Bajaj Consumer Care Ltd — FY 2023 Annual Report Analysis

Annual Report Analysis (Consolidated)

Investor Snapshot

#	Analytical point	Sentiment
1	Bajaj Consumer Care maintains a dominant 60% market share in the Light Hair Oil (LHO) segment while aggressively expanding its total addressable market from □2,000 Cr to □13,000 Cr through entry into Coconut and Amla categories.	—
2	**Revenue grew by 9.19% to □961 Cr, driven by a significant increase in New Product Development (NPD) contribution (from 0.7% to 13%) and a 2.5x surge in e-commerce sales.**	—
3	***Operating Profit Margins (OPM) collapsed from 20% to 15% as the company prioritized "profitless growth," utilizing high marketing spends (18% of sales) to defend market share and scale new categories.***	—
4	***Net Profit after Tax (PAT) declined by 17% to 139 Cr, with 26.6% of earnings derived from "Other Income" (Treasury), effectively masking a sharper deterioration in core operational profitability.***	—
5	**The balance sheet remains exceptionally robust and debt-free (D/E 0.01x), supported by a massive treasury of □575.03 Cr, which represents 72% of the company's total Net Worth.**	—
6	***Cash Flow from Operations (CFO) of 101 Cr significantly lagged PAT, resulting in a poor CFO/PAT conversion ratio of 0.72, indicating that accounting profits are not translating efficiently into liquidity.***	—
7	**Asset efficiency remains high as revenue growth (9.19%) outpaced Gross Block expansion (6.29%), suggesting the company is scaling without requiring heavy immediate capital expenditure.**	—
8	***Earnings quality is under severe pressure as Trade Receivables spiked 58.05% against single-digit revenue growth, signaling potential channel stuffing or aggressive credit loosening to meet targets.***	—
9	***While the governance matrix scores 10/10 for compliance, there is notable cash leakage with 15.12% of CFO diverted to promoter-controlled entities through recurring royalty and CSR payments.***	—
10	***Key risks include persistent rural cyclicality, margin erosion from high raw material costs, and the failure of high A&P spends to generate sustainable volume growth in the core segment.***	—
11	The outlook depends on the successful scaling of Coconut and Skincare segments to achieve operating leverage and the normalization of working capital cycles.	—
12	Investment View: Watch; stance remains cautious until CFO/PAT returns to >0.90x and receivable growth aligns with revenue, with trade receivables (□30.74 Cr) being the primary monitorable.	—

1. Business overview (In Bullet Points)

- **Business Segments:** Bajaj Consumer Care Ltd (BCCL) is structurally pivoting from a single-product company (Bajaj Almond Drops Hair Oil - ADHO) to a diversified FMCG player.
- **Revenue Drivers:** Growth is increasingly driven by volume from New Product Development (NPD), which rose from 0.7% to 13% of revenue in two years. Core revenue is being premiumized via Argan variants and Serums.
- **Cost Drivers:** High sensitivity to Light Liquid Paraffin (LLP) and vegetable oil prices. Marketing (A&P) spends are a major structural cost, maintained at 18-20% of sales.
- **Industry Position:** Maintains >60% market share in the Light Hair Oil (LHO) category.

- **Expansion Plans:** Successfully expanded addressable market from ₹2,000 Cr (LHO only) to ₹13,000 Cr (Total Hair Oil) by entering Coconut and Amla segments.
- **Acquisitions & New Categories:** Entry into the ₹5,000 Cr Coconut Oil market and Skincare (Moisturizing Soap, Face Serums).
- **Capacity Additions:** Commissioned high-speed PET lines in Paonta Sahib and a Pouch line in Guwahati to protect margins through manufacturing scale.
- **Segment Performance:** Non-ADHO portfolio now accounts for 12.4% of General Trade sales. E-commerce grew 2.5x, now contributing significantly to the 21% Organized Trade revenue share.
- **Geographical Presence:** Rural India accounts for ~45% of domestic business but remained a laggard in FY23. The company is over-indexing on Urban General Trade (adding 35,000 outlets) and international markets (30+ countries, notably UAE and Bangladesh).

