

Bajaj Consumer Care

Counting on rural growth, distribution holds key

Bajaj Consumer Care reported good results in Q4FY19, in-line with our expectations, with healthy 11.1%, 8.7% and 9.4% revenue, EBITDA and PAT growth, respectively, driven by Almond Drop Hair Oil (ADHO) volume growth of 7.4%. For FY19, ADHO volume grew 5.8% YoY. Volume growth, however, was below estimate given weak CSD business (down 16% YoY) and lower international revenue. Contrary to general perception, rural sales did surpass urban, with no signs of slowdown. We expect earnings to rise given new product launches and Nomarks extensions in adjacencies. We tweak our estimates to factor in higher employee costs (due to ESOP provisions) and tax rate of 21.8%. Maintain Buy with TP of Rs438 (22.3x FY20E EPS).

Rural markets still relevant for ADHO volume growth

Healthy offtake 2x ahead of primary sales suggest a rebound in the light hair oil category. Bajaj Consumer Care reported 11.1% revenue growth in Q4, driven by 7.4% ADHO volume growth (overall 5.5%). ADHO had its highest market share at 10% in the overall hair oil category, led by strong penetration of 20.1% with 17% increase in households. We continue to believe central Indian rural states outperformed due to own distribution build-up. Rural sales outpaced urban growth. We believe wholesale's contribution at 33% could push the Rs10 (19ml pet pack) and sachet in rural markets. FY19 revenues grew 8.5% YoY led by 5.8% ADHO volume growth (4.5% overall volume growth).

New product launches, CSD and international growth important

Bajaj Consumer Care has re-entered the cooling oil segment with the non-sticky Bajaj Cool Almond Drop, priced at a 20% premium to ADHO, with strong brand endorsement and extensive ad-spend. We believe Nomarks brand extension to adjacent categories such as Sunscreen lotion based on ayurveda, Face-wash, Face-cream, Scrub and soap could help enhance its entry into urban markets, especially in the pharma channel. We expect the CSD business to rebound in FY20E. The international business showed strong growth of 56% YoY in Q4.

Valuation and risks – Maintain Buy with a target price of Rs438

We maintain our revenue estimates factoring in new launches, rebound in the international and CSD businesses. We expect 4-5% price hikes to offset rising raw material prices (10% in light liquid paraffin and 6% in glass bottles). We factor in a higher tax rate of 21.8% (21% earlier) given the company enjoys a MAT rate for the next few years. We lower earnings by 4% factoring in higher employee costs (ESOP provisioning). We expect revenue, EBITDA and earnings CAGRs of 15.2%, 21.2%, 23.5% over FY19-21E, respectively. Maintain Buy with a DCF-based target price of Rs438 implying 22.3 FY20E earnings. Risks to our call include over-dependence on ADHO, raw material price inflation and lag between price hikes by the company.

Financial and valuation summary

YE Mar (Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	FY19	FY20E	FY21E
Revenue	2,383	2,145	11.1	2,220	7.3	8,901	10,238	11,812
EBITDA	703	647	8.7	634	10.8	2,460	3,098	3,615
EBITDA margin (%)	29.5	30.2	(66) bps	28.6	92 bps	27.6	30.3	30.6
Adj. net profit	606	554.1	9.4	601	0.9	2,216	2,895	3,381
Adj. EPS (Rs)	4.1	3.8	9.4	4.1	0.9	15.0	19.6	22.9
P/E (x)						22.4	17.1	14.7
EV/EBITDA (x)						19.1	14.9	12.6
RoE (%)						46	56.0	60.8
Dividend yield (%)						4.2	4.5	4.8

Source: Company, Centrum Research estimates

Result Update

India I Consumer

16 April 2019

Buy

Target Price: Rs438

Price: Rs336

Forecast return: 30%

Institutional Research

Market Data

Bloomberg:	BAJAJCON IN
52 week H/L:	Rs510/308
Market cap:	Rs49.6bn
Shares outstanding:	147.5mn
Free float:	38.3%
Avg. daily vol. 3mth:	479,194

