

## Bajaj Corp Ltd.

*Rural penetration led robust volume growth...*

### Outlook

Bajaj Corp Ltd (BCL) continued to post a robust volume growth of 23.4% in its flagship brand ADHO (Almond Drops Hair Oil) primarily driven by rural penetration (increased distribution reach). We have incorporated FY15 forecasted financials from this quarter and accordingly expect revenues to grow at a CAGR of 24.7% to Rs 916.9 crore over the forecast period of FY13-15 on the back of steady volume growth (~20% avg.) and sustained leadership position in its flagship brand Almond Drops.

At a CMP of Rs 253, Bajaj Corp is trading at 19.6x and 17.7x its estimated earnings for FY14 and FY15. Given the stretched valuations, we reiterate a HOLD on the stock with the revised price target of Rs 271 (as against our revised target of Rs 209) representing a limited potential upside of ~6.2%. However, prospective inorganic growth, strong cash availability (~Rs 477 crore) and potential new product launches is an added attraction.

### Key Takeaways

- BCL yet again reported a robust top-line growth of 31.8% YoY to Rs 148.1 crore in Q3FY13 as against Rs 112.3 crore in Q2FY12 primarily led by volume growth of ~23.4% YoY from its flagship brand (Almond drops). The growth is also attributable to the rural penetration on the back of increased distribution reach (2.54 mn retail outlets vs. 2.43 mn in Q2FY13). The company reported net profit at Rs 42.2 crore in Q3FY13 as against Rs 28.9 crore in Q3FY12 (+46.2% YoY) partially attributable to the price hike (~8.5%) taken in April 2012 and softening raw material prices (benefit of ~Rs 1.85 crore in Q3FY13).
- EBITDA margin at 29.03% for the quarter, expanded by 352 bps YoY on account of price hike taken in April, 2012 and decline in RM costs (LLP – Rs 79.1/kg; ~ -4.5% YoY) partially offset by rising refined oil prices (Rs 80.2/kg; +14.1% YoY). Moreover, BCL has entered into a deal with its LLP supplier (its key raw material; ~36.8% of total cost) which will enable it to buy LLP at an average price of ~Rs 75/kg in Q4FY13. This, we believe will help BCL to maintain its EBITDA margin in the range of ~26-27% in FY13 amidst volatile raw material prices.
- BCL's flagship brand ADHO witnessed a healthy volume growth (23.4% YoY) and value growth (33.1% YoY) which was far ahead from the LHO market growth (volume - ~17.9% YoY and value - ~26.1% YoY). The volume and value market share enjoyed by Almond drops continue to command leadership status i.e. ~51.9% and ~54.6% respectively. Moreover, we believe that Dabur's foray into LHO category (Dabur Almond Hair Oil)

Recommendation (Rs)	
CMP	253
Rating	HOLD

Index Details	
Sensex	19,906
Nifty	6,024
Industry	Personal Products

Scrip Details	
Mkt Cap (Rs Cr)	3,737
Eq Shares O/s (Cr)	14.8
Avg Vol (Lakhs)	0.4
52 Week H/L	264/98
Dividend Yield (%)	1.6
Face Value (Rs)	1.0

Latest shareholding pattern (%)	
Promoters	84.8
Indian Institutions	0.3
FII's	9.9
Public	5.1
Total	100.0

Stock performance (%)			
	1m	3m	6m
Bajaj Corp	18.8	36.9	95.6
Nifty	2.5	6.1	15.2
BSE-FMCG	-4.1	-0.3	16.7

