

HOLD
TP: INR 275.00
▲ 7.8%

Bajaj Corp

BJCOR IN

Strong Q3, but upsides limited – Maintain HOLD

BJCOR reported Q3FY13 net sales/EBITDA/adj. PAT growth of 31.8%/50.3%/46.2%, which came in ahead of our and consensus estimates. Volume growth was strong at 22.3% with margins expanding 360bps on lower LLP prices. We upgrade our FY14/FY15 earnings estimates by ~13% and roll over to March'15 earnings (from September'14) to get a revised March'14 TP of Rs 275. Maintain HOLD on likely volume growth moderation and limited upside from current levels.

- ➔ **Net sales growth of 31.8%YoY:** BJCOR reported net sales growth of 31.8% YoY to Rs 1.48bn led by a strong 22.3% YoY growth in volumes as the company increased distribution (17% for the year) and promotional activity during the quarter. The management indicated that it is likely to sustain the current growth rate in Q4FY13.
- ➔ **EBITDA growth of 50.3% YoY:** BJCOR's EBITDA grew 50.3% YoY to Rs 428mn with EBITDA margins improving 360bps YoY. Gross margins expanded 370bps YoY on account of a 5% YoY decline in LLP prices. The company has guided for a 6-7% QoQ reduction in LLP prices in Q4. Ad spends for the quarter were down 170bps; however, BJCOR more-than-doubled its promotion spends to pass on some benefit of lower input costs, which in turn pushed up other expenses by 240bps YoY. Adj. PAT grew 46.2% YoY to Rs 422mn as other income increased by 32% YoY on a higher cash balance (Rs 4.7bn vs. Rs 3.7bn in Q3FY12). The company also announced an interim dividend of Rs 6.5/share (FY12 dividend at Rs 4/share).
- ➔ **Maintain HOLD with a revised March'14 TP of Rs 275:** We revise our FY14/FY15 earnings by ~13% to get a revised March'14 TP of Rs 275. Maintain 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	6,044	7,430	9,086
EBITDA (INR mln)	1,081	1,156	1,711	1,978	2,327
Adjusted net profit (INR mln)	993	1,201	1,659	1,912	2,239
Adjusted EPS (INR)	7.1	8.1	11.2	13.0	15.2
Adjusted EPS growth (%)	6.2	14.2	38.1	15.3	17.1
DPS (INR)	1.6	3.3	6.5	7.5	8.6
ROIC (%)	(654.4)	337.4	146.0	163.9	251.4
Adjusted ROAE (%)	49.1	29.9	36.5	37.3	38.5
Adjusted P/E (x)	14.0	14.2	22.7	19.7	16.8
EV/EBITDA (x)	9.8	11.8	19.7	17.3	14.7
P/BV (x)	3.9	4.0	7.8	6.9	6.1

Source: Company, Bloomberg, RCML Research

13 January 2013


REPORT AUTHORS

Gaurang Kakkad

+91 22 6766 3470

gaurang.kakkad@religare.com

Varun Lohchab

+91 22 6766 3458

varun.lohchab@religare.com

Prasad Dhake

+91 22 6766 3475

prasad.dhake@religare.com

PRICE CLOSE (11 Jan 13)

