

**Target Price ₹ 136**
**CMP ₹ 99**
**FY13 PE 10.2x**

Index Details	
Sensex	15,882
Nifty	4,749
BSE 100	8,143
Industry	Personal Products

Scrip Details	
Mkt Cap (₹ cr)	1,460
BVPS (₹)	29.4
O/s Shares (Cr)	14.7
Avg Vol (Lacs)	0.1
52 Week H/L	132/73
Div Yield (%)	1.9
FVPS (₹)	1

Shareholding Pattern	
Shareholders	%
Promoters	84.7
DII's	4.0
FII's	5.7
Public	5.6
Total	100

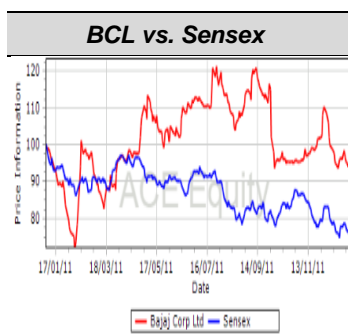
We initiate coverage on Bajaj Corp Ltd as a BUY with a Price Objective of ₹ 136 (target 14x FY13 P/E). At CMP of ₹ 99, the stock is trading at 12.7x and 10.2x its estimated earnings for FY12 & FY13 representing a potential upside of ~37.4% over a period of 15 months. Strong sustainable volume growth and pricing power of its flagship brand “Almond Drops”, new product launches in niche segments and inorganic acquisitions should lead to an earnings growth of 30.6% CAGR over the period FY11 to FY13. Bajaj Corp Ltd is one of the fastest growing companies in the FMCG space with market leadership in the niche “Light Hair Oil” category and over the years has successfully consolidated its market share.

➤ **Brand leadership, product differentiation, and extensive network reach has helped BCL maintain its market leadership**

The Light Hair Oil (LHO) segment (~13% of total hair oil market) has witnessed ~25.5% CAGR (in value terms) and ~17.6% CAGR (in volume terms) over the period of 6 years since 2006-07. Further this segment is expected to grow at ~17% CAGR over FY12-14 and Bajaj Corp with its offering of Almond Drops hair oil ADHO (~93% of total sales) is best placed to benefit from this opportunity. Over the years, ADHO has enhanced its market share to 53.9% (+1360 bps since FY08) and has ambitious plans to further consolidate its position in this segment to ~65% over the next five years. Slew of measures like sachets to penetrate the rural market (being the only player), targeted advertising, product differentiation through use of glass bottle packaging (which reinforces its value proposition) and market expansion strategies to convert coconut hair oil users to the higher value added LHO category should stand the company in good stead to achieve its growth targets.

➤ **New foray into the fast growing cooling hair oil segment to help diversify product portfolio and boost revenues**

Leveraging on its strong presence in the LHO segment and the distribution strength of over 2 mn retail outlets, BCL is looking at strategic brand extension and new product launches. In line with this strategy, the company has forayed into the ~ ₹ 640 crore cooling hair oil segment with the launch of Kailash Parbat Cooling oil (KPCO). The initial response has been quite promising with KPCO attaining a volume market share of 1% within the first quarter of its launch. However we have not factored this in our model and represents an upside risk to our estimates.


**Key Financials (₹ in Cr)**

Y/E Mar	Net Revenue	EBITDA	PAT	EPS	EPS Growth (%)	RONW (%)	ROCE (%)	P/E (X)	EV/EBITDA(X)
2010	294.6	97.4	83.9	6.7	78.5	217.4	263.5	-	-
2011	358.7	108.2	84.1	5.7	-14.9	41.9	33.5	17.5	13.0
2012E	458.6	113.5	114.8	7.8	36.5	25.7	32.8	13.0	12.4
2013E	545.5	149.7	143.4	9.7	24.9	26.8	34.2	10.4	9.4

### ➤ **Prospective inorganic growth on the back of cash availability**

In its initiative to grow through acquisitions BCL is scouting for brands in the personal care segment in the domestic, as well as, international market. The huge cash pile of ~ ₹ 346.7 crore is a strong advantage and can be put to work to undertake a sizable acquisition which would catapult the company into a higher growth phase. This would not only help de-risk the brand portfolio but would help diversify the revenue stream and improved profitability leading to better shareholder returns which in turn should lead to higher valuations.