Source: Bloomberg

Changes in the report

Rating:	None
Target Price:	None
Earnings estimates:	4% in FY20E/FY21E

Source: Bloomberg

Company relative to Nifty 50



Source: Bloomberg

Shareholding pattern

	Mar-19	Dec-18	Sep-18	Jun-18
Promoter	60.0	66.9	66.9	66.9
FIIs	24.2	23.5	25.1	25.0
DII's	8.6	5.6	4.6	3.7
Public/oth	7.2	4.1	3.4	4.5
% promoter shares pledged	63.6	70.4	51.3	51.25

Source: BSE

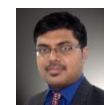


Shirish Pardeshi

Analyst, Consumer Staples and Discretionary

+91 4215 9634

shirish.pardeshi@centrum.co.in



Aasutosh Sai Charla

Associate, Consumer Staples and Discretionary

+91 4215 9771

aasutosh.charla@centrum.co.in

The Consumer Team

Thesis Snapshot

Estimate revisions

YE Mar (Rs mn)	FY20E New	FY20E Old	% chg	FY21E New	FY21E Old	% chg
Revenue	10,238	10,238	-	11,812	11,812	-
EBITDA	3,098	3,247	(4.6)	3,615	3,794	(4.7)
EBITDA margin (%)	30.3	31.7 (140) bps		30.6	32.1 (150) bps	
Adj. PAT	2,895	3023	(4.2)	3,381	3534	(4.3)
Diluted EPS (Rs)	19.6	20.5	(4.3)	22.9	24	(4.5)

Source: Centrum Research estimates

Centrum estimates vs actual results

YE Mar (Rs mn)	Centrum Q4FY19	Actual Q4FY19	Variance (%)
Revenue	2,402	2,383	(0.8)
EBITDA	721	703	(2.4)
EBITDA margin (%)	30.0	29.5	(50) bps
Adj. net profit	630	606	(3.7)

Source: Bloomberg, Centrum Research estimates

Bajaj Consumer Care versus NIFTY 50

	1m	6m	1 year
BAJAJCON	3.9	(14.4)	(29.5)
NIFTY 50	3.2	11.4	12.0

Source: Bloomberg, NSE

Key assumptions

YE March (%)	FY19	FY20E	FY21E
ADHO Volume growth	5.8	10.2	11.1
Employee cost as % of sales	10.9	10.5	10.5
EBITDA margin (%)	27.6	30.3	30.6
Tax rate	21.7	21.8	21.8

Source: Centrum Research estimates

Key performance indicators

	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Growth (%)								
Net sales	(3.6)	3.8	5.6	5.0	9.5	1.0	12.5	11.1
EBITDA	(15.3)	(13.0)	(6.7)	(1.8)	5.2	(7.4)	11.1	8.7
Adj. net profit	(16.8)	(21.9)	(4.5)	5.2	1.1	1.9	8.9	9.4
Margins (%)								
Gross margin	65.0	66.9	67.4	66.2	65.6	66.2	66.3	65.2
EBITDA margin	30.4	28.4	28.9	30.2	29.2	26.0	28.6	29.5
EBIT margin	29.8	27.7	28.0	29.3	28.5	25.3	27.8	28.8
PAT margin	27.1	24.9	28.0	25.8	25.0	25.1	27.1	25.4
Cost break up (%)								
COGS	35.0	33.1	32.6	33.8	34.4	33.8	33.7	34.8
Employee costs	8.6	9.5	9.8	9.3	10.3	11.7	10.8	10.0
A&P spends	12.2	13.2	16.5	13.5	13.5	16.1	16.7	14.6
Other expenses	26.0	29.0	28.7	26.7	26.2	28.5	26.9	25.7

Source: Company, Centrum Research estimates

Valuation

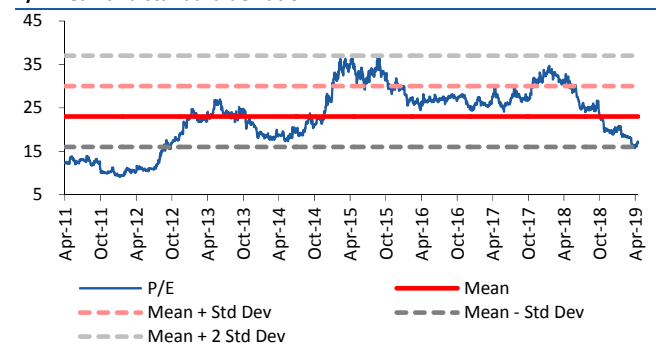
We expect 4-5% price hikes to offset rising raw material prices (10% in light liquid paraffin and 6% in glass bottles). We have factored in a higher tax rate of 21.8% (21% earlier) given the company enjoys a MAT rate for the next few years. We lower earnings by 4% factoring in higher employee costs (ESOP provisioning). We expect revenue, EBITDA and earnings CAGRs of 15.2%, 21.2%, 23.5% over FY19-21E, respectively.