INR 255.15

MARKET CAP

INR 37,635 mln
USD 687 mln

SHARES O/S

147.5 mln

FREE FLOAT

27.3%

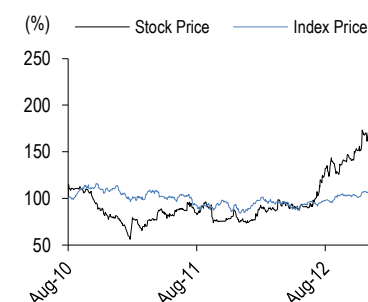
3M AVG DAILY VOLUME./VALUE

0.1 mln/ USD 0.6 mln

52 WK HIGH

INR 255.15

52 WK LOW

INR 98.55




Concall highlights

- Volume growth came in strong at 22.3% YoY, and the management expects the growth momentum to continue in Q4 as well.
- According to AC Nielsen, the industry's value-added hair oil volumes grew by 6.4% in the current quarter and light hair oil volumes by 14.4%. BJCOR has seen continued traction with an impressive 27% growth in rural areas and 15% 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 Q3FY13, which has improved from 36%/64% in the previous quarter.
- Bajaj Almond Drops* reported a strong 23.4% growth in volumes with continued market share gains in the LHO category. The brand is now available in 2.54mn outlets and has seen a distribution reach expansion of 17% YoY.
- Gross margins expand 370bps led by lower LLP prices
- The market share for *Kailash Prabhat* in Q3FY13 stood at 2.4%, down 50bps QoQ, with the distribution reach also declining QoQ. The management has indicated that this was on account of some destocking since it was off-season for the brand.
- The gross margin expansion was led by lower RM costs. LLP costs declined by 5% YoY in the quarter to Rs 79.10/kg. BJCOR has booked forward contracts with traders for procuring LLP at Rs 75/kg in Q4FY13. Prices of refined oil, however, increased by 14% YoY and that of glass by 8% YoY. Given the subdued LLP prices, the management expects current margins to more-or-less sustain in Q4 as well.
- Advertising spends in Q3FY13 stood at Rs 99.4mn (a 5% YoY increase). However, the company increased its promotion spends by nearly 2.5x YoY to Rs 116mn.
- The management does not expect any significant capex for FY14 with the total capex requirement likely to be ~Rs 100mn, specifically for its office expansion. The company has formed a subsidiary company in Bangladesh last month and is evaluating options for production in the country (either would set up its own plant or look at third-party contract manufacturing). Management does not expect any material impact in terms of its Bangladesh foray in the near term.
- FY14 capex requirement likely at ~Rs 100mn
- BJCOR has paid an interim dividend of Rs 6.5/share (dividend yield of ~2.6%), with a cash outgo of ~Rs 1.1bn. The company had paid a dividend of Rs 4/share in FY12. The current cash balance at Q3FY13-end stood at Rs 4.8bn.

Volume growth strong at 22.3% YoY

Fig 1 - Actuals Vs Estimates

Rs mn	Q3FY13A	Q3FY13E	Difference (%)	Q3FY12A	YoY growth %
Net Sales	1,481	1,409	5.1	1,123	31.8
EBITDA	428	405	5.6	284	50.3
EBITDA margins (%)	28.9	28.7	15 bps	25.3	360 bps
Adj. PAT	422	398	6.2	289	46.2
Adj. PAT margins (%)	28.5	28.2	30 bps	25.7	280 bps

Source: RCML Research, Company



Fig 2 - Quarterly Performance

(Rs mn)	Q3FY13A	Q3FY12A	% Chg YoY	Q2FY13A	% Chg QoQ
Net sales	1,481	1,123	31.8	1,359	9.0
Cost of revenues	624	514	21.4	574	8.7
Gross profit	857	609	40.7	784	9.2
Staff costs	69	60	15.0	67	1.8
Other operating expenses	360	171	110.8	243	48.6
EBITDA	428	284	50.3	389	9.9
Other income	107	81	32.6	100	7.4
Interest	0	0	(10.3)	0	(20.0)
Depreciation & Amortization	8	8	8.1	8	3.3
PBT	526	358	47.2	481	9.5
Income taxes	104	69	51.8	97	7.9
Adj. PAT	422	289	46.2	384	9.9
EBITDA margin (%)	28.9	25.3	360 bps	28.6	25 bps
EPS (Rs)	2.86	1.96	46.1	2.60	10.0

Source: RCML Research, Company

Fig 3 - Earnings Revision

Key parameters	FY14E			FY15E		
	Old	New	% Chg	Old	New	% Chg
Revenue (Rs mn)	6,973	7,430	6.6	8,194	9,086	10.9
EBITDA (Rs mn)	1,786	1,978	10.7	2,140	2,327	8.8
EBITDA margin (%)	25.6	26.6	100 bps	26.1	25.6	(50 bps)
Net profit (Rs mn)	1,688	1,912	13.3	1,989	2,239	12.6
EPS (Rs)	11.4	13.0	13.3	13.5	15.2	12.6

Source: RCML Research



Per Share Data

Y/E 31 Mar (INR)	FY11A	FY12A	FY13E	FY14E	FY15E
Reported EPS	6.0	8.1	11.2	13.0	15.2
Adjusted EPS	7.1	8.1	11.2	13.0	15.2
DPS	1.6	3.3	6.5	7.5	8.6
BVPS	25.5	29.0	32.6	36.8	42.0

