Bajaj Corp. Ltd.	
No. of shares (m)	147.5
Mkt cap (Rs crs/$m)	5942.8/888.6
Current price (Rs/$)	402.9/6.0
Price target (Rs/$)	447/6.7
52 W H/L (Rs.)	457/356
Book Value (Rs/$)	40.4/0.6
Beta	0.3
Daily volume (avg. monthly)	134790
P/BV (FY17e/18e)	13.0/11.4
P/E (FY17e/18e)	23.9/21.7
EPS growth (FY16/17e/18e)	11.2/6.5/10.5
ROE (FY16/17e/18e)	52.8/55.4/56.1
OPM(FY16/17e/18e)	31.2/31.0/31.3
D/E ratio (FY16/17e/18e)	-/-/-
BSE Code	533229
NSE Code	BAJAJCORP
Bloomberg	BJCOR IN
Reuters	BACO.BO

Shareholding pattern	%
Promoters	66.9
MFs / Banks / FIs	4.4
FIIs	23.1
Govt. holding	-
Public & others	5.6
Total	**100.0**

As on Sep 30, 2016

Recommendation

ACCUMULATE

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E- mail: research@cdequi.com

Company Brief

Bajaj Corp Ltd is one of India's leading FMCG companies with major brands in hair care category such as Almond Drops, Brahmi Amla. The group has been in the business for over eight decades and is part of one of the oldest business houses of the country, the Shishir Bajaj Group.

Quarterly Highlights

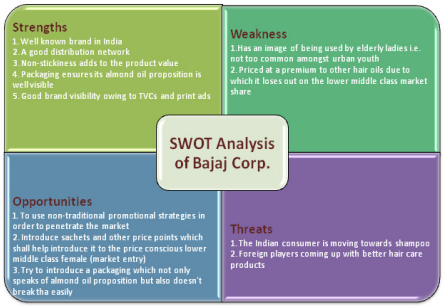
- In H1FY17, the overall hair oil market registered a de growth of 0.9% and 2.3% in volumes and value respectively. On the other hand, light hair oil exhibited a growth of 0.2% and 1.2% in volumes and value respectively, over the same time period, with Almond Drops hair oil displaying a de growth of 1.5% and 0.3%, in volumes and value respectively.
- In H1FY17the relative market share (ratio of Almond Drops market share value to the next largest competitor) in the light hair oil market increased to 4.5 compared to 4.3 in last fiscal. It retained the first rank in most of the states in the light hair oil segment even though the market share in H1FY17 is 59.9%, slightly less than last year's 60%
- The strain on volumes of lead brands Bajaj Almond Drops continues, which forced the company to increase its advertising and sales promotion expenditure to Rs. 26.94 crs ($4m) this quarter as against Rs. 19.19 crs ($2.9m) that was spent in the same quarter last year.
- Last quarter the company generated sales of Rs. 196.15 crs ($29.3m)- 3.5% growth y-o-y- and an operating profit of Rs. 67.20 crs ($10.0m) as compared to Rs. 64.72 crs ($9.7m), same quarter last year. The net profits saw a growth of 12.9% (24% after amortization) mainly on account of higher other income (Rs. 14.92 crs/$2.2m vs Rs. 7.79 crs/$1.2m same quarter last year)
- The stock presently trades at 23.9x FY17e EPS of Rs. 16.84 and 21.7x FY18e EPS of Rs. 18.60. Bajaj Corp's plans to maneuver its strong distribution network of 3.6 mn retail outlets as well as leverage on the strong connotation of almonds with nutrition seems discounted to some extent. Bajaj Corp's over dependence on one product as well as rising competition from the likes of Patanjali, continued weakness in the Nomarks brand and the trend of replacing costlier brands with cheaper brands have adverse effect on the profitability- average earnings growth of 8.4% over the next two years. However, diversification as well as expansion in the right geographies can overcome the lurking uncertainty. In light of the above, we downgrade the stock to 'accumulate' with a target of Rs. 447 (previous target Rs. 468) based on 24x FY18e earnings over a period of 9-12 months. (peg ratio 2.9).