We retain our Buy rating, with a target price Rs438, implying 22.3x FY20E earnings.

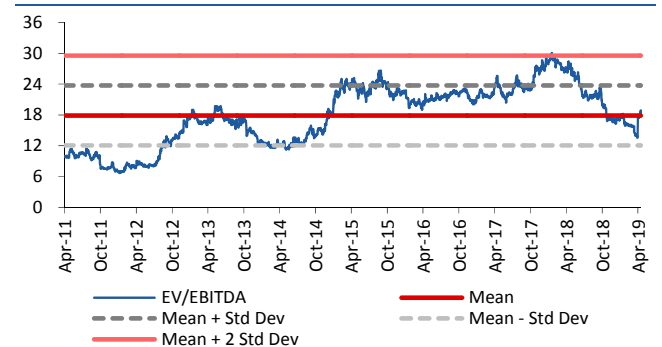
Valuation

DCF-based target price	Rs438
WACC (%)	11.3
Terminal growth (%)	5.6

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Research estimates

Quarterly result analysis

Healthy revenue growth

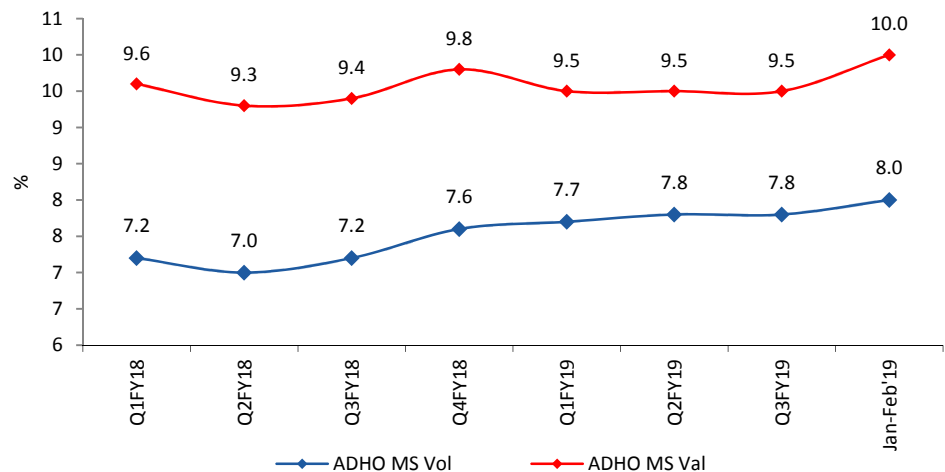
Volume growth was below our estimate

Bajaj Consumer Care delivered a good set of numbers in Q4FY19 in-line with our expectation, reporting healthy 11.1%, 8.7% and 9.4% revenue, EBITDA and PAT growth, driven by Almond Drop Hair Oil (ADHO) volume growth at 7.4%. For FY19, ADHO volumes grew at 5.8% YoY despite weaker Q2FY19 sales. However, volume growth was below our estimate due to continued weak performance of the CSD business, which declined 16% YoY and lower international revenue.