Valuation Ratios

Y/E 31 Mar (x)	FY11A	FY12A	FY13E	FY14E	FY15E
EV/Sales	3.0	2.9	5.7	4.6	3.8
EV/EBITDA	9.8	11.8	19.7	17.3	14.7
Adjusted P/E	14.0	14.2	22.7	19.7	16.8
P/BV	3.9	4.0	7.8	6.9	6.1

Financial Ratios

Y/E 31 Mar	FY11A	FY12A	FY13E	FY14E	FY15E
Profitability & Return Ratios (%)					
EBITDA margin	30.1	24.5	28.3	26.6	25.6
EBIT margin	29.6	23.9	27.6	25.9	24.9
Adjusted profit margin	27.7	25.4	27.4	25.7	24.6
Adjusted ROAE	49.1	29.9	36.5	37.3	38.5
ROCE	42.1	22.3	29.4	33.5	36.5
YoY Growth (%)					
Revenue	21.8	31.7	28.0	22.9	22.3
EBITDA	11.1	6.9	48.1	15.5	17.7
Adjusted EPS	6.2	14.2	38.1	15.3	17.1
Invested capital	(486.3)	n.a.	7.2	8.6	(50.5)
Working Capital & Liquidity Ratios					
Receivables (days)	5	4	4	4	4
Inventory (days)	28	63	93	86	83
Payables (days)	48	56	57	51	49
Current ratio (x)	1.3	1.5	2.2	3.0	2.6
Quick ratio (x)	1.1	0.6	1.2	2.0	2.0
Turnover & Leverage Ratios (x)					
Gross asset turnover	16.2	13.7	13.1	13.7	13.6
Total asset turnover	1.4	1.0	1.2	1.2	1.2
Net interest coverage ratio	n.a.	1,412.0	2,084.9	2,524.8	3,014.0
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	124.3	124.2	123.7
EBIT margin (EBIT/Revenue)	29.6	23.9	27.6	25.9	24.0
Asset turnover (Revenue/Avg TA)	139.9	99.3	115.6	126.2	129.6
Leverage (Avg TA/Avg equities)	126.9	118.4	115.1	114.9	120.6
Adjusted ROAE	49.1	29.9	36.5	37.3	38.5



Income Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Total revenue	3,587	4,722	6,044	7,430	9,086
EBITDA	1,081	1,156	1,711	1,978	2,327
EBIT	1,063	1,130	1,668	1,924	2,262
Net interest income/(expenses)	0	(1)	(1)	(1)	(1)
Other income/(expenses)	178	385	406	467	537
Exceptional items	(190)	0	0	0	0
EBT	1,051	1,513	2,074	2,391	2,799
Income taxes	(210)	(313)	(415)	(478)	(560)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	0	0	0	0
Reported net profit	841	1,201	1,659	1,912	2,239
Adjustments	152	0	0	0	0
Adjusted net profit	993	1,201	1,659	1,912	2,239

Balance Sheet

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Accounts payables	443	648	712	815	1,019
Other current liabilities	0	0	0	0	0
Provisions	375	0	0	0	0
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	4,664	5,286	6,041
Shareholders' fund	3,763	4,274	4,811	5,434	6,189
Total liabilities and equities	4,581	4,931	5,523	6,249	7,208
Cash and cash eq.	813	275	739	1,276	1,929
Accounts receivables	60	51	66	81	100
Inventories	144	619	712	815	1,019
Other current assets	43	41	60	74	91
Investments	3,301	3,126	3,126	3,126	3,126
Net fixed assets	217	384	384	441	508
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	5,523	6,249	7,208

Cash Flow Statement

Y/E 31 Mar (INR mln)	FY11A	FY12A	FY13E	FY14E	FY15E
Net income + Depreciation	859	1,227	1,702	1,966	2,304
Interest expenses	0	1	1	1	1
Non-cash adjustments	0	0	0	0	0
Changes in working capital	140	(635)	(63)	(29)	(35)
Other operating cash flows	613	0	0	0	0
Cash flow from operations	1,612	593	1,639	1,937	2,270
Capital expenditures	(62)	(626)	(43)	(111)	(132)
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)	(43)	(111)	(132)
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)	(1,122)	(1,290)	(1,483)
Other financing cash flows	(168)	0	0	0	0
Cash flow from financing	2,205	(691)	(1,123)	(1,291)	(1,484)
Changes in cash and cash eq	646	(549)	475	536	654
Closing cash and cash eq	814	265	739	1,276	1,929

