Bajaj Consumer Care Ltd — Feb 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

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

Result: Inline on Revenue / Miss on Margins **One-line:** Bajaj is successfully scaling its non-ADHO portfolio (NPD at 13% salience), but the structural collapse of EBITDA margins from >20% to ~15% is now a semi-permanent feature as management prioritizes market share and diversification over near-term profitability.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	Revenue flat (□225.5 Cr); EBITDA margins (15.1%) stagnating in mid-teens.	□
Earnings Quality	Moderate	PAT sustained by Other Income; Operating EBITDA down 18.1% YoY.	□
Guidance Confidence	Neutral	Management expects 18-20% A&P to continue; margin recovery tied to volatile RM.	□
Management Credibility	Neutral	Successfully scaling E-com/Modern Trade but unable to stem rural ADHO decline.	□
Business Quality Signal	Deteriorating (Short-term)	Gross Margin dilution (53%) vs historical norms (60%+).	□
Key Q&A Exchange	Q#7 (Rural)	Management admits no clear sight of rural recovery in Q4.	□
The Street's Primary Anxiety	Margin Floor	Analysts questioning when the 15% EBITDA floor will actually start rising.	□
Capital Cycle Stage	Investment	Heavy A&P (18.9%) to build a portfolio "beyond ADHO."	□
Return Ratio Trajectory	Deteriorating	Sustained lower margins hurting ROE/ROCE profile vs 3-year average.	□
Pricing Power	Eroding	Defocused on low-unit packs (LUP) to save margins, sacrificing volume.	□
FCF Conversion & Quality	Improving	Secondary sales > Primary sales (Inventory reduction focus).	□
Competitive Moat Signals	Shrinking	Core ADHO salience down to 85%; new categories are hyper-competitive.	□
Balance Sheet Strength	Strong	Zero debt; high cash reserves facilitating the transition.	□
Working Capital Efficiency	Improving	Conscious push to reduce trade inventory.	□
Mgmt Guidance Track Record	Mixed	Delivered on NPD scale-up but failed to protect HSM market core.	□
Key Vulnerability	Rural HSM	UP/Bihar/MP core is seeing -10% to -12% category declines.	□
Management Tone	Cautiously Defiant	Firm on strategy to de-risk ADHO despite margin pain.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** Portfolio diversification is no longer just a "plan"—New Product Development (NPD) now contributes 13% of sales, and E-commerce/Modern Trade have scaled 4x/2x respectively over two years. Secondary sales outperforming primary sales indicates a healthy channel cleanup. * **Negatives:** The core

"Cash Cow" (ADHO) is under severe pressure in its heartland (UP/MP/Bihar) with rural volume declines of 7.5%. Gross margins are suppressed by a 32% YoY rise in LLP prices, and management is unable to take further price hikes without hurting competitiveness. * **Forward-Looking Watchpoint:** The "Almond Umbrella" strategy. Management aims to launch 10-15 products under the Almond Drops brand (Soaps, Serums, Argan Oil) to take NPD to 30-40% of sales. The survival of the thesis depends on these products achieving ADHO-level margins before the core ADHO business matures further.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Concall used for Mgmt Commentary.