Rural sales did surpass urban and there are no signs of a slowdown

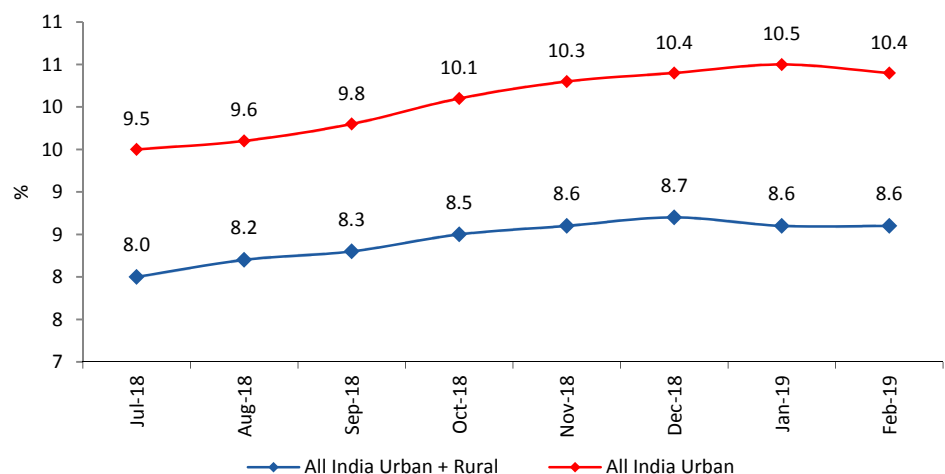
Contrary to general perception, rural sales did surpass urban and there are no signs of a slowdown, mirrored in the quarterly results. We witnessed strong trends in gaining market share and offtake ahead of primary sales. We are sanguine about earnings acceleration and continued growth momentum given new product launches and extensions of Nomark in adjacencies in large skin-care categories.

Fig 1: ADHO quarterly market share trends in THO



Source: Company, Centrum Research

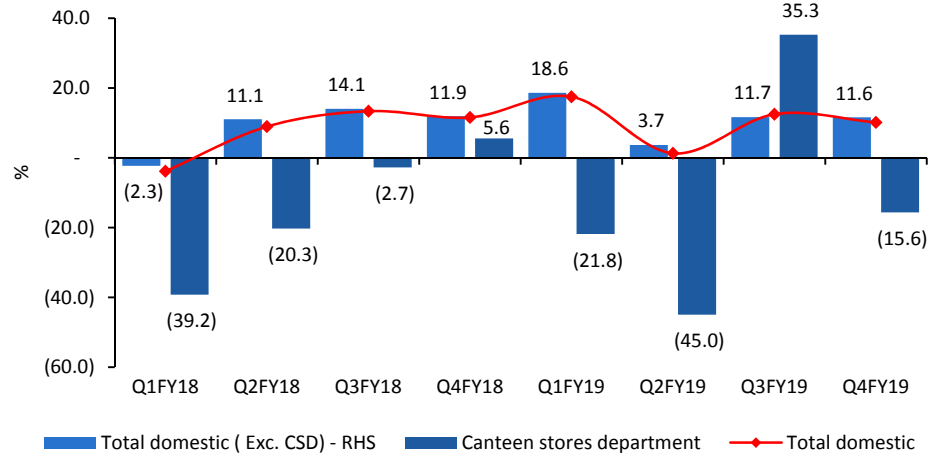
Fig 2: Nomarks market share improved post re-launch in Jul'18



Source: Company, Centrum Research

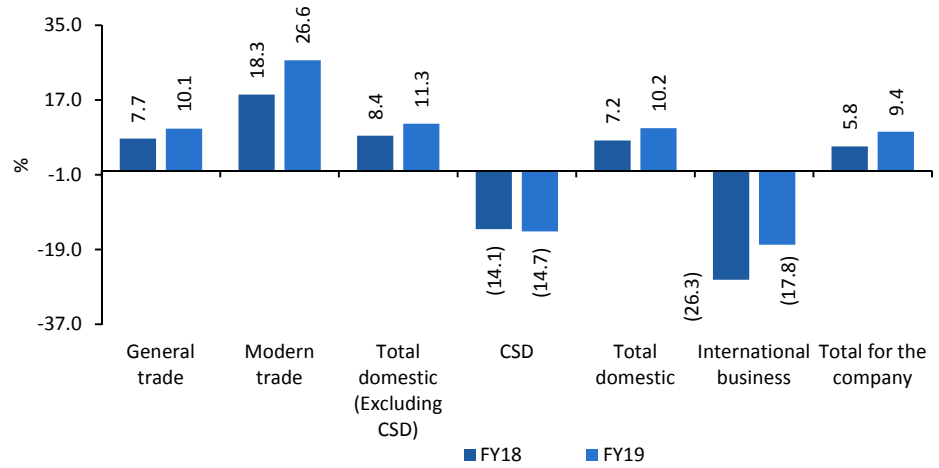
In our opinion, the stress in the CSD channel will continue to remain until the government announces a clear framework for the CSD procurement process and method of subsidising the armed forces.

