

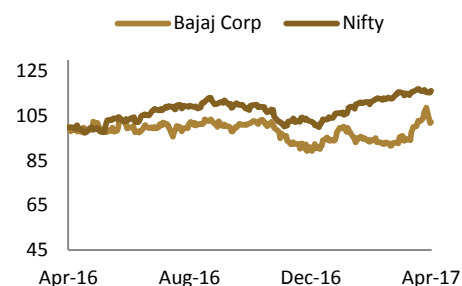
**Market statistics**

Current stock price (Rs )	404
Shares O/S (cr.)	14.8
Mcap (Rs cr)	5,956
52W H/L (Rs )	436
6m avg. volume	78,496
Bloomberg	BJCOR IN

**Shareholding pattern**

Promoters	66.86
Domestic Institution	5.52
Foreign Institution	22.87
Non-institution	4.75

**Bajaj Corp vs Nifty**



**Capital efficiency & valuations**

Particulars	FY17E	FY18E	FY19E
ROE (%)	55.9	52.3	48.4
ROCE (%)	41.2	39.3	39.8
P/B(x)	11.9	10.7	9.2
P/E(x)	25.4	22.6	20.2
EPS (Rs )	15.7	17.6	19.7
EV/OCF (x)	30.9	28.6	25.9

Bajaj Corp, based on IND AS, has reported sales de-growth of 2.0% YoY to Rs2.04bn - lower than our expectation of 3.8% growth. ADHO (93% of sales) declined by 2.3% YoY resulted due to by 7.1% decline in volumes. Weak LHO market & disruption in wholesale channel continues to hamper volume growth. Nomarks performance improved after 7 qtrs of negative growth and showed 5.1% sales growth.

Gross Margin expansion continued and registered 287bps YoY expansion to 67.3%. LLP prices were down by 0.4% & 0.3% on YoY & QoQ basis. Refined oil prices were down by 3.3% YoY & grew by 2.0% QoQ. Launch of new Ad campaign largely for Nomarks resulted into 4.4% growth in Ad spends. Their focus on expansion of eminence manpower led to 26% growth in employee expenses. Other expenses too grew by 26%YoY driven by costs incurred for infrastructure building for direct channel. Management guided higher growth in other expenses would continue for few more coming qtrs. Hence, EBITDA declined by 12.3% YoY & EBITDA Margin contracted by 378bps and stood at 32.4% of sales. Lower other income further impacted the bottom-line Hence, Reported PAT saw a 2.8% de-growth to Rs527mn while APAT (excluding exceptional item) de-grew by 18.3% to Rs519mn.

Consolidated Sales was flat by -0.4%YoY in FY17 to Rs 7,969mn while EBITDA de-grew by 3.7% & EBITDA margin declined by 114bps to 33.1%. APAT was flat by -0.7% YoY to Rs 2,319mn.

**Weak LHO market & disruption in wholesale channel continues to impact ADHO.**

ADHO sales volume declined by 7.1% against backdrop of de-stocking in wholesale and sluggish LHO market. As per industry sources, wholesalers 80% of sales get unaccounted, hence demonetization has brought them under the ambit of taxation, possibly preventing them to hold huge stocks. Sale through wholesaler channel of Bajaj Corp is 40%. Company remains focuses in improving 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 improves, new ad campaign laid down in Q4FY17**

Nomarks reported positive growth of 5.1% to Rs70mn in Q4FY17 (Rs67mn in Q4FY16). Company has proposed new ad campaign in Q4FY17 for Nomarks which is getting encouraging response. Hence, Management guided Nomarks to show better growth in coming qtrs.

**Robust International Sales growth of 56% YoY**

International Sales (5.7% of sales) saw whopping growth of 56% in Q4FY17 albeit low base. Company added 4 new markets naming Russia, Egypt, Kenya & Indonesia. Management aims International Sales to form 11-12% of total sales in next 1-2 years.

