

**CMP : Rs.187**

**Reco : HOLD**

**Target : Rs.205**

**STOCK INFO**

BSE	533229
NSE	BAJAJCORP
Bloomberg	BJCOR.IN
Reuters	BACO.BO
Sector	Personal Products
Equity Capital (Rs mn)	148
Face Value (Rs)	1
Mkt Cap (Rs mn)	27,195
52w H/L (Rs)	145/95
Avg Daily Vol (BSE+NSE)	141,842

**SHAREHOLDING PATTERN**

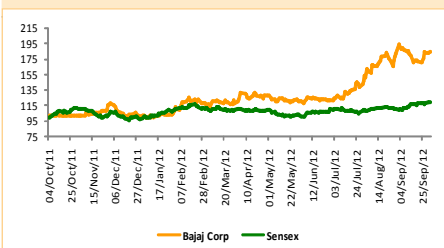
	%
<i>(as on 30th Sep. 2012)</i>	
Institutions	9.8
Others, Incl Public	5.5
Promoters	84.8

Source: BSE

STOCK PERFORMANCE (%)	1m	3m	12m
BAJAJ COPR	2	52	81
SENSEX	8	11	19

Source: Capitaline, IndiaNivesh Research

**BAJAJ CORP. v/s SENSEX**



Source: Capitaline, IndiaNivesh Research

**Daljeet S. Kohli**  
Head of Research

Mobile: +91 77383 93371, 99205 94087

Tel: +91 22 66188826

[daljeet.kohli@indianivesh.in](mailto:daljeet.kohli@indianivesh.in)

**Amar Mourya**  
Research Analyst

Tel: +91 22 66188836

[amar.mourya@indianivesh.in](mailto:amar.mourya@indianivesh.in)

**Q2FY13 Result Highlights**

Bajaj Corp Ltd (BCL) performance in Q2FY13 quarter was in-line with our expectations. BCL's top line grew by 27.2% yoy (down 1.6% qoq) to Rs.1,359mn (INSPL est: Rs.1,377 mn) led by 18.70% yoy and 8.5% yoy growth in volume and pricing, respectively. Driven by healthy revenue, EBITDA grew 42.6% yoy and 0.5% qoq to Rs.391 mn (INSPL est: Rs.384 mn). EBITDA margin expanded +310bps yoy to 28.8% (v/s INSPL est: 27.9%) on-account of decline in material and advertisement expenditures, partially offset by increase in other expenditures. During the quarter, LLP prices declined 6% yoy (+0.6% qoq) and refined oil prices went up by 26% yoy (+11.6% qoq). BCL reported other income of Rs.98 mn v/s Rs.90 mn in Q1FY13 and Rs.99mn in Q2FY12. Tax rate during the quarter remain constant at 20% on qoq basis (but below on yoy basis - 22% in Q2FY12). Net profit grew 33.7% yoy (up 2.1% qoq) to Rs.384 mn (INSPL est: Rs.364mn) led by higher EBITDA base and other income. Adjusting other Income, net profit went up 51.7% yoy, however down 0.1% qoq to Rs.286mn.

**Quarterly Performance**

(INR Mn)	Q2FY13	Q1FY13	Q2FY12	QoQ %	YoY %
Net Sales	1,359	1,380	1,068	-1.6	27.2
Other Operating Income	2	2	3	-0.1	-42.7
Material Cost	574	613	499	-6.3	15.2
Employees Cost	67	69	57	-2.9	18.1
Advertisement & Sales Promotion Exp	85	98	133	-13.1	-36.1
Other Expenses	243	213	108	13.9	125.2
<b>EBITDA</b>	<b>391</b>	<b>389</b>	<b>274</b>	<b>0.5</b>	<b>42.6</b>
Other Income	98	90	99	9.3	-0.5
Finance Cost	0	0	0	33.1	-7.5
Depreciation	8	8	5	4.3	50.6
<b>Profit Before Tax &amp; Exceptional Item</b>	<b>481</b>	<b>471</b>	<b>368</b>	<b>2.1</b>	<b>30.9</b>
Exceptional Items	-	-	-	NM	NM
<b>Profit Before Tax (PBT)</b>	<b>481</b>	<b>471</b>	<b>368</b>	<b>2.1</b>	<b>30.9</b>
Tax Expenses	97	95	80	1.8	20.9
<b>Profit After Tax (PAT)</b>	<b>384</b>	<b>376</b>	<b>288</b>	<b>2.1</b>	<b>33.7</b>
<b>Adj PAT (Ex Other Income)</b>	<b>286</b>	<b>286</b>	<b>189</b>	<b>-0.1</b>	<b>51.7</b>
Diluted EPS (Rs.)	2.6	2.6	1.9	2.1	33.7
O/Shares (No's)	148	148	148	0.0	0.0
<b>Margin %</b>				<b>Bps</b>	
EBITDA	28.8	28.2	25.7	58.3	310.5
PBT	35.4	34.1	34.4	126.9	99.7
PAT	28.3	27.3	26.9	103.3	137.2

