

Bajaj Consumer Care Ltd (BAJAJCON IN)

Awaiting execution strategy turnaround

INDIA | FMCG | Quarterly Update

22 October 2019

Top takeaways from Q2FY20

We believe reduction in promoter pledge levels to 0% from a peak of ~60% is a pretty encouraging sign. However, fundamental issues of weakness in business model continue such as high dependence on a single brand in a declining hair-oil category. We are not too enthused by the management's strategy of doubling market share in this market via micro-marketing / cluster-based approach, given the presence of national incumbents (Marico / Dabur and Emami in a particular hair oil category) and strong regional / local players, who are not easily likely to give away market share. We would wait and watch rather than rush to accept the management narrative of solid volume-led growth and market share gains.

Awaiting results of the turnaround strategy: (1) Going WIMI: The management will take a cluster/micro market approach rather than a pan-India approach. This would entail localised product and communication, increase direct reach, different SKUs at different price point. It highlighted that it has piloted a project in West Bengal (with Bain Capital's assistance) which has resulted 19% volume growth in that state in Q2 while the overall market declined in mid-single digits. Management plans to expand this strategy to another big state in 3Q, and will take it pan-India by Q1FY21, depending on the response in these two states. **(2) Focus on volume growth in non-almond hair oil category. (3) Increased ad-spends and promotion expenses - from current 16-17% to 23% in the short term. (4) Cost optimization – targets Rs 160mn cost saving till H1FY21 through reduction in manpower cost and other operating costs. (5) Increased direct reach - to 513,000 outlets vs. 300,000 two years ago.**

No more debt and pledge at the promoter level: After the promoter sold 22% stake in the company on 15th October 2019 to various institutional buyers, the management said proceeds would be used to remove personal debt and pledges. It also said that no more personal debt and pledges would be created and it has no plans to sell more stake.

Maintain Neutral. We like the management's strategy of: (1) Bringing culture (WIMI) approach, bringing back focus on THO (Total Hair Oil), and hiring Bain & Company to revive its hair oil portfolio, (2) upping ad-spends to increase volume and market shares, (3) cost optimization, and (4) expanding direct reach, thereby reducing dependence on the wholesale channel. However, we maintain our Neutral rating on Bajaj Consumer as: (1) intense competition in the VAHO space from other players might bring the renewed strategy to a stand-still, (2) focus on volume and increase in market share gains will impact earnings growth, (3) the recent rural slowdown might continue till H2FY20, and (4) it is a single-brand company, so it is vulnerable to frequent distribution churn, leading to trade-level instability. We cut our estimates by 8-11% to account for higher A&P spends and decrease our target to Rs 270 (15x FY22 EPS) vs. Rs 290 (15x Sept FY21 EPS) earlier.

NEUTRAL (Maintain)

CMP RS 264 / TARGET RS 270 (3%)

COMPANY DATA

O/S SHARES (MN) :	148
MARKET CAP (RSBN) :	35
MARKET CAP (USDBN) :	1
52 - WK HI/LO (RS) :	423 / 233
LIQUIDITY 3M (USDMN) :	0.3
PAR VALUE (RS) :	1

SHARE HOLDING PATTERN, %

	Sep 19	Jun 19	Mar 19
PROMOTERS :	60.0	60.0	60.0
FII / NRI :	24.2	24.8	24.4
FI / MF :	8.6	8.8	8.6
NON PRO :	2.4	0.7	0.8
PUBLIC & OTHERS :	4.9	5.7	6.1

Key Financials

Rs mn	FY20E	FY21E	FY22E
Net Sales	9,487	10,498	11,478
EBIDTA	2,784	2,868	3,065
Net Profit	2,431	2,503	2,671
EPS, Rs	16.5	17.0	18.1
PER, x	16.0	15.6	14.6
EV/EBIDTA, x	13.8	13.2	12.1
P/BV, x	7.8	7.0	6.2
ROE, %	48.8	45.2	42.7

