

Reduce

View: Growth in ADHO on favorable base

- BCCL's Q2FY21 results exceeded our estimate. Revenue was a beat as urban performance was ahead of anticipation.
- During Q2FY21, overall revenues increased by 3.8% YoY driven by 9.6% in general trade but was impacted by 26.7% decline in alternate trades. MT was impacted significantly due to entry restrictions in stores, closure of malls and local lockdowns.
- GM contracted by 70bps primarily due to adverse sales mix during the quarter. However, sequential improvement in GM was a positive.
- Going ahead, we believe that the BCCL's volumes and margins would remain under pressure due to anticipated down trading. As Q2FY21 results were ahead of our anticipation, we have upward revised our FY21E (+19.6%) and FY22E EPS (+17.8%) estimates to factor in normalization of sales in most of the regions. We have introduced FY23E estimates with EPS of Rs 16.4. We value the stock at 12x FY23E EPS and revise TP to Rs 197. Upgrade to Reduce (from SELL earlier).

Results ahead of estimates

Revenue increased by 3.8% YoY to Rs 2,253mn in Q2FY21 (5% volume growth in hair oil). This is attributed to improvement in hair oil offtake with easing of lockdown restrictions. GM contracted by 70bps to 66.4% mainly due to change in sales mix. Further, a 60bps increase in other expenses was partially offset by 50bps decline in employee cost. This resulted in 80bps decline in EBITDA margin to 27.8%. EBITDA stood at Rs 627mn, up 0.7% YoY. APAT remained flat at Rs 573mn.

Growth remains a challenge, going ahead

During July and August'20, hair oil category increased by 2.7% in volume terms. Rural markets grew 12%, while urban declined by 5%. 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. Further, increased competition in light hair oil category would remain a challenge for BCCL, going ahead. Expected increase in A&P (~17-18% of sales) to support other products are likely to pressurize margins.

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	2,253	2,171	3.8	1,961	14.9
Total Expense	1,626	1,549	5.0	1,391	16.9
EBITDA	627	622	0.7	569	10.1
Depreciation	15	13	12.4	14	3.9
EBIT	612	609	0.5	555	10.2
Other Income	84	65	29.1	106	(20.1)
Interest	3	17	(84.9)	4	(35.6)
EBT	694	657	5.5	657	5.7
Tax	121	84	43.6	115	5.6
RPAT	573	573	(0.1)	542	5.7
APAT	573	573	(0.1)	542	5.7
			(bps)		(bps)
Gross Margin (%)	66.4	67.1	(74)	64.4	192
EBITDA Margin (%)	27.8	28.6	(84)	29.0	(122)
NPM (%)	25.4	26.4	(98)	27.6	(223)
Tax Rate (%)	17.5	12.8	464	17.5	0
EBIT Margin (%)	27.2	28.1	(89)	28.3	(115)

CMP	Rs 190
Target / Upside	Rs 197 / 4%
NIFTY	11,873

Scrip Details

Equity / FV	Rs 148mn / Rs 1
Market Cap	Rs 28bn
	USD 382mn
52-week High/Low	Rs 269/ 117
Avg. Volume (no)	9,24,635
Bloom Code	BAJAJCON IN

Price Performance	1M	3M	12M
Absolute (%)	0	9	(28)
Rel to NIFTY (%)	(4)	0	(31)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	60.0	38.0	38.0
MF/Banks/FIs	8.9	24.0	24.0
FIIIs	24.9	25.8	25.8
Public / Others	6.3	12.2	12.2

Valuation (x)

	FY21E	FY22E	FY23E
P/E	12.6	12.1	11.6
EV/EBITDA	8.8	7.7	6.8
ROE (%)	28.6	24.5	21.7
RoACE (%)	28.5	24.5	21.8

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	8,671	9,183	9,736
EBITDA	2,406	2,534	2,643
PAT	2,214	2,320	2,415
EPS (Rs.)	15.0	15.7	16.4

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Exhibit 1: Q2FY21 Actual V/s Estimates

Rs mn	Actual	Estimates	Variance (%)	Comments
Revenue	2,253	1,961	14.9	High variation due to strong rural growth and lower impact of lockdown vs estimate
EBITDA	627	538	16.4	
EBITDA margin %	27.8	27.4	40	
APAT	573	497	15.3	