Fig 3: Sales growth trends – CSD channels



Source: Company, Centrum Research

Fig 4: Channel wise – Sales growth for FY18 and FY19



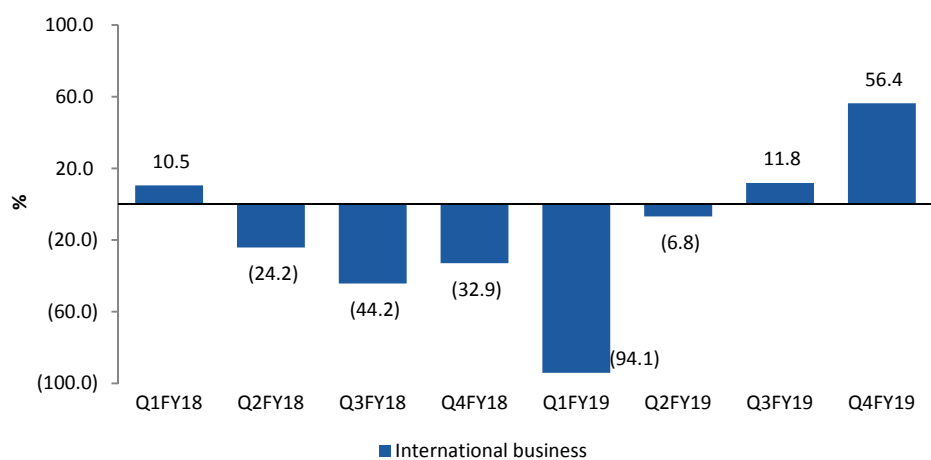
Source: Company, Centrum Research

Conference call highlights

Revenue growth

- ADHO continues to be relevant in rural markets – with all-time high market share 64% by value. ADHO’s volume in the overall hair-oil category increased to 8% (+20bps) and maintained at 10% value share.
- Stable demand conditions, contrary to general perception, management reiterated that there is no slowdown in rural growth in the hair oil category. Growth in the light hair oil category was 450bps ahead of urban.
- Focus on Rs10 pack (19ml) showed strong growth, accounting for 5% of revenues.
- ADHO penetration increased to 20.1% (Dec’18) vs 17.6% (Dec’17) resulting in 2x offtake that of the category in Jan-Feb’19 (17.5% vs 8.8%).
- Nomarks witnessed 24% revenue growth in Q4FY19 and ~41% growth in the domestic market. In FY19 it grew 14% YoY. Its market share in the anti-marks category grew to 10.4% (Feb’19) vs 9.7% (Feb’18).
- International business (~5% of revenue), which was restructured last year, reported 56% growth. Management is upbeat on further growth momentum once technology and systems are in place.
- CSD revenues declined 16% YoY after 35% growth in the previous quarter. The performance of the CSD channel is very volatile as there is lack of transparency and hesitation around buying patterns.
- Re-launches, an extension to ADHO Bajaj Cool Almond drop hair oil priced premium to ADHO will be supported by an extensive media campaign. Nomarks Ayurvedic Sunscreen lotion, launched in Mar’19, could help in gaining distribution in urban markets.
- Management has indicated that it has engaged Bain and Co., a leading global consultancy, to help grow its hair oil business faster using its patented model from April 2019.

