

ONE YEAR OUTLOOK

BUSINESS & EARNINGS ▼

- Bajaj Corp (BJCOR) having pre-invested into people, process and systems over the past couple of years is all set to embark on its journey towards transforming into a full-fledged FMCG company in the medium term. With an ambitious target of launching one new product every quarter over the medium term, we believe this is the most spirited plan/effort from BJCOR in its listed history to dismiss the 'single brand' risk in its business model that has been long associated with the company. We acknowledge that the success rate of FMCG product launches in general has been low, but note that this is certainly a move in the right direction, warranting us to maintain our positive stance on BJCOR.
- Despite several internal measures, we acknowledge near-term volume recovery is hinged on recovery in rural offtakes. Rural spending that has been subdued over the past few years is expected to bounce back in medium term led by multiple rural fiscal stimuli from the government of India. Green shoots of rural consumption demand recovery visible in the current quarters performance.
- Prices of Light Liquid Paraffin continue to be on the uptrend on a y-o-y basis which has led to BJCOR undertaking ~3% weighted average price increase in the ADHO brand. Refined oil prices to remain stable.

VALUATION MULTIPLES ◀▶

- We are valuing BJCOR at ~30x of FY20E EPS to arrive at our TP of Rs.586. We have retained our multiples but have adjusted our earnings estimates lower by ~4% as we have slightly moderated our ADHO volume growth assumptions
- Cash rich balance sheet (~3.5bn cash in hand), ~3% FCF yield and ~2.5% dividend yield provides for medium-term valuation insurance

FINANCIAL SUMMARY

Year	NET SALES (Rs. mn)	EBITDA MARGIN	PAT	EPS	P/E	EV/ EBITDA	ROE (%)
FY18E	8,312	31.1%	2,163	14.7	32.4	25.9	42.9%
FY19E	9,413	31.0%	2,485	16.8	28.2	22.8	47.9%
FY20E	10,819	31.6%	2,843	19.3	24.6	19.4	51.7%

THREE YEAR OUTLOOK

BUSINESS & EARNINGS ▼

- The base underlying growth driver of premiumization should lead to consumers upgrading from Coconut Hair Oil to Light Hair Oil (LHO). The premiumization trend in the past 18 months, however, did not benefit the LHO category as consumption spending weakness in rural India has led to categories such as Amla based Hair Oil gaining significance. With the expected spending uptick around the corner, we believe LHO volumes should begin to regain its traction over the long term.
- Despite the market weakness and several new entrants into the LHO segment, ADHO remains the market leader in LHO segment sustaining its market share, which we believe makes the brand well poised to benefit in the turnaround.
- Focus to expand direct distribution reach, improvement in efficiencies of field sales force, the turnaround in NoMarks operations, heightened brand investments, exciting new product launches, traction in the international markets & inorganic growth levers should ensure long-term growth stability.
- FY18-22 revenues and earnings are estimated to increase at a CAGR of ~15% and 14% respectively led by volume growth recovery and new launches.

VALUATION MULTIPLES ◀▶

- BJCOR could deliver ~73% returns in 3 years assuming an exit multiple of 30x in FY22E EPS. Assigning a ~32x EV/OCF exit multiple, we believe BJCOR can deliver similar returns from a cash flow perspective. Multiples could further expand to industry levels if the single brand risk is mitigated through the new launches over the long term

KEY ESTIMATES REVISION

	FY19E			FY20E		
	Old	New	Change	Old	New	Change
SALES	9,711	9,413	-3%	11,171	10,819	-3%
EBITDA %	31.1%	31.0%	-6bps	32.7%	31.6%	-107bps
PAT	2,578	2,485	-4%	2,944	2,843	-3%
EPS	17.5	16.8	-4%	20.0	19.3	-3%

All figures in Rs. mn

OUTLOOK REVIEW 4QFY18 27 April 2018

Industry	CONSUMER
CMP	Rs. 475
Target Price	Rs. 586
Key Stock Data	
Bloomberg	BJCOR IN
Shares o/s	148mn
Market Cap	Rs. 70bn
52-wk High-Low	Rs. 525-341
3m ADV	Rs. 53mn
Index	BSE 500

	Sep'17	Dec'17	Mar'18
Promoters	66.8%	66.8%	66.8%
Institutions	29.1%	29.4%	29.6%
Public	4.1%	3.8%	3.4%
Pledge	33.5%	37.2%	37.2%

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Quarterly Financial Statement