Figures (Rs crs)	FY14	FY15	FY16	FY17e	FY18e
Income from operations	671.73	825.62	876.41	926.49	1013.99
Other Income	40.13	31.55	28.60	33.49	37.86
EBIDTA (other income included)	226.10	270.79	302.28	320.70	354.73
PAT after EO	171.53	209.79	233.31	248.38	274.39
EPS (Rs.)	11.63	14.22	15.82	16.84	18.60
EPS growth (%)	3.4	22.3	11.2	6.5	10.5

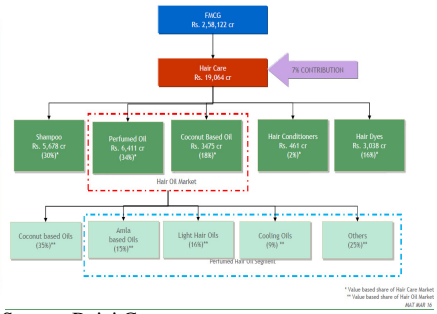
Outlook & Recommendation

Outlook of the Industry

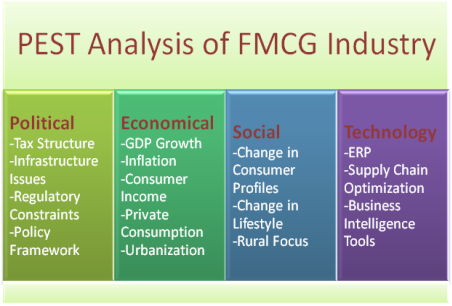
The past year (FY16) was a game changer for FMCG sector, with the Maggi ban, increase on tax of tobacco and deficient rains affecting rural market, though decline in fuel and commodity prices helped the industry to stabilize. The declining inflation, improving macro environment and implementation of the recommendations of the Seventh Pay Commission remain the key drivers for an improvement in the urban demand for consumer goods industry in FY17. Further good monsoons of this year would probably provide the necessary impetus.



Source: CD Equisearch

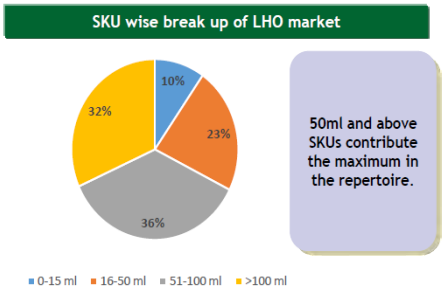


Source: Bajaj Corp

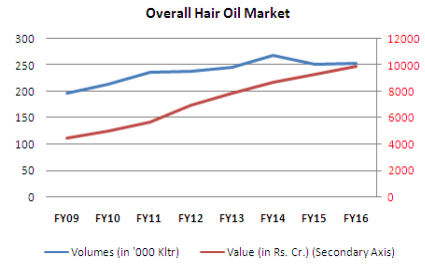


Source: scribd.com

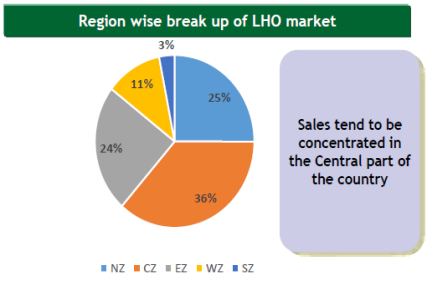
The FMCG sector has grown at an annual average of about 11% over the last decade. The overall FMCG market is expected to increase at (CAGR) of 14.7% to touch US$ 110.4 billion during 2012-2020, with the rural FMCG market anticipated to increase at a CAGR of 17.7% to reach US$ 100 billion during 2012-2025. Food products are the leading segment, accounting for 43% of the overall market. Personal care (22%) and fabric care (12%) come next in terms of market share. (Source: IBEF)



Source: Bajaj Corp.



