



**3R MATRIX**

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

**What has changed in 3R MATRIX**

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

**ESG Disclosure Score** NEW

**ESG RISK RATING**  
Updated Dec 08, 2022 **28.72**

**Medium Risk**

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

Source: Morningstar

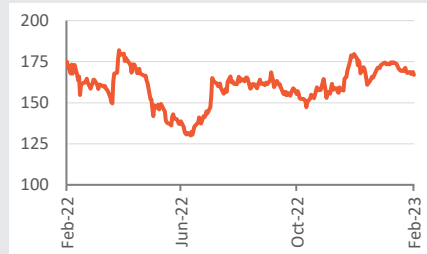
**Company details**

Market cap:	Rs. 2,479 cr
52-week high/low:	Rs. 185 / 129
NSE volume: (No of shares)	4.2 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	9.1 cr

**Shareholding (%)**

Promoters	38.0
FII	13.8
DII	18.6
Others	29.5

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	-3.6	7.3	2.0	-4.0
Relative to Sensex	-4.6	9.1	0.0	-7.0

Sharekhan Research, Bloomberg

**Bajaj Consumer Care**

**Subdued Q3; Recovery will take time**

<b>Consumer Goods</b>	<b>Sharekhan code: BAJAJCON</b>		
<b>Reco/View: Hold</b>	↓	<b>CMP: Rs. 168</b>	<b>Price Target: Rs. 178</b>
↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Bajaj Consumer Care Ltd (BCC) clocked weak numbers for Q3FY22 with flat revenues at Rs. 228.4 crore; OPM fell by 322 bps to 14.4%; while PAT declined by 16% y-o-y to Rs. 34 crore.
- Almond Drop Hair Oil (ADHO) registered mid-single digit value decline, Amla product posted mid-single digit growth. ADHO will take time to revive.
- New product launches grew by 2.7x in 9MFY23; contribution will go up to ~40% by FY25 from 13% currently. It will support overall revenue growth and profitability in long run.
- Stock trades at 19x/16x/15x its FY2023E/24E/25E earnings. We downgrade our rating to Hold with a revised PT of Rs. 178 as recovery in hair oil category will take time.

Bajaj Consumer Care Ltd (BCC) posted another quarter of weak numbers as hair oil category continued to underperform. Revenues stood flat y-o-y at Rs. 228 crore, impacted by flat volume and value growth. General trade declined y-o-y, while organised trade and international business segments grew by 43% and 37% y-o-y, respectively. Raw material inflation led to 244 bps/322 bps y-o-y decline in gross margins/OPM to 53.6% and 14.4%, respectively. Sequentially, margins improved by 124 bps/107 bps aided by correction in prices of key raw materials. Operating profit declined by 18.4% y-o-y to Rs. 32.8 crore, while reported PAT fell by 15.8% y-o-y to Rs. 33.7 crore. For 9MFY2023, revenues grew by 7% y-o-y to Rs. 705 crore; OPM declined by 736 bps y-o-y to 14.1% and PAT decreased by 27% y-o-y to Rs. 99 crore. Revenue from new products surged 2.7x y-o-y in 9MFY2023 with contribution to sales improving from 5% in 9MFY22 to 13% in 9MFY23.

**Key positives**

- The modern trade, e-Commerce and international business grew by 41%, 84% and 37% y-o-y, respectively.
- New product revenues grew by 2.7x y-o-y in 9MFY2023 with their contribution to sales improving from 5% in 9MFY22 to 13% in 9MFY23.

**Key negatives**

- Gross margins/OPM declined by 244 bps/322 bps y-o-y to 53.6% and 14.4%, respectively.
- ADHO revenues declined by mid-single digits in line with a 4.5% fall in hair oil category.

