

bajaj CONSUMER CARE

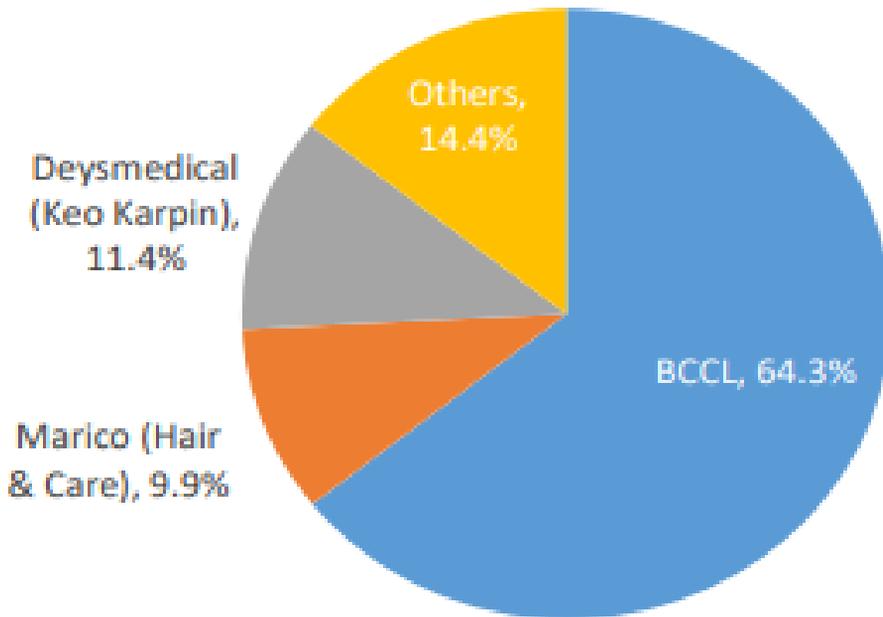


Bajaj Consumer Care Ltd.
Research Report as on 30-08-2022
CMP : 161 INR

BY : HIMANSHI KHOSLA
PEE AAR SECURITIES LTD. (RESEARCH ANALYST)

- Bajaj Consumer Care Ltd (BCCL), formerly known as Bajaj Corp Ltd., incorporated in the year 2006, is one of India's leading manufacturers of a wide range of hair care products. The company is part of the Shishir Bajaj Group of companies (the "Bajaj Group"), which operates businesses in the consumer goods, sugar, power generation, and infrastructure development industries.
- It is a Mid Cap company (having a market cap of Rs 2434.41 Crore) operating in FMCG sector.
- It is one of the leading players in the hair oils market, with a strong niche in the light hair oil (LHO) segment. (Lightweight hair oils penetrate the hair shaft quickly without leaving your hair feeling greasy or weighed down.)
- **The company's principal product is Almond Drops Hair Oil, which is the market leader with over 64% share in the Light hair oil market and has 10.2% market share in the total hair oil industry. It also accounts for 91.7% of the company's revenue.** In last fiscal, the brand was re-launched with an upgraded formulation (6X vitamin E).

BCCL is the market leader in Light Hair Oils



- Over past decade, LHO has comprehensively outgrown overall oil market, however, it still contributes only ~17% of the overall market.
- Promoters held 38.04 per cent stake in the company as of 30-Jun-2022, while FIIs owned 14.82 per cent, DIIs 12.93 per cent.
- In August 2013, BCCL acquired Nomarks, the second largest brand in the anti-blemish category, for Rs1.4bn.
- Bajaj Consumer promoter sold 22% stake in Oct'19 (bringing promoter stake down to 38%) and thereby removing all promoter pledge (as of Mar'20).

Hair Oil Market Share

Brand	Parachute	Bajaj Almond	Dabur Amla	Nihar Shanti Amla	Navratna
Market Share (Value)	19.18%	10.19%	7.53%	6.23%	3.75%

Brand	Parachute Advanced Jasmine	Kesh King	Hair & Care	Bajaj Amla
Market Share (Value)	2.81%	2.07%	1.55%	0.41%

Margin weakness continues without any significant uptick in top line

- On a background the inflationary pressures in the economy continue to impact disposable income as well as consumer spending adversely. The overall hair market declined marginally by 0.4% in terms of volume, while in value terms the growth was muted at 0.8% for Q1 FY2023 over the same period previous year.
- Urban markets has seen a value growth of 3.5% overall in hair oils as compared to rural markets where there has been a decline of 2.3%.
- Hair oils portfolio of the company grew by 14% by value and 15% by volume. Coconut-based oils which grew by 4.5% in terms of value over the same period previous year. For the quarter, light hair oil category was flat in terms of volume growth with a 4.5% growth in terms of value.