Source: Bajaj Corp, AC Nielsen Retail Report



Source: Bajaj Corp

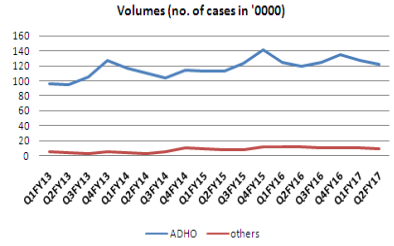
E-commerce has been around for a while. However, its contribution to FMCG is still less than 1%. Despite the consumers' increasing access to online payment methods, shoppers restrict their use of these options. One possible reason for this could be lack of consumer trust in the quality of FMCG products being delivered. The other reason could be that e-commerce sites still have not ironed out the entanglements in their distribution and deliveries. Late or incomplete deliveries, product mismatches, etc., have not particularly captivated the concept of online shopping. Players like LocalBanya.com and Bigbasket.com are trying to change consumer perception with new advertising campaigns and investment in optimal distribution capabilities. However, any change will take time to pay dividends.

The FMCG market's penetration levels as well as per capita consumption in most product categories like toothpaste, skin care, hair wash etc is still low in India, which indicates the untapped market potential. Increasing population, particularly the middle class, teenagers and the rural segment, provides an opportunity to manufacturer of FMCG products.

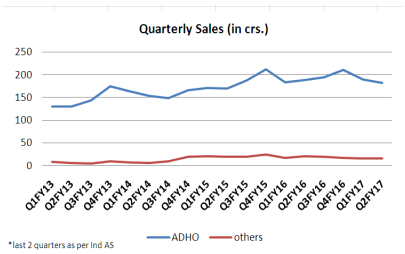
The hair care market is considered an established market in India. Due to greater importance of hair care, the demand for hair care products like regular and expert shampoos, conditioners, hair colors and hair oils are increasing rapidly, thereby providing high momentum to the Indian hair care market. India's hair care market is segmented into four categories such as hair oil, hair shampoo, hair colors and hair styling products. Hair oil dominates the market followed by hair shampoo along with its various variants. Due to climatic belligerence in India, people are coming up with hair problems like thinning hair, loss of hair volume, dandruff, and graying hair at an early age. Stress and work pressure also leads to hair problems. With the income levels of middle class population growing, the hair care market in India is going through a major paradigm shift. With a surge in the Indian markets with varieties of oil like perfume oil, light oil and many more, hair oil is expected to lead the sector in future as well.

Financials and Valuations

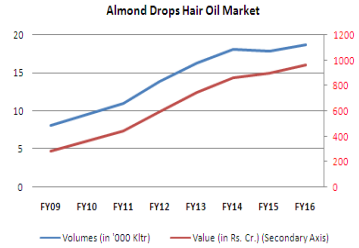
Compelled by the de-growth in the hair oil industry- the overall hair oil industry showed a decline in volume growth of 0.9% and the light hair oil exhibited a volume growth of a mere 0.2%-, the company's leading product, Bajaj Almond Drops displayed a de-growth of 1.5% for the half year ending Sept,16. The major cause of this dwindling growth is the deceleration in the rural areas, which has grown by just 1% as well as the urban areas where there has been a decline of 5% in volume off take.



Source: Bajaj Corp



Source: Bajaj Corp



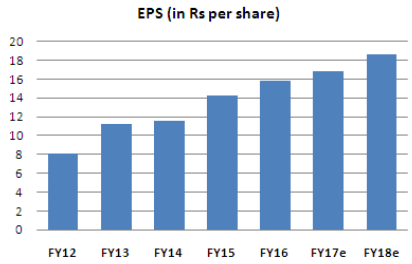
Source: Bajaj Corp

The market share(volume terms) of Bajaj Almond Drops also saw a 0.6% fall as compared to last year- currently it is 57.4%. This might be a consequence of Bajaj Corp deciding against a price cut. In the present economic scenario which is posing some difficulties for hair oil makers even the biggest hair oil brands like Parachute have taken a price cut.

