



Bajaj Consumer Care Ltd

Mixed bag Q1; focus stays on de-risking business

Consumer Goods

Sharekhan code: **BAJAJCON**

Reco/View: **Buy**

CMP: **Rs. 163**

Price Target: **Rs. 200**

↑ Upgrade ↔ Maintain ↓ Downgrade

3R MATRIX

	+	=	-
Right Sector (RS)	Green	Grey with check	Red
Right Quality (RQ)	Green	Grey	Red
Right Valuation (RV)	Green	Grey	Red

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Grey	↔	Grey
RQ	Green	↔	Green
RV	Green	↔	Green

ESG Disclosure Score **NEW**

ESG RISK RATING	28.72			
Updated Jul 08, 2022				
Medium Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

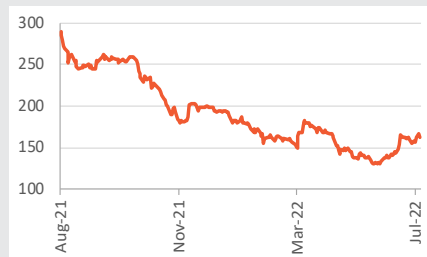
Company details

Market cap:	Rs. 2,405 cr
52-week high/low:	Rs. 295 / 129
NSE volume: (No of shares)	7.0 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	9.1 cr

Shareholding (%)

Promoters	38.0
FII	16.0
DII	12.9
Others	33.0

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	15.0	-2.0	-11.6	-43.6
Relative to Sensex	5.4	-6.7	-10.7	-53.8

Sharekhan Research, Bloomberg

Summary

- Q1FY2023 financials were mixed with revenue growing by 14.6% y-o-y to Rs. 247 crore (driven by a 14% rise in volumes), while a 980 bps y-o-y fall in OPM dragged down adj. PAT by 32% y-o-y to Rs. 33.4 crore.
- With new product launches the company is catering to ~83% of the overall hair oil market from mere 35% earlier. Market share remains at 10.3%. Bajaj Almond Drops hair contribution reduced to 86% from 93-94% earlier due to strong traction for new launches and Amla portfolio.
- Rural demand recovery will help the ADHO segment bounce back, while higher media spends would support new launches and key products, expansion on digital platform, widening distribution reach will drive growth in the medium term. Company eyes OPM of 20-21% in the medium term.
- Stock has underperformed broader indices and trades at discounted valuations of 13.3x/11.3x its FY2023E/24E EPS. We maintain a Buy on the stock with a revised PT of Rs. 200.

Bajaj Consumer Care (BCC) registered mixed performance with strong double-digit revenue growth while a dip in margins dragged down PAT. Revenues grew by 14.6% y-o-y and 12.5% q-o-q to Rs. 246.7 crore, driven by 14% volume growth (on a 3-year CAGR basis volume growth stood flat). Core Bajaj Almond Drop hair oil (BAHO) registered a volume growth of over 5%. The Amla portfolio and new launches in the hair oil space registered strong performance. Raw material inflation led to 417 bps y-o-y decline in the gross margins to 55.1%. This along with higher ad spends on new launches led to a 980 bps y-o-y decline in the OPM to 14.5% (down by 247 bps q-o-q). Sharp decline in the OPM led to 32% y-o-y fall in adjusted PAT to Rs. 33.4 crore.

Key positives

- Sales volume grew by 14% on y-o-y basis against industry volume decline of 0.4%.
- Amla portfolio market share stood above 3%; revenues of Amla portfolio grew by 47% in Q1.
- Modern trade segment grew strongly by over 70% on back of significant market share gains in top retailers.
- New launches helped company cover 83% of overall hair oil market as compared to 35% earlier.

Key negatives

- Higher inflationary pressures and slower rural demand affected the sales of BAHO, which is yet to recover to pre-COVID levels.
- Higher input cost inflation and higher advertisement and promotional spends led to 980 bps y-o-y decline in OPM to 14.5% (247 bps on q-o-q basis).

