

1 August 2012

## Bajaj Corp

*Strong volume-led growth; we raise our target and reiterate a Buy*

Rating: **Buy**

Target Price: ₹189

Share Price: ₹150

On 22.5% volume growth in 1QFY13 Bajaj Corp reported 29.5% revenue growth. The volume growth momentum continued in rural and urban areas. The EBITDA margin expanded due to lower raw material costs as well as to reduced ad-spend. The net profit was up 32.4%. We retain a Buy, with a target of ₹189.

- Volume-led growth.** Bajaj Corp reported revenue growth of 29.5%, yoy. Prices hiked in Apr '12 contributed ~8.5 percentage points of that rise. We believe volume growth contributed ~22 percentage points. Volume growth in urban areas was 11.8%; in rural areas, 23.5%. The expanded distribution network, sachets and 500ml packs drove the volume growth. Kailash Parbat contributed to 1QFY13 growth as it had been launched in 1QFY12. It reported market share of 2.2% at end of Jun' 12. The expanded distribution network also aided the volume growth.
- EBITDA margin improves.** The EBITDA margin improved 320bps due to lower raw material costs as well as curbed ad-spend. 'Other income' and the effective tax rate were the same at respectively ₹92m and 20.2%. Net profit was up 32.4%, yoy.
- Lower ad-spend in 1QFY13.** The launch of Kailash Parbat in 1QFY12 and the re-launch of Bajaj Almond Drops hair oil in 1HFY12 resulted in higher ad-spend in 1QFY13. The company had also changed its Bajaj Almond Drops celebrity endorser in 1QFY12. Though ad-spend was down 110bps (as percent of net sales), in rupee terms it grew 12.5% against revenue growth of 29.5%.
- Valuation.** We value the stock at ₹189 at a target PE of 17x Sep'13e earnings. Our target PE is based on the mean PE of 13x since listing +1 Standard Deviation. We believe that the strong earnings growth and better RoE would drive a re-rating. **Risks:** poorer response to launches and keener competition.

Key data	BJCOR IN / BACO.BO
52-week high / low	₹153 / ₹140
Sensex / Nifty	17179 / 5241
3-m average volume	US\$0.3m
Market cap	₹22bn / US\$402m
Shares outstanding	508m

Shareholding pattern (%)	Jun' 12	Mar '12	Dec '11
Promoters	84.8	84.8	84.8
- of which, Pledged	0.0	0.0	0.0
Free Float	15.2	15.2	15.2
- Foreign Institutions	9.3	9.2	7.1
- Domestic Institutions	0.5	0.3	1.9
- Public	5.4	5.7	6.2

Financials (YE Mar)	FY13e	FY14e
Sales (₹m)	5,683	6,789
Net profit (₹m)	1,433	1,744
EPS (₹)	9.7	11.8
Growth (%)	19.3	21.7
PE (x)	15.4	12.7
PBV (x)	4.5	4.0
RoE (%)	31.3	33.4
RoCE (%)	29.7	31.6
Dividend yield (%)	3.9	4.7
Net gearing (%)	(97.9)	(98.7)

Source: Anand Rathi Research

Quarterly results (YE Mar)	1QFY12	1QFY13	% yoy	FY11	FY12	% yoy
Sales (₹m)	1,066	1,380	29.5	3,587	4,722	31.7
EBITDA (₹m)	265	387	46.2	1,081	1,154	6.8
EBITDA margin (%)	24.9	28.1	320 bps	30.1	24.4	(568) bps
Interest (₹m)	0	0	(35.9)	-	1	-
Depreciation (₹m)	5	8	64.5	18	26	45.0
Other income (₹m)	96	92	(4.6)	178	385	116.3
PBT (₹m)	356	471	32.2	1,240	1,512	21.9
Tax (₹m)	72	95	31.5	250	311	24.7
Tax rate (%)	20.3	20.2	(10) bps	20.1	20.6	50 bps
PAT (₹m)	284	376	32.4	991	1,201	21.2

Source: Company

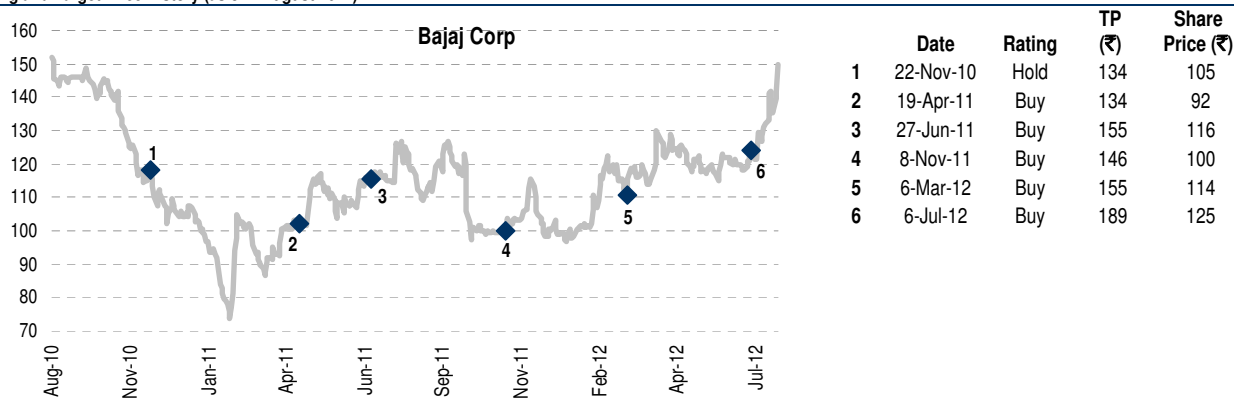
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## Appendix 1

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	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

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	Buy	Hold	Sell
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% who are investment banking clients	6%	6%	0%

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