

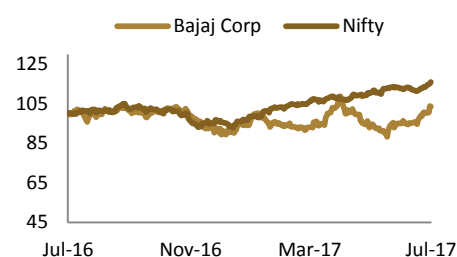
### Market statistics

Current stock price (Rs )	409
Shares O/S (cr.)	14.8
Mcap (Rs cr)	6,033
52W H/L (Rs )	436/325
6m avg. volume	88,521
Bloomberg	BJCOR IN

### Shareholding pattern

Promoters	66.86
Domestic Institution	4.60
Foreign Institution	23.70
Non-institution	4.85
Of which more than 1%	
Baytree Investments	8.09
Mathews India Fund	4.20

### Bajaj Corp vs Nifty



### Capital efficiency & valuations

Particulars	FY17	FY18E	FY19E
ROE (%)	55.9	52.3	47.6
ROCE (%)	41.2	39.3	39.2
P/B(x)	11.5	11.1	9.5
P/E(x)	24.5	23.7	20.4
EPS (Rs )	15.7	17.2	20.1
EV/OCF (x)	26.8	30.2	26.2

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Bajaj Corp, based on IND AS, has reported sales de-growth of 3.4% YoY to Rs1.9bn ADHO (93% of sales) declined by 2.8% YoY resulted due to by 6.6% decline in volumes. De-stocking in trade channel due to GST hampered the volume growth. Nomarks performance de-grew by 5.5%. However, Management stated that Hair Oil market growth is picking up and offtake is showing double digit growth in LHO. ADHO has shown 6% volume growth in April & May while de-growth in Q4FY17 is due to de-stocking. Nomarks too showed 47% growth in two prototype states in April & May while Pan India levels it showed 5% growth.

Gross Margin contracted by 40bps YoY expansion to 65.3%. LLP prices inched up by 32.8% & 26.1% on YoY & QoQ basis. Refined oil prices were down by 0.5% & 9.5% on YoY & QoQ basis. A&P spend declined by 9.4% YoY (-85bps YoY). Their focus on expansion of eminence manpower led to 22% growth in employee expenses. Other expenses too grew by 20%YoY. Hence EBITDA declined by 14.6% to Rs 606 mn and EBITDA margin contracted by 403bps to 30.7%YoY. Company aims to maintain EBITDA margin of 31-32% in coming qtrs.

Higher other income of 52% growth supported the bottom-line. Hence, Reported PAT saw growth of 5.3%YoY Rs550mn while APAT (excluding exceptional item) de-grew by 10.5% YoY

### De-stocking due to GST hinders Sales; rise in consumer off take is encouraging.

ADHO sales volume declined by 6.6% in Q4FY17 on account of de-stocking happening at trade channel. Larger impact was felt in wholesale channel which forms of 50% of distribution of Bajaj Corp. Management stated till mid-week of July, they haven't seen reversal in stocking happening, and hence July would be under stress. We believe, ADHO volume growth would pick up once GST implementation across channel is in place. Rural market improvement, growth in LHO & increase in direct distribution reach would support the sales growth in coming qtrs. Volume growth of 6% in April & May in ADHO and increase in market share is highly encouraging

### New marketing strategy showing results; expects better growth going ahead

Nomarks portfolio decline of 5.5% in Q1FY18 is due to higher de-stocking in trade channel than hair oil category. But growth of 47% in two prototype states depicts that new marketing strategy has moved the needle and same could be replicated in the other states. We expect better sales growth in Nomarks portfolio in coming qtrs..

