



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	✓	↔	✓

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Aug 08, 2023

28.03

Medium Risk

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

Source: Morningstar

Company details

Market cap:	Rs. 3,245 cr
52-week high/low:	Rs. 237 / 146
NSE volume: (No of shares)	5.7 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	8.7 cr

Shareholding (%)

Promoters	39.4
FII	15.2
DII	17.0
Others	28.5

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.0	31.6	34.9	37.3
Relative to Sensex	15.9	25.7	26.9	25.6

Sharekhan Research, Bloomberg

Bajaj Consumer Care Ltd

Profitable Q1; earnings visibility stays strong

Consumer Goods

Sharekhan code: BAJAJCON

Reco/View: Buy



Upgrade



CMP: Rs. 228

Maintain

Price Target: Rs. 280



Downgrade

Summary

- Bajaj Consumer Care Ltd's (BCC's) hair oil volume grew by 10.5% versus category's volume growth of 2.8% in Q1FY2024. Category volume growth recovered to positive trajectory after eight consecutive quarters of a lull.
- As rural demand picks up gradually, hair oil volume growth will improve in the quarters ahead. BCC's hair oil volume growth would beat category growth close to double-digit in the coming quarters.
- Product launches (15% of domestic revenues) will continue to scale-up with distribution expansion and market share gains. OPM will consistently improve with benign input prices and better operating efficiencies in the coming years.
- Despite strong run up post our upgrade (on 4th May, 2023), stock trades at an attractive valuation of 19x/16x its FY2024E/25E earnings. We maintain our Buy recommendation on the stock with a revised PT of Rs. 280.

Bajaj Consumer Care Ltd's (BCC's) Q1FY2024 performance was in-line with our as well as street expectation with strong expansion of 300+ bps in OPM resulting in an over 30% growth in PAT. Consolidated revenues grew by 8% y-o-y to Rs. 270.2 crore slight miss on revenue front due to flat performance of new products (affected by high base). BCC's flagship brand ADHO sales grew by 9% (with volume growth of ~10.5%). New products fetched revenues of Rs. 31 crore in Q1FY2024 versus Rs. 28 crore in Q1FY2023 (grew by 23% q-o-q). Gross margins stood flat y-o-y at 55.4%. Advertisement spends stood flat y-o-y on absolute basis at Rs. 44 crore; declined as a percentage to sales, resulting in 311 bps y-o-y improvement in OPM to 17.7%. Operating profit grew by 31% y-o-y to Rs. 48 crore and the reported PAT grew by 36% y-o-y to Rs. 46 crore.

Key positives

- ADHO volume growth stood at ~11% in Q1.
- Modern trade/e-commerce channel revenues grew by 34% and 55% y-o-y, respectively.
- Consolidated OPM improved by 311 bps y-o-y to 17.7%.
- International business revenues grew by 42% y-o-y and 32% q-o-q.

Key negatives

- New products registered flat growth y-o-y at Rs. 31 crore in Q1FY2024 versus Rs. 28 crore in Q1FY2023 due to high base led by large number of new product launches in the base quarter.

Management Commentary

- Hair oil market saw value and volume growth after eight consecutive quarters of lull. Volume and value growth in Q1 stood at 2.8% and 3.7% respectively. Volume growth in urban market stood at 6.9% vs. 4.1% in Q4FY2023 and in rural market stood at negative 1.6% vs. negative 6.2% in Q4FY2023.
- Key growth drivers in the near to medium term are - 1) High single-digit to low double-digit volume growth in ADHO 2) strong scale-up in NPDs and 3) strong double-digit growth in the international business.
- Consumption price of LLP stood higher by 16% y-o-y. However, the same is lower on y-o-y basis in Q2. Refined mustard oil prices are down by 20% y-o-y and are expected to remain lower in the quarters ahead. PET bottle prices are down by 8% while glass prices are up by 10%. With prices of most key inputs expected to remain lower on y-o-y basis, the margin profile will improve in the quarters ahead.
- Ad spends are expected to be at 17-18% as percentage to sales in the coming quarters. Consolidated OPM will consistently improve in the coming years through better mix and improved efficiencies.