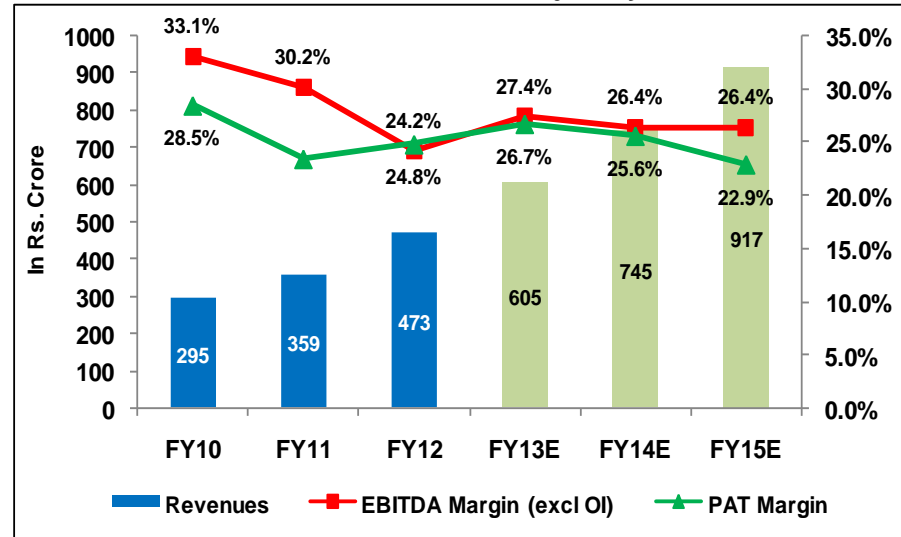
is likely to encourage healthy competition which will eventually lead to expansion in the LHO market size. BCL being the leader in this category is best placed to benefit from this.

- While BCL's Kailash Parbat (cooling hair oil segment) brand posted a decent volume growth of 20.8% YoY, its market share has declined marginally from 2.6% in Q2FY13 to 2.4% in Nov, 2012. This decline is attributable to the seasonally weak quarter and we expect KPCO to regain its lost market share. Going ahead, we believe that the company's distribution network leverage is likely to augment revenues from the brand as it establishes its hold in the segment.
- **Other Key Highlights**
  - ✓ According to management, no major capex is expected in FY14 except for the construction work on its new corporate headquarters building at Worli (Mumbai) land (<Rs 10 crore; expected to be completed by FY15).
  - ✓ BCL has incorporated a wholly owned subsidiary – Bajaj Bangladesh Ltd and is planning to foray in Bangladesh. According to management, its LHO industry is at a nascent stage and ~90% of hair oil industry being dominated by coconut oil.
  - ✓ BCL has stipulated that it is evaluating various options with respect to promoter holding bringing down to 75% from current 84.75% (by August, 2013).