### **Valuation**

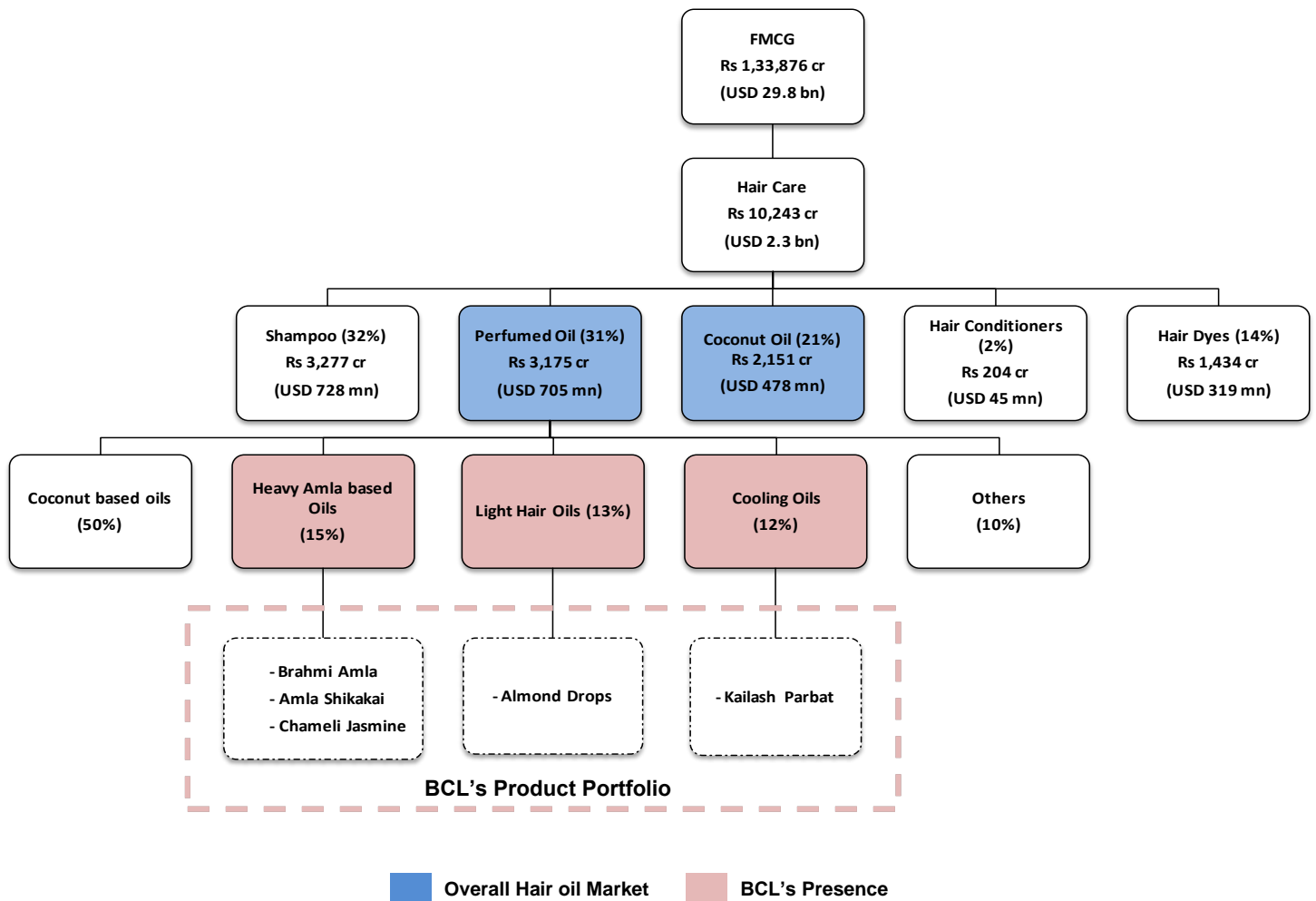
At the CMP of ₹ 99, BCL is trading at 12.7x and 10.2x its estimated earnings for FY12 and FY13. We initiate coverage on Bajaj Corp Ltd as a BUY with a Price Objective of ₹ 136 (14x FY13 EPS) over a period of 15 months.

We have valued the stock at ~35.5% discount to Marico's valuation of 21.7x FY13 EPS (as per Ventura estimates). BCL's earnings are expected to grow at a 30.6% CAGR over the forecast period FY12-13 which is far ahead of the FMCG sector's growth. Strong cash generation ability and the better visibility of its earnings over the next two to three years are an added attraction.

## ➤ Company Background

Part of the esteemed Shishir Bajaj Group of companies ("Bajaj Group"), Bajaj Corp Ltd (BCL) is one of the leading producers of hair oils. BCL is the 3rd largest player in the ~ ₹ 5,326 crore hair oil market and the market leader (market share of 53.9%) in the ~ ₹ 690 crore Light Hair Oil (LHO) segment. "Bajaj Almond Drops Hair Oil" (ADHO) is the key brand in its product portfolio, contributing over 93% to the total sales. In addition, the company has other hair oil brands – Brahmi Amla, Amla Shikakai, Jasmine, and Kailash Parbat Cooling Oil (launched recently). BCL also has a presence in the oral care segment through its brand Kala Dant Manjan; however, this constitutes a miniscule portion of its total revenue.

### Hair Oil Industry in India (> 50% of the overall hair care industry)

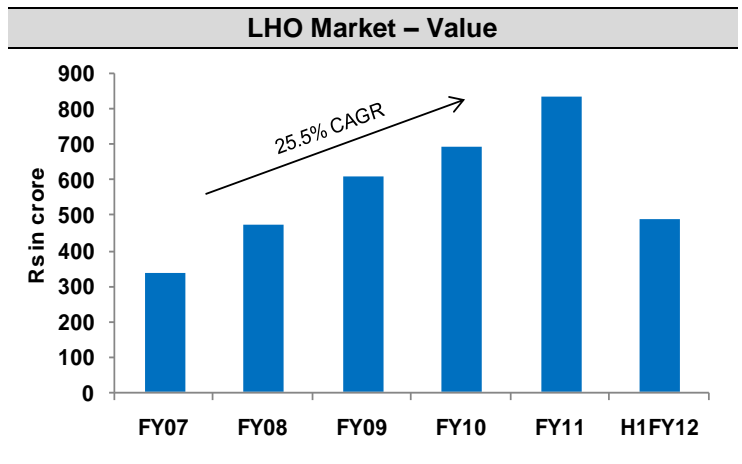
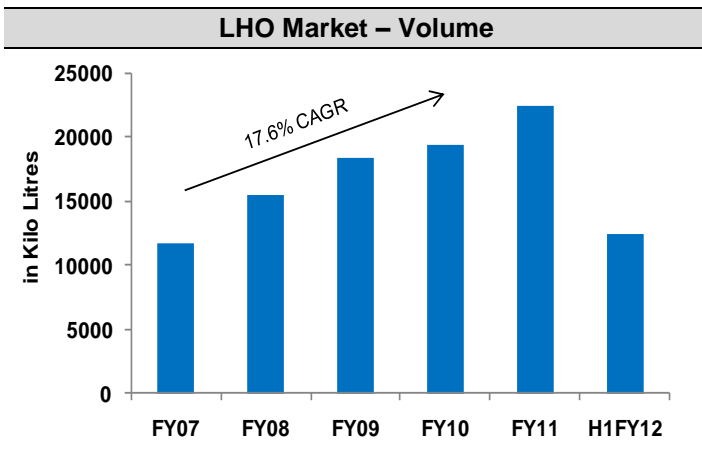