Fig 5: Sales growth of international business

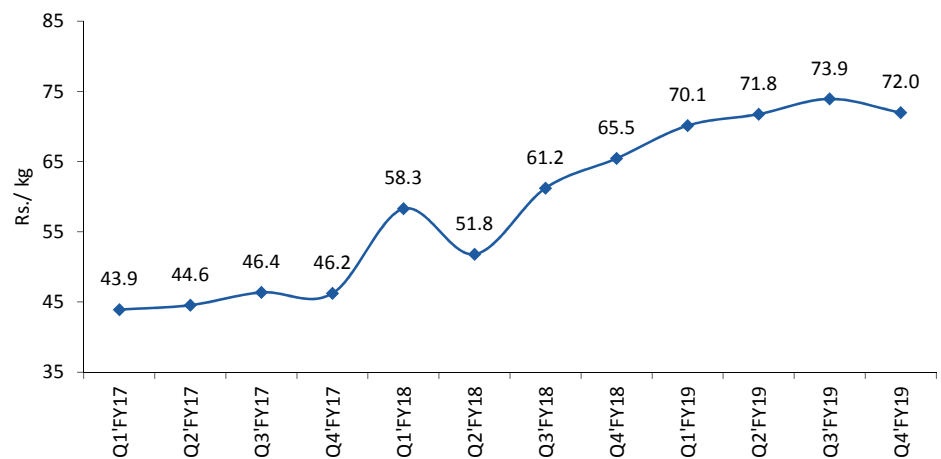


Source: Company, Centrum Research

Perspective on margins

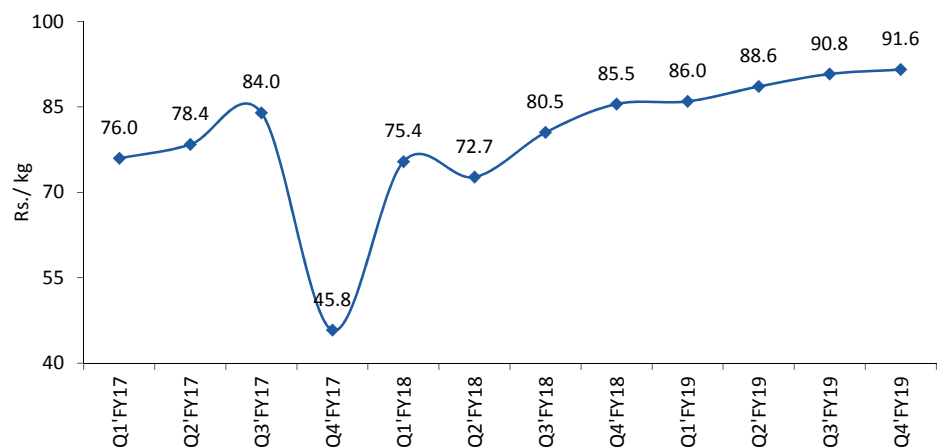
- Management has expressed it will maintain gross margin in FY20E despite raw material inflation, crude-oil inflation to hit by Mar'19, though packaging material and LLP price inched upward, the old inventory would last till Apr'19.
- It has already pushed 3.7% price increases in Apr'19, which would mitigate cost inflation.
- The sharp increase in employee expenses was due to recognition of ESOP costs (Rs238mn) in Q4FY19. In addition, it was also rolled out to more employees.
- Increase in receivables due to the CSD channel and stocked up higher raw material as prices have gone up.
- Working capital has moved upward due to pending GST refunds.
- Effective tax rate will be in the range of 21.5-22% due to tax sops as Guwahati facility would be under MAT benefit for nine years.