Source: Company Filings; IndiaNivesh Research

**Key Takeaways from Conference Call**

**Market share gain in LHO Category**

- BCL's market share for recent five months ended Aug-12 in volume/value term was at 51.8%/54.4% relative to 50.9%/54.0% in FY12. Management aim ~65% value market share in ADHO segment by the FY2015-16. BCL's 1HFY12 revenue has increased by 28.4%/20.5% in value/volume as compared to LHO industry growth, up 15.0%/25.4% in recent five months ended Aug-12. The company's constant effort to increase distribution network into semi-urban and rural

towns panned well. During the quarter, rural contribution from lead brand Bajaj Almond Drop (ADHO) was nearly 38% v/s 36% in Q4FY12.

- Kailash Parbat Coling Oil (KPCO) brand also gained market share on back of nearly 4.0 lakh direct retail distributor network. Resultant, brand KPCO is now available in ~3.8 lakh retail outlets. KPCO's market share in cooling hair oil segment during Aug-2012 was at 2.9% as compared to 1.2% in Dec-2011. During the quarter, brand KPCO revenue grew by 112.8% yoy (down 54.3% qoq) to Rs.25mn. Revenue declined sequentially due to high inventory built-up at distributor level in last quarter (common trend in all new launches).

### Bajaj Corp: Segment Performance

SEGMENT REVENUE (Rs.Mn)	Q2FY13	Q1FY13	Q2FY12	QoQ %	YoY %
ADHO	1,299	1,295	1,022	0.3	27.1
BAHO	21	21	21	1.0	0.5
ASHO	3	3	4	26.9	-17.5
KPCO	25	55	12	-54.3	112.8
Others	11	8	10	33.3	11.3
<b>TOTAL</b>	<b>1,359</b>	<b>1,381</b>	<b>1,068</b>	<b>-1.6</b>	<b>27.2</b>

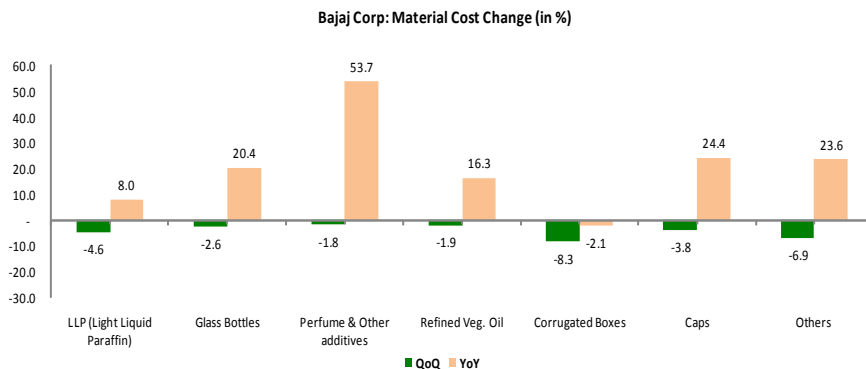
SEGMENT VOLUME (In Cases)	Q2FY13	Q1FY13	Q2FY12	QoQ %	YoY %
ADHO	9,44,632	9,52,959	7,93,821	-0.9	19.0
BAHO	11,019	11,481	12,272	-4.0	-10.2
ASHO	3,095	2,455	3,751	26.1	-17.5
KPCO	12,745	28,665	7,562	-55.5	68.5
Others	5,926	4,639	6,053	27.7	-2.1
<b>TOTAL</b>	<b>9,77,417</b>	<b>10,00,199</b>	<b>8,23,459</b>	<b>-2.3</b>	<b>18.7</b>

SEGMENT PRICING (In Cases)	Q2FY13	Q1FY13	Q2FY12	QoQ %	YoY %
ADHO	1,375	1,359	1,287	1.2	6.8
BAHO	1,897	1,803	1,695	5.2	11.9
ASHO	1,066	1,059	1,066	0.7	-0.0
KPCO	1,954	1,901	1,547	2.8	26.3
Others	1,822	1,746	1,603	4.4	13.7
<b>Blended</b>	<b>1,390</b>	<b>1,380</b>	<b>1,297</b>	<b>0.7</b>	<b>7.2</b>