Revision in earnings estimates - We have broadly maintained our earnings estimates for FY2024 and FY2025 as results were largely in-line with expectation. Recovery in hair oil category would help to post better growth in the quarters ahead.

Our Call

View – Maintain Buy with revised PT of Rs. 280: Benefits of restructuring the business model and focus on distribution expansion have started kicking in and we have seen good recovery in BCC's performance for last two quarters. Management is confident of achieving double-digit earnings growth over the next two years (to grow at CAGR of 23% over FY23-25E) with a good recovery in sales volumes of core and scale-up in NPDs/international business coupled with uptick in OPM. The company will continue to generate high cash flows, which will be utilised for investing in growth and reward shareholders in the form of dividend payout/buyback as there are no major capex plans going ahead. Stock has delivered strong return of 30%+ since our upgrade to Buy. Despite a strong run-up, the valuation remains attractive at 18.7x/15.8x its FY2024E/25E earnings. We maintain our Buy rating on the stock with a revised PT of Rs. 280.

Key Risks

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

Valuation (Consolidated)

Rs cr

Particulars	FY22	FY23	FY24E	FY25E
Revenue	880	961	1,082	1,221
OPM (%)	19.8	14.7	17.3	18.2
Adjusted PAT	170	139	174	206
% Y-o-Y growth	-24.1	-17.9	25.3	18.2
Adjusted EPS (Rs.)	11.5	9.7	12.2	14.4
P/E (x)	19.9	23.4	18.7	15.8
P/B (x)	4.2	4.1	3.7	3.2
EV/EBITDA (x)	16.1	19.4	13.8	11.0
RoNW (%)	21.3	17.4	20.7	21.5
RoCE (%)	24.4	19.6	23.4	24.6

Source: Company; Sharekhan estimates

Strong Q1 – Volume led revenue growth of 8% y-o-y; OPM higher by 311 bps y-o-y

BCC's consolidated revenue grew by 8.3% y-o-y and q-o-q to Rs. 270.2 crore with volume growth standing ahead of value growth. Almond Drop Hair Oil (ADHO) registered a value growth of 9% y-o-y, while NPDs registered a 23% q-o-q growth. Gross margin stood flat y-o-y and improved by 73 bps q-o-q to 55.4% aided by softening of raw material inflation. This along with lower ad spends led to 311 bps y-o-y expansion in OPM to 17.7%. Operating profit grew by 31.4% y-o-y to Rs. 47.9 crore and PAT grew by 36.4% y-o-y to Rs. 46.2 crore. Standalone revenues grew by 7.1% y-o-y and 8.0% q-o-q to Rs. 264.2 crore, Gross margins improved by 26 bps y-o-y and 72 bps q-o-q to 55.4%. This along with lower ad-spends led to 326 bps y-o-y expansion in OPM to 17.8%. Operating profit grew by 31.1% y-o-y to Rs. 47.0 crore and PAT grew by 36.1% y-o-y to Rs. 45.4 crore.

