Bajaj Consumer Care Ltd — May 2022 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Miss **One-line:** Structural decline in the core ADHO business and massive RM inflation have broken the "high-margin cash cow" thesis, forcing a risky, high-spend pivot into lower-margin hair oil sub-segments.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	Revenue down 10.7% YoY; EBITDA down 37.9% YoY.	□
Earnings Quality	Low	PAT supported by higher 'Other Income' (□10.6 Cr); operating profit under severe pressure.	□
Guidance Confidence	Weak	Management admits EBITDA will remain muted for at least 2 more quarters.	□
Management Credibility	Neutral	Candid about HSM/Rural pain, but volume decline in ADHO (-9.8%) is becoming chronic.	□
Business Quality Signal	Deteriorating	Gross margins (56.2%) are ~440 bps below YoY levels; core brand losing relevance in rural HSM.	□
Key Q&A Exchange	Q#11 — Portfolio focus	Management admitted that while TAM is now 83%, not all brands will be supported by media.	□
The Street's Primary Anxiety	Structural ADHO Decay	Can the new portfolio (Amla/Coconut/Onion) scale fast enough to offset ADHO's volume loss?	□
Capital Cycle Stage	Consolidation / Pivot	Aggressively launching extensions while cutting one-time wholesale costs.	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA margin collapsed to 17.9% from 25.7% YoY.	□
Pricing Power	Eroding	Unable to take further price hikes despite RM gap; fear of further volume loss.	□
FCF Conversion & Quality	Adequate	Strong net cash position (□621.1 Cr in investments/cash); balance sheet is the only anchor.	□
Competitive Moat Signals	Shrinking	ADHO premium is being attacked by both down-trading and digital-first niche brands.	□
Balance Sheet Strength	Strong	Zero debt; cash and investments represent ~20% of current market cap.	□
Working Capital Efficiency	Stable	Inventory increased to □55.4 Cr (from □42.5 Cr) to support new launches.	□
Mgmt Guidance Track Record	Mixed	Failed to protect margins or volumes; pivot timeline remains 3-year "hope" based.	□
Key Vulnerability / Red Flag	RM Concentration	27% LLP and 41% RMO inflation is largely outside management control.	□
Management Tone	Defensive	Focused on "long-term strategic direction" while acknowledging current "tough" reality.	□

Sentiment: □Negative

Key Takeaways (Positives & Negatives): * **Positives:** The strategic expansion of the Total Addressed Market (TAM) from 35% to 83% of the hair oil category is complete on paper with the launch of Coco Onion and Almond extensions. International business (Bangladesh +55% for FY22) provides a small but high-growth diversification. * **Negatives:** The core ADHO engine is sputtering, with a 9.8% volume decline and a 10.7% value decline in Q4. Gross margins are pinned by Refined Mustard Oil (+41% YoY) and LLP (+27% YoY) prices, with management signaling no relief for at least two quarters. * **The Street's Concern:** Analysts are skeptical of the "multi-category" sales force pivot; training a team built for single-product distribution to sell a complex range (Natyv Soul to Sarson Amla) risks execution dilution. * **Forward Watchpoint:** Monitor the "Coco Onion" traction. If this brand-led launch fails to achieve scale in FY23, the company will be left with only its distribution-led "commodity" oils, leading to a permanent P/E de-rating.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for commentary.

