

Bajaj Consumer Care Ltd — Feb 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Miss One-line: A severe margin squeeze from unprecedented raw material inflation (RMO/LLP) combined with a rural demand collapse in Hindi Speaking Markets (HSM) has stalled the ADHO engine, forcing a painful strategic pivot toward a broader, lower-margin portfolio.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	Revenue down 7.2% YoY; EBITDA down 35.6% YoY.	☐
Earnings Quality	Low	Profits protected by tactical media cuts in Q2, but Q3 saw margin floor collapse.	☐
Guidance Confidence	Weak	20%+ EBITDA target pushed to FY24; reliant on "bumper crop" for RM relief.	☐
Management Credibility	Neutral	Candid about macro pain, but long-term diversification yet to offset core decay.	☐
Business Quality Signal	Deteriorating	Core brand (ADHO) losing volume; consumers down-trading to cheaper categories.	☐
Key Q&A Exchange	Q#4 — Low P/E vs Peers	Mgmt defers buyback to Board; focuses on "biting the bullet" on diversification.	☐
The Street's Primary Anxiety	Structural vs Transient decline	Analysts questioned why peers grow while Bajaj declines; Mgmt blames HSM over-indexing.	☐
Capital Cycle Stage	Consolidation / Pivot	Investing in new digital-first brands while rationalizing legacy "No Marks."	☐
Margin / Return Ratio Trajectory	Deteriorating	Gross Margin compressed 810 bps YoY to 55.4%.	☐
Pricing Power	Eroding	7% price hikes taken, but unable to take more without risking further volume loss.	☐
FCF Conversion & Quality	Not in document	Quarterly OCF not provided; 9M figures suggest focus on inventory (28 days).	☐
Competitive Moat Signals	Shrinking	ADHO premium positioning vulnerable to rural income stress and cheaper Amla/Sarson.	☐
Balance Sheet Strength	Strong	Net Cash position; trades at ~10x P/E adjusted for cash.	☐
Working Capital Efficiency	Stable	Finished goods stock maintained at 27-28 days.	☐
Mgmt Guidance Track Record	Mixed	Historically struggled to break out of single-brand (ADHO) dependency.	☐
Key Vulnerability / Red Flag	RM Concentration	High dependency on Refined Mustard Oil (+54% inflation) vs. peers.	☐
Management Tone	Defensive yet Resolute	Acknowledged "unprecedented" headwinds; emphasized 3-year pivot plan.	☐

Sentiment: ☐ Negative

Key Takeaways (Positives & Negatives): **Positives:** * **Diversification Progress:** Non-ADHO brands now contribute 25% of B2C E-commerce sales; E-com channel grew 45% YoY (95% for 9M). * **Operational Efficiency:** Significant ESG-linked packaging cost reductions (16% glass, 14% laminates) and 24% water consumption reduction. * **Market Share Stability:** Despite volume drops, Nielsen market share data remains stable (-0.1% to -0.2%), suggesting industry-wide pain rather than specific brand rejection.

Negatives: * **The "Mustard Trap":** Bajaj is over-indexed on Refined Mustard Oil (RMO) compared to peers; RMO prices rose 54% YoY, directly causing a ~200 bps margin dilution. * **Rural Collapse:** Double-digit decline in wholesale and sub-stockist channels due to Hindi Speaking Market (HSM) stress; urban retail is flat, not growing enough to compensate. * **Ad-Spend Dilemma:** Management must increase A&P (aiming for 18-20%) to support new launches just as gross margins are at multi-year lows, creating an EBITDA pincer. * **Thesis Watchpoint:** The 3-year "New Bajaj" pivot requires Sarson, Amla, and Coconut oils to scale. If these remain "trade-led" without building consumer pull, the company risks becoming a commodity oil player with lower terminal multiples.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary column.