Key performance highlights

- ♦ **Value and volume growth in hair oil category after eight quarters:** Hair oil category posted value and volume growth in Q1FY24 after eight quarters, with value growth at 3.7% (versus 0.5% decline in Q4FY2023), while volumes increased by 2.8% (versus 0.8% decline in Q4FY2023) led by continued urban market growth and recovery in rural markets. Urban markets registered a 6.9% growth in Q1FY2024 against 4.1% growth in Q4FY2023, while rural market registered a decline of 1.6% in Q1FY2024 against a decline of 6.2% in Q4FY2023.
- ♦ **ADHO continued to grow; extensions gaining momentum:** ADHO revenues grew by 9% y-o-y (driven by double-digit volume growth) led by strong growth across all channels and all packs for the second consecutive quarter. ADHO's contribution to total revenue came in at 85.5% in Q1FY2024. BCC improved visibility of ADHO with sustained investment on e-Commerce platforms. The company supported Almond Drops extension portfolio (Almond + Argan, Serum and Soap) with digital media and e-Commerce visibility spends. AD Serum was extended into select moder trade chains during the quarter and gained traction in these outlets. BCC has planned to launch two new specific SKUs of AD Soaps in Q2FY2024 for MT and E-Commerce.
- ♦ **Amla and coconut hair oil seeing better traction:** The coconut oil and Amla oil portfolio continues to scale up as planned and witnessed increase in market share on y-o-y and q-o-q basis. Within the Coconut and Amla portfolio, coconut portfolio has registered good scale-up in consumer offtake and distribution buildup supported by TV Media in Maharashtra and digital media in key Hindi Speaking Markets (HSM). The company has identified two focus markets and introduced LUPs to improve distribution. Amla portfolio grew in double-digit (~16%) q-o-q as HSM rebounded. Low Unit Packs (LUPs) are being activated in select States from June onwards. Management has guided that the amla-coconut portfolio has good potential to grow in the coming years.
- ♦ **Two new launches in Q1FY2024:** Leveraging the 'Bajaj' brand equity, the company entered the personal care category with the launch of 'Bajaj 100% Pure Henna' in Q1FY2024. The launch is part of the Bajaj traditional (ethnic) range. The product is priced at parity to leading national brands, which will help to scale up the brand faster. The management sees good potential in the ethnic range and has planned for more launches in ethnic range in coming quarters. During the quarter, BCC also marked its entry into Face serums category launch of two variants of 'Nomarks Face Serums'. These products are launched in the e-commerce channel with listings on Amazon, Flipkart and Nykaa in the launch phase.
- ♦ **Organised trade and international business sustain momentum; muted show by general trade:** Organised trade grew by 38% y-o-y, with modern trade registering a growth of 34% y-o-y and e-Commerce growing by 55% y-o-y. Modern trade and e-commerce currently have a combined salience of 17% (modern trade contribution is slightly higher than e-Commerce). The management is targeting contribution from these channels to rise to 20-22% in the near term. On a consolidated basis, international business grew by 42% y-o-y and 32% q-o-q. Among regions, Middle East & Africa grew by 23% with new partner appointment in Saudi Arabia and new launches in UAE, Rest of World (RoW) grew by 77% with opening of two new geographies and Bangladesh local operations are scaling up as per plan. General trade stood flat y-o-y and grew by 5% q-o-q. Urban markets continued to register a strong y-o-y and q-o-q growth in high single-digit. Rural sales witnessed a recovery registering high single-digit growth q-o-q.

Key conference call highlights

- ♦ **Better times ahead:** Management indicated that the company witnessed sharp rebound in HSM during the quarter and expects good numbers in Q2 and Q3.
- ♦ **Eyeing to expand AD extension portfolio:** Management is confident that a few products in the AD extensions portfolio have a good potential to grow. BCC is working on expanding the portfolio over the next 2-3 years with phased launches.
- ♦ **Aiming for higher contribution from international business:** International business currently contributes ~5% to consolidated revenues. The company is focusing on achieving 20-25% contribution from the international business in medium to long run. The management sees good potential from Middle East and Africa, aided by a change in distribution in Middle East. Bangladesh is a large market which is dominated by large players. Management believes scale-up in Bangladesh will be gradual.
- ♦ **Input cost volatility continues; eyeing OPM of 18-20% for FY2024:** Management indicated that LLP consumption price was 16% y-o-y in Q1 and expects correction in Q2 with lower cost inventory being consumed; In terms of other key input materials, RMO prices were 20% lower y-o-y, glass prices were 10% higher y-o-y, while PET prices were down by 8% y-o-y in Q1FY2024. Management has guided that OPM would come in at 18-20% in FY2024.
- ♦ **Ad spends to remain at 16-18% of revenue:** A&P spends during Q1FY2024 stood at Rs. 44 crore, which was similar y-o-y. Management has guided that A&P spends would be 16-18% of revenue in the coming quarters. ADHO spends as a percentage to revenue would remain similar, while other brands would see a decline in spends as a percentage of revenue as scale is achieved.
- ♦ **Multiple levers to achieve growth:** Management has identified certain areas, which would aid the company to achieve growth in the coming years including 1. Continued growth of the AHDO portfolio led by distribution expenses and improved image, 2. Potential from coconut & amla oil, AD extensions, digital first brands, ethnic range 3. Growth in the international markets; 4. Improved execution capabilities across markets and 4. Any inorganic opportunities.
- ♦ **Other key points**
 - o The company has not planned for any large capex in the near term.
 - o Benefits of low tax will go from FY2027 and thus, tax rate would normalise in FY2027.

