CENTRUM

Bajaj Consumer Care Ltd

Slowdown in hair category continued

Result Update

India I Consumer

16 February, 2025

BUY

Price: Rs172

Target Price: Rs200

Forecast return: 16%

Institutional Research

Bajaj Consumer's Revenue/EBITDA/PAT declined by 2.4%/32.4%/30.4% YoY. ADHO volume in Q3 declined by low single digit, yet ADHO's large packs continue to perform better than sachets. GT channel declined in high single digit while alternative channel grew 22% in Q3. International business grew 23%, driven by strong performances in Bangladesh followed by ROW (+12%) and Nepal (+5%), while GCC & Africa witnessed steady growth. Gross margins declined to 52.0% (-149bps) on lower margin in the coconut oil portfolio. EBITDA margins to 9.8% (-432bps) due to higher employee cost (+9.5%) and other expenses (+2.8%). BajajC has acquired Banjara's -south India based brand in Personal Care for Rs1.2bn (2x on TTM EV/S) with major rationale are: 1) Wider portfolio with strong play in Naturals Hair & Skin Care (1.5x growth on BPC); 2) Distribution Synergy –as BAJAJC has been relatively weak in South India while Banjara's products could help penetrate the HSM market; and 3) Scaling up Banjara's products by leveraging BAJAJC's expertise. With weaker 9MFY25, we cut earnings and retained BUY with revised DCF-based TP Rs200 (implying 19.2x on FY27E EPS).

ADHO volume down by low single digit; BAJAJC acquired South India brand Banjara's

BajajCon's Q3FY25 consol. revenue at Rs2.3bn declined 2.4% YoY. Management attributed weak performance on urban while rural outperformed. ADHO volume in Q3 declined by low single digit, yet ADHO's large packs continue to perform better than sachets. Bajaj Coconut portfolio has been gaining market share in Maharashtra market (2.1%). International business grew 23%, driven by Bangladesh followed by ROW (+12%) and Nepal (+5%), while GCC & Africa witnessed steady growth. Project Aarohan is on right track where all urban outlets have been Geo Tagged & Geo Fenced which would help to enhance distribution and effectively manage supply chain. GT channel continues to be under pressure due to subdued demand while organized trade channel registered a growth of 22% in Q3 YoY, saliency at 30%. BajajC has acquired Banjara's -south India based brand in Personal Care for Rs1.2bn (2x on TTM EV/S) with major rationale are: 1) Wider portfolio with strong play in Naturals Hair & Skin Care (1.5x growth on BPC); 2) Distribution Synergy –as BAJAJC has been relatively weak in South India while Banjara's products could help penetrate the HSM market; and 3) Scaling up Banjara's products by leveraging BAJAJC's expertise.

Gross/EBITDA margin declined to 52.0/9.8% due to higher RMO while LLP price dropped

Gross margin declined to 52.0% (-149bps YoY), due to lower margin in the coconut oil portfolio. EBITDA declined by 32.4% to Rs225mn, due to higher employee exp. +9.5% and other expenses +2.8%. EBITDA margin dropped to 9.8% (-432bps) due to investment in Project Aarohan for improving reach in the GT channel and one time investment in IT Infra. We believe EBITDA margin of ~15%+ would be difficult as management continue to invest in non-ADHO portfolio. Further, higher competitive intensity hold the margin level, in our view.

Valuation and risks

Revenue momentum remained subdued in Q3 due to slowdown in urban consumption while rural has outperformed. We expect, mid-single digit volume growth led by bounce back in ADHO portfolio in FY26 whereas Non-ADHO portfolio continued to perform better led by Coconut & Amla portfolio. On margin, we believe EBITDA margin of ~15%+ would be difficult as management continue to invest in non-ADHO portfolio. We reckon Bajaj's focus on penetration led growth in HSM, building Non-ADHO portfolio (~20% of sales) and scale up of international business (~20%) could yield good results in FY26. By looking the lower 9MFY25, we cut our earnings for FY25/26E by 26.8/29.1% and retained BUY with a revised DCF based TP of Rs200 (implying 19.2x FY27E EPS). Risks: failure of NPD and over-dependence on ADHO.

Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	2,307	2,364	(2.4)	2,306	0.0	9,375	10,171	11,088
EBITDA	225	333	(32.4)	293	(23.1)	1,112	1,291	1,494
EBITDA margin (%)	9.8	14.1	(432bps)	12.7	(297bps)	11.9	12.7	13.5
Adj. Net profit	253	364	(30.4)	318	(20.5)	1,192	1,305	1,487
Adj. EPS (Rs)	1.8	2.5	(30.4)	2.2	(20.5)	8.3	9.1	10.4
EPS growth (%)						(23.3)	9.5	13.9
PE (x)						20.6	18.8	16.5
EV/EBITDA (x)						16.4	13.7	11.5
PBV (x)						2.7	2.6	2.4
RoE (%)						13.8	14.1	15.0
RoCE (%)						13.8	14.1	15.0

Source: Company, Centrum Broking

Market Data

Bloomberg:	BAJAJCON IN
52 week H/L:	289/171
Market cap:	Rs24.7bn
Shares Outstanding:	137.6mn
Free float:	57.9%
Avg. daily vol. 3mth:	4,00,501

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs200; from Rs244
EPS:	FY25E:Rs8.3; down 26.8% FY26E:Rs9.1; down 29.1%

Source: Centrum Broking

Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	41.0	41.0	39.3	39.3
FIIs	10.5	10.9	14.2	14.1
DIIs	20.2	20.7	17.5	17.5
Public/other	28.3	27.4	29.0	29.1

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY25	Actual Q3FY25	Variance (%)
Revenue	2,317	2,307	(0.4)
EBITDA	290	225	(22.3)
EBITDA margin (%)	13	10	(274bps)
Other Income	141	113	(19.6)
Interest	1	1	(16.4)
Depreciation	26	26	0.2
PBT	403	311	(22.8)
Tax	73	58	(20.0)
Rep. PAT	330	253	(23.4)
Adj. PAT	330	253	(23.4)

Source: Bloomberg, Centrum Broking

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Consumer

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	9,375	10,199	(8.1)	10,171	11,119	(8.5)
EBITDA	1,112	1,546	(28.1)	1,291	1,800	(28.3)
EBITDA margin (%)	11.9	15.2	(334bp)	12.7	16.2	(351bp)
Adj. PAT	1,192	1,634	(27.0)	1,305	1,838	(29.0)
Diluted EPS (Rs)	8.3	11.4	(26.8)	9.1	12.9	(29.1)

Source: Centrum Broking

Bajaj Consumer Care versus NIFTY 50

	1m	6m	1 year
BAJAJCON	(7.6)	(37.0)	(19.2)
NIFTY 50	(1.1)	(5.0)	5.0

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
ADHO Volume growth	2.4	5.0
Employee cost as % of sales	11.4	13.0
EBITDA margin (%)	11.9	12.7
Tax rate	22.0	25.0

