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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
Updated Oct 08, 2022 **28.72**

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

Company details

Market cap:	Rs. 2,243 cr
52-week high/low:	Rs. 230 / 129
NSE volume: (No of shares)	5.1 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	9.1 cr

Shareholding (%)

Promoters	38.0
FII	14.7
DII	17.5
Others	29.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-2.8	-7.4	7.6	-30.7
Relative to Sensex	-8.9	-9.3	-6.9	-31.1

Sharekhan Research, Bloomberg

Consumer Goods	Sharekhan code: BAJAJCON		
Reco/View: Buy	↔	CMP: Rs. 152	Price Target: Rs. 185
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Bajaj Consumer Care registered resilient sales performance in Q2FY2023 with revenue growing by 7% y-o-y (driven by 5.8% volume growth) to Rs. 230.3 crore. Higher inflation and ad-spends led to a 933 bps y-o-y decline in OPM. PAT declined by 33% y-o-y to Rs. 32 crore.
- ADHO sales volume marginally declined, affected by double-digit drop in rural markets; urban market continues to grow in double digits, restricting the sharp fall in ADHO sales. New product launches contributed Rs. 58 crore in H1.
- Rural demand recovery will help the ADHO segment bounce back, while higher media spends would support new launches and key products. Expansion on the digital platform and widening distribution reach will drive growth in the medium term. OPM will be lower at 17-18% in the near term, but management targets it to improve to 20% in the medium term.
- The stock has underperformed in the past year and trades at discounted valuations of 16.6x/13.1x its FY2023E/FY2024E EPS. We maintain our Buy rating on the stock with a revised PT of Rs. 185, as strategies in place will drive improved earnings growth in the medium term.

Bajaj Consumer Care (BCC) registered a resilient sales performance for Q2FY2023, but inflated input prices coupled with higher media spends were a drag on the bottom-line performance. Revenue grew by 7% y-o-y to Rs. 230.5 crore, driven by 5.8% volume growth (on a three-year CAGR basis, volumes grew in mid-single digit). Core Bajaj Almond Drop Hair Oil (BAHO) registered marginal volume decline due to double-digit decline in rural market sales. The Amla portfolio and new launches in the hair oil space registered strong performance (new product launches posted revenue of Rs. 58 crore). Raw-material inflation was sustained in Q2 and resulted in a 728 bps y-o-y decline in gross margins to 52.3%. This along with higher ad spends led to a 933 bps y-o-y decline in OPM to 13.3%. PAT decreased by 33% y-o-y to Rs. 32 crore. For H1FY2023, revenue grew by 11% to Rs. 477 crore; OPM decreased by 950 bps y-o-y to 13.9% and PAT decreased by 32% y-o-y to Rs. 65.1 crore. Volume growth stood at 11% in H1FY2023.

Key positives

- Sales volume grew by 5.8% y-o-y against industry volume decline of 5.7%.
- Amla portfolio market share stood at ~4%, which improved from 3% in the recent past.
- The modern trade segment grew strongly by over 75% y-o-y (Saliency at 9% in Q2), while e-commerce registered 180% growth in Q2 (saliency at 9%). International business growth was 50%+ in Q2.
- New product launches contribute ~12% of overall sales; sales stood at Rs. 58 crore in H1.

Key negatives

- Higher inflationary pressures and slower rural demand affected sales of BAHO; sales volume marginally declined on a y-o-y basis.
- Higher input cost inflation and higher advertisement and promotional spends led to a 933 bps y-o-y decline in OPM to 13.3%.

