JM FINANCIAL

Bajaj Corp. | BUY

Good quarter; volume trajectory now looking up

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Bajaj Corp reported a better than expected 1QFY19 earnings buoyed by a much stronger than expected acceleration in volume growth of its flagship Bajaj Almond Drops (BAD) to 11.2% - this is the highest seen in the last 13 quarters, albeit on an easy base (volumes fell 6.6% in 1Q last year due to GST-transition related downstocking by the trade). Domestic volume growth was even stronger at 13.9% and more importantly, retail-level offtakes, which are free of base and destocking-related issues, also grew 10.2% during the quarter. Management is, after quite a long time, sounding reasonably bullish about the business' trajectory, and understandably so, in our view. The company's plan to nearly-double its direct retail reach (targeting to cover 540k outlets directly by end-Mar'19 vs 280k at Mar'18) should also help in this regard. We expect the stock to do well on the back of this result - business momentum is finally looking up and valuation remains extremely reasonable with the stock trading at 55% discount to the sector ex-ITC's PER.

- **Rural demand recovery and efforts on improving distribution helps drive double-digit domestic volume growth:** Bajaj Corp's 1QFY19 reported revenue and EBITDA grew 12.1% and 14% to INR2.2bn and INR691mn respectively while net profit declined 2.2% to INR538mn. Operating performance was 6% ahead of estimates. The company's domestic volume growth accelerated to 13.9% (vs 7-8% witnessed over past 6M) while overall volume growth was much lower at 8.7% impacted by a sharp decline in International business which is undergoing a complete operational and distribution revamp (revenue fell 94%). Volumes for its flagship brand BAD grew 11.2% (highest seen in the past 13 quarters) and outpaced the growth in Light Hair Oil market (+6.7%). Interestingly, its retail-level offtakes have also grown 10.5% which is a rather sharp improvement compared to 3-7% growth seen in the past nine months. As per management, the improvement in volume trajectory has been aided by signs of recovery in rural demand (outpaced urban growth and is expected to further strengthen), continued normalization of wholesale channel and efforts on enhancing direct reach. This is also appropriately reflected in market shares as BAD gained a further 50bps value market share in 1Q (stood at 61.8% for MAT Jun'18) helped by rural demand recovery. The strategy to improve traction in Nomarks played out well with the brand reporting 41% growth in revenues (from a lower base though).

- **GPM expanded 145bps aided by price hikes and cost efficiencies; Higher A&P spends impacted flow through:** Gross margin expanded 145bps despite sharp inflation in Light Liquid Paraffin prices (c.31% of COGS – prices were 20% higher YoY) aided by price hikes, smart RM sourcing strategies and internal efforts to drive cost efficiencies. However, EBITDA margin expansion was lower at 51bps as flow through was partially negated by increase in investments behind A&P spends (+21.3%) and staff cost inflation (+30.8%). Adjusted net profit declined 2% though, on 89.4% decline in net financial income (impacted by M2M losses due to interest rate volatility).

Recommendation and Price Target	
Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	495
Upside/(Downside)	20.7%
Previous Price Target	510
Change	-2.9%

Key Data – BJCOR IN	
Current Market Price	INR410
Market cap (bn)	INR60.5/US$0.9
Free Float	33%
Shares in issue (mn)	147.5
Diluted share (mn)	147.5
3-mon avg daily val (mn)	INR25.8/US$0.4
52-week range	525/381
Sensex/Nifty	36,542/11,019
INR/US$	68.5

Price Performance			
%	1M	6M	12M
Absolute	-5.6	-19.1	1.2
Relative*	-7.7	-23.4	-11.3

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Sales	7,948	8,091	9,262	10,687	12,293
Sales growth (%)	0%	2%	14%	15%	15%
EBITDA	2,636	2,539	2,875	3,418	3,969
EBITDA (%)	33%	31%	31%	32%	32%
Adjusted net profit	2,327	2,111	2,360	2,812	3,201
EPS (INR)	15.8	14.3	16.0	19.1	21.7
EPS growth (%)	0%	-9%	12%	19%	14%
ROIC (%)	129%	112%	115%	130%	0%
ROE (%)	48%	43%	46%	51%	0%
PE (x)	26.0	28.6	25.6	21.5	18.9
Price/Book Value (x)	12.2	12.3	11.5	10.4	9.3
EV/EBITDA (x)	21.7	22.6	19.9	16.6	0.0
Dividend Yield (%)	3%	3%	3%	3%	0%

