

10 June 2024

India | Equity Research | Company Update

Bajaj Consumer Care

Consumer Staples & Discretionary

Likely improvement in core led by macro recovery; diversification scale-up progressing well

Bajaj Consumer's (BaCo) core brand Almond Hair Oil (ADHO) has been under pressure due to headwinds of tepid consumer demand and downtrading to cheaper value-added hair oil segments. With the expectations of improved consumer demand (rural recovery, moderating consumer inflation etc.) and management initiatives (improved value proposition, distribution efficiency, continued ad-spends), we expect improvement in volume growth. Further, its non-ADHO portfolio (~17% salience) is likely to continue its growth trajectory (+26% YoY in FY24) with continued scale-up of coconut portfolio (+36% in FY24) and almond drops extension (+16% YoY in FY24) in hair and skin care categories. Operating margin is likely to be range bound (~16-18%) with continued investment towards ad-spends and slightly inferior mix of non-ADHO portfolio. At 17x P/E FY26E, risk-reward is favourable. **BUY**.

Improving demand environment may drive recovery for Bajaj Almond Hair Oil (ADHO)

BaCo ADHO has had difficult last few years due to subdued consumer demand in hair oil category (tepid rural demand, high consumer inflation) coupled with light hair oil witnessing downtrading to other cheaper value-added hair oil segments. Depressed consumer demand had impacted growth in personal care categories with an even higher bearing on hair oil category. Demand in light hair oil category was worsened as consumers were downtrading to other hair oil categories due to premium pricing of light hair oils and ADHO (refer Exhibit 1). That said, Bajaj Consumer (BaCo) continues to be the market leader in light hair oil category with >60% market share. In our view, with improving consumer demand (especially in rural markets; rural outperformed urban in Q4FY24) due to moderating consumer inflation, personal care categories, including hair oils (category grew 8% in Q4FY24) are likely to witness recovery and return to volume growth trajectory. Therefore, ADHO too is likely to witness improved volumes coupled with efforts of improving value-proposition in LUPs.

Initiatives in distribution to enhance reach and efficiency

BaCo has implemented multiple initiatives over the last couple of years to enhance its distribution and is likely to witness the benefits of these investment in FY25 with improving consumer demand environment.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	9,499	9,677	10,671	11,777
EBITDA	1,414	1,582	1,787	2,083
EBITDA %	14.9	16.3	16.7	17.7
Net Profit	1,398	1,588	1,799	2,102
EPS (INR)	9.8	11.1	12.6	14.7
EPS % Chg YoY	(17.2)	13.4	13.3	16.9
P/E (x)	25.9	22.9	20.2	17.3
EV/EBITDA (x)	21.5	19.0	16.3	13.4
RoCE (%)	13.3	14.6	15.3	16.1
RoE (%)	16.8	18.8	19.7	20.7

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Market Data

Market Cap (INR)	36bn
Market Cap (USD)	437mn
Bloomberg Code	BAJAJCON IN
Reuters Code	BACO BO
52-week Range (INR)	271 /182
Free Float (%)	61.0
ADTV-3M (mn) (USD)	1.9

Price Performance (%)	3m	6m	12m
Absolute	11.7	16.2	36.8
Relative to Sensex	8.2	6.3	14.4

Previous Reports

10-05-2024: [Q4FY24 results review](#)

06-02-2024: [Q3FY24 results review](#)

Retail loyalty programme got scaled up to 11k outlets in Q4FY24 contributing 51% sales in urban markets (delivered 20% delta growth over non-program outlets). Pilot on geotagging and fencing technology in urban outlets will now be expanded across the country with early signs of better retail execution. Further, it plans on improving distribution and penetration through 45ml ADHO and improve rural coverage quality in key states (UP and Bihar) through identification of high-potential villages (population <5k) and service them better.

