

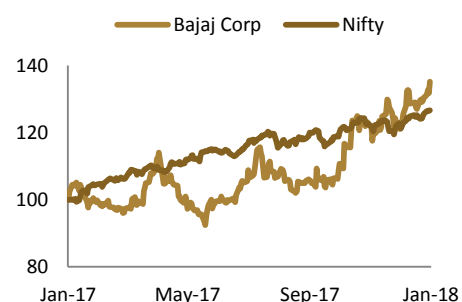
Market statistics

Current stock price (Rs)	507
Shares O/S (cr.)	14.8
Mcap (Rs cr)	7,480
52W H/L (Rs)	525/341
6m avg. volume	130,402
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 (%)	52.3	48.5	47.9
ROCE (%)	39.3	36.3	36.6
P/B(x)	11.5	14.4	13.2
P/E(x)	24.5	32.7	29.9
EPS (Rs)	15.7	15.5	16.9
EV/OCF (x)	26.8	37.3	37.8

Bajaj Corp, based on IND AS, has reported sales growth of 5.9% YoY to Rs1.97bn vs our expectation of 8.8%. However, on like to like basis, adjusting the GST impact, total growth was 10%. Domestic Growth (excluding CSD) in Q3FY18 was 14.07% led by 14.9% & 13.8% growth in general trade and modern trade. CSD trade is still struggling and contracted by 2.7%. International biz declined by 44% due to political turmoil and currency headwinds in MENA region.

GST refund (Budgetary support) of Rs 107.3 mn for Q2& Q3FY18 led to 11.3% growth in total income. This amount is accounted in other operating income.

Gross Margin expanded by 349bps YoY expansion to 679% due to favorable product mix (low sachets and higher bottle sales). However, LLP prices moved up by +32% & 11.2% on YoY & QoQ basis. Refined oil prices moved by 4.1% 10.8% on YoY & QoQ basis. A&P spend increased by 31.4% YoY (+277bps YoY). Their focus on expansion of eminence manpower led to 22.6% growth in employee expenses. Other expenses contracted sharply by 26.8%YoY. Hence EBITDA improved by 10.9% to Rs678 mn and EBITDA margin contracted by 12bps to 32.6%YoY.

Other income reduced majorly by 68% due to decrease in treasury operations and unrealized M2M losses. Hence, Reported PAT saw de-growth of 4.5%YoY Rs552mn (our expectation of Rs 562mn)

Healthy domestic volume growth; Retail distribution coverage expands

Bajaj Corp showed healthy domestic volume growth of 8.2%. This is led by pick up in volumes in ADHO and BAHO. This improvement in performance is due to 1) Stable urban demand 2) Wholesale markets are still depressed but showing sequential recovery 3) CSD sales has improved but still in negative zone 4) Improvement in Direct distribution. Company mentioned that total hair oil market continue to grow but growth rates have come down in Q3FY18 while LHO market is growing slower than total hair oil market. 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.

Nomarks showed growth post successful marketing strategy.

Nomarks category has witnessed growth for the first time in 2 years led by new marketing strategy, channel enhancement and new product launches. Nomarks cream category is also on revival path which witnessed 178% & 111% YTD growth in pilot market of UP and other southern markets. 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, company expects International biz to revive from Q4FY18. 2) Successful Re-launch of BAHO with change in formulation, new brand ambassador & packaging and positioned as Ayurvedic BAHO. 3) Rural expansion continues- doubling from first 9 months till now 4) Sales force automation project rolled out in Rural making company fully automated across all channels.

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. The stock trades at attractive valuation of 32.7x and 29.9x P/E of FY18 & FY19 our estimated EPS, respectively. **We maintain our BUY rating.**

Associate

Ritu Chaudhary

+91-22 4224 5183

ritu.chaudhary@trustgroup.in



Exhibit 1. Quarterly Performance

Particulars (Rsmn)	Q3FY17	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Sales	1,864	2,042	1,974	2,041	1,973
YoY Gr%	(4.8)	(1.9)	(3.1)	3.7	5.9
Other operating income	5	3	-	-	107
Total Income	1,869	2,045	1,974	2,041	2,081
YoY Gr%	(4.7)	(2.0)	(3.4)	3.7	11.3
Gross Profit	1,225	1,376	1,286	1,368	1,437
Gross Margin %	65.6	67.3	65.2	67.0	69.0
Staff	157	152	169	194	193
YoY Gr%	37.0	26.4	22.3	32.4	22.6
% of Net Sales	8.4	7.5	8.5	9.5	9.8
YoY Change	257bps	167bps	178bps	206bps	133bps
Advertisements & Sales Promotion	248.5	271.5	239.7	325.8	326.5
YoY Gr%	0.8	(3.5)	(0.9)	2.1	3.1
% of Net Sales	1.3	1.3	1.2	1.6	1.4
YoY Change	156bps	-685bps	-85bps	227bps	35bps
Other Expenses	208	289	271	265	239
YoY Gr%	(1.8)	491.1	19.7	21.3	14.9
% of Net Sales	11.2	14.2	13.7	13.0	12.1
YoY Change	33bps	1,181bps	261bps	188bps	96bps
EBITDA	612	663	606	583	678
YoY Gr%	(9.8)	(12.3)	(14.6)	(13.2)	10.9
EBITDA Margin%	32.7	32.4	30.7	28.6	32.6
YoY Change	-185bps	-378bps	-403bps	-557bps	-12bps
Reported PAT	577	527	550	507	552
YoY Gr%	17.1	(2.8)	5.3	(13.0)	(4.5)

