

HOLD
TP: INR 190.00
▲ 1.8%

Bajaj Corp

BJCOR IN

In-line Q2; downgrade to HOLD on limited upsides

For Q2FY13, BJCOR posted a growth of 27.2%/43.6% /33.6% YoY in its topline/EBITDA/PAT. Results were in line with topline growth largely volume-led and lower RM costs translating into an EBITDA margin expansion of 325bps YoY. We roll over from Mar'14 to Sep'14 earnings, leading to a Sep'13 TP of Rs 190. Given the strong outperformance, the stock holds limited upside from current levels. We thus downgrade BJCOR from BUY to HOLD and recommend buying the stock at Rs 160–165 levels.

- ➔ **Net sales growth of 27.2% YoY:** BJCOR's net sales grew 27.2% YoY to Rs 1.4bn, led by an 18.7% YoY growth in volumes as the company took a YoY price hike of 8.7%. BJCOR's flagship brand *Bajaj Almond Drops* saw a 90bps improvement in market share to 51.8% (over FY12 levels). The cooling oil brand *Kailash Parbat* recorded a 2.9% market share in Jul-Aug'12 (up 180 bps YoY). *Bajaj Almond Drops/ Kailash Parbat* have a distribution reach of 24,25,000/4,00,000 retail outlets.
- ➔ **EBITDA margins improve 325bps YoY:** BJCOR's EBITDA margins expanded 325bps YoY to 28.6%, with EBITDA reporting a 43.6% YoY growth to Rs 389mn. Gross margins increased 400bps YoY as the company benefitted from lower LLP prices (down 5% YoY). Other expenses increased by 80bps YoY to 17.9% of sales while A&P expenses were up 40bps YoY to 6.3% largely on account of higher sales promotion activities undertaken during the quarter. Adj. PAT grew 33.6% YoY to Rs 384mn. Other income declined by ~2% YoY to Rs 100mn with cash balance at the end of the quarter at Rs 4.45bn.
- ➔ **Downgrade to HOLD with a revised TP of Rs 190:** We roll over from Mar'14 to Sep'14 earnings, resulting in a Sep'13 TP of Rs 190. Downgrade to HOLD. Key risks to our call: (a) strong, continued growth in volumes, (b) higher-than-estimated margins due to soft RM costs and (c) value-accretive acquisitions.

Financial Highlights

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Revenue (INR mln)	3,587	4,722	5,847	6,973	8,194
EBITDA (INR mln)	1,081	1,156	1,498	1,786	2,140
Adjusted net profit (INR mln)	993	1,201	1,439	1,688	1,989
Adjusted EPS (INR)	7.1	8.1	9.8	11.4	13.5
Adjusted EPS growth (%)	6.2	14.2	19.8	17.3	17.8
DPS (INR)	1.6	3.3	3.8	4.4	5.0
ROIC (%)	(654.4)	337.4	128.7	144.9	215.1
Adjusted ROAE (%)	49.1	29.9	31.3	31.8	32.3
Adjusted P/E (x)	14.0	14.2	19.1	16.3	13.8
EV/EBITDA (x)	9.8	11.8	15.7	12.8	10.0
P/BV (x)	3.9	4.0	5.6	4.8	4.2

Source: Company, Bloomberg, RCML Research


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PRICE CLOSE (08 Oct 12)