Metric	Current Qtr (Q3 FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	225.3	↓ 7.2%	↑ 6.2%	↓	Volume-driven decline (-5.9%); 2-year CAGR remains positive at 4.7%.
Gross Margin (%)	55.4%	↓ 810 bps	↓ 370 bps	↓	Hit by 54% RMO and 27% LLP inflation; adverse mix (sachets/cheaper oils) added 150 bps pain.
EBITDA (₹Cr)	41.6	↓ 35.6%	↓ 16.9%	↓	Squeezed by GM compression; A&P increased to 17.8% (up 2% sequentially).
EBITDA Margin %	18.4%	↓ 820 bps	↓ 520 bps	↓	Management believes margins have "bottomed out" in Q3.
PAT (₹Cr)	40.0	↓ 31.2%	↓ 15.3%	↓	Profitability tracking lower on operational deleverage.
Volume Growth (%)	-5.9%	-	↑ 10.0%	↓	Hair oils volume down 3.5%; HSM markets saw a sharper decline of 6.2%.
A&P Spend (%)	17.8%	↓ 140 bps	↑ 190 bps	→	Reinvesting in brands after a cut in Q2; target range 18-20%.
E-commerce Revenue (₹Cr)	~9.0 (4% of sales)	↑ 45.0%	Not stated	↑	Scaled 95% in 9M FY22; 25% of E-com sales are non-ADHO.
Net Debt / (Cash) (₹Cr)	Not stated	-	-	□	Mentioned as trading at 10x P/E adjusted for cash; implies strong cash surplus.
Working Capital (Days)	28 Days	→ Stable	→ Stable	→	Inventory levels maintained despite rural slowdown.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Company Avg	Key Development
ADHO (Core)	Not stated	Negative	High	↓	Above Avg	Impacted by down-trading and sachet mix shift.
Amla Portfolio	Not stated	↑ 27%	Lower	↑	Below Avg	Amla Aloe Vera reached 3% category share; Sarson Amla launched Dec '21.
E-commerce/Digital	~9.0	↑ 45%	Potential	↑	Below Avg (Exp)	Natyv Soul and 100% Pure Oils are "digital-first" premium pillars.
International	Not stated	Mixed	Not stated	→	Neutral	Nepal strong; infrastructure corrections underway in UAE and Saudi Arabia.
No Marks	Not stated	Negative	Not stated	↓	Below Avg	Strategically scaled down; limited to face cream/tactical push.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	Derisk topline via portfolio expansion.	Needs non-ADHO to contribute >15-20% of total revenue to offset rural ADHO volatility.	Ongoing	High
Guidance	Margins	20%+ EBITDA margin in 3 years (FY24).	Requires RM prices (RMO/LLP) to cool by ~15-20% or massive volume recovery.	Missed (Q3)	Medium
Guidance	Volume / Capacity	Bumper mustard crop (+25%) to aid Q4/Q1.	Market supply must translate to procurement savings despite global edible oil spikes.	New claim	Medium
Guidance	Capex Plan	Digital first brand launches (Nativ Soul).	Low asset-heavy capex; high Opex (digital marketing) required.	Delivered	Low
Strategy	Competitive Positioning	Premium Personal Care range under Almond Drops.	Launching Q4; must compete with established skin care giants.	Pending	High
Strategy	Capital Allocation	Diversify beyond Hair Oil.	Pivoting to skin care and pure oils; Board to decide on cash return/buybacks.	Mixed	Medium
Macro	Industry Headwinds	Rural demand to return in 1-2 quarters.	Reliant on government stimulus and inflation cooling; external to BCCL control.	Evolving	High
Macro	Input Cost / RM Prices	LLP to remain stable; RMO to soften.	RMO prices must break the multi-year high trend seen in Q3.	Evolving	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Prakash Kapadia, Anived Portfolio	Competitive Growth	Business Overview	Why are other hair oil companies growing while Bajaj is declining?	Management attributed the divergence to Bajaj's heavy concentration in premium ADHO and the Hindi Speaking Market (HSM), which are suffering most from rural down-trading. This confirms that until the Amla/ Sarson portfolio scales, BCCL remains hypersensitive to rural economic cycles.	None	4.0	Clear and quantified
2	4.5	Shirish Pardeshi, Centrum Broking	Channel Dynamics	Business Overview	Is there a structural issue with the product or distribution, given wholesale collapse?	Management labeled the wholesale decline as a "transient phase" linked to rural sentiment rather than a structural loss of pricing power or distribution reach. This places the burden of proof on Q1 FY23 recovery; if demand doesn't rebound, the "transient" claim fails.	None	3.0	Directional with evidence
3	3.5	Shirish Pardeshi,	Input Sourcing	Financials	How competent is the	Management is broadening the supplier	Exact hedging %	3.5	Vague but consistent