Source: BCL, Ventura Research

➤ **Key Investment highlights**

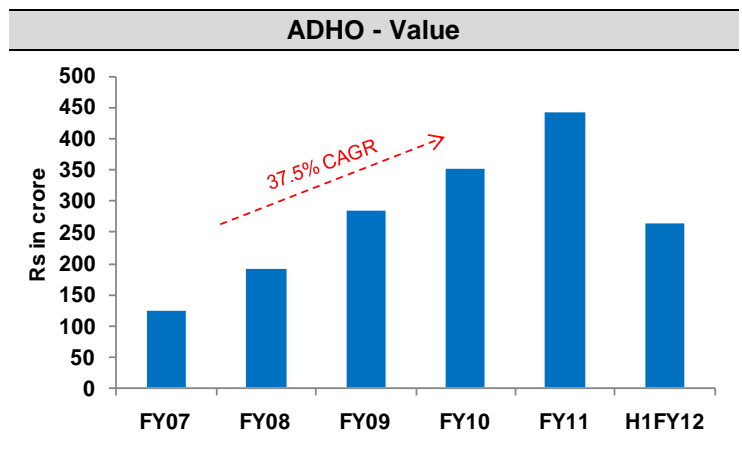
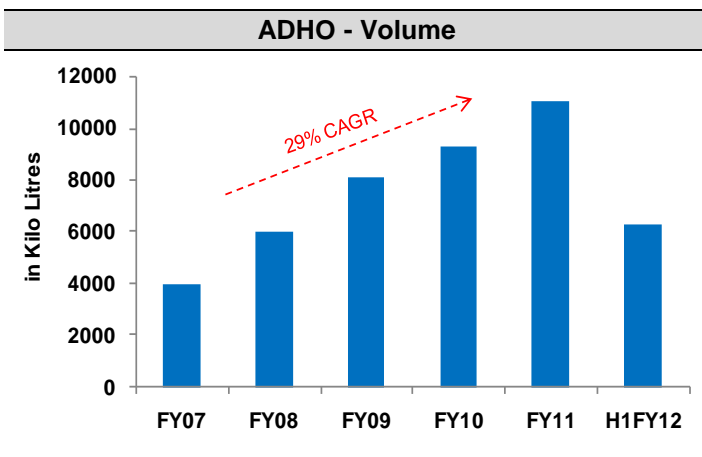
❖ **Brand leadership, product differentiation and extensive network reach has helped BCL maintain its market leadership**

The Light Hair Oil (LHO) category (~13% of total Hair Oil Market), which comprises the premium hair oil segment, witnessed ~25.5% CAGR (in value terms) and ~17.6% CAGR (in volume terms) over the period of 6 years since 2006-07. This segment is expected to continue to grow at a CAGR of 17% in volume terms over the period FY12-14. BCL, with its LHO brand - Bajaj Almond Drops Hair Oil (ADHO) commands a market share of 53.9% (by value) and contributes more than 93% to its total sales, is best placed to avail of this opportunity. Despite ADHO being a leader in the LHO category by a fair margin than its nearest peers Marico's – Hair & Care (~22%) and Dey's Medical – Keo Karpin (~19%), the company has ambitious plans to enhance market share to ~65% from its current 53.9% by FY16.