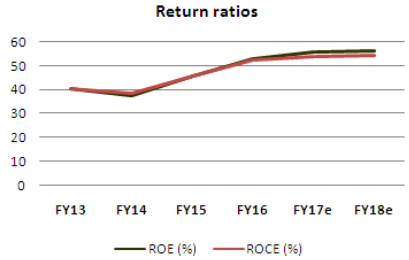
As far as Nomarks is concerned, trying to change the perception of the brand did not work in favor of the company. When the brand was acquired it was predominantly a problem solution brand and almost 60% of its sales came from creams. From a long term perspective the company wanted to focus on the face wash category of the brand which led it to do its repackaging and repositioning. But the company failed to realize that it needed to change the consumer profile along with it. However the company does not foresee the Nomarks brand following the same path as the cooling oil; (Kailash Parbat) which was a new launch and lacked a differentiator- it did not possess any unique characteristic which would make customers switch from the already existing cooling oils. Yet, Nomarks as a brand has been around for over 13 years and has a loyal consumer base.

Going forward the company plans to renew its focus on the amla hair oil segment. The hair oil industry has fallen prey to down trading (replacing costlier brands with cheaper brands) in the last couple of quarters and the company plans on retaining its customer base by providing them with a cheaper option - amla hair oil when they switch from the pricier Almond Drops. Till Q1 this option was offered only in 4 states but now the company has spread this to over 9 states.

The return ratios are projected to continue to remain firm- nearly 55%. The profits going forward depend mainly on the company's advertising expenditure and raw material cost. Going forward the volumes are projected to show an increase of around 6.5% in both FY17 and FY18 whereas the sales value will show an upward movement of 5.7% and 9.4% in FY17 and FY18 respectively. The net profits margins are expected to stay on 26%-27% range.



Source: CD Equisearch



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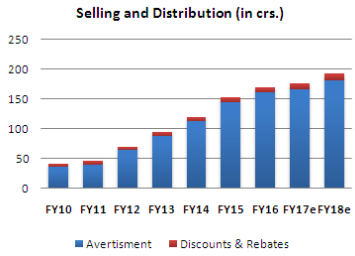
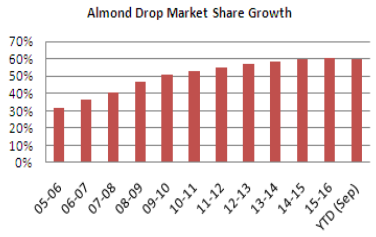
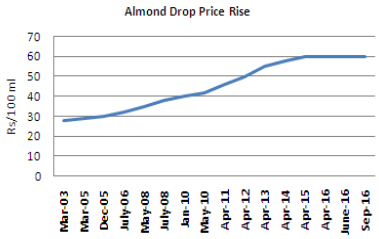


Source: CD Equisearch

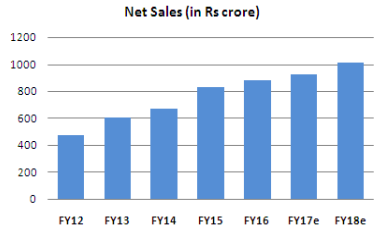
On the international front, the company believes that Nomarks is on the hinges of fructification. With plans to enter Russia, Indonesia and Egypt by next year, the company plans to exploit the fact that the profits from the international business are significantly better than that from the Indian business. The company reviewed its strategy of entering the international markets with their lead product, hair oil. However, hair oil as a product is suitable for Indian masses and thus the company started working on making Nomarks acceptable to other geographies.



Source: Bajaj Corp



Source: Bajaj Corp



Source: CD Equisearch

After a few years of experimentation with marketing strategies, the company has finally realized that product innovation and creating awareness about product differentiation to convert coconut hair oil users to light hair oil users is the path forward. By tapping on the rise in disposable income both in rural and urban sector as well as converting rural customers from unbranded to branded products, the company seeks to attain inorganic growth. Among its key competitors, Almond Drops is the only brand which is available in sachets – a marketing initiative to penetrate the rural market

The stock presently trades at 23.9x FY17e EPS of Rs. 16.84 and 21.7x FY18e EPS of Rs. 18.60. Bajaj Corp's plans to maneuver its strong distribution network of 3.6 mn retail outlets as well as leverage on the strong connotation of almonds with nutrition seems discounted to some extent. Bajaj Corp's over dependence on one product as well as rising competition from the likes of Patanjali, continued weakness in the Nomarks brand and the trend of replacing costlier brands with cheaper brands have adverse effect on the profitability- average earnings growth of 8.4% over the next two years. However, diversification as well as expansion in the right geographies can overcome the lurking uncertainty. In light of the above, we downgrade to 'accumulate' with a target of Rs. 447 (previous target Rs. 468) based on 24x FY18e earnings over a period of 9-12 months. (peg ratio 2.9). For more information, refer to our previous May,16 report.