Metric	Current Qtr (Q3 FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□ Cr)	225.5	0.1%	-8.5%	↓	Growth flat due to Rural/HSM decline; offset by 84% E-com growth. Volume growth 9M at 4.2%.
Gross Margin (%)	53.0%	-240 bps	+120 bps	↑	Sequential improvement due to RM softening; YoY down due to 32% LLP price hike.
EBITDA (□Cr)	33.6	-15.9%	-10.6%	↓	Diluted by high A&P spend (18.9%) and raw material inflation.
EBITDA Margin %	14.8%	-290 bps	-50 bps	↓	Consolidated margin. Standalone at 15.1%. Lower than 9M avg of 22% in FY22.
PAT (□Cr)	33.2	-13.5%	+3.7%	→	Impacted by operating margin squeeze; helped by □10.4 Cr Other Income.
ROCE (%)	Not stated	N/A	N/A	-	Not provided in quarterly deck.
Cash Flow (OCF)	Not stated	N/A	N/A	-	Secondary sales > Primary; suggests positive WC movement.
Net Debt / (Cash)	(Cash Rich)	N/A	N/A	→	Zero debt. High cash balances (implied by □10.4 Cr quarterly other income).
Ad Spend % of Rev	18.9%	+110 bps	+70 bps	↑	High investment in Soap, Serum, and Coco Onion launches.
LLP Price (□/ kg)	Not stated	+32.0%	-8.0%	↑	Sequentially corrected from peak but remains high YoY.
RMO Price (□/ kg)	Not stated	Volatile	Stable	→	Remained stable over Q2; correction observed toward end of Q3.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Saliency	Trend	vs Co. Avg	Key Development
ADHO	191.7 (est)	~(-5.0%)	85%	↓	Below	Mid-single digit value decline; high impact in HSM (UP/Bihar).
NPD (New Prods)	29.3 (est)	100%+	13%	↑	Above	Saliency up from zero to 13% in 3 years. Includes Soap, Serum, Argan.
International	Not stated	36.0%	~3-4%	↑	Above	Strong growth in Middle East/Africa; Nepal muted.
Modern Trade	20.3 (est)	41.0%	9%	↑	Above	2X scale in 2 years; market share gains in top retailers.
E-commerce	15.8 (est)	84.0%	7%	↑	Above	4X scale in 2 years; record market share on Amazon/Flipkart.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	Goal to stabilize A&P at 16% long-term.	Currently 18.9%; requires ~300 bps cut or massive revenue scale.	Missed (Margins fell).	High
Guidance	Portfolio	Build "Almond Drops" as 10-15 product range in 3-5 years.	Needs 1-2 launches per year.	Delivered (Soap/ Serum/Argan).	Medium
Strategy	NPD Saliency	Target 30-40% saliency from products launched post-COVID.	Needs to triple current NPD revenue while ADHO stays flat.	On track (at 13%).	Medium
Strategy	Distribution	Retail focused growth in Urban areas.	Sustaining 15-20% retail growth.	Delivered (Retail +15% Q3).	Low
Macro	Rural Demand	Expectations of recovery.	HSM markets (UP/Bihar) need to reverse -10% trend.	Unreliable (Still weak).	High
Macro	RM Outlook	LLP/RMO prices to soften.	Requires crude stability and good mustard crop.	Mixed (LLP down QoQ).	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.0	Varun Bang, Bryanston	ADHO Growth	Business Overview	"Does ADHO have potential to grow 4-5% in volume long term?"	Management believes this is "easily doable" once HSM markets (UP/Bihar) normalize, noting that Urban ADHO performance is already strong. If HSM demand returns to 2019 levels, ADHO becomes a 5% volume grower again.	None	4.0	Demand-Dependent
2	4.5	Varun Bang, Bryanston	Right to Win	Strategy	"What is our right to win in cluttered markets like Coconut, Amla, and Onion?"	Management is leveraging the "House of Bajaj" and the "Almond Drops" umbrella to own the almond category beyond just oil. Successful penetration into E-com suggests the brand has digital-native pull despite the "old brand" perception.	None	4.0	Umbrella Play
3	3.5	Percy Panthaki, IIFL	Margin Floor	Financials	"Are we set to go back to high teens EBITDA margins in 2-4 quarters?"	Management indicated margins will stay at 15-16% as long as A&P remains at 18-20% to support NPD. Until RM prices fully	Timing of 20%	3.0	Structural Shift

