

Bajaj Consumer Care

Rs 351

Becoming more Consumer Centric

BSE Sensex: 36,469

Nifty-50: 10,894

FINANCIALS

	NET SALES	OPM(%)	OP	OTHER INC	PBIDT	INTEREST	PBDT	DEPRN	PBT	EO	PBT AFTER EO	TOTAL TAX	PAT	EPS*
1503(12)	821.29	29.10%	239.08	31.55	270.63	0.1	270.53	4.24	266.29	46.98	219.31	45.99	173.32	14.3
1603(12)	795.86	34.50%	274.43	28.78	303.21	0.21	303	4.32	298.68	46.98	251.7	53.71	197.99	15.9
1703(12)&	792.54	33.50%	265.6	39.35	304.95	0.93	304.02	4.76	299.26	18.38	280.88	59.92	220.96	15
1803(12)&	831.21	31.10%	258.64	24.35	282.99	1.16	281.83	6.85	274.98	0	274.98	58.71	216.27	14.7
1903(12P)&	911.89	30.60%	278.91	25.67	304.58	0.97	303.61	6.71	296.9	0	296.9	64.37	232.54	15.8
2003(12P)&	1030.44	31.60%	325.62	29.52	355.14	1	354.14	6.91	347.23	0	347.23	76.39	270.84	18.4

* Annualized On Current Equity Of Rs 14.75 Crore of face value of Rs 1 each. & FY 17 and FY 18 financials and projected FY 19 and FY 20 financials are as per New Ind AS. EO: Extraordinary Items. EPS Is Calculated After Excluding EO And Relevant Tax. Figures In Rs crore. (P): Projections. Source: Capitaline Database

Founded in 1931 by Jamnalal Bajaj, and now a part of Shishir Bajaj group of companies which has been in business for more than 8 decades in India, Bajaj Consumer Care (formerly BCC) (BCC) is one of India's leading FMCG companies with major brands in hair care category such as Almond Drops, Brahmi Amla, Amla Sheekakai, and Kailash Parbat. BCL also produces oral care products under the brand name Bajaj Kala Dant Manjan.

BCC. ventured into the skin care segment through acquisition of the skin care brand Nomarks in FY 14. It purchased the brand along with its associated goodwill from Ozone Ayurvedics. Bajaj Nomarks product portfolio consists of face wash, facial cream, facial soap etc. The brand has shown all round growth in performance.

The products are manufactured at 3 company operated facilities in Parwanoo, Dehradun and Ponta Sahib, all three are in tax free zones. In addition, the 3rd party manufacturers are also engaged at Parwanoo, Himachal Pradesh for hair oils and Udaipur, Rajasthan to produce oral care products.

BCC's key product Bajaj Almond Drops accounts for more than 85% of its total sales. The product commands over 61% market share (in volume terms) of the light hair oil market. It is the second largest brand in the overall hair oils segment after Marico's Advanced Parachute.

Bajaj Nomarks has become the no. 3 cream in anti marks segment. Nomarks face wash is currently, the 2nd largest anti face wash brand in India. The company aims to make the Nomarks creams into an all-season cream as compared to one time use cream.

Change in name is part of strategy to become more consumers centric

The company changed its name from Bajaj Corp Care to Bajaj Consumer Care in Dec 18 quarter.

New name is more in line with the company's business and its way forward. A way to reignite consumer centricity focus. As per the management, earlier name did not signify the business well enough.

The change in name also reflects the company's change in way of doing business post GST. Prior to GST, around 55% of total sales came from wholesale market and company's dependency was significantly high on rural economy. Post GST rollout, the company has reassessed its business model and way of doing business and has adopted more of a direct reach model and increased its distribution network.



STOCK DATA

BSE Code	:	533229
BSE Group	:	A
NSE Code	:	BAJAJCON
Bloomberg	:	BJCOR IN
Reuters	:	BACO.BO
Par Value	:	Re 1
52-week High/Low	:	Rs 510 / Rs 336
Sector	:	FMCG

SHAREHOLDING PATTERN*

Category	% of equity
Foreign	: 23.91
Institutions	: 5.55
Govt Holding	: -
Corporate Holding	: 0.92
Promoters	: 66.86
Public & Others	: 2.76
Total	: 100

* as on 31/12/2018

Source: Capitaline Databases

As on Dec 18, the company's sales from wholesale market now is around 35% and the company continued only with those wholesale traders which adopted GST regime.

Currently, modern trade accounts for 7% of total trade and has better margins. Thus, a substantial trade is shifted to direct dealer distribution model.

Management's Mission 2020 aims at a transformation, from a hair-oil company to a complete FMCG one, through launches and re-staging existing categories while intending to make a foray into newer categories.