Source: Company data, JM Financial. Note: Valuations as of 13/Jul/2018

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

Exhibit 1. 1QFY19 results snapshot (INR mn)

	1QFY19	1QFY18	YoY %	1QFY19E	% var
Net Sales	2,150	1,964	9.5%	2,180	-1.4%
Other Operating Income	64	10	526.7%	0	
Revenue	**2,214**	**1,974**	**12.1%**	**2,180**	**1.5%**
COGS	739	688	7.5%	780	-5.3%
Gross Profit	**1,475**	**1,286**	**14.6%**	**1,400**	**5.3%**
Gross Profit Margin %	66.6%	65.2%	145 bps	64.2%	240 bps
Staff Cost	221	169	30.8%	207	6.6%
Advertisement	291	240	21.3%	264	10.2%
Other Expenses	272	271	0.1%	279	-2.6%
EBITDA	691	606	14.0%	650	6.4%
EBITDA margin %	31.2%	30.7%	51 bps	29.8%	141 bps
Depreciation	15	15	-3.1%	19	-19.3%
EBIT	676	591	14.4%	631	7.1%
Interest Expense	3	3		4	
Financial Other Income	12	111	-89.4%	76	-84.7%
PBT pre-exceptional	**685**	**699**	**-1.9%**	**704**	**-2.6%**
PBT post exceptional	685	699	-1.9%	704	-2.6%
Taxes	148	149	-1.0%	150	-1.5%
Net Profit	538	550	-2.2%	554	-2.9%