Management Commentary

- The Hindi belt comprising Uttar Pradesh, Bihar, Madhya Pradesh, and Rajasthan have seen a sharp slowdown in consumer demand as compared to some of the other states. Rural sales volume for the hair oil category was down by ~9% in Q2 (value decline of 8.7%). BCC witnessed double-digit sales decline in rural markets, while it achieved double-digit growth in the urban market with strong traction on the modern trade and e-commerce platform.
- Better monsoon season, government interventions, and higher realisation of agri-products coupled with low base might lead to gradual recovery in rural sales in the quarters ahead. Urban demand continues to remain strong, and momentum is expected to continue in the coming quarters.
- Slowdown in rural demand resulted in a decline in the mid-price pack sales (Rs. 35-70 pack; constitutes ~40% of sales), while premium packs registered decent growth due to healthy urban demand. Downtrading to low-price product aided lower unit packs sales to grow strongly.
- Raw-material inflation will continue to keep gross margins stressed as light liquid paraffin (LLP) prices are yet to correct due to volatility in crude oil prices. LLP prices have remained high by 50% y-o-y. On the other hand, refined mustard oil was down by 11% y-o-y. The company has taken price increase of 7% in the past six quarters, while for last one year, it stood at 4% (did not take any price increase in the last three months). If key input prices remain stable from current levels, gross margins will gradually improve in the coming quarters.
- Advertisement spends as a percentage to sales will be around 18% of sales in the near term as the company will continue to support ADHO and new launches with higher media activities. Thus, OPM is expected to remain lower in the near term. It will improve to 17-18% with stability in input prices, while cost-saving initiatives will help 1% addition to OPM in the coming years. The company targets OPM to improve to 20% over the next three years.

Revision in estimates – We have reduced our earnings estimates for FY2023 and FY2024 to factor in lower-than-earlier expected OPM (affected by higher input cost inflation and increased advertisement spends to support brands). Management expects OPM to improve to 20% in the medium term with double-digit revenue growth. We have introduced FY2025 earnings estimates through this note.

Our Call

View – Maintain Buy with a revised PT of Rs. 185: BCC's near-term performance will be affected by slowdown in rural demand and spike in input prices. However, we expect the momentum to shift with recovery in rural demand and stabilisation in input prices. We like 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 earnings growth in the medium term. Further, the company is focusing on improving its position in the overall hair oil market with improved traction to new launches (currently 12% of portfolio). The stock has underperformed the broader indices and is trading at discounted valuations of 16.6x and 13.1x its FY2023E and FY2024E earnings, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 185.

Key Risks

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

Valuation (Standalone)

Particulars	FY21	FY22	FY23E	FY24E	FY25E
Revenue	915	902	957	1,058	1,167
OPM (%)	26.6	21.5	14.1	16.9	17.7
Adjusted PAT	224	181	136	173	195
% Y-o-Y growth	17.3	-18.9	-25.0	27.1	12.9
Adjusted EPS (Rs.)	15.2	12.3	9.2	11.7	13.2
P/E (x)	10.1	12.5	16.6	13.1	11.6
P/B (x)	2.9	2.7	2.8	2.9	2.8
EV/EBITDA (x)	6.5	7.9	11.4	8.7	7.4
RoNW (%)	30.7	22.4	16.6	21.7	24.3
RoCE (%)	34.8	25.6	19.1	25.2	28.6

Source: Company; Sharekhan estimates

Price-led revenue growth at 7% y-o-y; OPM down by 933 bps y-o-y

Bajaj Consumer Care (BCC) revenues grew by 7% y-o-y to Rs. 230.3 crore, below our expectation of Rs. 252 crore and average street expectation of Rs. 243 crore. Revenue growth was largely price led and due to increased contribution of new launches. Sustained raw material inflation led to 728 bps y-o-y decline in the gross margins to 52.3%. This along with higher ad-spends towards new launches led to 933 bps y-o-y decline in OPM to 13.3%, lower than our expectation of 15.1% and average street expectation of 15.2%. The operating profit decreased by 37.1% y-o-y to Rs. 30.7 crore and reported PAT decreased by 32.8% y-o-y to Rs. 31.8 crore, which is marginally lower than our and average street expectation of Rs. 35 crores. In H1FY2023, revenue grew by 10.8% y-o-y to Rs. 477 crore, while PAT declined by 32.2% y-o-y to Rs. 65.1 crore. Gross margin/OPM contracted by 568 bps/954 bps y-o-y in H1FY2023.