Source: Company, DART

Exhibit 2: Change in estimates

In Rs mn	FY21E			FY22E		
	New	Old	Change (%)	New	Old	Change (%)
Revenue	8,671	7,518	15.3	9,183	7,972	15.2
EBITDA	2,406	1,967	22.3	2,534	2,110	20.1
Margin (%)	27.7	26.2	160 bps	27.6	26.5	110 bps
PAT	2,214	1,852	19.6	2,320	1,970	17.8
EPS (Rs)	15.0	12.6	19.6	15.7	13.4	17.8

Source: Company, DART

We have upward revised our revenue estimates to factor in better than anticipated growth in ADHO. In addition, we believe that H2FY21E performance would be benefited from favorable base. We have increased our margin estimates to factor in lower employee costs. However, we believe that the margins would remain low (27-28%) compared to earlier trend of +30%.

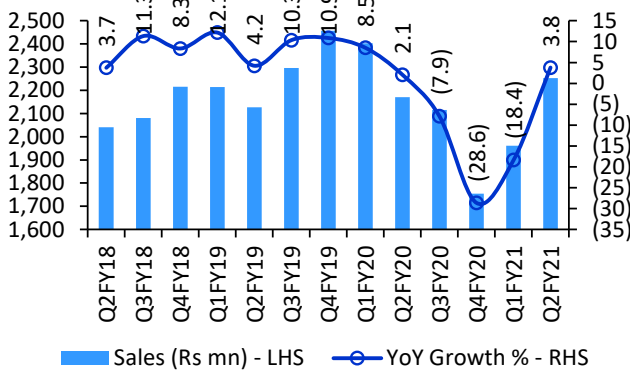
Exhibit 3: Half yearly performance (Standalone)

Particulars (Rs.mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Net Sales	2,253	2,171	3.8	1,961	14.9	4,214	4,573	(7.9)
Total Expenditure	1,626	1,549	5.0	1,391	16.9	3,018	3,247	(7.0)
RM costs	758	714	6.1	697	8.7	1,455	1,489	(2.3)
Other Exp	670	632	6.0	480	39.5	1,150	1,341	(14.2)
Employee Cost	199	203	(1.9)	214	(7.1)	413	417	(0.9)
PBIDT (Excl OI)	627	622	0.7	569	10.1	1,196	1,327	(9.9)
Other Income	84	65	29.1	106	(20.1)	190	125	51.9
Depreciation	15	13	12.4	14	3.9	29	26	10.3
EBIT	696	674	3.3	661	5.4	1,357	1,426	(4.8)
Interest	3	17	(84.9)	4	(35.6)	7	21	(68.3)
PBT	694	657	5.5	657	5.7	1,350	1,405	(3.9)
Tax	121	84	43.6	115	5.6	236	246	(3.9)
RPAT	573	573	(0.1)	542	5.7	1,114	1,159	(3.9)
APAT	573	573	(0.1)	542	5.7	1,114	1,159	(3.9)
EPS (Rs)	3.9	3.9	(0.1)	3.7	5.7	7.6	7.9	(3.9)
			bps		bps			bps
Gross Profit (%)	66.4	67.1	(70)	64.4	190	65.5	67.4	(200)
Employee Cost (%)	8.8	9.3	(50)	10.9	(210)	9.8	9.1	70
Other expense (%)	29.7	29.1	60	24.5	520	6.0	16.7	(1,060)
EBITDA (%)	27.8	28.6	(80)	29.0	(120)	28.4	29.0	(60)
PAT (%)	25.4	26.4	(100)	27.6	(220)	26.4	25.4	110