### Strong International Sales growth of 26% YoY

International Sales (5.5% of sales) saw strong growth of 26% in Q1FY18 led by Bangladesh & South East Asia. MENA region remains weak. 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

In the event of GST implementation, disruption in trade channel was inevitable for entire industry. Bajaj Corp's higher dependence on wholesale channel impacted the strong brand like ADHO. 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) Improvement in consumer off take and rural market (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 23.7x and 20.4x P/E of FY18 & FY19 our estimated EPS, respectively. **We maintain our BUY rating.**

**Exhibit 1. Quarterly Performance**

Particulars (Rsmn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
<b>Total Income</b>	<b>2,043</b>	<b>1,968</b>	<b>1,869</b>	<b>2,045</b>	<b>1,974</b>
YoY Gr%	1.7	3.5	(4.7)	(2.0)	(3.4)
<b>Gross Profit</b>	<b>1,339</b>	<b>1,306</b>	<b>1,225</b>	<b>1,376</b>	<b>1,286</b>
Gross Margin %	65.6	66.4	65.6	67.3	65.2
<b>Staff</b>	<b>138</b>	<b>146</b>	<b>157</b>	<b>152</b>	<b>169</b>
YoY Gr%	24.1	30.8	37.0	26.4	22.3
% of Net Sales	6.8	7.5	8.4	7.5	8.5
YoY Change	122bps	156bps	257bps	167bps	178bps
<b>Advertisements &amp; Sales Promotion</b>	<b>264.6</b>	<b>269.4</b>	<b>248.5</b>	<b>271.5</b>	<b>239.7</b>
YoY Gr%	0.8	4.0	0.8	(3.5)	(0.9)
% of Net Sales	1.3	1.4	1.3	1.3	1.2
YoY Change	72bps	361bps	156bps	-685bps	-85bps
<b>Other Expenses</b>	<b>227</b>	<b>218</b>	<b>208</b>	<b>289</b>	<b>271</b>
YoY Gr%	5.1	(0.9)	(1.8)	491.1	19.7
% of Net Sales	11.1	11.1	11.2	14.2	13.7
YoY Change	35bps	-49bps	33bps	1,181bps	261bps
<b>EBITDA</b>	<b>710</b>	<b>672</b>	<b>612</b>	<b>663</b>	<b>606</b>
YoY Gr%	6.9	3.8	(9.8)	(12.3)	(14.6)
<b>EBITDA Margin<sup>0</sup></b>	<b>34.7</b>	<b>34.2</b>	<b>32.7</b>	<b>32.4</b>	<b>30.7</b>
YoY Change	169bps	9bps	-185bps	-378bps	-403bps
<b>Reported PAT</b>	<b>522</b>	<b>583</b>	<b>577</b>	<b>527</b>	<b>550</b>
YoY Gr%	10.2	23.7	17.1	(2.8)	5.3
<b>Adjusted PAT</b>	<b>615</b>	<b>635</b>	<b>577</b>	<b>519</b>	<b>550</b>
YoY Gr%	8.6	12.6	(1.4)	(18.3)	(10.5)

Source: Company, Trust

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

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
ADHO	1,887	1,812	1,753	1,894	1,835
KPCO	6	2	1	5	10
BAHO	24	31	23	24	20
AHO	42	38	25	40	30
OTHERS	15	14	9	10	10
NOMARKS	64	65	53	70	60
<b>Total</b>	<b>2,037</b>	<b>1,962</b>	<b>1,864</b>	<b>2,042</b>	<b>1,964</b>

Source: Company, Trust

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

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
ADHO	3.1	5.0	(2.7)	(2.3)	(2.8)
KPCO	(49.6)	(26.1)	(33.3)	(30.8)	47.4
BAHO	(11.9)	(4.0)	(4.5)	(9.8)	(16.9)
AHO	(2.1)	(1.0)	(31.4)	14.8	(29.0)
OTHERS	20.7	(4.2)	(23.3)	5.2	(30.8)
NOMARKS	(15.8)	(21.0)	(34.9)	5.1	(5.5)
<b>Total</b>	<b>1.8</b>	<b>3.5</b>	<b>(4.8)</b>	<b>(1.9)</b>	<b>(3.6)</b>

Source: Company, Trust



Exhibit 4. Revenue Mix (%)