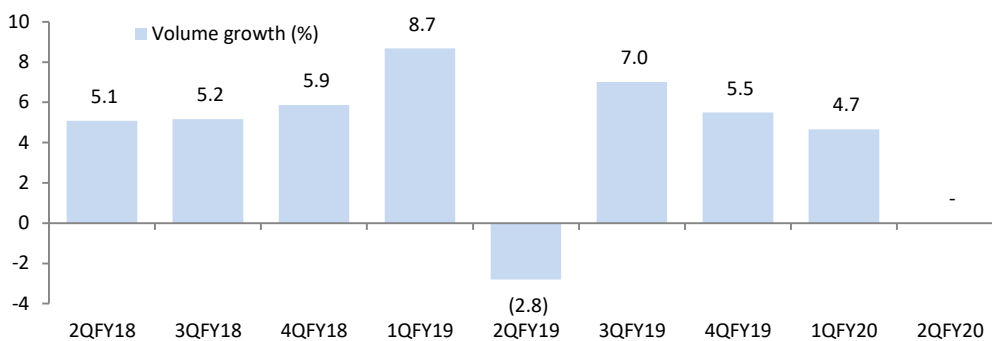
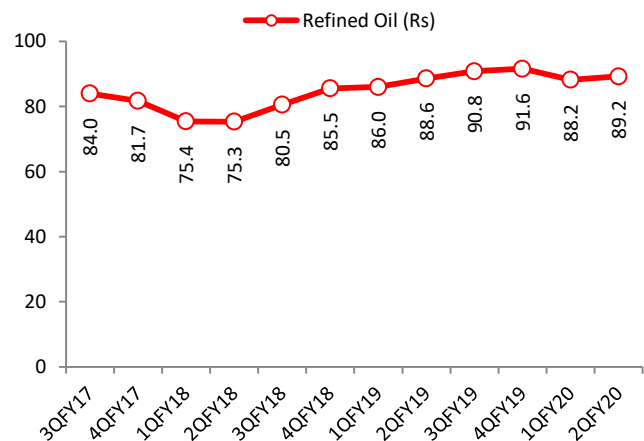
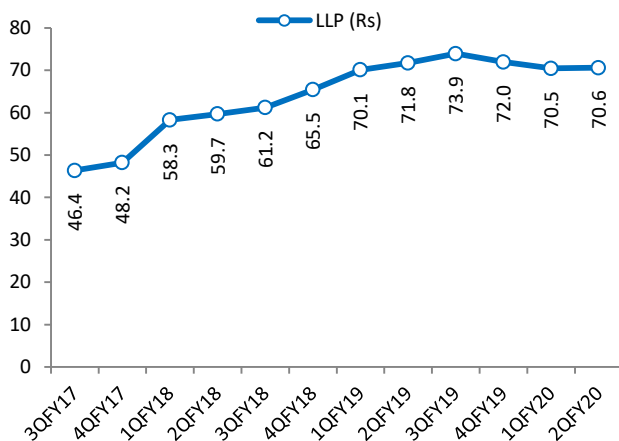
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(Rs mn)	2QFY20	2QFY19	yoy %	1QFY20	qoq %	PC yoy est %
Volume growth (%)	-	(3)		5		
Net Sales	2,112	2,057	2.7	2,325	(9.1)	9.2
EBITDA	622	606	2.7	705	(11.8)	9.8
Ebitda Margin (%)	29.4	29.4	0 bps	30.3	-87 bps	19 bps
PAT	573	517	10.9	587	(2.3)	9.5

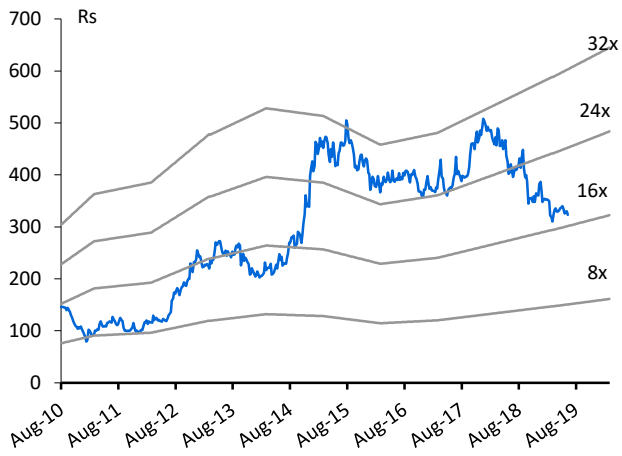
Conference call takeaways

- ✓ Q2 off-take in hair oil slowed down on account of severe slowdown in rural. Wholesale contribution currently stands at 34%, which was impacted by the liquidity crunch.
- ✓ Plans to build a new corporate office with the total outlay of Rs 250-300mn.
- ✓ CSD business impacted mainly because of procedural issues (registration) in Q1; bounced back on restocking. Government continues its rationing in CSD channel for which management does not expect major growth.
- ✓ New CEO is likely to be appointed on 1st Jan, 2020.

