

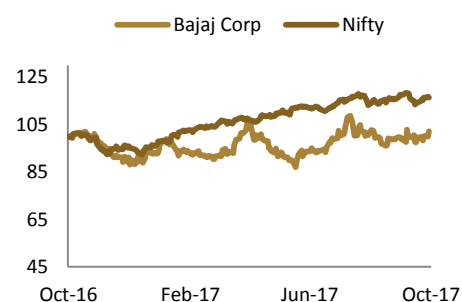
Market statistics

Current stock price (Rs)	413
Shares O/S (cr.)	14.8
Mcap (Rs cr)	6,084
52W H/L (Rs)	450/325
6m avg. volume	110,441
Bloomberg	BJCOR IN

Shareholding pattern

Promoters	66.86
Domestic Institution	5.10
Foreign Institution	23.90
Non-institution	4.14
<i>Of which more than 1%</i>	
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	45.0
ROCE (%)	41.2	39.3	33.8
P/B(x)	11.5	12.2	11.4
P/E(x)	24.5	29.3	25.5
EPS (Rs)	15.7	14.1	16.2
EV/OCF (x)	26.8	32.4	31.5

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Bajaj Corp, based on IND AS, has reported sales growth of 3.7% YoY to Rs2.04bn vs our expectation of 5.8%. ADHO (93% of sales) witnessed growth of 4.8% YoY resulted due to by 6.5% increase in volumes. This is highly encouraging on back of flat volumes in last 7-8 qtrs in ADHO. Overall volume growth was 5.1% while price growth was -1.2%. Nomarks de-grew by 1.8%. Overall Hair Oil market growth has picked up in H1FY18 within which LHO market too showed healthy volume and value growth. CSD (5% of sales) has de-grown by 25% vs 47% in Q1FY18, management stated CSD sales recovery is doubtful due to stringent policies and de-focus of government to run the CSD. Newly launched Nomarks cream showed 45% growth.

Gross Margin expanded by 64bps YoY expansion to 67.0%. LLP prices moved up by +23% & -5.6% on YoY & QoQ basis. Refined oil prices were down by 7.3% 3.6% on YoY & QoQ basis. A&P spend increased by 20.9% YoY (+277bps YoY). Their focus on expansion of eminence manpower led to 32% growth in employee expenses. This run rate of employee costs would continue in coming qtrs as well. Other expenses too grew by 21%YoY. Hence EBITDA declined by 13.2% to Rs583 mn and EBITDA margin contracted by 557bps to 28.6%YoY.

Lower other income of 47% de-growth further impacted the bottom-line. Hence, Reported PAT saw de-growth of 13.0%YoY Rs507mn (our expectation of Rs 661mn) while APAT (excluding exceptional item in Q2FY17) de-grew by 20.2% YoY

ADHO Volume picks up by 6.5%; Retail distribution coverage expands

ADHO sales volume improved by 6.5% due to re-stocking and LHO market pick up. This growth is largely attributed to pick up in urban demand. Company took price cuts in larger size of 300ml & 500ml to pass the GST savings. Management mentioned that they are aggressively expanding retail coverage hence, wholesale channel sales contribution has dropped from 50% to 40% in Q2FY18. Around 40% of wholesalers has not started buying from distributors. Although government has pushed the date of GST filing for both the distributors and wholesalers but they are facing difficulty in filling GST returns. With support of new R&D center on board, company expects to launch every new product in each qtr. Rural market improvement, growth in LHO & increase in direct distribution reach would support the sales growth in coming qtrs.

New marketing strategy showing results; expects better growth going ahead

Nomarks portfolio decline of 1.2% in Q2FY18 which is better than 7.2% decline in Q1FY18. But growth of 45% in Nomarks cream depicts that new marketing strategy has moved the needle and product is well accepted in northern states. We expect better sales growth in Nomarks portfolio in coming qtrs.

Concall highlights: 1) International Sales (5.5% of consolidated sales) declined in Q2FY18 due to political turmoil and currency headwinds in MENA region 2) LLP & refined mustard oil prices has declined slightly QoQ while company has LLP stock till Dec.