STANDALONE FINANCIAL RESULTS

Rs. mn\Period	4QFY18	4QFY17	yoy Growth	3QFY18	qoq Growth	FY17	FY18	yoy Growth
Income From Ops	2,216	2,045	8%	2,081	7%	7,925	8,312	5%
Raw materials	725	670	8%	644	13%	2,679	2,731	2%
Gross Profit	1,491	1,376	8%	1,437	4%	5,246	5,581	6%
Gross Margin (%)	67.3%	67.3%	1bps	69.0%	-178bps	66.2%	67.1%	95bps
Employee cost	199	152	31%	193	4%	594	755	27%
Other expenditure	573	561	2%	566	1%	1,996	2,240	12%
Total Operating Cost	1,498	1,383	8%	1,402	7%	5,269	5,726	9%
EBITDA	718	662	8%	678	6%	2656	2586	-3%
EBITDA margins	32.4%	32.4%	4bps	33%	-20bps	33.5%	31%	-240bps
Depreciation	18	14	31%	19	-4%	48	69	44%
Other income	9	23	-63%	45	-81%	393	243	-38%
EBIT	691	625	11%	615	12%	2,215	2,275	3%
Interest	4	3	42%	3	36%	9	12	24%
PBT	688	622	10%	612	12%	2,206	2,263	3%
Tax	151	142	6%	150	0%	599	587	-2%
Effective tax rate	21.4%	21.2%	12bps	21%	0bps	21.3%	21%	2bps
PAT	554	527	5%	552	0%	2,210	2,163	-2%
Adjusted PAT	554	527	5%	552	0%	2,354	2,163	-8%
PAT margin	25.0%	25.7%	-74bps	27%	-151bps	29.7%	26%	-369bps
Adj. EPS (Rs.)	3.76	3.57	5%	3.74	0%	15.96	14.66	-8%

- Revenue from general trade increased ~5.4% and revenues from Modern Trade increased ~18.1%. Revenue from CSD channel increased ~5.6% while international revenues declined ~33%.
- Comparable value growth increased ~11.6% in the domestic business.
- Volumes in flagship Almond Drop Hair Oil segment increased ~6.9% while volumes of Nomarks declined ~33% y-o-y.
- We note that LLP prices were up ~36% while Refined Oil prices were higher by ~4.7%.
- Cash and Cash equivalents in March 2018 were Rs. 3.2bn Vs Rs.3.5bn in March 2017. Current borrowings in March 2018 were ~134mn Vs 150mn in March 2017.
- We note that A&P expenses increased ~7% y-o-y and constituted ~13% of sales.

Financial Summary

Abridged Financial Statements									
Rs. Mn	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Profit & Loss									
Revenue	6,067	6,717	8,213	7,959	7,925	8,312	9,413	10,819	12,444
Gross profit	3,490	4,030	5,059	4,987	5,246	5,581	6,171	7,098	8,163
EBITDA	1,728	1,867	2,391	2,744	2,656	2,586	2,922	3,423	3,951
Depreciation/ Amortization	33	37	42	43	48	69	72	84	96
EBIT	1,695	1,830	2,348	2,701	2,608	2,518	2,850	3,338	3,854
Other Income	401	401	316	288	394	244	320	357	387
Interest expense	1	59	1	2	9	12	10	10	10
Exceptional items	0	-286	-470	-470	-184	0	0	0	0
PBT	2,095	1,886	2,193	2,517	2,809	2,750	3,159	3,685	4,231
Reported PAT (after minority interest)	1,674	1,733	2,104	2,349	2,354	2,163	2,485	2,843	3,201
Adj PAT	1,674	1,733	2,104	2,349	2,354	2,163	2,485	2,843	3,201
EPS (Rs.)	11.35	11.75	14.27	15.93	15.96	14.66	16.85	19.27	21.70
Balance Sheet									
Net Worth	4,838	5,221	4,920	4,858	5,018	5,054	5,317	5,672	6,208
Deferred Tax	13	0	0	1	0	0	0	0	0
Total debt	0	0	0	100	150	135	135	135	135
Other liabilities and provisions	0	0	0	0	0	0	0	0	0
Total Networkth and liabilities	4,851	5,221	4,920	4,959	5,168	5,188	5,452	5,807	6,343
Gross Fixed assets	529	597	449	511	620	664	784	904	1,024
Net fixed assets	444	476	449	470	534	510	558	593	617
Capital work-in-progress	13	7	7	0	0	59	0	0	0
Intangible Assets	1	1,126	655	186	4	2	2	2	2
Investments	1,832	1,568	1,858	2,751	3,385	3,072	3,072	3,072	2,972
Cash and bank balances	1,890	1,290	1,385	544	97	126	497	798	1,389
Loans & advances and other assets	788	801	548	956	1,180	1,271	1,271	1,271	1,271
Net working capital	-118	-47	26	53	-33	148	52	70	92
Total assets	4,851	5,221	4,928	4,959	5,168	5,188	5,452	5,807	6,343
Capital Employed	4,838	5,221	4,920	4,958	5,168	5,188	5,452	5,807	6,342
Invested Capital (CE - cash - CWIP)	1,103	2,356	1,670	1,664	1,685	1,932	1,883	1,937	1,982
Net debt	-3,722	-2,858	-3,243	-3,194	-3,333	-3,063	-3,434	-3,735	-4,226
Cash Flows									
Cash flows from Operations (Pre-tax)	1,656	1,669	2,533	2,450	2,713	2,409	3,018	3,404	3,930
Cash flows from Operations (post-tax)	1,232	1,277	2,074	1,918	2,126	1,822	2,343	2,562	2,899
Capex	108	66	7	74	111	101	61	120	120
Free cashflows	1,124	1,211	2,067	1,845	2,016	1,720	2,282	2,442	2,779
Free cashflows (post interest costs)	1,124	1,211	2,067	1,846	2,024	1,732	2,292	2,452	2,789
Cash flows from Investing	-103	20	-204	17	-117	365	258	237	367
Cash flows from Financing	-1,114	-1,122	-2,035	-1,943	-2,000	-2,157	-2,231	-2,498	-2,676
Total cash & liquid investments	3,722	2,858	3,243	3,294	3,483	3,198	3,569	3,870	4,360