**Management Commentary**

- Rural sales in hair oil category was down by 7.5% in Q3. Key Hindi speaking states such as UP, Bihar and MP saw a sharp drop in category. ADHO witnessed 12-13% decline in sales these key markets.
- The management expects recovery to take time as inflation is putting a pressure on consumer wallet in rural markets.
- ADHO witnessed mid-single digit value decline due to sharp decline in Hindi speak belt. The company expects revival to happen in quarters ahead. In the long run, the company sees penetration opportunity in markets such as South India and West India to drive consistent growth.
- New product launches contribution will increase to 40% by FY2025. Management is targeting to do better than this. The company expects to launch 15-16 new products supporting the revenue growth of the company.
- Light Liquid Paraffin (LLP) prices fell 8% q-o-q, while RPO prices are stabilising sequentially. Thus, gross margins would correct sequentially from its high.

**Revision in earnings estimates** – We have reduced our earnings estimates for FY2023/24/25E to factor-in lower sales volume and lower-than-earlier-expected OPM.

**Our Call**

**View – Downgrade to Hold with a revised PT of Rs. 178:** BCC's performance is reeling under the underperformance of hair oil category in India. A revival will occur once rural demand is back on track. The company is focusing on de-risking its business model with launch of premium products in its portfolio. However, these new launches will provide good support to the topline and profitability over the next 2-3 years. Thus, near-term earnings visibility is muted and will improve with overall improvement in the hair oil category performance. Stock trades at 19x/16x/15x its FY2023E/24E/25E earnings. We downgrade our rating on the stock to Hold with a revised PT of Rs. 178.

**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	898	973	1,074
OPM (%)	26.6	21.5	13.9	15.7	16.3
Adjusted PAT	224	181	128	152	169
% Y-o-Y growth	17.3	-18.9	-29.5	18.6	11.4
Adjusted EPS (Rs.)	15.2	12.3	8.7	10.3	11.4
P/E (x)	11.1	13.7	19.4	16.4	14.7
P/B (x)	3.2	3.0	2.8	2.6	2.4
EV/EBITDA (x)	7.4	9.0	13.4	10.5	8.6
RoNW (%)	30.7	22.4	14.9	16.5	16.8
RoCE (%)	34.8	25.6	17.2	19.3	19.9

Source: Company; Sharekhan estimates

### Muted Q3 – Revenues were flat y-o-y; OPM down by 322 bps y-o-y

Bajaj Consumer Care (BCC) revenues stood flat y-o-y at Rs. 228 crore, impacted by flat volume and value growth. Hair oil category declined by 4.5% (volumes fell by 4.4%). In terms of the channel wise performance, general trade registered a decline on y-o-y basis, while organised trade and international business grew by 43% and 37% y-o-y, respectively in Q3FY2023. Raw material inflation led to 244 bps y-o-y decline in the gross margins to 53.6%. This along with higher advertising spends towards new launches led to 322 bps y-o-y decline in OPM to 14.4%. Sequentially, margins improved by 124 bps/107 bps aided by correction in prices of key raw materials. Operating profit decreased by 18.4% y-o-y to Rs. 32.8 crore and reported PAT decreased by 15.8% y-o-y to Rs. 33.7 crore. The company's new launches are gaining traction and new product revenues grew by 2.7x y-o-y in 9MFY2023 with contribution to sales improving from 5% in 9MFY22 to 13% in 9MFY23.