Outlook & Valuation

In the event of GST implementation, disruption in trade channel was inevitable for entire industry. 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 & expansion of retail coverage (2) Expectation of revival in Nomarks business (3) Aggressive on International Business 4) Improvement in consumer off take and rural market (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 29.3x and 25.5x P/E of FY18 & FY19 our estimated EPS, respectively. **We maintain our BUY rating.**

**Exhibit 1. Quarterly Performance**

Particulars (Rsmn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Total Income	1,968	1,869	2,045	1,974	2,041
YoY Gr%	3.5	(4.7)	(2.0)	(3.4)	3.7
Gross Profit	1,306	1,225	1,376	1,286	1,368
Gross Margin %	66.4	65.6	67.3	65.2	67.0
Staff	146	157	152	169	194
YoY Gr%	30.8	37.0	26.4	22.3	32.4
% of Net Sales	7.4	8.4	7.5	8.5	9.5
YoY Change	154bps	257bps	167bps	178bps	206bps
Advertisements & Sales Promotion	269.4	248.5	271.5	239.7	325.8
YoY Gr%	4.0	0.8	(3.5)	(0.9)	2.1
% of Net Sales	1.4	1.3	1.3	1.2	1.6
YoY Change	357bps	156bps	-685bps	-85bps	227bps
Other Expenses	218	208	289	271	265
YoY Gr%	(0.9)	(1.8)	491.1	19.7	21.3
% of Net Sales	11.1	11.2	14.2	13.7	13.0
YoY Change	-53bps	33bps	1,181bps	261bps	188bps
EBITDA	672	612	663	606	583
YoY Gr%	3.8	(9.8)	(12.3)	(14.6)	(13.2)
EBITDA Margin%	34.2	32.7	32.4	30.7	28.6
YoY Change	9bps	-185bps	-378bps	-403bps	-557bps
Reported PAT	583	577	527	550	507
YoY Gr%	23.7	17.1	(2.8)	5.3	(13.0)
Adjusted PAT	635	577	519	550	507
YoY Gr%	12.6	(1.4)	(18.3)	(10.5)	(20.2)

Source: Company, Trust

Exhibit 2. Revenue Breakup (Rs mn)

Brands	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
ADHO	1,812	1,753	1,894	1,835	1,891
KPCO	2	1	5	10	2
BAHO	31	23	24	20	40
AHO	38	25	40	30	22
OTHERS	14	9	10	10	17
NOMARKS	65	53	70	60	64
Total	1,962	1,864	2,042	1,964	2,037

Source: Company, Trust

Exhibit 3. Revenue Growth (%)

Brands	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
ADHO	5.0	(2.7)	(2.3)	(2.8)	4.4
KPCO	(26.1)	(33.3)	(30.8)	47.4	23.5
BAHO	(4.0)	(4.5)	(9.8)	(16.9)	28.1
AHO	(1.0)	(31.4)	14.8	(29.0)	(40.9)
OTHERS	(4.2)	(23.3)	5.2	(30.8)	24.8
NOMARKS	(21.0)	(34.9)	5.1	(5.5)	(1.8)
Total	3.5	(4.8)	(1.9)	(3.6)	3.8

Source: Company, Trust



Exhibit 4. Revenue Mix (%)

Brands	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
ADHO	92.4	94.0	92.7	93.4	92.9
KPCO	0.1	0.0	0.2	0.5	0.1
BAHO	1.6	1.3	1.2	1.0	1.9
AHO	1.9	1.3	1.9	1.5	1.1
OTHERS	0.7	0.5	0.5	0.5	0.8
NOMARKS	3.3	2.8	3.4	3.1	3.2
Total	100.0	100.0	100.0	100.0	100.0

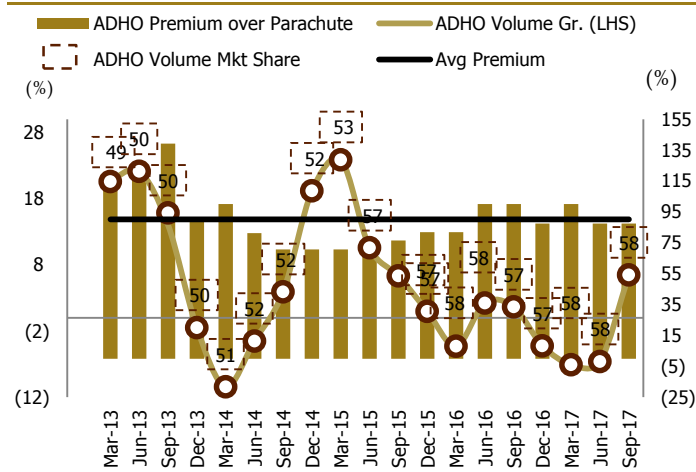
Source: Company, Trust

Exhibit 5. ADHO Market Share

Market Share (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Q2FY18
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	58.4

