Outperformer Bajaj Corp shows FMCG companies the power of one

A single-minded focus on its most successful brand, Almond Drops, is the core theme of one of India's most profitable and fastest growing in its sector

KRISHNA KANT
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Do one thing and do it well. This is what Bajaj Corp, the fast-moving consumer goods (FMCG) company of the Kushagra Bajaj group, believes in.

HIDDEN GEMS
PART-1

In a sector where most of its peers are busy expanding their brand and product portfolio to maximise gains, Bajaj Corp has stuck to what it knows best — selling light hair oil.

A razor-eye focus on a narrow segment of the hair oil market has enabled the company to become a market leader without unsettling its competitors, most of whom are many times bigger.

"Being a small company in a highly competitive industry, we had to prioritise our goals. We decided to concentrate our resources on a single brand rather than spread ourselves too thin. This enabled us to exploit the full potential of the brand and emerge as a market leader," says Sumit Malhotra, managing director, Bajaj Corp.

The brand in question is Bajaj Almond Drops Hair Oil.

From being a niche player in the hair oil category, Almond Drops is now one of the biggest hair oil brand in the country with retail sales touching ₹739 crore in FY13, a six-time jump in as many years.

The simplicity of its growth model has made Bajaj Corp a favourite pick for many analysts despite the apparent risk of it being a single-product company.

Opportunity grabbed

"A single-minded focus on brand development, marketing and distribution enabled Bajaj Corp to turn its disadvantage into a competitive edge as it steadily grabbed a larger share of the pie. This in turn provided it the pricing power and the financial heft to invest even more in the brand thus re-inforcing this cycle," says Devang Mehta, senior vice-president and head-equity sales at Anand Rathi Financial Services.

No wonder, Mehta has a 'buy' rating on the stock.

For its competitors such as Dabur, Marico, Hindustan Unilever and Dey's Medical, on the other hand, light hair oil was just one of the many hair care products they were marketing.

Obviously, they couldn't match the brand and marketing intensity of Bajaj Corp. In the last five years, ad spend jumped seven times and accounted for nearly 15 per cent its net sales in FY13 against six per cent in FY09.

In comparison, Dabur, on an average, spends 11-12 per cent of its revenues on advertisements. The corresponding ratio for Marico was 11.2 per cent last fiscal, up from 8.8 per cent in FY09.

Bajaj Corp has six products in its portfolio — five brands of hair oils and a tooth power for rural India — but nearly 90 per cent of its revenue is accounted for by its most successful brand, Bajaj Almond Drops.

Nearly 90 per cent of the company's revenue is accounted for by the Almond Drops hair oil

"The biggest investment in our industry goes in marketing and brand promotion. Given our resources, we couldn't afford to support too many brands," says Malhotra.

The results are showing: In the first quarter of the current financial year, Almond Drops' value market share in the light hair oil category increased by 150 basis points to 58.4 per cent and analysts expect it to rise further to around 65 per cent in the next two years.

Five years ago, Almond Drops' market share was much lower at 40 per cent.

Room for growth

"Almond Drops has head room to grow further. We hope to further increase our market share in the category which is still a smaller part of the hair oil segment but growing faster than the entire industry," says Malhotra.

Analysts agree.

"The company has consistently been able to grab market share from competitors and the company is on the way to raise its market share to 65 per cent by next year," says Mehta.

The gains are visible in Bajaj Corp finances. Since FY09, Bajaj Corp's net sales have grown at a compounded annual rate (CAGR) of 25 per cent, while its net profit expanded at 28.2 per cent during the period.

Operating profit grew even faster and quadrupled during the period to ₹213 crore in FY13 from ₹53 crore in FY09 *(see chart)*.

This was much faster than the industry's growth.

The combined net sales of the country's top 14 FMCG companies during the period grew at a CAGR of 15.7 per cent, while their net profit expanded at the rate of 17.6 per cent per annum.

At over 30 per cent of its net sales, Bajaj Corp has one of the highest operating margins in the industry next only to ITC and miles ahead of its competitors in the hair oil segment. In FY13 for instance, the company's return on capital employed was 43 per cent, while return on equity was 36 per cent. The ratios would have even higher but for ₹450 crore worth of cash and equivalent sitting on its balance sheet — equivalent to nearly 80 per cent of its net worth

The company now plans to grow faster by entering new categories and new geographies.

Around a year ago, it launched cooling oil Kailash Parbat, which is making a steady progress. Early this month, it acquired the No-Marks brand that will allow it to enter the skin care category.

In between, it has floated a subsidiary in Bangladesh, one of the largest hair oil markets in South Asia.

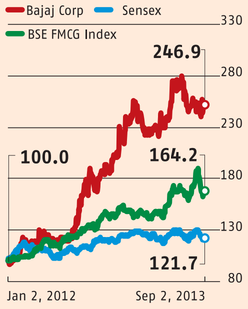
In its rush to grow, however, Malhotra is not willing to jettison his original success mantra.

"We are ambitious and the organisation is now prepared for a big growth push, but we know our bite size. We will never take a step that runs the risks of undoing our nine years of hard work," says Malhotra, who joined the company in August 2004, when it clocked a revenue of ₹68 crore spread over 34 products.

Tomorrow: Kaveri Seeds

BETTER THAN BENCHMARK

Bajaj Corp's relative stock performance



Source: BSE

Kushagra Narayan Bajaj, chairman, Bajaj Corp Ltd

METHODOLOGY

The list has been drawn from 250 of the smallest companies in BS1000, which is a listing of India's top 1,000 listed non-financial companies. First, we ranked the companies according to their financials in the last three years – revenue growth, operating profit and net profit growth. We selected only those companies that beat the universe on all the three parameters. Then, we looked at their stock price performance and dropped those which failed to beat the market. Finally, companies were evaluated on the basis of their return ratios – return on net worth and return on capital employed – in the last three years.

To sum up, the companies in our series provide a mix of high growth, strong balance sheets and an appreciation from the stock market.