



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. 3,244 cr
52-week high/low:	Rs. 263 / 151
NSE volume: (No of shares)	8.0 lakh
BSE code:	533229
NSE code:	BAJAJCON
Free float: (No of shares)	8.7 cr

Shareholding (%)

Promoters	39.4
FII	16.4
DII	17.4
Others	26.8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-0.3	-4.4	27.8	39.5
Relative to Sensex	1.6	-3.7	23.0	33.3

Sharekhan Research, Bloomberg

Bajaj Consumer Care Ltd

Weak Q2; good recovery eyed in H2

Consumer Goods

Sharekhan code: BAJAJCON

Reco/View: Buy



Upgrade



CMP: Rs. 220

Maintain

Price Target: Rs. 280



Downgrade

Summary

- Bajaj Consumer Care Ltd's (BCC's) Q2FY2024 performance was weak with domestic volumes rising 4% as compared to ours as well as and street expectations of 7-9%. Revenues fell by low single digits in general trade.
- ADHO volume growth to recover to high single digit to low double digit in H2FY2024. BCC is focusing on double-digit revenues in the near term, largely led by volume growth.
- Raw material prices to remain benign and support margins. Pick-up in sales volume will boost OPM in H2FY24. BCCL eyes OPM of 18% in the near term.
- Stock has corrected by 16% from its high and trades at 19x/16x/14x its FY2024E/25E/26E EPS. We maintain a Buy on the stock with an unchanged PT of Rs. 280.

BCC's Q2FY2024 performance lagged ours as well as street expectations mainly on account of lower-than-expected topline growth and lower OPM. Consolidated revenues stood flat y-o-y at Rs. 234.8 crore, led by 4% y-o-y volume growth while realisation dropped ~3% y-o-y. Lower input prices aided gross margins to improve by 251 bps y-o-y to 55.1% and OPM to improve by 192 bps y-o-y to 15.6%. Consolidated operating profit grew by 15.2% y-o-y to Rs. 36.7 crore and the reported PAT rose 13.4% y-o-y to Rs. 37.3 crore. In H1FY2024, revenues grew by ~5% y-o-y to Rs. 505 crore; OPM improved by 257 bps y-o-y to 16.7% and PAT grew by 16.5% y-o-y to Rs. 83.5 crore. Volume growth in H1FY2024 stood at 7%.

Key positives

- Modern trade/e-commerce channels continued to grow in double digit, grew by 27%/28%, y-o-y respectively in H1.
- Consolidated OPM improved by 192 bps y-o-y to 15.6%.
- New product launches grew by 37% y-o-y in Q2.

Key negatives

- Volume growth came in at 4% lower than our as well street expectation of 7-9%; ADHO sales volume stood flat/ marginally declined.

Management Commentary

- Shift in festive from Q2 to Q3 hit sales volume growth of Almond Drop Hair oil (ADHO) brand during the quarter. Management is confident of ADHO volume growth recovering to high single digit to low double digits in H2FY2024.
- Rural demand remains lower compared to urban demand, impacting the sales of the small packs. Management has seen some positive uptick in the rural markets and expects demand to gradually improve in the rural markets.
- Value growth lagged volume growth mainly on account of a shift in mix to new product launches (prices lower compared with ADHO) and sale of large packs (lower price per ML).
- ADHO's contribution reduced from 86% in Q1 to 81% in Q2. Management expects it improve in H2. However, with strong traction to new launches, management expects ADHO contribution to reduce to 70% in the coming years (expects NPD contribution to be at 30%).
- Key input prices (including LLP, edible oil and PET prices) have remained benign. Management expects gross margin expansion to sustain the coming quarters. With expected improvement in the sales volume, OPM will improve to close to 17% in H2FY24 from 15.6% in Q2FY24.
- Extension under the ADHO brands and ethnic products are gaining strong traction in the key markets.

Revision in estimates – We have reduced our earnings estimates by 3-4% for FY2024 and FY2025 respectively to factor weak performance in Q2. We have introduced FY2026E estimates through this note.

Our Call

View – Maintain Buy with an unchanged PT of Rs. 280: BCC's performance is expected to recover in H2FY24 with volume growth expected to improve to high single digit to low double digit. Management is confident of achieving double-digit earnings growth over the next two years (to grow at CAGR of 17% over FY23-26E) 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 corrected by 16% from its high and currently trading at 18.8x/15.9x/14.0x its FY2024E/25E/26E. We maintain our Buy rating on the stock with an unchanged 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