Fig 6: LLP price trends



Source: Company, Centrum Research

Fig 7: Refined oil price trends



Source: Company, Centrum Research

Fig 8: Quarterly Financials

(Rs mn)	Q1FY18	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Net sales	1,964	2,037	1,973	2,145	2,150	2,057	2,220	2,383
Other operating income	10	5	55	72	64	70	76	74
Total income	1,974	2,042	2,028	2,217	2,214	2,127	2,296	2,457
Accretion to stocks in trade & work in progress	(38)	30	(35)	56	(64)	13	11	(41)
Raw material consumed	617	511	609	652	789	640	706	835
Purchase of semi/finished goods/traded goods	109	132	70	17	15	42	31	35
Employee expenses	169	194	193	200	221	241	240	238
Other exp	511	591	566	573	563	586	597	613
Operating profit (core EBITDA)	596	579	571	647	627	536	634	703
Depreciation	10	16	19	18	15	16	17	17
EBIT	586	563	552	628	612	520	617	686
Interest	2	3	3	4	3	2	1	5
Other revenue/income	89	84	152	80	76	141	150	93
Other excep. items (restructuring, asset sales etc)	-	-	-	-	-	-	-	-
Profit before tax	673	645	702	705	685	658	766	773
Tax	142	138	150	151	148	142	165	167
Tax rate (%)	21.0	21.3	21.4	21.4	21.6	21.5	21.6	21.6
Profit after tax	532	507	552	554	538	517	601	606
Less: minority interest in income	-	-	-	-	-	-	-	-
Add/(less) - Share in the profit/(loss) of associates	-	-	-	-	-	-	-	-
Profit/(loss) from discontinued ops	-	-	-	-	-	-	-	-
PAT attributable to consolidated group	532	507	552	554	538	517	601	606
Adjusted PAT for the group	532	507	552	554	538	517	601	606
Growth (%)								
Net sales	(3.6)	3.8	5.6	5.0	9.5	1.0	12.5	11.1
EBITDA	(15.3)	(13.0)	(6.7)	(1.8)	5.2	(7.4)	11.1	8.7
Adj. PAT	(16.8)	(21.9)	(4.5)	5.2	1.1	1.9	8.9	9.4
Margin (%)								
Gross margin (%)	65.0	66.9	67.4	66.2	65.6	66.2	66.3	65.2
EBITDA	30.4	28.4	28.9	30.2	29.2	26.0	28.6	29.5
EBIT	29.8	27.7	28.0	29.3	28.5	25.3	27.8	28.8
PAT (reported bef minority interest)	27.1	24.9	28.0	25.8	25.0	25.1	27.1	25.4
Key drivers								
Volume growth (%)	(7.8)	5.1	5.2	5.9	8.7	(2.8)	7.0	5.5

Source: Company, Centrum Research estimates

P&L					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Revenues	7,945	8,078	8,901	10,238	11,812
Materials cost	2,691	2,695	3,035	3,375	3,891
% of revenues	33.9	33.4	34.1	33.0	32.9
Employee cost	614	771	972	1,075	1,234
% of revenues	7.7	9.5	10.9	10.5	10.5
Other expenses	2,025	2,267	2,434	2,691	3,072
% of revenues	25.5	28.1	27.4	26.3	26.0
EBITDA	2,615	2,345	2,460	3,067	3,580
EBITDA margin (%)	32.9	29.0	27.6	30.3	30.6
Depreciation & amortisation	53	74	71	71	78
EBIT	2,562	2,272	2,389	3,027	3,537
Interest expenses	10	12	12	10	9
PBT from operations	2,552	2,259	2,377	3,017	3,529
Other income	414	438	454	685	795
Exceptional items					
PBT	2,966	2,698	2,831	3,702	4,324
Taxes	600	587	616	807	943
Effective tax rate (%)	20.2	21.7	21.7	21.8	21.8
PAT	2,366	2,111	2,216	2,895	3,381
Minority/associates	-	-	-	-	-
Extraordinary items	-	-	-	-	-
Reported PAT	2,366	2,111	2,216	2,895	3,381
Adjusted PAT	2,366	2,111	2,216	2,895	3,381

Ratios					
YE March	FY17	FY18	FY19	FY20E	FY21E
Growth (%)					
Revenue	(0.4)	1.7	10.2	14.5	15.4
EBITDA	(3.7)	(10.3)	4.9	25.9	16.7
Adjusted PAT	(2.8)	(10.8)	5.0	30.6	16.8
Margin (%)					
Gross	66.1	66.6	65.9	67.0	67.1
EBITDA	32.9	29.0	27.6	30.3	30.6
Adjusted PAT	29.8	26.1	24.9	28.3	28.6
Return (%)					
RoE	44.6	42.8	46.0	56.9	61.1
RoCE	48.6	42.9	46.3	57.0	61.2
RoIC	149.6	133.6	117.9	130.8	147.7
Turnover (days)					
Gross block turnover ratio (x)	0.2	0.2	0.2	0.1	0.1
Debtors	20	21	15	15	15
Inventory	13	15	25	25	25
Creditors	18	31	30	30	30
Per share (Rs)					
Adjusted EPS	16.0	14.3	15.0	19.6	22.9
BVPS	33.5	33.4	31.7	35.9	39.5
CEPS	16.4	14.8	15.5	20.1	23.5
DPS	11.5	12.0	14.0	15.0	16.0
Dividend payout (%)	78.1	83.8	93.5	76.4	69.8
Valuation (x)					
P/E (adjusted)	24.1	30.1	22.4	17.1	14.7
PEG	(8.6)	(2.8)	4.5	0.6	0.9
P/CEPS	25.6	29.0	21.7	16.7	14.3
P/BV	11.5	12.9	12.5	13.3	11.3
EV/EBITDA	20.4	25.7	19.1	14.9	12.6
Dividend yield (%)	3.0	2.8	4.2	4.5	4.8
EV/sales	6.7	7.5	5.3	4.5	3.9

