

View: Hair oils continue to witness pressure. Downgrade to SELL

- BCCL's Q1FY21 results were ahead of our estimate. Revenue was better than our estimate due to inventory filling post lockdown and addition of sanitizer portfolio. ADHO volume fell 23.5% YoY.
- During Q1FY21, overall revenues declined by 18% YoY led by 18% /22% de-growth in general trade/MT respectively.
- GM contracted by 330bps primarily due to lower sales of premium ADHO (~23.5% decline) and higher sales of Amla oil. We believe that the ADHO sales would continue to remain under pressure until revival in economy.
- Going ahead, we believe that the BCCL's volumes and margins would remain under pressure due to anticipated down trading. Though Q1FY21 results were ahead of our anticipation, we have maintained our FY21E and FY22E EPS estimates to factor in extended lock down in select states and lower secondary sales in ADHO. We do not see significant recovery in premium hair oil category in near term. We value the stock at 12x FY22E EPS and maintain a TP of Rs 160. Downgrade to SELL.

Results ahead of estimates

Revenue declined by 18.4% YoY to Rs 1,961mn in Q1FY20. Gross margin contracted by 330bps to 64.4%. Further, a 200bps increase in employee cost was partially offset by 500bps decline in other expenses, mainly A&SP expenses. This resulted in 30bps decline in EBITDA margin. EBITDA stood at Rs 569mn, down 19.2% YoY. APAT fell 7.6% YoY to Rs 542mn.

Performance to remain muted, going ahead

During April and May, hair oil category declined by 33% in volume terms. Rural markets de-grew 25%, while urban declined significantly by 39%. Most of the other consumer categories are expected to post better performance compared to hair oils. Going ahead, we believe that the hair oil category, especially light hair oil category, would remain under pressure due to down trading and relatively non-essential nature of the category. In addition, extended lock down in states like Bihar, Jharkhand is likely to have impact on rural growth. Expected increase in A&P (~17-18% of sales) would pressurize margins, going ahead.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	1,961	2,402	(18.4)	1,754	11.8
Total Expense	1,391	1,698	(18.0)	1,518	(8.3)
EBITDA	569	705	(19.2)	236	140.9
Depreciation	14	13	8.1	14	2.9
EBIT	555	692	(19.8)	223	149.4
Other Income	106	60	76.9	84	26.3
Interest	4	4	8.3	9	(56.8)
EBT	657	748	(12.2)	297	121.1
Tax	115	161	(28.8)	52	121.8
RPAT	542	587	(7.6)	245	121.0
APAT	542	587	(7.6)	245	121.0
			(bps)		(bps)
Gross Margin (%)	64.4	67.7	(330)	68.3	(383)
EBITDA Margin (%)	29.0	29.3	(31)	13.5	1556
NPM (%)	27.6	24.4	322	14.0	1366
Tax Rate (%)	17.5	21.6	(408)	17.4	6
EBIT Margin (%)	28.3	28.8	(48)	12.7	1562

CMP	Rs 175
Target / Downside	Rs 160 / 8%
BSE Sensex	37,114
NSE Nifty	10,902

Scrip Details

Equity / FV	Rs 148mn / Rs 1
Market Cap	Rs 26bn
	USD 344mn
52-week High/Low	Rs 314/Rs 117
Avg. Volume (no)	10,11,930
NSE Symbol	BAJAJCORP
Bloomberg Code	BJCOR IN

Shareholding Pattern Jun'20(%)

Promoters	38.0
MF/Banks/FIs	24.0
FII	25.8
Public / Others	12.2

Valuation (x)

	FY20A	FY21E	FY22E
P/E	13.5	13.9	13.1
EV/EBITDA	10.1	9.8	8.6
ROE (%)	32.8	24.5	22.0
RoACE (%)	32.3	24.5	22.1

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	8,442	7,518	7,972
EBITDA	2,106	1,967	2,110
PAT	1,906	1,852	1,970
EPS (Rs.)	12.9	12.6	13.4

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Exhibit 1: Q1FY21 Actual Vs Estimates