Source: Company, Trust

Exhibit 2. ADHO Market Share

Market Share (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	Q3FY18
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	58.5

Source: Company, Trust

Exhibit 3. Key Raw Material Trend

Particulars	Dec-15	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17
LLP									
Price (Rs/kg)	54.7	46.4	43.9	44.6	46.4	46.2	58.3	55.0	61.2
YoY Growth (%)	(27.1)	(25.6)	(26.2)	(24.3)	(15.2)	(0.4)	32.8	23.5	32.0
QoQ Growth (%)	(7.0)	(15.2)	(5.4)	1.5	4.1	(0.3)	26.1	(5.6)	11.2
Refined Oil									
Price (Rs/kg)	93.8	86.2	75.8	78.4	84.0	85.6	75.4	72.7	80.5
YoY Growth (%)	32.2	16.4	3.6	(4.4)	(10.4)	(0.6)	(0.5)	(7.3)	(4.1)
QoQ Growth (%)	14.3	(8.1)	(12.1)	3.5	7.1	2.0	(12.0)	(3.6)	10.8

Source: Company, Trust



Financials

P&L Statement

Y/E Mar (Rsmn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	8,256	7,997	7,969	8,263	9,356
% Growth	22.9	(3.1)	(0.4)	3.7	13.2
Raw Material	3,162	2,980	2,691	2,791	3,097
Staff	390	475	614	745	887
Other Expenses	2,312	1,805	2,028	2,156	2,605
Total Expenditures	5,864	5,260	5,333	5,693	6,590
EBITDA	2,392	2,737	2,636	2,570	2,766
% Growth	28.6	14.4	(3.7)	(2.5)	7.6
EBITDA Margins (%)	29.0	34.2	33.1	31.1	29.6
Other Income	316	287	394	402	469
Interest	1	2	10	10	11
Depreciation	49	49	53	55	60
Profit Before Tax	2,658	2,973	2,966	2,907	3,163
Provision for tax	462	538	599	617	664
Effective tax rate (%)	21.1	21.5	21.5	21.2	21.0
Reported PAT	1,727	1,965	2,183	2,289	2,499
% Growth	15.9	13.8	11.1	4.9	9.1
Adjusted Net Profit	2,097	2,334	2,318	2,289	2,499
% Growth	22.2	11.3	(0.7)	(1.2)	9.1

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	5,189	5,646
Total Non-Current Liabilities	6	108	158	233	233
Total Current Liabilities	788	744	796	890	950
Total	5,681	5,662	5,895	6,312	6,829
Fixed Assets	1,424	971	1,186	1,215	1,295
Non-Current Investments	4	4	2	-	-
Long Term Loans & Advances	3	105	19	107	131
Currents Investments	1,858	2,751	3,385	3,485	3,635
Inventories	393	502	425	464	551
Sundry Debtors	133	254	274	306	346
Cash and Bank	1,390	603	124	241	355
Other Current Assets	45	42	47	60	80
Short Term Loans and Advances	2	1	3	3	5
Total	5,681	5,662	5,895	6,312	6,829

**Cash flow**

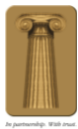
Rs mn (Y/E Mar)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	2,658	2,973	2,966	2,907	3,163
Depreciation	49	49	53	55	60
Total tax paid	(459)	(532)	(585)	(617)	(664)
Chg in working capital	135	(276)	71	61	(113)
Other operating activities	(316)	(285)	(386)	(402)	(469)
Cash flow from oper. (a)	2,066	1,929	2,120	2,003	1,978
Capital expenditure	(7)	(168)	(359)	(84)	(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)	218	179
Free cash flow (a+b)	2,059	1,761	1,761	1,919	1,838
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)	253	115

Key Ratios

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Raw Material Cost/Sales (%)	38.3	37.3	33.8	33.8	33.1
Manpower Cost/Sales (%)	4.7	5.9	7.7	9.0	9.5
Operating & Other Cost/Sales (%)	28.0	22.6	25.5	26.1	27.8
Revenue Growth (%)	22.9	(3.1)	(0.4)	3.7	13.2
EBITDA Margins (%)	29.0	34.2	33.1	31.1	29.6
EBITDA Growth (%)	28.6	14.4	(3.7)	(2.5)	7.6
Net Income Margins (%)	25.4	29.2	29.1	27.7	26.7
ROCE (%)	36.9	41.2	39.3	36.3	36.6
ROE (%)	48.0	55.9	52.3	48.5	47.9

