Bajaj Consumer Care Ltd — Aug 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline on Revenue / Weak Miss on Margins **One-line:** Bajaj is aggressively trading off near-term profitability to break its "single-product" (ADHO) curse, but the timing coincides with a brutal raw material cycle and a rural demand slump.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	EBITDA margins (15.3%) fell significantly below historical 20%+ levels.	□
Earnings Quality	Low (Input cost pressure)	Profits suppressed by 33% inflation in LLP and 57% surge in A&P spend.	□
Guidance Confidence	Neutral	Management maintains 18-20% A&P spend target despite margin pressure.	□
Management Credibility	Neutral	Successfully delivering on "portfolio expansion" but struggling with margin defense.	□
Business Quality Signal	Deteriorating (Short-term)	Gross margins have dropped ~1000 bps over two years (65% to 54.9%).	□
Key Q&A Exchange	Q#9 + Soap Category	Questioning the logic of entering the hyper-competitive soap market.	□
The Street's Primary Anxiety	Margin Floor	When will the decline in Gross Margins (now at 54.9%) bottom out?	□
Capital Cycle Stage	Investment	Heavy spend on NPDs (Coco Onion, Soaps) and Digital-first brands.	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA margins compressed from 25.2% to 15.3% YoY.	□
Pricing Power	Eroding	Management admits pricing premium vs peers is at a limit; hikes are off the table.	□
FCF Conversion & Quality	Distorted	Secondary sales > Primary by □10 Cr; working capital likely improving.	□
Competitive Moat Signals	Shrinking	Core ADHO salience declining (86% vs 90%+); new categories lack moats.	□
Balance Sheet Strength	Strong	Zero debt; sufficient cash to fund the transition.	□
Working Capital Efficiency	Improving	Change in incentive structure to focus on secondary sales over primary.	□
Mgmt Guidance Track Record	Mixed	Delivered on volume growth (14%) but failed to protect margins.	□
Key Vulnerability / Red Flag	Over-reliance on LLP	Light Liquid Paraffin (crude-linked) is crushing the cost structure.	□
Management Tone	Defensive	Confident in long-term strategy but defensive on immediate margin recovery.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives):

Positives: * **Volume-Led Growth:** Revenue growth of 15.5% was primarily volume-driven (14%), indicating the brand still has pull despite the rural slowdown. * **Successful De-risking:** ADHO salience has dropped to 86% as Amla (+47% growth) and new launches like Coco Onion gain traction. * **Channel Diversification:** Modern Trade (+70%) and E-commerce (now 6% of sales) are scaling rapidly, reducing dependence on sluggish rural General Trade.

Negatives: * **Structural Margin Collapse:** Gross margins at 54.9% are a far cry from the 65% levels seen in FY21, driven by unprecedented inflation in LLP (+33%) and RMO (+7.5%). * **Limited Pricing Power:** The company cannot raise prices further as its premium over competitors has already widened, leaving it fully exposed to further RM volatility. * **Questionable Capital Allocation:** Entry into the soap category—a "bloodbath" market dominated by giants—raises concerns about spreading resources too thin during a margin crisis.

Forward-Looking Watchpoint: Monitor the "Almond Drop" umbrella expansion; management plans to launch 8-9 products in this portfolio over 3 years. The key is whether these new products can eventually match ADHO's superior margin profile or if they will permanently dilute the company's ROE.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary column and any number absent from PPT.