Management Commentary

- The Hindi-belt comprising Uttar Pradesh, Bihar, Madhya Pradesh and Rajasthan have seen sharp slowdown in consumer demand as compared to some of the other states. BAHO sales volume is yet cross pre-COVID level sales (currently at 95% of pre-covid level sales). Better monsoons and higher realisation of agri-products might lead to improvement in the demand in the quarters ahead.
- Amla portfolio and new launches in the hair oil portfolio are gaining strong traction and scaling up well on quarter basis. BAHO's overall contribution to revenues of the company has reduced to 86% from 93-94% earlier. The company is focus on further de-risking its business model by reducing dependence on BAHO and focus on new launches and distribution reach to improve revenue growth in the medium to long term. The company will continue to support new launches with extensive media support and hence advertisement & media spends are expected to be at 17-18% of revenue in the medium term.
- Raw material inflation will continue to keep gross margins stressed. The company has taken price increase of 7.0% to mitigate the raw material cost pressure. There is a 6% gap between price increase and raw material inflation which will continue to hit margins. If raw material prices cool-off in the coming quarters the stress on the margins will reduce in H2FY23. However, the company does not expect the OPM to come back to historical levels and expect to stay at 20-21%.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 by 3% and 4.4% respectively to factor in lower-than-earlier expected OPM (affected by higher input cost inflation and increase in advertisement spends to support brands).

Our Call

View – Maintain Buy with revised PT of Rs. 200: BCC's near-term performance will be affected by slowdown in the rural demand and spike in the input prices. However, we expect momentum to shift with recovery in the rural demand and stabilisation in the input prices. We liked BCC's revamped focus on driving growth through new product launches, distribution expansion and market share gains in the light hair oil category to drive sustainable earning growth in the medium term. Further the company is focusing on improving its position in overall hair oil market with improved traction to new launches. The stock has underperformed the broader indices and is trading discounted valuations of 13.3x and 11.3x its FY2023E and FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 200.

Key Risks

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

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E	Rs cr
Revenue	915	902	972	1,093	
OPM (%)	26.6	21.5	19.4	20.8	
Adjusted PAT	224	181	180	212	
% Y-o-Y growth	17.3	-18.9	-0.5	17.7	
Adjusted EPS (Rs.)	15.2	12.3	12.2	14.4	
P/E (x)	10.7	13.2	13.3	11.3	
P/B (x)	3.1	2.9	2.8	2.7	
EV/EBITDA (x)	7.0	8.6	8.7	7.1	
RoNW (%)	30.7	22.4	21.5	24.7	
RoCE (%)	34.8	25.6	24.7	28.7	

Source: Company; Sharekhan estimates

Strong volume led growth; Margins impacted by input cost inflation

Bajaj Consumer Care's (BCC's) revenue grew by 14.6% y-o-y and 12.5% q-o-q to Rs. 246.7 crore led by volume growth of 14% y-o-y and 9.8% q-o-q. Hair oil category grew by 0.8% (volume decline of 0.4%) during the quarter. We and street were expecting volume decline of around 4-5% due to slowdown in the hair oil category. Raw material inflation led to 417 bps y-o-y and 169 bps q-o-q decline in the gross margins to 55.1%. This along with higher ad spends towards new launches led to 980 bps y-o-y and 247 bps q-o-q decline in OPM to 14.5%. The operating profit decreased by 31.6% y-o-y to Rs. 35.8 crore and reported PAT decreased by 31.7% y-o-y to Rs. 33.4 crore. BCC's market share remained steady at 10.2-10.6%.