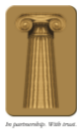
Valuation Parameters

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
EPS (Rs.)	14.2	15.8	15.7	15.5	16.9
P/E (x)	28.5	24.6	24.5	32.7	29.9
BV (Rs.)	33.1	32.6	33.5	35.2	38.3
P/BV (x)	12.2	12.0	11.5	14.4	13.2
EV/EBITDA (x)	24.4	20.8	21.6	29.1	27.0
PCE (x)	27.8	24.1	23.9	31.9	29.2
Net Debt/Equity (x)	(0.3)	(0.1)	0.0	(0.0)	(0.0)
EV/Sales (x)	7.1	7.1	7.1	9.1	8.0



Institutional Equity Team

Names	Designation	Sectors	Email ID's	Desk-Number
Naren Shah	Head Of Equity		naren.shah@trustgroup.in	+91-22-4084-5074
Sales Trading & Dealing				
Rajesh Ashar	Sales Trader		rajesh.ashar@trustgroup.in	+91-22-4224-5123
Dealing Desk			trustfin@bloomberg.net	+91-22-4084-5089
Sales				
Mayur Joshi	Sales		mayur.joshi@trustgroup.in	+91-22-4424-5028
Research Team				
Binyam Taddese	Analyst	Rates & Credit Research	binyam.taddese@trustgroup.in	+91-22-4224-5037
Naushil Shah	Analyst	Technology, Media & Telecom	naushil.shah@trustgroup.in	+91-22-4224-5125
Tushar Chaudhari	Analyst	Commodities, Auto & Mid-caps	tushar.chaudhari@trustgroup.in	+91-22-4224-5119
Ritu Chaudhary	Associate	FMCG & Consumer Durable	ritu.chaudhary@trustgroup.in	+91-22-4224-5183

**DISCLAIMER**

This document has been prepared by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) to provide information about the company (ies) and/sector(s), if any, covered in the report. This report is for personal information of the selected recipient/s and does not constitute to be any investment, legal or taxation advice to you. This research report does not constitute an offer, invitation or inducement to invest in securities or other investments and TFCSP is not soliciting any action based upon it. This report is not for public distribution and has been furnished to you solely for your general information and should not be reproduced or redistributed to any other person in any form. This report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

Information and opinions presented in this report were obtained or derived from sources that TFCSP believes to be reliable, but TFCSP makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. TFCSP accepts no liability for loss arising from the use of the material presented in this report, except that this exclusion of liability does not apply to the extent that liability arises under specific statutes or regulations applicable to TFCSP. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by TFCSP and are subject to change without notice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Other Disclosures by Trust Financial Consultancy Services Private Limited (hereinafter referred to as TFCSP) under SEBI (Research Analysts) Regulations, 2014 with reference to the subject companies(s) covered in this report:

TFCSP is engaged in the business of Retail & Institutional Stock Broking. TFCSP is a member of the National Stock Exchange of India Limited, BSE Limited and Metropolitan Stock Exchange of India Limited.

The associate/subsidiary companies of TFCSP are engaged in the businesses of Merchant Banking, portfolio management, lending, wealth management etc.

TFCSP's activities were neither suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years.

TFCSP has not been debarred from doing business by any Stock Exchange / SEBI or any other authority.

No disciplinary action has been taken by any regulatory authority against TFCSP impacting its equity research analysis activities.

TFCSP and its associate/subsidiary companies may have managed or co-managed public offering of securities, may have received compensation for merchant banking or brokerage services, may have received any compensation for products or services other than merchant banking or brokerage services from the subject company in the past 12 months.

TFCSP and its associate/subsidiary companies have not received any compensation or other benefits from the subject company or third party in connection with the research report.

Subject Company may have been a client of TFCSP or its associate/subsidiary companies during twelve months preceding the date of distribution of the research report. TFCSP and/or its associate/subsidiary companies and/or employees may have interests/positions, financial or otherwise of over 1 % at the end of the month immediately preceding the date of publication of the research in the securities mentioned in this report.

TFCSP is registered as a Research Analyst under SEBI (Research Analyst) Regulations, 2014. SEBI Reg. No. INH000001543.

Analyst Certification: The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject company securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report. The research analysts, strategists, or research associates principally responsible for preparation of TFCSP research receive compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues

Disclosure of Interest Statement	Name of Company
Analyst Ownership of Stock	No
Served as Director or Employee	No

Stock Ratings are defined as follows :-Recommendation Interpretation

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

Buy More than 15%

Hold 15% to -15%

Sell Less than -15%

Regional Disclosures (outside India): This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject TFCSP or its associate/subsidiaries