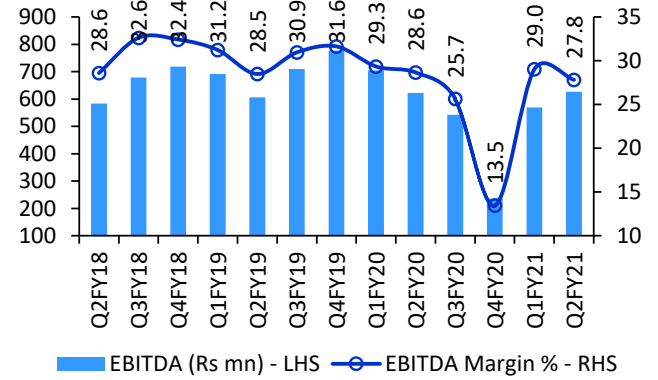
Source: Company

Key Concall Takeaways

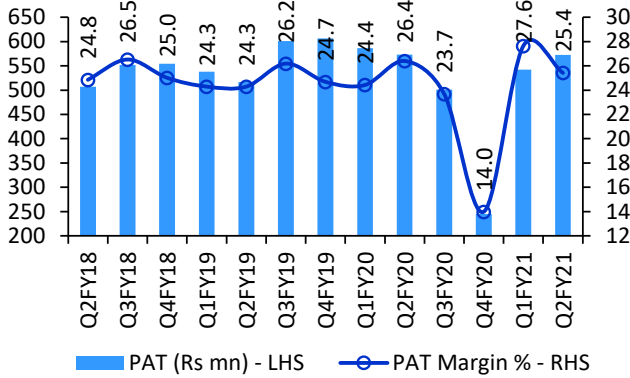
- Volume growth in Q2FY21 stood at 5%. From this year, company will be evaluating volume numbers on Kilolitres basis compared to number of cases earlier. We see this as a positive move as earlier measure could not track true volume growth.
- Nomarks hand sanitizer witnessed good demand during initial period of lockdown. However, the sales have slowed down due to presence of numerous players offering trade discounts. Amla hair oil and sanitizers together accounted for 5% of sales in Q2FY21. Sanitizer contribution was lower than that of Amla. Sanitizer contribution was in mid-single digits in H1, but halved in Q2FY21. Sanitizers is not a key focus area for the company. We anticipated slowdown in the business considering mellowing down pandemic fears and increased competition.
- Nomarks continued to decline in Q2. ADHO grew 2% after three quarters of de-growth, secondary sales of ADHO grew 5%. Amla has grown on a small base. Excluding sanitizer and Nomarks, growth has been marginal in Q2.
- Company witnessed recovery in consumer sentiment, logistics and distribution are back to pre covid levels.
- Gross margin deterioration was mainly due to change in sales mix involving Amla oil and Sanitizers.
- During Q2, LLP prices declined 16.5% YoY to Rs 50.8/ kg and RMO prices increased 22.7% YoY to Rs 104.3/kg. Currently, landed cost of LLP is about Rs Rs 52 while that of RMO it is Rs 108/kg. However, company does not intend to go for price hikes in next few months.
- Rural contribution now increased to 52% from 44% earlier. Van operations have helped scale up rural business. The company will now be focusing more on urban markets. Urban demand is currently witnessing an uptick, and is likely to gain momentum in Q3FY21 with festive season.
- During Jul-Aug 2020, rural markets grew 9.7% YoY while urban markets declined 6.4% YoY in value terms. In volume terms, rural markets grew 12%, while urban declined by 5% in the same period.
- Wholesale channel is showing signs of recovery while retail is still under stress, especially in urban areas. As wholesales channels are improving, we believe that the retail channel would follow it with lag of few weeks.
- General trade grew 9.6% YoY in Q2FY21. Modern trade continued to underperform due to entry restrictions in stores, mall closures. With investments in digital marketing initiatives, E-commerce business surged 4x on YoY basis in Q2, though on a small base. CSD business continued to be under pressure.
- International business exhibited recovery with 19.2% YoY and 64.3% QoQ growth in Q2FY21 with ease of lockdown restrictions.
- Company has launched new SKU's in both ADHO and Amla in Q2. Amla is in focus in rural markets through the Van initiative. The company will not be launching new products in next two quarters.
- Ad rates were lower in Q1; now inching upwards. A&SP spends back to pre covid levels (18% to sales).