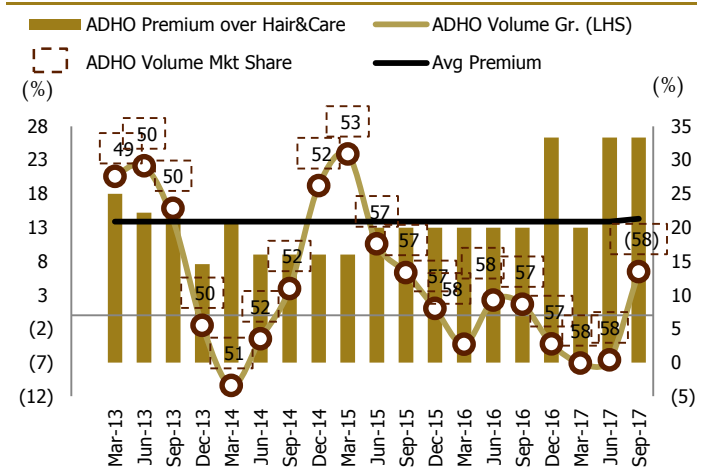
Source: Company, Trust

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 (%)		
	Q2FY17	Q2FY18	Change	Q2FY17	Q2FY18	Change
Punjab	4.0	4.6	60bps	52.7	50.9	-180bps
Haryana	6.4	6.0	-40bps	58.4	63.4	500bps
Delhi	6.1	6.7	60bps	54.3	59.4	510bps
Rajasthan	6.0	7.0	100bps	46.5	46.6	10bps
HP-JK	0.5	0.6	10bps	50.3	49.6	-70bps
Uttar Pradesh	25.1	22.4	-270bps	60.6	60.2	-40bps
Uttaranchal	1.1	1.1	0bps	57.9	59.8	190bps
Assam	3.1	2.6	-50bps	65.8	67.3	150bps
Bihar	8.0	6.4	-160bps	77.9	77.0	-90bps
Jharkhand	1.6	2.0	40bps	69.3	73.4	410bps
North East	1.4	2.0	60bps	40.5	45.9	540bps
Orissa	1.9	1.8	-10bps	67.5	69.0	150bps
West Bengal	7.2	9.0	180bps	42.6	49.1	650bps
Gujarat	4.1	4.4	30bps	52.9	54.1	120bps
Madhya Pradesh	10.0	10.0	0bps	56.7	56.1	-60bps
Chhattisgarh	3.6	3.2	-40bps	70.3	69.1	-120bps
Maharashtra	7.1	7.5	40bps	58.1	57.7	-40bps
Karnataka	1.2	1.1	-10bps	65.6	65.3	-30bps
Andhra Pradesh	1.1	1.2	10bps	50.1	45.5	-460bps
Tamil Nadu	0.0	0.5	50bps	33.9	39.7	580bps
Kerala	1.2	0.2	-100bps	28.9	26.6	-230bps
Total	100.0	100.0	0bps	57.0	58.3	130bps

Source: Company, Trust

Exhibit 9. Key Raw Material Trend

Particulars	Sep-15	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17
LLP									
(% of total RM)	31.2	30.3	26.7	25.7	24.0	24.3	24.4	27.6	26.1
(% of total sales)	11.0	10.3	8.9	11.5	8.2	8.3	8.3	9.7	8.8
Price (Rs/kg)	58.8	54.7	46.4	43.9	44.6	46.4	46.2	58.3	55.0
YoY Growth (%)	(30.2)	(27.1)	(25.6)	(26.2)	(24.3)	(15.2)	(0.4)	32.8	23.5
QoQ Growth (%)	(1.2)	(7.0)	(15.2)	(5.4)	1.5	4.1	(0.3)	26.1	(5.6)
Refined Oil									
(% of total RM)	12.0	14.0	11.5	11.8	12.9	13.4	13.4	12.8	13.4
(% of total sales)	4.2	4.8	4.5	3.8	4.4	4.6	4.5	4.5	4.5
Price (Rs/kg)	82.0	93.8	86.2	75.8	78.4	81.7	83.3	75.4	72.7
YoY Growth (%)	17.2	32.2	16.4	3.6	(4.4)	(12.9)	(3.3)	(0.5)	(7.3)
QoQ Growth (%)	12.1	14.3	(8.1)	(12.1)	3.5	4.2	2.0	(9.5)	(3.6)

