

Institutional Equity Research

Bajaj Corp

FMCG | India

1QFY18 Result Update | July 13, 2017

CMP* (Rs)	404
Upside/ (Downside) (%)	17
Bloomberg Ticker	BJCOR IN
Market Cap. (Rs bn)	60
Free Float (%)	33
Shares O/S (mn)	148

BUY 

Target Price: Rs472

Trade Disruption due to GST Impacts Performance

Trade pipeline correction in anticipation of GST roll-out coupled with weak consumer demand led to muted set of numbers for Bajaj Corp in 1QFY18. While net sales fell by 3.4% YoY to Rs2bn, reported net profit grew by 5.3% YoY to Rs550mn. Both top-line and bottom-line missed our estimates by 5%. EBITDA declined by 14.5% YoY to Rs606mn, primarily due to higher employee and other expenses during the quarter.

We believe that trade disruption in wake of GST is a temporary phenomenon and expect it to correct itself in ensuing quarters. We expect the demand scenario to improve on the back of good monsoons, GST roll-out and implementation of 7th Pay Commission's recommendations. Its valuations at 19.5x FY19E earnings are at a 40% discount to sector multiples. **Expecting Bajaj Corp to report 13.7% revenue and 17.5% earnings CAGR through FY17-19E, we maintain our BUY rating on the stock with a revised Target Price of Rs472, based on 22x June'19 EPS.**

Volumes Remain Subdued

While overall net sales fell by 3.4% YoY, flagship brand *Almond Drops Hair Oil* (ADHO) reported 2.7% YoY drop in revenues. Overall volumes fell by 7.7% YoY, while ADHO saw 6.6% YoY drop in volumes. It is pertinent to note that the brand had witnessed 7.1% volume drop in 4QFY17. The Company has witnessed QoQ improvement in its market shares. While volume share has increased from 57.9% to 58.3%, value share perked up from 60.7% to 61% in the same period.

Gross Margins fall after 12 Quarters

Gross margins fell by 40bps YoY to 65.2% in 1QFY18. Notably, quarterly gross margins have fallen for the first time in past 12 quarters on YoY basis. This is attributable to 33% YoY rise in LLP prices in the quarter to Rs58.3/kg, although vegetable oil prices remained largely flat at Rs75.4/kg during the quarter. Bajaj Corp has not undertaken any price hike in flagship ADHO in past two years. We expect the Company to take judicious price increase, once the dust over the GST roll-out settles down. Quarterly A&P spends declined by 80bps YoY to 12.1%, while employee cost rose by 180bps YoY to 8.5% of sales. Other expenses also increased by 260bps YoY to 13.7% which lowered the EBITDA margins by 400bps YoY to 30.7%.

Outlook & Valuation

Looking ahead, we believe that volume growth trajectory to improve in ensuing quarters as trade settles post GST roll-out. Macro factors such as good monsoons, higher share of organised players and implementation of 7th Pay Commission's recommendations will also benefit Bajaj Corp. We expect the Company to report net sales of Rs8.9bn and Rs10.2bn and net profit of Rs2.6bn and Rs3bn in FY18E and FY19E, respectively. EPS is expected to be Rs17.8 and Rs20.7 in the same period. At CMP, the stock currently trades at attractive valuations of 19.5x FY19E earnings. **We maintain our BUY recommendation on the stock with a revised Target Price of Rs472, based on 22x June'19 earnings.**

Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	7,959	7,925	8,915	10,238
EBITDA	2,744	2,656	2,965	3,431
Net profit	1,980	2,210	2,633	3,049
EPS (Rs)	13.4	15.0	17.8	20.7
DPS (Rs)	11.5	11.5	14.0	16.0
P/E (x)	30.1	27.0	22.6	19.5
P/B (x)	12.3	11.9	11.5	11.1
EV/EBITDA (x)	20.2	20.7	18.7	16.2
ROE (%)	40.5	44.8	51.7	57.9
Dividend yield (%)	2.8	2.8	3.5	4.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	8.1	(5.6)	2.7
Relative to Nifty	5.2	(13.7)	(13.4)