Hair Oil Market

Rs. 13,466 Cr

Perfume Oil

Rs. 8,658 Cr

(62%)

Coconut Oil

Rs. 4,808 Cr

(38%)

Amla based Oils

Rs. 2,342 Cr

(17.4%)

Light Hair Oils

Rs. 2,129 Cr

(15.8%)

VACNO

Rs. 1,346 Cr

(10.0%)

Ayurvedic/Herbal

Rs. 1,106 Cr

(8.2%)

Cooling Hair Oils

Rs. 1,183 Cr

(8.8%)

Others

Rs. 552 Cr

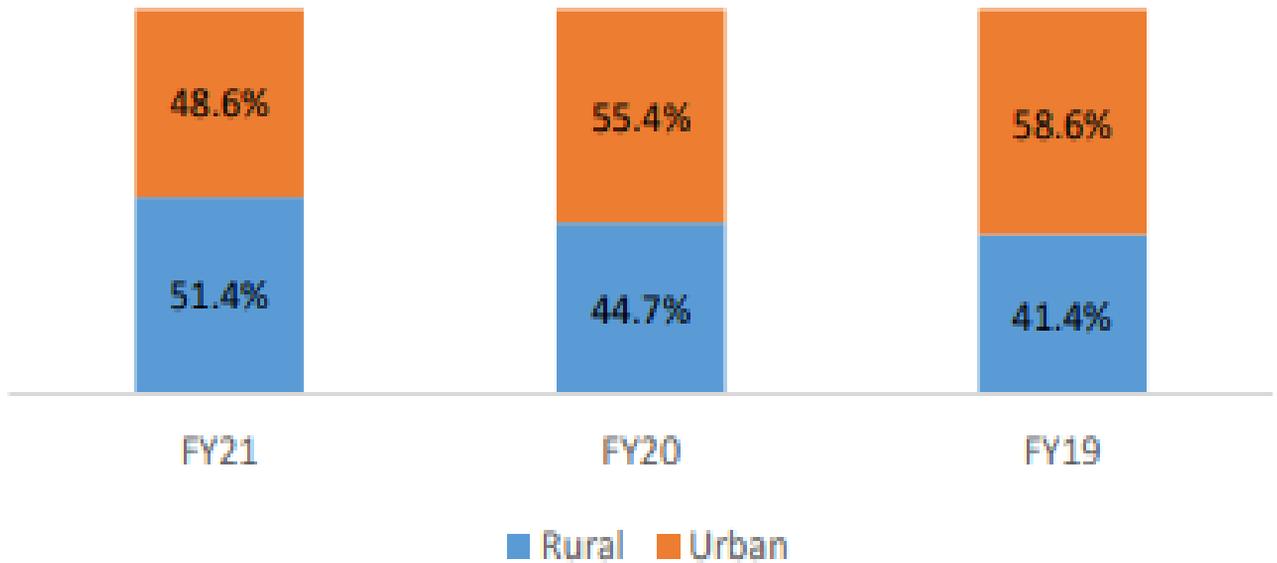
(4.1%)