Key conference call highlights

- ◆ **Volume growth ahead of category:** The hair oil category reported 0.4% y-o-y decline during the quarter with volume marginally growing by 0.8% y-o-y. Light hair oil category registered 4.5% y-o-y value growth in Q1FY2022. Inflationary pressures continued to affect consumer spends with rural markets declining, while the urban markets grew in high teens. Volumes grew by 14% y-o-y and 9.8% q-o-q, while the hair oil category grew by 15% y-o-y.
- ◆ **Modern trade (MT) and e-commerce to scale up fast:** The MT channel reported growth of over 70% y-o-y on back of significant market share gain in top retailers coupled with footfalls returning to pre-COVID levels. Bajaj 100% Pure Coconut oil has seen promising offtake. Contribution from MT stands at 8% of topline. The company's e-commerce channel continues to scale up well with doubling of top-line y-o-y. E-commerce salience stood at 6% of topline with new launches contributing a fifth of e-Commerce revenues. The management has guided that the company plans to increase contribution from MT and e-Commerce to 15% each in the medium-long term.
- ◆ **Good performance by international business in Q1:** There was a vast difference in performance across various regions with Middle East & Africa regions performing well during the quarter, while despite external challenges, infrastructure changes in Nepal helped in achieving double-digit top-line growth. Bangladesh and Rest of World (RoW) business delivered muted performance in Q1FY23 due to slowdown in these markets on account of lower demand. The international business currently contributes ~3% to the company's overall revenue. The company plans to focus on 1-2 markets in FY2023 and improve the international business going ahead.
- ◆ **Almond Drops Hair Oil (ADHO) mix declining:** *Almond Drops Hair Oil* portfolio, which earlier contributed ~93% to total revenue has now witnessed a decline in the contribution to ~86% with the launch and scale-up in the new products. While ADHO will continue to constitute a lion's share of revenues, the company also plans to launch new premium products, which will help the company to diversify its risk and improve its profitability.
- ◆ **Strong y-o-y growth in Amla category:** The *Amla* oil category saw a strong 47% y-o-y growth in Q1FY2023. Bajaj Amla Aloe Vera Hair Oil's market share within Amla stood at over 3% in Q1FY2023. As per the management, large packs gaining momentum over smaller packs.
- ◆ **Coconut Hair Oil portfolio gaining traction:** *Bajaj 100% Pure Coconut Oil* delivered steady performance in Q1FY2023 post all-India rollout during the quarter. The company focuses on the brand to grow business in both general and MT channels. Bajaj Coco Onion witnessed good traction in both MT and E-commerce channels. The company's focused campaigns on TV + Digital media are expected to continue in Q2.
- ◆ **New product launches to continue:** With an aim of reducing dependency on ADHO and to diversify the product portfolio, the company has planned multiple new product launches in next 2-3 years across brands and categories. The management has guided that new product launches are not planned in Q2 but the company will gradually introduce new products.
- ◆ **OPM expected at 20-21% for FY2023:** The management indicated that the company has high dependence on LLP & RMO. LLP prices are up by 33% and continue inflationary trend, while RMO prices are higher by 7.5% and are cooling off. In case of packing materials, glass prices have seen inflationary pressure; while the pet prices are coming down. The company has hiked prices by 7% to mitigate the raw material cost pressure. There is 6% gap between price increase and raw material inflation which will continue to hit margins. If raw material prices cool-off in the coming quarters, the stress on the margins will reduce in H2. However, the company does not expect the OPM to come back to historical levels and expect to stay at 20-21%.

