Bajaj Consumer Care Ltd — Feb 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Revenue, Miss on Margins (relative to Q1 guidance). **One-line:** Bajaj is prioritizing "channel hygiene" and "portfolio diversification" over short-term primary loading, resulting in muted headline growth but a structurally healthier balance sheet and a more resilient non-ADHO engine.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss (Margins)	EBITDA Margin at 15.7% is below the 18-20% floor guided in Q1 FY24.	□
Earnings Quality	High (Hygiene focused)	Secondary sales were □8 Cr higher than primary sales due to deliberate inventory correction.	□
Guidance Confidence	Neutral	Management maintained the 16-18% EBITDA range for the "near to medium term," a slight downward reset from Q1's 18-20% optimism.	□
Management Credibility	Strong	Admitted to inventory corrections and refused to give distributor credit despite the "credit crunch" in the market.	□
Business Quality Signal	Improving (Diversification)	Non-ADHO salience reached 19% (Q3); International business grew 59% YoY.	□
Key Q&A Exchange	Q#10 - Inventory Correction	Management sacrificed 3.5% of growth to clean up the channel (□8 Cr delta).	□
The Street's Primary Anxiety	ADHO Stagnation	ADHO was flat for 9M; mgmt response focused on "large pack" growth and extension portfolio.	□
Capital Cycle Stage	Investment (NPD)	Launching Bajaj Gulab Jal; scaling Shampoo and Body Lotion in GT.	□
Margin Trajectory	Deteriorating (S-o-S)	EBITDA margin fell from 18.4% in Q1 to 15.7% in Q3 due to ASP intensity and mix.	□
Pricing Power	Stable	Holding prices despite rural weakness; focusing on "gross margin protected" launches.	□
FCF Conversion	Strong (Implied)	Zero-credit discipline and inventory reduction are highly cash-accretive.	□
Competitive Moat	Stable (ADHO)	Market share stable at ~10.2%; high-single digit volume growth outpaces value.	□
Balance Sheet Strength	Strong	Zero debt; strict zero-credit policy in General Trade.	□
Working Capital	Improving	Deliberate reduction in channel inventory to support distributor ROI.	□
Mgmt Guidance Track Record	Mixed	Delivered on diversification and International; missed the high-teen margin target for the quarter.	□
Key Vulnerability	Rural Macro	High food inflation continues to suppress rural hair oil consumption.	□
Management Tone	Confident & Disciplined	Focused on "Phase 2" of growth and professionalizing the Board.	□

Sentiment: □Positive (Long-term) / □Neutral (Short-term)

Key Takeaways: * **Positives:** Management is exhibiting rare discipline for a mid-cap FMCG player by taking an ₹8 Cr "hit" to primary sales to ensure channel inventory is lean. The International business (5% to 6%+ salience) and Non-ADHO portfolio (19% salience) are successfully de-risking the company from its dependence on Almond Drops Hair Oil (ADHO). * **Negatives:** EBITDA margins have retreated from the 18.4% peak in Q1 to 15.7%, and the 18-20% full-year guidance now looks mathematically impossible (requires ~21% in Q4). The core ADHO brand remains flat, suggesting that while the "extensions" are working, the mother brand is struggling for organic growth in a weak rural environment. * **The Street's Concern:** Analysts pressed hard on the "back-burner" status of D2C brands (Natyv Soul) and the profitability of new launches. Management’s response—that they won't chase "vanity growth" at the cost of the 16-18% EBITDA floor—is a rational capital allocation signal. * **Watchpoint:** Monitor the "General Trade" launch of shampoos in FY25; this will be the ultimate test of Bajaj's distribution muscle beyond hair oils.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT is primary source.

Metric	Current Qtr (Q3FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	236.4	4.3%	-11.0%	↓	Volume-led growth (high single digits). Primary growth muted by inventory correction.
Gross Margin (%)	53.5%	+20 bps	-200 bps	↓	Sequential drop due to product mix (higher non-ADHO) and marketing offers.
EBITDA (₹Cr)	37.1	10.4%	-24.3%	↓	YoY growth driven by lower RM costs; QoQ drop reflects lower leverage and A&P spend.
EBITDA Margin %	15.7%	+90 bps	-270 bps	↓	Target remains 16-18%. Q3 impacted by high A&P (17%).
PAT (₹Cr)	36.3	9.5%	-21.4%	↓	Tax expenses normalized; other income robust at ₹11 Cr.
Ad Spend % of Rev	17.0%	-200 bps	+50 bps	↑	Strategic increase in digital/influencer marketing (400+ influencers).
Net Debt / (Cash)	(Cash)	→	→	→	Zero debt maintained; zero credit policy in GT.
International Rev %	~6.0%	+100 bps+	↑	↑	Grew 59% YoY; Saudi and Nepal recovering strongly.
Inventory Days	Not stated	→	↓	↑	Significant "correction" taken (₹8 Cr secondary vs primary gap).