*All $ values expressed in the write-up are translated at current exchange rates.

Risks & Concerns

Raw material risk: Any additional increase in prices of raw materials could hurt the operating margins of the company. The company is constantly exploring opportunities for hedging the cost of light liquid paraffin (LLP) through long term contracts, increasing existing storage facilities for LLP, adding new suppliers etc. The volatility in costs for packaging materials (another key input) is being tackled through advance contracts and developing new suppliers for packaging materials.

Inflation: Inflationary tendencies in the economy and weakening of macroeconomic indicators can impact the spending power of the consumer because of which down trading from branded products to non branded can occur which can affect the operating performance of the company.

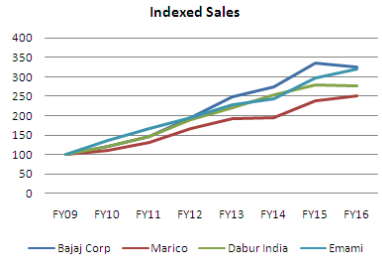
Competition: The company operates in the highly competitive FMCG market with competitors who may have enhanced ability to spend more aggressively on advertising and marketing and more elasticity to respond to changing business and economic conditions.

Regulatory framework: Any unanticipated changes in regulatory framework pertaining to economic benefits and other related issues can affect its operations and profitability.

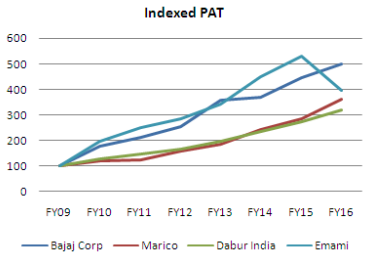
Cross Sectional Analysis

Company	Equity	CMP	MCAP*	Sales*	Profit*	OPM (%)	NPM (%)	Int Cov	ROE (%)	Mcap/ Sales	P/BV	P/E
Bajaj Corp	15	403	5943	806	247	34.9	30.6	513.2	41.8	7.4	10.0	24.1
Marico	129	285	36732	6029	763	18.4	12.7	51.2	44.5	6.1	19.7	48.2
Dabur India	176	284	50106	7801	1282	19.8	16.5	33.8	37.6	6.4	13.1	39.1
Emami	23	1176	26697	2501	332	29.2	13.3	7.4	24.0	10.7	18.3	80.5

*figures in crores; calculations on ttm basis
** all ratios adjusted for goodwill and revaluation reserve



Source: Companies



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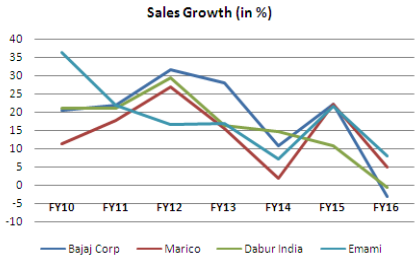

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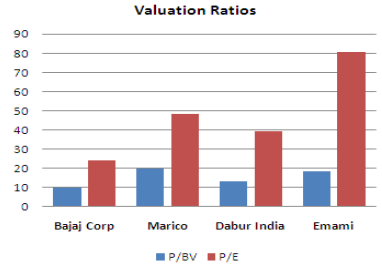

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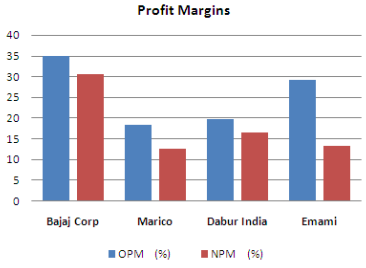