Results (Consolidated)

Particulars	Rs cr				
	Q1FY23	Q1FY22	Y-o-Y %	Q4FY22	Q-o-Q %
Net sales	243.8	212.0	15.0	216.1	12.8
Other operating income	2.9	3.3	-11.4	3.3	-11.0
Total revenues	246.7	215.3	14.6	219.3	12.5
Materials	110.7	87.6	26.4	94.7	16.9
Employee cost	22.7	22.9	-0.8	19.0	19.6
Other expenditure	77.5	52.5	47.8	68.4	13.3
Total expenditure	210.9	162.9	29.4	182.1	15.8
Operating profit	35.8	52.3	-31.6	37.3	-3.9
Other income	6.7	8.3	-19.0	10.6	-36.4
Interest expenses	0.1	0.3	-60.1	0.1	36.2
Depreciation	2.0	1.1	81.7	1.2	58.3
Profit Before Tax	40.4	59.2	-31.7	46.5	-13.0
Tax	7.1	10.3	-31.7	8.1	-13.0
Adjusted PAT	33.4	48.9	-31.7	38.4	-13.0
Extra-ordinary gain / loss	0.0	0.0	-	0.0	
Reported PAT	33.4	48.9	-31.7	38.4	-13.0
EPS (Rs.)	2.3	3.3	-31.7	2.6	-13.0
			bps		bps
GPM (%)	55.1	59.3	-417	56.8	-169
OPM (%)	14.5	24.3	-980	17.0	-247
NPM (%)	13.5	22.7	-917	17.5	-397
Tax rate (%)	17.5	17.5	0	17.5	0

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Medium-term growth prospects intact

The hair oil category's growth remains subdued in Q1FY2023 with value sales growing by just 0.8% while volumes declined by 0.4%. Urban markets have grown while Rural markets declined in Q1. Inflationary pressures continue to affect consumer spending and growth is still subdued in Rural Markets. Rural market registered a decline of 2.3% in value terms and 2.7% in volume terms during the quarter. The shift of consumers from loose hair oils to branded hair oil, improved penetration in rural markets and sustained new launches would help the hair oil market to achieve good growth in the medium term. Recent fall in commodity prices would help margins improve sequentially in the quarters ahead.

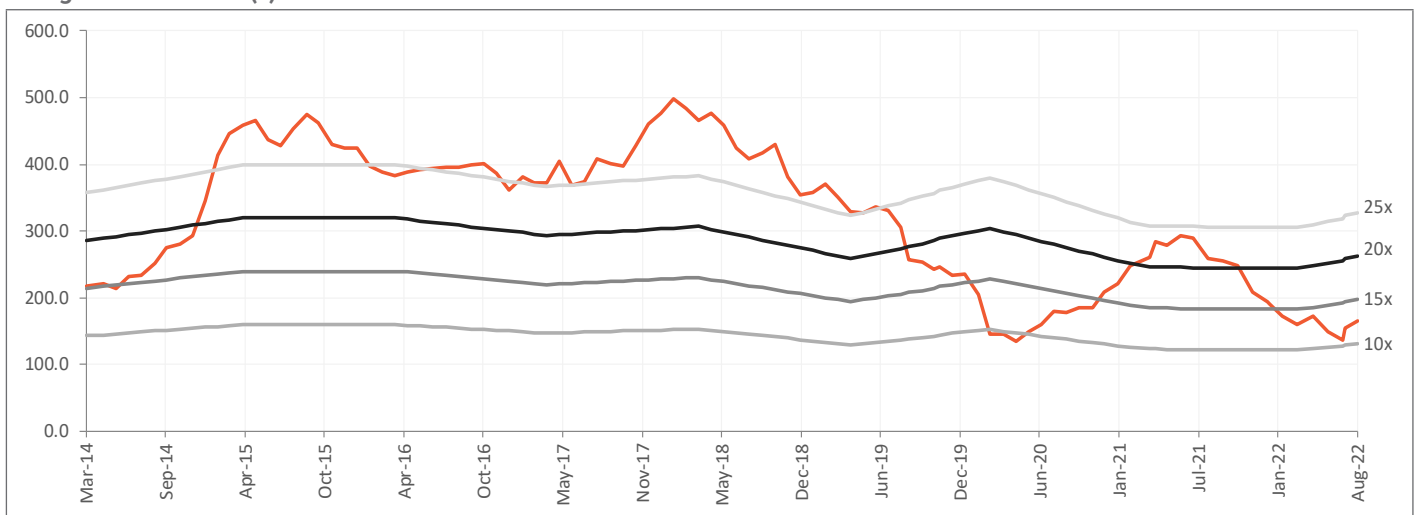
■ Company Outlook – strategies in place to drive growth.