Coconut Oil

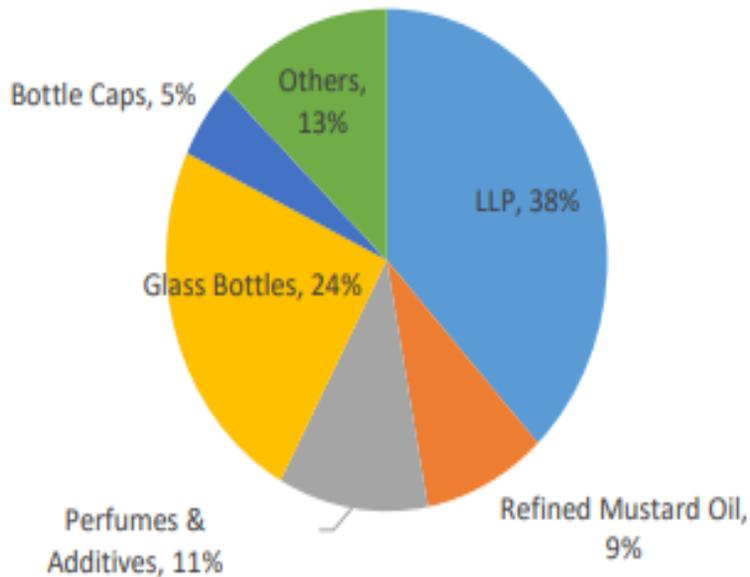
Rs. 4,808 Cr

(38%)

