



Bajaj Consumer Care Limited

Strong Q4; Long-term growth levers intact

Consumer Goods

Sharekhan code: BAJAJCON

Result Update

3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 294	
Price Target: Rs. 355	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

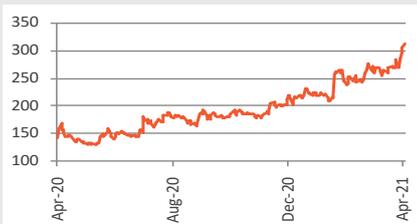
Market cap:	Rs. 4,338 cr
52-week high/low:	Rs. 324/129
NSE volume: (No of shares)	11.0 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	9.1 cr

Shareholding (%)

Promoters*	38.0
FII	26.9
DII	17.0
Others	18.1

*as on September 2019; revised shareholding for December is yet to come

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	8.9	31.9	52.5	75.2
Relative to Sensex	13.1	35.8	34.8	24.4

Sharekhan Research, Bloomberg

Summary

- Bajaj Consumer Care Limited (BCC) posted strong performance in Q4FY2021 with revenue growing by ~40% to Rs. 246crore, OPM expanded by 24.7%, and PAT grew by 120% to Rs. 53.9crore.
- April was a good month with the rural market performing well. However, management is cautious about the coming months. Gross margin pressure is likely to sustain in Q1FY2022 but will get stabilised in the quarters ahead (BCC took price hike of 2.5% and will curtail on cost).
- Improving penetration of Almond Drop Hair Oil (ADHO) brand, gaining market share in the amla category, adding profitable products in the portfolio, and distribution enhancement remain medium-term growth strategy. The company is focusing on improving OPM in upwards of 25% in the near term.
- We have reduced our earnings estimates by 3% for FY2022, while maintaining them for FY2023. The stock is trading at attractive valuations of 15.7x its FY2023E earnings. We maintain Buy with a revised PT of Rs. 355.

Bajaj Consumer Care Limited (BCC) posted strong performance in Q4FY2021 due to 40% growth in revenue to Rs. 246crore (inline with our expectation and street expectation, which was ~Rs. 244crore) and strong expansion in OPM to 24.7%, which led to 120% growth in PAT to Rs. 53.9crore (inline with street expectation of Rs. 53.7crore and better than our expectation of Rs. 43.3crore). Revenue stood flat on a q-o-q basis, and there was no major impact of surge in cases on the distribution and supply front at the fag end of the quarter. Rural India maintained its strong growth momentum with 61% growth (supported by strong van sales operations), while urban has shown recovery with 23% growth in Q4FY2021. Almond Drop Hair Oil (ADHO) continued to do well across geographies because of good acceptance to large packs as well as launch of new SKUs. ADHO market share improved from 60.8% in March 2020 to 62.1% in February 2021 in the light hair oil category. New variant of amla, Bajaj Amla Aloe Vera has been relaunched across key markets. The company has 2.5% market share in the amla hair oil category and the focus is on improving the market share through distribution expansion and promotions (currently available in 3.88 lakh outlets). Key inputs such as light liquid paraffin (LLP) and refined mustard oil (RMO) were up 21% and 25.3%, respectively, in Q4FY2021. This led to a 700 bps decline in the gross margin during the quarter. To mitigate the impact of inflation, the company has undertaken price increases in February 2021 and March 2021. The company ended the fiscal on a good note with revenue growing by 8.3% y-o-y to Rs. 915crore (despite an ~18% decline in revenue in Q1FY2021). OPM improved by 170 bps to 26.6% and PAT grew by 17.3% y-o-y to Rs. 223.6crore. Volume growth for FY2021 stood at 15%, largely driven by strong growth in amla hair oil and strong growth in sanitisers. The month of April has been good for the company, with the rural market continuing to perform well. The company has maintained its focus on maintaining adequate stock at factory level and distributors level so that its products will continue to be available at retail shelves. The company's supply team and field executives are taking the update on the stock with distributors on daily basis. Though April was a good month, management is little cautious about the coming months, considering the rise in cases and state governments opting for localised lockdowns, which might have some disruption on sales. However, medium-term aspiration is on achieving double-digit revenue growth with strategies in place. Gross margin will be lower compared to historical levels, as revenue mix will change with new product launches and increasing amla hair oil share, which has lower gross margins compared to ADHO brand. However, focus remains on achieving OPM above 25% and see consistent improvement in the same over the medium terms through higher sales volume and cost efficiencies.