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	66.9	66.9
Public	33.1	33.1

1 Year Stock Price Performance



Note: * CMP as on July 13, 2017

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Risks to the view

- ▶ Continuing challenging demand environment resulting in lower volumes
- ▶ Sharp increase in input costs

Conference Call – Takeaways

- ▶ ADHO volume growth was impressive in April and May at ~6% before GST-led trade disruption came in to play.
- ▶ While the large distributors have already registered themselves under the GST, several wholesalers and retailers are yet to do so, which has further aggravated the situation. The Company expects off-take to remain muted in July as well.
- ▶ Wholesale accounts for ~50% of Bajaj Corp's revenues. The Company continues to focus on increasing its direct distribution footprint with increased sales force automation.
- ▶ Revenues from CSD segment fell by >45% in the quarter under review. While no indirect taxes were levied earlier on products sold through the CSD channel, the Government has imposed 9% GST (had initially levied 18%) on hair oils sold through the CSD outlets.
- ▶ Modern trade has demanded higher trade margins to the tune of 0.5-1% from the FMCG companies. As Bajaj Corp's MT salience is just 5.5%, this move will not impact the Company materially even if it provides higher trade margin to the channel.
- ▶ The Company will wait for trade pipeline to settle post GST to take any call on product prices. As LLP prices continue to remain high, Bajaj Corp is wavering to enter into long-term contracts at these prices, anticipating some correction in prices.
- ▶ The Company has delayed the launch of new products by at least a quarter due to trade disruption in the wake of GST roll-out. The Company expects A&P spend to remain muted in 2QFY18, but expects to pick-up in 2HFY18.