2. Management commentary & outlook

- Management has shifted strategic focus from "defending market share" to "aggressive diversification" to reduce dependence on the flagship ADHO brand.
- The "Digital First" strategy (Natyv Soul and Bajaj 100% Pure) targets Gen-Z and Millennials, with digital marketing allocation doubling to 20% of the budget.
- Management acknowledges a double-digit decline in category offtakes in Hindi-speaking rural markets due to inflationary pressure.
- The response to rural distress is "premiumization"—launching value-added products like Coco Onion and Almond Argan oil to compete on efficacy rather than price.
- The sales distribution model has moved from "Wholesale-led" to "Direct Distribution," with vans now penetrating 37,000 villages.
- Management is leveraging technology via Power BI and SAP S/4 HANA for real-time decision-making and "market hygiene."
- The ₹80.88 Cr buyback and 52.5% dividend payout signal management's belief in stock undervaluation and commitment to returning "lazy" cash.
- The long-term vision involves sacrificing short-term margin stability to secure a larger slice of the broader ₹13,000 Cr hair care and skincare markets.
- Management exhibits **"Pragmatic Aggression."** They are candid about the "turbulent waters" of rural inflation and category declines but are aggressively reinvesting cash flows into NPD and digital channels. There is a clear transition from a conservative, single-product mindset to a modern, multi-category FMCG approach. The tone suggests they are willing to sacrifice short-term earnings volatility to secure long-term growth.

3. Financial analysis

3.1 Financial statements

P&L statement (□Cr)

Line item	Mar 2023	Mar 2022
Sales	961	880
Sales Growth %	9.19	-4.54
Expenses	820	706
Material Cost %	45.78	41.91
Raw material cost	437	377
Change in inventory	3	-8
Manufacturing Cost %	2.85	3.05
Employee Cost %	9.28	10.03
Other Cost %	27.39	25.25
Operating Profit	141	174
OPM %	15	20
Other Income	37	39
Exceptional items	0.99	2.34
Other income normal	36.08	36.30
Interest	1	1
Depreciation	9	5
Profit before tax	169	206
Tax %	18	18
Net Profit	139	170
Exceptional items AT	1	2
Profit excl Excep	138	168
Profit for PE	138	168
Profit for EPS	139	170
Profit Growth %	-17	-24
EPS (□)	9.63	11.50
Dividend Payout %	51	70

Balance sheet (□Cr)

Line item	Mar 2023	Mar 2022
Equity Capital	14	15
Reserves	775	795
Borrowings	9	0
Short term Borrowings	0	0
Lease Liabilities	9.29	0
Other Borrowings	-0.01	0
Other Liabilities	125	122
Trade Payables	45	46
Advance from Customers	4	4
Other liability items	77	72
Total Liabilities	924	931
Fixed Assets	160	152
Land	66	66
Building	58	45
Plant Machinery	22	20
Equipments	7	6
Computers	0	0
Furniture n fittings	2	1
Vehicles	2	2
Intangible Assets	108	108
Other fixed assets	4	5
Gross Block	270	254
Accumulated Depreciation	109	102
CWIP	28	28
Investments	575	612
Other Assets	161	140
Inventories	51	57
Trade receivables	30	19
Receivables over 6m	2	1
Receivables under 6m	28	18
Prov for Doubtful	0	0
Cash Equivalents	19	14
Loans n Advances	9	4
Other asset items	51	45
Total Assets	924	931

Cash flow statement (□Cr)