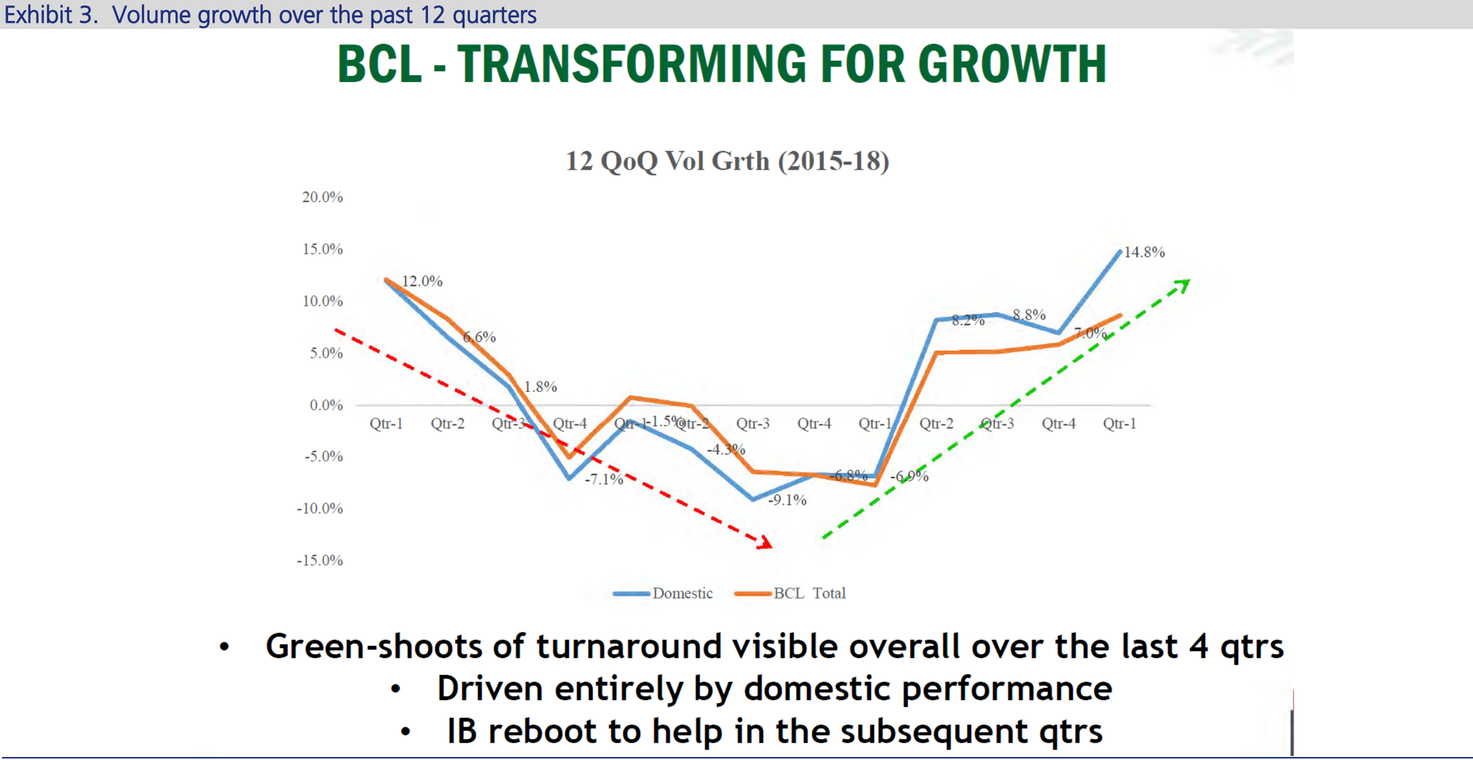
Source: Company, JM Financial

Exhibit 2. Costs breakdown (%)

% of revenue	1QFY19	1QFY18	1QFY19E
Cost of Goods Sold	33.4%	34.8%	35.8%
Staff Cost	10.0%	8.5%	9.5%
Advertisement	13.1%	12.1%	0.0%
Other Expenses	12.3%	13.7%	24.9%