Management intends to drive revenue growth through deeper penetration of Almonds Hair Oil (ADHO), brand extensions and acquisitions. Last year, the company had three re-launches and one new product launch. The ADHO re-launch and Nomarks re-launch is going according to management expectations, gaining urban and rural market share. Bajaj Brahmi Amla (re-launch) is doing well in urban markets and Bajaj Coco Jasmine (new launch) is in a pilot stage. The company has conducted tests in a few districts in Maharashtra in which the product did well. At present, it is strategising to expand it to other parts of Maharashtra.

In Dec 18 quarter, the focus was on relauches and stabilising the same. In Mar 19 quarter management aims for 2 new launches.

The company is looking more into smaller regional as well international brands for acquisitions. The company continued its focus on innovation and indicated that it is looking to launch one well-differentiated and researched new product every quarter; it has visibility of new product launches for the next 2-3 quarters. Immediate launches will be in hair oil and skin care. Currently new launches are in related category products.

Increasing its direct reach outlets

In line with the company's emphasis on increasing distribution, ADHO was distributed through an all-time large number of outlets. The brand is now available at 4m outlets across India.

Direct distribution, in Dec 18 through 492,000 outlets is expected to increase to 540,000 outlets by end of Mar 19.

The company continues to invest more in ad campaigns. The company has linked its top distributors and dealer network to ERP systems. The company has completed the fastest national roll out of sales force automation within the FMCG industry.

ADHO growth in Dec 18 quarter was more than twice that of the overall light hair Oil market

The company continues to dominate the light hair Oil (LHO) category. Highest -ever value and volume shares clocked in Dec 18 quarter.

ADHO continues to dominate light hair-oils with a 60% market share (by volume), up 160bps YoY and 62.4% (by value), up 150bps YoY. In the hair-oil category, ADHO increased its volume market-share 50bps to 7.7%; its value market share was constant at 9.6%.

The growth in ADHO during Dec 18 quarter was at 15% as compared to a growth of 7% of the overall hair oil category. Overall, the market share of ADHO was highest ever for the company in Dec 18 quarter. On a two-year simple average basis, this is the highest uptick in volumes in the past ~15 quarters.

Further to deepen the penetration and to upgrade its consumers it launched SKUs

Bajaj Consumer Care (BCC) is one of India's leading FMCG companies with major brands in hair care category such as Almond Drops, Brahmi Amla, Amla Sheekakai, and Kailash Parbat. BCL also produces oral care products under the brand name Bajaj Kala Dant Manjan

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of Rs 10 sachets. The company's focus on Rs 10 ADHO SKUs (launched in Sep'18) has helped it gain rural market share. This pack now makes up 5.6% of ADHO sales, up 80bps YoY. The company believes Rs 10 pack fills an important gap in the SKU line-up; hence, the renewed focus. The company is selling smaller SKUs largely in rural and semi-urban areas to avoid customers downgrading from the 50ml ADHO bottle in urban areas. The company's objective is to upgrade the huge base of Rs 1 sachet to Rs 10 per bottle.

Rural off-take was buoyant in Dec 18 quarter compared to Sep 18 and better traction was found in wholesale in the latter part of Dec 18 quarter.

The company's main focus is to increase its share in the overall hair oil market. It intends to achieve it by differentiating its light hair oil products from that of its competitors. It will continue to pursue a strategy of converting coconut oil users into consumers of their light hair oil through sampling, targeted advertising campaigns and product innovation. The added Vitamin E advantage in Almond oil compared to other traditional oil is believed to boost blood flow to the user's scalp helping to nurture hair roots making hair seem strong and healthy. Additionally non stickiness of Almond Drops provides users with simplicity of styling not found with traditional hair oils including coconut oils.

Aims to further penetrate Nomarks in line with its consumer centric approach

Nomarks was re-launched in Dec 18 quarter and was supported with strong media and distribution inputs to gain share and position it as a premium ayurvedic skincare brand.

Strong market share growth was seen in Nomarks cream which continued to do well in UP (key market) and all India. Category growth has revived in Q3FY19. Nomarks cream growth was 2x that of the overall cream category.

Nomarks has consistently grown on MAT basis post restage. Market share has increased across all channels. Nomarks cream forms 82% of total value sales of Nomarks now.

The company had to overcome some challenges in urban areas first so that is where the focus is now. The company is now also looking to push Nomarks brand into rural areas. Management expects the positive impact of the same in 3 to 4 quarters.

Nomarks is available in 2.1mn outlets largely in urban areas. Nomarks' contribution from UP is 40% vs 25%, about 1.5 years ago.

Benefits of lower raw material prices will be visible from FY 20 onwards

Light Liquid Paraffin (LLP) and Vegetable oil are major raw material for the company. LLP prices are up by 22% YoY in FY 19.

The company continued to carry high cost of LLP Inventory which will get exhausted by Feb end. The company has slowly started the purchase of LLP for the next year. It is buying at much lower rate compared to its average buying of around Rs 74 per kg of LLP.

Meanwhile a price increase of 3% on select category in HO segment was taken by the company in Aug 18 and full impact was visible in Dec 18 quarter.