**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 22.6x and 20.2x P/E of FY18 & FY19our estimated EPS, respectively. **We maintain our BUY rating.**

Associate

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**Exhibit 1. Quarterly Performance**

Particulars (Rsmn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17
<b>Total Income</b>	<b>2,043</b>	<b>1,968</b>	<b>1,869</b>	<b>2,045</b>
YoY Gr%	1.7	3.5	(4.7)	(2.0)
<b>Gross Profit</b>	<b>1,339</b>	<b>1,306</b>	<b>1,225</b>	<b>1,376</b>
Gross Margin %	65.6	66.4	65.6	67.3
<b>Staff</b>	<b>138</b>	<b>146</b>	<b>157</b>	<b>152</b>
YoY Gr%	24.1	30.8	37.0	26.4
% of Net Sales	6.8	7.5	8.4	7.5
YoY Change	122bps	156bps	257bps	167bps
<b>Advertisements</b>	<b>188</b>	<b>156</b>	<b>130</b>	<b>141</b>
YoY Gr%	23.0	42.9	(15.3)	4.4
% of Net Sales	13.0	13.7	13.3	13.3
YoY Change	159bps	219bps	-87bps	42bps
<b>Other Expenses</b>	<b>227</b>	<b>218</b>	<b>208</b>	<b>289</b>
YoY Gr%	5.0	(0.9)	(1.8)	491.1
% of Net Sales	11.1	11.1	11.2	14.2
YoY Change	34bps	-49bps	33bps	1,181bps
<b>EBITDA</b>	<b>710</b>	<b>672</b>	<b>612</b>	<b>663</b>
YoY Gr%	6.9	3.8	(9.8)	(12.3)
<b>EBITDA Margin<sup>0</sup></b>	<b>34.7</b>	<b>34.2</b>	<b>32.7</b>	<b>32.4</b>
YoY Change	170bps	9bps	-185bps	-378bps
<b>Reported PAT</b>	<b>522</b>	<b>583</b>	<b>577</b>	<b>527</b>
YoY Gr%	10.2	23.7	17.1	(2.8)
<b>Adjusted PAT</b>	<b>615</b>	<b>635</b>	<b>577</b>	<b>519</b>
YoY Gr%	8.6	12.6	(1.4)	(18.3)

Source: Company, Trust

**Exhibit 2. Revenue Breakup (Rs mn)**

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17
ADHO	1,887	1,812	1,753	1,894
KPCO	6	2	1	5
BAHO	24	31	23	24
AHO	42	38	25	40
OTHERS	15	14	9	10
NOMARKS	64	65	53	70
<b>Total</b>	<b>2,037</b>	<b>1,962</b>	<b>1,864</b>	<b>2,042</b>

Source: Company, Trust

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

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17
ADHO	3.1	5.0	(2.7)	(2.3)
KPCO	(49.6)	(26.1)	(33.3)	(30.8)
BAHO	(11.9)	(4.0)	(4.5)	(9.8)
AHO	(2.1)	(1.0)	(31.4)	14.8
OTHERS	20.7	(4.2)	(23.3)	5.2
NOMARKS	(15.8)	(21.0)	(34.9)	5.1
<b>Total</b>	<b>1.8</b>	<b>3.5</b>	<b>(4.8)</b>	<b>(1.9)</b>

Source: Company, Trust



Exhibit 4. Revenue Mix (%)

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17
ADHO	92.6	92.4	94.0	92.7
KPCO	0.3	0.1	0.0	0.2
BAHO	1.2	1.6	1.3	1.2
AHO	2.0	1.9	1.3	1.9
OTHERS	0.7	0.7	0.5	0.5
NOMARKS	3.1	3.3	2.8	3.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