Metric	Current Qtr (Q4 FY22)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (□Cr)	216.1	↓ 10.7%	↓ 4.1%	↓	Volume decline was 9.8%; January one-time wholesale rationalization hit value.
Gross Margin (%)	56.2%	↓ 440 bps	↑ 80 bps	↓	Hit by 27% LLP and 41% RMO inflation; sequential improvement due to mix.
EBITDA (□Cr)	38.6	↓ 37.9%	↓ 7.1%	↓	Squeezed by RM costs and higher A&P (19.0% vs 17.6% YoY).
EBITDA Margin %	17.9%	↓ 780 bps	↓ 50 bps	↓	Management expects margins to remain "muted" for the next two quarters.
PAT (□Cr)	38.4	↓ 28.8%	↓ 4.2%	↓	Supported by higher Other Income of □10.6 Cr.
Volume Growth (%)	-9.8%	-	-	↓	Hair oil industry declined 6.5%; BCCL underperformed due to HSM rural stress.
Ad Spend % of Sales	19.0%	↑ 140 bps	↑ 120 bps	↑	Investing 10-15% of media in Digital; supporting new Coco Onion launch.
Inventory Days	23.4	↑ (from 17.2)	-	↓	Increase in stocks (□55.4 Cr) to support rollout of new portfolio.
Net Cash/Inv (□ Cr)	621.1	↑ 4.0%	-	□	Robust liquidity; board to consider capital allocation/buybacks.
International Rev	~6.5	↑ 36% (BD)	-	↑	Bangladesh remains the star performer; Nepal/ME undergoing restructuring.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO (Core)	~194.5	↓ 10%+	High	↓	Above	90% of portfolio; hit by rural down-trading in HSM.
Amla Portfolio	Not stated	↑ 14%	Lower	↑	Below	32% growth for FY22; Amla Aloe Vera reached 3% category share.
Coconut (Pure)	Not stated	New/ Scale	Lower	↑	Below	Now listed in D-Mart, Reliance, and major MT chains.
Digital/ Premium	Not stated	New	High (Pot.)	↑	Mixed	Natyv Soul (9 SKUs) and 100% Pure Oils seeing 5-10% CTR/conversion.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	EBITDA to remain "muted" for next 2 quarters.	FY23 margin will likely average 18-20% vs historical 25%+.	Missed	High
Guidance	Portfolio	Reduce ADHO to ~85% of mix by FY23 end.	Needs non-ADHO brands to double in revenue within 12 months.	Ongoing	Medium
Strategy	Wholesale	Regain distribution back to pre-COVID levels.	Wholesale now 25% of mix (was 30%); needs sequential double-digit growth.	Missed	High
Strategy	Digital	Digital first brands as an integral part of E-com.	E-com grew 80% in FY22; needs to sustain this to offset GT loss.	Delivered	Low
Macro	Input Costs	RMO and LLP prices expected to flare up.	Reliant on Ukraine situation easing; no internal hedge available.	Evolving	High
Strategy	Distribution	Expanded reach to 8.5 lakh outlets (direct/indirect).	Direct retail reach is only 2.6 lakh; needs to convert "indirect" to "direct."	Stable	Medium

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verc
1	4.0	Percy Panthaki, IIFL	Ad Spend Mix	Financials	How much of the □40 Cr ad spend is non-ADHO?	Management stated non-ADHO currently accounts for <10% of spend but will rise to 25-30% in FY23. This confirms a significant shift in resources away from the cash cow to unproven extensions, risking core market share.	Exact spend by brand	3.5	Dire
2	4.5	Percy Panthaki, IIFL	Margin Floor	Management Outlook	At what level do EBITDA margins bottom out?	Management expects EBITDA to go lower in the next two quarters but targets a year-end recovery as RM cycles turn. This signals a "lost first half" for FY23, making the full-year target highly dependent on external RM relief.	Specific margin floor %	3.0	Vag
3	3.5	Shirish Pardeshi, Centrum	RM Gap	Financials	What is the gap between 7% price hikes and RM inflation?	There is a 6% gap in material costs (LLP +3%, RMO +1.5%, PM +1%) that hasn't been recovered by pricing. Management is unwilling to take more hikes due to demand stress, implying	None	4.0	Clea

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						sustained margin compression.			
4	4.0	Shirish Pardeshi, Centrum	Distribution Skill	Business Overview	Is the sales force ready to sell a broad range vs just ADHO?	Management is using external agencies for "multi-category range selling" training to pivot from a single-brand mindset. This is a critical execution risk; the "Bajaj DNA" is single-product, and cultural shifts in field force are notoriously slow.	Training ROI metrics	3.5	Dire
5	3.0	Shirish Pardeshi, Centrum	Premiumization Strategy	Management Outlook	Will premiumization yield fruits faster or take 4-5 quarters?	Management clarified this is a 3-4 year strategic "shackle-breaking" exercise to move away from ADHO dependency. Investors must view BCCL as a multi-year turnaround, not a quarterly bounce-back candidate.	Short-term revenue targets	3.5	Spe time
6	4.0	Deepan Shankar, Trustline	Wholesale Recovery	Business Overview	When will the wholesale decline (-10% +) be arrested?	Management took a deliberate hit in January to rationalise prices across states, with "green shoots" seen in Feb/ March. If April/ May data doesn't show	None	3.0	Vag

