

Ipo Analysis

Bajaj Corp Ltd.

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Ipo Information

Issue Open Date	02 nd Aug 2010
Issue Close Date	05 th Aug 2010
Price Band	Rs 630-660 per Share
Face Value	Rs 5 per Share
Bid Lot	10 Equity Shares
Issue Size	45,00,000 Equity Shares
Pre Issue Equity Capital	Rs 125 Million
Post Issue Equity Capital	Rs 147.50 Million
Listing	BSE,NSE
Lead Manager	Kotak Mahindra Capital Co Ltd
Registrar	Karvy Computershare Pvt Ltd

Shareholding Pattern (%)

	Pre Issue	Post Issue
Promoter	100.00	84.75
Public	0.00	15.25

Issue Structure

QIB	2,700,000 Equity Shares
Non Institutional	450,000 Equity Shares
Retail	1,350,000 Equity Shares

Objects of Issue

Company intends to utilise the Issue Proceeds for the following objects:

- (i). Promote future products;
- (ii). Acquisitions and other strategic initiatives; and
- (iii). General Corporate Purposes.

Valuation

The company is bringing the issue at price band of Rs 630-660 per share which will turn up into p/e multiple of 22-23 at post issue eps on FY10 basis of Rs 28.44. The company has posted strong growth in its financial in last couple of years . Also, Almond Drops being co's leading product brand has achieved an Indian light hair oil market share of 50.3% for the fiscal year ended March 31, 2010.

Therefore looking at the zero debt status, strong promoter base, with portfolio of well recognized brands & leadership position in light hair oil market ,we find that company is well poised to cater future business opportunities available in the sector. Hence we recommend investors to "**Subscribe**" the issue.

Business Details

Bajaj Corp Ltd is one of India's leading producers of hair oils. It is part of the 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 Consumer Care Limited (BCCL) licensed brands to company, pursuant to the Trademark License Agreement. The exclusive agreement is valid for a term of 99 years from March 12, 2008 and is extendable for an additional ten years. Company began operating as Bajaj Corp Ltd in April 2008. The Trademark License Agreement granted company the exclusive right to use, manufacture, advertise, distribute and sell the products associated with these brands. Company have since become India's third largest producer of hair oils and the largest producer of light hair oils, capturing an estimated 50.3% of the light hair oil market (based on value) in fiscal year ended March 31, 2010, according to Nielsen Retail Audit Report. Company's key product is Bajaj Almond Drops, a premium brand that is currently the market leader in the light hair oil segment. In addition, company markets its hair oil under the brand names Brahmi Amla, Amla Shikakai and Jasmine Hair Oil. Company also produces oral care products under the brand name Bajaj Black Tooth Powder. Company manufactures its products at three company-operated facilities in Parwanoo, Dehradun and Ponta Sahib. Company commenced commercial production at its facility at Ponta Sahib in March 2010. By completing this 3,500 square meter facility in Paonta Sahib, company's production capacity for light hair oil increased from 39 million litres per annum to 74 million litres per annum. In addition, company also engages third-party manufacturers at Parwanoo, Himachal Pradesh for hair oils and Udaipur, Rajasthan to produce its oral care products. Company manage a distribution network that includes 4,600 distributors, or "stockists", that sell to more than 1.56 million retail outlets located throughout India.

Sectoral Outlook

Of the estimated Rs.1,611 billion FMCG market in India, hair care products make up approximately Rs.91.5 billion, or 8%, of the total according to the Nielsen Retail Audit Report. The 14% growth rate in the hair care industry is also slightly higher than the overall industry average of 13.4%. Recent growth in the hair oil industry has primarily been the result of volume growth due to increased distribution and higher per dealer off-takes. Rural distribution campaigns by hair oil manufacturers and dealers have helped to expand the geographic coverage of hair oil products into the rural parts of the country. The light hair oil segment has experienced significant growth in recent years as consumers opt for lighter, more modern hair oil products. The light hair oil segment recorded sales of Rs.6,960 million in FY 2009-10 according to the Nielsen Retail Audit Report. The light hair oil segment is dominated by three key players, namely Bajaj Almond Drops and two other brands which together accounted for approximately 83.8% of sales volume according to the Nielsen Retail Audit Report. The high degree of concentration among the competition in the light hair oil segment is similar to what is observed in other segments of the hair oil industry. The overall possible increase in consumption provides a large opportunity for hair oil companies. The task of winning over consumers by drawing them to a particular brand and retaining them however remains challenging. Constant interactions with consumers and thereby gaining insights that would lead to new products and improved product delivery are the key ingredients to successfully tapping this opportunity. Cutting through confusing advertisements will require communication to be that much more distinctive. Companies in the hair oil sector that will achieve success in the future are likely to be those that focus on meeting the consumer's stated and unstated needs and at the same time are able to communicate effectively. The ability to maintain a premium, both real and perceived, will be a critical component to being a leader in the hair oil industry.