Brands	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
ADHO	92.6	92.4	94.0	92.7	93.4
KPCO	0.3	0.1	0.0	0.2	0.5
BAHO	1.2	1.6	1.3	1.2	1.0
AHO	2.0	1.9	1.3	1.9	1.5
OTHERS	0.7	0.7	0.5	0.5	0.5
NOMARKS	3.1	3.3	2.8	3.4	3.1
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

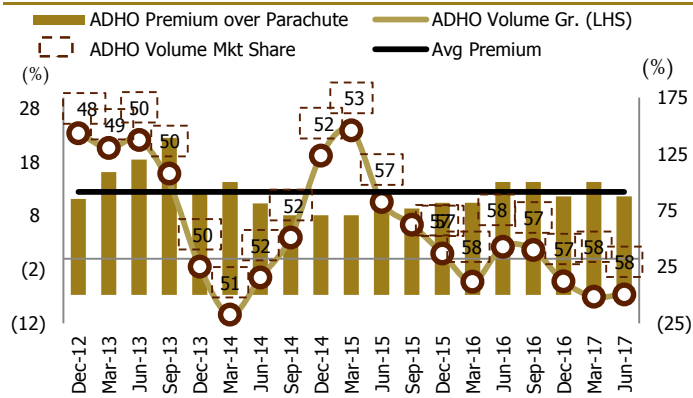
Source: Company, Trust

Exhibit 5. ADHO Market Share

Market Share (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Q1FY18
Value	46.5	50.7	53.0	55.0	56.9	58.4	59.7	60.3	60.7	61.0
Volume	44.1	48.0	49.1	51.9	54.5	56.6	57.7	58.0	58.0	58.3

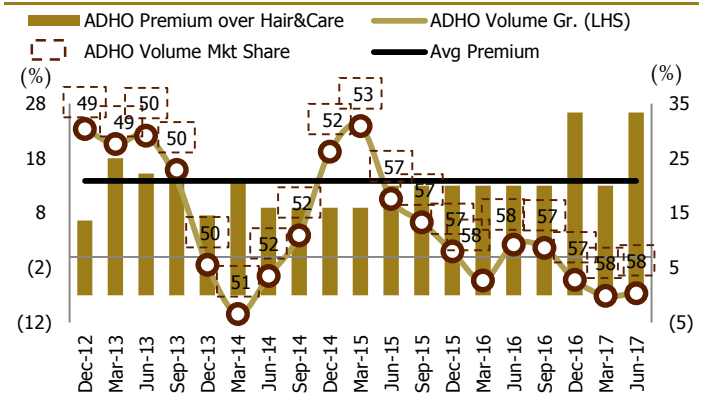
Source: Company, Trust

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 (%)		
	Q1FY17	Q1FY18	Change	Q1FY17	Q1FY18	Change
Punjab	4.0	4.5	50bps	54.9	49.3	-560bps
Haryana	6.0	6.0	0bps	57.3	63.4	610bps
Delhi	6.0	6.6	60bps	55.5	59.4	390bps
Rajasthan	6.0	7.0	100bps	46.0	46.6	60bps
HP-JK	1.0	0.6	-40bps	50.6	49.6	-100bps
Uttar Pradesh	25.0	22.5	-250bps	62.1	60.2	-190bps
Uttaranchal	1.0	1.1	10bps	59.9	59.8	-10bps
Assam	3.0	2.6	-40bps	66.7	67.3	60bps
Bihar	8.0	6.6	-140bps	76.9	77.0	10bps
Jharkhand	2.0	1.5	-50bps	68.8	73.4	460bps
North East	1.0	2.0	100bps	44.5	45.9	140bps
Orissa	2.0	1.7	-30bps	67.7	69.0	130bps
West Bengal	7.0	8.9	190bps	42.5	49.1	660bps
Gujarat	4.0	4.5	50bps	55.7	54.1	-160bps
Madhya Pradesh	10.0	10.3	30bps	57.5	56.1	-140bps
Chhattisgarh	4.0	3.1	-90bps	71.8	69.1	-270bps
Maharashtra	7.0	7.5	50bps	58.3	57.7	-60bps
Karnataka	1.0	1.1	10bps	67.6	65.3	-230bps
Andhra Pradesh	1.0	1.2	20bps	49.1	45.5	-360bps
Tamil Nadu	0.0	0.5	50bps	34.2	39.7	550bps
Kerala	0.0	0.2	20bps	25.1	26.6	150bps
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>0bps</b>	<b>57.7</b>	<b>58.3</b>	<b>60bps</b>