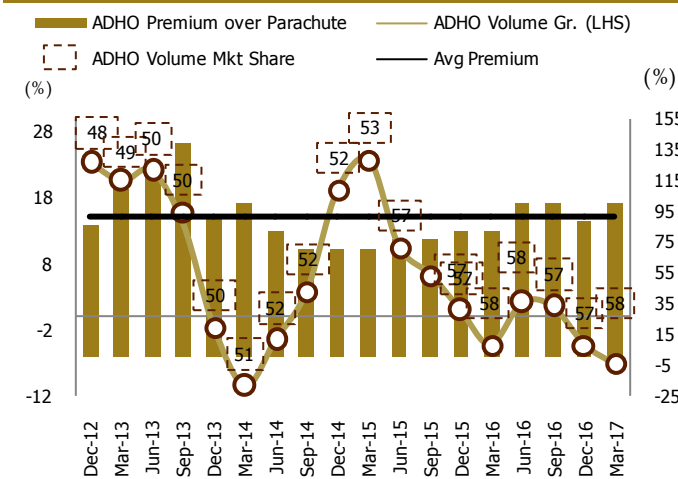
Source: Company, Trust

Exhibit 5. ADHO Market Share

Market Share (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Value	46.5	50.7	53.0	55.0	56.9	58.4	59.7	60.3	60.7
Volume	44.1	48.0	49.1	51.9	54.5	56.6	57.7	58.0	58.0

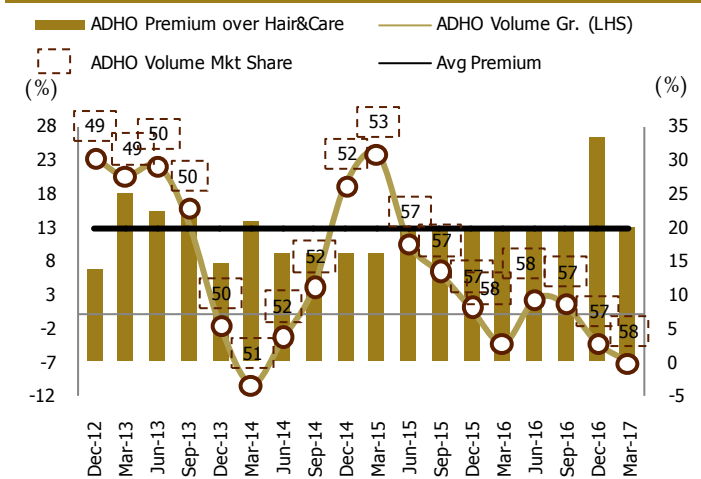
Source: Company, Trust

Exhibit 6. 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 7. 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 8. State-wise Market Share**

States	LHO Volume Saliency (%)			ADHO Market Share (%)		
	Q4FY16	Q4FY17	Change	Q4FY16	Q4FY17	Change
Punjab	4.0	4.3	30bps	53.0	53.6	60bps
Haryana	6.0	6.0	0bps	58.0	59.9	190bps
Delhi	6.0	6.6	60bps	56.0	58.2	220bps
Rajasthan	8.0	7.9	-10bps	46.0	46.2	20bps
HP-JK	1.0	0.6	-40bps	53.0	49.6	-340bps
Uttar Pradesh	22.0	22.5	50bps	64.0	61.5	-250bps
Uttaranchal	1.0	1.0	0bps	59.0	57.6	-140bps
Assam	3.0	2.6	-40bps	60.0	67.6	760bps
Bihar	5.0	6.1	110bps	76.0	78.4	240bps
Jharkhand	1.0	1.4	40bps	70.0	71.8	180bps
North East	2.0	2.1	10bps	43.0	46.0	300bps
Orissa	1.0	1.6	60bps	64.0	68.1	410bps
West Bengal	9.0	9.4	40bps	45.0	45.1	10bps
Gujarat	5.0	4.7	-30bps	54.0	53.4	-60bps
Madhya Pradesh	9.0	10.0	100bps	61.0	55.5	-550bps
Chhattisgarh	4.0	2.9	-110bps	74.0	71.0	-300bps
Maharashtra	8.0	7.3	-70bps	58.0	59.6	160bps
Karnataka	1.0	1.1	10bps	61.0	66.9	590bps
Andhra Pradesh	2.0	1.2	-80bps	34.0	48.3	1,430bps
Tamil Nadu	1.0	0.4	-60bps	25.0	34.7	970bps
Kerala	0.2	0.2	0bps	23.0	28.7	570bps
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0bps</b>	<b>58.0</b>	<b>58.0</b>	<b>0bps</b>