Rationales

Leading Brands

Almond Drops is co's leading product brand and currently comprises approximately 92.4% of its net sales. The Almond Drops brand has now achieved an Indian light hair oil market share of 50.3% for the fiscal year ended March 31, 2010, compared with a market share of 46.5% for the fiscal year ended March 31, 2009, according to Nielsen Retail Audit Report. In addition, Brahmi Amla, co's key product in the traditional hair oil segment, has developed a loyal customer base since it began production in 1953. The strong positioning of these brands has contributed to sustained increases in both the price and volume of these products and this trend will continue as the hair oil market continues to grow, and in particular as the light hair oil market continues to capture market share from the coconut hair oil segment.

Wide Distribution Reach

Company has established a strong distribution network in India and currently have 4,600 distribution stock points for direct distribution and 8,900 wholesalers for indirect distribution of its products. Based on Nielsen Retail Audit Report, it is estimated that co's products are sold in more than 1.56 million retail outlets across India, which is approximately 28.7% of the total hair oil outlets in India. Company's distribution network is supported by a comprehensive management information system ("MIS") whereby sales reports are generated by its on-the-ground sales force. The wide distribution reach will allow company to achieve optimal product penetration going forward and increase its revenues and profit margin.

Concerns

Limited operating and financial history

Company was incorporated on April 25, 2006 and began operations in April 2008. Prior to that time, BCCL and other Bajaj Group companies sold the brands that company is currently licensed to sell. The manner in which company operate its business and results of operations may differ from that of BCCL and other Bajaj Group. Company's limited operating and financial history is not sufficient basis to evaluate its business.

Stiff Competition

Company operate in a highly competitive FMCG market with competitors who may have financial and other resources that are far greater than company, and who may therefore have the ability to spend more aggressively on advertising and marketing and more flexibility to respond to changing business and economic conditions than company do. Further, the company face competition from regional and small players who may have certain advantages over it. An increase in the amount of competition that company face could have a material adverse effect on its market share and sales.

Financial Statements

(Rs Cr)

Particulars	FY07	FY08	FY09	FY10
Total Income	0.00	0.00	250.25	329.73
Growth (%)	--	---	---	31.75
Total Expenditure(Cash)	0.002	0.009	198.62	232.30
EBITDA	-0.002	-0.009	51.63	97.42
Growth (%)	---	---	---	88.69
EBIDTA MARGIN	---	---	20.63	29.54
Other Income	0	0.001	1.76	5.13
Depreciation	0	0.016	0.44	0.876
EBIT	-0.002	-0.024	52.95	101.68
Interest	0	0.006	0.058	0.131
PBT	-0.002	-0.03	52.90	101.55
Tax	0	0.035	5.911	17.64
Adjusted PAT	-0.002	-0.065	46.99	83.91
Growth (%)	---	---	---	78.57
Adjusted NPM	---	---	18.77	25.44
e/o item	0.00	0.00	0.00	0.00
Reported PAT	-0.002	-0.065	46.99	83.91

Ratio Analysis

Particulars	FY07	FY08	FY09	FY10
EPS	-1.00	-0.07	46.99	33.57
ROE	-33.33	-1.33	91.10	327.66
BV	3.00	4.90	51.58	10.24
ROCE	-22.20	-0.50	102.70	397.10
Int Cover Ratio	-	-4.00	913.09	776.23
Debt To Equity Ratio	0.50	0.00	0.00	0.00

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