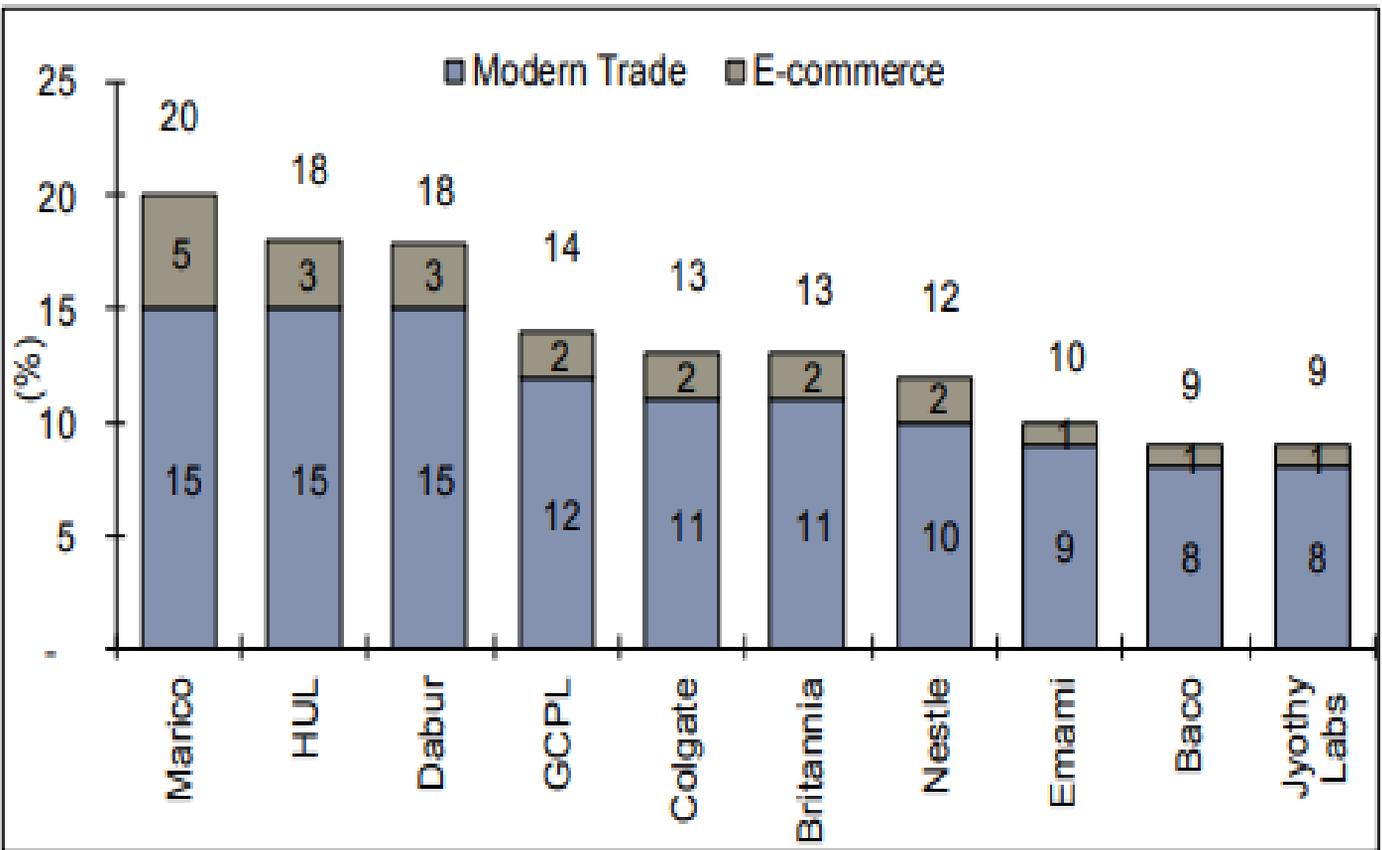
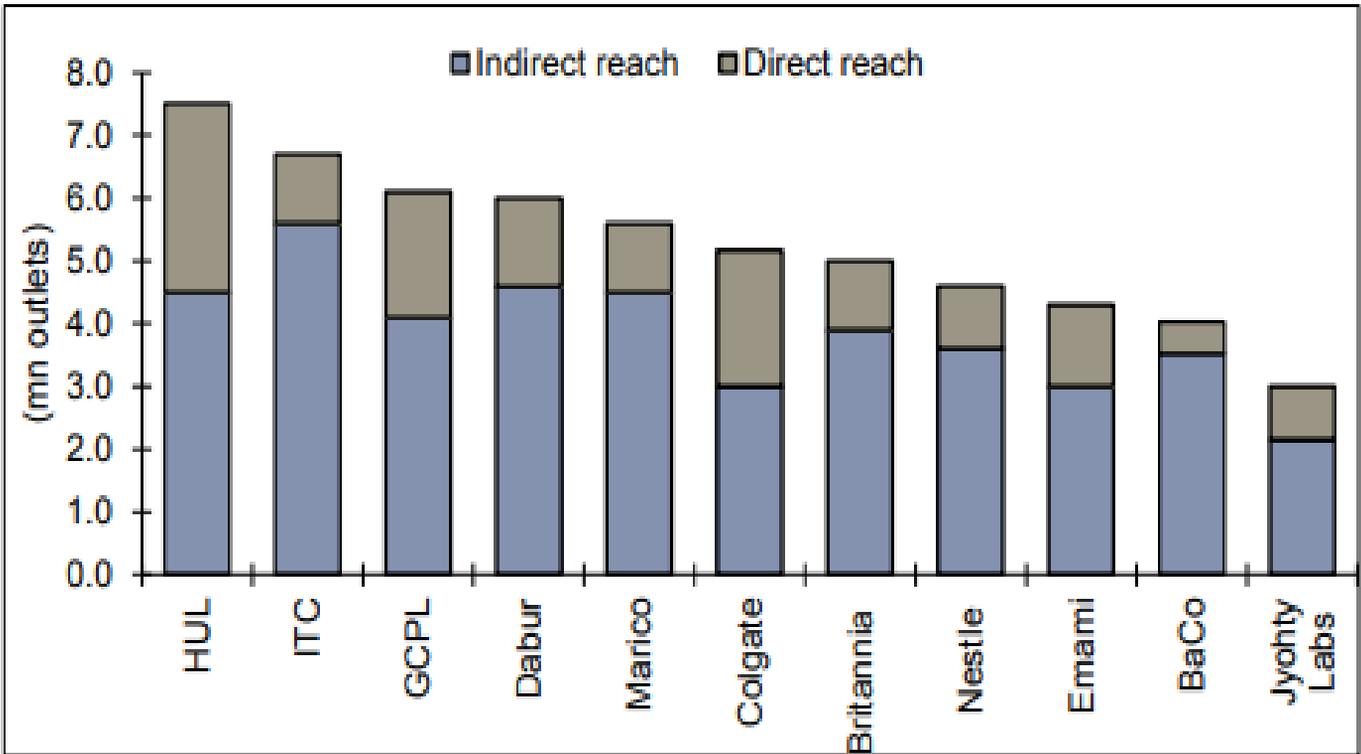
Rural vs. Urban Contribution



Breakdown of RM Costs (Q4FY21)