Exhibit 4: Trend in Net Sales and Sales Growth


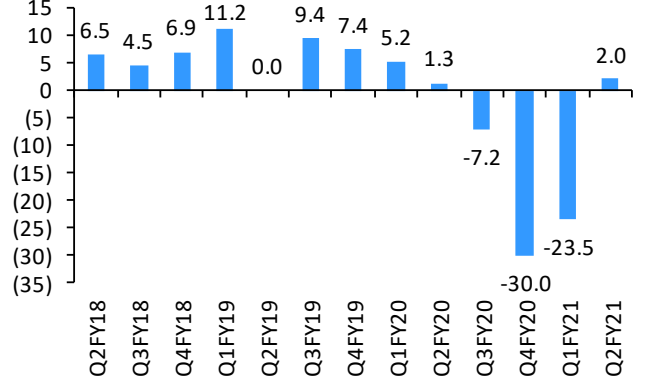
Source: DART, Company

Exhibit 5: Trend in EBITDA and EBITDA Margins (%)


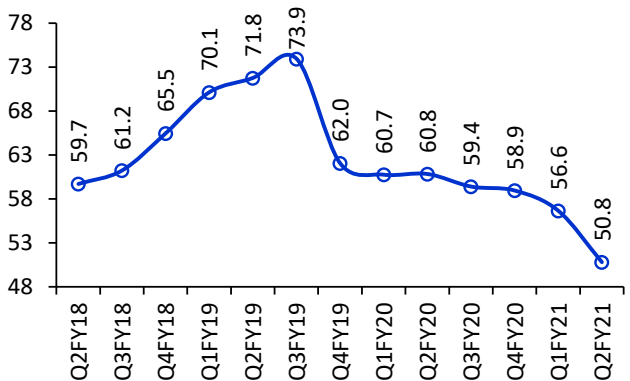
Source: DART, Company

Exhibit 6: Trend in Net Profit and Margins (%)


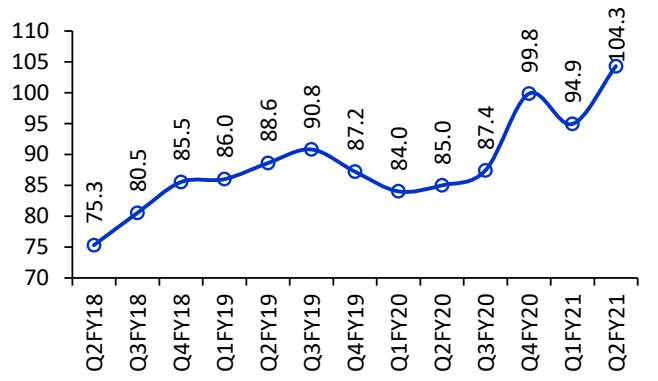
Source: DART, Company

Exhibit 7: Volume growth of Bajaj ADHO (%)


Source: DART, Company

Exhibit 8: Trend in RM Cost – LLP/KG


Source: DART, Company

Exhibit 9: Trend in Refined Oil Prices/KG


Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	8,442	8,671	9,183	9,736
Total Expense	6,336	6,265	6,649	7,093
COGS	2,729	2,808	2,979	3,164
Employees Cost	836	908	919	976
Other expenses	2,771	2,550	2,752	2,954
EBIDTA	2,106	2,406	2,534	2,643
Depreciation	54	57	60	63
EBIT	2,052	2,349	2,474	2,581
Interest	42	50	55	55
Other Income	299	384	392	400
Exc. / E.O. items	0	0	0	0
EBT	2,309	2,683	2,811	2,926
Tax	403	469	491	511
RPAT	1,906	2,214	2,320	2,415
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	1,906	2,214	2,320	2,415

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	148	148	148	148
Minority Interest	0	0	0	0
Reserves & Surplus	6,624	8,544	10,126	11,804
Net Worth	6,772	8,691	10,274	11,951
Total Debt	200	200	200	200
Net Deferred Tax Liability	0	0	0	0
Total Capital Employed	6,972	8,891	10,474	12,151