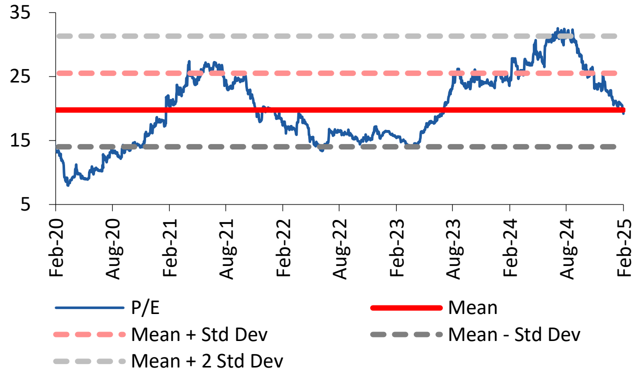
Source: Centrum Broking

Valuations

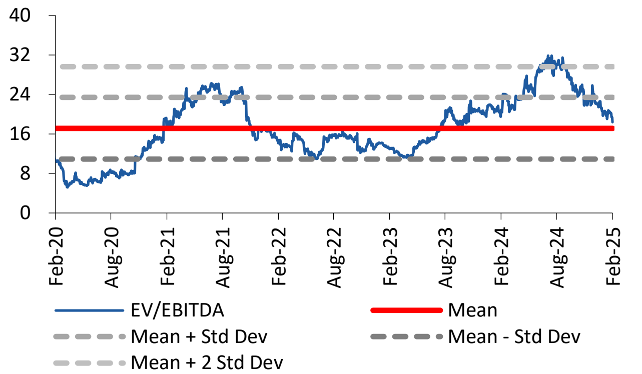
Revenue momentum remained subdued in Q3 due to slowdown in urban consumption while rural has outperformed. We expect, mid-single digit volume growth led by bounce back in ADHO portfolio in FY26 whereas Non-ADHO portfolio continued to perform better led by Coconut & Amla portfolio. On margin, we believe EBITDA margin of ~15%+ would be difficult as management continue to invest in non-ADHO portfolio. We reckon Bajaj's focus on penetration led growth in HSM, building Non-ADHO portfolio (~20% of sales) and scale up of international business (~20%) could yield good results in FY26. By looking the lower 9MFY25, we cut our earnings for FY25/26E by 26.8/29.1% and retained BUY with a revised DCF based TP of Rs200 (implying 19.2x FY27E EPS). Risks: failure of NPD and over-dependence on ADHO

Valuations	Rs/share
DCF-based target price	Rs200
WACC (%)	11.0
Terminal growth (%)	5.2

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY24-27E)			P/E (x)			EV/EBITDA (x)			RoE		
	(Rs bn)	Sales	EBITDA	EPS	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
HUL	5,441.2	4.8	5.4	5.2	55.6	52.0	47.7	38.1	35.7	32.6	20.0	21.4	23.2
Britannia	1,187.5	7.7	6.5	8.8	54.0	48.0	42.8	37.0	33.5	29.9	52.4	53.0	52.1
Dabur	921.3	5.9	7.0	5.9	52.0	48.1	43.5	35.5	32.2	29.3	17.8	17.8	18.3
Colgate	674.7	9.3	8.4	10.9	52.4	45.9	41.1	38.2	34.1	30.6	75.5	83.3	89.9
Emami	229.0	8.3	13.1	15.5	27.9	25.4	22.4	21.3	18.7	16.5	34.6	33.7	33.5
Bajaj Consumer	**24.7**	**4.6**	**2.4**	**-1.5**	**20.6**	**18.8**	**16.5**	**16.4**	**13.7**	**11.5**	**13.8**	**14.1**	**15.0**

Source: Company, Centrum Broking

Conference call highlights

Demand Outlook

- Overall ADHO saw low single digit decline in Q3FY25 YoY; Flat QoQ. Large and Mid-packs remained flat, while sachets declined
- Almond Drops Hair Oil registered a low single digit decline YoY in Q3
- The contraction in the gross margin was on account of lower margin in coconut oil portfolio
- EBITDA margin were impacted due to gross margin dilution, investment in Project Aarohan for improving reach in the GT channel and one time investment in IT Infra
- Infrastructure revamp underway through 'Project Aarohan'; Pointed expansion in high potential villages (in UP & MP)
- Geo tagging have been undertaken for all the direct coverage stores. All Urban outlets have been Geo Tagged & Geo Fenced
- Coconut oil portfolio continues to grow, with a 2.1% market share in Maharashtra. Good market share gains in traditional Bajaj strongholds nearing double-digit shares in CNO

Banjara Acquisition

- The company was established in 1991 having wide natural product range in Hair and Skin Care with 70K+ outlets reach (Cosmetics, SMAT, Pharmacies and Groceries) across 5 states of South India across all channels
- The company has demonstrated the annualised Revenue of over Rs500mn with CAGR of 14% from last 4 years with EBITDA margin of high single digit, debt free and positive cash flows
- The purchase consideration for the transaction was Rs1200mn for 100% stake. Enterprise value (EV)/Sales: 2x Sales ~ Rs1083mn
- The market of natural product in the BPC space is significant and growing rapidly. Natural products makes up ~40% of the total BPC market growing 1.5x of the overall market. Also the Banjara's general trade distribution through cosmetic stores, pharmacies and grocery store in the southern state will increase the company's distribution network

International Business

- International Business grew by 23% in Q3 YoY
- Bangladesh continues to see robust growth both on QoQ and YoY basis
- GCC & Africa continues to witness steady growth