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin (GM)	Trend	vs Co. Avg	Key Development
ADHO (Core)	~191.5	Flat (9M)	~55%	→	Above	Large packs performing better; mid-packs seeing decline/correction.
Non-ADHO (NPD)	~44.9	~35% (9M)	45-50%	↑	Below	Now 19% of Q3 revenue. Gulab Jal added; Serum and Lotion scaling in MT/E-com.
International	~14.2	59.0%	High	↑	Above	Bangladesh local ops scaling; Glycerin and Olive Oil launched in BD.
Modern Trade	~33.0	24.0%	Moderate	↑	Inline	Independent MT chains grew 52% (Southern focus).
E-commerce	~18.9	25.0%	Moderate	↑	Inline	B2C segment grew 38%. E-com now 2x of 8 quarters ago.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	16-18% EBITDA in near/ medium term.	9M is at 16.9%. Q4 needs ~19.5% to hit the 18% guided in Q1.	Mixed (Resetting expectations lower).	High
Guidance	Growth	High-single digit volume growth.	Currently delivering; depends on rural recovery.	Delivered.	Medium
Strategy	Diversification	30-40% Non-ADHO salience in midterm.	Currently 19%. Requires sustained 30%+ CAGR in NPD.	On Track.	Medium
Strategy	Portfolio	Launch sachet format for Shampoo in GT (FY25).	Critical for rural penetration.	New Guidance.	Medium
Strategy	D2C / Natyv Soul	Put on "back-burner" to protect EBITDA.	Wise capital allocation vs vanity growth.	Walk-back (Strategic).	Low
Macro	Rural Demand	Optimistic due to govt spending on housing/agri.	"Subdued" in Q3; waiting for festive/election tailwinds.	Not Yet Met.	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Abneesh Roy, Nuvama	Non-ADHO Growth	Business Overview	"How will non-ADHO grow in FY25 if coconut deflation ends?"	Management clarified growth is driven by distribution and the "Almond Extension" bouquet (lotion/ shampoo) rather than just pricing. Successful diversification reduces dependency on single-commodity (Copra/LLP) cycles.	None	4.0	Strategic Clarity
1a	4.0	Abneesh Roy	Sourcing Scale	Financials	"How can you compete with the market leader in Copra sourcing?"	Management claims they have mastered the "local sourcing" dynamics in 1.5 years and are no longer at a scale disadvantage. This implies a structural improvement in the coconut oil cost base.	None	4.0	Confident
2	4.0	Abneesh Roy	Channel Mix	Business Overview	"What is the share of Quick Commerce and Independent MT?"	MT + E-com + Canteen is ~25% of business; Independent MT (South focused) grew 52%. High-growth "modern" channels are subsidizing the flat growth in traditional rural Kirana.	None	5.0	Quantified
3	4.5	Shirish Pardeshi, Centrum	Board Change	Governance	"Why add 3 additional directors now?"	Management is professionalizing the board with ex-CEOs (Narayanan, Dutta) to prepare for	None	5.0	Specific

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						"Phase 2" growth. Signals a shift toward a more aggressive, professionally-run consumer platform.			
4	4.0	Shirish Pardeshi	Margins vs Growth	Financials	"Will you chase growth and allow margins to stay flat?"	Management will maintain the 16-18% EBITDA floor while investing in brands. This suggests they won't sacrifice the bottom line for market share in "blood bath" categories like Amla.	None	4.0	Balanced
5	3.5	Majid Ahmed, SmartSync	Shampoo Strategy	Business Overview	"Any plans for sachet formats to hit Tier 2/3?"	Confirmed sachet launch for GT in FY25 with a target 40-45% gross margin. Necessary move to scale beyond the "urban-only" modern trade shampoo play.	None	4.0	Specific Timeline
6	4.0	Siddharth Khandelwal	NPD Profitability	Financials	"What is the gross margin and revenue contribution of NPD?"	NPD (Non-ADHO) is 19% of revenue with 45-50% gross margins. Higher NPD salience is slightly margin-dilutive vs ADHO (~55% GM) but provides volume leverage.	None	5.0	Clear Data
7	4.5	Siddharth Khandelwal	NPD Discipline	Strategy	"At what point do you shut down an NPD?"	Products are dropped if they don't hit ₹50 Cr in 3 years (GT) or ₹25 Cr (MT/E-com); Coco-Onion has	None	5.0	Credible