Key positives

- General trade continues to perform well and reported revenue growth of 40% in Q4FY2021.
- Rural growth stood at 61%; urban growth recovered to 23% (compared to 7% in Q3FY2021).
- BCC launched a new variant of amla hair oil – Bajaj Amla Aloe Vera Hair Oil; market share in the amla category has improved to 2.5% in Q4FY2021 versus 1.6% in Q2FY2021.

Key negatives

- Gross margin down by 700 bps y-o-y and 285 bps q-o-q due to significant surge in input prices.

Our Call

View – Retain Buy with a revised PT of Rs. 355: We have reduced our earnings estimates for FY2022 by 3.2% to factor in little lower sales growth than earlier estimated, while we have broadly maintained our earnings estimates for FY2023. Improving penetration of ADHO brand, gaining market share in the amla category, adding profitable products in the portfolio, and distribution enhancement remain the medium-term growth strategy. With focus on sustained improvement in OPM, earnings are expected to grow in double digits over the next two-three years. The company has paid dividend of Rs. 10 per share (dividend yield of 3.4%) for FY2021 and has maintained its thrust, rewarding shareholders with better dividend payout (2/3rd of profits), not compromising on its growth levers. The stock is trading at attractive valuations of 15.7x its FY2023E earnings, which is at a discount to peers. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 355 (valuing stock at 19x its FY2023E EPS).

Key Risks

Any slowdown in the growth of hair oil category or sustained increase in the input prices would act as a key risk to our earnings estimates.

Valuation (Standalone)

Particulars	FY19	FY20	FY21E	FY22E	FY23E
Revenue	909	844	915	1,026	1,161
OPM (%)	30.6	24.9	26.6	25.3	25.8
Adjusted PAT	226	191	224	236	276
% Y-o-Y growth	4.6	-15.7	17.3	5.6	16.9
Adjusted EPS (Rs.)	15.3	12.9	15.2	16.0	18.7
P/E (x)	19.2	22.8	19.4	18.4	15.7
P/B (x)	8.9	6.4	5.6	5.0	4.5
EV/EBIDTA (x)	14.2	18.0	15.0	13.8	11.7
RoNW (%)	45.7	32.8	30.7	28.6	30.0
RoCE (%)	56.2	37.8	34.8	33.1	35.2

Source: Company; Sharekhan estimates

Q4FY2021 – Revenue grew by 40%; Gross margins dip by 700 bps: BCC's standalone revenue grew by 40.3%y-o-y to Rs. 246crore, inline with our as well as street expectation of Rs. 244crore. Topline growth of 40% is because of a 29% decline in revenue in Q4FY2020. However, revenue stood flat on a sequential basis at ~Rs. 242crore. Rural India maintained its strong growth momentum with 61% growth (supported by strong van sales operations), while urban has shown recovery with 23% growth in Q4FY2021. ADHO continued to do well across geographies because of good acceptance to large packs as well as launch of new SKUs. A sharp increase in input prices (including vegetable oil and LLP) led to a 700 bps decline in gross margins to 61.3%, lower than our expectation of 64%. Better operating leverage and cost-saving initiatives aided OPM to stand at 24.7% in Q4FY2021 (inline with street expectation of ~25%) as against 13.5% in Q4FY2020. Reported PAT grew by 120%y-o-y to Rs. 53.9crore, exactly inline with street expectation of Rs. 53.7 crore and higher than our expectation of Rs. 43crore.