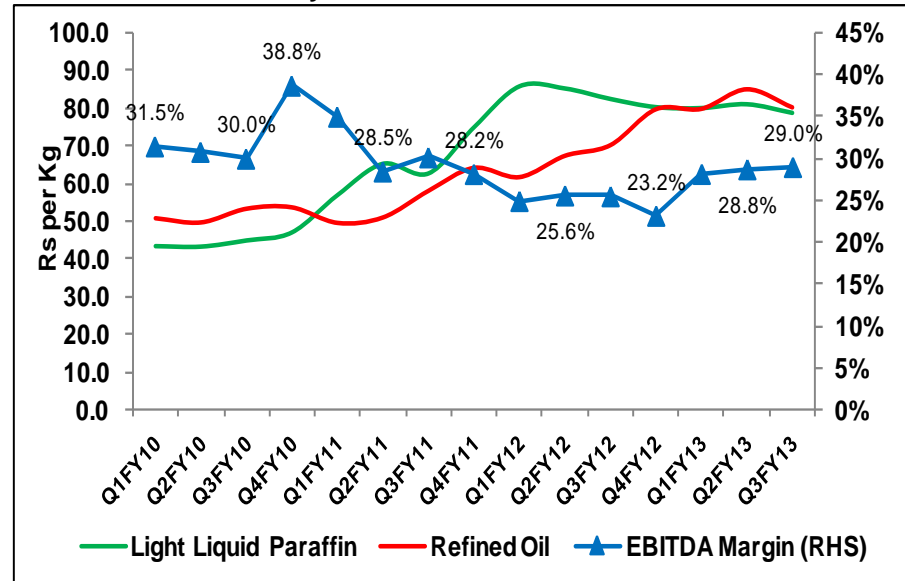
# Quarterly Result Update

Description	Q3FY13	Q3FY12	% Chg.	Q3FY13	Q2FY13	% Chg.	FY201203	FY201103	% Chg.
<b>Net Sales</b>	<b>148.1</b>	<b>112.3</b>	<b>31.8</b>	<b>148.1</b>	<b>135.9</b>	<b>9.0</b>	<b>472.2</b>	<b>358.7</b>	<b>31.7</b>
Other operational Income	0.2	0.2	14.2	0.2	0.2	0.0	1.1	0.8	40.8
<b>Total Oper. Income(TOI)</b>	<b>148.3</b>	<b>112.5</b>	<b>31.8</b>	<b>148.3</b>	<b>136.0</b>	<b>9.0</b>	<b>473.3</b>	<b>359.4</b>	<b>31.7</b>
Raw Materials Cons.-	51.8	41.0	26.5	51.8	50.5	2.6	194.4	132.6	46.6
<i>% to TOI</i>	<i>34.9</i>	<i>36.4</i>	-	<i>34.9</i>	<i>37.1</i>	-	<i>41.1</i>	<i>36.9</i>	-
Stock adj. (-)Inc / (+)Dec-	0.0	1.1	-	0.0	-4.4	100.0	-9.0	-1.7	427.3
<i>% to TOI</i>	<i>0.0</i>	<i>1.0</i>	-	<i>0.0</i>	<i>-3.2</i>	-	<i>-1.9</i>	<i>-0.5</i>	-
Net Raw Mat adj. for stock	51.8	42.0	23.2	51.8	46.1	12.4	185.5	130.9	41.7
<i>% to TOI</i>	<i>34.9</i>	<i>37.4</i>	-	<i>34.9</i>	<i>33.9</i>	-	<i>39.2</i>	<i>36.4</i>	-
Other expenses	46.7	35.8	30.2	46.7	44.1	5.9	148.3	103.4	43.5
<i>% to TOI</i>	<i>31.5</i>	<i>31.9</i>	-	<i>31.5</i>	<i>32.4</i>	-	<i>31.3</i>	<i>28.8</i>	-
Contribution Net_Sales	49.8	34.6	44.0	49.8	45.8	8.7	139.5	125.2	11.5
Personnel	6.9	6.0	15.0	6.9	6.7	3.0	22.9	16.3	40.8
<i>% to TOI</i>	<i>4.6</i>	<i>5.3</i>	-	<i>4.6</i>	<i>4.9</i>	-	<i>4.8</i>	<i>4.5</i>	-
Total expenditure	105.3	83.9	25.6	105.3	96.9	8.7	356.7	250.5	42.4
<b>Operating Profit</b>	<b>43.0</b>	<b>28.6</b>	<b>50.1</b>	<b>43.0</b>	<b>39.1</b>	<b>10.0</b>	<b>116.6</b>	<b>108.9</b>	<b>7.1</b>