Diversification of portfolio through brand extensions in ADHO and addressing other hair oil segments

Over the last couple of years, Almond Drops (given its strong brand equity with >60% market share in light hair oil categories) has been extended to hair and skin care categories with the launch of new products like Bajaj Almond Drops shampoo, conditioner, body lotion, Bajaj Almond Drops Almond-Argan non-sticky hair oil, Bajaj Almond Drops hair serum with oil. We like the strategy of extending ADHO umbrella brand which should drive higher wallet share from core ADHO consumers. This segment witnessed 16% YoY growth in FY24 and should continue its growth trajectory supported by sampling and digital marketing across MT and e-commerce channels.

Scale up of Bajaj 100% Pure Coconut oil (revenue grew 36% in FY24) also continued with distribution expansion (increased by >0.15mn outlets and overall weighted distribution improved by 270bps) across markets supported by advertisement (outdoor visibility and TVC and OTT in Maharashtra) and scale up in Reliance Retail (~800 stores pan-India) leading to 2% market share in coconut hair oil category (with good market share in key states of BaCo). It also has plans to scale up its amla range (selectively due to low margins) and ethnic range. Overall, it plans to broad base its portfolio by increasing its share of non-ADHO portfolio to 40% by FY29 (vs 17% currently and 5% in FY20).

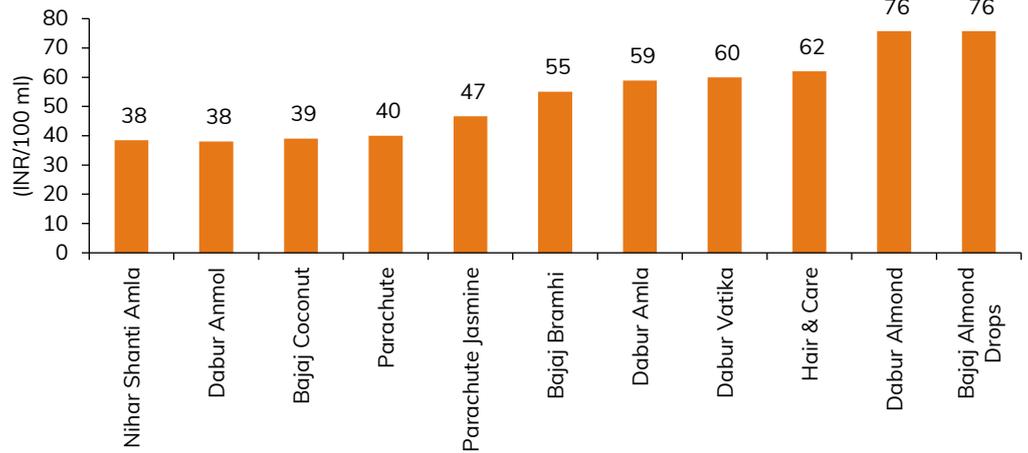
Operating margin to be range bound with focus on investments

Operating margin may be in the range of 16-18% (16.3% in FY24) for the next couple of years as management expects continued investments towards ramp-up of non-ADHO portfolio while protecting gross margins. Ad-spend investments are also likely to be in the range of 16-18%. Gross margin may be protected in ADHO range despite improved value proposition through rationalisation of packaging costs.