ADHO continues to perform well: ADHO brand continued to perform well across geographies because of good growth in large packs as well as launch of new SKUs. The brand's all-India market share in January-February stood at 11.1%, improved from 9.6% in Q1. On YTD basis, ADHO has gained market share of 18 bps compared to last year. ADHO continues to gain market share in the light hair oil category, which improved from 60.8% in March 2020 to 62.1% in February 2021 (January 2021-February 2021 market share stood at 63.7%). New commercial of 6x Vitamin E is doing better than the earlier one, getting relevant message and focusing well on key parameters of products. The company is focusing on adding new customers (largely younger customers) under the brand. The company is focusing on promoting the brand through digital media and other relevant platforms, which will help in gaining good traction in the coming years. The brand registered 6% growth in FY2021 (40% in Q4FY2021). We expect the brand's volume growth to improve to high single digit in the coming years.

Amla Hair Oil – Continues to gain market share: The amla hair oil category is around Rs. 2,200crore as per MAT February 2021 data. The category grew faster at 6% versus overall hair oil market at 1%. BCC value market share in the amla category improved at 2.5% in Q4FY2021 versus 2.2% in Q3FY2021 and 1.6% in Q2FY2021. Distribution of amla hair oil increased to 3,88,000 outlets in February 2021 compared to 2,55,000 outlets in February 2020. The company launched the new variant of amla hair oil – Bajaj Amla Aloe Vera in February 2021 across key markets. Formulation and packaging upgraded to modernise the brand. The key distinctive feature is that no other brand offers an Aloe Vera variant at the price range offered by BCC (34ml – Rs. 10, 80ml – Rs. 20, 160ml – Rs. 40, 300ml – Rs. 75, and 500ml – Rs. 125). The company is targeting to achieve market share of 6% over the next two to three years in the amla category.

General trade continues to perform well; Rural remains strong while urban saw recovery: General trade (~85% of sales) grew by 40% in Q4FY2021, resulting in ~10% growth for FY2021. ADHO continued to perform well across all geographies with strong acceptance to large packs and new SKUs. Amla hair oil also gained market share because of good performance in key markets. Q4 saw continued recovery of modern trade channel with good traction during Republic Day and Holi festival. 1) Consumer promotions, 2) trade promotions with B2B and B2C chains in the southern market to increase brand availability, and 3) enhanced range of products at various national chains with brands such as Zero Grey, Cool Almond Drops, and Brahmi Amla to have better shelf space will help the company post better growth in the modern trade channel in the coming years. On the CSD front, regular flow orders were witnessed during the quarter. E-commerce revenue (3% of overall sales) grew by 4x during the quarter. The company is focusing on adding relevant products to further improve the salience of e-commerce sales in the coming years. The rural market continued to outpace the urban market with strong growth of 61% in Q4FY2021. This was mainly because of strong support of van operations. Urban markets are also showing signs of recovery with 23% growth in Q4FY2021 compared to 7% growth achieved in Q3FY2021.

Gross margin pressure to sustain in the near term: BCC's gross margins decreased by 700 bps in Q4FY2021 to 61.3%. This was mainly on account of raw-material cost inflation, provisioning made of sanitisers packs (1% impact), and change in revenue mix due to increased contribution of amla to overall revenue. The company has undertaken price increase of 2.5% in February-March to mitigate the impact of input cost inflation. However,

the price hike undertaken will not fully mitigate input cost inflation. Any further price hike will depend upon the competitive pricing action and demand environment. Hence, gross margin is expected to remain under pressure in Q1FY2022. Management expects it to stabilise in the quarters ahead. In the medium term, gross margins will be lower compared to historical levels as revenue mix will change with new product launches and increasing amla hair oil share, which has lower gross margins compared to ADHO brand. However, focus remains on achieving OPM above 25% and see consistent improvement in the same over the medium term through higher sales volume and cost efficiencies.