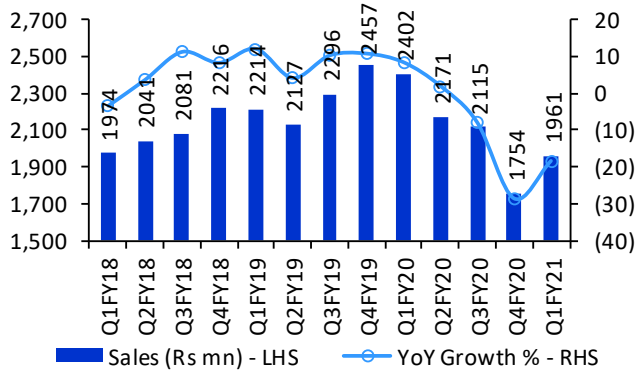
Rs mn	Actual	Estimates	Variance (%)	Comment
Revenue	1,961	1,830	7.1	Variation due to inventory filling and higher than estimated contribution of sanitizers (high single digit contribution)
EBITDA	569	409	39.2	
EBITDA margin %	29.0	22.3	670	Variation as actual A&SP spends were significantly lower than estimates
APAT	542	379	43.1	Cascading effect of higher than estimated revenue and EBITDA

Source: Company, DART

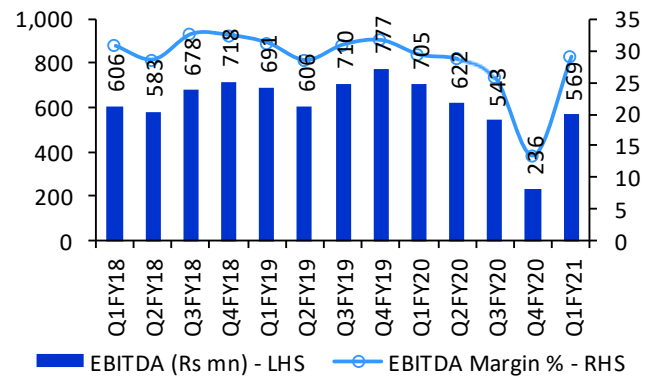
Key Concall Takeaways

- Till March 2020, the growth rate in the hair oil market was 2.8%. Hair oil market degrew by 38%/33% in value/volume terms respectively in April + May 2020 (cumulative). Performance in rural was better than urban. Urban de-grew 44%/39% while rural de-grew 30%/25% in value/volume terms during Apr+May 2020.
- ADHO fell 23.5%, overall Hair Oil portfolio was down 25%. Sanitizers contributed to high single-digit of total sales for the quarter. This led to 17% de-growth for the company.
- During Q1, LLP prices declined 6.8% YoY to Rs 56.6/ kg and oil prices increased 13.0% YoY to Rs 94.9/kg. Currently, landed cost of LLP is about Rs 48, so benefits will accrue. However, RMO is inching upwards. Overall, management might see ~ 1.5-2% change in terms of pricing which may be passed on to the customer.
- Distributor level inventory in March'20 was significantly low at 19 days which has increased to 26 days in June'20.
- Company's market share by value grew 80bps YoY to 10.2% as on May 2020 (MAT).
- E-Commerce grew strongly in urban India during lockdown, the absolute numbers still remain relatively insignificant. Management stated that the channel will remain area of focus.
- There was no significant development in the international business (down 38.3% YoY) as the borders remained shut for major part of the quarter. Company expects the export orders to start picking up as the situation normalizes.
- Company now has comfortable WC cycle. As of March'20, inventories was about 28 days, it has come down to ~18 days. Trade debtors more or less remains at similar level. In CSD and modern trade, company has some credit which typically hovers about 13 to 15 days. Payables increased in March to 36 days which has now gone down to 26 days.
- MT (7.1% contribution) fell 22.6% YoY due to closure of malls and hypermarket stores in most metro cities. Growth from MT is expected to return when urban markets normalize.
- Management stated that driving top line growth and absolute EBITDA would be a priority. It is comfortable with ~2-3% decline in EBITDA margin.
- The contribution of 300ml and 500ml SKU's put together has gone up to 26.1% from 24% earlier.

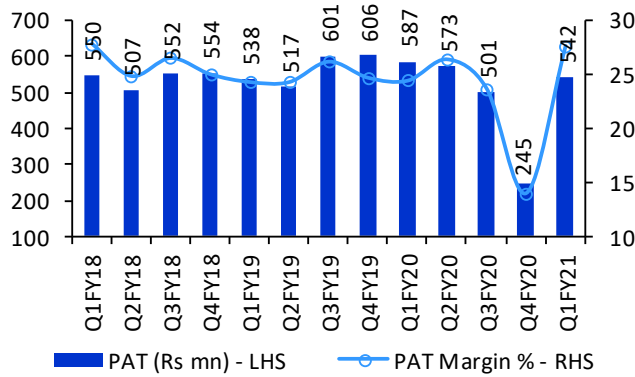
- MAT tax rate of 17.5% would continue going ahead.
- Sachet contributed 17-18% earlier, which has now come down to 14%. Rs 5, 10 and 20 packs are doing well in rural.
- A&SP spends declined as company was off air from April to mid-June. Company is looking at 17-18% A&SP spends (% of sales) going ahead.
- Distribution was at 4.1mn outlets in March'20 , dropped to 3.94mn outlets in May'20 due to nationwide lockdown. BCCL is reaching out to more than 50K villages which will help increase direct reach.
- Management stated that dividend distribution policy would not go through substantial changes, except this year, as the company wanted to conserve cash.
- Management indicated that hair oil markets will not show big recovery immediately.
- In June, the secondary sales had gone up substantially over May. Rural markets might be a little more impacted by the end of July due to extension in lockdown, which will hamper sales.
- Company launched the 500 ml pack hand sanitizer based on market demand, and a new product, the multi-purpose sanitizer of 5 liters in June, to cater to institutional demand.