Valuation and risks

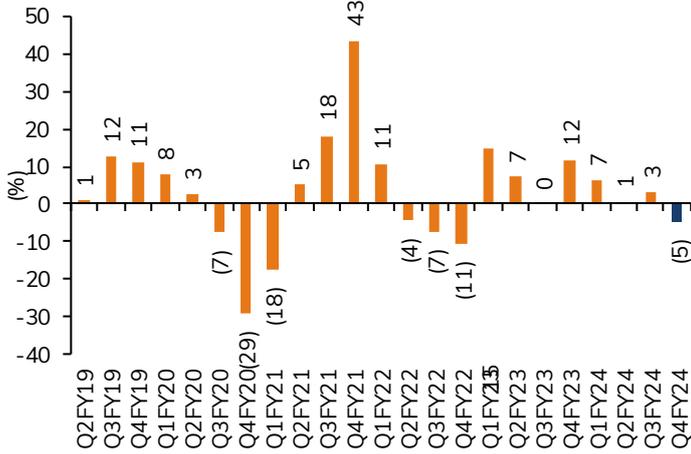
Our earnings estimates are largely unchanged. We are modelling revenue / EBITDA / PAT CAGR of 10% / 15% / 15% over FY24-26E. Maintain **BUY** with a DCF DCF-based revised target price of INR 300 (earlier: INR 280). At our target price, the stock will trade at 20x P/E Mar'26E. Key downside risks: Over-reliance on a single brand (ADHO) and significant inflation in key raw material prices.