Source: Company, Trust

**Exhibit 9. Key Raw Material Trend**

Particulars	Mar-15	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
LLP									
(% of total RM)	34.4	32.8	31.2	30.3	26.7	25.7	24.0	24.3	24.4
(% of total sales)	13.1	11.5	11.0	10.3	8.9	11.5	8.2	8.3	8.3
Price (Rs/kg)	<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>	<b>46.2</b>
YoY Growth (%)	(20.8)	(30.8)	(30.2)	(27.1)	(25.6)	(26.2)	(24.3)	(15.2)	(0.4)
QoQ Growth (%)	(16.8)	(4.6)	(1.2)	(7.0)	(15.2)	(5.4)	1.5	4.1	(0.3)
Refined Oil									
(% of total RM)	9.5	10.7	12.0	14.0	11.5	11.9	12.9	13.4	13.4
(% of total sales)	3.6	3.8	4.2	4.8	4.5	3.8	4.4	4.6	4.5
Price (Rs/kg)	<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>81.7</b>	<b>83.3</b>
YoY Growth (%)	(2.1)	4.2	17.2	32.2	16.4	3.9	(4.4)	(12.9)	(3.3)
QoQ Growth (%)	4.4	(1.2)	12.1	14.3	(8.1)	(11.9)	3.2	4.2	2.0

Source: Company, Trust



## Financials

### P&L Statement

Y/E Mar (Rsmn)	FY15	FY16P	FY17P	FY18E	FY19E
<b>Net Revenues</b>	<b>8,256</b>	<b>7,997</b>	<b>7,969</b>	<b>8,562</b>	<b>9,440</b>
% Growth	22.9	(3.1)	(0.4)	7.4	10.3
Raw Material	3,162	2,980	2,691	3,173	3,581
Staff	390	475	614	653	731
Other Expenses	2,312	1,805	2,028	2,007	2,119
Total Expenditures	5,864	5,260	5,332	5,833	6,432
<b>EBITDA</b>	<b>2,392</b>	<b>2,737</b>	<b>2,636</b>	<b>2,729</b>	<b>3,008</b>
% Growth	28.6	14.4	(3.7)	3.5	10.2
EBITDA Margins (%)	29.0	34.2	33.1	31.9	31.9
Other Income	316	287	394	641	761
Interest	1	2	10	10	10
Depreciation	49	49	53	68	73
<b>Profit Before Tax</b>	<b>2,658</b>	<b>2,973</b>	<b>2,967</b>	<b>3,291</b>	<b>3,685</b>
Provision for tax	462	538	599	691	774
Effective tax rate (%)	21.1	21.5	21.5	21.0	21.0
<b>Reported PAT</b>	<b>1,727</b>	<b>1,965</b>	<b>2,184</b>	<b>2,600</b>	<b>2,911</b>
% Growth	15.9	13.8	11.1	19.1	12.0
<b>Adjusted Net Profit</b>	<b>2,098</b>	<b>2,335</b>	<b>2,319</b>	<b>2,600</b>	<b>2,911</b>
% Growth	22.2	11.3	(0.7)	12.1	12.0

