Bajaj Consumer Care Ltd — Aug 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat on Margins **One-line:** Bajaj has successfully arrested the margin freefall of the last four quarters, delivering an 18.4% EBITDA margin through aggressive cost optimization and a shift in A&P strategy, even as it continues to dilute ADHO's concentration risk.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Strong Beat	EBITDA margins (18.4%) significantly exceeded the 15.3% reported in Q1 FY23.	□
Earnings Quality	High (Core driven)	Growth driven by volume (double-digit) and sequential gross margin expansion.	□
Guidance Confidence	Strong	Reiteration of 18-20% EBITDA margin target for FY24 looks mathematically robust.	□
Management Credibility	Strong	Successfully stabilized ADHO while scaling International (42%) and NPDs.	□
Business Quality Signal	Improving	Second consecutive quarter of robust ADHO growth (9% value).	□
Key Q&A Exchange	Q#10 - EBITDA Targets	Management confirms 18-20% is the floor for the year based on RM assumptions.	□
The Street's Primary Anxiety	Rural Sustainability	Fear that rural "flattening" is a false dawn; mgmt admits it's still a watch-out.	□
Capital Cycle Stage	Investment	Continued rollout of Bajaj Almond Drops extensions (Body Lotion, Shampoo).	□
Margin / Return Ratio Trajectory	Improving	EBITDA margins expanded 310 bps YoY and 100 bps QoQ.	□
Pricing Power	Stable	Tactical price increases planned for H2 FY24 in select ADHO SKUs.	□
FCF Conversion & Quality	Strong	Focus shifted to secondary sales (off-take) over primary (loading).	□
Competitive Moat Signals	Stable	ADHO market share holding; successful "right to win" testing in Soap/Serums.	□
Balance Sheet Strength	Strong	Zero debt; evaluating inorganic targets with a dedicated partner.	□
Working Capital Efficiency	Improving	Lean, automation, and process improvements saved □2 Cr in the quarter.	□
Mgmt Guidance Track Record	Reliable	Delivered on the "diversification" promise made in FY23.	□
Key Vulnerability / Red Flag	RM Volatility (LLP)	Light Liquid Paraffin (LLP) consumption cost is still up 16% YoY.	□
Management Tone	Confident	Focused on "execution capability" as the primary organizational win.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives):

Positives: * **Margin Inflection:** EBITDA margins returned to the 18%+ range (18.4%), up from 15.3% YoY, driven by RMO (Refined Mustard Oil) deflation and operational efficiencies (□2 Cr savings). * **Execution Capability:** Management's focus on secondary sales over primary loading has stabilized the channel and improved the quality of growth. * **International Scale-up:** Now 5% of revenue, the segment grew 42% YoY, proving it is a viable long-term growth engine (target 20-25%). * **ADHO Resilience:** The core brand grew 9% in value and double-digit in volume, debunking fears of brand fatigue.

Negatives: * **LLP Headwinds:** While other commodities cooled, LLP (crude-linked) consumption cost remains 16% higher YoY due to refinery shutdowns. * **Rural Fragility:** Despite "flattening" out from a 5.6% decline in Q4 to flat in Q1, management remains cautious on a full-blown rural recovery. * **NPD Concentration:** While New Products grew 23% QoQ, the YoY growth looks subdued (□31 Cr vs □28 Cr) due to high base effects from massive launches last year.

Forward-Looking Watchpoint: Monitor the traction of the "Bajaj Ethnic" range (Henna) and ADHO extensions (Body Lotion/Shampoo) in General Trade; success here will determine if Bajaj can transcend being just a hair oil company.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT primary source; Concall used for commentary and specifics.