Source: Companies

Financials

Quarterly results- standalone

Figures in crores

	Q2FY17	Q2FY16	% chg	H1FY17	H1FY16	% chg
Income From Operations	**196.78**	**190.12**	**3.5**	**401.09**	**390.98**	**2.6**
Other Income	14.92	7.79	91.5	23.28	14.43	61.3
Total Income	**211.70**	**197.91**	**7.0**	**424.38**	**405.42**	**4.7**
Total Expenditure	129.58	125.39	3.3	262.93	259.91	1.2
EBITDA	**82.12**	**72.51**	**13.2**	**161.44**	**145.51**	**11.0**
Interest*	0.22	0.01	2253.7	0.42	0.02	1952.2
Depreciation and Amortization	7.72	12.72	-39.3	20.48	25.46	-19.6
PBT	74.18	59.79	24.1	140.53	120.03	17.1
Tax	15.87	12.76	24.4	30.03	25.61	17.2
PAT	**58.31**	**47.03**	**24.0**	**110.50**	**94.41**	**17.0**
Exceptional Item	-5.22	-9.24	-43.5	-14.46	-18.48	-21.8
Adjusted Net Profit	**63.52**	**56.27**	**12.9**	**124.96**	**112.89**	**10.7**
EPS(Rs)	**4.31**	**3.81**	**12.9**	**8.47**	**7.65**	**10.7**

Income Statement- consolidated

Figure in crores

	FY14	FY15	FY16	FY17e	FY18e
Income From Operations	**671.73**	**825.62**	**876.41**	**926.49**	**1013.99**
Other Income	40.13	31.55	28.60	33.49	37.86
Total Income	**711.85**	**857.17**	**905.01**	**959.98**	**1051.85**
Total Expenditure	485.75	586.38	602.73	639.28	697.12
EBITDA (other income included)	**226.10**	**270.79**	**302.28**	**320.70**	**354.73**
Interest*	5.88	0.13	0.23	0.87	1.19
Depreciation and Amortization	32.93	51.85	51.87	23.81	6.22
PBT	**187.29**	**218.81**	**250.18**	**296.02**	**347.33**
Tax	38.36	46.15	53.83	62.16	72.94
PAT	**148.93**	**172.66**	**196.35**	**233.86**	**274.39**
Exceptional Item	-22.60	-37.13	-36.95	-14.52	0.00
Net Profit	**171.53**	**209.79**	**233.31**	**248.38**	**274.39**
EPS(Rs)	**11.63**	**14.22**	**15.82**	**16.84**	**18.60**

*Interest includes bank charges

Consolidated Balance Sheet

Figure in crores

	FY14	FY15	FY16	FY17e	FY18e
Sources of Funds					
Share Capital	14.75	14.75	14.75	14.75	14.75
Reserves	504.49	473.81	466.05	486.86	548.22
Total Shareholders' Funds	**519.24**	**488.56**	**480.80**	**501.61**	**562.97**
Minority Interest	0.00	0.00	0.00	0.00	0.00
Long Term Debt	0.00	0.00	0.00	0.00	0.00
Total Liabilities	**519.24**	**488.56**	**480.80**	**501.61**	**562.97**
Application of Funds					
Gross Block	278.22	278.87	285.05	293.40	305.90
Less: Accumulated Depreciation	42.36	94.19	145.74	169.55	175.77
Net Block	**235.85**	**184.68**	**139.31**	**123.85**	**130.13**
Capital Work in Progress	0.70	0.74	0.85	2.50	2.00
Investments	156.84	183.66	270.69	314.01	357.97
Current Assets, Loans & Advances					
Inventory	39.45	39.27	50.19	52.74	55.77
Trade Receivables	8.37	13.26	25.35	32.32	35.38
Cash and Bank	129.20	134.18	57.79	43.87	59.06
Short term loans	3.78	4.65	4.26	4.50	5.00
Other Assets	4.40	6.80	6.55	7.00	7.20
Total CA & LA	**185.20**	**198.17**	**144.14**	**140.43**	**162.41**
Current Liabilities	59.65	78.81	84.42	88.88	99.30
Net Current Assets	**125.55**	**119.36**	**59.72**	**51.56**	**63.12**
Net Deferred Tax	-0.39	-0.55	-0.68	-1.00	-0.95
Net long term assets	0.69	0.67	10.90	10.70	10.70
Total Assets	**519.24**	**488.56**	**480.80**	**501.61**	**562.97**

