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Mumbai

CRISIL Equities assigns IPO grade 4/5 to Bajaj Corp Limited

CRISIL Equities has assigned a CRISIL IPO grade of "4/5" (pronounced "four on five") to the proposed initial public offer (IPO) of Bajaj Corp Limited (Bajaj Corp). This grade indicates that the fundamentals of the IPO are above average relative to other listed equity securities in India. However, this grade is not an opinion on whether the issue price is appropriate in relation to the issue fundamentals. The grade is not a recommendation to buy, sell or hold the graded instrument, or a comment on the graded instrument's future market price or its suitability for a particular investor.

The IPO grade assigned to Bajaj Corp reflects its dominant position (~50% market share in value terms) in the light hair oil segment, which constitutes ~14% of the total hair oil market. Light hair oil is positioned as a premium product in the hair oil market. The light hair oil segment grew at a 24% CAGR through CY06-09 as against ~18% growth registered by the overall hair oil industry. Higher growth in the light hair oil segment has been driven by: (a) shift in consumption from unbranded and coconut/heavy hair oils to light hair oil; (b) higher urbanisation (68% of the light hair oil market); and (c) increase in disposable income in the rural markets. The grade reflects Bajaj Almond Drops' - the flagship brand of Bajaj Corp - ability to consistently increase market share of 46.8% in CY09 (in volume terms), far ahead of its nearest competitor with a 21.5% market share.

The grade factors in the advantages the company enjoys due to the location of its manufacturing facilities in tax-free zones. Notably, the existing capacities at these facilities are sufficient to service the expected growth over the next three-five years.

The grade takes into account Bajaj Corp's strong distribution network, which is comparable to its larger peers. The established distribution network will provide the required strength for future growth in existing as well as new products. The grade is supported by the strong brand recall of 'Bajaj' both in the rural and urban markets. The grade has also factored in the strong management, its experience in the FMCG industry and strong promoter background.

The company is expected to have a strong balance sheet post the IPO, which lends the company enough strength to grow its operations. The company plans to use the IPO proceeds to launch four new products in the personal care segment. It also plans to use part of the IPO proceeds for inorganic growth within the personal care segment. CRISIL Equities believes that the new products will diversify and increase revenues.

The grade is moderated by Bajaj Corp's high dependence on Bajaj Almonds Drops (92% of 9MFY10 revenues). It also factors in the risk of higher competition to Bajaj Corp now than in the past. It also takes into account the adverse impact on EBITDA and PAT margins over the next three years due to aggressive advertisement and promotion expenditure for the launch of new products.

About the company and the issue

Bajaj Corp is the second largest company in the Shishir Bajaj Group of companies. The history of Bajaj Corp dates back to 1953 when Mr Kamalnayan Bajaj established Bajaj Sevashram to market and sell hair oils and other beauty products. Bajaj Sevashram used to manufacture and sell products until December 2000. In January 2001, pursuant to a scheme of demerger of the erstwhile Bajaj Group, it transferred its operating business and assigned the trademarks for all the brands to its subsidiary Bajaj Consumer Care Ltd (BCCL). In April 2008, pursuant to the execution of the Trademark Licence Agreement between BCCL and Bajaj Corp, BCCL assigned the trademarks for the products in favour of Bajaj Corp.

Bajaj Corp manufactures and markets five major brands. The flagship brand, Bajaj Almond Drops, is the market leader in the light hair oil segment with ~50% market share in CY09. Bajaj Almond Drops accounted for ~92% of Bajaj Corps' net sales in the nine-month period ended December 31, 2009. In addition, it markets hair oil under the brand names Bajaj Brahmi Amla, Bajaj Amla Shikakai and Bajaj Jasmine Hair Oil. It also markets oral care products under the brand name Bajaj Kala Dant Manjan.

Since Bajaj Corp was carved out in April 2008, the company financials are available only from FY09. In 9MFY10, the company's net revenues were ~Rs 2,080 mn, EBITDA margin was 30.9% and PAT margin was 27.2%.

Bajaj Corp is a professionally run company and has put in place adequate corporate governance processes and systems. The senior management comprises people who are experienced in the FMCG industry. The chairman and two whole-time directors have been long associated with the Shishir Bajaj Group of companies - drawing synergies as well as focus.

The IPO proceeds will be utilised by Bajaj Corp to finance launch of new products amounting to Rs 2,200 mn, for acquisitions and other strategic initiatives amounting to Rs 500 mn and for general corporate purpose for which the amount has not been disclosed at the time of the grading.

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