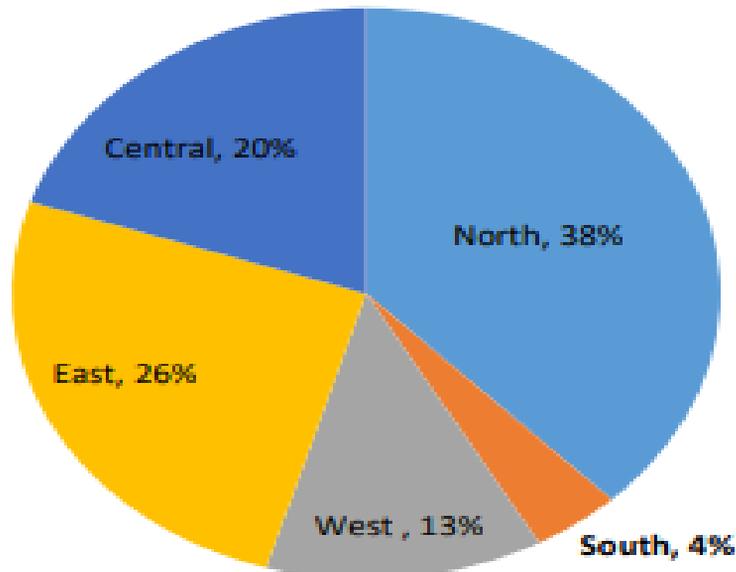


Distribution Reach

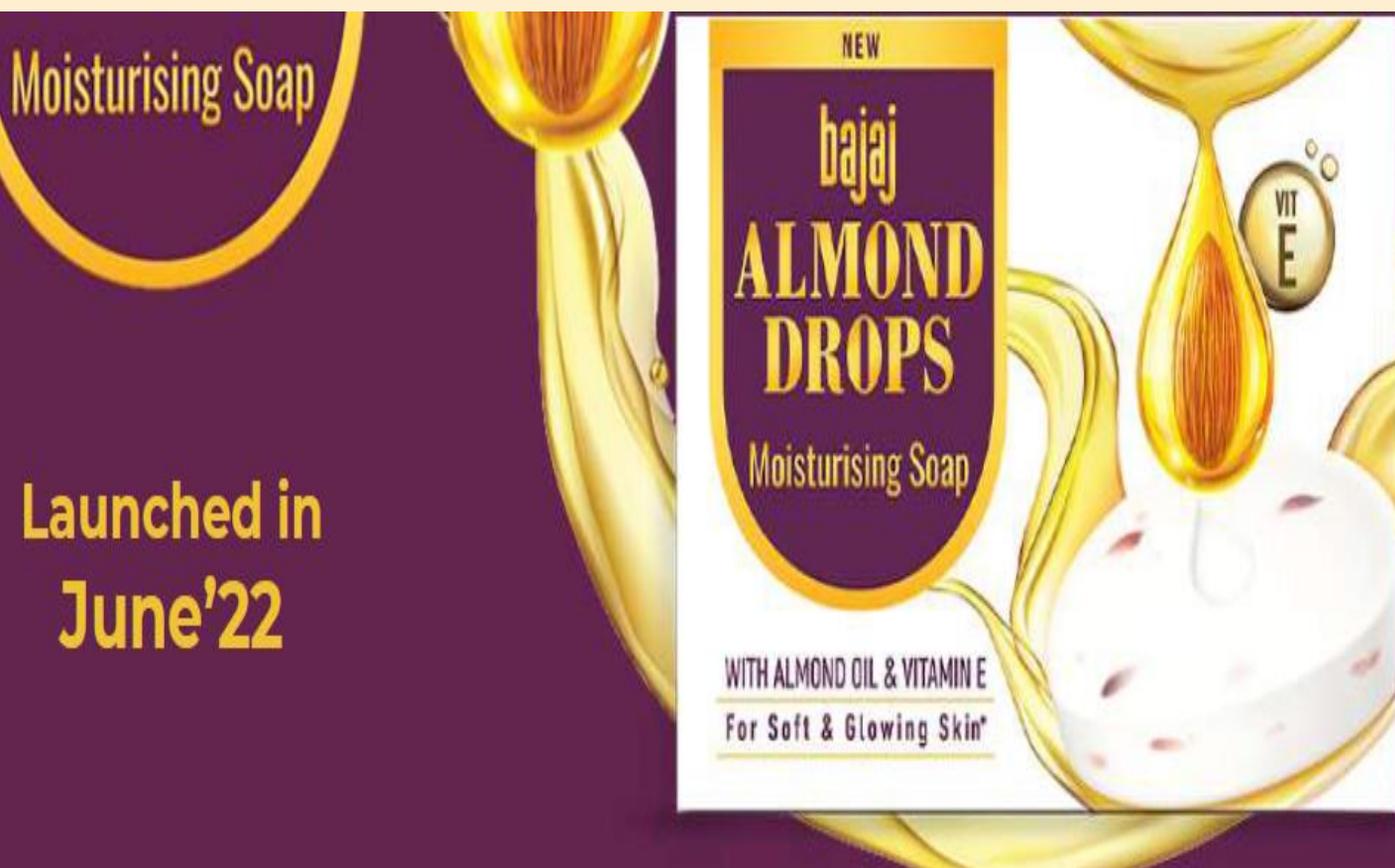


New Products Launched

Tactical launch of coconut oil to enter South India (BCCL's Sales Mix - FY21)

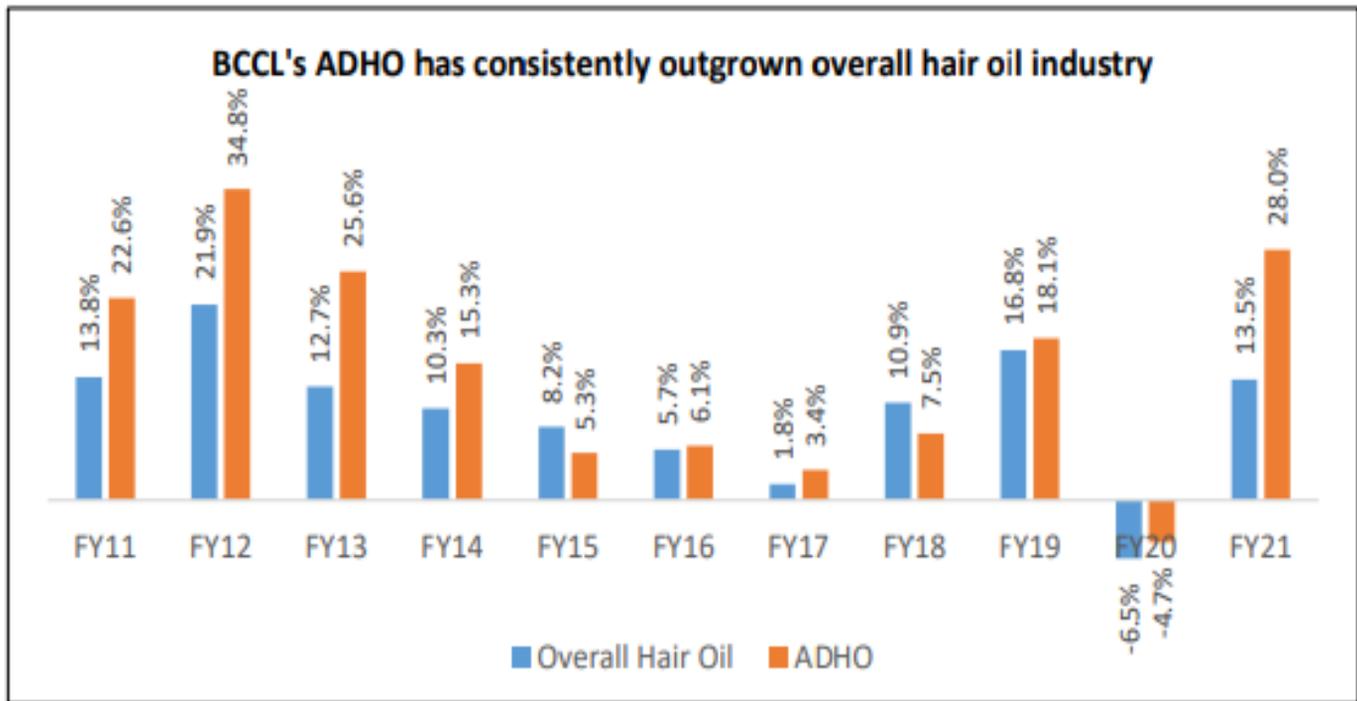


Foray into coconut oil to access Southern Indian markets Historically, BCCL has been strong player in North and Central India across Hindi belt while its presence in West was limited and that in South was negligible as South India is a market for coconut based oils and the company didn't had any offering here. BCCL has recently (July 2021) forayed into coconut hair oil segment with launch of Bajaj 100% Pure Coconut Hair Oil to access markets of Southern and Western India. It has already started van distribution in rural areas of South India, which is helping drive strong penetration.



