

# Bajaj Corp

6 March 2013

Reuters: BACO.BO; Bloomberg: BJCOR IN

## Risk-Reward Ratio Favourable; Upgrade To Buy

We feel the recent decline in Bajaj Corp's (BCL) stock price provides a good buying opportunity. While we have been positive on the structural story in the light hair oil (LHO) segment, our view was constrained by valuation. Following the 12% correction in stock price post 3QFY13 results, we have upgraded BCL to Buy (from Hold) but retained our target price of Rs261. We expect BCL to maintain strong volume growth momentum of 18%-20% over the next two years, largely driven by robust product distribution in rural areas, higher investments on brands and rising urbanisation leading to a shift in the consumers' preference from unbranded hair oils to branded LHOs. Further, the dividend yield stands at 3.4%, higher than peers at the current market price, assuming similar dividend payout for FY14E.

**Volume growth to remain intact:** BCL posted strong volume growth of 22.3% in its lead brand Almond Drops Hair Oil (ADHO) in the 9MFY13 period. The strong volume growth was on account of robust product distribution in rural areas - ADHO was available at 2.54mn retail outlets as of end-November 2012 (17% YoY growth), higher investments on brands with advertising expenditure at 13.7% of sales in the 9MFY13 period versus 12.3% in the 9MFY12 period and rising urbanisation leading to a shift in the consumers' preference from unbranded hair oils to branded LHOs. Further, the management has indicated that BCL is not witnessing any demand slowdown for its products in rural areas. We expect BCL to continue its strong double-digit volume growth trajectory and look forward to positive results again in 4QFY13.

**Stable LLP prices:** Gross margin expanded by 349bps YoY in the 9MFY13 period on account of reduction in LLP (liquid light paraffin) prices by ~6% YoY, a key raw material. Further, the management has indicated that it has booked LLP at Rs75/kg in 4QFY13 (5% down QoQ). Our channel checks showed stable LLP prices so far in 4QFY13, which indicates that booking prices for 1QFY14 are likely to remain stable. We have factored in a 3% YoY increase in LLP prices for FY14E.

**Stock trades at attractive valuation:** At the current market price, BCL trades at 14.6x P/E based on FY15E earnings, which is at a 37% discount to peers despite the in-line performance expected over FY13-FY15. Dividend yield stood at 3.4%, higher than peers at the CMP, assuming similar dividend payout for FY14E. Lower PAT growth is likely in FY15E despite better volume growth than peers on account of higher effective tax rate (27.0% versus 20.6% currently), as the income-tax benefit for one of its manufacturing plants in Himachal Pradesh expires in 2015. However, the management has stated that in case the Goods and Services Tax (GST) is implemented before the end of 2015, the effective tax rate would be below 27% as BCL is entitled for tax abatement, which can provide upside to our earnings estimates. We have upgraded our rating on BCL to Buy with a TP of Rs261 based on 17x FY15E earnings.

## BUY

**Sector:** FMCG

**CMP:** Rs223

**Target Price:** Rs261

**Upside:** 17%

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### Key Data

Current Shares O/S (mn)	147.5
Mkt Cap (Rsbm/US\$m)	33.0/602.8
52 Wk H / L (Rs)	264/110
Daily Vol. (3M NSE Avg.)	84,697

### Price Performance (%)

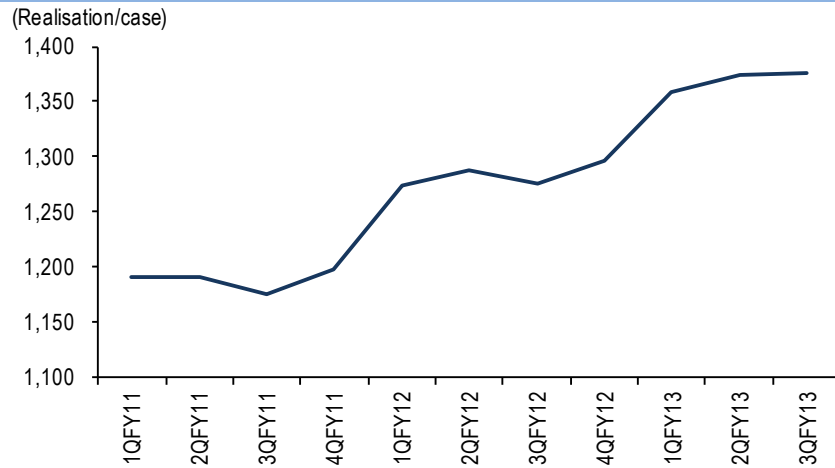
	1 M	6 M	1 Yr
Bajaj Corp	(4.4)	21.3	101.8
Nifty Index	(2.3)	11.1	11.4

