

Bajaj Corp

9 October 2012

Reuters: BACO.BO; Bloomberg: BJCOR IN

Upgrade Target Price; Retain Buy

We have upgraded our FY13E and FY14E earnings estimates for Bajaj Corp (BCL) by 6.4% and 3.7%, respectively, factoring in higher gross margins. Consequently, we have increased our target price on the stock to Rs228 (from Rs220 earlier) and retained Buy rating on it.

Following are key takeaways from 2QFY13 result conference-call:

- BCL's gross margin in 2QFY13 expanded 208bps QoQ and 393bps YoY on account of a fall in LLP (liquid light paraffin) prices by 5% YoY, a key raw material (38.5% of total costs). Further, BCL had gone for an 8% price hike in April 2012, thereby aiding expansion in margins. We believe the recent rupee appreciation along with crude oil prices cooling off will result in strong gross margins in the coming quarters. **Consequently, we have factored in higher OPM estimates of 26.6% and 26.3% for FY13E and FY14E as against our previous estimates of 24.6% and 25.1%, respectively.**
- BCL reported strong volume growth of 19% YoY in its leading brand Almond Drops, largely driven by rising urbanisation and structural shift of consumers' preference from coconut oil and unbranded hair oils to branded light hair oils (LHOs). The management has indicated that rural markets continue to outperform with a 26% YoY volume growth in 2QFY13 as against a 13% YoY growth in urban markets.
- The market share of its leading brand Almond Drops was steady at 51.8% and 54.4% QoQ in volume and value terms, respectively.
- The LHO market so far in FY13 (April-August 2012) has grown 25.4% compared to overall hair oil market growth of 17.5% over the same period. We expect the trend to continue in the medium term.
- BCL continues to gain market share in the cooling hair oil segment - from 2.1% in 1QFY13 to 2.9% in 2QFY13. The management believes that unlike other hair oil segments, no brands in the cooling hair oil segment (except Emami with a 40% market share) have a national presence. BCL, which has a strong distribution network and a national presence for Almond Drops, is expected to garner market share with its new product in the cooling hair oil segment.
- The management, which has given capex guidance of Rs200mn for FY13E, plans to buy land in Baroda in order to avail the benefits as and when the Goods and Services Tax (GST) is implemented by the government.
- BCL enjoys fiscal benefits in respect of excise duty and income tax for its manufacturing plant in Himachal Pradesh. The excise duty benefit can be availed until 2020, while the income tax benefit expires in FY15. The effective tax rate will be 27% (currently paying minimum alternate tax of 20.6%) from FY15 onwards, as 50% of the profits continue to remain tax-free until 2020. However, the management has stated that in case GST is implemented before 2015, the effective tax rate will be below 27% as the company will be entitled for tax abatement.

Stock trades at attractive valuation: At the current market price (CMP), BCL trades at 15x P/E based on FY14E earnings, which is at a 40% discount to peers despite better performance expected (24% 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 FY13E. Further, improvement in RoCE/RoE by 424bps/250bps to 30.8%/30.6%, 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 Rs228 i.e. 18.3x (30% discount to peers) on FY14E EPS of Rs12.5.

BUY

Sector: FMCG

CMP: Rs187

Target Price: Rs228

Upside: 22%

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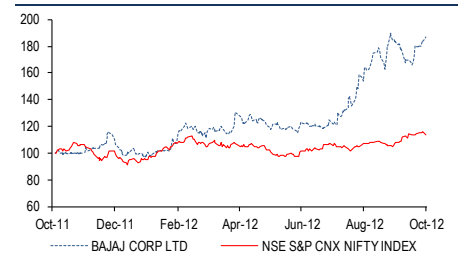
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Key Data

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

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Corp	2.1	47.1	84.7
Nifty Index	6.3	8.4	16.1

Source: Bloomberg

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY10	FY11	FY12	FY13E	FY14E
Revenue	2,946	3,587	4,733	5,990	7,258
YoY (%)	20.5	21.8	32.0	26.6	21.2
EBITDA	973	1,081	1,165	1,593	1,909
EBITDA (%)	33.0	30.1	24.6	26.6	26.3
Adj. PAT	839	1,031	1,201	1,529	1,839
YoY (%)	78.6	22.8	16.5	27.3	20.3
Adj. EPS	5.7	7.0	8.1	10.4	12.5
RoE (%)	327.7*	27.4	28.1	30.4	30.6
RoCE (%)	344.7*	28.2	26.6	30.8	30.8
P/E (x)	32.9	26.8	23.0	18.0	15.0
P/BV	91.3	7.3	6.4	5.5	4.6
EV/EBITDA (x)	28.2	21.7	20.8	14.7	11.8

