investor's eye

Index

- Stock Update >> Bajaj Corp
- Viewpoint >> Rupa & Co

Bajaj Corp

Ugly Duckling

Stock Update

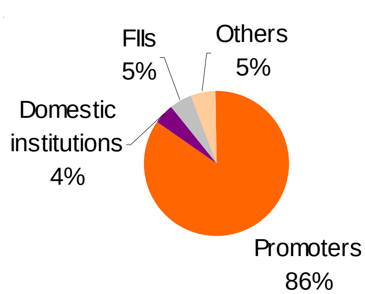
Price target revised to Rs142

Buy; CMP: Rs104

Company details

Price target:	Rs142
Market cap:	Rs1,563 cr
52 week high/low:	Rs146/73
NSE volume: (No of shares)	42,263
BSE code:	533229
NSE code:	BAJAJCORP
Sharekhan code:	BAJAJCORP
Free float: (No of shares)	2.2 cr

Shareholding pattern



Price chart

Price performance

(%)	1m	3m	6m	12m
Absolute	4.1	4.1	31.7	-14.3
Relative to Sensex	2.3	16.1	49.0	0.9

Event: acquisition of property for Rs75 crore for its corporate office

Bajaj Corp Ltd (BCL) has acquired Uptown Properties and Leasing Pvt Ltd (Uptown) for Rs75 crore (including liabilities of Rs49.5 crore). Uptown owns a building in Worli (Mumbai) with a built-up area of 33,600 square feet. The sole reason behind the acquisition is to develop a corporate office on the acquired plot to bring in all the scattered divisions at various locations under one roof to improve the operational efficiencies.

Expensive acquisition compared to recent deals

Judicious utilisation of free cash on the books to expand its product range or to grow inorganically was one of the key triggers in the stock and the market was enthused by the recent launch of the cooling hair oil, Kailash Parbat, which was in line with the stated strategy.

However, the move to spend a substantial chunk of this cash on non-yielding assets such as property, that too at a premium, would dilute its earnings and is seen as a de-rating factor by us. More so, since the company would have to spend additional Rs15-20 crore on either refurbishing the existing property or rebuilding a new structure.

Valuation corrects in response to move

To factor in the deal, we have downgraded our earnings estimates by 1.6% and 2.4% for FY2012 and FY2013 respectively. The BCL stock has already reacted negatively to the announcement of the property deal and factors in the negative implication of the same at the current market price. Going forward, any initiative on the company's part to expand its limited product portfolio or strengthen its core business would be the key upside trigger for the stock.

At the current market price the stock trades at 13.4x its FY2012E earnings per share (EPS) of Rs7.8 and 11.1x its FY2013E EPS of Rs9.5. We maintain our Buy recommendation on the stock with the price target of Rs142 (15x FY2013E earnings

Valuation table

Particulars	FY2009	FY2010	FY2011	FY2012E	FY2013E
Net sales (Rs cr)	244.4	294.9	359.4	464.2	550.4
Operating profit (Rs cr)	51.3	97.7	108.9	126.2	153.5
Adjusted PAT (Rs cr)	46.8	83.9	103.1	115.5	139.7
EPS (Rs.)	3.2	5.7	7.0	7.8	9.5
OPM (%)	21.0	33.1	30.3	27.2	27.9
PE (x)	33.0	18.4	15.0	13.4	11.1
Market Cap / sales (x)	2.1	4.4	4.3	3.3	2.8
EV/EBIDTA (x)	9.2	13.2	13.3	8.8	6.5
RoE(%)	181.4	211.0	49.2	26.8	26.6
RoCE(%)	204.9	256.2	59.2	33.7	33.5

as against 16x earlier due to the not so judicious use of free cash on the books).

Aiming for an acquisition: The company is looking to carry out an acquisition in the personal care segment in either the domestic market or the international market. The acquisition could be of a brand or of an entity with a decent portfolio of brands that suits BCL's existing product portfolio. After paying for the acquisition of Uptown, the company would have cash of around Rs325 crore in balance. This combined with debt (if required) can be utilised for a strategic buy-out.

Q2FY2012 to be another good quarter: The company has yet to feel the heat of the current inflationary situation and expect its strong volume growth to sustain in the coming quarters. For Q2FY2012, we expect the company's top line to grow by 29% year on year (YoY) to Rs105.0 crore with a sales volume growth of around 18% YoY. The prices of the key raw materials such as liquid paraffin and glass bottles remained firm during the quarter. Hence, we expect the gross profit margin to decline by 334 basis points YoY and the operating profit margin (OPM) to decline by 192 basis points YoY in Q2FY2012. However, with a higher other income YoY, we expect the bottom line to grow by 29% YoY to Rs25.7 crore during the quarter.

Outlook and valuation: To factor in the deal, we have downgraded our earnings by 1.6% and 2.4% for FY2012 and FY2013 respectively. The BCL stock has already reacted negatively to the announcement of the property deal and factors in the negative implication of the same at the current market price. Going forward, any initiative on the company's part to expand its portfolio or strengthen its core business would be the key upside trigger for the stock.

At the current market price the stock trades at 13.4x its FY2012E EPS of Rs7.8 and 11.1x its FY2013E EPS of Rs9.5. We maintain our Buy recommendation on the stock with the price target of Rs142 (15x FY2013E earnings as against 16x earlier due to the not so judicious use of free cash on the books).

The author doesn't hold any investment in any of the companies mentioned in the article.

Rupa & Co

Viewpoint

Good brands + strong distribution reach < Valuation

CMP: Rs152

We attended the analyst meet of Rupa & Co (Rupa). We present below the key takeaways from the meet. Amongst the listed innerwear players we continue to like Page Industries.