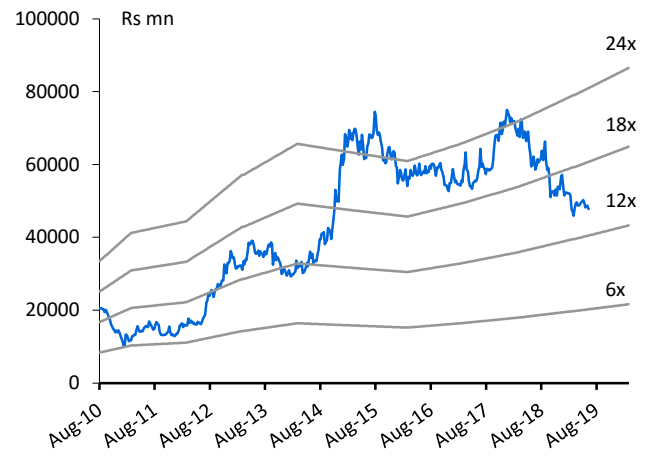
Focus charts
Rural slowdown, wholesale distress brought down volume growth

Benign input cost led to flat gross margins


Source: Company, PhillipCapital India Research

Two-year forward P/E band



EV/EBITDA



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Net sales	8,901	9,487	10,498	11,478
Growth, %	10	7	11	9
Other Operating income	284	305	336	370
Total income	9,185	9,792	10,834	11,848
Raw material expenses	-3,035	-3,338	-3,839	-4,223
Employee expenses	-972	-904	-971	-1,044
Other Operating expenses	-2,434	-2,766	-3,156	-3,516
EBITDA (Core)	2,744	2,784	2,868	3,065
Growth, %	8.1	1.5	3.0	6.9
Margin, %	30.8	29.4	27.3	26.7
Depreciation	-71	-63	-68	-71
EBIT	2,673	2,721	2,800	2,994
Growth, %	8.4	1.8	2.9	6.9
Margin, %	30.0	28.7	26.7	26.1
Interest paid	-12	-47	-52	-57
Other Income	170	272	286	300
Pre-tax profit	2,831	2,947	3,034	3,237
Tax provided	-616	-516	-531	-567
Profit after tax	2,216	2,431	2,503	2,671
Net Profit (Reported)	2,216	2,431	2,503	2,671
Growth, %	5.0	9.7	3.0	6.7
Net Profit (adjusted)	2,216	2,431	2,503	2,671
Unadj. shares (m)	148	148	148	148
Wtd avg shares (m)	148	148	148	148

Balance Sheet

Y/E Mar, Rs mn	FY19	FY20E	FY21E	FY22E
Cash & bank	143	395	840	1,507
Debtors	374	390	431	472
Inventory	609	649	719	786
Loans & advances	644	644	644	644
Total current assets	1,770	2,078	2,634	3,408
Investments	2,509	2,509	2,509	2,509
Gross fixed assets	2,424	2,534	2,684	2,784
Less: Depreciation	-880	-943	-1,010	-1,081
Net fixed assets	1,769	1,816	1,898	1,928
Total assets	6,048	6,403	7,041	7,844
Current liabilities	1,105	1,153	1,235	1,314
Total current liabilities	1,355	1,403	1,485	1,564
Non-current liabilities	19	19	19	19
Total liabilities	1,374	1,422	1,504	1,584
Paid-up capital	148	148	148	148
Reserves & surplus	4,526	4,833	5,389	6,113
Shareholders' equity	4,674	4,981	5,537	6,261
Total equity & liabilities	6,048	6,403	7,041	7,844