Rs cr

Particulars	FY23	FY24E	FY25E	FY26E
Revenue	961	1,066	1,203	1,347
OPM (%)	14.7	17.2	18.1	18.4
Adjusted PAT	139	167	198	225
% Y-o-Y growth	-17.9	19.9	18.7	13.6
Adjusted EPS (Rs.)	9.7	11.7	13.9	15.7
P/E (x)	22.6	18.8	15.9	14.0
P/B (x)	4.0	3.6	3.1	2.7
EV/EBITDA (x)	18.6	13.7	11.0	9.0
RoNW (%)	17.4	19.9	20.9	20.7
RoCE (%)	19.6	22.4	24.0	24.1

Source: Company; Sharekhan estimates

Weak Q2 – Volumes rose 4%; margin expansion led to double digit PAT growth

BCC's revenues came in flat y-o-y at Rs.234.8 crore, lower than our and average street expectation of Rs. 248-249 crore. Volume growth at 4% was lower than ours as well as street expectation of 7-9%. Softening of raw material inflation led to 281 bps y-o-y improvement in gross margins to 55.1% and 231 bps y-o-y expansion in OPM to 15.6%, lower than our and average street expectation of 17-17.2%. Operating profit grew by 20.0% y-o-y to Rs.36.7 crore and PAT grew by 17.4% y-o-y to Rs.37.3 crore, which is lower than our and average street expectation of Rs. 41 crore.

Key performance and conference call highlights

- ♦ **ADHO registered muted growth:** ADHO registered a value growth of 2% (volume growth came at 4%) in H1FY2024. Large packs performed better than sachet and mid packs. The company has done national roll out of 190ml PET to increase distribution of large bottles. BCC is also focusing on increasing the distribution of 700ml in general trade to upgrade consumers from 475ml. Also, it is launching 750ml bottle on Flipkart. It launched a couple of products in Q2 – Bajaj Almond Drops Body Lotion, Bajaj Almond Drop Shampoo and Bajaj Almond Drops Conditioners. New launches are available on e-commerce and modern trade.
- ♦ **Product launches performing well:** New product launches revenues grew by 37% y-o-y (and 19% in H1FY2024). Bajaj 100% Pure coconut Oil scaling up well with consistent repeat offtakes across all channels.
- ♦ **Ethnic range gaining good traction:** Bajaj 100% Pure Heena launch completed across all channels and initial response is encouraging. The company has launched Gulab Jal under the ethnic portfolio. Focus will be on scaling up these two products in the coming quarters. It will continue launch new products under the ethnic range in the coming quarters.
- ♦ **Price hikes in Oct and Dec-23:** The company has taken a price increase in the large packs of ADHO in Oct,23 and will be taking another round of small price hike in Dec,23. Large packs are largely sold in the urban markets and are price insensitive. Hence, price hikes will not have any material impact on the offtake of large packs. On the other hand, it will take price in one of the popular packs of ADHO to make it more price competitive in the market. Overall, there will be a marginal price hike in H2.
- ♦ **New age channels performing well:** Modern trade channel is performing really well, growing by 19% in Q2 (grew by 27% in H1). ADHO is gaining market share on MT channel. On the other hand, e-commerce channel has registered a growth of 28% in H1. Saliency of MT and e-commerce has gone-up to 20%.

Results (Consolidated)

					Rs cr
Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Net sales	231.7	229.7	0.9	265.7	-12.8
Other operating income	3.2	2.7	14.9	4.5	-29.8
Total revenues	234.8	232.4	1.0	270.2	-13.1
Materials	105.3	110.1	-4.3	120.4	-12.5
Employee cost	24.6	21.9	12.3	25.7	-4.2
Other expenditure	68.2	68.6	-0.6	76.2	-10.5
Total expenditure	198.2	200.6	-1.2	222.3	-10.9
Operating profit	36.7	31.8	15.2	47.9	-23.3
Other income	11.4	9.9	15.4	10.6	7.8
Interest expenses	0.3	0.3	-19.7	0.3	-14.9
Depreciation	2.5	1.8	36.2	2.3	5.5
Profit Before Tax	45.4	39.6	14.6	55.8	-18.7
Tax	8.1	6.7	20.5	9.6	-15.5
Reported PAT	37.3	32.9	13.4	46.2	-19.3
EPS (Rs.)	2.5	2.2	13.4	3.1	-19.3
			bps		bps
GPM (%)	55.1	52.6	251	55.4	-29
OPM (%)	15.6	13.7	192	17.7	-209
NPM (%)	15.9	14.1	173	17.1	-123
Tax rate (%)	17.9	17.0	88	17.2	68

Source: Company, Sharekhan Research

Result (Standalone)

Rs cr

Particulars	Q2FY24	Q2FY23	Y-o-Y %	Q1FY24	Q-o-Q %
Net sales	228.7	227.6	0.5	259.7	-11.9
Other operating income	3.2	2.7	14.9	4.5	-29.8
Total revenues	231.9	230.3	0.7	264.2	-12.2
Total expenditure	194.1	199.6	-2.8	217.2	-10.6
Operating profit	37.7	30.7	23.1	47.0	-19.7
Other income	11.4	9.9	15.4	10.6	7.8
Reported PAT	38.4	31.8	20.9	45.4	-15.4
EPS (Rs.)	2.6	2.2	20.9	3.1	-15.4
			bps		bps
GPM (%)	55.1	52.3	280	55.4	-25
OPM (%)	16.3	13.3	296	17.8	-150
NPM (%)	16.6	13.8	277	17.2	-63
Tax rate (%)	17.5	17.5	0	17.5	0

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 Q1FY2024 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.