Balance sheet remains strong with negative working capital: The company's working capital days remained stable at negative 10 days in FY2021. Cash and cash equivalent on books stood at Rs. 593.3 crore, with a y-o-y increase of Rs. 135.5 crore. RoE and RoCE stood strong at 30.7% and 34.8%, respectively, in FY2021. The company paid dividend of Rs. 10 per share for FY2021 (dividend yield of 3.2%), which is much better compared to dividend per share of Rs. 2 per share paid in FY2020. With expected improvement in free cash in the coming years, we expect dividend payout to further improve in the coming years. Management has guided 2/3rd of PAT will be utilised for rewarding shareholders with better dividend pay in the coming years. However, it will not compromise on investments done behind the strengthening existing brands, higher promotional spends behind new launches, improving manufacturing landscape, and acquisition of brand/product to improve future growth prospects.

Other key conference call highlights

- ◆ **Impact of localised lockdown; BCC's preparation to face the lockdown challenge:** The month of April was better for the company with rural India performing well. The impact of localised lockdown is lesser in rural India. Rural markets have seen good momentum in sales during the month. However, management is cautious about May and June, as stringent restrictions imposed by some of the states might have an impact on sales in the coming months. On the other hand, the company has maintained adequate inventory at the factory level and with dealers/distributors. The company's supply team and field executives are taking the update on the stock with distributors on a daily basis. Thus, taking the cognizance of last year's lockdown experience, the company has prepared itself to face any adversity in the coming months.
- ◆ **New product launches likely in H2FY2022:** The company has indicated of launching new products for the general trade and e-commerce platform. For the general trade, it will be more of extension or new variants under the existing hair oil brands. For new e-commerce, it will be the launch of premium products under the hair care category. Further, the company is planning to launch a product under the personal care category. Earlier, plans were to launch products in Q2/Q3 of FY2022. However, considering the current surge in COVID-19 cases, new launches might get delayed and will be launched according to the overall market environment.
- ◆ **Rationalisation of employee cost:** Management expects employee cost is expected to trim down a bit in the coming years, as restructuring of management team is completed. Variable pay will be depending on different parameters, including sales of the particular brand and achieving potential targets. So, with the expected increase in scale and prudent payment of variable incentives, management expects employee cost as a percentage of sales to reduce in the coming years.
- ◆ **Expansion of distribution:** BCC's management has maintained its thrust on expanding its distribution reach in the coming years. In rural India, the company will continue to build up direct distribution through van operations (currently contributes 10% to rural sales). The target is on increasing the contribution from direct reach to 8.5% from the current 5.2% over the next two to three years.

Results (Standalone)

Particulars	Rs cr				
	Q4FY21	Q4FY20	Y-o-Y %	Q3FY21	Q-o-Q %
Net sales	241.9	168.6	43.5	242.8	-0.3
Other operating income	4.1	6.8	-39.9	4.5	-9.3
Net revenue	246.0	175.4	40.3	247.3	-0.5
Total expenditure	185.2	151.8	22.0	184.1	0.6
Operating profit	60.8	23.6	157.4	63.1	-3.7
Other income	6.3	8.4	-24.5	9.2	-31.5
Interest expenses	0.3	0.9	-	0.3	-
Depreciation	1.5	1.4	7.1	1.5	-0.8
Profit Before Tax	65.3	29.7	120.0	70.6	-7.4
Tax	11.4	5.2	120.7	12.3	-7.4
Adjusted PAT	53.9	24.5	119.8	58.2	-7.4
Extra-ordinary gain / loss	0.0	0.0	-	0.0	
Reported PAT	53.9	24.5	119.8	58.2	-7.4
Adjusted EPS (Rs.)	3.7	1.7	119.8	3.9	-7.4
GPM (%)	61.3	68.3	-700BPS	64.1	-285BPS
OPM (%)	24.7	13.5	-	25.5	-82BPS

Source: Company; Sharekhan Research

Channel wise – Revenue break-up

Particulars	Rs cr					
	Q4FY21	Q4FY20	YoY %	FY2021	FY2020	YoY %
General Trade	202.1	144.4	40.0	768.1	703.3	9.2
Alternate Trade	33.9	21.1	61.0	106.3	93.0	14.3
Total Domestic	236.0	165.4	42.7	874.4	796.4	9.8
International business	5.9	3.2	82.7	23.6	21.4	10.1
Total revenues	241.9	168.6	43.5	898.0	817.8	9.8