Bajaj Consumer Care Ltd. announced the launch of Bajaj Almond Drops Moisturising Soap, its latest offering in the skincare segment. Enriched with almond oil and vitamin E, the soap offers premium moisturisation for the skin, leaving it soft, smooth, and glowing. The product leverages the Company's Bajaj Almond Drops Hair Oil offering which has enjoyed a strong positioning and distinctly superior brand equity in the Rs.13,500 crore hair oil space for decades.

STRENGTHS



- **Pricing power and Brand Loyalty** : ADHO operates in the premium segment, which is also the fastest-growing segment within the hair oil market.
- Expanding in popular hair categories and also in skin care segment by launching soap.
- Developing premium brand/products are steps in the right direction. We like its focus on investing in both brand building and distribution expansion.

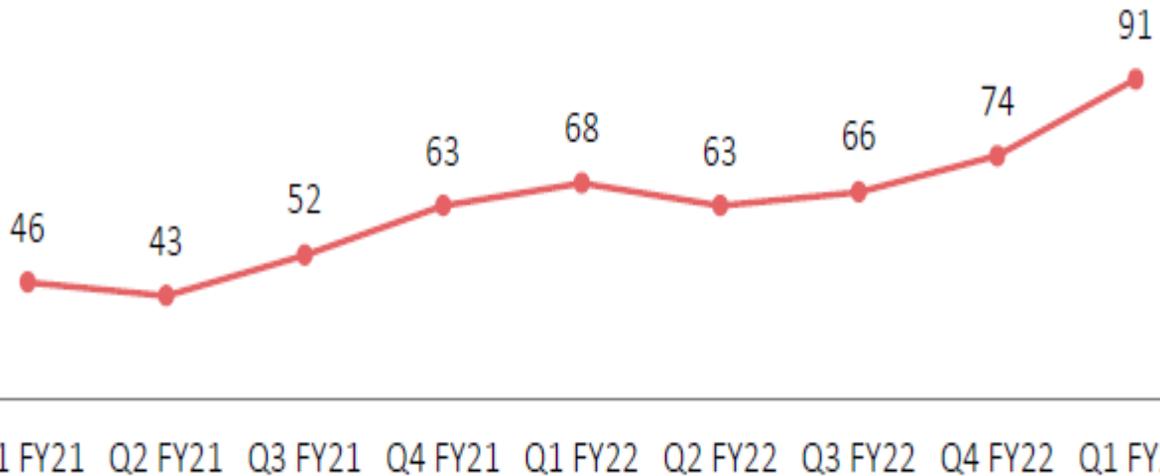
- Strategic initiatives under Jaideep Nandi's leadership instil confidence: (1) focus on overall hair oil category by dialling up presence in Amla (utilising Almond Drops as carrier pack) in key markets; (2) drive distribution expansion and penetration by differentiating trade schemes and margins and (3) focus on improving presence in Modern Trade and e-commerce (currently under-indexed versus peers).
- It continues to scale-up amla and coconut portfolio (now rolled out all India). Besides, it has launched Bajaj 100% Pure Virgin & Cold Pressed Coconut oil in June 2022 along with extending Natyv Soul portfolio to 11 products (both supported with digital media campaigns).

RISKS

- **Overdependence on single product** : Company draws 91.7% of total revenue from single product ADHO while 97.4% of revenue comes from single geography i.e. India. This exposes the company to concentration risk as any negative development or slowdown in the product/geography can have serious impact on company's topline.
- **Volatility in raw material prices**: LLP which is almost 38% of total raw material cost for ADHO is a derivative of crude oil and its price fluctuate with the movement in crude oil. Domestically there are very limited number of players making LLP and thus command pricing power. Additionally, refined mustard oil (RMO) has also witnessed steep inflation in recent past. Sharp rise in RM prices may affect company's margins in near term.
- **Intensive competition**: Hair oil market structure is unique as each segment has a clear market leader; Coconut oil (Marico), Amla (Dabur), Light Hair Oil (Bajaj Consumer), Cooling Oil (Emami) which shows sticky market leadership. However, each player has a presence in other segment and is keen to increase their respective market share which could result into unwarranted competition.