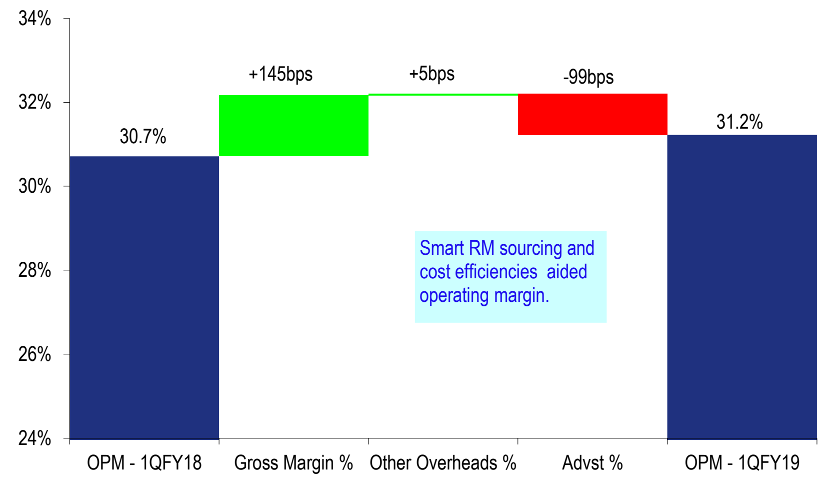
Source: Company, JM Financial

Exhibit 3. Volume growth over the past 12 quarters



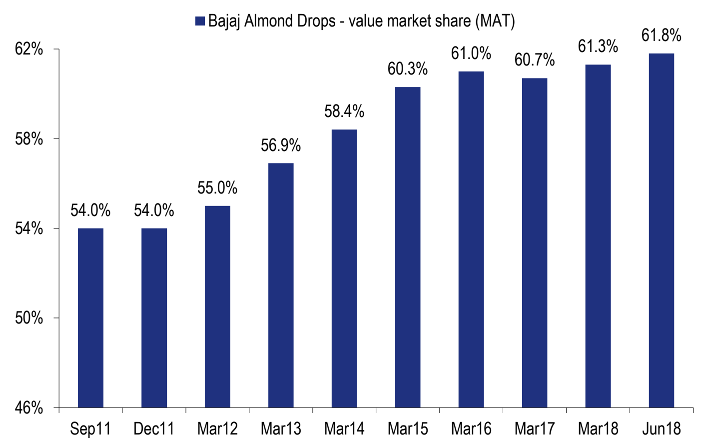
Source: Company, JM Financial

Exhibit 4. 1QFY19 Operating Margin Movement



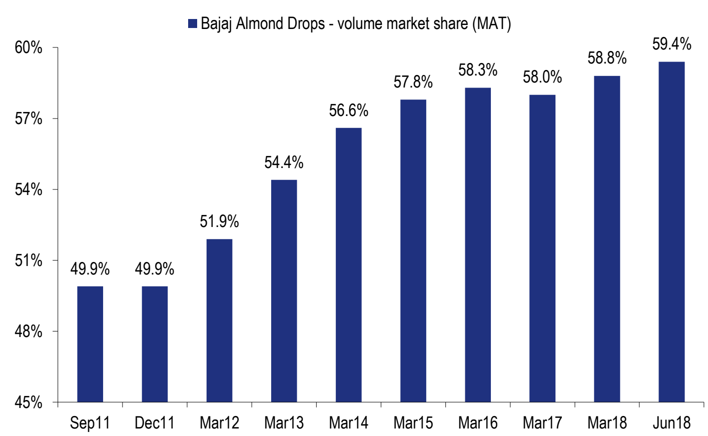
Source: Company, JM Financial

Exhibit 5. Value market share trend



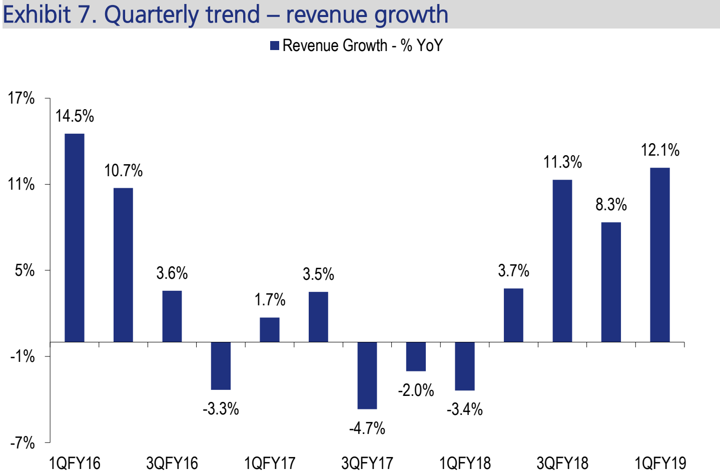
Source: Company, JM Financial

Exhibit 6. Volume market share trend



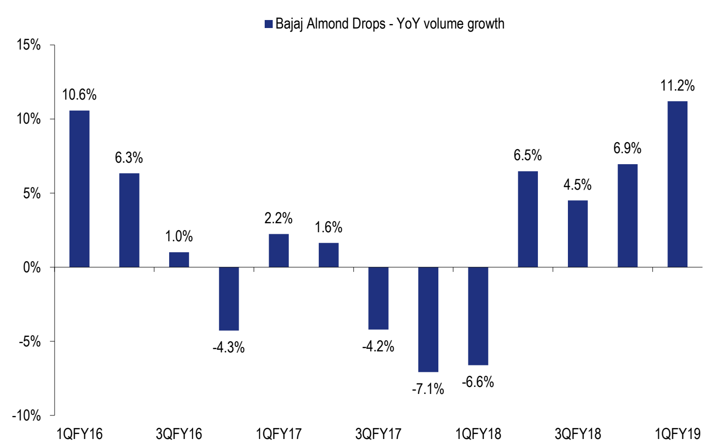
Source: Company, JM Financial

Exhibit 7. Quarterly trend – revenue growth



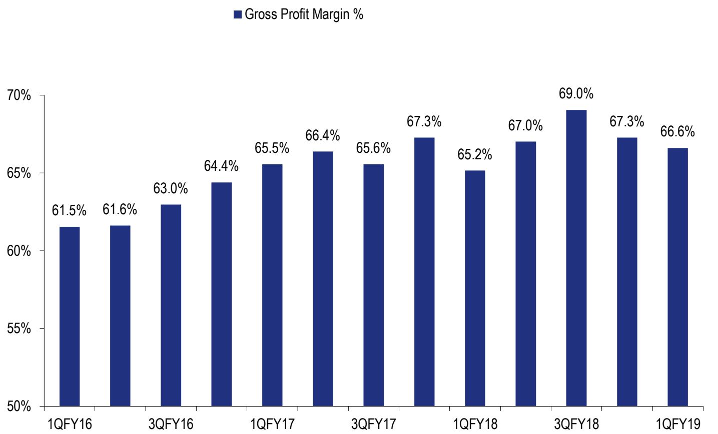
Source: Company, JM Financial

Exhibit 8. Quarterly volume growth trend



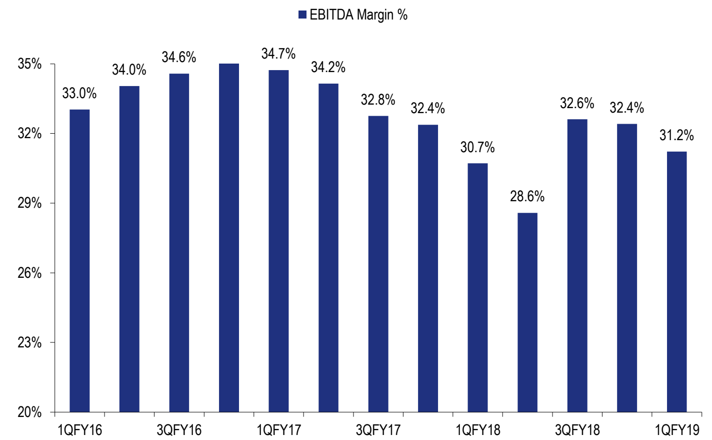
Source: Company, JM Financial

Exhibit 9. Gross margin trend



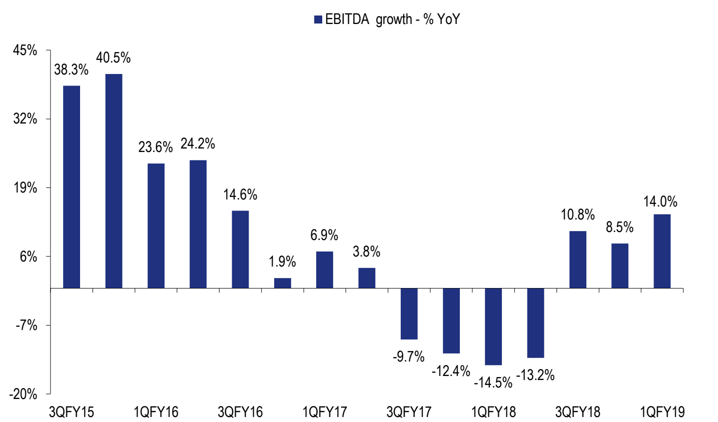
Source: Company, JM Financial

Exhibit 10. EBITDA margin trend



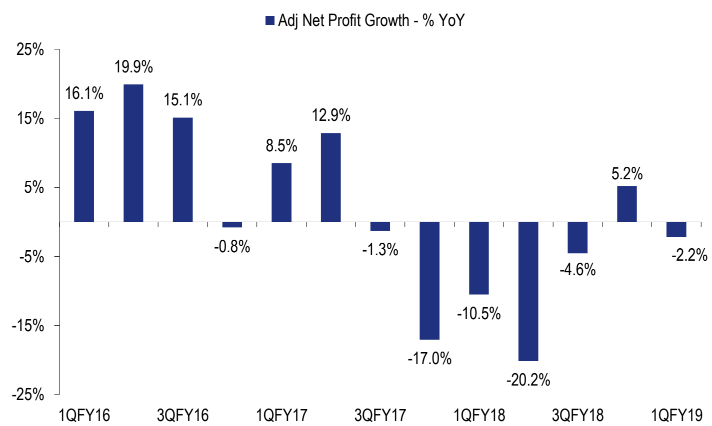
Source: Company, JM Financial

Exhibit 11. EBITDA growth trend



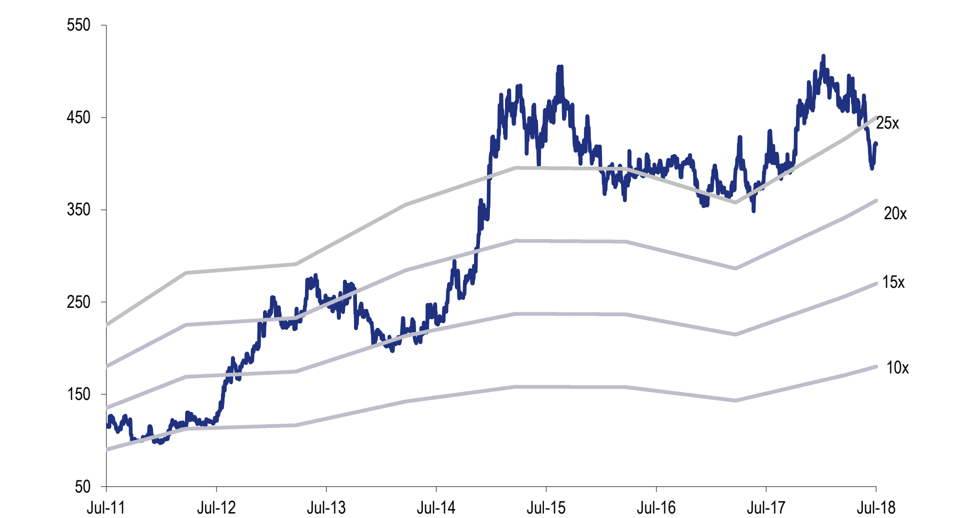
Source: Company, JM Financial

Exhibit 12. Adjusted net profit growth trend



Source: Company, JM Financial

Exhibit 13. Bajaj Corp – one year forward PE band



Source: Company, JM Financial