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector view - Hair oil got into the positive growth trajectory in Q4

Strong pick-up in rural demand, general trade seeing normalisation in the business, and higher sales through online channels aided most consumer goods companies to recover sales to pre-COVID levels in most categories. Hair care products re-gained momentum (especially at the bottom-of-the pyramid). Overall, the hair oil category registered 1% growth in January 2021-February 2021 (driven by 3% volume growth), better than a 1.4% decline in Q3FY2021. This was mainly because of strong recovery in rural demand. The rural market grew by 6% in January 2021-February 2021. The shift of consumers from loose hair oil to branded hair oil, improvement in penetration in rural markets, and sustained new product launches would help the hair oil market to achieve good growth in the medium term. Increased key input prices would be mitigated by judicious pricing and cost-saving initiatives in the coming quarters.

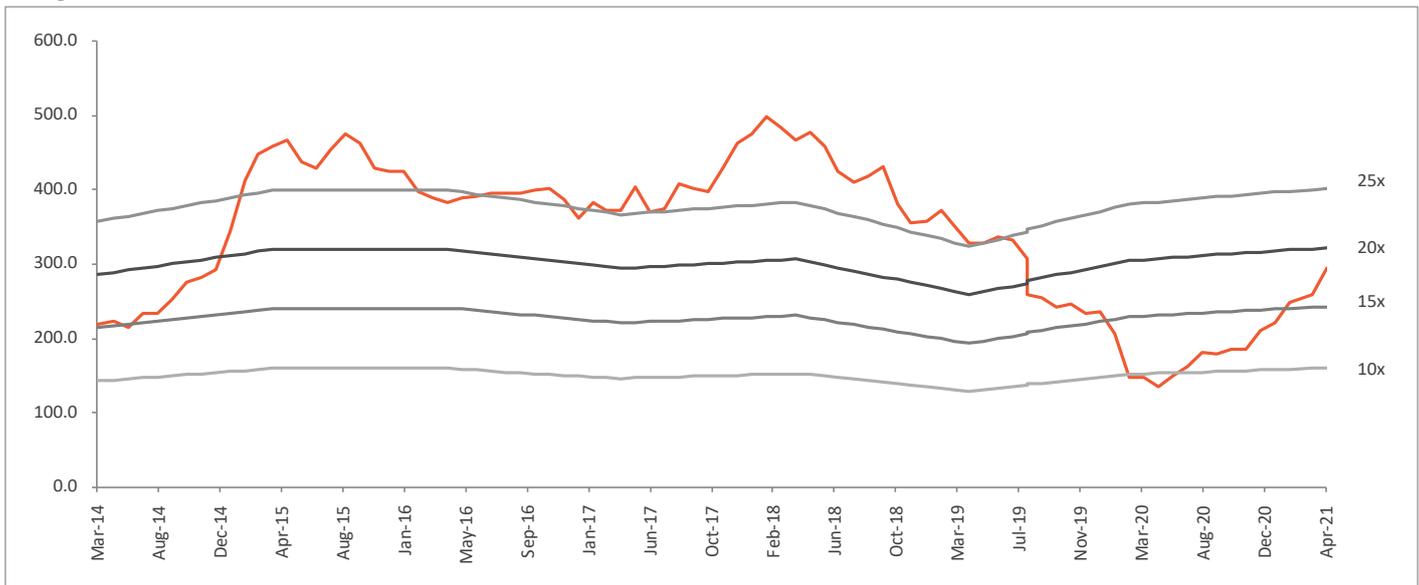
■ Company outlook - Medium-term growth prospects intact

BCC's revenue grew by ~8% in FY2021 because of 15% volume growth. This was largely driven by strong double-digit growth in rural markets. Though April was a good month, management is little cautious about the coming months, considering the rise in cases and state governments opting for localised lockdowns, which might have some disruption on sales. However, medium-term aspiration is on achieving double-digit revenue growth with strategies in place. Gross margin will be lower compared to historical levels, as the revenue mix will change with new product launches and increasing amla hair oil share, which has lower gross margins compared to ADHO brand. However, the company's focus remains on achieving OPM above 25% and see consistent improvement in the same over the medium term through higher sales volume and cost efficiencies.