Exhibit 2: Trend in Net Sales and Sales Growth


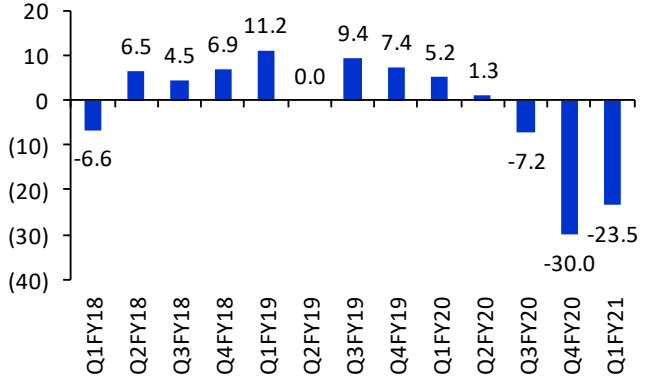
Source: DART, Company

Exhibit 3: Trend in EBITDA and EBITDA Margins (%)


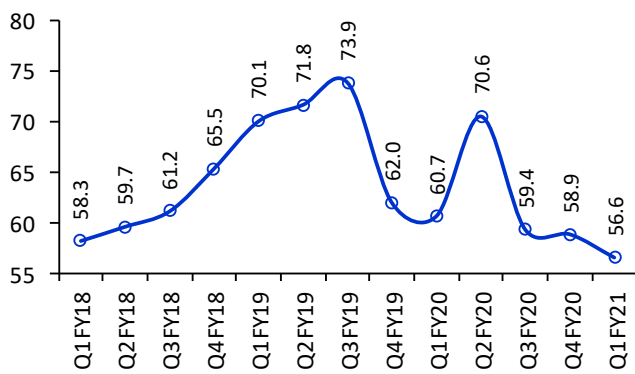
Source: DART, Company

Exhibit 4: Trend in Net Profit and Margins (%)


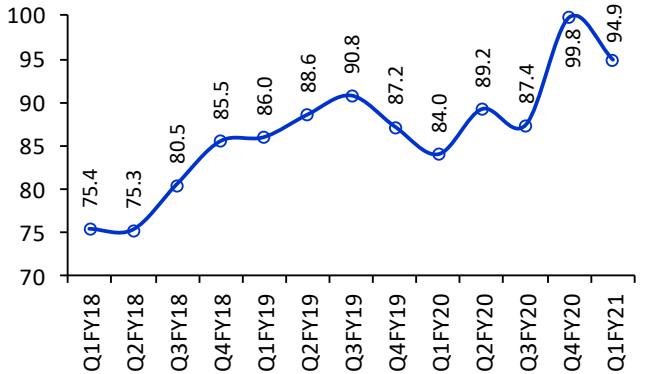
Source: DART, Company

Exhibit 5: Volume growth of Bajaj ADHO (%)


Source: DART, Company

Exhibit 6: Trend in RM Cost – LLP/KG


Source: DART, Company

Exhibit 7: Trend in Refined Oil Prices/KG


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	9,094	8,442	7,518	7,972
Total Expense	6,309	6,336	5,551	5,862
COGS	3,011	2,729	2,423	2,574
Employees Cost	940	836	783	832
Other expenses	2,358	2,771	2,345	2,455
EBIDTA	2,784	2,106	1,967	2,110
Depreciation	66	54	57	60
EBIT	2,718	2,052	1,910	2,050
Interest	11	42	50	55
Other Income	175	299	384	392
Exc. / E.O. items	0	0	0	0
EBT	2,883	2,309	2,244	2,387
Tax	621	403	392	417
RPAT	2,261	1,906	1,852	1,970
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	2,261	1,906	1,852	1,970

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	148	148	148	148
Minority Interest	0	0	0	0
Reserves & Surplus	4,704	6,624	8,181	9,414
Net Worth	4,851	6,772	8,329	9,562
Total Debt	250	200	200	200
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	5,101	6,972	8,529	9,762