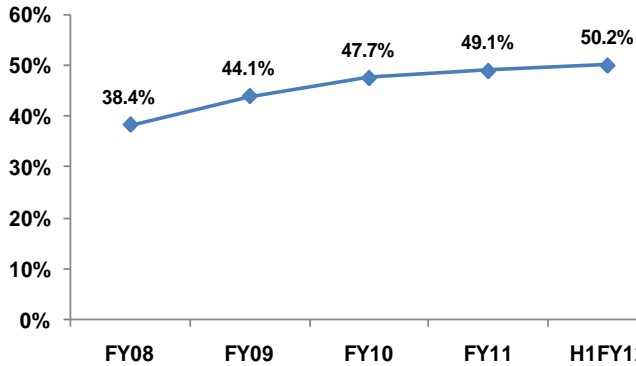
Source: BCL, Ventura Research

Source: BCL, Ventura Research

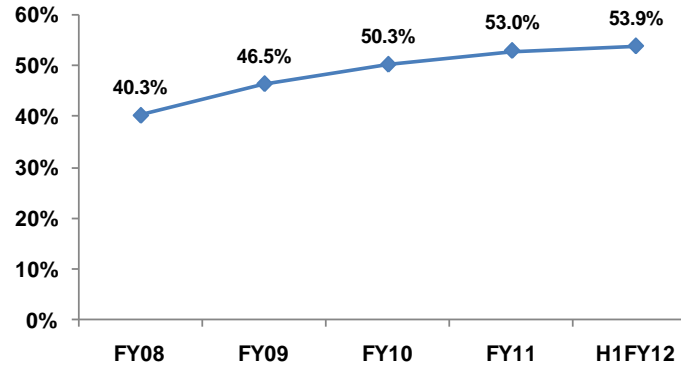


Source: BCL, Ventura Research

Source: BCL, Ventura Research

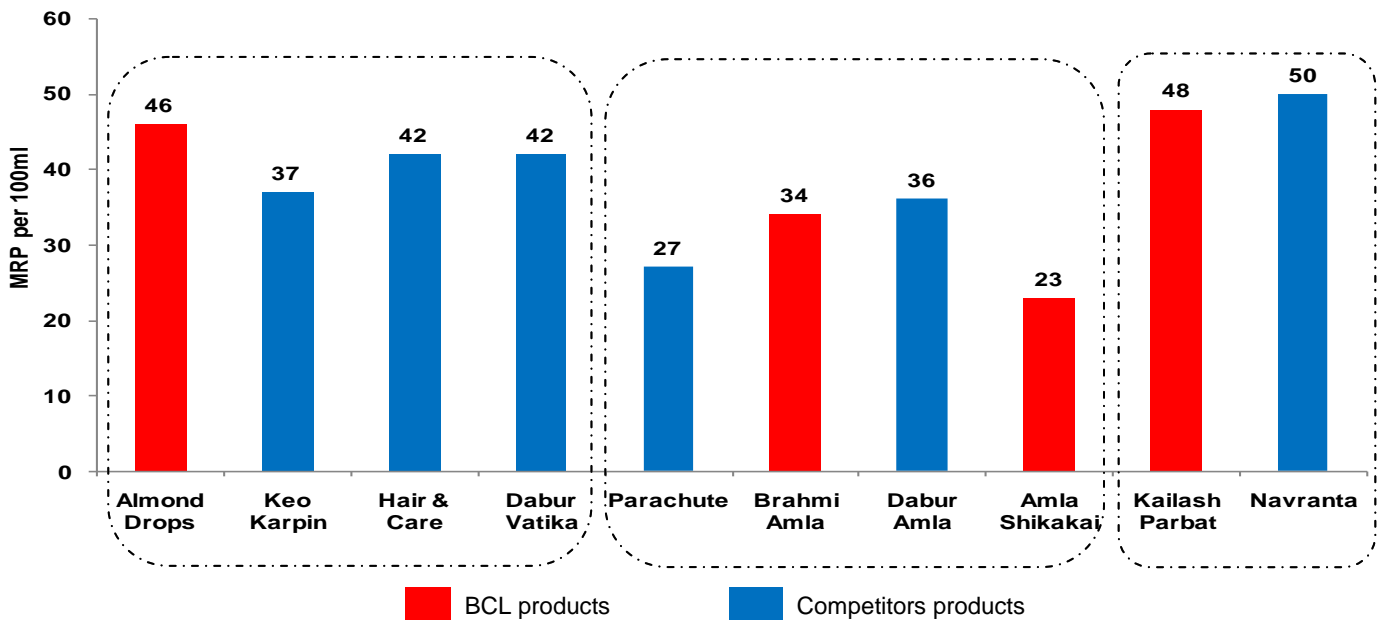
**ADHO – Market Share (Volume)**


Source: BCL, Ventura Research

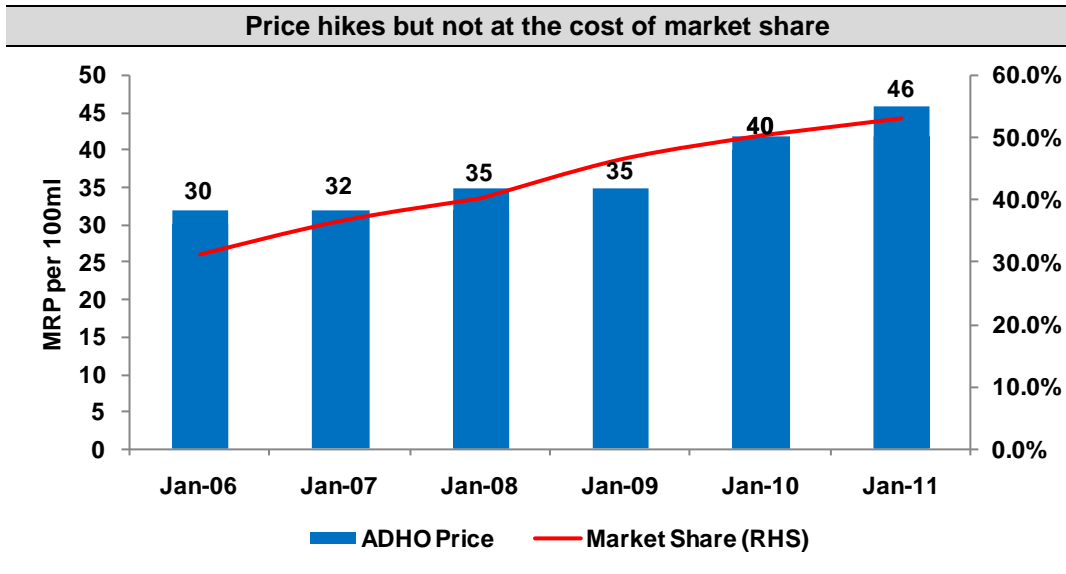
**ADHO – Market Share (Value)**


Source: BCL, Ventura Research

In order to dominate this space BCL has come up with many initiatives like sachets to penetrate the rural market (being the only player), targeted advertising campaign, product differentiation through use of glass bottle packaging (which reinforces its value proposition) and market expansion strategies to convert coconut hair oil users to the higher value added LHO category. While competition has introduced similar products at lower price points, BCL has adopted an aggressive pricing policy and yet has grown its market share and volumes clearly indicating the brand power of ADHO.

**Peer product price comparison for 100ml product**


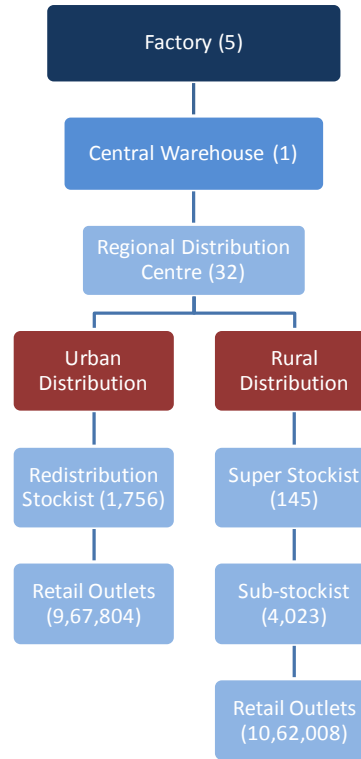
Source: BCL, Ventura Research



Source: BCL, Ventura Research

On the distribution front, BCL have an extensive reach in urban and rural market through 2.0 million retail outlets serviced by 5913 direct distributors and 11,057 wholesalers. The northern region of India is the major market as well as fastest growing zone for LHO category. Given the fact that ~51% of company's stockists are based in North India, high penetration of ADHO in rural and urban area is virtually assured. Moreover, BCL is rapidly expanding its distribution reach as its stockists strength has grown from less than 1500 in FY05 to 5913 in Q2FY12 and the company plans to further accelerate additions to the distribution outlets. This is evident from the fact that ADHO generates ~39% of its sales from the rural markets which is higher than the industry average.

