

Bajaj Corp

8 October 2012

Reuters: BACO.BO; Bloomberg: BJCOR IN

Margins Surprise Positively

Bajaj Corp's (BCL) 2QFY13 profits were 15.3% above our estimate on account of gross margin expansion by 208bps QoQ and 393bps YoY, which we believe is on account of reduction in LLP (liquid light paraffin) prices, a key raw material. We believe the recent rupee appreciation along with crude oil prices cooling off will result in strong gross margins in the coming quarters. Further, revenue growth of 27% YoY indicates strong volume growth, thereby reaffirming our view of consumers' preference shifting towards the light hair oil (LHO) segment. We will revisit our estimates after the conference call today. Meanwhile, we have retained our Buy rating on the stock with a target price of Rs220.

Strong volume growth aids revenue: BCL reported strong revenue growth of 27% YoY at Rs1,360mn, marginally above our estimate (Rs1,327mn). This was on account of strong volume growth, largely driven by rising urbanisation and structural shift of consumers' preference from coconut oil and unbranded hair oils to branded LHOs. Further, the company went for a price hike of 8% in April 2012, which has a lag effect of three months, thereby adding to value growth in 2QFY13.

Margins beat estimates, PAT follows suit: EBITDA margin at 28.7% was 322bps higher than our estimate, resulting in our earnings estimate being lower. Most of the improvement was witnessed in gross margin (up 208bps QoQ and 393bps YoY), benefiting from the fall in LLP prices. Strong operating performance drove PAT (up 33.6% YoY, 2% QoQ) to Rs384mn, which was above our estimate (Rs333mn).

Stock trades at attractive valuation: At the current market price (CMP), BCL trades at 15.3x P/E based on our FY14E earnings, which is at a 40% discount to peers despite better performance expected (22% earnings CAGR versus 17% CAGR of the fast moving consumer goods universe likely over FY12-FY14E). Dividend yield stood at 2.5%, higher than peers at the CMP, assuming similar dividend payout for FY13. Further, improvement in RoCE/RoE by 366bps/220bps to 30.2%/30.3%, respectively, over FY12-14E calls for expansion of valuation multiple, in our view. While BCL's single-product concentration warrants a discounted valuation, we feel the current discount to peers is too steep. Therefore, we assign a TP of Rs220 i.e. 18.3x (30% discount to peers) on FY14E EPS of Rs12.

BUY

Sector: FMCG

CMP: Rs184

Target Price: Rs220

Upside: 22%

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Key Data

Current Shares O/S (mn)	147.5
Mkt Cap (Rsbm/US\$m)	27.2/524.8
52 Wk H / L (Rs)	195/94
Daily Vol. (3M NSE Avg.)	274,275

Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Corp	0.0	41.5	85.1
Nifty Index	9.9	7.9	20.8

Source: Bloomberg

Y/E March (Rsmn)	2QFY12	1QFY13	2QFY13	Chg (YoY)%	Chg (QoQ)%	1HFY12	1HFY13	Chg (%)
Net sales	1,071	1,382	1,360	27.0	(1.6)	2,138	2,743	28.3
Total expenditure	797	993	970	21.7	(2.4)	1,598	1,963	22.9
Raw material costs	494	613	574	16.2	(6.2)	997	1,187	19.1
Advertising expenses	63	98	85	35.1	(13.2)	189	184	(2.9)
Other expenses	182	213	243	33.0	13.9	301	456	51.4
Employee costs	57	69	67	18.2	(2.8)	111	137	23.1
EBITDA	274	389	391	42.4	0.4	540	780	44.3
OPM (%)	25.6	28.2	28.7	311bps	56bps	25.3	28.4	316bps
Other income	99	90	98	(0.5)	9.2	194	188	(3.0)
Interest expenses	0.2	0.1	0.2	(18.5)	33.1	0.4	0.3	(27.0)
Depreciation	5.4	7.8	8.1	50.3	4.0	10	16	63.4
Profit before tax (PBT)	367	471	481	30.8	2.0	724	952	31.4
Tax	80	95	97	20.9	1.7	152	192	25.9
% tax rate	21.8	20.2	20.1	-	-	21.0	20.2	-
Reported net profit	287	376	384	33.6	2.0	572	760	32.9
EPS	1.9	2.6	2.6	33.6	2.0	3.9	5.2	32.9

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	2,946	3,587	4,733	5,994	7,247
YoY (%)	20.5	21.8	32.0	26.6	20.9
EBITDA	973	1,081	1,165	1,474	1,819
EBITDA (%)	33.0	30.1	24.6	24.6	25.1
Adj PAT	839	1,031	1,201	1,437	1,774
YoY (%)	78.6	22.8	16.5	19.7	23.4
Adj.EPS	5.7	7.0	8.1	9.7	12.0
RoE (%)	327.7*	27.4	28.1	29.1	30.3
RoCE (%)	344.7*	28.2	26.6	29.0	30.2
P/E (x)	32.4	26.4	22.6	18.9	15.3
P/BV	90.0	7.2	6.4	5.5	4.6
EV/EBITDA (x)	27.8	21.4	20.4	15.6	12.1

Note:* Higher FY10 RoCE/RoE were before the stock's listing (listed in August 2010) due to low base of net worth/share capital
 Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Actuals versus our estimates

Y/E March (Rsmn)	2QFY13E	2QFY13A	Variance (%)
Net sales	1,327	1,360	2.5
EBITDA	338	391	15.4
OPM (%)	25.5	28.7	322bps
PAT	333	384	15.3

Source: Company, Nirmal Bang Institutional Equities Research

Ratings track

Date	Rating	Market price (Rs)	Target price (Rs)
31 August 2012	Buy	177	220
4 October 2012	Buy	181	220

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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