Financial Tables (Consolidated)

Profit & Loss Statement					(INRmn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net sales	**7,948**	**8,091**	**9,262**	**10,687**	**12,293**
Growth (%)	0%	2%	14%	15%	15%
Other operational income	20	194	222	256	294
Total Revenue	**7,969**	**8,285**	**9,483**	**10,943**	**12,587**
Cost of Goods Sold / Op. Exp	2,691	2,695	3,178	3,627	4,169
Personnel cost	614	771	903	1,029	1,174
Other expenses (SG&A)	2,028	2,280	2,528	2,869	3,275
EBITDA	**2,636**	**2,539**	**2,875**	**3,418**	**3,969**
EBITDA Margin	33.1%	30.6%	30.3%	31.2%	31.5%
EBITDA Growth	-3.7%	-3.7%	13.2%	18.9%	16.1%
Depn & Amort	53	74	73	77	84
EBIT	2,583	2,465	2,801	3,340	3,884
Other income	394	244	216	276	311
Finance cost	10	12	12	12	12
PBT before Excep & Forex	2,966	2,698	3,006	3,604	4,183
Excep & Forex Inc/Loss(-)	-184	0	0	0	0
PBT	2,782	2,698	3,006	3,604	4,183
Taxes	600	587	646	793	983
Extraordinary Inc / Loss (-)	0	0	0	0	0
Assoc Profit/Min Interest (-)	0	0	0	0	0
Net profit	2,182	2,111	2,360	2,812	3,201
Adjusted net profit	**2,327**	**2,111**	**2,360**	**2,812**	**3,201**
Net Margin (%)	29.2	25.5	24.9	25.7	25.4
Diluted share capital (mn)	148	148	148	148	148
Diluted EPS (INR)	**15.8**	**14.3**	**16.0**	**19.1**	**21.7**
Diluted Growth (%)	-0.3	-9.3	11.8	19.2	13.8