Cash Flow Statement

	FY14	FY15	FY16	FY17e	FY18e
Net Income (a)	**148.93**	**172.66**	**196.35**	**233.86**	**274.39**
Non cash exp. & others (b)	**-8.20**	**20.68**	**23.50**	**-9.36**	**-31.65**
Depreciation	32.93	51.85	51.87	23.81	6.22
Interest Inc. and P/L on sale of Investments	-40.13	-31.55	-28.60	-33.49	-37.86
Others	-1.00	0.38	0.22	0.32	0.00
(Increase)/decrease in NWC (c)	**-14.87**	**13.49**	**-27.60**	**-9.55**	**-1.17**
Trade Receivables	1.60	-4.89	-12.09	-6.97	-3.06
Inventories	-3.60	0.18	-10.92	-2.55	-3.03
Loans & advances	-1.41	-0.96	-0.19	0.51	-0.50
Trade Payables	-8.90	10.88	-7.92	-3.51	2.00
Other current liabilities	-2.56	8.28	3.52	2.98	3.42
Operating Cash Flow (a+b+c)	**125.86**	**206.82**	**192.26**	**214.95**	**241.57**
Purchase of fixed assets (net)	-146.68	-0.63	-16.26	-10.50	-12.00
Net Investments	33.52	-20.60	-83.67	-43.31*	-43.96*
Bank deposits (maturity > 3 months)	77.20	-21.12	81.00	13.92	-14.19
Interest received	39.50	22.94	25.43	32.97	37.61
Investing Cash Flow (d)	**3.53**	**-19.41**	**6.50**	**-6.92**	**-32.54**
Export Credit in INR availed	0.00	0.00	10.00	5.00	5.00
Dividend Paid	-95.88	-169.63	-169.63	-177.00	-177.00
Dividend tax paid	-16.29	-33.92	-34.54	-36.04	-36.04
Financing Cash flow (e)	**-112.17**	**-203.54**	**-194.16**	**-208.04**	**-208.04**
Net change (a+b+c+d+e)	**17.22**	**-16.13**	**4.60**	**0.00**	**1.00**

*net investments do not include adjustment for profit/loss on sale of investments

Key Financial Ratios

	FY14	FY15	FY16	FY17e	FY18e
Growth Ratios (%)					
Revenue	10.7	22.9	6.2	5.7	9.4
EBITDA	6.5	19.8	11.6	6.1	10.6
Net Profit	3.4	22.3	11.2	6.5	10.5
EPS	3.4	22.3	11.2	6.5	10.5
Margins (%)					
Operating Profit Margin	27.7	29.0	31.2	31.0	31.3
Gross profit Margin	32.8	32.8	34.5	34.5	34.9
Net Profit Margin	25.5	25.4	26.6	26.8	27.1
Return (%)					
ROCE	38.5	45.5	52.3	54.1	54.3
RONW	37.5	45.5	52.8	55.4	56.1
Valuations					
Market Cap/ Sales	4.8	8.2	6.5	6.4	5.9
EV/EBITDA	12.9	23.8	17.8	17.5	15.9
P/E	18.7	32.2	24.4	23.9	21.7
P/BV	6.7	15.2	13.0	13.0	11.4
Other Ratios					
Interest Coverage	37.7	1971.3	1314.1	364.3	292.8
Debt Equity	0.0	0.0	0.0	0.0	0.0
Current Ratio	5.7	4.8	4.9	5.1	5.2
Turnover Ratios					
Fixed Asset Turnover	5.0	4.9	7.4	10.5	12.1
Total Asset Turnover	1.5	1.8	2.0	2.1	2.1
Debtors Turnover	73.2	76.3	45.4	32.1	30.0
Inventory Turnover	12.9	14.9	13.5	12.4	12.8
Creditor Turnover	10.8	12.7	12.7	15.3	17.0
WC Ratios					
Debtor Days	5.0	4.8	8.0	11.4	12.2
Inventory Days	28.3	24.5	27.1	29.4	28.4
Creditor Days	33.8	28.6	28.7	23.8	21.5
Cash Conversion Cycle	-0.5	0.7	6.4	16.9	19.1
Cash Flows (Rs crs)					
Operating Cash Flow	125.9	206.7	192.3	215.0	241.6
Investing Cash Flow	3.5	-19.5	6.5	-6.9	-32.5
Financing Cash Flow	-112.2	-203.5	-194.2	-208.0	-208.0