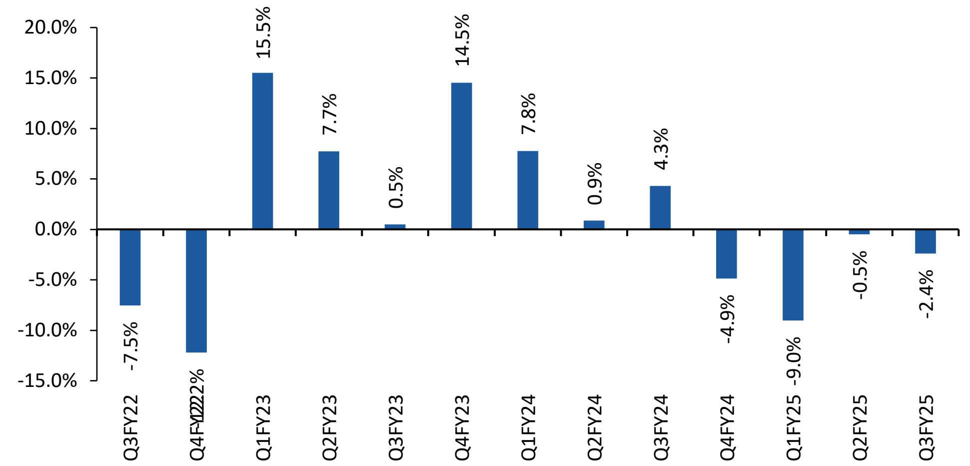
Channel commentary

- GT channel continues to be under pressure due to subdued demand. Oraganised Trade channel registered a growth of 22% in Q3 YoY, saliency at 30%

Margins

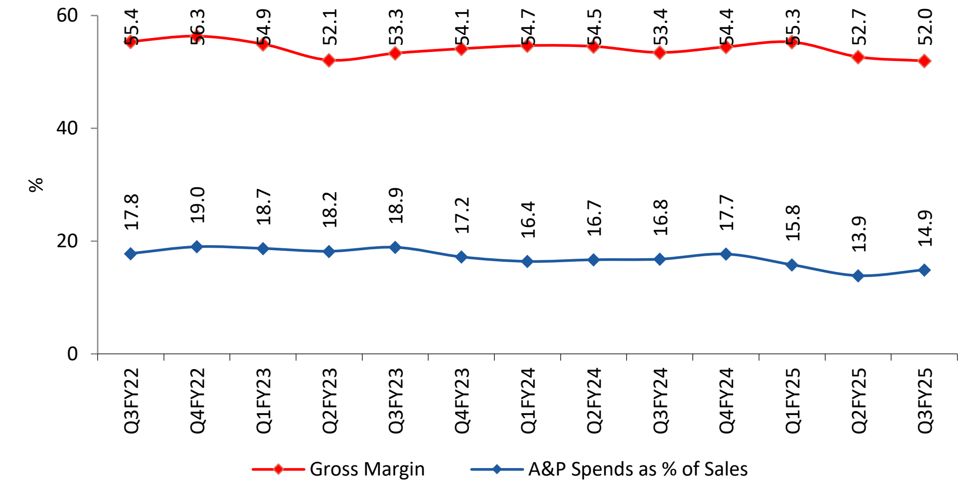
- Gross margin declined to 52.0% (-149bps YoY), driven by higher prices of key raw materials such as RMO, LLP and packing material
- EBITDA declined by 32.4% to Rs225mn, due to higher employee exp. +9.5% and higher expenses by +2.8%
- EBITDA margin dropped to at 9.8% (-432bps)
- PAT declined by 30.4% YoY to Rs253mn, despite 50% lower interest cost