RESEARCH DISCLAIMER

Important Disclosures

This report was prepared, approved, published and distributed solely by a Religare Capital Markets ("RCM") group company located outside of the United States (a "non-US Group Company"), which excludes Religare Capital Markets Inc. ("RCM Inc.") and Religare Capital Markets (USA) LLC ("RCM USA"). This report has not been reviewed or approved by RCM Inc. or RCM USA. This report may only be distributed in the U.S. to major U.S. institutional investors (as defined in Rule 15a-6 under the U.S. Securities Exchange Act of 1934 (the "Exchange Act")) pursuant to the exemption in Rule 15a-6 and any transaction effected by a U.S. customer in the securities described in this report must be effected through RCM Inc. Neither the report nor any analyst who prepared or approved the report is subject to U.S. legal requirements or FINRA or other regulatory requirements pertaining to research reports or research analysts. No non-US Group Company is registered as a broker-dealer under the Exchange Act or is a member of the Financial Industry Regulatory Authority, Inc. or any other U.S. self-regulatory organization.

Subject to any applicable laws and regulations at any given time, non-US Group Companies, their affiliates or companies or individuals connected with RCM (together, "Connected Companies") may make investment decisions that are inconsistent with the recommendations or views expressed in this report and may have long or short positions in, may from time to time purchase or sell (as principal or agent) or have a material interest in any of the securities mentioned or related securities or may have or have had a business or financial relationship with, or may provide or have provided investment banking, capital markets and/or other services to, the entities referred to herein, their advisors and/or any other connected parties. Any particular arrangements or relationships are disclosed below. As a result, recipients of this report should be aware that Connected Companies may have a conflict of interest that could affect the objectivity of this report.

See "Special Disclosures" for certain additional disclosure statements, if applicable.

This report is only for distribution to investment professionals and institutional investors.

Analyst Certification

Each of the analysts identified in this report certifies, with respect to the companies or securities that the individual analyses, that (1) the views expressed in this report reflect his or her personal views about all of the subject companies and securities and (2) no part of his or her compensation was, is or will be directly or indirectly dependent on the specific recommendations or views expressed in this report.

Analysts and strategists are paid in part by reference to the profitability of RCM which includes investment banking revenues.

Stock Ratings are defined as follows

Recommendation Interpretation (Recommendation structure changed with effect from March 1, 2009)

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Expected absolute returns are based on the share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Stock Ratings Distribution

As of 1 January 2013, out of 248 rated stocks in the RCM coverage universe, 134 have BUY ratings (including 10 that have been investment banking clients in the last 12 months), 73 are rated HOLD and 41 are rated SELL.

Research Conflict Management Policy

RCM research has been published in accordance with our conflict management policy, which is available at <http://www.religarecm.com/>

Disclaimers

This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject RCM to any registration or licensing requirement within such jurisdiction(s). This report is strictly confidential and is being furnished to you solely for your information. All material presented in this report, unless specifically indicated otherwise, is under copyright to RCM. None of the material, its content, or any copy of such material or content, may be altered in any way, transmitted, copied or reproduced (in whole or in part) or redistributed in any form to any other party, without the prior express written permission of RCM. All trademarks, service marks and logos used in this report are trademarks or service marks or registered trademarks or service marks of RCM or its affiliates, unless specifically mentioned otherwise.

The information, tools and material presented in this report are provided to you for information purposes only and are not to be used or considered as an offer or the solicitation of an offer to sell or to buy or subscribe for securities or other financial instruments. RCM has not taken any steps to ensure that the securities referred to in this report are suitable for any particular investor. RCM will not treat recipients as its customers by virtue of their receiving the report. The investments or services contained or referred to in this report may not be suitable for you and it is recommended that you consult an independent investment advisor if you are in doubt about such investments or

investment services. In addition, nothing in this report constitutes investment, legal, accounting or tax advice or a representation that any investment or strategy is suitable or appropriate to your individual circumstances or otherwise constitutes a personal recommendation to you.