Results (Consolidated)

	Rs cr				
Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Net sales	265.7	246.5	7.8	246.2	7.9
Other operating income	4.5	2.9	53.3	3.2	39.6
Total revenues	270.2	249.4	8.3	249.4	8.3
Materials	120.4	111.1	8.4	113.0	6.6
Employee cost	25.7	23.1	10.9	21.8	17.7
Other expenditure	76.2	78.8	-3.2	30.0	154.1
Total expenditure	222.3	213.0	4.4	164.8	34.9
Operating profit	47.9	36.4	31.4	84.6	-43.5
Other income	10.6	6.7	57.4	10.1	4.7
Interest expenses	0.3	0.1	-	0.2	47.8
Depreciation	2.3	2.1	12.4	2.4	-3.2
Profit Before Tax	55.8	40.9	36.3	92.1	-39.4
Tax	9.6	7.0	36.2	8.7	9.9
Adjusted PAT	46.2	33.9	36.4	83.4	-44.6
EPS (Rs.)	3.1	2.3	36.4	2.7	14.1
			bps		bps
GPM (%)	55.4	55.5	-3	54.7	73
OPM (%)	17.7	14.6	311	16.7	98
NPM (%)	17.1	13.6	352	16.2	87
Tax rate (%)	17.2	17.2	-2	17.7	-55

Source: Company, Sharekhan Research

Result (Standalone)					Rs cr
Particulars	Q1FY24	Q1FY23	Y-o-Y %	Q4FY23	Q-o-Q %
Total revenues	264.2	246.7	7.1	244.5	8.0
Total expenditure	217.2	210.9	3.0	202.4	7.3
Operating profit	47.0	35.8	31.1	42.1	11.6
Other income	10.6	6.7	57.2	10.1	4.5
Reported PAT	45.4	33.4	36.1	41.0	10.8
EPS (Rs.)	3.1	2.3	36.1	2.8	10.8
			bps		bps
GPM (%)	55.4	55.1	26	54.7	72
OPM (%)	17.8	14.5	326	17.2	57
NPM (%)	17.2	13.5	366	16.8	43
Tax rate (%)	17.5	17.5	0	17.6	-11

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Hair oil category recovered to positive growth

Hair oil market saw value and volume growth after eight consecutive quarters of a lull. Volume and value growth in Q1 stood at 2.8% and 3.7% respectively. Volume growth in urban market stood at 6.9% vs. 4.1% in Q4FY2023 and in rural market stood at -1.6% versus -6.2% in Q4FY2023. Recovery was broad base across all sub-categories in the domestic hair oil market. Shift of consumers from loose/unbranded hair oil to branded hair oil, improved penetration in rural markets and sustained new launches would help hair oil market to achieve decent growth in the medium term. Volume growth is expected to be at 3-5%. The recent fall in commodity prices would help margins to improve sequentially in the quarters ahead.