INR 186.65

MARKET CAP

INR 27,531 mln
USD 524 mln

SHARES O/S

147.5 mln

FREE FLOAT

27.3%

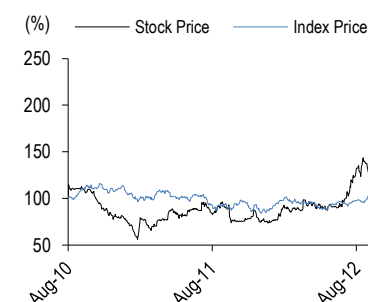
3M AVG DAILY VOLUME./VALUE

0.3 mln/ USD 0.8 mln

52 WK HIGH

INR 189.40

52 WK LOW

INR 96.95




Concall highlights

- According to AC Nielsen, the industry's branded hair oil volumes grew by 6.1% in the current quarter and light hair oil volumes by 15%. BJCOR has seen continued traction with an impressive 25.8% growth in rural areas and 13.5% in urban. The company has not seen any slowdown in rural demand as yet.
- The rural/ urban mix for the company stood at 38%/62% in Q2FY13, which has improved from 35%/65% in previous quarters.
- Bajaj Almond Drops* reported a strong 20% growth in volumes with continued market share gains in the LHO category. About 17.5% of *Bajaj Almond Drops* sales are generated from sachets, with some parts of Gujarat (Ahmedabad and adjoining areas) and western UP seeing 25% of their sales coming from such packs. The management is trying to contain the sales of sachets at ~25% in these areas.
- The market share for *Kailash Prabhat* in Q2FY13 stood at 2.9%, up 180bps YoY. The brand is currently available across 4,00,000 outlets in India. The management expects the brand to breakeven once it reaches a market share of 6% in the category.
- The gross margin expansion was led by lower RM costs. LLP costs declined by 5% YoY in the quarter to Rs 81.43per kg, and have further softened to Rs 79 now. BJCOR has booked forward contracts with traders for procuring LLP at Rs 78 per kg in Q3FY13 and Rs 73 in Q4FY13. Prices of refined oil, however, increased by 26% YoY and that of glass by 8% YoY. Given the subdued LLP prices, the management expects current margins to more-or-less sustain for the year.
- In terms of acquisitions, the management believes that current valuations for FMCG companies are expensive. Hence, it is not aggressively looking at acquisitions and would consider them only if the value proposition is favourable. The management is committed to not using its cash surplus/reserves to aid some of its group companies. However, the company is looking at 15 deals as of now but these are nowhere near to closure.
- BJCOR is looking to buy land in Baroda for setting up a facility in western India, and expects to incur a capex of Rs 200mn for the same. This would be done to derive GST benefits as the company currently ships its raw materials from western to northern India (HP and Uttarakhad) for manufacturing, and then ships back the finished goods to west India. BJCOR is also looking to build its office at Worli, Mumbai, with an expected capex of Rs 150mn over the next three years (no capex on this account expected in FY13).

Bajaj Almond Drops reports a strong 20% growth for the quarter

Gross margin expansion of 400bps led by lower RM costs (LLP down 5% YoY)

To set up manufacturing facility in west India (Baroda, Gujarat) for deriving GST benefits

Fig 1 - Actuals vs estimates

Rs mn	Q2FY13A	Q2FY13E	Difference (%)	Q2FY12A	YoY growth %
Net Sales	1,359	1,367	-0.6	1,068	27.2
EBITDA	389	392	-0.8	271	43.6
EBITDA margins (%)	28.6	28.7	(5bps)	25.4	325bps
Adj. PAT	384	380	1.2	287	33.6
Adj. PAT margins (%)	28.3	27.8	50bps	26.9	135bps

Source: RCML Research

HOLD

TP: INR 190.00

▲ 1.8%

Bajaj Corp

BJCOR IN



Results Review

INDIA

CONSUMER STAPLES

Fig 2 - Quarterly Performance

(Rs mn)	Q2FY13A	Q2FY12A	% Chg YoY	Q1FY13A	% Chg QoQ
Net sales	1,359	1,068	27.2	1,380	-1.6
Cost of revenues	574	494	16.2	613	-6.2
Gross profit	784	573	36.8	768	2.1
Staff costs	67	57	18.2	69	-2.8
Other operating expenses	328	182	79.8	213	53.9
EBITDA	389	271	43.6	387	0.4
Other income	100	102	-2.2	92	8.7
Interest	0	0	-18.5	0	33.1
Depreciation & Amortization	8	5	50.3	8	4
Exceptional items	--	--		--	
PBT	481	367	30.8	471	2
Income taxes	97	80	20.9	96	0.9
Adjustments	--	--	-	--	-
Adj. PAT	384	287	33.6	376	2.3
EBITDA margin (%)	28.6	25.4	325bps	28.1	60bps
EPS (Rs)	2.6	2.0	33.4	2.6	2

Source: RCML Research



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	6.0	8.1	9.8	11.4	13.5
Adjusted EPS	7.1	8.1	9.8	11.4	13.5
DPS	1.6	3.3	3.8	4.4	5.0
BVPS	25.5	29.0	33.3	38.6	45.0

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	3.0	2.9	4.0	3.3	2.6
EV/EBITDA	9.8	11.8	15.7	12.8	10.0
Adjusted P/E	14.0	14.2	19.1	16.3	13.8
P/BV	3.9	4.0	5.6	4.8	4.2