<i>% to TOI</i>	<i>29.0</i>	<i>25.5</i>	-	<i>29.0</i>	<i>28.7</i>	-	<i>24.6</i>	<i>30.3</i>	-
Non-Operating Income	10.5	7.9	33.1	10.5	9.8	7.1	37.4	17.0	119.7
Interest	0.0	0.0	-11.8	0.0	0.0	0.0	0.1	0.1	-25.5
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	-19.0	100.0
Gross Profit	53.5	36.5	46.4	53.5	48.9	9.4	153.9	144.8	6.3
Depreciation	0.8	0.8	8.1	0.8	0.8	0.0	2.6	1.8	44.9
<b>PBT before Extra-ord</b>	<b>52.6</b>	<b>35.8</b>	<b>47.3</b>	<b>52.6</b>	<b>48.1</b>	<b>9.4</b>	<b>151.3</b>	<b>105.1</b>	<b>44.0</b>
<i>% to TOI</i>	<i>35.5</i>	<i>31.8</i>	-	<i>35.5</i>	<i>35.3</i>	-	<i>32.0</i>	<i>29.2</i>	-
Extraordinary Items	-	-	-	-	-	-	0.0	0.0	0.0
<b>PBT</b>	<b>52.6</b>	<b>35.8</b>	<b>47.3</b>	<b>52.6</b>	<b>48.1</b>	<b>9.4</b>	<b>151.3</b>	<b>105.1</b>	<b>44.0</b>
Tax Rate	19.8	19.2	3.1	19.8	20.1	-1.5	20.6	20.0	3.4
Prov. for Tax	10.4	6.9	51.8	10.4	9.7	7.2	31.2	21.0	48.9
<i>% to TOI</i>	<i>7.0</i>	<i>6.1</i>	-	<i>7.0</i>	<i>7.1</i>	-	<i>6.6</i>	<i>5.8</i>	-
<b>Profit after Tax</b>	<b>42.2</b>	<b>28.9</b>	<b>46.2</b>	<b>42.2</b>	<b>38.4</b>	<b>9.9</b>	<b>120.1</b>	<b>84.1</b>	<b>42.8</b>
<i>% to TOI</i>	<i>28.5</i>	<i>25.7</i>	-	<i>28.5</i>	<i>28.2</i>	-	<i>25.4</i>	<i>23.4</i>	-
Face Value	1.0	1.0	-	1.0	1.0	-	1.0	5.0	-
<b>Equity Share capital</b>	<b>14.8</b>	<b>14.8</b>	-	<b>14.8</b>	<b>14.8</b>	-	<b>14.8</b>	<b>14.8</b>	-
EPS (Rs.)	2.9	2.0	46.2	2.9	2.6	11.5	8.1	28.5	-71.4
CEPS (Rs.)	2.9	2.0	45.2	2.9	2.7	7.4	8.3	29.1	-71.4