Total Dividend + tax	2,042	2,130	2,006	2,249	2,561
Dividend Per Share (Rs)	11.5	12.0	10.7	12.0	13.6

Source: Company, JM Financial

Balance Sheet					(INRmn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Shareholders' fund	**4,942**	**4,925**	**5,279**	**5,841**	**6,481**
Share capital	148	148	148	148	148
Reserves & surplus	4,794	4,777	5,131	5,693	6,334
Preference Share Capital	0	0	0	0	0
Total loans	150	135	135	135	135
Minority Interest	0	0	0	0	0
Def tax assets / (-) liability	8	7	7	7	7
Sources of Funds	**5,100**	**5,067**	**5,421**	**5,983**	**6,623**
Net-Fixed Assets	1,616	1,734	1,810	1,883	2,048
Gross Fixed assets	1,940	1,980	2,130	2,280	2,530
Intangible Assets	430	430	430	430	430
Less: Dep / Amort.	755	825	898	975	1,060
CWIP	0	149	149	149	149
Investments	3,385	3,074	3,074	3,074	3,074
Current assets	896	1,268	1,632	2,273	2,927
Inventories	425	466	507	586	674
Sundry debtors	274	324	371	428	493
Cash & bank balance	123	134	376	843	1,304
Loans & advances	17	28	378	415	457
Other current assets	57	315	0	0	0
Current Liabilities & Prov	797	1,008	1,096	1,246	1,426
Current liabilities	783	999	1,086	1,237	1,417
Provisions and others	14	9	9	9	9
Net current assets	98	259	537	1,026	1,501
Application of Funds	**5,100**	**5,067**	**5,421**	**5,983**	**6,623**