Metric	Current Qtr (Q1FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	265.7	7.8%	7.9%	↑	Consolidated. Growth was volume-led (double-digit).
Gross Margin (%)	54.7%	-20 bps	+60 bps	→	Impacted by 16% LLP inflation YoY, offset by RMO deflation and □2 Cr cost saves.
EBITDA (□Cr)	49.0	30.1%	14.2%	↑	Growth driven by lower A&P intensity and operational productivity.
EBITDA Margin %	18.4%	+310 bps	+100 bps	↑	Target 18-20% for FY24.
PAT (□Cr)	46.2	36.4%	14.2%	↑	Improved operating leverage and higher other income (□10.6 Cr).
Ad Spend % of Rev	16.6%	-220 bps	-80 bps	↓	Absolute spend down YoY (□44.2 Cr vs □46.3 Cr). Focus shifting to Digital/AI.
Net Debt / (Cash)	(Cash)	N/A	N/A	→	Zero debt. Specific cash balance not stated but Other Income is robust.
Volume Growth (%)	Double-digit	N/A	N/A	↑	Hair oil portfolio specifically delivered double-digit volume growth.
International Rev %	5.0%	+120 bps	+90 bps	↑	Grew 42% YoY; Middle East and Africa performing strongly.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO	228.5 (est)	9.0%	High	↑	Above Avg	Double-digit volume growth; 86% of total revenue.
Non-ADHO/ NPD	32.0 (est)	14.3%	Varying	↑	Inline	Grew 23% QoQ. Salience at ~14% vs 15% in high-launch periods.
International	13.3 (est)	42.0%	High	↑	Above Avg	Bangladesh scaling local operations; Middle East distributors delivering.
Coconut/Amla	Not stated	16% (Amla)	10%+	↑	Below Avg	Amla grew 16% QoQ as HSM markets rebounded. Coconut is EBITDA positive (10%+).

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery (from Prior Context)	Risk Flag
Guidance	Margins	18-20% EBITDA margin for FY24.	Currently at 18.4%. Achieving 20% requires further RM cooling or price hikes.	Delivered (Q1 at 18.4% vs 15.3% YoY).	Medium
Guidance	A&P Spends	16-18% of revenue.	Current 16.6% is well within this range.	Delivered (Reduced from 18.7% YoY).	Low
Guidance	International	20-25% contribution in mid-to-long term.	Currently 5%. Needs sustained 30%+ CAGR for 5+ years.	On track (Grew 42% YoY).	High
Strategy	Portfolio	Launch 30% Non-ADHO portfolio (Revenue).	Currently at 14-15%. Needs faster scaling of Body Care / Ethnic ranges.	Neutral (Salience slightly dropped YoY due to ADHO strength).	Medium
Strategy	Pricing	Price increases in select ADHO SKUs in H2 FY24.	Depends on rural demand sustainability in Q3/Q4.	N/A (New Guidance).	Medium
Macro	Rural Recovery	Flattening of decline; cautious watch.	Market was flat YoY vs -5.6% in Q4 FY23.	On track.	High
Macro	Input Costs	LLP correction expected in Q2 FY24 (lag effect).	Refinery shutdowns in SE Asia are the wild card.	Missed (LLP still up 16% YoY).	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Abneesh Roy, Nuvama	Channel Mix	Business Overview	"Modern trade and e-commerce profitability vs Kirana?"	Management stated MT is often as profitable or more than GT, while E-com is slightly lower but now achieving scale efficiencies. Increasing saliency to 20-22% will likely protect overall EBITDA as the channel mix matures.	None	4.0	Positive Signal
2	4.5	Abneesh Roy, Nuvama	Coconut Oil	Business Overview	"Deflation in copra—big opportunity or tactical?"	Management aims for double-digit EBITDA in coconut and is getting aggressive with TV ads in Maharashtra to challenge incumbents on quality perceptions. Gaining share in the □5,000 Cr coconut market is a key pillar for hitting the 30% non-ADHO revenue target.	None	4.0	Strategic Intent
3	5.0	Percy Panthaki, IIFL	Gross Margins	Financials	"Why is Gross Margin flat YoY if RM prices are down?"	Management explained that LLP (crude-linked) consumption cost is actually 16% higher YoY due to a one-quarter	None	5.0	Clear & Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						inventory lag. Anticipated LLP correction in Q2/Q3 FY24 should lead to significant gross margin expansion in H2.			
4	4.0	Percy Panthaki, IIFL	Product Mix	Financials	"Why is ADHO growing faster than NPD (diluting diversification)?"	Management attributed the NPD slowdown to the high launch base of Q1 FY23 (Soap/ Coconut/ Onion) but noted 23% QoQ growth. ADHO's 9% growth is seen as a positive sign of core brand health rather than a failure of diversification.	None	4.0	Contextualized
5	3.5	Tejash Shah, Spark	Rural Demand	Business Overview	"How sustainable is the rural recovery?"	Management cautioned that the "recovery" is currently just a flattening of decline rather than a robust bounce-back. Thesis remains tied to an urban-led recovery (7% growth) in the near term.	None	3.5	Cautious Posture
6	4.0	Tejash Shah, Spark	Margin Repair	Financials	"Priority to repair margins or pass on RM tailwinds?"	Management will use a mix of price hikes (H2), tactical	None	4.0	Balanced Strategy