Applications of Funds

Net Block	468	461	452	439
CWIP	71	71	71	71
Investments	1,441	1,441	1,441	1,441
Current Assets, Loans & Advances	6,375	8,106	9,768	11,534
Inventories	620	594	629	667
Receivables	286	398	447	474
Cash and Bank Balances	114	2,533	4,104	5,797
Loans and Advances	892	119	126	133
Other Current Assets	0	0	0	0
Less: Current Liabilities & Provisions	1,382	1,188	1,258	1,334
Payables	1,380	1,188	1,258	1,334
Other Current Liabilities	2	0	0	0
<i>sub total</i>				
Net Current Assets	4,993	6,918	8,511	10,201
Total Assets	6,972	8,891	10,474	12,151

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	67.7	67.6	67.6	67.5
EBIDTA Margin	25.0	27.7	27.6	27.2
EBIT Margin	24.3	27.1	26.9	26.5
Tax rate	17.5	17.5	17.5	17.5
Net Profit Margin	22.6	25.5	25.3	24.8
(B) As Percentage of Net Sales (%)				
COGS	32.3	32.4	32.4	32.5
Employee	9.9	10.5	10.0	10.0
Other	32.8	29.4	30.0	30.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	48.5	47.0	45.0	46.9
Inventory days	27	25	25	25
Debtors days	12	17	18	18
Average Cost of Debt	18.8	25.0	27.5	27.5
Payable days	60	50	50	50
Working Capital days	216	291	338	382
FA T/O	18.0	18.8	20.3	22.2
(D) Measures of Investment				
AEPS (Rs)	12.9	15.0	15.7	16.4
CEPS (Rs)	13.3	15.4	16.1	16.8
DPS (Rs)	0.0	2.0	5.0	5.0
Dividend Payout (%)	0.0	13.3	31.8	30.5
BVPS (Rs)	45.9	58.9	69.7	81.0
RoANW (%)	32.8	28.6	24.5	21.7
RoACE (%)	32.3	28.5	24.5	21.8
RoAIC (%)	34.7	35.6	38.9	40.6
(E) Valuation Ratios				
CMP (Rs)	190	190	190	190
P/E	14.7	12.6	12.1	11.6
Mcap (Rs Mn)	27,981	27,981	27,981	27,981
MCap/ Sales	3.3	3.2	3.0	2.9
EV	23,604	21,185	19,614	17,921
EV/Sales	2.8	2.4	2.1	1.8
EV/EBITDA	11.2	8.8	7.7	6.8
P/BV	4.1	3.2	2.7	2.3
Dividend Yield (%)	0.0	1.1	2.6	2.6
(F) Growth Rate (%)				
Revenue	(7.2)	2.7	5.9	6.0
EBITDA	(24.3)	14.2	5.3	4.3
EBIT	(24.5)	14.5	5.3	4.3
PBT	(19.9)	16.2	4.8	4.1
APAT	(15.7)	16.2	4.8	4.1
EPS	(15.7)	16.2	4.8	4.1
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	2,074	2,814	2,414	2,536
CFI	(2,051)	(50)	(50)	(50)
CFF	(46)	(345)	(793)	(793)
FCFF	2,036	2,764	2,364	2,486
Opening Cash	138	114	2,533	4,104
Closing Cash	114	2,533	4,104	5,797

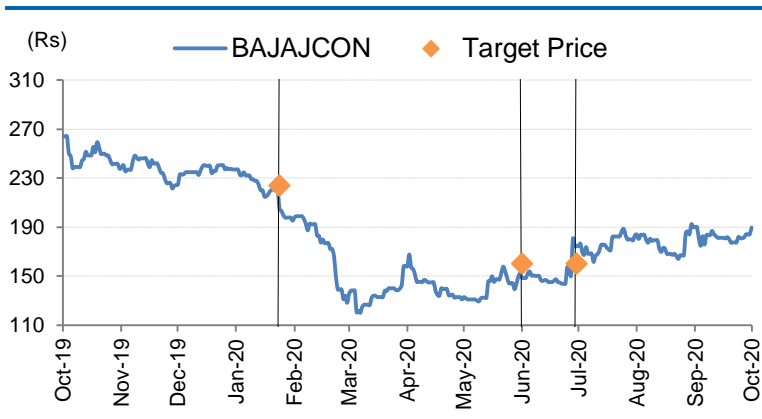
E – Estimates

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.)
Feb-20	Buy	224	205
Jun-20	Reduce	160	149
Jul-20	Sell	160	175

*Price as on recommendation date

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