Exhibit 1: Trend in LLP Prices

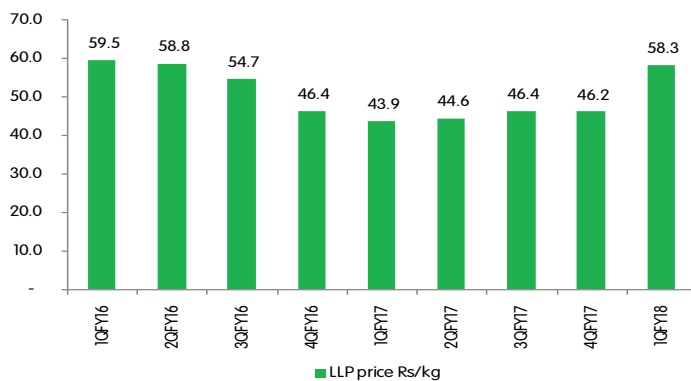


Exhibit 2: Trend in vegetable oil prices

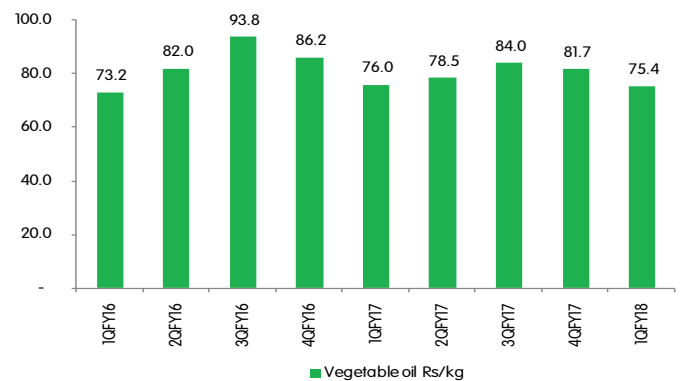


Exhibit 3: Decelerating trend in volume growth

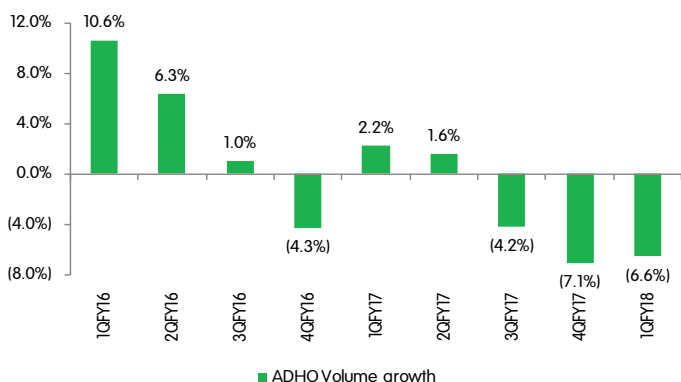
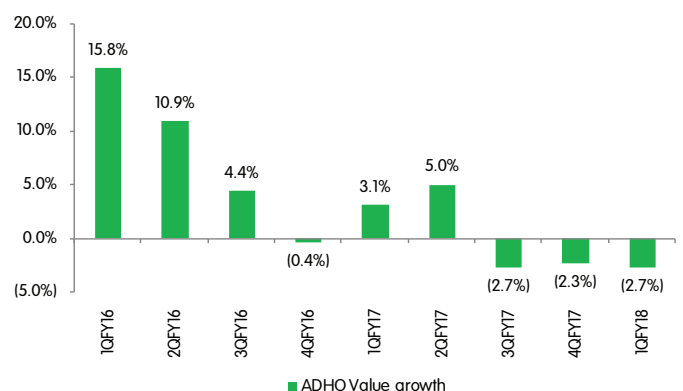


Exhibit 4: Trend in value growth



Source: Company, RSec Research

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Exhibit 5: Quarterly Performance

Y/E March (Rs mn)	1QFY18	1QFY17	% yoy	4QFY17	% qoq	FY17	FY16	% chg
Net Sales	1,974	2,043	(3.4)	2,045	(3.5)	7,925	7,959	(0.4)
Consumption of RM	688	704	(2.3)	670	2.7	2,679	2,972	(9.9)
(% of Sales)	34.8	34.5		32.7		33.8	37.3	
Staff Costs	169	138	22.1	152	10.9	594	458	29.6
(% of Sales)	8.5	6.8		7.4		7.5	5.8	
Advertising	240	265	(9.4)	142	69.0	615	550	11.7
(% of Sales)	12.1	13.0		6.9		7.8	6.9	
Other Expenses	271	227	19.7	420	(35.3)	1,382	1,234	12.0
(% of Sales)	13.7	11.1		20.5		17.4	15.5	
Total Expenditure	1,368	1,334	2.6	1,383	(1.1)	5,269	5,214	1.1
Operating Profit	606	710	(14.5)	662	(8.4)	2,656	2,744	(3.2)
OPM	30.7	34.7		32.4		33.5	34.5	
Depreciation	15	10	51.5	14	10.5	48	43	10.4
EBIT	591	699	(15.5)	648	(8.8)	2,608	2,701	(3.4)
Interest	3	2		3		9	2	
Other Income	111	84	32.2	23	377.7	393	288	36.7
PBT	699	781	(10.5)	669	4.5	2,993	2,987	0.2
(% of Sales)	35.4	38.2		32.7		37.8	37.5	
Provision for Taxation	149	142	5.3	142	5.0	599	537	11.6
(% of PBT)	21.3	18.1		21.2		20.0	18.0	
PAT (recurring)	550	639	(14.0)	527	4.4	2,393	2,450	(2.3)
Extr. Income/(Expense)	-	(117)		-		(184)	(470)	
Reported PAT	550	522	5.3	527	4.4	2,210	1,980	11.6
PATM	27.8	25.5		25.7		27.9	24.9	
Equity shares (cr)	148	148		148		148	148	
EPS (Rs)	3.7	3.5	5.3	3.6	4.4	15.0	13.4	11.6