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						already been dropped. High execution discipline prevents "zombie brands" from draining resources.			
8	4.0	Nikhil, SIMPL	ADHO in GT	Business Overview	"Is ADHO de-growing in GT if NPD is growing and GT is flat?"	Admitted ADHO mid-packs are seeing decline, but large packs are growing. Thesis risk: The core brand needs rural recovery to avoid becoming a "cash cow" that only funds other ventures.	None	4.0	Candid
9	4.5	Nikhil	D2C Back-burner	Strategy	"Why put Natyv Soul on the back-burner if gross margins are good?"	Management stated that the "juggling of balls" requires protecting 16-18% EBITDA; D2C brands require too much cash to scale. Prioritizing "lower hanging fruit" (Almond extensions) over high-burn D2C ventures.	None	5.0	Rational Pivot
10	5.0	Kaustubh Pawaskar	Inventory Correction	Financials	"What was the impact of inventory correction on growth?"	Secondary sales were ₹8 Cr higher than primary; if equal, growth would have been ~7.8% (vs reported 4.3%). This is a high-quality "beat" on transparency and channel health.	None	5.0	Thesis Critical

PATTERN FLAGS & SENTIMENT * **Theme 1: Channel Hygiene vs. Headline Growth.** Analysts were initially skeptical of the 4.3% growth, but the revelation of the □8 Cr secondary-primary gap resolved concerns. Management's refusal to extend credit or "load" the channel is being viewed as a sign of institutional strength. * **Theme 2: NPD Rationalization.** There was a clear pattern of questioning the "Argan/Natyv Soul" and "Amla" categories. Management's stance—exiting Amla "blood baths" and pausing D2C burn—shows they are prioritizing ROIC and EBITDA over top-line vanity. * **Theme 3: Board Professionalization.** The addition of heavyweight independent directors was well-received as a signal that the company is outgrowing its "single-product promoter" roots.

Analyst Sentiment Verdict: Cautiously Optimistic. Analysts were impressed by the "clean" numbers (inventory hygiene) and International growth, but remain wary of the core ADHO brand's flat trajectory. The credibility of the 16-18% EBITDA floor is now the primary anchor for the stock's valuation.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Q1 FY24)	What Q&A Revealed (Q3 FY24)	Gap / Walk-back	Risk to Thesis
EBITDA Margins	Targeted 18-20% for FY24.	Settled at 16.9% for 9M; Q3 at 15.7%.	~200-300 bps walk-back in margin expectations.	High (Valuation may de-rate if 18% isn't reclaimed).
Natyv Soul / D2C	Positioned as a key growth lever.	"On the back-burner" to save costs.	Pivot from "high-growth D2C" to "profitable extensions."	Low (Positive for cash flow, negative for "new-age" story).
Rural Recovery	"Flattening" in Q1.	Still "subdued" and "stressed" in Q3.	Recovery is taking 2-3 quarters longer than anticipated.	High (ADHO depends on Rural).

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5. WHAT CHANGED vs PRIOR QUARTER

Comparison between Q1 FY24 (Prior Context) and Q3 FY24 (Current).

What Changed	Prior Quarter (Q1 FY24)	This Quarter (Q3 FY24)	Direction
EBITDA Margin	18.4%	15.7%	↓
Revenue Growth	7.8% YoY	4.3% YoY	↓
International Growth	42.0% YoY	59.0% YoY	↑
Non-ADHO Salience	14.0%	19.0%	↑
Primary/Secondary Gap	Not highlighted	□8 Cr (Secondary > Primary)	↑ (Hygiene)
D2C Strategy	Scaling Natyv Soul / Soaps	Natyv Soul on back-burner	↓ (Focus)
Board Composition	Legacy focus	3 New Professional Directors	↑ (Governance)
A&P Strategy	Absolute spend down YoY	Digital/Influencer push (400+ influencers)	↑ (Modernization)

STOP HERE.