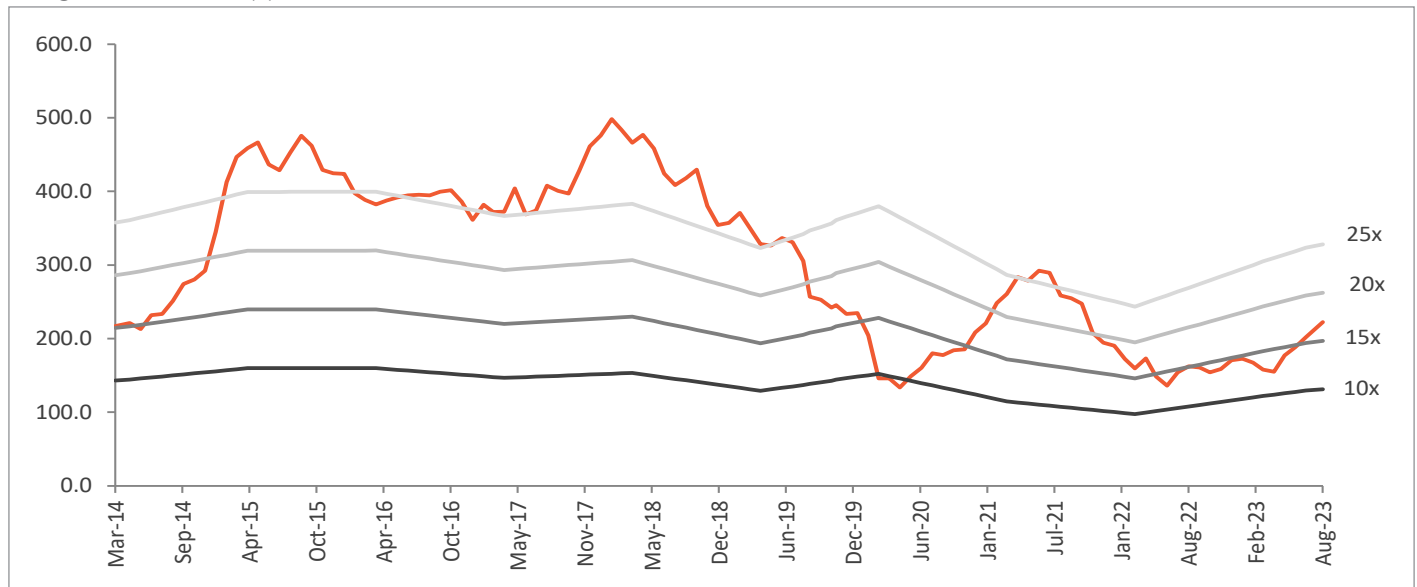
■ Company outlook - Volume growth recovery on cards

Q1FY2024 was the second consecutive of good operating performance by BCC with industry leading volume growth in the hair oil category and higher expansion in OPM. With commodity inflation easing off, the hair oil category is seeing gradually recovery in the sales volume in past two quarters. ADHO volume growth will remain ahead of overall category growth. With NPDs gaining strong traction, management targets double-digit revenue growth in FY2024 (largely a volume led growth). Decline in the commodity prices and better mix would help OPM to improve to 17-20% from 14.9% in FY2023.

■ Valuation - Maintain Buy with revised PT of Rs. 280

Benefits of restructuring the business model and focus on distribution expansion have started kicking in and we have seen good recovery in BCCs performance for last two quarters. Management is confident of achieving double-digit earnings growth over the next two years (to grow at CAGR of 23% over FY23-25E) with a good recovery in sales volumes of core and scale-up in NPDs/international business coupled with uptick in OPM. The company will continue to generate high cash flows, which will be utilised for investing in growth and reward shareholders in the form of dividend payout/buyback as there are no major capex plans going ahead. Stock has delivered strong return of 30%+ since our upgrade to Buy. Despite a strong run-up, the valuation remains attractive at 18.7x/15.8x its FY2024E/25E earnings. We maintain our Buy rating on the stock with a revised PT of Rs. 280.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur	59.5	44.2	36.3	47.0	36.0	29.4	22.1	27.0	30.0
Marico	56.3	47.2	41.3	40.5	34.2	29.9	40.8	44.0	46.9
Bajaj Consumer Care	23.4	18.7	15.8	19.4	13.8	11.0	19.6	23.4	24.6

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 ~86% to overall revenue. The company launched multiple new products in FY2023 across categories with more under pipeline to diversify the product portfolio and increase the size of addressable market. Apart from strong distribution network across 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 over 60%. 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 Bajaj	Chairman
Jaideep Nandi	Managing Director
Dilip Kumar Maloo	Chief Financial Officer
Vivek Mishra	Head Legal, Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Nippon Life India AMC	6.56
2	HDFC Asset Management Co.	6.43
3	Goldman Sachs Group Inc	2.49
4	GOLDMAN SACHS INDIA PVT LTD	2.49
5	Vanguard Group Inc	2.19
6	ICICI Lombard General Insurance Co Ltd	1.74
7	Jupiter India Fund	1.34
8	Dimensional Fund Advisors LP	0.96
9	ICICI Prudential AMC	0.89
10	UTI AMC	0.38

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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Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN): - U99999MH1995PLC087498. Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office: Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of 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.

Compliance Officer: Ms. Binkle Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022 - 33054600