Financial Summary

	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E	FY21E
Growth ratios									
Revenue	28.2%	10.7%	22.3%	-3.1%	-0.4%	4.9%	13.2%	14.9%	15.0%
EBITDA	48.2%	8.0%	28.1%	14.8%	-3.2%	-2.6%	13.0%	17.1%	15.4%
Adj PAT	39.4%	3.5%	21.5%	11.6%	0.2%	-8.1%	14.9%	14.4%	12.6%
Margin ratios									
Gross	57.5%	60.0%	61.6%	62.7%	66.2%	67.1%	65.6%	65.6%	65.6%
EBITDA	28.5%	27.8%	29.1%	34.5%	33.5%	31.1%	31.0%	31.6%	31.7%
Adj PAT	27.6%	25.8%	25.6%	29.5%	29.7%	26.0%	26.4%	26.3%	25.7%
Performance ratios									
Pre-tax OCF/EBITDA	96%	89%	106%	89%	102%	93%	103%	99%	99%
OCF/IC (%)	112%	54%	124%	115%	126%	94%	124%	132%	146%
RoE (%)	37%	34%	42%	48%	48%	43%	48%	52%	54%
RoCE (%)	37%	35%	42%	48%	47%	42%	47%	51%	53%
RoCE (Pre-tax)	43%	43%	54%	60%	58%	53%	58%	64%	67%
RoIC (Pre-tax)	154%	78%	141%	162%	155%	130%	151%	172%	194%
Fixed asset turnover (x)	11.47	11.25	18.30	15.56	12.79	12.52	12.01	11.97	12.15
Total asset turnover (x)	1.25	1.29	1.67	1.60	1.53	1.60	1.73	1.86	1.96
Financial stability ratios									
Net Debt to Equity (x)	-0.8	-0.5	-0.7	-0.7	-0.7	-0.6	-0.6	-0.7	-0.7
Net Debt to EBITDA (x)	-2.2	-1.5	-1.4	-1.2	-1.3	-1.2	-1.2	-1.1	-1.1
Interest cover (x)	1,501.9	21.7	2,082.5	917.5	228.6	157.0	234.3	256.2	289.9
Inventory days	22	21	17	23	20	19	20	20	20
Working capital days	-2	4	0	14	13	10	5	5	5
Valuation metrics									
Fully Diluted Shares (mn)	148	148	148	148	148	148	148	148	148
Market cap (Rs.mn)	70,063	70,063	70,063	70,063	70,063	70,063	70,063	70,063	70,063
P/E (x)	41.9	40.4	33.3	29.8	29.8	32.4	28.2	24.6	21.9
P/OCF(x)	57	55	34	37	33	38	30	27	24
EV (Rs.mn) (ex-CWIP)	66,327	67,197	66,812	66,868	66,729	66,941	66,629	66,328	65,837
EV/ EBITDA (x)	38	36	28	24	25	25.9	22.8	19.4	16.7
EV/ OCF(x)	54	53	32	35	31	36.7	28.4	25.9	22.7
FCF Yield						2.5%	3.3%	3.5%	4.0%
Price to BV (x)	14	13	14	14	14	13.9	13.2	12.4	11.3
Dividend pay-out (%) (Includes Dividend Tax outgo)	66.6%	74.6%	117.4%	103.1%	92.4%	98.6%	89.4%	87.5%	83.3%
Dividend yield (%)	1.4%	1.4%	2.4%	2.4%	2.4%	2.5%	2.6%	2.9%	3.2%

Crystal Ball Gazing

Bajaj Corp revenues are likely to grow at a ~15% CAGR over the next three years, supported by volume growth uptick in ADHO brand and traction in new product launches. Operating leverage to accrue over the 3 years. Higher incidence of effective tax to impact overall profitability. Earnings are anticipated to increase at a ~14% CAGR over the next three years. Assuming multiples to re-rate as volume growth resurfaces.