**Distribution Structure**

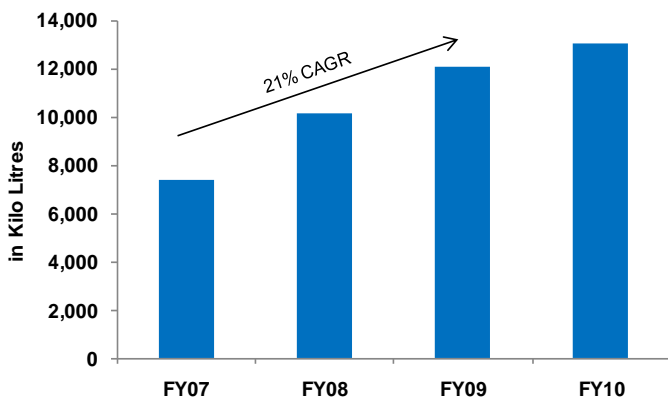


Source: BCL, Ventura Research

❖ **New foray into the fast growing cooling hair oil segment to help diversify product portfolio and boost revenues**

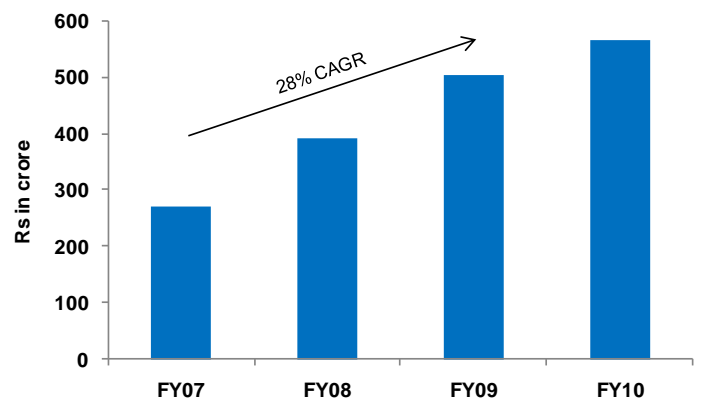
BCL has identified the fast growing cooling hair oil segment (~21% CAGR against ~17% CAGR of hair oil industry growth) as one of its key growth drivers. Leveraging of its prevailing strong brand equity and the distribution reach of over 2 mn retail outlets, BCL has recently launched Kailash Parbat Cooling oil (KPCO).

**Cooling Oil market – Volume**



Source: BCL, Ventura Research

**Cooling Oil market – Value**



Source: BCL, Ventura Research

The product was initially test marketed in both north and south India and the feedback from the northern states (which is the bastion of BCL) was very encouraging. KPCO was able to achieve a volume market share of 1% within the first quarter of its launch itself. With the onset of the summer season the sales are expected to pick up sharply and the current availability in 3.6 lakh outlets should help boost sales. Already in Rajasthan, KPCO has achieved a market share of 7.6% and the states of UP, Bihar, Jharkhand and Chhattisgarh are expected to buoy the volume growth.

Currently KPCO faces stiff competition from 'Himgange' (unorganized sector), Emami's 'Himami Navratna' and Marico's 'Nihar' cooling oil. Nihar cooling oil had an encouraging response during test marketing down south; however post launch it has not been able to garner satisfactory volumes.

While KPCO's launch may not be EPS accretive from the first year, it will steadily add to the revenues as cooling oil is a fast growing segment.

### ❖ **Prospective inorganic growth on the back of cash availability**

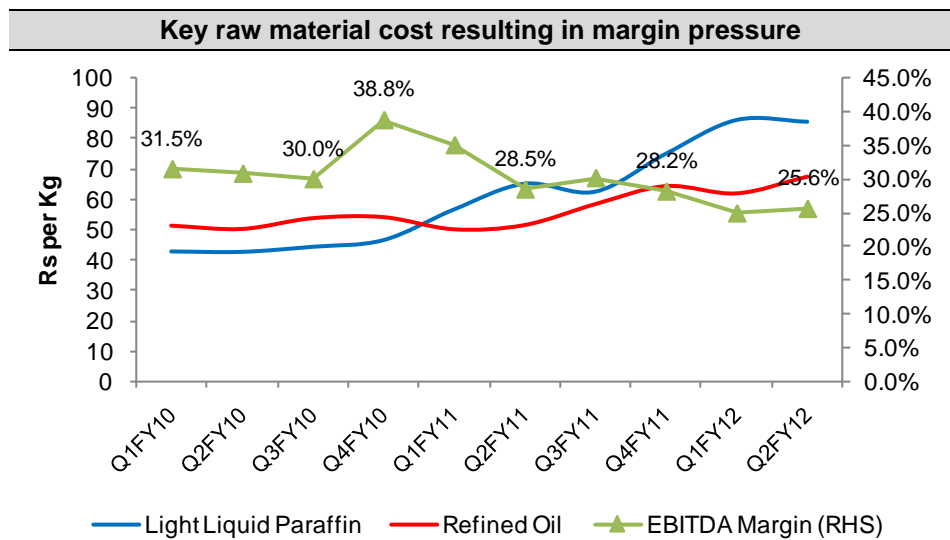
As a part of its growth strategy, BCL is scouting for inorganic growth opportunities in the FMCG personal care and hair oil market (both domestic and international market) with focus on niche brands. Moreover, BCL has also hired few consultants for screening suitable targets. With zero debt and huge cash and cash equivalents of ~ ₹ 346.7 crore, it would not be difficult for the company to fund any potential acquisitions going forward. Further, BCL does not have any major capital expenditure (capex) plan and also does not require to raise additional funds to meet its working capital requirement. Going further, we believe that the deployment of cash to expand both organically as well as inorganically will boost the company's revenues as well as valuations.