Metric	Current Qtr (Q1 FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□ Cr)	246.5	15.5%	14.7%	↑	Growth was volume-led (14%). Urban GT grew in high teens; Rural GT grew mid-single digits.
Gross Margin (%)	54.9%	-410 bps	-140 bps	↓	Impacted by 33% inflation in LLP and 7.5% in RMO. Mix change toward non-ADHO also dilutive.
EBITDA (□Cr)	37.6	-30.0%	4.1%	↓	YoY decline due to RM costs and 57% jump in A&P spend.
EBITDA Margin %	15.3%	-990 bps	-150 bps	↓	Management maintains long-term target of 20-21%.
PAT (□Cr)	33.9	-30.7%	-5.4%	↓	Profitability hit by higher depreciation (new launches) and lower margins.
EPS (□)	2.30	-30.7%	-5.4%	↓	Calculated from PAT (Consolidated).
Volume Growth (%)	14.0%	N/A	9.8%	↑	Total volume growth 14%; Hair Oils specifically grew 15% in volume.
Ad Spend % of Rev	18.7%	+510 bps	-30 bps	↑	Heavy investment in Coco Onion and new Soap launch. Target range 18-20%.
Net Debt / (Cash)	(400+)	N/A	N/A	→	Zero debt. Specific cash balance not in PPT but implied by high other income.
LLP Price (□/kg)	91.0	33.0%	N/A	↓	Crude-linked; expected to remain inflationary in Q2.
RMO Price (□/kg)	156.0	7.5%	N/A	↓	Prices stabilized vs last quarter but remain high YoY.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Salience	Trend	vs Co. Avg	Key Development
ADHO	212.0 (est)	~5%	86%	→	Below Avg	Management focused on premiumizing and increasing "new triers" via 45ml SKU.
Amla	~25.0 (est)	47%	~10%	↑	Above Avg	Significant traction in Brahmi Amla and Sarson Amla.
Coco Onion / Other	~9.5 (est)	N/A	~4%	↑	Above Avg	1000+ GRPs delivered; high SOV in Hindi-speaking markets.
International	7.4	N/A	3%	→	Inline	Nepal growing double-digits; Bangladesh and Rest of World declining.
E-commerce	14.8	100%	6%	↑	Above Avg	New launches contribute 1/5th of e-com sales.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	Goal to return to 20-21% EBITDA margins.	Requires ~600 bps margin expansion from current 15.3% levels.	Missed (Margins trending down).	High (RM volatility)
Guidance	A&P Spends	18-20% of sales for the next 2-3 years.	Current 18.7% is in line with this target.	Delivered (Consistent spend).	Low
Guidance	Portfolio	Launch 8-9 products under Almond Drop umbrella over 3 years.	Needs ~1 new launch every 4 months.	On track (Soap, Serum, Argan Oil launched).	Medium (Execution)
Macro	RM Outlook	LLP and RMO pressures to continue in Q2.	No forward purchases currently being made due to volatility.	N/A	High (Inflation)
Strategy	Distribution	Reach 15% combined share for Modern Trade + E-com.	Currently at ~14% (8% MT + 6% E-com).	On track.	Low
Strategy	Digital	Scale Natyv Soul and Bajaj 100% Pure via D2C.	Currently 9 products in Natyv Soul; 5 in 100% Pure.	On track.	Low

4. ANALYST Q&A

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Abneesh Roy, Edelweiss	Coconut Oil	Business Overview	"You are offering 1-on-1 offers on e-commerce; will this be aggressive across all channels?"	Management stated these are tactical, case-to-case moves in Modern Trade/ E-com to drive trials. This indicates a willingness to sacrifice margins for volume share in the competitive coconut category, potentially weighing on EBITDA in H1.	None	4.0	Tactical Discounting
2	4.0	Abneesh Roy, Edelweiss	Raw Materials	Financials	"What is the sense on gross margins for H2 FY23?"	Management refused to give H2 guidance, citing high volatility and a "wait and watch" approach on the Russia-Ukraine war. This uncertainty suggests H2 margins remain a "wildcard," preventing a near-term valuation re-rating.	H2 Guidance	3.0	Evasive on H2
3	3.5	Prakash Kapadia, Anived	Growth CAGR	Business Overview	"Three-year CAGR is only 1%; when will high volume growth return?"	Management argued that the 2019 base was abnormally high, but acknowledged ADHO is under pressure while non-ADHO brands like	None	3.5	Portfolio Transition