Revenue growth of 15% to be aided by New product launches

Stable working capital and capital Efficiency

Strong rerating triggers as volume growth resurfaces

Revenue growth that was subdued over the past three years is finally poised for a turnaround



Capital Efficiency should be maintained at current levels, Valuation multiple anticipated to re-rate



Given the wide discount in comparison to its peers, resumption in volume growth can lead to valuation multiple rerating upwards.

	FY05-FY11	FY11-FY14	FY14-FY18	FY18-FY22E
Revenues CAGR	28.2%	23.2%	5.5%	14.6%
Gross Margin	55.5%	57.0%	64.4%	65.6%
EBITDA CAGR	45.3%	19.7%	8.5%	15.4%
EBITDA margin	29.0%	27.0%	32.1%	31.6%
EPS CAGR	45.6%	20.4%	5.7%	14.4%
Total Asset Turnover (x)	5.90	1.21	1.60	1.88
Total WC days	-16	-3	9	5
Pre-tax OCF/EBITDA (%)	110.1%	96.2%	97.6%	100.4%
Post Tax OCF as a % of IC	NA	89.4%	115.0%	142.4%
Debt/EBITDA	-0.89	-0.70	-0.65	-0.67

	FY05-FY11	FY11-FY14	FY14-FY18	FY18-FY22E
RoE (%)	117.0%	33.7%	45.0%	52.4%
RoCE (%)	116.9%	33.9%	44.4%	51.3%
RoIC (%)	NA	120.6%	129.7%	156.0%
Average 1 yr fwd				
PE (x)	13.1	15.6	22.3	
EV/EBITDA (x)	10.4	12.8	18.0	
Peak 1 yr fwd				
PE (x)	17.4	21.0	29.9	
EV/EBITDA (x)	14.1	18.0	23.7	

P/E multiple	FY22E EPS (Rs.)	Price target
28x	25.1	Rs.714
30x	25.1	Rs.764

Entry = Rs.475 @ 25x FY20E EPS



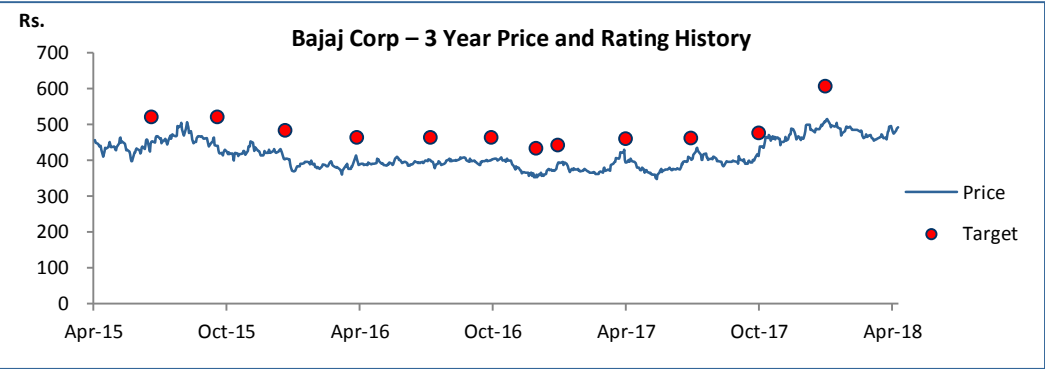
Cumulative Dividends of Rs.57.5/share



PAT CAGR of ~14%, exit multiple of 30x on FY22E EPS



Spark Recommendation History



Absolute Rating Interpretation	
BUY	Stock expected to provide positive returns of >15% over a 1-year horizon
ADD	Stock expected to provide positive returns of >5% – <15% over a 1-year horizon
REDUCE	Stock expected to provide returns of <5% – -10% over a 1-year horizon
SELL	Stock expected to fall >10% over a 1-year horizon
Symbol Interpretation	
◀▶ No Change ▼ Downgrade ▲ Upgrade	

Report Date	Price	Target	Reco.
15/Jan/18	506	607	Buy
16/Oct/17	415	477	Buy
14/Jul/17	406	462	Buy
18/Apr/17	400	461	Buy
16/Jan/17	386	443	Buy
15/Dec/16	358	434	Buy
17/Oct/16	400	465	Buy
27/Jul/16	402	465	Buy
13/Apr/16	404	465	Buy
11/Jan/16	402	484	Buy
09/Oct/15	440	522	Buy
13/Jul/15	446	522	Buy
10/Apr/15	474	542	Buy
12/Jan/15	415	472	Buy

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