➤ **Key Concerns**

**Volatility in raw material prices namely light liquid paraffin and vegetable oil**

Off late prices of key input Light Liquid Paraffin (~ 41.4% of the RM cost) and vegetable oil (~8.3% of RM cost) have become very volatile and unfavorable movements can significantly affect profitability and volume growth. However, BCL had taken an average price increase of 8.5% in ADHO in May 2011 which, to a certain extent, would provide shield against any substantial increase in costs.



Source: BCL, Ventura Research

**Reliance on one single product + declining volume of other products = Riskier proposition**

The company has a very concentrated portfolio, which brings a certain amount of risk attached with it. Almond Drop hair oil (ADHO) constitutes over 93% to the total revenue of BCL. Any drop in the sales of Almond Drops will adversely affect company’s market share, business and financial performance. Moreover, the increasing competition from its key competitors may affect the sales volume and consequently hurt the overall health of the company.

**Non-operational concerns have hurt valuations**

Sensible deployment of available cash and cash equivalents to enhance its product portfolio or to grow inorganically is one of the key drivers for the company. However, recent expenditure to acquire land for future corporate premises in Mumbai (₹ 75 crore worth) and guest houses (₹ 15 crore worth) has raised investor’s concerns. Until the cash pile of ₹ 346.7 crore is put to good use which would directly benefit business prospects, valuations would continue to remain depressed.

## ➤ Financial Performance

Bajaj Corp Ltd witnessed a steady 31.6% YoY growth in its top line to ₹ 107.1 crore in Q2FY12 as against ₹ 81.4 crore in Q2FY11. Moreover, EBITDA and net profit increased sequentially by 3.1% and 1.2% to ₹ 27.4 crore and ₹ 28.8 crore (aided by yield from liquid investments ~ ₹ 9.9 crore) respectively. EBITDA margins for the business surged sequentially by 67bps to 25.6% in Q2FY12 as against 24.9% in Q1FY12 on the back of ~ 8.5% weighted average price hike and ~ 22% volume growth in its key brand ADHO.

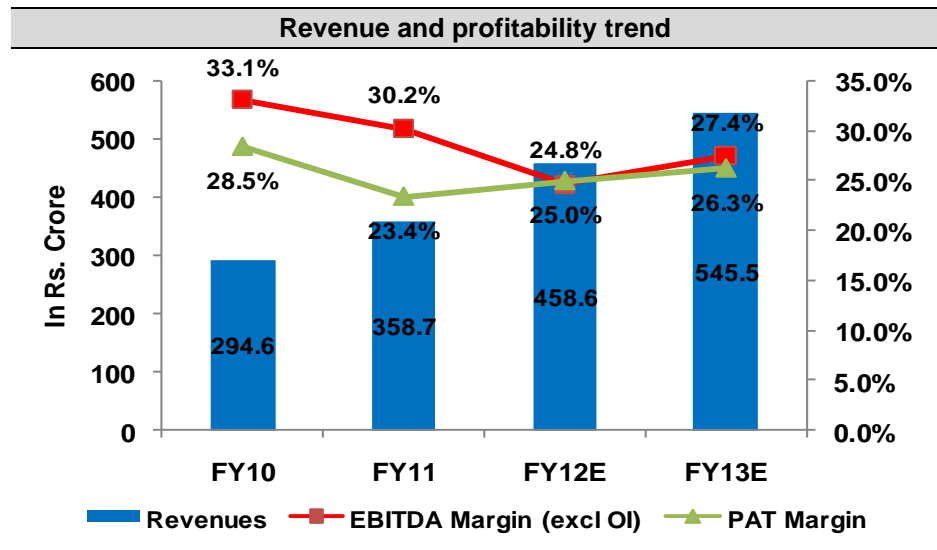
We believe that BCL is likely to maintain ADHO's volume growth at ~17% leading to further increase in its market share. In our view, the recent diversification efforts, where the company has forayed into the fast-growing cooling hair oil category would be positive for the stock as BCL can very well leverage its pan-India distribution network for new product launches.

Quarterly Financial Performance				
Particulars	Q2FY12	Q2FY11	FY11	FY10
<b>Net Sales</b>	<b>107.1</b>	<b>81.4</b>	<b>359.4</b>	<b>294.9</b>
<i>Growth %</i>	<i>31.6</i>		<i>21.9</i>	
Total Expenditure	79.7	58.2	250.5	197.2
<b>EBDITA</b>	<b>27.4</b>	<b>23.2</b>	<b>108.9</b>	<b>97.7</b>
<i>EBDITA Margin %</i>	<i>25.6</i>	<i>28.5</i>	<i>30.3</i>	<i>33.1</i>
Depreciation	0.5	0.4	1.8	0.8
EBIT (EX OI)	26.9	22.8	107.1	96.9
Other Income	9.9	2.4	17.0	4.8
<b>EBIT</b>	<b>36.8</b>	<b>25.2</b>	<b>124.1</b>	<b>101.7</b>
<i>Margin %</i>	<i>34.4</i>	<i>30.9</i>	<i>34.5</i>	<i>34.5</i>
Interest	0.0	0.0	0.1	0.1
Exceptional items	0.0	-6.3	-18.9	0.0
<b>PBT</b>	<b>36.8</b>	<b>18.8</b>	<b>105.1</b>	<b>101.6</b>
<i>Margin %</i>	<i>34.4</i>	<i>23.1</i>	<i>29.2</i>	<i>34.5</i>
Provision for Tax	8.0	3.7	20.9	17.6
<b>PAT</b>	<b>28.8</b>	<b>15.1</b>	<b>84.1</b>	<b>83.9</b>
<i>PAT Margin (%)</i>	<i>26.9</i>	<i>18.6</i>	<i>23.4</i>	<i>28.5</i>