Source: Company, Centrum Research estimates

Balance Sheet					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Equity share capital	148	148	148	148	148
Reserves & surplus	4,794	4,777	4,526	5,269	5,963
Shareholders' fund	4,942	4,925	4,674	5,416	6,110
Total debt (incl. pref shares)	-	-	-	-	-
Def tax liab. (net)	8	7	2	7	7
Minority interest	-	-	-	-	-
Total liabilities	4,950	4,932	4,675	5,424	6,118
Gross block	2,696	1,326	1,356	1,473	1,650
Less: acc. depreciation	1,510	171	242	308	386
Net block	1,186	1,155	1,114	1,165	1,264
Capital WIP	0	149	225	149	149
Net fixed assets	1,186	1,304	1,339	1,313	1,413
Investments	3,815	3,504	2,939	3,504	3,504
Inventories	425	466	609	579	660
Sundry debtors	274	324	374	192	214
Cash	124	134	143	586	1,174
Loans & advances	14	26	35	27	27
Other current assets	56.61	317.20	612.19	399.99	461.44
Total current asset	894	1,268	1,774	1,784	2,537
Trade payables	403	681	723	661	770
Other current Liab.	541	460	647	514	562
Provisions	2	2	6	3	3
Net current assets	(52)	125	398	606	1,201
Total assets	4,950	4,932	4,675	5,424	6,118

Cash Flows					
YE March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Op profit bef WC changes	2,634	2,537	2,460	2,712	3,166
Trade and other receivables	40	(363)	(486)	(137)	(164)
Trade and other payables	30	221	100	142	173
Net change – WC	71	(143)	(385)	6	9
Direct taxes	(585)	(593)	(616)	(828)	(968)
Net cash from operations	2,120	1,801	1,744	2,717	3,175
Capital expenditure	(359)	(181)	(106)	(102)	(177)
Acquisitions, net	-	-	-	-	-
Others	206	549	735	383	446
Net cash from investing	(153)	368	629	280	269
FCF	1761	1620	1638	2615	2997
Issue of share capital	-	-	-	-	-
Increase/(decrease) in debt	50	(15)	115	(15)	(15)
Dividend paid	(2,042)	(2,130)	(2,485)	(2,663)	(2,840)
Net cash from financing	(2,000)	(2,155)	(2,364)	(2,678)	(2,856)
Net change in cash	(33)	13	10	320	588

Source: Company, Centrum Research estimates

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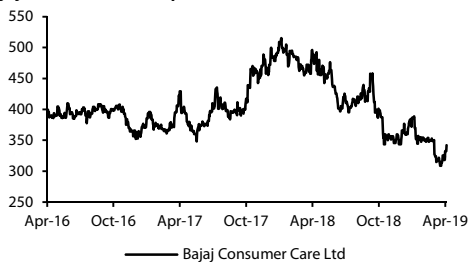
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Bajaj Consumer Care price chart



Source: Bloomberg

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SEBI REGN NO.: INP000004383

Research Analyst
 SEBI Registration No. INH000001469

Mutual Fund Distributor
 AMFI REGN No. ARN- 147569

Website: www.centrum.co.in

Investor Grievance Email ID: investor.grievances@centrum.co.in

Compliance Officer Details:

Ashok D Kadambi
 (022) 4215 9937; Email ID: compliance@centrum.co.in

Centrum Broking Ltd. (CIN :U67120MH1994PLC078125)**Registered Office Address**

Bombay Mutual Building ,
 2nd Floor, Dr. D. N. Road,
 Fort, Mumbai - 400 001

Corporate Office & Correspondence Address

Centrum House
 6th Floor, CST Road, Near Vidya Nagari Marg, Kalina, Santacruz (E),
 Mumbai 400 098.
 Tel: (022) 4215 9000 Fax: +91 22 4215 9344