Source: Company Filings; IndiaNivesh Research

### Maintaining high EBITDA margin level

- Despite 0.6% qoq (down 6% yoy) increase in LLP prices, BCL's total material cost declined 3.9% qoq (+17% yoy) to Rs.578 mn led by favourable forward contracts. During the quarter, the gain from decline in LLP prices was Rs. 12.3 mn (2.1% of total material cost) on total material cost. For 2HFY13, BCL has signed a forward contract at strike price of Rs.78 (for Q3FY13) and Rs.73 (for Q4FY13) per-kg.
- Prices of Refined oil increased 26% yoy and 11% qoq to Rs 84.93/Kg in Q2FY13. On account of this total additional material cost increase by Rs. 14.2 mn (2.5% of total material cost) during the quarter.
- Driven by lower material cost, EBITDA margin expanded +310bps yoy (+58.3bps qoq) to 28.8%. However, such high margin does not look sustainable over medium-to-long-term due to fluctuating crude prices and increase in refined vegetable oil prices. Management intend to maintain EBITDA margin in the range of ~25% over long-term.



Source: Company Filings; IndiaNivesh Research

### Other Key Highlights in Q2 FY13 Results

- BCL management is looking for ~28 acers of factory land near Vadodara, Gujarat. The intention is to take advantage of upcoming goods and service tax (GST) rules. BCL’s bulk of raw materials are sourced from western India, GST launch will help the company to avail tax benefit from this new plant.
- According to management, corporate headquarter planned on Worli (Mumbai) land will be complete by mid 2015
- Management assured that surplus liquid funds lying idle in its balance sheet would not be transferred to any other group companies.

### Valuations

At CMP or Rs.187, stock is trading at 19.2x FY13E and 16.1X FY14 earnings estimates; which is 49%/81% discount to average FMCG industry forward P/E multiples. We like the BCL’s ability to report high double-digit revenue growth on back of strong brand, deep distribution network and leadership position in high growth almond light hair oil segment. Further, utilization of cash for acquisition and new product launch seems to be a right strategy to diversify revenue risk. We maintain our HOLD rating with upward revision in the target price of Rs.205 (9.6% upside potential) on stock.

## Income statement

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Net sales	2,946	3,587	4,722	5,666	6,743
Growth %	20.5	21.8	31.7	20.0	19.0
COGS	1,306	1,728	2,428	2,907	3,459
SG&A	666	777	1,140	1,320	1,571
<b>EBITDA</b>	<b>974</b>	<b>1,082</b>	<b>1,154</b>	<b>1,439</b>	<b>1,713</b>
Growth %	88.8	11.0	6.7	24.7	19.0
EBITDA Margin %	33.1	30.2	24.4	25.4	25.4
Depreciation	9	18	26	31	36
<b>EBIT</b>	<b>966</b>	<b>1,064</b>	<b>1,128</b>	<b>1,408</b>	<b>1,677</b>
EBIT Margin %	32.8	29.7	23.9	24.9	24.9
Other Income	50	177	384	357	425
<b>PBT</b>	<b>1,016</b>	<b>1,240</b>	<b>1,512</b>	<b>1,765</b>	<b>2,101</b>
Tax	176	210	311	335	399
Effective tax rate %	17.4	16.9	20.6	19.0	19.0
Extraordinary items	0	189.6	0	0	0
<b>Adjusted PAT</b>	<b>839</b>	<b>841</b>	<b>1,201</b>	<b>1,430</b>	<b>1,702</b>
Growth%	79.5	0.2	42.8	19.1	19.0
PAT margin %	28.5	23.4	25.4	25.2	25.2
Income from Associate	-	-	-	-	-
<b>Reported PAT</b>	<b>839</b>	<b>841</b>	<b>1,201</b>	<b>1,430</b>	<b>1,702</b>
Growth%	79.5	0.2	42.8	19.1	19.0