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						discounting in strategic markets, and margin rebuilding. This flexibility suggests EBITDA could surprise on the upside if RM cools faster than expected.			
7	4.5	Kaustav Bubna, BMSPL	EBITDA Guidance	Financials	"Assumptions for 18-20% EBITDA margin?"	Management is assuming range-bound crude/LLP and continued RMO deflation to hit this target. Sustained 18%+ margins would represent a re-rating trigger for a stock previously trading at 'distressed' margin multiples.	None	4.0	Reaffirmed Target
8	4.0	Shirish Pardeshi, Centrum	ADHO Extensions	Strategy	"Why enter cluttered categories like Lotion/ Shampoo?"	Management views these not as standalone entries but as a "bouquet" for the Almond Drop loyalist, exploiting brand equity. This "range strategy" is intended to improve LTV (Lifetime Value) per customer	None	3.5	Bouquet Logic

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						rather than competing head-on with market leaders on mass volume.			
9	4.5	Ankush Agrawal, Surge	NPD Revenue	Financials	"Absolute numbers for NPD this quarter vs last year?"	NPD revenue was □32 Cr in Q1 FY24 vs □28 Cr in Q1 FY23 (and □24 Cr in Q4 FY23). This 14% YoY and 33% QoQ growth validates that the non-ADHO engine is regaining momentum.	None	5.0	Specific Data
10	4.0	Kaushik Poddar, KB Cap	International	Strategy	"Game plan for international foray?"	Focus is on Middle East/ Africa where Bajaj already has traction, plus local manufacturing in Bangladesh to take on the dominant player. International is positioned as the highest-margin segment, providing a structural lift to consolidated profitability.	None	4.0	Margin Accretive

PATTERN FLAGS & SENTIMENT

The analysts were primarily focused on the sustainability of the margin recovery and the "lag effect" of raw material costs. There was a palpable shift from the defensive questioning seen in FY23 (centered on margin collapse) to a more constructive inquiry into the "Almond Drop Extension" strategy and International scaling.

Management's tone was notably more confident, repeatedly citing improved "execution capability" and "process automation" as reasons why this recovery is structural rather than just a commodity fluke.

The greatest friction point remains the entry into hyper-competitive categories like soaps and lotions. While management defended this as a "loyalist bouquet" strategy, analysts remain skeptical about the long-term ROIC of these launches compared to the high-margin ADHO core.

Analyst Sentiment Verdict: CONVINCED on the short-term margin recovery, but SKEPTICAL on the long-term competitive positioning of new categories. Management’s credibility improved this quarter as they delivered on EBITDA targets (18.4%) despite high LLP costs. The unresolved issue is the rural macro—if rural demand doesn't turn positive by H2, the ADHO 9% growth may be difficult to sustain.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
RM Benefits	Implied margin tailwinds from RM.	LLP consumption cost is actually +16% YoY.	Lag effect delayed the full margin benefit.	Timing risk—H2 must deliver the correction.
Rural Recovery	"Registered strong growth."	Admits it's just "flattening" of decline.	Reversal of negative trend is not yet "growth."	Volume risk if festive season is muted.
NPD Saliency	Scaling up NPD portfolio.	YoY growth was modest due to high base.	New launches are fighting to replace old hype.	Diversification is a "slow grind."

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Q1 FY23 (Prior Context)	Q1 FY24 (This Quarter)	Direction
EBITDA Margin	15.3%	18.4%	↑
PAT Growth	-30.7%	+36.4%	↑
A&P Intensity	18.7% of sales	16.6% of sales	↑
International Salience	~3.8%	5.0%	↑
NPD Momentum	Heavy push (Loading)	Off-take driven (Secondary)	↑
Core ADHO Growth	Low single digits	9% Value / Double-digit Volume	↑
Marketing Strategy	Traditional Celebrity focus	AI-driven creatives / Digital-first	↑
Product Portfolio	Soap/Coconut focus	Henna / Serums / Lotion focus	→
Management Focus	Margin Defense	Execution Capability Scale-up	↑

STOP HERE.