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Industry: Personal Care

Issue details:

Price Range: Rs.630-660
Issue Period: 02nd Aug'10 to 5th Aug'10
Issue Type: 100% book building
Market Lot: 10 Shares
Issue Size: 0.45 crore shares
Pre-Issue Equity: 2.50 crore shares
Post-Issue Equity: 2.95 crore shares

Lead managers

1. Kotak Mahindra Capital Company Limited

Bajaj Corp Ltd

02/08/2010

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Company Profile

Incorporated in 2006, Bajaj Corp Ltd is one of India's leading FMCG Company with major brands in Hair care category. Bajaj Corp Ltd is part of Shishir Bajaj Group of companies (the "Bajaj Group"). Through its subsidiaries, the Bajaj Group operates businesses in the consumer goods, sugar, power generation and infrastructure development industries throughout India.

Bajaj Corp sells the Bajaj Almond Drops, Amla Shikakai, Brahmi Amla and Jasmine Hair Oil brands. Bajaj Almond Drops is the key product of the company. It also produces oral care products under the brand name Bajaj Black Tooth Powder.

Bajaj manufacture their products at two company-operated facilities in Parwanoo and Dehradun. Company also expects to open a third company-operated facility at Paonta Sahib. By completing this 3,500 square meter facility in Paonta Sahib, Bajaj expect their production capacity for light hair oil to increase from 39 million liters per annum to 74 million liters per annum. In addition, they also engage third-party manufacturers at Parwanoo, Himachal Pradesh for hair oils and Udaipur, Rajasthan to produce our oral care products. These third-party facilities have a combined installed capacity of 9 million liters per annum. As of December 31, 2009, the combined production capacity for all company and third-party operated production facilities was 83 million liters per annum.

Objective Of The Issue

(Rs in Crs)

Particulars	Amount
Promote future products	220.00
Acquisitions and other strategic initiatives	50.00
General corporate purposes	-

Investment Rationale

- The light hair oil segment comprises the premium segment of the hair oil market and constitutes ~14% (in value terms) of the total hair oil market. In the past three years, as per the 2009 AC Nielsen retail audit report, the light hair oil segment has grown at a CAGR of 23.8% on the back of volume growth of 14.1% and price increase of 8.5%. In comparison, the hair oil segment has grown at a CAGR of 17.7%, driven by a volume growth of 12.8% and price increase of 4.3%.
- Over the past three years, Bajaj Almond Drops, the flagship brand of the company, has consistently increased its market share to 47% in CY09 (in volume terms) from 31% in CY06. Notably, its market share is much higher than the second- and third-largest players in the light hair oil segment with a market share of 21.5% and 15.2% respectively in CY09. Bajaj Almond Drops also commands premium pricing than its peers and has 49.5% market share in value terms as of CY09.
- Currently, the company faces high revenue concentration as Bajaj Almond Drops contributes over 90% of its revenue. To leverage the 'Bajaj' brand and its established distribution channel, the company plans to launch four new products in the personal care segment over the next year. New product launches will enable the company to diversify its revenue base both within the hair oil segment and also in the personal care segment.

- Bajaj Corp markets its products through a channel of distributors / stockists and retail outlets. The current distribution channel of the company is comparable to that of much larger peers like Dabur. However, the same has not been fully utilized largely due to a single-product driven revenue model.

Rs('000)

Distribution network details – FY09	
Distributors	Revenue per distributor
Bajaj Corp*	538
Dabur	5697
HUL	22194

	Retail outlets Revenue per retail	
	(mn)	outlet (Rs)
Bajaj Corp	1.5*	1630
GCPL	3.0	3780
Marico	3.3	8540
Dabur	2.8	8630
HUL	6.3	35230

* Details as of December 2009.

- Bajaj Corp will continue to have zero debt and a strong balance sheet. Further, it is expected to continue to generate adequate cash every year. Surplus cash coupled with approximately Rs 500 mn identified by the company out of the net IPO proceeds would be utilised for acquisitions. We believe deployment of cash to expand both organically as well as inorganically will boost the company's revenues.
- The company's manufacturing facilities are located in tax-free zones. The company is exempt from paying excise duties for a period of 10 years from fiscal year ended March 31, 2009 and income tax for a period of five years from fiscal year ended March 31, 2009. After the income tax-free period, the company will be taxed at a concessional rate for the following five years. Importantly, the capacity utilisation at these facilities is less than 30% and is more than sufficient to service the expected growth over the next three-five years.

Investment concern

- 92% of net sales come from Bajaj Almond Drops. It has only 4 hair oil brands.
- The company intends to raise nearly Rs 297 crore, which is much more than its net worth of Rs 25.6 crore as on 31 March 2010. The company paid dividend of Rs 92 crore in FY 2010, effectively withdrawing all profit till then.
- Over the next three years, the company plans to spend heavily on advertisements and promotions for the new products, benefits of which will accrue only over the long term. This is likely to almost double the selling and distribution expenses spend (Rs 746 mn in 9MFY20) in FY11. In such cases, profitability generally takes a hit in the near term. There is likely to be pressure on Bajaj Corp's EBITDA and PAT margins over the next three years. Further, minimal profitability of the newly launched products may also impact the company's overall margins.
- Raw material cost is ~40% of the net revenue which is almost equally distributed amongst core raw material and packaging costs. Light liquid paraffin (LLP) forms the largest component of the core raw materials; the others are vegetable oil, perfumes and almond extracts. LLP is a derivative of crude oil and is subject to price volatility. While in past the company has been able to pass on the increase in raw material cost through price hikes, volatility in raw material prices remains a key monitor able.

Financial Performance

(Rs. Crs)

Particulars	Year End	
	2008-09	2009-10
Net Sales	244.42	330
<i>y-o-y growth</i>		35%
COGS	192.79	232.57
EBITDA	51.63	97.43
EBITDA <i>margin</i>	21%	30%
Depreciation	0.44	0.88
Interest	0.06	0.13
Other Income	1.77	5.13
PBT	52.90	101.55
Tax	5.91	17.64
PAT	46.99	83.91
PAT <i>margin</i>	19%	25%
No. of shares	2.95	2.95
Adj EPS (in Rs.)	15.93	28.44

Valuation

The company has priced its issue at 22.15x of its FY10 earnings. In the FMCG industry, comparable companies such as Marico, Dabur India and Emami have P/E of around 31.25, 34.14 and 38.9 time FY 2010 EPS, respectively. We recommend the **investor with high-risk appetite can SUBSCRIBE the issue for long-term perspective.**