#### Key performance highlights

- ♦ **Hair oil category continues to underperform:** The hair oil category clocked a 4.5% y-o-y decline during the quarter with volumes declining by 4.5%. Inflationary pressures continued to affect consumer spends with rural markets declining by 7.5%, while urban markets declined by 1.6%. BCC's sales volume stood flat y-o-y.
- ♦ **Good show by modern trade (MT) and e-commerce channels:** The company witnessed a y-o-y decline in sales in the general trade channel in Q3FY23, with secondary sales higher than primary sales. Urban markets clocked growth Q3FY23 while rural markets declined due to slowdown. In terms of the organised trade, overall growth came in at 43% y-o-y in Q3FY23 YoY, with 1.4x improvement in salience. Modern Trade grew by 41% y-o-y in Q3FY23 YoY backed by focus on specific channel packs, while e-Commerce segment grew by 84% y-o-y in Q3FY23 YoY. The international business grew by 37% y-o-y in Q3FY23 led by good performance in Middle East & Africa backed by introduction of new channel partners, while Rest of World delivered strong performance led by opening of new geographies and new product introductions.
- ♦ **ADHO core was weak; extensions performing well:** ADHO revenues witnessed mid-single digit value decline due to sharp decline in Hindi speak belt. The company expects revival to happen in quarters ahead. In the long run, the company sees penetration opportunity in markets such as South India and West India to drive consistent growth. BCC increased investment in visibility for ADHO on E-commerce platforms. ADHO campaign with new celebrity started in November 2022. Spends on digital media towards ADHO are now around 20%. The company is witnessing good traction for the ADHO extension portfolio (Almond + Argan and Serum) on the e-Commerce platforms, supported with both on platform and digital spends. The company has undertaken various steps to improve the salience of Almond Drops moisturising soap including support on TV Media Campaign, distribution drive across states aided with trade offers across packs to increase availability and in shop visibility and listing in large modern trade chains.
- ♦ **Amla and coconut hair oil seeing improved traction:** Amla's saliency came in at 4% for 9MFY23, with continued thrust on large packs. Bajaj 100% Pure Coconut Oil witnessed consistent sales driven by repeat demand and distribution. BCC aims to focus on the brand to grow business in both general and modern trade. Bajaj Coco Onion saw good traction in modern trade and e-Commerce channels and BCC continued its digital support for the portfolio in Q3FY23.

Results (Standalone)				Rs cr	
Particulars	Q3FY23	Q3FY22	Y-o-Y %	Q2FY23	Q-o-Q %
<b>Total revenues</b>	<b>228.4</b>	<b>228.6</b>	<b>-0.1</b>	<b>230.3</b>	<b>-0.8</b>
Materials	106.0	100.5	5.5	109.8	-3.4
Employee cost	21.6	22.0	-2.0	21.4	0.7
Other expenditure	67.9	65.8	3.2	68.5	-0.7
Total expenditure	195.5	188.4	3.8	199.6	-2.1
<b>Operating profit</b>	<b>32.8</b>	<b>40.2</b>	<b>-18.4</b>	<b>30.7</b>	<b>7.1</b>
Other income	10.4	9.5	9.0	9.9	5.0
Interest expenses	0.3	0.0	-	0.3	-14.8
Depreciation	2.1	1.2	77.7	1.7	22.8
<b>Profit Before Tax</b>	<b>40.8</b>	<b>48.5</b>	<b>-15.8</b>	<b>38.5</b>	<b>6.1</b>
Tax	7.1	8.5	-15.8	6.7	6.1
<b>Adjusted PAT</b>	<b>33.7</b>	<b>40.0</b>	<b>-15.8</b>	<b>31.8</b>	<b>6.1</b>
EPS (Rs.)	2.3	2.7	-15.6	2.2	6.4
			<b>bps</b>		<b>bps</b>
GPM (%)	53.6	56.0	-244	52.3	124
OPM (%)	14.4	17.6	-322	13.3	107
NPM (%)	14.8	17.5	-276	13.8	96
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 continued to remain under pressure in Q3FY2023, with value sales declining by 4.5%, while volumes declined by 4.4% impacted by slowdown in consumption experienced due to inflationary headwinds (effect was high in rural markets). Hair oil sales in urban markets decreased by 2.1%, while rural sales declined by 7.5%, which was largely a volume decline. 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.

