

Bajaj Corp : Low P/E Ratio made it Attractive

IPO Note: Largest producer of light hair oil

Ranking:****

Issue details

Price band (Rs)	Rs.630-660
IPO Opening Date	02/08/2010
IPO Closing Date	05/08/2010
Issue Size	Rs.283.50-297.00 Crore

Valuations & Recommendation

Bajaj Corp's net sales for FY 2010 increased by 35% to Rs 330 crore, while net profit grew by 80% to Rs 83.91 crore. Operating profit margins(OPM) also improved by 840 basis points to 29.5%.

The company is offering share at the price band of Rs 630 to Rs 660 per equity share of Rs 5 face value, the P/E at the lower band works out to 22.15 times the EPS of Rs 28.4 for FY 2010. At the upper band, P/E works out to 23.2 times the EPS. 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. **Looking at the zero debt status, strong promoter base, with portfolio of well recognized brands & leadership position in light hair oil market, company is well poised to cater future business opportunities available in the sector. We recommend to subscribe in this IPO for long term.**

Highlights

- ◆ Bajaj Corp is third largest producer of hair oils and the largest producer of light hair oils.
- ◆ Bajaj Almond Drops, a premium brand that is currently the market leader in the light hair oil segment, accounting for approximately 92% of net sales and 93% of gross profit in FY 2010.
- ◆ Its OPM is one of the best in the FMCG sector
- ◆ At the upper band, P/E works out to 23.2 times the EPS.

Company Introduction

Incorporation & Promoters

Bajaj Corp incorporated in 2006, is one of India's leading FMCG company with major brands in Hair care category. It 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. It is one of India's leading producers of light hair oils. It started operating in April 2008. Earlier, Bajaj Sevashram (BSL) sold hair oils and other beauty products. Due to the Bajaj family settlement in 2001, the business was demerged to Bajaj Consumer Care (BCCL). BSL assigned the trademarks for all of its brands to BCCL, which subsequently licensed these brands to Bajaj Corp for 99 years from March 12, 2008. The term is extendable for an additional 10 years.

Products

Bajaj Corp is third largest producer of hair oils and the largest producer of light hair oils. Its key product is Bajaj Almond Drops, a premium brand that is currently the market leader in the light hair oil

Financial Summary

Particulars	1003(03)	0903(12)
Sales	330.00	244.42
OPM (%)	16.8	14.5
Net Profit	83.91	46.99
EPS* (Rs)	28.4	15.9

* Annualised on post-issue equity of Rs 14.75 crore;
Face value Rs 5

RANKING METHODOLOGY

WEAK	*
AVERAGE	**
GOOD	***
VERY GOOD	****
EXCELLENT	*****

segment, accounting for approximately 92% of net sales and 93% of gross profit in FY 2010. There are also other hair oils, Brahmi Amla, Amla Shikakai and Jasmine Hair Oil. The value market share of Almond Drop stood at 50.3%, Brahmi Amla at 3.3%, and Amla Shikakai at 1.6% in FY 2010. It also produces oral care products under the brand name, Bajaj Black Tooth Powder.

Manufacturing facilities

It manufactures its products at three company-operated facilities at Parwanoo, Dehradun and Ponta Sahib and has production capacity for light hair oil of 74 million litres per annum. In addition, it has third-party manufacturers at Parwanoo, Himachal Pradesh, for hair oils and at Udaipur, Rajasthan, for oral care products.

It has 4,600 distributors, who sell to more than 1.56 million retail outlets located throughout India.

IPO & Proceed

The company intends to enter the capital market to raise money in the range of Rs 283 crore to Rs 297 crore by issuing around 45 lakh equity share of face value of Rs 5 each in the price range of Rs 630 to Rs 660 per share. The proceeds from the issue will be used for promoting its new products and for acquisition and other strategic initiative. It intends to leverage its Almond Drops brand name in other areas such as soaps, shampoos, creams and other hair-care products. It is also looking for entry into the cooling hair oil segment, which is growing fast, has less competition and has high margin.

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