHO	1.3	1.7	1.3	1.2	1.6	1.3
AHO	2.1	2.0	1.9	2.0	1.9	1.3
OTHERS	0.6	0.8	0.6	0.7	0.7	0.5
Nomarks	3.8	4.4	4.1	3.1	3.3	2.8
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

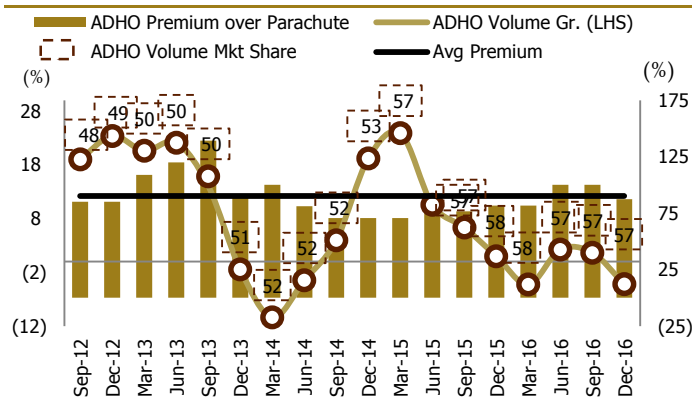
Source: Company, Trust

**Exhibit 4. ADHO Market Share**

Market Share (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	Q1FY17	Q2FY17	Q3FY17
Value	46.5	50.7	53.0	55.0	56.9	58.4	59.7	60.7	60.2	59.9	59.9
Volume	44.1	48.0	49.1	51.9	54.5	56.6	57.7	58.0	57.4	57.0	57.1

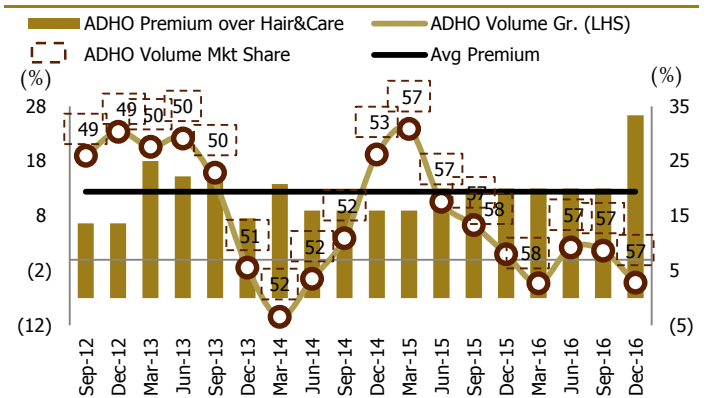
Source: Company, Trust

**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 (%)		
	Q3FY16	Q3FY17	Change	Q3FY16	Q3FY17	Change
Punjab	6.0	4.2	-180bps	53.0	53.9	90bps
Haryana	6.0	6.1	10bps	59.0	58.7	-30bps
Delhi	6.0	6.3	30bps	59.0	55.1	-390bps
Rajasthan	8.0	7.4	-60bps	47.0	46.4	-60bps
HP-JK	0.0	0.6	60bps	0.0	49.4	na
Uttar Pradesh	22.0	23.3	130bps	62.0	60.8	-120bps
Uttaranchal	1.0	1.0	0bps	62.0	58.5	-350bps
Assam	5.0	2.7	-230bps	55.0	65.7	1,070bps
Bihar	5.0	5.8	80bps	77.0	78.1	110bps
Jharkhand	1.0	1.3	30bps	74.0	68.9	-510bps
North East	0.0	2.1	210bps	0.0	41.3	na
Orissa	1.0	1.8	80bps	65.0	66.6	160bps
West Bengal	7.0	9.7	270bps	50.0	43.5	-650bps
Gujarat	6.0	4.3	-170bps	54.0	52.9	-110bps
Madhya Pradesh	12.0	10.2	-180bps	61.0	55.6	-540bps
Chhattisgarh	4.0	3.0	-100bps	74.0	69.5	-450bps
Maharashtra	6.0	7.2	120bps	60.0	58.3	-170bps
Karnataka	1.0	1.1	10bps	63.0	65.6	260bps
Andhra Pradesh	1.0	1.3	30bps	35.0	49.3	1,430bps
Tamil Nadu	1.0	0.5	-50bps	22.0	32.7	1,070bps
Kerala	0.0	0.2	20bps	23.0	29.7	670bps
Total	100.0	100.0	0bps	59.0	57.1	-190bps