Source: BCL, Ventura Research

## ➤ Financial Outlook

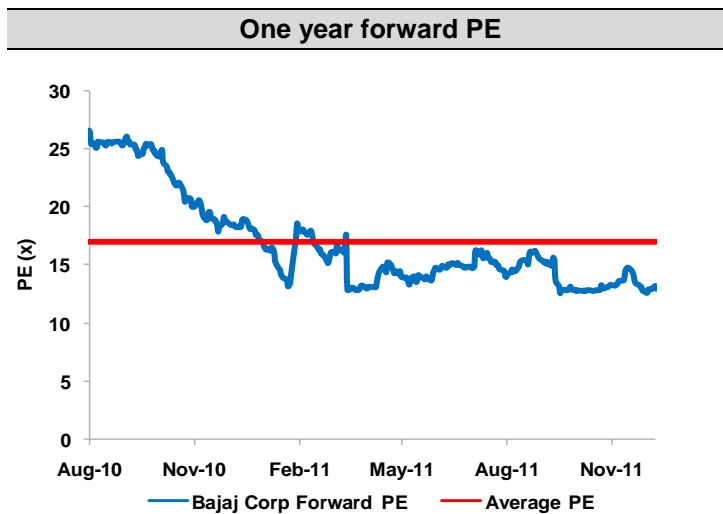
Aided by steady volume growth and sustained leadership position in its flagship brand ADHO, we expect revenues to grow at a CAGR of 23.3% to ₹ 545.5 crore over the forecast period of FY11-13. Also, going forward, its foray into the fast growing cooling hair oil segment will further boost revenues. We expect BCL to maintain ~26% EBITDA margin (excl OI) over the forecasted period amidst volatile raw material prices. Consequently, we expect the PAT to grow at a CAGR of 30.6% to ₹ 143.4 crore in FY13E as compared to ₹ 84.1 crore in FY11.



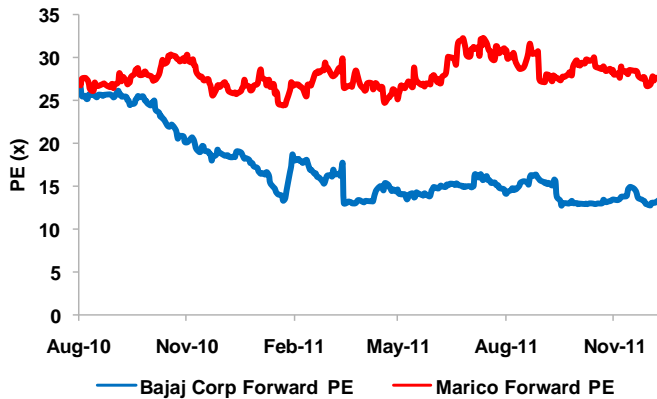
Source: BCL, Ventura Research

### ➤ Valuation

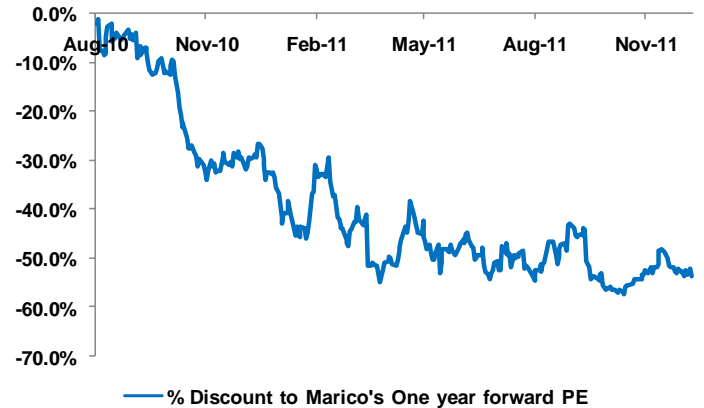
At a CMP of ₹ 99, BCL is trading at 12.7x and 10.2x its estimated earnings for FY12 and FY13. We initiate coverage on Bajaj Corp Ltd as a BUY with a Price Objective of ₹ 136 (14x FY13 EPS) over a period of 15 months. We have valued the stock at ~35.5% discount to Marico's valuation of 21.7x FY13 EPS (as per Ventura estimates). BCL's earnings are expected to grow at a 30.6% CAGR over the forecast period FY12-13 which is far ahead of the FMCG sector's growth. Strong cash generation ability and the better visibility of its earnings over the next two to three years are an added attraction.



Source: Ventura Research

**One year forward PE relative to Marico**


Source: Ventura Research

**One year forward PE discount relative to Marico**


Source: Ventura Research

**Peer Comparison**

Company Name	P/E		P/B		ROE		Earnings Growth (%)
	FY12E	FY13E	FY12E	FY13E	FY12E	FY13E	FY11-13E
<b>Bajaj Corp</b>	<b>12.7</b>	<b>10.2</b>	<b>3.2</b>	<b>2.7</b>	<b>25.7</b>	<b>26.8</b>	<b>30.6</b>
Marico	26.5	21.7	7.4	5.7	28.1	26.3	19.4
Dabur	27.0	22.7	10.5	8.4	42.7	40.4	18.3
Emami	19.3	16.1	6.1	5.0	32.3	35.2	19.3
HUL	36.2	31.7	25.4	19.0	70.0	59.9	15.1
Zydus Wellness	20.5	16.7	7.8	6.1	42.9	39.7	21.3
ITC	25.9	21.9	8.5	7.6	34.6	36.5	19.2
P&G	31.2	22.2	8.2	6.9	24.3	29.2	28.2
GCPL	20.9	16.1	5.4	4.3	33.5	26.7	27.8
Britannia Ind	28.1	22.1	10.7	8.5	39.6	48.2	34.3
GSK Consumers	24.4	20.7	7.8	6.4	34.6	34.5	30.3
Colgate Palmolive	30.5	26.4	30.3	25.4	106.4	102.8	9.3
Nestle	31.4	26.5	22.8	17.5	77.1	76.5	35.9