Key conference call highlights

- ◆ **Volume growth ahead of the category:** The hair oil category reported a 5.5% y-o-y decline during the quarter with volumes declining by 5.7%. The light hair oil category registered 9% y-o-y value growth in Q2FY2023, while volume decline stood at 11%. Inflationary pressures continued to affect consumer spends with rural markets declining in double digits, while urban markets grew in double digits. BCC's sales volume grew by 5.8% with a marginal decline in ADHO sales. Amla portfolio registered decent volume growth, while new product launches registered strong growth.
- ◆ **Modern trade (MT) and e-commerce to scale up fast:** The MT channel reported growth of over 75% y-o-y on account of significant market share gain in top retailers coupled with footfalls returning to pre-COVID levels. Focus on channel-specific packs aided sales growth. Differentiated portfolio strategy, robust media, and consumer promotions aided strong growth of 180% in e-commerce sales. Both channels are contributing around 9% to sales each. General trade sales slightly declined due to a slowdown in the rural market.
- ◆ **ADHO mix declining:** ADHO portfolio, which earlier contributed ~93% to total revenue, has now witnessed a decline in its contribution to ~83%, with the launch and scale-up in new products. While ADHO will continue to constitute a lion's share of revenue, the company also plans to launch new premium products, which will help the company to diversify its risk and improve its profitability. Sales of new product launches stood at Rs. 58 crore in H1 (contribution stood at 12%).
- ◆ **Amla portfolio gaining shares; Coconut hair oil gaining traction:** The Amla oil category registered decent growth ahead of overall revenue growth for the company. Amla portfolio's market share currently stands at 4% (improved from 3% earlier). Bajaj 100% Pure Coconut Oil delivered steady performance in Q2FY2023, led by consistent offtake and repeat demand. The company focuses on the brand to grow its 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.
- ◆ **Focus on cost-saving initiatives:** To mitigate the inflationary trend, cost-saving initiatives are being driven to bring structural reduction in material costs. The company is working to optimise specifications of glass bottle and pet bottles through value engineering. Moreover, it is focusing on alternate vendor development for CFC and mustard oil/Vitamin E. All these initiatives will help in savings of 1% at cost levels. The company expects Rs. 5 crore of cost savings in FY2023.

Results (Standalone)

Particulars	Rs cr				
	Q2FY23	Q2FY22	Y-o-Y %	Q1FY23	Q-o-Q %
Total revenue	230.3	215.1	7.0	246.7	-6.7
Materials	109.8	86.9	26.3	110.7	-0.9
Employee cost	21.4	22.7	-5.6	22.7	-5.6
Other expenditure	68.5	56.9	20.4	77.5	-11.7
Total expenditure	199.6	166.4	19.9	210.9	-5.3
Operating profit	30.7	48.7	-37.1	35.8	-14.4
Other income	9.9	10.2	-2.9	6.7	46.9
Interest expenses	0.3	0.5	-38.4	0.1	128.9
Depreciation	1.7	1.1	54.8	2.0	-12.0
Profit Before Tax	38.5	57.3	-32.8	40.4	-4.8
Tax	6.7	10.0	-32.8	7.1	-4.8
Reported PAT	31.8	47.3	-32.8	33.4	-4.8
EPS (Rs.)	2.2	3.2	-32.8	2.3	-4.8
			bps		bps
GPM (%)	52.3	59.6	-728	55.1	-279
OPM (%)	13.3	22.6	-933	14.5	-121
NPM (%)	13.8	22.0	-817	13.5	27
Tax rate (%)	17.5	17.5	-	17.5	-

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Medium-term growth prospects intact

The hair oil category's growth remains subdued in Q2FY2023, with value sales declining by 5.5%, while volumes declined by 5.7% impacted by slowdown in consumption experienced due to inflationary headwinds (impact was high in rural markets). Hair oil sales in urban markets decreased by 2.8%, while rural sales declined by 8.7%, which was largely a volume decline. Better monsoon season and higher agri income will help rural demand to revive in the coming quarters. The shift of consumers from loose/unbranded hair oil to branded hair oil, improved penetration in rural markets, and sustained new launches would help the hair oil market to achieve decent growth in the medium term. The recent fall in commodity prices would help margins to improve sequentially in the quarters ahead.