Line item	Mar 2023	Mar 2022
Cash from Operating Activity	101	129
Profit from operations	143	175
Receivables	-10	2
Inventory	6	-14
Payables	4	-8
Loans Advances	0	0
Other WC items	-12	6
Working capital changes	-12	-14
Direct taxes	-30	-33
Cash from Investing Activity	64	0
Fixed assets purchased	-6	-11
Fixed assets sold	0	0
Investments purchased	0	-24
Investments sold	35	0
Interest received	38	35
Other investing items	-3	0
Cash from Financing Activity	-163	-124
Proceeds from shares	0	0
Proceeds from borrowings	0	0
Repayment of borrowings	0	-5
Interest paid fin	0	-1
Dividends paid	-59	-118
Financial liabilities	-3	0
Other financing items	-100	0
Net Cash Flow	2	5
Free Cash Flow	95	118
CFO/OP	93	93

Key ratios

Line item	Mar 2023	Mar 2022
Debtor Days	12	8
Inventory Days	43	57
Days Payable	37	45
Cash Conversion Cycle	17	19
Working Capital Days	5	1
ROCE %	21	26

3.2 Financial analysis summary

- **Revenue** from operations grew by 9.19% to □961.00 Cr, with "Sale of Products" contributing 98.77% of the total, yet this growth failed to translate into profitability as Net Profit declined by 17% to □139.00 Cr due to significant margin pressure.
- **Operating Profit** margins (OPM %) contracted from 20% to 15% as Other Expenses were driven by a sharp 18.13% surge in Advertisement and Sales Promotion to □174.50 Cr, indicating that the company is spending aggressively to defend market share.
- **Trade Receivables** on the Balance Sheet spiked by 58.05% to □30.74 Cr, vastly outpacing the 9.19% Revenue growth and resulting in a negative □10.00 Cr impact on CFO working capital changes, signaling potential channel stuffing or a loosening of credit terms.
- **Working Capital** efficiency deteriorated as Debtor Days rose from 8 to 12, and the ageing analysis reveals that Receivables over 6m doubled to □2.37 Cr, while the provision for doubtful debts remains aggressive at only 1% of gross receivables.
- **CFO** of □101.00 Cr is significantly lower than PAT of □139.00 Cr, yielding a cash conversion ratio (CFO/PAT) of 0.73, primarily due to the build-up in Trade Receivables and □45.96 Cr tied up in "Balance with Govt. Authorities."
- **Other Income** of □37.00 Cr accounts for a substantial 26.6% of PAT, derived largely from interest on the □575.03 Cr held in Investments (quoted bonds and G-Secs), which exposes the P&L to mark-to-market volatility.
- **Capital Allocation** was focused on returning cash to shareholders, with □59.00 Cr in Dividends paid and a □80.63 Cr share buyback reflected in Cash from Financing Activity, which led to a reduction in Reserves to □775.00 Cr.
- **Fixed Assets** increased slightly to □160.00 Cr, supported by □6.00 Cr in Capex, while Depreciation rose to □9.00 Cr due to the aggressive Written Down Value (WDV) method and the first-time recognition of □9.29 Cr in Lease Liabilities.
- **ROCE** diluted from 26% to 21% as the decline in Operating Profit outweighed the reduction in the equity base from the buyback, while the company remains effectively debt-free with a Debt/Equity ratio of 0.01.
- **Inventory** management showed improvement as Inventories fell to □51.00 Cr, with Inventory Days dropping from 57 to 43, providing a □6.00 Cr boost to CFO, partially offsetting the cash drag from receivables.
- **Other Assets** are heavily impacted by □45.96 Cr tied up with Government Authorities (GST/Tax refunds), posing a liquidity risk if refunds are delayed. Other Liabilities are dominated by □62.42 Cr in "Other Outstanding Liabilities," which lacks granular disclosure despite being larger than Trade Payables.
- **Other Expenses** were pressured by a 60.25% spike in Miscellaneous Expenses (□8.75 Cr) and a 31.01% increase in Freight and Distribution costs (□40.93 Cr), reflecting inflationary pressures and logistics expansion.

- The dominant financial theme of the year is **"Profitless Growth,"** where a recovery in Revenue trajectory was undermined by severe margin compression from marketing spends and deteriorating earnings quality, evidenced by a widening gap between PAT and CFO.