Source: Company, Trust

**Exhibit 9. Key Raw Material Trend**

Particulars	Jun-15	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17
<b>LLP</b>									
(% of total RM)	32.8	31.2	30.3	26.7	25.7	24.0	24.3	24.4	27.6
(% of total sales)	11.5	11.0	10.3	8.9	11.5	8.2	8.3	8.3	9.7
Price (Rs/kg)	<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>	<b>58.3</b>
YoY Growth (%)	(30.8)	(30.2)	(27.1)	(25.6)	(26.2)	(24.3)	(15.2)	(0.4)	32.8
QoQ Growth (%)	(4.6)	(1.2)	(7.0)	(15.2)	(5.4)	1.5	4.1	(0.3)	26.1
<b>Refined Oil</b>									
(% of total RM)	10.7	12.0	14.0	11.5	11.8	12.9	13.4	13.4	12.8
(% of total sales)	3.8	4.2	4.8	4.5	3.8	4.4	4.6	4.5	4.5
Price (Rs/kg)	<b>73.2</b>	<b>82.0</b>	<b>93.8</b>	<b>86.2</b>	<b>75.8</b>	<b>78.4</b>	<b>81.7</b>	<b>83.3</b>	<b>75.4</b>
YoY Growth (%)	4.2	17.2	32.2	16.4	3.6	(4.4)	(12.9)	(3.3)	(0.5)
QoQ Growth (%)	(1.2)	12.1	14.3	(8.1)	(12.1)	3.5	4.2	2.0	(9.5)

Source: Company, Trust



## Financials

### P&L Statement

Y/E Mar (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
<b>Net Revenues</b>	<b>8,256</b>	<b>7,997</b>	<b>7,969</b>	<b>8,532</b>	<b>9,512</b>
% Growth	22.9	(3.1)	(0.4)	7.1	11.5
Raw Material	3,162	2,980	2,691	3,075	3,520
Staff	390	475	614	679	761
Other Expenses	2,312	1,805	2,028	2,134	2,174
Total Expenditures	5,864	5,260	5,333	5,888	6,454
<b>EBITDA</b>	<b>2,392</b>	<b>2,737</b>	<b>2,636</b>	<b>2,644</b>	<b>3,058</b>
% Growth	28.6	14.4	(3.7)	0.3	15.6
EBITDA Margins (%)	29.0	34.2	33.1	31.0	32.1
Other Income	316	287	394	641	761
Interest	1	2	10	10	10
Depreciation	49	49	53	55	59
<b>Profit Before Tax</b>	<b>2,658</b>	<b>2,973</b>	<b>2,966</b>	<b>3,219</b>	<b>3,744</b>
Provision for tax	462	538	599	678	786
Effective tax rate (%)	21.1	21.5	21.5	21.1	21.0
<b>Reported PAT</b>	<b>1,727</b>	<b>1,965</b>	<b>2,183</b>	<b>2,541</b>	<b>2,958</b>
% Growth	15.9	13.8	11.1	16.4	16.4
<b>Adjusted Net Profit</b>	<b>2,097</b>	<b>2,334</b>	<b>2,318</b>	<b>2,541</b>	<b>2,958</b>
% Growth	22.2	11.3	(0.7)	9.6	16.4