Source: Bloomberg

Y/E March (Rsmn)	FY11	FY12	FY13E	FY14E	FY15E
Revenue	3,587	4,733	6,092	7,592	9,461
YoY (%)	21.8	32.0	28.7	24.6	24.6
EBITDA	1,081	1,165	1,730	2,126	2,649
EBITDA (%)	30.1	24.6	28.4	28.0	28.0
Adjusted PAT	1,031	1,201	1,643	1,971	2,262
YoY (%)	22.8	16.5	36.8	20.0	14.8
Adjusted EPS	7.0	8.1	11.1	13.4	15.3
RoE (%)	27.4	28.1	35.4	36.5	35.0
RoCE (%)	28.2	26.6	36.4	38.3	40.0
P/E (x)	32.1	27.5	20.1	16.8	14.6
P/BV	8.8	7.7	7.1	6.1	5.1
EV/EBITDA (x)	26.8	25.4	17.0	13.4	10.3

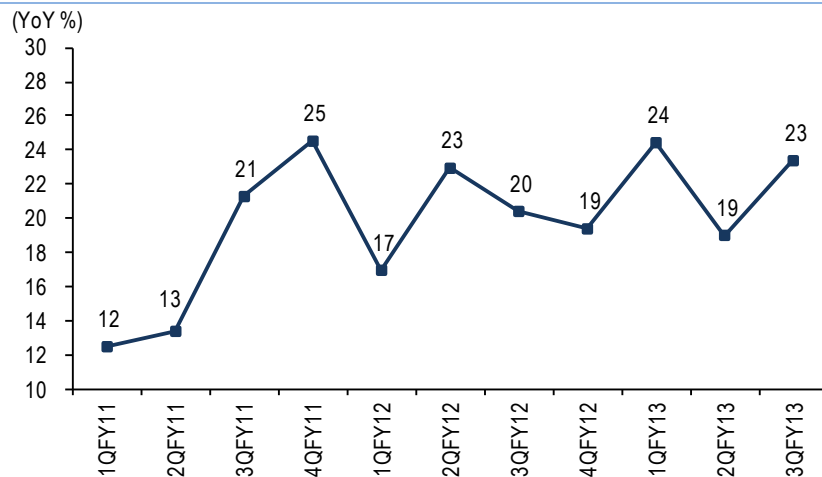
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 1: Price hike in April 2012 led to a 8% YoY rise in Bajaj Almond Drops' realisation**



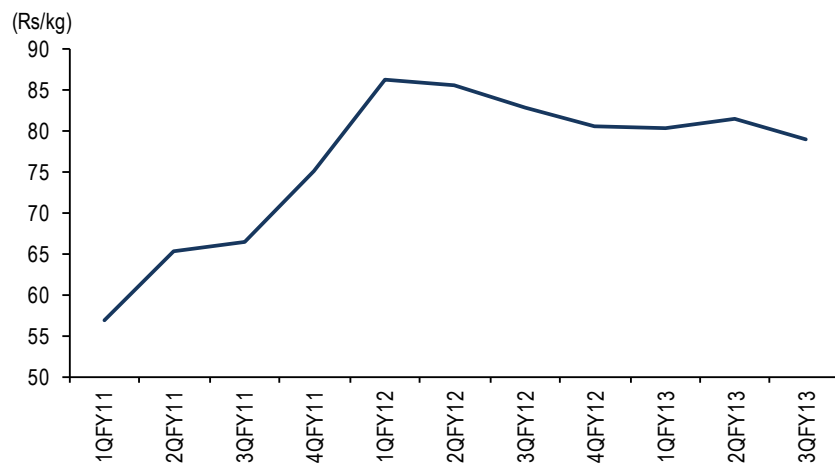
Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 2: Strong volume growth in Bajaj Almond Drops continues**



Source: Company, Nirmal Bang Institutional Equities Research

**Exhibit 3: LLP price trend**



Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
31 August 2012	Buy	177	220
4 October 2012	Buy	181	220
9 October 2012	Buy	187	228
14 January 2013	Hold	255	261

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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