### Balance Sheet

Rsmn (Y/E Mar)	FY15	FY16P	FY17P	FY18E	FY19E
Share Capital	148	148	148	148	148
<b>Net Worth</b>	<b>4,886</b>	<b>4,810</b>	<b>4,941</b>	<b>5,500</b>	<b>6,369</b>
Total Non-Current Liabilities	5	108	158	158	158
Total Current Liabilities	788	744	796	877	978
<b>Total</b>	<b>5,679</b>	<b>5,662</b>	<b>5,895</b>	<b>6,534</b>	<b>7,505</b>
Fixed Assets	1,424	972	1,186	1,218	1,245
Non-Current Investments	-	4	2	-	-
Long Term Loans & Advances	7	105	19	117	129
Currents Investments	1,837	2,751	3,385	3,485	3,585
Inventories	393	502	424	455	502
Sundry Debtors	133	254	274	295	325
Cash and Bank	1,342	603	124	435	1,190
Other Current Assets	68	42	47	65	65
Short Term Loans and Advances	46	1	3	33	33
<b>Total</b>	<b>5,679</b>	<b>5,662</b>	<b>5,895</b>	<b>6,534</b>	<b>7,505</b>

**Cash flow**

Rs mn (Y/E Mar)	FY15	FY16P	FY17P	FY18E	FY19E
Pre-tax profit	2,658	2,503	2,783	3,291	3,685
Depreciation	49	49	53	68	73
Total tax paid	(459)	(537)	(600)	(691)	(774)
Chg in working capital	135	(370)	119	21	12
Other operating activities	(316)	(218)	(449)	(641)	(761)
<b>Cash flow from oper. (a)</b>	<b>2,066</b>	<b>1,427</b>	<b>1,906</b>	<b>2,048</b>	<b>2,236</b>
Capital expenditure	(7)	(62)	(276)	(100)	(100)
Chg in investments	(206)	(948)	(635)	(100)	(100)
Other investing activities	18	252	449	641	761
<b>Cash flow from inv. (b)</b>	<b>(195)</b>	<b>(758)</b>	<b>(462)</b>	<b>441</b>	<b>561</b>
<b>Free cash flow (a+b)</b>	<b>2,059</b>	<b>1,365</b>	<b>1,630</b>	<b>1,948</b>	<b>2,136</b>
Equity raised/(repaid)	-	1,056	(11)	(0)	0
Debt raised/(repaid)	-	102	50	-	-
Dividend (incl. tax)	(2,035)	(2,042)	(2,042)	(2,042)	(2,042)
Other financing activities	-	-	-	-	-
<b>Cash flow from fin. (c)</b>	<b>(2,035)</b>	<b>(884)</b>	<b>(2,002)</b>	<b>(2,042)</b>	<b>(2,042)</b>
Net chg in cash (a+b+c)	(165)	(214)	(558)	447	755

**Key Ratios**

Y/E Mar	FY15	FY16P	FY17P	FY18E	FY19E
Raw Material Cost/Sales (%)	38.3	37.3	33.8	37.1	37.9
Manpower Cost/Sales (%)	4.7	5.9	7.7	7.6	7.7
Operating & Other Cost/Sales (%)	28.0	22.6	25.4	23.4	22.5
Revenue Growth (%)	22.9	(3.1)	(0.4)	7.4	10.3
EBITDA Margins (%)	29.0	34.2	33.1	31.9	31.9
EBITDA Growth (%)	28.6	14.4	(3.7)	3.5	10.2
Net Income Margins (%)	25.4	29.2	29.1	30.4	30.8
ROCE (%)	29.6	36.9	41.2	39.3	39.8
ROE (%)	35.0	48.0	55.9	52.3	48.4

**Valuation Parameters**

Y/E Mar	FY15	FY16P	FY17P	FY18E	FY19E
EPS (Rs.)	14.2	15.8	15.7	17.6	19.7
P/E (x)	28.5	24.6	25.4	22.6	20.2
BV (Rs)	35.2	33.1	32.6	33.5	37.3
P/BV (x)	12.2	12.0	11.9	10.7	9.2
EV/EBITDA (x)	24.4	20.8	22.3	21.5	19.2
PCE (x)	27.8	24.1	24.8	22.1	19.7
Net Debt/Equity (x)	(0.3)	(0.1)	0.0	(0.1)	(0.2)
EV/Sales (x)	7.1	7.1	7.4	6.8	6.1



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