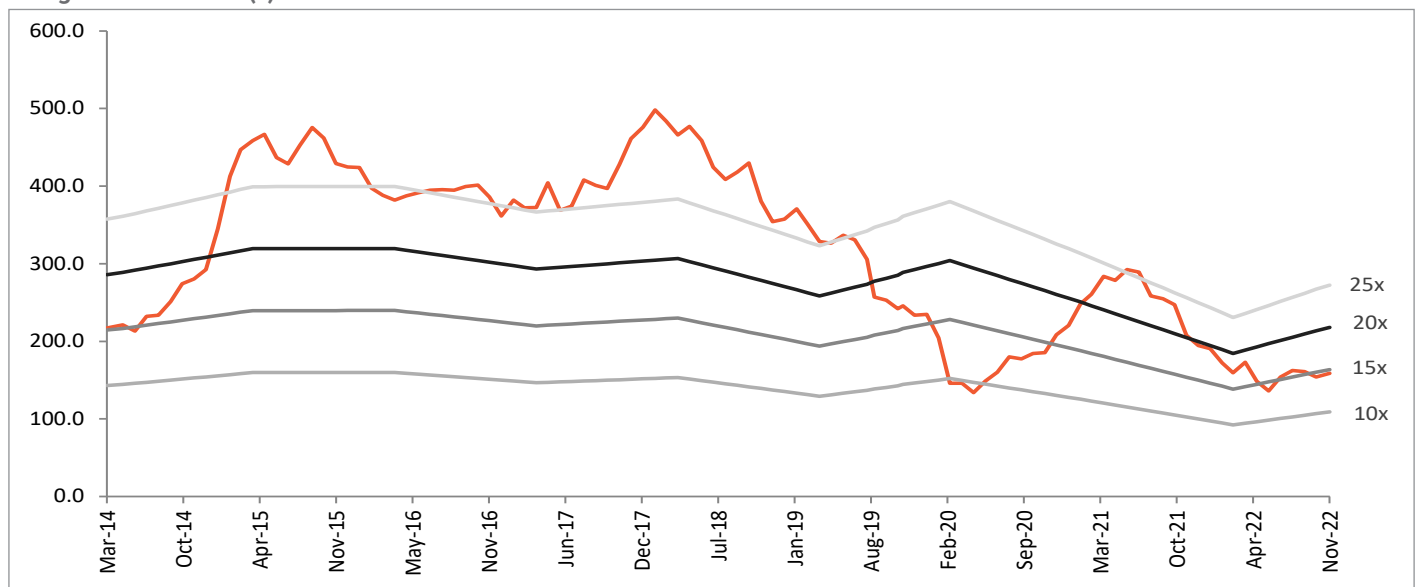
■ Company outlook - Strategies in place to drive growth

A rural slowdown and sluggish performance by the wholesale channel will affect the near-term revenue performance. The company launched a slew of new products and is planning to introduce a few more products in the coming months. Further, the company is focusing on expanding its rural reach, which currently stands close to 3 lakh outlets, scale-up 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 OPM of 20% in the medium term.

■ Valuation - Retain Buy with a revised PT of Rs.185

BCC's near-term performance will be affected by slowdown in rural demand and spike in input prices. However, we expect the momentum to shift with recovery in rural demand and stabilisation in input prices. We like 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 earnings growth in the medium term. Further, the company is focusing on improving its position in the overall hair oil market with improved traction to new launches (currently 12% of portfolio). The stock has underperformed the broader indices and is trading at discounted valuations of 16.6x and 13.1x its FY2023E and FY2024E earnings, respectively. We maintain our Buy recommendation on the stock with a revised price target (PT) of Rs. 185.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	53.6	48.3	38.0	43.4	40.1	31.7	26.3	26.8	31.4
Marico	51.7	45.3	38.5	38.1	32.5	28.3	41.4	47.5	52.6
Bajaj Consumer Care	12.5	16.6	13.1	7.9	11.4	8.7	25.6	19.1	25.2

Source: Company; Sharekhan Research

About company

BCC is the second largest company in the Bajaj Group established in 1953 to market and sell hair oil. 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 FY2022 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 on SAARC, Gulf and 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 a 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

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	1.30
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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