### Revenue and PAT trajectory



### Key Raw material costs & OPM



## Financials and Projections

Y/E March, Fig in Rs. Cr	FY 2012	FY 2013e	FY 2014e	FY 2015e	Y/E March, Fig in Rs. Cr	FY 2012	FY 2013e	FY 2014e	FY 2015e
<b>Profit &amp; Loss Statement</b>					<b>Per Share Data (Rs)</b>				
Net Sales	473.3	605.5	744.7	916.9	EPS	9.6	11.0	12.9	14.3
% Chg.	31.7	27.9	23.0	23.1	Cash EPS	9.8	11.2	13.2	14.5
Total Expenditure	356.5	439.6	548.2	674.9	DPS	8.2	11.0	12.9	14.3
% Chg.	42.3	23.3	24.7	23.1	Book Value	34.2	32.4	39.3	46.9
<b>EBDITA</b>	<b>116.8</b>	<b>165.8</b>	<b>196.5</b>	<b>242.0</b>	<b>Capital, Liquidity, Returns Ratio</b>				
EBDITA Margin %	24.7	27.4	26.4	26.4	Debt / Equity (x)	0.0	0.0	0.0	0.0
Other Income	37.4	39.7	45.6	50.2	Current Ratio (x)	1.8	1.6	1.9	2.2
<b>PBDIT</b>	<b>154.2</b>	<b>205.5</b>	<b>242.1</b>	<b>292.1</b>	ROE (%)	28.1	33.9	32.9	30.4
Depreciation	2.6	3.0	3.4	4.0	ROCE (%)	36.0	43.0	41.7	42.2
Interest	0.1	0.1	0.1	0.1	Dividend Yield (%)	3.2	4.3	5.1	5.6
Exceptional items	0.0	0.0	0.0	0.0	<b>Valuation Ratio (x)</b>				
<b>PBT</b>	<b>151.5</b>	<b>202.4</b>	<b>238.6</b>	<b>288.1</b>	P/E	26.3	23.0	19.6	17.7
Tax Provisions	31.2	40.5	47.7	77.8	P/BV	7.4	7.8	6.4	5.4
<b>Reported PAT</b>	<b>120.3</b>	<b>161.9</b>	<b>190.9</b>	<b>210.3</b>	EV/Sales	7.3	5.7	4.6	3.8
PAT Margin (%)	25.4	26.7	25.6	22.9	EV/EBIDTA	29.6	20.9	17.6	14.3
Raw Materials / Sales (%)	29.5	24.0	25.0	25.0	<b>Efficiency Ratio (x)</b>				
Manpower cost / Sales (%)	5.4	4.5	4.5	4.5	Inventory (days)	21.9	21.9	21.9	21.9
Other opr Exp / Sales (%)	24.3	19.0	19.0	19.0	Debtors (days)	4.0	4.0	4.0	4.0
Tax Rate (%)	20.6	20.0	20.0	27.0	Creditors (days)	50.3	50.3	50.3	50.3
<b>Balance Sheet</b>					<b>Cash Flow statement</b>				
Share Capital	14.8	14.8	14.8	14.8	<b>Profit After Tax</b>	<b>120.3</b>	<b>161.9</b>	<b>190.9</b>	<b>210.3</b>
Reserves & Surplus	413.1	463.4	565.3	677.6	Depreciation	2.6	3.0	3.4	4.0
Minority Interest	0.0	0.0	0.0	0.0	Working Capital Changes	7.8	8.8	9.3	11.5
Total Loans	0.0	0.0	0.0	0.0	Others	-37.4	-39.7	-45.6	-50.2
Deferred Tax Liability	0.0	0.0	0.0	0.0	<b>Operating Cash Flow</b>	<b>93.3</b>	<b>134.1</b>	<b>158.0</b>	<b>175.6</b>
<b>Total Liabilities</b>	<b>427.9</b>	<b>478.1</b>	<b>580.0</b>	<b>692.4</b>	Capital Expenditure	-97.6	-6.7	-7.7	-8.8
Gross Block	44.5	51.2	58.9	67.7	Change in Investment	37.4	-17.3	-13.9	4.6
Less: Acc. Depreciation	5.6	8.6	12.1	16.0	<b>Cash Flow from Investing</b>	<b>-60.2</b>	<b>-23.9</b>	<b>-21.6</b>	<b>-4.3</b>
Net Block	38.9	42.6	46.8	51.7	Proceeds from equity issue	0.0	0.0	0.0	0.0
Capital Work in Progress	0.0	0.0	0.0	0.0	Issue Exp	0.0	0.0	0.0	0.0
Investments	339.9	396.8	456.3	502.0	Dividend and DDT	-68.7	-111.7	-89.0	-98.0
Net Current Assets	50.1	39.6	77.8	139.6	<b>Cash Flow from Financing</b>	<b>-68.7</b>	<b>-111.7</b>	<b>-89.0</b>	<b>-98.0</b>
Deferred Tax Assets	-1.0	-1.0	-1.0	-1.0	<b>Net Change in Cash</b>	<b>-35.6</b>	<b>-1.6</b>	<b>47.5</b>	<b>73.3</b>
Misc Expenses	0.0	0.0	0.0	0.0	<b>Opening Cash Balance</b>	<b>81.3</b>	<b>45.7</b>	<b>44.1</b>	<b>91.6</b>
<b>Total Assets</b>	<b>427.9</b>	<b>478.1</b>	<b>580.0</b>	<b>692.3</b>	<b>Closing Cash Balance</b>	<b>45.7</b>	<b>44.1</b>	<b>91.6</b>	<b>164.9</b>

## **Ventura Securities Limited**

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