Source: Company, Trust



Financials

P&L Statement

Y/E Mar (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	8,256	7,997	7,969	8,312	9,289
% Growth	22.9	(3.1)	(0.4)	4.3	11.8
Raw Material	3,162	2,980	2,691	3,046	3,583
Staff	390	475	614	754	897
Other Expenses	2,312	1,805	2,028	2,219	2,183
Total Expenditures	5,864	5,260	5,333	6,019	6,663
EBITDA	2,392	2,737	2,636	2,293	2,627
% Growth	28.6	14.4	(3.7)	(13.0)	14.5
EBITDA Margins (%)	29.0	34.2	33.1	27.6	28.3
Other Income	316	287	394	402	469
Interest	1	2	10	10	10
Depreciation	49	49	53	54	59
Profit Before Tax	2,658	2,973	2,966	2,631	3,020
Provision for tax	462	538	599	557	634
Effective tax rate (%)	21.1	21.5	21.5	21.2	21.0
Reported PAT	1,727	1,965	2,183	2,074	2,386
% Growth	15.9	13.8	11.1	(5.0)	15.0
Adjusted Net Profit	2,097	2,334	2,318	2,074	2,386
% Growth	22.2	11.3	(0.7)	(10.5)	15.0

Balance Sheet

Rsmn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Share Capital	148	148	148	148	148
Net Worth	4,887	4,811	4,942	4,974	5,318
Total Non-Current Liabilities	6	108	158	233	233
Total Current Liabilities	788	744	796	930	1,024
Total	5,681	5,662	5,895	6,136	6,574
Fixed Assets	1,424	971	1,186	1,192	1,273
Non-Current Investments	4	4	2	-	-
Long Term Loans & Advances	3	105	19	108	130
Currents Investments	1,858	2,751	3,385	3,485	3,635
Inventories	393	502	425	443	495
Sundry Debtors	133	254	274	286	320
Cash and Bank	1,390	603	124	141	206
Other Current Assets	45	42	47	47	80
Short Term Loans and Advances	2	1	3	3	5
Total	5,681	5,662	5,895	6,136	6,574



Cash flow

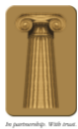
Rs mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	2,658	2,973	2,966	2,631	3,020
Depreciation	49	49	53	54	59
Total tax paid	(459)	(532)	(585)	(557)	(634)
Chg in working capital	135	(276)	71	153	(49)
Other operating activities	(316)	(285)	(386)	(402)	(469)
Cash flow from oper. (a)	2,066	1,929	2,120	1,879	1,927
Capital expenditure	(7)	(168)	(359)	(60)	(140)
Chg in investments	(206)	(858)	(525)	(100)	(150)
Other investing activities	18	1,086	731	402	469
Cash flow from inv. (b)	(195)	60	(153)	242	179
Free cash flow (a+b)	2,059	1,761	1,761	1,819	1,787
Equity raised/(repaid)	-	-	-	(1)	0
Debt raised/(repaid)	-	-	-	75	-
Dividend (incl. tax)	(2,035)	(2,041)	(2,042)	(2,042)	(2,042)
Other financing activities	-	98	42	-	-
Cash flow from fin. (c)	(2,035)	(1,943)	(2,000)	(1,967)	(2,042)
Net chg in cash (a+b+c)	(165)	46	(33)	154	65

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	38.3	37.3	33.8	36.6	38.6
Manpower Cost/Sales (%)	4.7	5.9	7.7	9.1	9.7
Operating & Other Cost/Sales (%)	28.0	22.6	25.5	26.7	23.5
Revenue Growth (%)	22.9	(3.1)	(0.4)	4.3	11.8
EBITDA Margins (%)	29.0	34.2	33.1	27.6	28.3
EBITDA Growth (%)	28.6	14.4	(3.7)	(13.0)	14.5
Net Income Margins (%)	25.4	29.2	29.1	25.0	25.7
ROCE (%)	29.6	36.9	41.2	39.3	33.8
ROE (%)	35.0	48.0	55.9	52.3	45.0

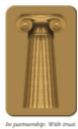
Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	14.2	15.8	15.7	14.1	16.2
P/E (x)	28.5	24.6	24.5	29.3	25.5
BV (Rs)	35.2	33.1	32.6	33.5	33.7
P/BV (x)	12.2	12.0	11.5	12.2	11.4
EV/EBITDA (x)	24.4	20.8	21.6	26.5	23.1
PCE (x)	27.8	24.1	23.9	28.6	24.9
Net Debt/Equity (x)	(0.3)	(0.1)	0.0	0.0	0.0
EV/Sales (x)	7.1	7.1	7.1	7.3	6.5



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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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