Source: Company, RSec Research

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net Sales	7,959	7,925	8,915	10,238
Total operating income	7,959	7,925	8,915	10,238
% chg	(2.9)	(0.4)	12.5	14.8
Total Expenditure	5,214	5,269	5,950	6,807
Cost of Materials	2,972	2,679	3,022	3,470
Advertising Exp (Incl Promotion)	914	1,054	1,200	1,378
Personnel	458	594	683	785
Others	870	942	1,044	1,174
EBITDA	2,744	2,656	2,965	3,431
% chg	15.7	(3.2)	11.6	15.7
(% of Net Sales)	34.5	33.5	33.3	33.5
Depreciation & Amortisation	513	231	50	51
EBIT	2,231	2,424	2,915	3,380
% chg	19.9	8.7	20.2	15.9
(% of Net Sales)	28.0	30.6	32.7	33.0
Interest & other Charges	2	9	-	-
Other Income	288	393	460	530
Recurring PBT	2,517	2,809	3,375	3,909
PBT (reported)	2,517	2,809	3,375	3,909
Tax	537	599	743	860
(% of PBT)	21.3	21.3	22.0	22.0
PAT (recurring)	1,980	2,210	2,633	3,049
% chg	14.2	11.6	19.1	15.8
(% of Net Sales)	24.9	27.9	29.5	29.8
Basic EPS (Rs)	13.4	15.0	17.8	20.7
Fully Diluted EPS (Rs)	13.4	15.0	17.8	20.7
% chg	14.2	11.6	19.1	15.8

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Balance Sheet

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Share capital	148	148	148	148
Reserves	4,708	4,870	5,017	5,226
Net worth	4,856	5,018	5,165	5,374
Total borrowings	100	150	150	150
Total liabilities	4,956	5,168	5,315	5,524
Gross block	2,080	1,281	1,781	2,281
Less: Acc. depreciation	1,432	743	793	844
Net block	648	538	988	1,437
CWIP	7	0	0	0
Investments	3,647	4,545	4,045	3,545
Current assets	1,365	838	1,130	1,511
Inventories	502	425	478	549
Debtors	234	255	287	329
Cash	519	97	297	555
Loans and advances	109	61	68	78
Current liabilities	712	751	849	970
Provisions	-	2	-	-
Net current assets	653	84	281	541
Total assets	4,956	5,168	5,315	5,524

Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Net profit	1,980	2,210	2,633	3,049
Depn and w/o	513	231	50	51
Change in working cap	(34)	147	3	(2)
Operating cash flow	2,459	2,588	2,685	3,098
Capital expenditure	(62)	43	(500)	(500)
Investments/ Acquisition	(1,269)	(898)	500	500
Investing cash flow	(1,331)	(855)	0	0
Free cash	2,397	2,631	2,185	2,598
Dividend	(2,042)	(2,042)	(2,485)	(2,840)
Fresh equity	1	1	1	2
Debt/Preference shares	100	50	0	0
Financing cash flow	(1,941)	(1,991)	(2,484)	(2,838)
Others	(5)	(164)	(1)	(2)
Net change in cash	(817)	(422)	200	258
Opening cash	1,336	519	97	297
Closing cash	519	97	297	555

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Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E (on FDEPS)	30.1	27.0	22.6	19.5
P/CEPS	23.9	24.4	22.2	19.2
P/BV	12.3	11.9	11.5	11.1
Dividend yield (%)	2.8	2.8	3.5	4.0
EV/Sales	7.0	7.0	6.2	5.4
EV/EBITDA	20.2	20.7	18.7	16.2
Per Share Data (Rs)				
EPS (Basic)	13.4	15.0	17.8	20.7
Core EPS	16.0	17.5	17.8	20.7
Cash EPS	16.9	16.5	18.2	21.0
DPS	11.5	11.5	14.0	16.0
Book Value	32.9	34.0	35.0	36.4
Returns (%)				
RoCE	40.1	43.8	50.2	56.3
RoE	40.5	44.8	51.7	57.9
Turnover ratios (x)				
Asset Turnover (Gross Block)	1.6	1.6	1.8	1.9
Inventory / Sales (days)	62	58	58	58
Receivables (days)	11	12	12	12
Payables (days)	50	52	52	52
Working capital cycle (ex-cash) (days)	23	18	17	17

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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