Exhibit 1: Pricing of hair oil brands



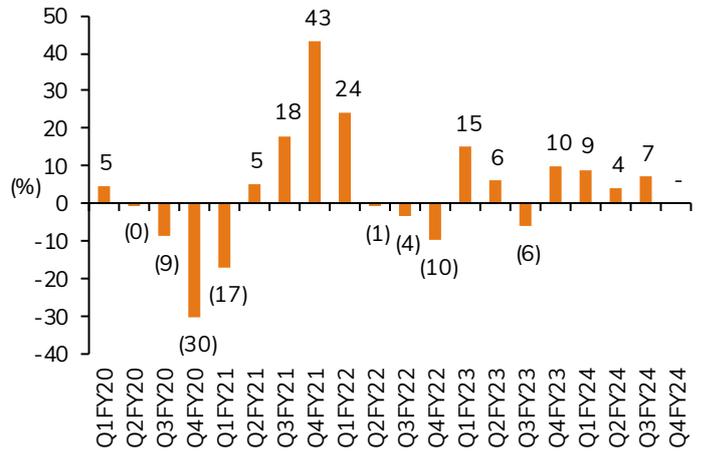
Source: I-Sec research, Company data

Exhibit 2: Revenue growth



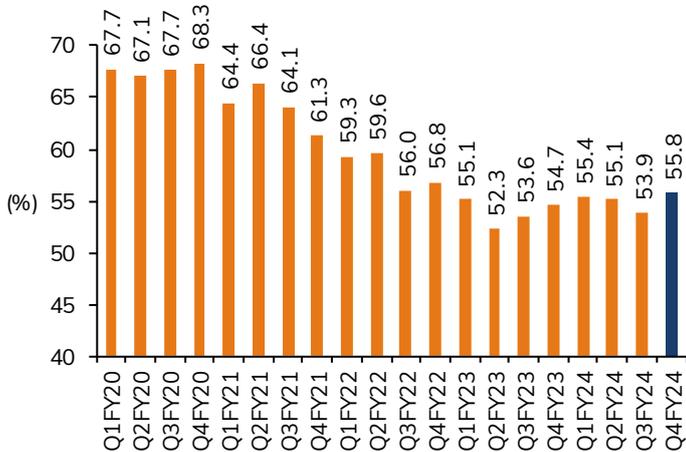
Source: Company data, I-Sec research

Exhibit 3: Volume growth



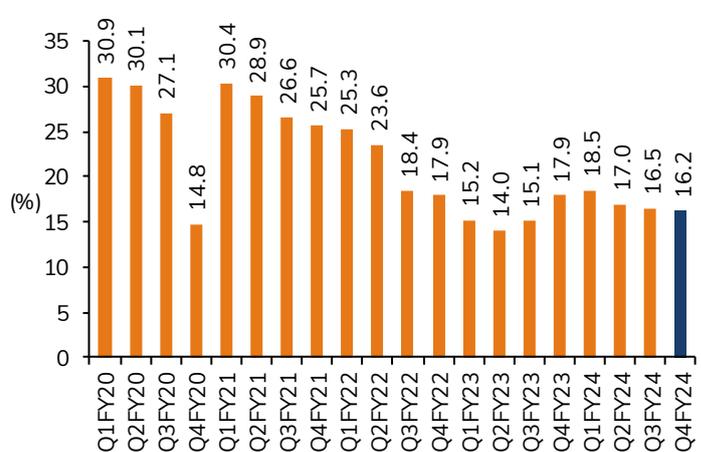
Source: Company data, I-Sec research

Exhibit 4: Gross margin



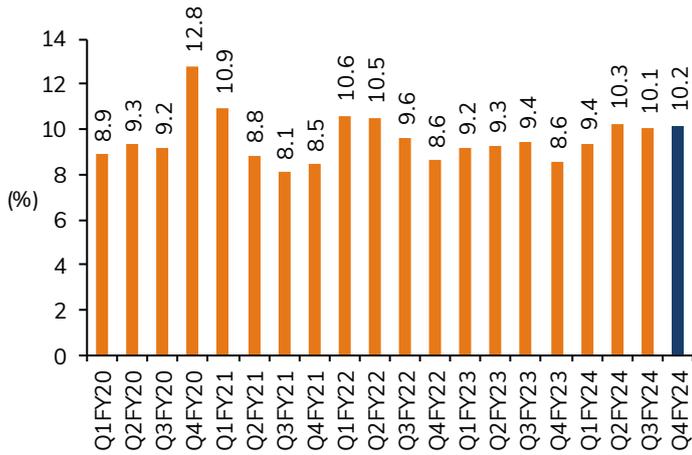
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin



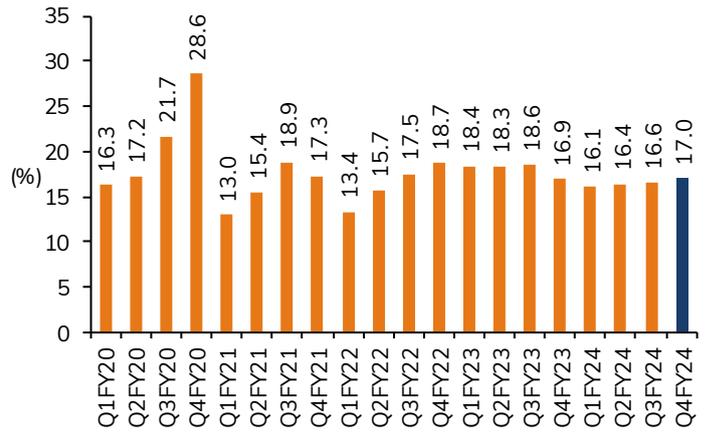
Source: Company data, I-Sec research

Exhibit 6: Staff costs (% of sales)



Source: Company data, I-Sec research

Exhibit 7: Ad spends (% of sales)



Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	39.4	39.4	39.3
Institutional investors	32.2	31.6	31.6
MFs and others	14.7	14.6	14.8
Insurance	2.4	2.4	2.5
FIs	15.1	14.6	14.3
Others	28.4	29.0	29.1

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	9,499	9,677	10,671	11,777
Operating Expenses	8,085	8,095	8,884	9,694
EBITDA	1,414	1,582	1,787	2,083
EBITDA Margin (%)	14.9	16.3	16.7	17.7
Depreciation & Amortization	81	95	99	104
EBIT	1,333	1,487	1,688	1,978
Interest expenditure	9	10	10	11
Other Non-operating Income	371	446	501	579
Recurring PBT	1,695	1,924	2,179	2,547
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	297	336	381	445
PAT	1,398	1,588	1,799	2,102
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	1,398	1,588	1,799	2,102
Net Income (Adjusted)	1,398	1,588	1,799	2,102