Exhibit 1: Quarterly net sales growth trends – YoY



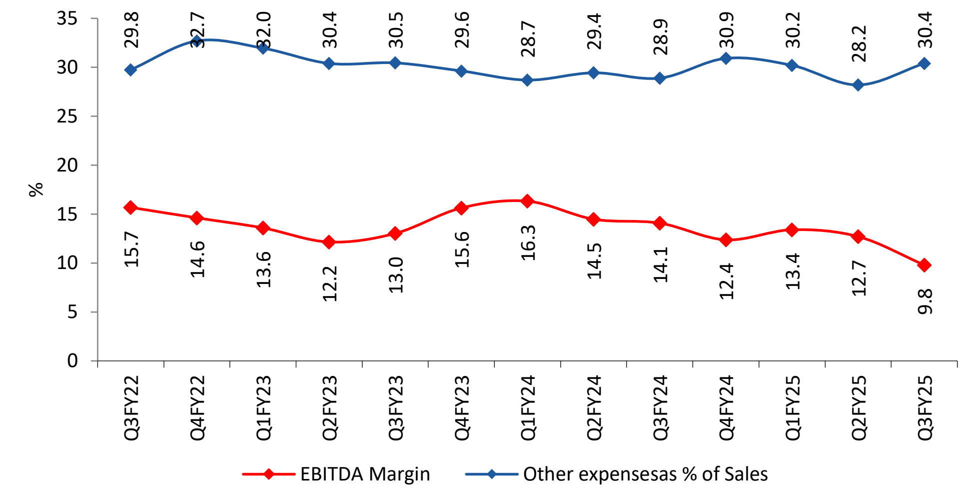
Source: Company Data, Centrum Broking

Exhibit 2: Gross margin and ad-spend trends



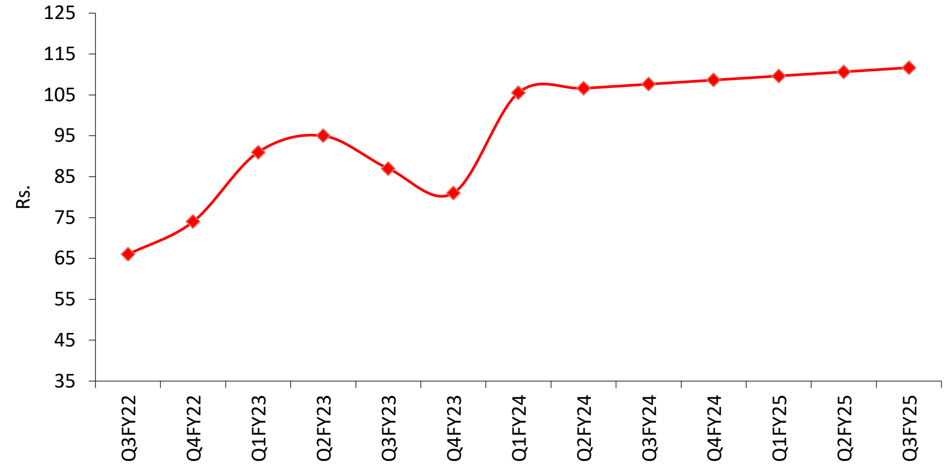
Source: Company Data, Centrum Broking

Exhibit 3: EBITDA margin & Other exp. trend



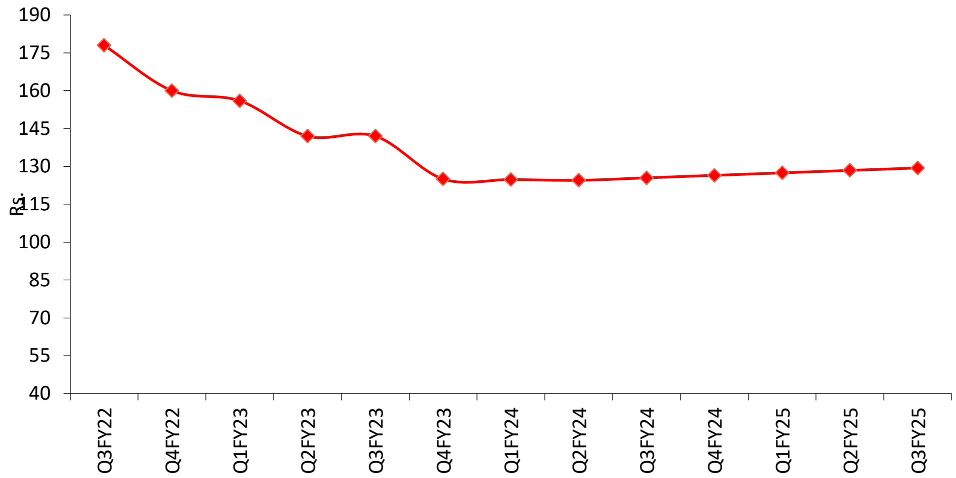
Source: Company Data, Centrum Broking

Exhibit 4: Key raw material trend – LLP price



Source: Company Data, Centrum Broking

Exhibit 5: Key raw material trend – RMO price



Source: Company Data, Centrum Broking

Exhibit 6: Brand Performance Highlights

Source: Company

Exhibit 7: Almond Drops Hair Oil Q3FY25 Performance

Source: Company

Exhibit 8: Marketing Initiatives

Source: Company

Exhibit 9: Quarterly Consolidated Financial Summary

(Rs mn)	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
Net Sales	**2,266**	**2,462**	**2,657**	**2,317**	**2,364**	**2,342**	**2,417**	**2,306**	**2,307**
Cost of goods sold	1,058	1,130	1,204	1,054	1,100	1,067	1,080	1,092	1,108
Employee Expenses	223	218	257	246	248	261	282	270	271
Other Exp	690	729	762	682	683	724	731	651	702
Operating Profit (Core EBITDA)	**295**	**385**	**434**	**335**	**333**	**290**	**324**	**293**	**225**
Depreciation	22	24	23	25	25	26	23	25	26
EBIT	**273**	**361**	**410**	**311**	**308**	**264**	**300**	**268**	**199**
Interest	3	2	3	3	2	2	2	1	1
Other Income	133	133	151	146	138	174	153	122	113
Profit Before Tax	**403**	**492**	**558**	**454**	**443**	**436**	**451**	**388**	**311**