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	30.1	24.5	25.6	25.6	26.1
EBIT margin	29.6	23.9	24.9	24.9	25.4
Adjusted profit margin	27.7	25.4	24.6	24.2	24.3
Adjusted ROAE	49.1	29.9	31.3	31.8	32.3
ROCE	42.1	22.3	25.3	26.2	27.0
YoY Growth (%)					
Revenue	21.8	31.7	23.8	19.3	17.5
EBITDA	11.1	6.9	29.6	19.3	19.8
Adjusted EPS	6.2	14.2	19.8	17.3	17.8
Invested capital	(486.3)	n.a.	5.1	6.8	(43.7)
Working Capital & Liquidity Ratios					
Receivables (days)	5	4	4	4	4
Inventory (days)	28	63	92	87	84
Payables (days)	48	56	58	53	51
Current ratio (x)	1.3	1.5	2.4	3.2	2.9
Quick ratio (x)	1.1	0.6	1.4	2.2	2.2
Turnover & Leverage Ratios (x)					
Gross asset turnover	16.2	13.7	12.9	13.6	13.5
Total asset turnover	1.4	1.0	1.1	1.2	1.1
Net interest coverage ratio	n.a.	1,412.0	1,819.4	2,169.8	2,601.0
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

DuPont Analysis

Y/E 31 Mar (%)	FY11A	FY12A	FY13E	FY14E	FY15E
Tax burden (Net income/PBT)	94.5	79.4	80.0	80.0	80.0
Interest burden (PBT/EBIT)	98.9	134.0	123.6	121.6	119.5
EBIT margin (EBIT/Revenue)	29.6	23.9	24.9	24.9	25.4
Asset turnover (Revenue/Avg TA)	139.9	99.3	110.5	115.0	112.9
Leverage (Avg TA/Avg equities)	126.9	118.4	115.1	114.2	117.8
Adjusted ROAE	49.1	29.9	31.3	31.8	32.3



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	3,587	4,722	5,847	6,973	8,194
EBITDA	1,081	1,156	1,498	1,786	2,140
EBIT	1,063	1,130	1,456	1,736	2,081
Net interest income/(expenses)	0	(1)	(1)	(1)	(1)
Other income/(expenses)	178	385	344	375	406
Exceptional items	(190)	0	0	0	0
EBT	1,051	1,513	1,799	2,110	2,486
Income taxes	(210)	(313)	(360)	(422)	(497)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	841	1,201	1,439	1,688	1,989
Adjustments	152	0	0	0	0
Adjusted net profit	993	1,201	1,439	1,688	1,989

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	443	648	729	782	909
Other current liabilities	0	0	0	0	0
Provisions	375	0	0	0	497
Debt funds	0	0	0	0	0
Other liabilities	0	9	0	0	0
Equity capital	148	148	148	148	148
Reserves & surplus	3,616	4,126	4,772	5,547	6,486
Shareholders' fund	3,763	4,274	4,919	5,694	6,633
Total liabilities and equities	4,581	4,931	5,648	6,476	8,040
Cash and cash eq.	813	275	866	1,578	2,950
Accounts receivables	60	51	64	76	90
Inventories	144	619	729	782	909
Other current assets	43	41	58	70	82
Investments	3,301	3,126	3,126	3,126	3,126
Net fixed assets	217	384	369	409	448
CWIP	3	3	3	3	3
Intangible assets	0	432	432	432	432
Deferred tax assets, net	(0)	(1)	(1)	(1)	(1)
Other assets	1	0	1	1	1
Total assets	4,581	4,931	5,648	6,476	8,040

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	859	1,227	1,481	1,738	2,048
Interest expenses	0	1	1	1	1
Non-cash adjustments	0	0	0	0	0
Changes in working capital	140	(635)	(59)	(24)	472
Other operating cash flows	613	0	0	0	0
Cash flow from operations	1,612	593	1,423	1,716	2,521
Capital expenditures	(62)	(626)	(27)	(90)	(98)
Change in investments	(3,227)	175	0	0	0
Other investing cash flows	117	0	0	0	0
Cash flow from investing	(3,171)	(451)	(27)	(90)	(98)
Equities issued	2,970	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	0	(1)	(1)	(1)	(1)
Dividends paid	(597)	(690)	(794)	(913)	(1,050)
Other financing cash flows	(168)	0	0	0	0
Cash flow from financing	2,205	(691)	(795)	(914)	(1,051)
Changes in cash and cash eq	646	(549)	601	712	1,372
Closing cash and cash eq	814	265	866	1,578	2,950

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Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

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