Cumulative Financial Data

Figures in crores	FY13-14	FY15-16	FY17-18
Volumes (cases in lakhs)	90	107	120
Income from operations	1278	1702	1940
Operating profit	358	513	604
EBIT	430	563	664
PBT	424	563	662
PAT	337	443	523
Dividends	224	408	426
OPM (%)	28.0	30.1	31.1
NPM (%)	26.4	26.0	26.9
ROE (%)	39.2	48.5	54.6
ROCE (%)	39.8	48.0	53.1
Debt Equity*	0.0	0.0	0.0
Fixed asset turnover	5.5	5.9	10.6
Debtors turnover	94.6	50.5	31.9
Inventory turnover	9.1	13.3	12.6
Creditors turnover	10.5	14.1	15.6
Debtor days	3.9	7.2	11.4
Inventory days	40.2	27.5	28.9
Creditor days	34.8	25.8	23.4
Cash conversion	9.3	8.9	17.0
Dividend payout ratio (%)	71.0	110.5	83.8

FY13-14 implies two years ending fiscal 14
*as at terminal year.

The 19% growth in volumes in FY15-16 period (see table) which is posed to be substituted by a humbled 12% in FY17-18 period is mostly on account of slowdown of the hair oil industry. The highly penetrated industry which belongs to the FMCG sector is usually the last to get affected in case of a recovery and this phenomenon is quite evident from the sales and volume figures going forward. A seven fold increase in debtors from FY12 to FY18 justifies the drastic drop in debtors' turnover. Limited capex plans are the reason for fixed asset turnover almost doubling from FY15-16 to FY17-18. (see table above)

The company has a good number of products in the pipeline waiting to be launched and the domestic product acquisition front also looks promising. The prices of the paraffin oil going forward- already started increasing- and the success of its new advertisement campaign will have a tremendous effect of the sales and profit. Proper cash management should enable the company to remain virtually debt free. Going forward margins are expected to remain stable provided raw material prices remain in control. Down-trading, if in the company's favor, should result in higher volumes of Brahmi Amla.

Financial Summary – US dollar denominated

	FY14	FY15	FY16	FY17e	FY18e
Equity capital	2.5	2.4	2.2	2.2	2.2
Shareholders' funds	79.2	71.2	66.0	68.6	77.7
Total debt	0.0	0.0	1.5	2.2	3.0
Net fixed assets (inc CWIP)	32.2	22.8	14.6	12.5	13.3
Investments	26.1	29.3	40.8	47.0	53.5
Net current assets	20.9	19.1	9.0	7.7	9.4
Total assets	79.2	71.2	66.0	68.6	77.7
Revenues	111.0	135.0	133.9	138.5	151.6
EBITDA	37.4	44.3	46.2	48.0	53.0
PBDT	36.4	44.3	46.1	47.8	52.9
PBT	35.7	43.5	45.4	47.0	51.9
Net Profit	28.4	34.3	35.6	37.1	41.0
EPS ($)	0.19	0.23	0.24	0.25	0.28
Book Value ($)	0.54	0.48	0.45	0.46	0.53
Operating Cash Flow	20.9	33.0	29.0	32.1	36.1
Investing Cash Flow	0.6	-3.1	1.0	-1.0	-4.9
Financing Cash Flow	-18.7	-32.5	-29.3	-31.1	-31.1

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates
*All $ values adjusted for extraordinary items.

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