Tax	71	87	96	81	79	80	80	70	58
Tax rate (%)	17.6	17.7	17.2	17.9	17.9	18.3	17.8	18.0	18.7
Adjusted PAT	**332**	**405**	**462**	**373**	**364**	**356**	**371**	**318**	**253**
Growth (%)									
Net Sales	0.5	14.5	7.8	0.9	4.3	-4.9	-9.0	-0.5	-2.4
EBITDA	-16.5	22.5	29.4	20.2	12.7	-24.7	-25.3	-12.7	-32.4
Adj. PAT	-13.6	13.0	36.4	17.7	9.5	-12.1	-19.7	-14.6	-30.4
Margin (%)									
Gross Margin	53.3	54.1	54.7	54.5	53.4	54.4	55.3	52.7	52.0
EBITDA	13.0	15.6	16.3	14.5	14.1	12.4	13.4	12.7	9.8
EBIT	12.0	14.7	15.4	13.4	13.0	11.3	12.4	11.6	8.6
APAT	14.6	16.4	17.4	16.1	15.4	15.2	15.4	13.8	11.0

Source: Company Data, Centrum Broking

P&L

YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	**9,491**	**9,680**	**9,375**	**10,171**	**11,088**
Operating Expense	7,305	7,277	6,742	7,070	7,790
Employee cost	892	1,012	1,069	1,322	1,275
Others	0	0	453	488	529
EBITDA	**1,294**	**1,392**	**1,112**	**1,291**	**1,494**
Depreciation & Amortisation	85	99	97	104	111
EBIT	**1,209**	**1,292**	**1,015**	**1,187**	**1,384**
Interest expenses	10	10	19	19	19
Other income	0	0	0	0	0
PBT	**1,688**	**1,890**	**1,528**	**1,740**	**1,982**
Taxes	296	336	336	435	496
Effective tax rate (%)	17.5	17.8	22.0	25.0	25.0
PAT	**1,392**	**1,554**	**1,192**	**1,305**	**1,487**
Minority/Associates	0	0	0	0	0
Recurring PAT	**1,392**	**1,554**	**1,192**	**1,305**	**1,487**
Extraordinary items	0	0	1	1	1
Reported PAT	**1,392**	**1,554**	**1,193**	**1,306**	**1,488**