### Balance Sheet

Rsmn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	148	148	148	148	148
<b>Net Worth</b>	<b>4,887</b>	<b>4,811</b>	<b>4,942</b>	<b>5,440</b>	<b>6,356</b>
Total Non-Current Liabilities	5	108	158	158	158
Total Current Liabilities	788	739	785	878	986
<b>Total</b>	<b>5,681</b>	<b>5,657</b>	<b>5,885</b>	<b>6,476</b>	<b>7,500</b>
Fixed Assets	670	971	1,186	1,231	1,271
Non-Current Investments	4	4	2	-	-
Long Term Loans & Advances	3	105	19	116	130
Currents Investments	1,858	2,751	3,385	3,485	3,585
Inventories	393	502	425	455	507
Sundry Debtors	133	254	274	294	327
Cash and Bank	1,390	603	124	366	1,151
Other Current Assets	68	42	47	65	65
Short Term Loans and Advances	46	1	3	33	33
<b>Total</b>	<b>4,995</b>	<b>5,662</b>	<b>5,895</b>	<b>6,476</b>	<b>7,500</b>

**Cash flow**

Rs mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	(459)	(532)	(585)	(678)	(786)
Depreciation	135	(276)	71	35	9
Total tax paid	(316)	(285)	(386)	(641)	(761)
Chg in working capital	<b>2,066</b>	<b>1,929</b>	<b>2,120</b>	<b>1,991</b>	<b>2,265</b>
Other operating activities	(7)	(168)	(359)	(100)	(100)
<b>Cash flow from oper. (a)</b>	(206)	(858)	(525)	(100)	(100)
Capital expenditure	18	1,086	731	641	761
Chg in investments	<b>(195)</b>	<b>60</b>	<b>(153)</b>	<b>441</b>	<b>561</b>
Other investing activities	<b>2,059</b>	<b>1,761</b>	<b>1,761</b>	<b>1,891</b>	<b>2,165</b>
<b>Cash flow from inv. (b)</b>	-	-	-	(1)	0
<b>Free cash flow (a+b)</b>	-	-	-	-	-
Equity raised/(repaid)	(2,035)	(2,041)	(2,042)	(2,042)	(2,042)
Debt raised/(repaid)	-	98	42	-	-
Dividend (incl. tax)	<b>(2,035)</b>	<b>(1,943)</b>	<b>(2,000)</b>	<b>(2,042)</b>	<b>(2,042)</b>
Other financing activities	(165)	46	(33)	389	785
<b>Cash flow from fin. (c)</b>	(459)	(532)	(585)	(678)	(786)
Net chg in cash (a+b+c)	135	(276)	71	35	9

**Key Ratios**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	38.3	37.3	33.8	36.0	37.0
Manpower Cost/Sales (%)	4.7	5.9	7.7	8.0	8.0
Operating & Other Cost/Sales (%)	28.0	22.6	25.5	25.0	22.9
Revenue Growth (%)	22.9	(3.1)	(0.4)	7.1	11.5
EBITDA Margins (%)	29.0	34.2	33.1	31.0	32.1
EBITDA Growth (%)	28.6	14.4	(3.7)	0.3	15.6
Net Income Margins (%)	25.4	29.2	29.1	29.8	31.1
ROCE (%)	29.6	42.0	41.2	39.3	39.2
ROE (%)	35.0	48.0	55.9	52.3	47.6

**Valuation Parameters**

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	14.2	15.8	15.7	17.2	20.1
P/E (x)	28.5	24.6	24.5	23.7	20.4
BV (Rs)	35.2	33.1	32.6	33.5	36.9
P/BV (x)	12.2	12.0	11.5	11.1	9.5
EV/EBITDA (x)	24.4	20.8	21.6	22.7	19.4
PCE (x)	27.8	24.1	23.9	23.2	20.0
Net Debt/Equity (x)	(0.3)	(0.1)	0.0	(0.0)	(0.2)
EV/Sales (x)	7.1	7.1	7.1	7.0	6.2



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**Recommendation**      **Expected absolute returns (%) over 12 months**

Buy                      More than 15%

Hold                    15% to -15%

Sell                     Less than -15%

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