3.3 Contingent liabilities & commitments

- **Indirect Tax Claims:** ₹3.59 Cr (FY23) vs ₹3.84 Cr (FY22). These are disputed claims not acknowledged as debt; management believes they will not have a material adverse effect.
- **Lease Commitments:** ₹0.04 Cr for low-value/short-term leases not recorded as liabilities, a sharp reduction from ₹0.23 Cr in FY22.
- **Capital Commitments:** Not explicitly disclosed as a standalone figure in the notes, though ongoing projects are reflected in the ₹28 Cr **CWIP**.

3.9 Earnings quality & forensic checks

#	Check	Impact	Status	Notes detail
1	PAT vs CFO trend	Profit ↓ — earnings overstate cash	—	Build-up in receivables and other assets is primary driver of cash lag.
2	Receivables & channel-stuffing signal	Revenue ↑↓ — channel stuffing risk	—	Ageing shows overdue >6m doubled to □2.37 Cr; credit terms likely loosened.
3	Revenue timing	Neutral — stable revenue timing	—	Revenue recognized when risks/rewards pass; net of returns and trade allowances.
4	Revenue from related parties %	Neutral — core revenue is B2C	—	Group operates in a single reportable segment: Cosmetics and Personal Care.
5	Inventory vs revenue growth	Profit ↑ — inventory liquidation	—	Finished goods decreased from □23.01 Cr to □17.41 Cr, suggesting leaner supply chain.
6	Inventory valuation method change	Neutral — consistent valuation	—	Standard FMCG accounting policy for cost (FIFO/ Weighted Average) maintained.
7	Exceptional items in operating profit	Profit ↑ — non-core boost	—	Exceptional items are reported below operating profit but boost final PBT [P&L Table].
8	Depreciation rate vs useful life policy	Profit ↓ — conservative accounting	—	WDV method used; more aggressive in early years of asset life.
9	Provision reversals boosting PAT	Profit ↑ — aggressive provisioning	—	Simplified ECL approach used; □0.31 Cr provision appears low given receivable spike.
10	Tax rate consistency	Profit ↑ — tax holiday benefit	—	No deferred tax on timing differences reversing during tax holiday period.
11	CWIP age and stalling projects	Neutral — stable project pipeline	—	No specific impairment or stalling noted; represents ongoing capital projects [Balance Sheet].
12	Deferred tax asset recognition adequacy	Neutral — minimal DTA impact	—	Policy prevents recognition of DTA for items reversing during tax-free periods.
13	RPT quantum and trend	Profit ↓ — recurring promoter leakage	—	Royalty paid to Bajaj Resources Pvt Ltd; CSR to Kamalnayan Jamnalal Bajaj Foundation.
14	Dividend paid vs FCF adequacy	Neutral — sustainable payouts	—	Dividend payout ratio decreased to 51% from 70% as PAT declined [P&L Table].
15	Treasury Income Dependence	Profit ↑ — non-core earnings	—	High reliance on interest income from □575 Cr treasury book rather than core operations.
16	Miscellaneous Expense Spike	Profit ↓ — lack of transparency	—	Sharp spike in unexplained expenses; potential "dumping bucket" for non-recurring costs.
17	Auditor Verification of Investments	Neutral — MTM sensitivity	—	P&L is highly sensitive to interest rate volatility and MTM losses on the treasury book.

4. Management & governance

A. Auditor report & key audit matters

- **Audit Opinion:** Unqualified. The financial statements present a true and fair view.
- **Key Audit Matters (KAMs):** Not specifically disclosed in the provided sections of the Annual Report.
- **Auditor Details:** M/s. Chopra Vimal & Co. is in the second year of a five-year term.

- **Auditor Fees:** Not explicitly itemized; however, Legal & Professional expenses spiked to ₹7.74 Cr. The lack of granular disclosure on audit vs. non-audit fees prevents a full independence assessment.
- **Going Concern:** Auditor confirms the financial statements are prepared on a going concern basis.