Source: Company, Trust

**Exhibit 8. Key Raw Material Trend**

Particulars	Dec-14	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16
LLP									
(% of total RM)	34.4	34.4	32.8	31.2	30.3	26.7	25.7	24.0	24.3
(% of total sales)	13.1	13.1	11.5	11.0	10.3	8.9	11.5	8.2	8.3
<b>Price (₹/kg)</b>	<b>75.0</b>	<b>62.4</b>	<b>59.5</b>	<b>58.8</b>	<b>54.7</b>	<b>46.4</b>	<b>43.9</b>	<b>44.6</b>	<b>46.4</b>
YoY Growth (%)	(1.1)	(20.8)	(30.8)	(30.2)	(27.1)	(25.6)	(26.2)	(24.3)	(15.2)
QoQ Growth (%)	(11.0)	(16.8)	(4.6)	(1.2)	(7.0)	(15.2)	(5.4)	1.5	4.1
Refined Oil									
(% of total RM)	9.5	9.5	10.7	12.0	14.0	11.5	11.9	12.9	13.4
(% of total sales)	3.6	3.6	3.8	4.2	4.8	4.5	3.8	4.4	4.6
<b>Price (₹/kg)</b>	<b>70.9</b>	<b>74.0</b>	<b>73.2</b>	<b>82.0</b>	<b>93.8</b>	<b>86.2</b>	<b>76.0</b>	<b>78.4</b>	<b>84.0</b>
YoY Growth (%)	(6.9)	(2.1)	4.2	17.2	32.2	16.4	3.9	(4.4)	(10.4)
QoQ Growth (%)	1.3	4.4	(1.2)	12.1	14.3	(8.1)	(11.9)	3.2	7.1

Source: Company, Trust



## Financials

### P&L Statement

Y/E Mar (₹ mn)	FY15	FY16	FY17E	FY18E	FY19E
<b>Net Revenues</b>	<b>8,256</b>	<b>8,764</b>	<b>8,998</b>	<b>9,722</b>	<b>10,822</b>
% Growth	22.9	6.2	2.7	8.0	11.3
Raw Material	3,162	2,980	2,874	3,182	3,637
Staff	390	475	576	645	722
Other Expenses	2,312	2,572	2,696	2,948	3,384
Total Expenditures	5,864	6,027	6,146	6,775	7,743
<b>EBITDA</b>	<b>2,392</b>	<b>2,737</b>	<b>2,852</b>	<b>2,947</b>	<b>3,079</b>
% Growth	28.6	14.4	4.2	3.3	4.5
EBITDA Margins (%)	29.0	31.2	31.7	30.3	28.4
Other Income	316	286	449	641	761
Interest	1	2	9	5	5
Depreciation	49	49	52	57	61
<b>Profit Before Tax</b>	<b>2,658</b>	<b>2,972</b>	<b>3,240</b>	<b>3,526</b>	<b>3,773</b>
Provision for tax	462	538	649	740	792
Effective tax rate (%)	21.1	21.5	21.3	21.0	21.0
<b>Reported PAT</b>	<b>1,727</b>	<b>1,964</b>	<b>2,406</b>	<b>2,786</b>	<b>2,980</b>
% Growth	15.9	13.7	22.5	15.8	7.0
<b>Adjusted Net Profit</b>	<b>2,098</b>	<b>2,345</b>	<b>2,551</b>	<b>2,786</b>	<b>2,980</b>
% Growth	22.2	11.8	8.8	9.2	7.0