A rural slowdown and sluggish performance by wholesale channel will affect the near-term revenue performance. The company launched a slew of new products and is planning to introduce few more products in the coming months. Further it is focusing on expanding its rural reach, which currently stands close to 3 lakh outlets, scale-up the sales on digital platforms and invest on media spends to promote brands and new launches. This should help the company to achieve consistent double-digit revenue growth in the medium term. High input prices and change in mix will continue to put pressure on margins in the near term. The company is targeting the OPM of 20-21% in the medium term.

■ Valuation – Retain Buy with a revised PT of Rs. 200

BCC's near-term performance will be affected by slowdown in the rural demand and spike in the input prices. However, we expect momentum to shift with recovery in the rural demand and stabilisation in the input prices. We liked BCC's revamped focus on driving growth through new product launches, distribution expansion and market share gains in the light hair oil category to drive sustainable earning growth in the medium term. Further the company is focusing on improving its position in overall hair oil market with improved traction to new launches. The stock has underperformed the broader indices and is trading discounted valuations of 13.3x and 11.3x its FY2023E and FY2024E earnings. We maintain our Buy recommendation on the stock with a revised price target of Rs. 200.

One-year forward P/E (x) band



Source: Company, Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	55.8	48.1	39.2	45.2	39.8	32.4	26.3	27.8	31.3
Marico	53.5	42.6	36.5	39.2	31.2	27.1	41.4	51.5	54.8
Bajaj Consumer Care	10.7	13.2	13.3	7.0	8.6	8.7	34.8	25.6	24.7

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 15 brands, major ones being *Bajaj Almonds Drops Hair Oil*, *Bajaj Brahmi Amla Hair Oil*, *Bajaj Jasmine Hair Oil*, and *Bajaj Cool Almond Drop*. The company's flagship brand *Almonds Drops Hair Oil* enjoys a leadership position in the premium segment and contributes ~96% to overall revenue. The company launched 15 new hair care products in FY22 with more under pipeline to diversify the product portfolio. The company acquired the *Nomarks brand* in 2013 to expand into the Rs. 9,000 crore skin care category with its range of skin care products. BCC has a network of close to 8,500 distributors across all states in India. The company also exports its products to over 30 countries, with primary focus in SAARC, Gulf & Middle East, ASEAN and African regions.

Investment theme

BCC is market leader in the light hair oil category with a market share of 65%. The company reduced its dependence on the wholesale network and increased the share of direct distribution (with focus on penetrating deeply in rural markets) along with the relaunch of core brands, which would be key levers for achieving sustained volume growth (targets to achieve volume growth of 6-8% in the medium term). Further, new product additions 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 it to invest heavily in core brands and new launches or go for any inorganic initiative in the near future to improve growth prospects.

Key Risks

- ◆ Slowdown in volume growth of key revenue contributing product, Almonds Drops Hair Oil, would affect revenue growth.
- ◆ Heightened competition in key penetrated categories would result in market share loss, 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	Chairman
Jaideep Nandi	Managing Director
Dilip Maloo	Chief Financial Officer
Vivek Mishra	Head Legal, Company Secretary and Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India AMC	5.04
2	HDFC Asset Management Co.	4.54
3	Goldman Sachs Group Inc	2.42
4	Vanguard Group Inc	2.36
5	Steinberg India EM OP Fund	2.24
6	ICICI Prudential AMC	2.04
7	ICICI Lombard General Insurance Co Ltd	1.69
8	Bhandari Chotalal Ramjibhai	1.3
9	Dimensional Fund Advisors LP	0.79
10	UTI AMC	0.52

Source: Bloomberg

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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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