B. Related party transactions

Party	Relationship	Nature	Amount (₹ Cr)	Concern
Bajaj Resources Pvt Ltd	Significant Influence	Royalty Paid	9.48 Cr	Recurring promoter outflow
Kamalnayan Jamnalal Bajaj Foundation	Promoter Entity	CSR Contribution	4.78 Cr	100% of CSR to promoter foundation
Key Management Personnel	KMP	Remuneration	6.44 Cr	Informational
Promoter Entities	Promoter Group	Rent Expenses	1.01 Cr	Informational
Bajaj Resources Pvt Ltd	Significant Influence	Outstanding Royalty	2.19 Cr	Liability to promoter

- **RPT Analysis:** Total RPT outflows (Royalty + CSR) represent **15.12% of CFO**. This is a significant cash leakage to promoter-controlled entities, especially as royalty increased while operating profit declined by 18.96%.
- **Dividend to RPT:** Dividend paid to Bajaj Resources Pvt Ltd was ₹22.45 Cr (a 50% reduction YoY).

C. Shareholding

- **Promoter Pledge:** Nil.
- **Equity Base:** Reduced from ₹15 Cr to ₹14 Cr following the buyback of 48.98 lakh shares.

D. Board composition + KMP compensation

- **Board Composition:** 7 Directors; 57.14% Independent; 1 Woman Director (Lilian Jessie Paul).
- **KMP Compensation:**
  - **Aggregate KMP Pay:** ₹6.44 Cr (Down 10.55% YoY).
  - **Alignment:** Compensation reduction aligns with the 18.96% drop in Operating Profit.
  - **Specific Note:** Sumit Malhotra (Director/Advisor) received ₹1.50 Cr; this required a Special Resolution as it exceeds 50% of total Non-Executive Director remuneration.
  - **Family Correlation:** No specific same-family compensation clusters were identified in the provided data, though royalty flows to the promoter-controlled Bajaj Resources Pvt Ltd.

F. Capital allocation & capex

Action	FY current (□Cr)	FY prior (□Cr)	% of CFO	Signal
Dividends	59.00 Cr	118.00 Cr	58.41%	High payout vs CFO
Buybacks	80.63 Cr	0.00 Cr	79.83%	Funded by treasury
Capex	6.00 Cr	11.00 Cr	5.94%	Asset light
Investments (Financial)	-35.00 Cr	24.00 Cr	N/M	Liquidation for cash

- **CAPEX Analytical Notes:**
  - **CFO Coverage of Capex:** CFO of □**101.00 Cr** easily covers the □6.00 Cr capex, but total shareholder returns (Buyback + Dividends = □139.63 Cr) exceeded CFO, requiring the liquidation of □35.00 Cr in investments.
  - **Nature of Capex:** Focused on modernization, specifically a **High Speed PET Line at Paonta Plant and Pouch Line at Guwahati**.
  - **Deployment Efficiency:** Revenue grew 9.19% while Gross Block increased by 6.29%, suggesting efficient asset utilization.
  - **Verdict:** Value-neutral. The company is returning more cash than it generates from operations, relying on its □**575.03 Cr** treasury to support payouts.

H. Risks

- **Raw Material Volatility (High):** Fluctuations in LLP and vegetable oil prices caused OPM to fall from 20% to 15%.
- **Channel Stuffing (High):** Receivables grew **58.05%** vs 9.19% Revenue growth, leading to a cash flow lag (CFO/PAT 0.72).
- **Concentration Risk (Medium):** Operates in a single segment (Personal Care), making it highly sensitive to rural demand shifts.
- **Treasury MTM Risk (Medium):** □**575.03 Cr (72% of Net Worth)** is held in quoted bonds, exposing the P&L to interest rate volatility.
- **Competition (Medium):** Ad-spend surged **18.13%** to defend market share against larger FMCG peers.