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						Amla are now the growth engine. The implication is that "headline" growth will remain muted until non-ADHO reaches critical mass.			
4	5.0	Shirish Pardeshi, Centrum	Gross Margin	Financials	"Gross margins fell from 65% to 54.5%—this is worrying. What is the factor to monitor?"	Management attributed the drop to unprecedented LLP/RMO inflation and a conscious decision to "invest ahead" in A&P (□10-12 Cr extra spend). This confirms that margins are a secondary priority to portfolio diversification right now.	None	4.0	Investment Phase
5	4.0	Shirish Pardeshi, Centrum	Market Share	Business Overview	"The market share slide is missing; where do we stand?"	Management confirmed light hair oil market share is flat at ~10.5%. The lack of market share growth despite high A&P spend indicates that investments are merely "defending" territory rather than expanding it.	None	3.0	Flat Share
6	4.0	Deepan Narayanan, Trustline	Rural Demand	Business Overview	"Are you seeing improvement in the wholesale	Management noted that while wholesale grew ~10%	None	4.0	Rural Headwinds

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					trade/rural markets?"	due to internal corrections, rural demand remains fundamentally weak. This suggests a macro overhang will continue to limit ADHO's recovery in core Hindi-belt markets.			
7	4.5	Percy Panthaki, IIFL	Pricing Power	Financials	"You took 13% pricing over 3 years on the 100ml pack, but margins still fell; can you take more hikes?"	Management admitted their price premium over competitors is now at a ceiling, making further hikes difficult. This signals a complete loss of "margin defense" via pricing, making the stock a pure play on commodity cooling.	None	5.0	Ceiling Reached
8	3.0	Anup Ramachandra, AMC	Virgin Coconut	Business Overview	"Your pricing for Virgin Coconut oil seems too low (□280 for 200ml) compared to competitors."	Management explained they are targeting a premium hair/ skin niche rather than mass cooking usage. This highlights a strategy focused on "premium niches" where they hope to avoid a head-on price war with Marico.	None	3.5	Niche Targeting
9	4.5			Strategy			None	4.0	

Q#	Rel.	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
		Rahul Ranade, GSAM	Soap Launch		"What is the logic of entering soaps where brands are well-entrenched?"	Management clarified that Soap is not an isolated launch but the start of an "Almond Drop" umbrella portfolio (8-9 skin/hair products). This is a high-risk strategy; entering soaps is capital-intensive and survival requires sustained A&P that might further bleed margins.			Portfolio Play

PATTERN FLAGS & SENTIMENT

The recurring theme in this call was the "Margin vs. Growth" trade-off. Analysts expressed significant anxiety regarding the 1000 bps collapse in gross margins and the company's decision to enter new, hyper-competitive categories like soaps during a period of raw material stress. Management remained defensive but firm, arguing that the historical "ADHO-only" model is too risky and that they must invest now to be a "stronger organization" when the cycle turns.

Analyst Sentiment Verdict: Skeptical. While analysts appreciated the 14% volume growth, they were clearly unsettled by the lack of a margin floor and the aggressive A&P spend (18.7%). The soap launch was met with particular skepticism, as it pits Bajaj against much larger FMCG incumbents. Management's credibility is currently tied to whether these "New Products" can achieve break-even before the cash reserves or investor patience run out.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
Pricing Power	Implied brand strength via ADHO.	Admits premium vs peers is at a ceiling.	Walk-back on ability to take further price hikes.	High; no "escape valve" if RM costs rise further.
H2 Outlook	Optimistic about long-term.	Refused to give any visibility on H2 gross margins.	Lack of short-term clarity.	Medium; keeps the stock in "wait and watch" mode.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Revenue Basis	N/A	14% Volume Growth	↑
Margin Structure	N/A	54.9% Gross Margin	↓
Portfolio Mix	N/A	Non-ADHO at 14% salience	↑
Raw Material Profile	N/A	LLP at □91/kg (+33%)	↓
A&P Strategy	N/A	18.7% of sales	↑
Product Footprint	N/A	Entry into Soap/Serum	↑

STOP HERE.