Applications of Funds

Net Block	477	468	461	452
CWIP	77	71	71	71
Investments	1,382	1,441	1,441	1,441
Current Assets, Loans & Advances	4,280	6,375	7,586	8,891
Inventories	593	620	515	546
Receivables	412	286	344	387
Cash and Bank Balances	138	114	2,161	3,386
Loans and Advances	597	892	103	109
Other Current Assets	31	0	0	0
Less: Current Liabilities & Provisions	1,115	1,382	1,030	1,092
Payables	1,093	1,380	1,030	1,092
Other Current Liabilities	21	2	0	0
sub total				
Net Current Assets	3,165	4,993	6,556	7,799
Total Assets	5,101	6,972	8,529	9,762

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	66.9	67.7	67.8	67.7
EBIDTA Margin	30.6	25.0	26.2	26.5
EBIT Margin	29.9	24.3	25.4	25.7
Tax rate	21.6	17.5	17.5	17.5
Net Profit Margin	24.9	22.6	24.6	24.7
(B) As Percentage of Net Sales (%)				
COGS	33.1	32.3	32.2	32.3
Employee	10.3	9.9	10.4	10.4
Other	25.9	32.8	31.2	30.8
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.0	0.0	0.0
Interest Coverage	247.6	48.5	38.2	37.3
Inventory days	24	27	25	25
Debtors days	17	12	17	18
Average Cost of Debt	5.7	18.8	25.0	27.5
Payable days	44	60	50	50
Working Capital days	127	216	318	357
FA T/O	19.1	18.0	16.3	17.7
(D) Measures of Investment				
AEPS (Rs)	15.3	12.9	12.6	13.4
CEPS (Rs)	15.8	13.3	12.9	13.8
DPS (Rs)	14.0	0.0	2.0	5.0
Dividend Payout (%)	91.3	0.0	15.9	37.4
BVPS (Rs)	32.9	45.9	56.5	64.8
RoANW (%)	45.7	32.8	24.5	22.0
RoACE (%)	44.2	32.3	24.5	22.1
RoAIC (%)	54.2	34.7	28.9	32.2
(E) Valuation Ratios				
CMP (Rs)	175	175	175	175
P/E	11.4	13.5	13.9	13.1
Mcap (Rs Mn)	25,746	25,746	25,746	25,746
MCap/ Sales	2.8	3.0	3.4	3.2
EV	23,349	21,369	19,322	18,098
EV/Sales	2.6	2.5	2.6	2.3
EV/EBITDA	8.4	10.1	9.8	8.6
P/BV	5.3	3.8	3.1	2.7
Dividend Yield (%)	8.0	0.0	1.1	2.9
(F) Growth Rate (%)				
Revenue	9.4	(7.2)	(10.9)	6.0
EBITDA	7.7	(24.3)	(6.6)	7.3
EBIT	8.0	(24.5)	(6.9)	7.3
PBT	4.9	(19.9)	(2.8)	6.4
APAT	4.6	(15.7)	(2.8)	6.4
EPS	4.6	(15.7)	(2.8)	6.4
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	1,999	2,074	2,442	2,067
CFI	380	(2,051)	(50)	(50)
CFF	(2,367)	(46)	(345)	(793)
FCFF	1,950	2,036	2,392	2,017
Opening Cash	126	138	114	2,161
Closing Cash	138	114	2,161	3,386

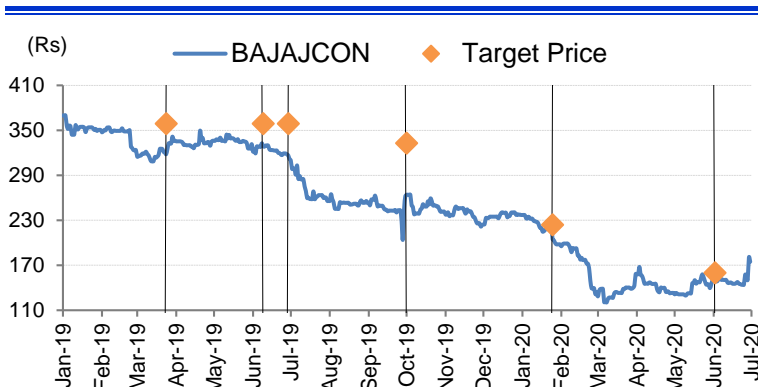
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Apr-19	Accumulate	359	318
Jun-19	Accumulate	359	329
Jul-19	Accumulate	359	317
Oct-19	Buy	333	264
Feb-20	Buy	224	205
Jun-20	Reduce	160	149

*Price as on recommendation date

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