Key Raw Material

Light Liquid Paraffin (LLP) Price (INR / KG)



- **Refined Mustard Oil (RMO)**

Due to the ban in exports of palm oil and imposition of export duty by Indonesia, prices of palm and other edible oils have gone up significantly in Q1. Since the mustard crop in India has been very good, the prices of mustard oil have not gone up in the similar way and are flat vs last quarter

- **Light Liquid Paraffin (LLP)**

Prices have gone up due to the surge in crude prices post Ukraine war. The overall prices of the input raw material, Base oil, has also gone up due to increase in margins of all refined products. Full impact of the price increase will flow in Q2 FY23

Financials

Particulars (Values in Rs. Crore)	Q1 FY22	Q1 FY23	YoY%	QoQ%
Net Sales	213.4	246.5	15.5%	14.7%
Other Operating Income	3.3	2.9	-11.4%	-11.0%
Total Operating Income	216.7	249.4	15.1%	14.3%
Cost of Goods sold	87.4	111.1	27.0%	18.4%
Contribution	126.0	135.4	7.5%	11.8%
% of Sales	59.0%	54.9%		
Employee benefit expenses	23.3	23.1	-0.7%	19.2%
Advertisement & Sales Promotion	29.5	46.3	57.1%	9.4%
Other Expenses	22.7	31.3	37.8%	18.0%
EBITDA	53.8	37.6	-30.0%	4.1%
% of Sales	25.2%	15.3%		
Other Income	8.3	6.7		
Finance Cost	0.3	0.1		
Depreciation and Amortisation	1.2	2.1		
Corporate Social Responsibility	1.3	1.2		
Profit Before Tax (PBT)	59.2	40.9	-30.9%	-6.8%
Tax Expenses	10.3	7.0		
Profit After Tax (PAT)	48.9	33.9	-30.7%	-5.4%
% of Sales	22.9%	13.7%		

Financials

- Highest ever Quarterly Sales in Q1 FY23 with 212.0 Value Growth of 15% YoY and 12.8% QoQ
- For the quarter ended 30-06-2022, the company reported a Consolidated Total Income of Rs 256.16 Crore, up **11.91 %** from last quarter. Total Income of Rs 228.90 Crore up **13.84 %** from last year same quarter.
- The gross margin for the company for Q1 FY2023 at 54.6% saw a decline of around 4% as compared to Q1 of FY2023 which is four quarters back despite price increases that has been taken by the company during the year.

RATIOS

	2021-22	2020-21
EBITDA/Sales	21.24%	27.71%
Profit Before Tax and Exceptional Item/Sales	24.44%	30.17%
PAT/Sales	20.17%	24.90%
Total Comprehensive Income/Sales	20.21%	24.94%
Basic Earnings per Share (₹)	11.83	15.15
Diluted Earnings per Share (₹)	11.82	15.15

	2021-22	2020-21
Interest Coverage Ratio	242.74	224.34
Debt Equity Ratio	N.A.	0.01
Operating Profit Margin	24.55%	30.32%

Key Ratios Analysis

- The company has delivered a **poor sales growth** of **2.01%** over past five years.
- Company is almost debt free.
- **Return on equity:** - ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates. Company has a good return on equity (ROE) track record: 3 Years ROE **28.0%**
- **Inventory turnover ratio:** - Inventory Turnover ratio is an activity ratio and is a tool to evaluate the liquidity of a company's inventory. It measures how many times a company has sold and replaced its inventory during a certain period of time. Bajaj Cons. has an Inventory turnover ratio of **17.7 times** which shows that the management is **efficient** in relation to its Inventory and working capital management.

CONCLUSION

- Bajaj Consumer Care outperformed hair oil category despite Almond Drops being a premium product.
- Key downside risks are overreliance on a single brand – **Almond Drops Hair Oil (ADHO)** and Inflationary pressures continue to impact consumer spending and growth is still subdued in Rural Markets
- Amla hair oil to drive the growth While ADHO is BCCL's flagship brand and its primary cash cow, Amla hair oil brand is expected to lead the growth going forward.
- Overall MT has grown by more than 70% on back of significant market share gain in top retailers. E Commerce continues to scale up well with doubling of top-line over same quarter previous year
- **We maintain BUY** with DCF-based target price of Rs250

Disclaimer : This report is only for education purpose and not an investment advice.