Ratios

YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	9.5	2.0	(3.1)	8.5	9.0
EBITDA	(19.7)	7.5	(20.1)	16.1	15.8
Adj. EPS	(17.9)	15.4	(23.3)	9.5	13.9
Margins (%)					
Gross	53.6	54.3	53.0	52.3	52.8
EBITDA	13.6	14.4	11.9	12.7	13.5
EBIT	12.7	13.4	10.8	11.7	12.5
Adjusted PAT	14.7	16.1	12.7	12.8	13.4
Returns (%)					
ROE	17.4	19.1	13.8	14.1	15.0
ROCE	17.4	19.0	13.8	14.1	15.0
ROIC	50.8	50.3	39.6	46.8	52.8
Turnover (days)					
Gross block turnover ratio (x)	5.7	5.6	5.1	5.2	5.3
Debtors	10	14	13	9	9
Inventory	45	44	52	54	54
Creditors	38	35	43	48	46
Net working capital	234	246	277	278	274
Solvency (x)					
Net debt-equity	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
Interest coverage ratio	132.9	137.1	58.9	68.4	79.1
Net debt/EBITDA	(4.5)	(4.5)	(6.4)	(5.9)	(5.5)
Per share (Rs)					
Adjusted EPS	9.4	10.9	8.3	9.1	10.4
BVPS	53.8	58.5	62.7	67.3	71.4
CEPS	10.0	11.6	9.0	9.9	11.2
DPS	4.0	8.0	4.2	4.6	6.2
Dividend payout (%)	42.4	73.4	50.0	50.0	60.0
Valuation (x)					
P/E	18.2	15.8	20.6	18.8	16.5
P/BV	3.2	2.9	2.7	2.6	2.4
EV/EBITDA	15.1	13.8	16.4	13.7	11.5
Dividend yield (%)	2.3	4.6	2.4	2.7	3.6

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	143	143	143	143	143
Reserves & surplus	7,754	8,163	8,760	9,414	10,009
Shareholders fund	7,935	8,354	8,951	9,605	10,200
Minority Interest	0	0	0	0	0
Total debt	93	88	88	88	88
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	**8,028**	**8,442**	**9,039**	**9,692**	**10,288**
Gross block	1,657	1,736	1,849	1,972	2,106
Less: acc. Depreciation	(483)	(582)	(679)	(782)	(893)
Net block	1,175	1,154	1,170	1,190	1,213
Capital WIP	277	278	278	278	278
Net fixed assets	1,881	1,862	1,878	1,898	1,921
Non Current Assets	46	50	50	50	50
Investments	0	0	0	0	0
Inventories	513	562	682	751	810
Sundry debtors	304	440	243	267	302
Cash & Cash Equivalents	5,942	6,300	7,182	7,741	8,310
Loans & advances	0	7	7	8	8
Other current assets	554	611	591	642	699
Trade payables	450	402	638	624	680
Other current liab.	748	961	931	1,010	1,101
Provisions	18	32	31	33	36
Net current assets	6,097	6,525	7,106	7,741	8,313
Total assets	**8,028**	**8,442**	**9,039**	**9,692**	**10,288**

Cashflow

YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	1,688	1,890	1,528	1,740	1,982
Depreciation & Amortisation	85	99	97	104	111
Net Interest	(378)	(405)	(175)	(191)	(208)
Net Change – WC	(117)	(60)	301	(75)	(3)
Direct taxes	(296)	(339)	(336)	(435)	(496)
Net cash from operations	**1,015**	**1,163**	**1,416**	**1,144**	**1,387**
Capital expenditure	(64)	(48)	(113)	(123)	(134)
Acquisitions, net	0	0	0	0	0
Investments	332	(230)	0	0	0
Others	378	405	175	191	208
Net cash from investing	**646**	**126**	**62**	**68**	**74**
FCF	**1,661**	**1,290**	**1,478**	**1,212**	**1,461**
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(33)	(52)	0	0	0
Dividend paid	(590)	(1,141)	(596)	(653)	(892)
Interest paid	(1)	0	0	0	0
Others	(1,002)	(6)	0	0	0
Net cash from financing	**(1,626)**	**(1,198)**	**(596)**	**(653)**	**(892)**
Net change in Cash	35	91	882	559	569

Source: Company, Centrum Broking

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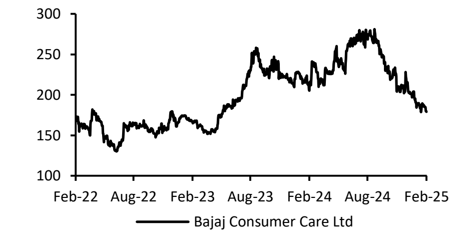
Bajaj Consumer Care Ltd



Source: Bloomberg

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