Cash Flow

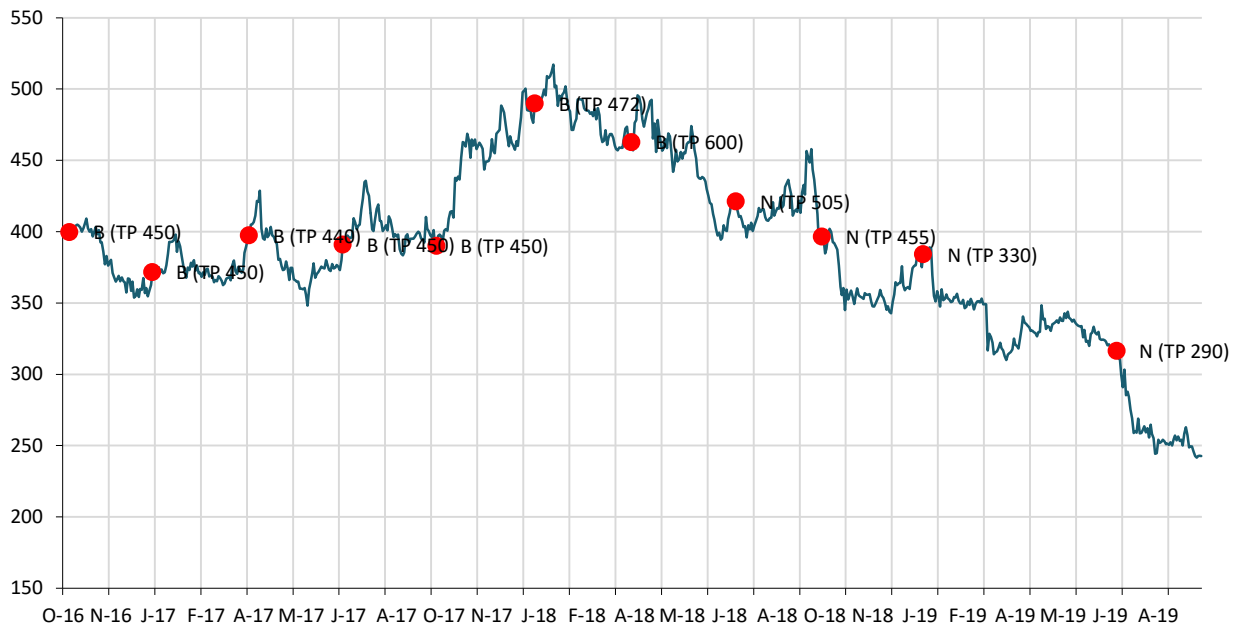
	FY19	FY20E	FY21E	FY22E
Pre-tax profit	2,831	2,947	3,034	3,237
Depreciation	71	63	68	71
Chg in working capital	-274	-9	-29	-28
Total tax paid	-614	-516	-531	-567
Cash flow from operating activities	1,764	2,486	2,542	2,714
Capital expenditure	-106	-110	-150	-100
Chg in investments	565	0	0	0
Cash flow from investing activities	686	-99	-155	-100
Free cash flow	2,449	2,387	2,387	2,613
Equity raised/(repaid)	26	0	0	0
Dividend (incl. tax)	-2,478	-2,124	-1,947	-1,947
Cash flow from financing activities	-2,384	-2,124	-1,947	-1,947
Net chg in cash	65	263	440	666

Valuation Ratios

	FY19	FY20E	FY21E	FY22E
Per Share data				
EPS (INR)	15.0	16.5	17.0	18.1
Growth, %	5.0	9.7	3.0	6.7
Book NAV/share (INR)	31.7	33.8	37.5	42.4
FDEPS (INR)	15.0	16.5	17.0	18.1
CEPS (INR)	15.5	16.9	17.4	18.6
CFPS (INR)	12.5	15.0	15.3	16.4
DPS (INR)	16.8	14.4	13.2	13.2
Return ratios				
Return on assets (%)	36.7	39.5	37.7	36.3
Return on equity (%)	47.4	48.8	45.2	42.7
Return on capital employed (%)	44.4	48.3	45.8	43.8
Turnover ratios				
Asset turnover (x)	4.3	4.1	4.4	4.6
Sales/Total assets (x)	1.5	1.5	1.6	1.5
Sales/Net FA (x)	5.1	5.3	5.7	6.0
Working capital/Sales (x)	0.1	0.1	0.1	0.1
Working capital days	21.4	20.4	19.4	18.7
Liquidity ratios				
Current ratio (x)	1.6	1.8	2.1	2.6
Quick ratio (x)	1.1	1.2	1.6	2.0
Net debt/Equity (%)	0.0	(0.0)	(0.1)	(0.2)
Valuation				
PER (x)	17.6	16.0	15.6	14.6
Price/Book (x)	8.3	7.8	7.0	6.2
EV/Net sales (x)	4.3	4.0	3.6	3.2
EV/EBITDA (x)	14.1	13.8	13.2	12.1
EV/EBIT (x)	14.5	14.1	13.5	12.4

Source: Company, PhillipCapital India Research Estimates

Stock Price, Price Target and Rating History



Rating Methodology

We rate stock on absolute return basis. Our target price for the stocks has an investment horizon of one year.

Rating	Criteria	Definition
BUY	$\geq +15\%$	Target price is equal to or more than 15% of current market price
NEUTRAL	$-15\% > \text{to} < +15\%$	Target price is less than +15% but more than -15%
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