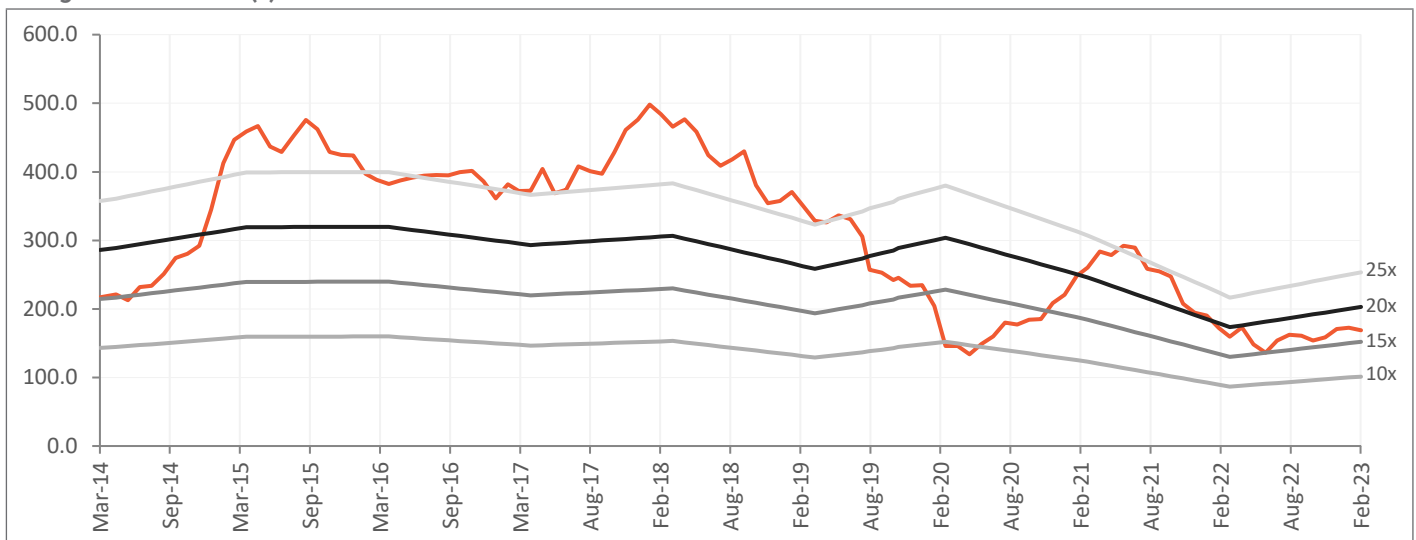
### ■ Company Outlook – Performance impacted by underperformance in the hair oil category

For 9MFY2023, revenues grew by 7% y-o-y; OPM declined by 736 bps y-o-y and PAT decreased by 27% y-o-y. The company's performance continues to be impacted by underperformance in the hair oil category, which is affected by the rural slowdown and sluggish performance by the wholesale channel. Further, the company is focusing on expanding its rural reach, scale-up sales on digital platforms and invest on media spends to promote brands and new launches. High input prices and change in mix will continue to put pressure on margins in the near term.

### ■ Valuation – Downgrade to Hold with revised price target of Rs. 178

BCCL's performance is reeling under the underperformance of hair oil category in India. A revival will occur once rural demand revives. The company is focusing on de-risking its business model with launch of premium products in its portfolio. However, these new launches will provide good support to the topline and profitability over the next 2-3 years. Thus, near-term earnings visibility is muted and will improve with overall improvement in the hair oil category performance. Stock trades at 19x/16x/15x its FY2023E/24E/25E earnings. We downgrade our rating on the stock to Hold with a revised PT of Rs. 178.

#### One-year forward P/E (x) band



Source: Sharekhan Research

#### Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Dabur	51.5	48.7	39.2	41.7	40.5	32.9	26.3	25.6	29.8
Marico	50.9	45.8	38.2	37.5	32.9	28.1	41.4	46.4	52.7
Bajaj Consumer Care	11.1	13.7	19.4	7.4	9.0	13.4	34.8	25.6	17.2

Source: Company, Sharekhan estimates

## About company

BCC is the second largest company in the Bajaj Group established in 1953 to market and sell hair 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 Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India AMC	7.76
2	HDFC Asset Management Co.	5.35
3	ICICI Prudential AMC	2.67
4	Goldman Sachs Group Inc	2.42
5	Goldman Sachs India Pvt Ltd	2.42
6	Vanguard Group Inc	2.21
7	ICICI Lombard General Insurance Co Ltd	1.70
8	Bhandari Chotalal Ramjibhai	1.31
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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Compliance Officer: Ms. Binkle Oza; Tel: 022-61150000; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com).

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**Registered Office:** Sharekhan Limited, The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA, Tel: 022 - 67502000/ Fax: 022 - 24327343. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O/ CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183.

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