Information and opinions presented in this report were obtained or derived from sources that RCM believes to be reliable, but RCM makes no representations or warranty, express or implied, as to their accuracy or completeness or correctness. RCM 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 RCM. This report is not to be relied upon in substitution for the exercise of independent judgment. RCM may have issued, and may in the future issue, a trading call regarding this security. Trading calls are short term trading opportunities based on market events and catalysts, while stock ratings reflect investment recommendations based on expected absolute return over a 12-month period as defined in the disclosure section. Because trading calls and stock ratings reflect different assumptions and analytical methods, trading calls may differ directionally from the stock rating.

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. Information, opinions and estimates contained in this report reflect a judgment of its original date of publication by RCM and are subject to change without notice. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments. Investors in securities such as ADR's, the values of which are influenced by currency volatility, effectively assume this risk.

This report is distributed in India by Religare Capital Markets Limited, which is a registered intermediary regulated by the Securities and Exchange Board of India. Where this report is distributed by Religare Capital Markets (Europe) Limited ("RCM Europe") or Religare Capital Markets (EMEA) Ltd, those entities are authorised and regulated by the Financial Services Authority in the United Kingdom. In Dubai, it is being distributed by Religare Capital Markets (Europe) Limited (Dubai Branch) which is licensed and regulated by the Dubai Financial Services Authority. In Singapore, it is being distributed (i) by Religare Capital Markets (Singapore) Pte. Limited ("RCMS") (Co. Reg. No. 200902065N) which is a holder of a capital markets services licence and an exempt financial adviser in Singapore and (ii) solely to persons who qualify as "institutional investors" or "accredited investors" as defined in section 4A(1) of the Securities and Futures Act, Chapter 289 of Singapore (the "SFA"). Pursuant to regulations 33, 34, 35 and 36 of the Financial Advisers Regulations (the "FAR"), sections 25, 27 and 36 of the Financial Advisers Act, Chapter 110 of Singapore shall not apply to RCMS when providing any financial advisory service to an accredited investor, or "overseas investor" (as defined in regulation 36 of the FAR). Persons in Singapore should contact RCMS in respect of any matters arising from, or in connection with this publication/communication. In Hong Kong, it is being distributed by Religare Capital Markets (Hong Kong) Limited ("RCM HK"), which is licensed and regulated by the Securities and Futures Commission, Hong Kong. In Australia, it is being distributed by RCMHK or by RCM Europe, both of which are approved under ASIC Class Orders. In South Africa, this report is distributed through Religare Capital Markets (Pty) Ltd and Religare Noah Capital Markets (Pty) Ltd. Religare Capital Markets (Pty) Ltd is a licensed financial services provider (FSP No. 31530). Religare Noah Capital Markets (Pty) Ltd is a licensed financial services provider (FSP No. 7655) and a member of the JSE Limited. In Sri Lanka, it is being distributed by Bartlett Mallory Stockbrokers, which is licensed under Securities and Exchange Commission of Sri Lanka. If you wish to enter into a transaction please contact the RCM entity in your home jurisdiction unless governing law provides otherwise. In jurisdictions where RCM is not registered or licensed to trade in securities, transactions will only be effected in accordance with applicable securities legislation which may vary from one jurisdiction to another and may require that the trade be made in accordance with applicable exemptions from registration or licensing requirements.

Religare Capital Markets does and seeks to do business with companies covered in our research report. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of research produced by Religare Capital Markets. Investors should consider our research as only a single factor in making their investment decision.

Any reference to a third party research material or any other report contained in this report represents the respective research organization's estimates and views and does not represent the views of RCM and RCM, its officers, employees do not accept any liability or responsibility whatsoever with respect to its accuracy or correctness and RCM has included such reports or made reference to such reports in good faith. This report may provide the addresses of, or contain hyperlinks to websites. Except to the extent to which the report refers to material on RCM's own website, RCM takes no responsibility whatsoever for the contents therein. Such addresses or hyperlinks (including addresses or hyperlinks to RCM's own website material) is provided solely for your convenience and information and the content of the linked site does not in any way form part of this report. Accessing such website or following such link through this report or RCM's website shall be at your own risk.

Special Disclosures (if applicable)

Not Applicable