Source: Ventura Research Estimates, Bloomberg Estimates

## Financials and Projections

Y/E March, Fig in Rs. Cr	FY 2010	FY 2011	FY 2012e	FY 2013e	Y/E March, Fig in Rs. Cr	FY 2010	FY 2011	FY 2012e	FY 2013e
<b>Profit &amp; Loss Statement</b>					<b>Per Share Data (Rs)</b>				
Net Sales	294.6	358.7	458.6	545.5	EPS	6.7	5.7	7.8	9.7
% Chg.	20.5	21.8	27.9	18.9	Cash EPS	6.8	5.8	8.0	10.0
Total Expenditure	197.2	250.5	345.1	395.8	DPS	7.4	1.9	2.6	3.2
% Chg.	2.3	27.0	37.8	14.7	Book Value	2.0	25.5	30.3	36.2
<b>EBDITA</b>	<b>97.4</b>	<b>108.2</b>	<b>113.5</b>	<b>149.7</b>	<b>Capital, Liquidity, Returns Ratio</b>				
EBDITA Margin %	33.1	30.2	24.8	27.4	Debt / Equity (x)	0.0	0.0	0.0	0.0
Other Income	5.1	17.8	33.0	33.0	Current Ratio (x)	1.5	2.4	2.8	3.6
<b>PBDIT</b>	<b>102.5</b>	<b>125.9</b>	<b>146.5</b>	<b>182.7</b>	ROE (%)	300.6	22.3	25.7	26.8
Depreciation	0.8	1.8	3.0	3.4	ROCE (%)	367.3	33.5	32.8	34.2
Interest	0.1	0.1	0.1	0.1	Dividend Yield (%)	7.4	1.9	2.6	3.3
Exceptional items	0.0	-19.0	0.0	0.0	<b>Valuation Ratio (x)</b>				
<b>PBT</b>	<b>101.6</b>	<b>105.1</b>	<b>143.4</b>	<b>179.1</b>	P/E	14.7	17.4	12.7	10.2
Tax Provisions	17.6	21.0	28.6	35.8	P/BV	48.3	3.9	3.3	2.7
<b>Reported PAT</b>	<b>83.9</b>	<b>84.1</b>	<b>114.8</b>	<b>143.4</b>	EV/Sales	4.7	3.8	3.0	2.5
PAT Margin (%)	28.5	23.4	25.0	26.3	EV/EBIDTA	14.2	12.7	12.1	9.2
Raw Materials / Sales (%)	22.6	26.2	29.5	29.5	<b>Efficiency Ratio (x)</b>				
Manpower cost / Sales (%)	4.0	4.0	4.0	4.0	Inventory (days)	12.3	14.7	17.0	17.0
Other opr Exp / Sales (%)	18.2	18.7	19.0	19.5	Debtors (days)	3.6	6.1	9.0	9.0
Tax Rate (%)	17.4	20.0	20.0	20.0	Creditors (days)	27.1	45.1	60.0	60.0
<b>Balance Sheet</b>					<b>Cash Flow statement</b>				
Share Capital	12.5	14.8	14.8	14.8	<b>Profit After Tax</b>	<b>83.9</b>	<b>84.1</b>	<b>114.8</b>	<b>143.4</b>
Reserves & Surplus	15.4	361.6	431.8	519.5	Depreciation	0.8	1.8	3.0	3.4
Minority Interest	0.0	0.0	0.0	0.0	Working Capital Changes	5.4	14.0	18.9	8.1
Total Loans	0.0	0.0	0.0	0.0	Others	-4.6	-11.3	-33.0	-33.0
Deferred Tax Liability	0.0	0.0	0.0	0.0	<b>Operating Cash Flow</b>	<b>86.1</b>	<b>101.5</b>	<b>122.6</b>	<b>130.0</b>
<b>Total Liabilities</b>	<b>27.9</b>	<b>376.3</b>	<b>446.6</b>	<b>534.3</b>	Capital Expenditure	-12.8	-6.2	-18.7	-5.6
Gross Block	19.6	24.7	43.4	49.1	Change in Investment	2.7	-311.4	33.0	33.0
Less: Acc. Depreciation	1.3	3.0	6.1	9.5	<b>Cash Flow from Investing</b>	<b>-10.2</b>	<b>-317.1</b>	<b>14.3</b>	<b>27.4</b>
Net Block	18.4	21.7	37.4	39.6	Proceeds from equity issue	0.0	297.0	0.0	0.0
Capital Work in Progress	0.0	0.3	0.0	0.0	Issue Exp	-2.3	-16.8	0.0	0.0
Investments	2.1	330.1	319.7	319.7	Dividend and DDT	-107.9	0.0	-44.6	-55.7
Net Current Assets	5.2	24.3	89.5	175.0	<b>Cash Flow from Financing</b>	<b>-110.2</b>	<b>280.2</b>	<b>-44.6</b>	<b>-55.7</b>
Deferred Tax Assets	-0.1	0.0	0.0	0.0	<b>Net Change in Cash</b>	<b>-34.3</b>	<b>64.6</b>	<b>92.3</b>	<b>101.7</b>
Misc Expenses	2.3	0.1	0.0	0.0	<b>Opening Cash Balance</b>	<b>51.0</b>	<b>16.8</b>	<b>81.3</b>	<b>173.7</b>
<b>Total Assets</b>	<b>27.9</b>	<b>376.3</b>	<b>446.5</b>	<b>534.2</b>	<b>Closing Cash Balance</b>	<b>16.8</b>	<b>81.3</b>	<b>173.7</b>	<b>275.4</b>

### Ventura Securities Limited

Corporate Office: C-112/116, Bldg No. 1, Kailash Industrial Complex, Park Site, Vikhroli (W), Mumbai – 400079

This report is neither an offer nor a solicitation to purchase or sell securities. The information and views expressed herein are believed to be reliable, but no responsibility (or liability) is accepted for errors of fact or opinion. Writers and contributors may be trading in or have positions in the securities mentioned in their articles. Neither Ventura Securities Limited nor any of the contributors accepts any liability arising out of the above information/articles. Reproduction in whole or in part without written permission is prohibited. This report is for private circulation.