Source: Company filings; IndiaNivesh Research

## Balance sheet

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
Share Capital	125	148	148	148	148
Reserves & Surplus	154	3,616	4,131	5,132	6,323
<b>Net Worth</b>	<b>279</b>	<b>3,763</b>	<b>4,279</b>	<b>5,280</b>	<b>6,471</b>
Long-term Provisions	0	0	0	0	0
Others	0	0	0	0	0
<b>Total</b>	<b>279</b>	<b>3,763</b>	<b>4,279</b>	<b>5,280</b>	<b>6,471</b>
Other long term liabilities	0	0	4	4	4
<b>Total Liabilities</b>	<b>279</b>	<b>3,763</b>	<b>4,283</b>	<b>5,284</b>	<b>6,476</b>
Gross Block	196	247	445	597	732
Less Depreciation	13	30	56	87	123
<b>Net Block</b>	<b>184</b>	<b>217</b>	<b>390</b>	<b>511</b>	<b>609</b>
Goodwill	0	3	430	430	430
Investments	21	3,301	3,126	3,126	3,126
Defered tax (net)	-1	-1	-10	-10	-10
Other non-current assets	23	1	8	8	8
Long-term loans and advances	-	-	-	-	-
<b>Current Assets</b>	<b>320</b>	<b>1,061</b>	<b>987</b>	<b>1,895</b>	<b>3,085</b>
Sundry Debtors	29	60	51	96	114
Inventories	99	144	619	240	286
Cash & Bank Balance	168	813	275	1,499	2,626
Loans & advances	25	43	12	30	30
Other current assets	-	-	29	29	29
<b>Current Liabilities</b>	<b>219</b>	<b>443</b>	<b>467</b>	<b>492</b>	<b>586</b>
Provisions	49	375	181	184	188
<b>Net Current Assets</b>	<b>52</b>	<b>243</b>	<b>339</b>	<b>1,218</b>	<b>2,312</b>
<b>Total assets</b>	<b>279</b>	<b>3,763</b>	<b>4,283</b>	<b>5,284</b>	<b>6,476</b>

Source: Company filings; IndiaNivesh Research

## Cash Flow

Y E March (Rs m)	FY10	FY11	FY12	FY13e	FY14e
PBT	1,016	1,241	1,512	1,765	2,101
Depreciation	8	18	26	31	36
Interest Exp	-48	-170	-364	-357	-425
Changes in Working Capital	54	140	28	345	33
<b>Cash Flow After Changes in working capital</b>	<b>1,030</b>	<b>1,228</b>	<b>1,202</b>	<b>1,784</b>	<b>1,746</b>
Tax	-170	-214	-306	-335	-399
Interest Paid	0	1	0	357	425
<b>Cash flow from operations</b>	<b>860</b>	<b>1,015</b>	<b>896</b>	<b>1,806</b>	<b>1,772</b>
Capital expenditure	-128	-62	-196	-152	-134
<b>Free Cash Flow</b>	<b>732</b>	<b>954</b>	<b>700</b>	<b>1,653</b>	<b>1,637</b>
Other income	46	118	330	0	0
Investments	-19	-3,227	-556	0	0
<b>Cash flow from investments</b>	<b>-102</b>	<b>-3,171</b>	<b>-422</b>	<b>-152</b>	<b>-134</b>
Equity Raised/Paid	0	2,970	0	0	0
Dividend paid (incl tax)	-1102	-168	-1012	-429	-511
<b>Cash flow from Financing</b>	<b>-1102</b>	<b>2802</b>	<b>-1012</b>	<b>-429</b>	<b>-511</b>
<b>Net change in cash</b>	<b>-343</b>	<b>646</b>	<b>-539</b>	<b>1224</b>	<b>1127</b>
Cash at the beginning of the year	510	168	814	275	1,501
Cash at the end of the year	168	813	275	1,499	2,626

Source: Company filings; IndiaNivesh Research

## Key Ratios

Y E March	FY10	FY11	FY12	FY13e	FY14e
EPS (Rs)	5.7	5.7	8.2	9.7	11.6
Cash EPS (Rs)	5.7	5.8	8.3	9.9	11.8
DPS (Rs)	6.3	0.0	4.0	2.9	3.5
BVPS	1.9	25.5	29.0	35.8	43.9
ROCE %	300.6	22.3	28.0	27.1	26.3
ROE %	300.6	22.3	28.1	27.1	26.3
ROIC %	-94.2	17.9	4.4	18.9	18.4
EBITDA Margin %	32.8	29.7	23.9	24.9	24.9
Net Margin %	28.5	23.4	25.4	25.2	25.2
PER (x)	32.9x	32.7x	22.9x	19.2x	16.1x
P/BV (x)	98.8x	7.3x	6.4x	5.2x	4.3x
P/CEPS (x)	32.5x	32.1x	22.5x	18.9x	15.9x
EV/EBITDA (x)	27.5x	24.7x	23.2x	18.6x	15.6x
Dividend Yield %	3.3	0.0	2.1	1.6	1.9
m cap/sales (x)	9.4x	7.7x	5.8x	4.9x	4.1x
net debt/equity (x)	0.0x	0.0x	0.0x	0.0x	0.0x
net debt/ebitda (x)	0.0x	0.0x	0.0x	0.0x	0.0x

Source: Company filings; IndiaNivesh Research



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**IndiaNivesh Securities Private Limited**

601 & 602, Sukh Sagar, N. S. Patkar Marg, Girgaum Chowpatty, Mumbai 400 007.

Tel: (022) 66188800 / Fax: (022) 66188899

e-mail: [research@indianivesh.in](mailto:research@indianivesh.in) | Website: [www.indianivesh.in](http://www.indianivesh.in)

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