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		Centrum Broking			procurement team at managing RMO/LLP volatility?	base for LLP (domestic/intl) and RMO, moving away from pure spot buying to tactical covers. This indicates a late realization that procurement was a vulnerability; impact will take 2 quarters to show.			
4	5.0	Keshav Garg, CCIPL	Valuation/ Buyback	Capex and Allocation	Why is BCCL trading at 10x P/E while peers are at 50x; why no share buyback?	Management acknowledged the performance-driven valuation gap and stated the Board will consider options like buybacks, but the priority is "biting the bullet" on diversification. This confirms that management prioritizes long-term reinvestment over immediate stock price support.	Timeline for buyback	3.0	Deflected — key signal
5	4.0	V.P. Rajesh, Banyan Capital	Pivot Timeline	Management Commentary	When will the ship finally turn back into growth mode?	Management expects a "different company" in 3 years with a balanced portfolio, targeting 20%	None	3.5	Specific timeline given

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						+ EBITDA margins by FY24. This signals that FY23 will remain a "transition year" with high investment and potential margin volatility.			
6	3.5	Percy Panthaki, IIFL	Margin Floor	Financials	Are the current 18.4% EBITDA margins the absolute bottom?	Management believes margins have bottomed out and expects FY24 to return to 20%+ levels as investments bear fruit. This creates a floor for investor expectations, making any further margin dip a significant credibility risk.	None	3.0	Vague but consistent
7	3.0	Devanshi Sampat, Yes Securities	Marketing Structure	Business Overview	How is the marketing team structured to handle new non-ADHO brands?	The team has been split into dedicated pillars for ADHO, Digital/Pure Oils, and Amla/Coconut to ensure focus. This suggests a move toward a more professional, category-led FMCG structure rather than a single-brand house.	None	4.0	Specific timeline given

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
8	3.0	Ekta Sanghvi, Vallum Capital	Rural Strategy	Strategy	Will the focus shift to small ADHO SKUs or Amla/Coconut to combat rural stress?	Management plans to use both: small ADHO packs for brand retention and Amla/Coconut/Sarson to capture newer, price-conscious consumers. This is a "flanker" strategy to protect the core while building a volume buffer.	None	3.5	Directional with evidence

PATTERN FLAGS & SENTIMENT

Analysts' recurring anxiety centers on **structural vs. transient decline**. Multiple questions pressed management on why peers (Marico, Emami, etc.) seem to navigate the rural slump better. Management's defense—that BCCL is uniquely over-indexed on the premium segment in the hardest-hit HSM geography—was consistent but didn't fully alleviate fears of a structural shift away from ADHO. The tension regarding capital allocation (Buybacks vs. Reinvestment) was palpable, with management choosing to defend their long-term pivot over short-term financial engineering.

Analyst Sentiment Verdict: Skeptical and concerned. While analysts appreciate the honesty regarding RM inflation, the persistent volume decline in ADHO remains the "elephant in the room." Management's credibility hinges on the next two quarters; they have called a "bottom" on margins and a "bumper crop" for relief—missing these self-imposed milestones will likely lead to further de-rating.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
EBITDA Margins	Opening stated 18.4% for Q3.	Q&A revealed 20%+ is now an FY24 target, not immediate.	Walk-back from the "high-20s" legacy margins to a "new normal" of ~20%.	Thesis must now account for a structurally lower margin profile during the pivot.
Portfolio Mix	Focus on ADHO growth.	Q&A admitted sachet/cheaper oil mix is diluting GM.	Tactical shift: accepting lower-margin volumes to arrest total decline.	Risk of "commoditizing" the brand if premium bottles don't recover.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
N/A	N/A	N/A	N/A