Present in fast growing underpenetrated men's innerwear segment

India's domestic branded innerwear market is currently valued at Rs13,000 crore *(CRISIL estimate)* of which men's innerwear segment is worth close to Rs5500 crore. The men's segment has grown at a compounded annual growth rate (CAGR) of 12.7% over the last four years and is expected to grow at 17.3% for the next three years. Further, the penetration of brands is abysmally low in India, providing huge opportunity for branded players to encash on the strong consumer wave.

Largest men's innerwear company with bouquet of brands

Rupa is the largest men's innerwear player by volume (in FY2011, it sold 168 million pieces). It has presence across the value chain with products in categories ranging from basic to mid premium, premium and super premium (entered into the last category recently). Its flagship brands *Rupa*, *Frontline*, *Jon* and *Air* are in the basic and mid premium categories while brands like *Euro*, *Macro Man* and *Macro Man M* Series target the premium and super premium categories.

Strong distribution reach—deep and wide

The company sells its products through multi-brand outlets, hosiery stores and national chain stores. It does not have any exclusive outlets at present. It has an enviable distribution network, serving one lakh retail outlets through a strong network of 950 distributors.

All set to focus on high-end premium and super premium category

Amongst the three listed innerwear players, Rupa earns relatively lower operating profit margin (OPM) in the band of 10-11% vs 18-19% enjoyed by the peers Page Industries and Lovable Lingerie. This is largely due to the fact that the company is present in mainly mass and basic segments because of which it has to compete with unbranded/ regional players. Its margins are therefore low. In an effort to enhance its margins, productivity and move up the value chain the company is now focusing on the premium

Business comparison

Particulars	Page Industries	Lovable Lingerie	Rupa & Co
Brands	Jockey	Daisy Dee, Lovable	Rupa: Frontline, Thermocot, Rupa Macro Man, Macro Man M Series, Euro and Bumchums
Brand status	Exclusive licencee; pays royalty @ 5% sales	Owned	Owned
Positioning	Premium to mid premium	Premium	Largely basic and mid premium (80%)
Category	Largely men's (85% share), ventured into women's in 2005	Women	Largely men's; >98%, entered the women's segment recently
Market share	25%	30%	-
Competitors	Hanes, Chromosome, Fruit of the loom	Triumph, Enamour, Amante	VIP, Amul, Lux and regional players in basic; Jockey in premium
Channel mix	MBOs, EBOs, Hosiery, and national chain stores	MBOs, EBOs, national chain stores	MBO's, hosiery, national chain stores
Distributors	400	100	950
Retail reach	20,000	8,500	100,000
EBOs	72	-	-

and super-premium brands like *Macro Man, Macro Man M Series* and *Euro*.

Raw material sensitivity high: Its basic products constitute around 40% of its overall top line. Thus Rupa's margins and volumes are most sensitive to the vagaries of the raw material prices (cotton yarn), as the brands/products compete with the regional/unbranded players. Thus any sharp movement leads to a constant revision in the price of the final product and in the margin.

We prefer Page Industries: Amongst the listed innerwear players, we continue to be bullish on Page Industries, given its superior growth levels, brand equity strength (which is creating strong entry barrier for new players), enviable margins, return ratios (best in the industry, averaging 45-48%), and proactive management approach *(it has now entered the swimwear and sportswear categories by bagging the exclusive Speedo licence for Indian operations)*.

Financial comparison

Particulars	Page	Lovable	Rupa
Top line FY11	492	104	639
Sales CAGR (FY08-11) (%)	36.7	20.1	22.2
Operating profit (FY11)	93.0	19.5	66.8
Operating profit CAGR (FY08-11) (%)	36.1	38	31.2
Operating profit margin (%)	19.1	18.70	10.5
Net profit (Rs cr)	58.6	14.1	32
Net profit CAGR (FY08-11) (%)	34.9	53.1	40.0
Debt equity	0.9	-	1.1
RoCE (%)	47	22	22
RoE (%)	52.7	17	22
Market cap	2,827.0	749	1264
PER (x)	48.3	53.1	39.5
EV (x)	2,942.2	749	1282
EV/EBITDA (x)	31.6	38.4	19.2
No of pieces sold (mn pcs)	62.7	8.7	168
Realisation per piece	78.4	119.6	38.0
Profit per piece	9.3	16.2	1.9

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Evergreen

Housing Development Finance Corporation
HDFC Bank
Infosys
Larsen & Toubro
Reliance Industries
Tata Consultancy Services

Apple Green

Apollo Tyres
Bajaj Auto
Bajaj FinServ
Bajaj Holdings & Investment
Bank of Baroda
Bank of India
Bharat Electronics
Bharat Heavy Electricals
Bharti Airtel
Corporation Bank
Crompton Greaves
Divi's Laboratories
GAIL India
Glenmark Pharmaceuticals
Godrej Consumer Products
Grasim Industries
HCL Technologies
Hindustan Unilever
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Indian Hotels Company
ITC
Mahindra & Mahindra
Marico
Maruti Suzuki India
Lupin
Piramal Healthcare (Nicholas Piramal India)
PTC India
Punj Lloyd
Sintex Industries
State Bank of India
Tata Global Beverages (Tata Tea)
Wipro

Cannonball

Allahabad Bank
Andhra Bank
IDBI Bank
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Shree Cement

Emerging Star

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Cadila Healthcare
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Patels Airtemp India
Thermax
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Zydus Wellness

Ugly Duckling

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Vulture's Pick

Mahindra Lifespace Developers
Orient Paper and Industries
Tata Chemicals
Unity Infraprojects