■ Valuation - Retain Buy with a revised PT of Rs. 355

We have reduced our earnings estimates for FY2022 by 3.2% to factor in little lower sales growth than earlier estimated, while we have broadly maintained our earnings estimates for FY2023. Improving penetration of ADHO brand, gaining market share in the amla category, adding profitable products in the portfolio, and distribution enhancement remain the medium-term growth strategy. With focus on sustained improvement in OPM, earnings are expected to grow in double digits over the next two-three years. The company has paid dividend of Rs. 10 per share (dividend yield of 3.3%) for FY2021 and has maintained its thrust, rewarding shareholders with better dividend payout (2/3rd of profits) not compromising on its growth levers. The stock is trading at attractive valuations of 15.7x its FY2023E earnings, which is at a discount to its peers. We maintain our Buy recommendation on the stock with a revised PT of Rs. 355 (valuing the stock at 19x its FY2023E EPS).

One-year forward P/E band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBIDTA (x)			RoCE (%)		
	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21E	FY22E	FY23E
Dabur	56.4	46.9	40.5	45.8	37.8	32.2	28.3	30.0	29.5
Marico	43.9	37.8	32.8	31.7	27.5	23.9	46.2	52.4	54.5
Bajaj Consumer Care	19.4	18.4	15.7	15.0	13.8	11.7	34.8	33.1	35.2

Source: Company, Sharekhan estimates

About company

BCC is the second largest company in the Bajaj Group established in 1953 to market and sell hair oils. The company is one of the leading players in the hair oil category, with brands such as ADHO, Bajaj Brahmi Amla Hair Oil, Bajaj Jasmine Hair Oil, and Bajaj Cool Almond Drop. The company's flagship brand, ADHO enjoys a leadership position in the premium segment and contributes ~96% to overall revenue. The company had acquired Nomarks brand to expand into the Rs.9,000 crore skincare category with its range of skincare products. BCC has an established direct distribution network of over 9 million outlets with a direct coverage of ~20%.

Investment theme

BCC is the market leader in the light hair oil category with a market share of 65%. The company has reduced its dependence on the wholesale network; this along with increasing share of direct distribution (with focus on penetrating deep in rural markets) along with the relaunch of core brands would be key levers for achieving sustained volume growth (targets to achieve volume growth of 6%-8% in the medium term). Further, new product addition under the hair care category and focus on improving presence in the southern market will add-on to growth in the coming years. Negative working capital and strong cash generation would help BCC to invest heavily in core brands and new launches or go for any inorganic initiatives in the near future to improve growth prospects.

Key Risks

- ◆ Slowdown in volume growth of key revenue contributing product, ADHO, would affect revenue growth.
- ◆ Heightened competition in key penetrated categories would result in market share loss, thus affecting revenue growth.
- ◆ Any significant increase in key raw materials such as LLP and refined oil will be a threat to profitability.

Additional Data

Key management personnel

Kushagra Nayan Bajaj	Non -executive chairman
Jaideep Nandi	Managing Director
Dilip Maloo	Chief Financial Officer
Chadresh Chaya	Company Secretary & Compliance officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	ICICI Prudential Asset Management	7.57
2	HDFC Asset Management Company	4.54
3	Nippon life India Asset Management	3.02
4	Jupiter Fund Management PLC	1.81
5	SAIF India V FII Holdings	1.68
6	Aditya Birla Sun Life Insurance	1.22
7	Vanguard Group Inc	1.21
8	Goldman sachs Group	1.12
9	Aditya Birla Sun Life Asset Mgmt	0.9
10	BlackRock Inc	0.86

Source: Bloomberg (old data)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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