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,222	7,788	8,915	10,216
of which cash & cash eqv.	5,889	6,226	7,193	8,316
Total Current Liabilities & Provisions	1,157	1,305	1,439	1,588
Net Current Assets	6,065	6,483	7,476	8,629
Investments	1,666	1,713	1,713	1,713
Net Fixed Assets	458	449	398	348
ROU Assets	-	-	-	-
Capital Work-in-Progress	14	14	14	14
Total Intangible Assets	6	7	7	7
Long Term Loans & Advances	130	124	124	124
Deferred Tax assets	-	-	-	-
Total Assets	8,339	8,791	9,732	10,835
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	38	48	48	48
Other Liabilities	93	88	88	88
Minority Interest	-	-	-	-
Equity Share Capital	143	143	143	143
Reserves & Surplus	8,066	8,512	9,454	10,556
Total Net Worth	8,209	8,655	9,597	10,699
Total Liabilities	8,339	8,791	9,732	10,835

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	2,642	2,319	2,358	2,359
% growth (YoY)	7.1	0.7	3.2	(3.5)
EBITDA	470	377	373	363
Margin %	17.8	16.3	15.8	15.4
Other Income	106	114	110	117
Extraordinaries	-	-	-	-
Adjusted Net Profit	454	384	376	373

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,430	1,592	2,289	2,662
Working Capital Changes	(96)	(69)	(26)	(29)
Capital Commitments	(59)	(41)	(47)	(54)
Free Cashflow	980	1,143	1,834	2,134
Other investing cashflow	638	121	-	-
Cashflow from Investing Activities	579	80	(47)	(54)
Issue of Share Capital	-	-	-	-
Interest Cost	(1)	0	(10)	(11)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(590)	(1,141)	(857)	(1,000)
Others	(1,034)	(57)	-	-
Cash flow from Financing Activities	(1,626)	(1,198)	(867)	(1,010)
Chg. in Cash & Bank balance	(8)	67	967	1,123
Closing cash & balance	116	205	1,337	2,460

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.8	11.1	12.6	14.7
Diluted EPS (Adjusted)	9.8	11.1	12.6	14.7
Cash EPS	10.4	11.8	13.3	15.5
Dividend per share (DPS)	5.0	3.0	6.0	7.0
Book Value per share (BV)	57.5	60.6	67.2	74.9
Dividend Payout (%)	51.0	27.0	47.6	47.6
Growth (%)				
Net Sales	8.4	1.4	10.2	10.3
EBITDA	(20.8)	11.9	13.0	16.5
EPS (INR)	(17.2)	13.4	13.3	16.9
Valuation Ratios (x)				
P/E	25.9	22.9	20.2	17.3
P/CEPS	24.5	21.6	19.1	16.5
P/BV	4.4	4.2	3.8	3.4
EV / EBITDA	21.5	19.0	16.3	13.4
P / Sales	3.9	3.8	3.5	3.1
Dividend Yield (%)	2.0	1.2	2.4	2.8
Operating Ratios				
Gross Profit Margins (%)	52.9	53.9	54.3	55.0
EBITDA Margins (%)	14.9	16.3	16.7	17.7
Effective Tax Rate (%)	17.5	17.5	17.5	17.5
Net Profit Margins (%)	14.7	16.4	16.9	17.8
Working Capital Days	7.0	9.8	10.2	10.2
Inventory Turnover Days	19.8	20.4	21.2	21.2
Fixed Asset Turnover (x)	12.3	11.6	11.9	12.4
Receivables Days	12.3	16.5	17.1	17.1
Payables Days	17.9	15.2	15.8	15.8
Net Debt / Equity (x)	(0.7)	(0.7)	(0.7)	(0.8)
Net Debt / EBITDA (x)	(4.2)	(3.9)	(4.0)	(4.0)
Profitability Ratios				
RoCE (%)	13.3	14.6	15.3	16.1
RoE (%)	16.8	18.8	19.7	20.7
RoIC (%)	49.2	51.7	57.7	68.2

Source Company data, I-Sec research

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