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

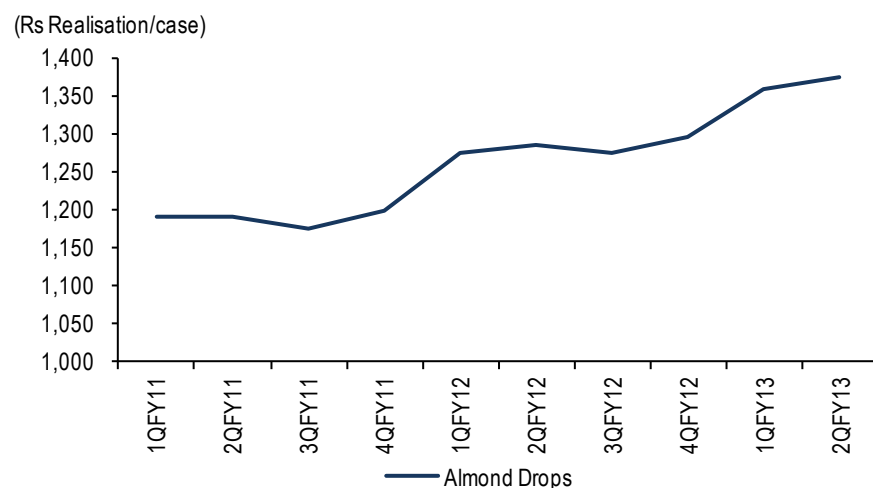
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Change in our earnings estimates

(Rsmn)	Old		New		Change (%)	
	FY13E	FY14E	FY13E	FY14E	FY13E	FY14E
Sales	5,994	7,247	5,990	7,258	(0.1)	0.1
EBITDA	1,474	1,819	1,593	1,909	8.1	4.9
EBITDA Margin (%)	24.6	25.1	26.6	26.3	200bps	120bps
PAT	1,437	1,774	1,529	1,839	6.4	3.7

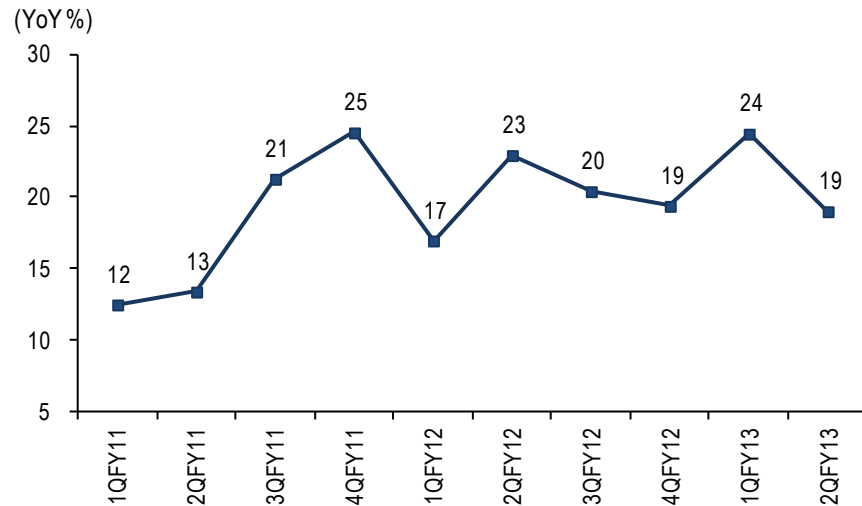
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: Price hike in April 2012 led to a 7% YoY increase in Almond Drops' realisation



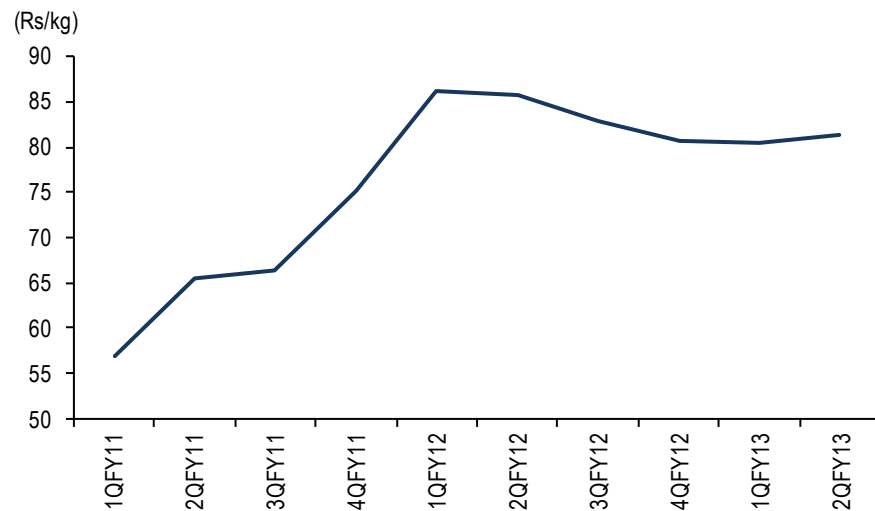
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Strong volume growth in Almond Drops' continues



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: LLP price trend



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
8 October 2012	Buy	184	220

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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