Benefits of lower LLP price on the back of fall in crude oil prices, will thus start accruing from Mar 19 onwards. Thus FY 20 will benefit from lower raw material prices.

Initiatives in manufacturing operations and distribution to further help maximize benefits in FY 20.

To deepen the penetration and to upgrade its consumers it launched SKUs of Rs 10 sachets. The company's focus on Rs 10 ADHO SKUs (launched in Sep'18) has helped it gain rural market share

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Recovery in rural economy will aid higher growth

Currently, the company is experiencing growth only from urban presence. With the pick up in rural economy, the company having strong distribution model and reach and a strong brand will be able to generate higher volumes and margins going forward.

Internally, the company expects rural economy to grow on the back of increase in MSP and budgetary and election benefits. The company is also expecting the rural growth to outperform the urban growth going forward.

Financials will improve further

BCC reported a 10% growth in net sales for Dec 18 quarter which stood at Rs 229.57 crore. OPM was down by 170 bps due to increase in prices of raw material which restricted the OP growth to 5% to Rs 71.03 crore. Other income was higher by 65% to Rs 7.38 crore largely due to higher treasury income. This has resulted in a PBIDT of Rs 78.41 crore up by 8%. While interest cost was down by 68% to Rs 0.09 crore, depreciation was down by 9% to Rs 1.72 crore, PBT stood at Rs 76.60 crore up by 9%. After providing total tax of Rs 16.51 crore, PAT for Dec 18 quarter stood at Rs 60.09 crore up by 9% YoY.

For the 9 months ended Dec 18, net sales stood at Rs 663.70 crore which was up by 9% on YoY basis. OPM was lower by 40 bps to 30.2%, thus restricting the OP growth to 7% to Rs 200.73 crore. Other income was lower by 33% to Rs 15.67 crore due to MTM losses on treasury for the 9 months. Depreciation was lower by 3% to Rs 4.86 crore which resulted in a 3% increase in PBT to Rs 210.97 crore. After providing total tax of Rs 45.46 crore, PAT for 9 months ended Dec 18 stood at Rs 165.61 crore, up by 3% YoY.

There is no major capex as capacities are in place. The company has purchased land in Vadodara, Gujarat and has incurred a capex of around Rs 15 crore in FY 18 as compared to around Rs 10 crore in FY 17.

The company is generating free cash flows of more than Rs 200 crore every year. The company has paid an interim dividend of Rs 14 per equity share of face value of Rs 1 each for FY 2019.

Valuation

For FY 19 we expect the company to report net sales and PAT of Rs 911.89 crore and Rs 232.54 crore. For FY 20 we expect the company to report net sales and PAT of Rs 1030.44 crore and Rs 270.84 crore. This gives an EPS of Rs 15.8 for FY 19 and Rs 18.4 for FY 20. Current market price of Rs 351, discounts FY 20 projected earnings by around 19.5 times.

The company continued to carry high cost of LLP Inventory which will get exhausted by Feb end. The company has slowly started the purchase of LLP for the next year. It is buying at much lower rate compared to its average buying of around Rs 74 per kg of LLP

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BAJAJ CONSUMER CARE: RESULT

	1812(03)	1712(03)	VAR. (%)	1812(09)	1712(09)	VAR. (%)	1803(12)¶	1703(12)¶	VAR. (%)
Net Sales	229.57	208.05	10%	663.7	609.61	9%	831.21	792.54	5%
OPM (%)	30.90%	32.60%		30.20%	30.60%		31.10%	33.50%	
OP	71.03	67.85	5%	200.73	186.83	7%	258.64	265.6	-3%
Other Income	7.38	4.48	65%	15.67	23.49	-33%	24.35	39.35	-38%
PBIDT	78.41	72.33	8%	216.4	210.32	3%	282.99	304.95	-7%
Interest	0.09	0.28	-68%	0.57	0.78	-27%	1.16	0.93	25%
PBDT	78.32	72.05	9%	215.83	209.54	3%	281.83	304.02	-7%
Depreciation	1.72	1.9	-9%	4.86	5.02	-3%	6.85	4.76	44%
PBT	76.6	70.15	9%	210.97	204.52	3%	274.98	299.26	-8%
EO	0	0	0%	0	0	0%	0	18.38	-100%
PBT after EO	76.6	70.15	9%	210.97	204.52	3%	274.98	280.88	-2%
Total Tax	16.51	14.98	10%	45.46	43.66	4%	58.71	59.92	-2%
PAT	60.09	55.17	9%	165.51	160.86	3%	216.27	220.96	-2%
EPS*	#	#		#	#		14.7	15	

* Annualized on Equity Of Rs 14.75 Crore of face value of Rs 1 each. EO: Extraordinary Items. EPS Is Calculated After Excluding EO And Relevant Tax. Figures in Rs crore. *Source: Capitaline Corporate Database*