### Balance Sheet

₹ mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Share Capital	148	148	148	148	148
<b>Net Worth</b>	<b>4,886</b>	<b>4,808</b>	<b>5,438</b>	<b>6,448</b>	<b>7,653</b>
Total Non-Current Liabilities	5	107	107	107	107
Total Current Liabilities	788	744	751	830	933
<b>Total</b>	<b>5,679</b>	<b>5,659</b>	<b>6,297</b>	<b>7,385</b>	<b>8,692</b>
Fixed Assets	1,424	972	836	1,063	1,102
Non-Current Investments	-	-	-	-	-
Long Term Loans & Advances	7	109	112	121	135
Currents Investments	1,837	2,707	2,807	2,907	3,007
Inventories	393	502	515	557	620
Sundry Debtors	133	254	260	281	313
Cash and Bank	1,342	578	1,238	1,927	2,987
Other Current Assets	68	65	65	65	65
Short Term Loans and Advances	46	43	33	33	33
<b>Total</b>	<b>5,679</b>	<b>5,659</b>	<b>6,297</b>	<b>7,385</b>	<b>8,692</b>

**Cash flow**

₹ mn (Y/E Mar)	FY15	FY16	FY17E	FY18E	FY19E
Pre-tax profit	2,658	2,972	3,056	3,526	3,773
Depreciation	49	49	52	57	61
Total tax paid	(459)	(532)	(649)	(740)	(792)
Chg in working capital	135	(276)	(6)	7	(6)
Other operating activities	(316)	(284)	(449)	(641)	(761)
<b>Cash flow from oper. (a)</b>	<b>2,066</b>	<b>1,929</b>	<b>2,003</b>	<b>2,209</b>	<b>2,275</b>
Capital expenditure	(7)	(168)	(100)	(100)	(100)
Chg in investments	(206)	(837)	(100)	(100)	(100)
Other investing activities	18	1,064	449	641	761
<b>Cash flow from inv. (b)</b>	<b>(195)</b>	<b>59</b>	<b>249</b>	<b>441</b>	<b>561</b>
<b>Free cash flow (a+b)</b>	<b>2,059</b>	<b>1,760</b>	<b>1,903</b>	<b>2,109</b>	<b>2,175</b>
Equity raised/(repaid)	-	-	0	(0)	(0)
Debt raised/(repaid)	-	100	-	-	-
Dividend (incl. tax)	(2,035)	(2,041)	(1,776)	(1,776)	(1,776)
Other financing activities	-	(1)	-	-	-
<b>Cash flow from fin. (c)</b>	<b>(2,035)</b>	<b>(1,942)</b>	<b>(1,776)</b>	<b>(1,776)</b>	<b>(1,776)</b>
Net chg in cash (a+b+c)	(165)	46	476	873	1,060

**Key Ratios**

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
Raw Material Cost/Sales (%)	34.0	31.9	32.7	33.6	34.0
Manpower Cost/Sales (%)	5.4	6.4	6.6	6.7	5.4
Operating & Other Cost/Sales (%)	29.3	30.0	30.3	31.3	29.3
Revenue Growth (%)	6.2	2.7	8.0	11.3	6.2
EBITDA Margins (%)	31.2	31.7	30.3	28.4	31.2
EBITDA Growth (%)	14.4	4.2	3.3	4.5	14.4
Net Income Margins (%)	26.8	28.4	28.7	27.5	26.8
ROCE (%)	36.9	41.4	40.5	37.7	36.9
ROE (%)	48.0	55.9	51.5	44.8	48.0

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17E	FY18E	FY19E
EPS (₹.)	15.9	17.3	18.9	20.2	15.9
P/E (x)	24.5	22.3	20.4	19.1	24.5
BV (₹)	33.1	32.6	36.9	43.7	33.1
P/BV (x)	12.0	10.4	8.8	7.4	12.0
EV/EBITDA (x)	20.8	19.5	18.7	17.5	20.8
PCE (x)	24.0	21.8	20.0	18.7	24.0
Net Debt/Equity (x)	(0.1)	(0.2)	(0.3)	(0.4)	(0.1)
EV/Sales (x)	6.5	6.2	5.7	5.0	6.5



## Institutional Equity Team

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