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						normalize or NPD scales to a point where A&P can drop to 16%, EBITDA margins will not return to 20%+.			
4	4.0	Gaurav Gandhi, Glorytail	Soap Strategy	Strategy	"Will Almond Soap differentiate itself, or is it just another saturated product?"	Management argued that the AD Soap has a superior product proposition to their older Nomarks soap and is a key driver for "owning the almond category." Soap success is the litmus test for whether Bajaj can transition into a Personal Care company.	None	3.5	High-Risk Beta
5	4.5	Shirish Pardeshi, Centrum	Amla Volumes	Business Overview	"Rural is declining 7.4%; why are Amla initiatives not yielding results?"	Management revealed they consciously defocused on □10/□20 Amla packs because they are currently "not margin-making" at current RM prices. This means Bajaj is sacrificing volume and market share to prevent further gross	None	5.0	Margin Defense

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						margin erosion.			
6	4.0	VP Rajesh, Banyan	Market Share	Financials	"Is competitive intensity up, or does the consumer just not have money?"	Management noted heavy downtrading to lower-priced Amla (where Bajaj is not playing aggressively) and down-purchasing to smaller packs. This confirms a "premium trap" where ADHO is too expensive for current rural pockets.	None	4.5	Consumer Stress
7	4.5	Abhimanyu Godara, Antique	Rural Recovery	Management Outlook	"Are you seeing any rural demand revival or urban moderation?"	Management was blunt: there is "no very clear directionally improvement" in rural demand for Q4. The implication is that H2 FY23 will remain sluggish, putting the full-year recovery thesis at risk.	Recovery Timeline	4.0	Rural Headwind

PATTERN FLAGS & SENTIMENT * **The "HSM" Heartland Anxiety:** Analysts repeatedly focused on the Hindi Speaking Markets (UP, Bihar, MP). Management's admission that these markets are down double-digits and that they are avoiding low-margin packs suggests a tactical retreat. This concern will resurface next quarter as the primary volume recovery trigger. * **A&P vs. Margin Conflict:** There is a clear tension between the 18-20% A&P spend and the 15% EBITDA margin. Management appears steadfast that this spend is non-negotiable for the long-term health of the portfolio, meaning investors must accept low ROEs in the short term. * **Analyst Sentiment Verdict: Skeptical/Neutral.** Analysts appreciate the transparency regarding the rural slump and the success of E-commerce, but they are unsettled by the lack of a margin recovery timeline and the decision to "defocus" on LUPs, which usually signals a loss of future market share.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | Rural Outlook | Markets to normalize in "coming months."

| "No clear near sight" of rural demand improvement in Q4. | Optimism in opening vs. reality in Q&A. | High; Q4 likely weak. | | Amla Growth | Part of a steady progress strategy. | Defocused on □10/20 packs (bulk of rural market). | Strategic retreat from volume to protect GM. | Medium; share loss. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q3 FY23)	Direction
Revenue Growth	15.5% (Volume-led)	0.1% (Stagnant)	↓
Rural Demand	"Rural GT grew mid-single digits"	"Rural witnessed a steep decline of 7.5%"	↓
RM Strategy	"No forward purchases being made"	"LLP prices corrected by 8% sequentially"	↑
Amla Strategy	Traction in Sarson/Brahmi Amla	"Defocused on □10/□20 packs" (Margin defense)	↓
ADHO Salience	86%	85%	→
New Brand Face	N/A	Signed Kiara Advani for ADHO	↑
Tone on Margins	Aim for 20-21% EBITDA	Maintenance of 18-20% A&P makes 20% margin unlikely soon	↓

INVESTOR NOTES: * **Thesis Change?** No, but the **velocity** of the turnaround has slowed. The transition to a "multi-category" player is happening (NPD at 13%), but it is being funded by a core (ADHO) that is currently shrinking in its most important markets. * **CFO lever:** Secondary sales > Primary sales by a meaningful margin suggests that while primary growth looks weak (flat), consumer offtake is actually better than the reported numbers, and channel inventory is being optimized. * **Structural Note:** The structural shift in gross margins (from 60%+ to 53%) appears increasingly permanent as the product mix shifts away from the high-margin ADHO toward more competitive categories like Soap and Coconut. Expect 15-18% EBITDA to be the "new normal" for the next 4-6 quarters.