Source: Company, JM Financial

Cash Flow Statement					(INRmn)
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Profit before tax	2,782	2,698	3,006	3,604	4,183
Deprn and Amortn	236	70	73	77	84
Net Interest Exp. /Inc	-384	-232	-204	-264	-299
Inc/dec in working cap.	71	-143	-35	-22	-14
Others	-1	1	0	0	0
Taxes Paid	-585	-593	-646	-793	-983
Net cash from operations (a)	**2,120**	**1,801**	**2,194**	**2,603**	**2,972**
Capex	-358	-181	-150	-150	-250
Free Cash Flow	1,762	1,620	2,044	2,453	2,722
Inc(-)/dec in investments	-78	272	0	0	0
Others	284	277	216	276	311
Cash flow used in invst (b)	**-152**	**368**	**66**	**126**	**61**
Inc/(dec) in capital	0	0	0	0	0
Dividend+Tax Thereon	-2,042	-2,130	-2,006	-2,249	-2,561
Inc/dec in loans	50	-15	0	0	0
Other assets	-9	-11	-12	-12	-12
Financial cash flow (c)	**-2,001**	**-2,157**	**-2,018**	**-2,261**	**-2,573**
Net inc/dec in cash (a+b+c)	-33	13	242	467	460
Opening cash balance (adjusted)	156	121	134	376	843
Closing cash balance	123	134	376	843	1,304

Source: Company, JM Financial

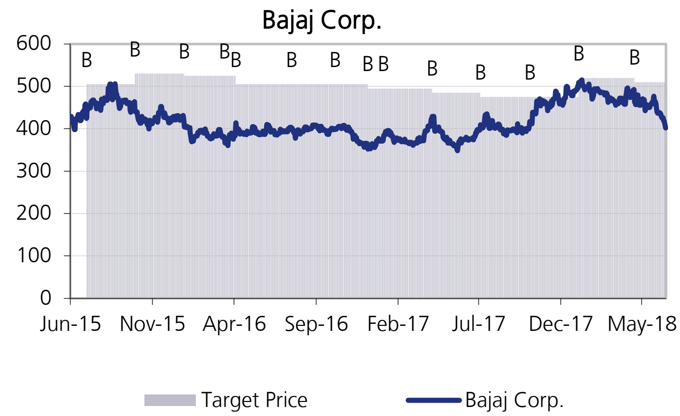
Dupont analysis					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
Net Margin	29.2%	25.5%	24.9%	25.7%	0.0%
Asset Turnover	1.6	1.6	1.8	1.9	0.0
Leverage Factor	1.0	1.0	1.0	1.0	0.0
RoE	47.7%	42.8%	46.3%	50.6%	0.0%
Key Ratios					
Y/E March	FY17A	FY18A	FY19E	FY20E	FY21E
BV/Share (Rs)	33.5	33.4	35.8	39.6	43.9
ROIC (%)	129.0%	112.3%	115.3%	129.6%	0.0%
ROE (%)	47.7%	42.8%	46.3%	50.6%	0.0%
Net Debt-equity ratio (x)	-0.7	-0.6	-0.6	-0.6	0.0
P/E (x)	26.0	28.6	25.6	21.5	18.9
P/B (x)	12.2	12.3	11.5	10.4	9.3
EV/EBITDA (x)	21.7	22.6	19.9	16.6	0.0
EV/Net Sales (x)	7.2	7.1	6.2	5.3	0.0
Debtor days	13	14	14	14	0
Inventory days	19	21	20	20	0
Creditor days	54	63	60	60	0

Source: Company, JM Financial

History of Earnings Estimate and Target Price

Date	Recommendation	Target Price	% Chg.
9-Jul-15	BUY	505	
7-Oct-15	BUY	530	5.0
7-Jan-16	BUY	525	-0.9
22-Mar-16	BUY	525	0.0
12-Apr-16	BUY	505	-3.8
25-Jul-16	BUY	505	0.0
14-Oct-16	BUY	505	0.0
14-Dec-16	BUY	495	-2.0
12-Jan-17	BUY	495	0.0
13-Apr-17	BUY	485	-2.0
12-Jul-17	BUY	475	-2.1
12-Oct-17	BUY	475	0.0
11-Jan-18	BUY	520	9.5
25-Apr-18	BUY	510	-1.9

Recommendation History



APPENDIX I

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(formerly known as JM Financial Securities Limited)

Corporate Identity Number: U67100MH2017PLC296081
Member of BSE Ltd., National Stock Exchange of India Ltd. and Metropolitan Stock Exchange of India Ltd.
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