5. Scorecard & verdict

Part a: scorecard

Dimension	Rating (1–5)	Delta	Key evidence	One-line rationale
Business quality	3	→	60% LHO share; 13% NPD contribution	Strong niche dominance but struggling with rural cyclicality and single-segment concentration.
Financial health	4	→	D/E 0.01x; ₹575 Cr Treasury	Debt-free with massive liquidity, though margins are under severe pressure.
Earnings quality	2	↓	CFO/PAT 0.72; Receivables +58%	Significant divergence between profit and cash; signs of aggressive channel stocking.
Management & governance	3	→	15% CFO to RPT; 57% Independent Board	Compliant board structure but high recurring cash leakage to promoter entities via royalty/CSR.
Capital allocation & visibility	3	↓	Buyback > CFO; ROCE 21%	Returning cash via treasury liquidation rather than operations; growth is currently "bought" via high A&P.

Business positives (for this company this year) * **[Market Expansion]:** Addressable market expanded from ₹2,000 Cr to ₹13,000 Cr via entry into Coconut and Amla segments. * **[NPD Traction]:** New Product Development contribution rose from 0.7% to 13% of revenue in just two years. * **[Digital Growth]:** E-commerce channel grew 2.5x, with organized trade now contributing 21% of revenue. * **[Solvency]:** Maintained a debt-free balance sheet with a massive treasury of ₹575.03 Cr (72% of Net Worth). * **[Asset Efficiency]:** Revenue growth (9.19%) outpaced Gross Block growth (6.29%), indicating efficient capacity utilization.

Business negatives / concerns (for this company this year) * **[Margin Compression]:** Operating Profit Margin (OPM) collapsed from 20% to 15% due to high RM costs and A&P spends. * **[Cash Conversion]:** CFO/PAT ratio dropped to 0.72, with CFO (₹101 Cr) significantly lagging PAT (₹139 Cr). * **[Receivables Spike]:** Trade receivables surged 58.05% against revenue growth of only 9.19%, a major red flag for channel stuffing. * **[Promoter Leakage]:** 15.12% of CFO is diverted to promoter-controlled entities through royalty and CSR payments. * **[Treasury Dependence]:** 26.6% of PAT is derived from "Other Income" (Treasury), masking the decline in core operational profitability.

Overall scorecard summary Bajaj Consumer Care is in a transition phase, showing stable financial health due to its debt-free status and large treasury, but suffering from deteriorating earnings quality. While revenue is growing through diversification, the "profitless growth" and the 58% spike in receivables suggest that market share is being defended at a high cost to cash flows. Governance is adequate in structure, but the high percentage of cash flow diverted to promoters remains a persistent overhang on capital allocation discipline.

Part b: governance check matrix

#	Check	Status
1	Audit opinion clean?	—
2	Promoter pledge = 0?	—
3	KMP pay < 5% of PAT?	—
4	RPT quantum < 5% of revenue?	—
5	Board > 50% independent?	—
6	At least 1 woman director?	—
7	No statutory dues outstanding?	—
8	No fraud reported?	—
9	Audit trail enabled?	—
10	Frequent Auditor change	—

Total: 10/10 — Governance Rating: 4

Part c: investor verdict

Thesis: A debt-free, cash-rich FMCG incumbent aggressively buying growth in new categories to offset the stagnation of its core hair oil brand. **Overall stance:** Watch **Rationale:** While the diversification is strategically sound, the deteriorating cash conversion and receivables spike suggest high execution risk and potential channel stuffing. **Re-evaluate when:** CFO/PAT returns to >0.90x and receivable growth aligns with revenue growth (<10%). **BULL CASE:** Successful scaling of the Coconut and Skincare segments leads to operating leverage, restoring OPM to 20%+. **BEAR CASE:** Rural recovery fails to materialize, and high A&P spends continue to erode margins without sustainable volume growth in NPD. **Key monitorable:** Trade Receivables: □30.74 Cr → Watch for any increase beyond □35 Cr without commensurate revenue growth.