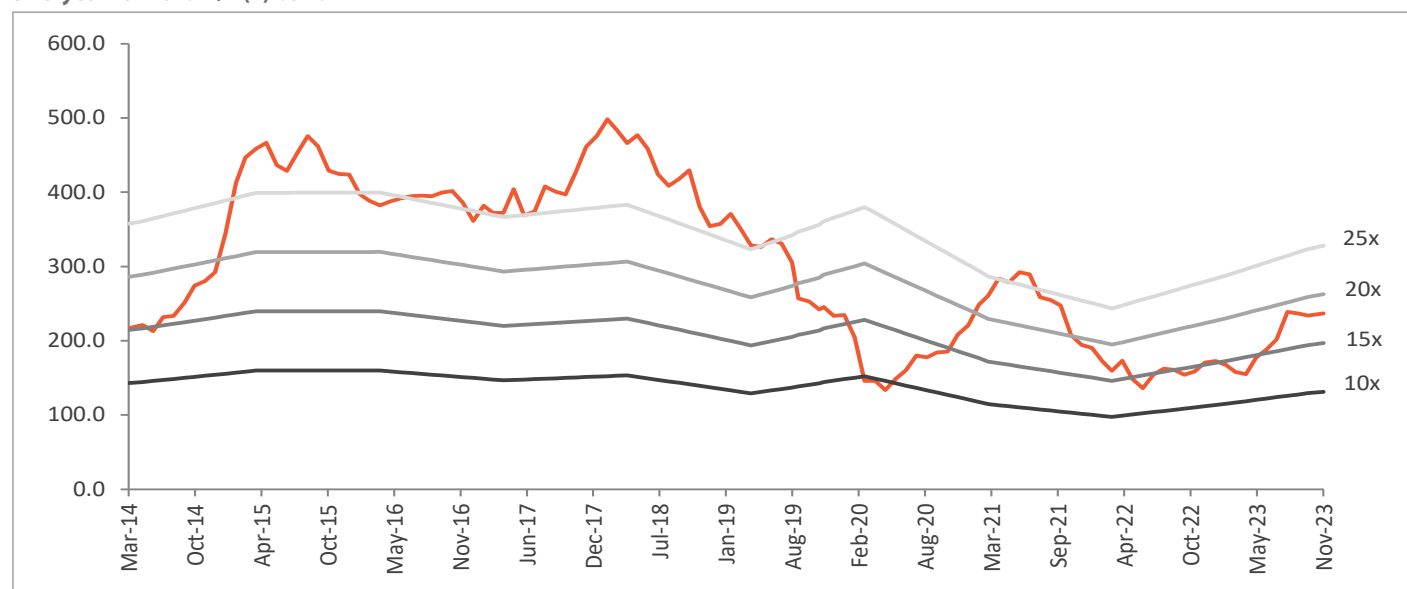
■ Company outlook - Volume growth recovery on cards

BCC's revenues and PAT grew by 5% and 25% in H1FY20024 with volume growth in the domestic business standing at 7%. 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 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

BCC's performance is expected to recover in H2FY24 with volume growth expected to improve to high single digit to low double digit. Management is confident of achieving double-digit earnings growth over the next two years (to grow at CAGR of 17% over FY23-26E) 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 corrected by 16% from its high and currently trading at 18.8x/15.9x/14.0x its FY2024E/25E/26E. We maintain our Buy rating on the stock with an unchanged PT of Rs. 280.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)			EV/EBITDA (x)			RoCE (%)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Dabur	55.8	45.5	37.7	44.0	37.7	31.5	22.1	24.7	27.5
Marico	50.8	42.7	37.1	36.7	31.0	27.0	40.8	43.8	47.1
Bajaj Consumer Care	22.6	18.8	15.9	18.6	13.7	11.0	19.6	22.4	24.0

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 ~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	HDFC Asset Management Co.	7.40
2	Nippon Life India AMC	6.56
3	Vanguard Group Inc	2.59
4	Goldman Sachs Group Inc	2.56
5	GOLDMAN SACHS INDIA PVT LTD	2.49
6	ICICI Lombard General Insurance Co Ltd	1.74
7	Jupiter Funds Management PLC	1.62
8	Jupiter India Fund	1.34
9	Dimensional Fund Advisors LP	1.04
10	Norges Bank	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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