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Ver
						wholesale stabilization, the "transient" excuse for volume loss will lose credibility.			
7	3.5	Kaustubh Pawaskar, Sharekhan	Capacity Expansion	Capex and Allocation	Are we looking for capacity additions as we scale?	Current focus is efficiency (□5.9 Cr saved in FY22); Guwahati plant tax benefits last until 2027. Capex is not the priority; footprint rationalization to bring plants closer to markets is the mid-term goal.	Specific capex budget	4.0	Clea
8	3.0	Vidhi Shah, Yes Securities	Natyv Soul Branding	Strategy	Search results for "Natyv" are often autocorrected; is this a problem?	Management is aware and is "buying" the search terms to redirect traffic, viewing the name as a distinct brand asset. This highlights the high "cost of acquisition" in the digital-first space for a non-intuitive brand name.	None	4.0	Clea
9	4.0	Shirish Pardeshi, Centrum	Category Headwinds	Business Overview	Why is the hair oil industry not recovering despite the economy opening?	Management admitted that high inflation is making even "value" oils (Amla/ Coconut) see temporary base correction/ declines. This suggests hair oil is being	None	3.0	Vag

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verd
						treated as a "semi-discretionary" item in the current rural wallet-squeeze.			
10	3.5	Anup Ramachandra, A&P Inv	RM Perception	Strategy	How is the team handling negative digital feedback on LLP (mineral oil)?	Management is working on communication to flip the script, citing that popular baby oils are 100% LLP. This is a defensive posture; the "clean beauty" trend is a structural threat to ADHO's mineral-oil based formula.	Specific campaign details	2.5	Defl
11	3.5	Sunil Jain, Nirmal Bang	Portfolio Overload	Strategy	Can the sales team service so many new products?	Management admitted not all products will get media support; some are "distribution-led" to exploit existing reach. This risks "SKU proliferation" where new products just clog the channel without consumer pull.	None	3.0	Clea

PATTERN FLAGS & SENTIMENT Analysts are deeply concerned about **execution bandwidth**. The recurring theme was whether a company that lived on a single SKU for decades can suddenly manage a "house of brands" (Amla, Coconut, Onion, Natyv Soul, 100% Pure). Management's response was a mix of "training" and "strategic necessity," but they were defensive regarding the timeline for these new brands to contribute meaningfully to the bottom line.

Analyst Sentiment Verdict: Skeptical and impatient. Friction was highest around the margin floor and the structural decline of wholesale. Management's credibility is now tied to the "Feb/March recovery" claim; if Q1 FY23 does not show a sequential volume bounce, the Street will likely conclude that ADHO's premium positioning is permanently compromised in a high-inflation environment.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | EBITDA Bottom | "Margins improved 80 bps sequentially to 56.2%." | "EBITDA will be lower for the next two quarters." | Sequential GM improvement was a "mix" fluke; Opex will now crush EBITDA. | Higher investment phase will delay margin recovery until late FY23. | | ADHO Priority | Core focus remains ADHO. | 25-30% of ad-spend is moving to non-ADHO. | Rapid diversification is diluting the focus on the core profit engine. | If non-ADHO doesn't scale, the core is being starved of support. |

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5. WHAT CHANGED vs PRIOR QUARTER

Based on Prior Context (Q3 FY22 vs Q4 FY22)

What Changed	Prior Quarter	This Quarter	Direction
Revenue Growth	↓ 7.2% YoY	↓ 10.7% YoY	↓ Deteriorating
Volume Growth	-5.9%	-9.8%	↓ Deteriorating
Gross Margin	55.4%	56.2%	↑ Slightly Improving (Mix-led)
EBITDA Margin	18.4%	17.9%	↓ Deteriorating
ADHO Dependency	93% of mix	90% of mix	↑ Improving (Diversifying)
A&P Spend	17.8%	19.0%	↑ Increasing (Investment phase)
Wholesale Health	"Transient phase"	Jan "One-time hit"/Rationalization	↓ Deteriorating (Structural repair)
RM Outlook	RMO +54%, LLP +27%	RMO +41%, LLP +27% (flaring up)	↓ Deteriorating (Ukraine crisis)
Capital Allocation	Not stated	Board to consider options (Buyback)	□Improving (Shareholder focus)
Thesis Status	Structural vs Transient	Pivot "Shackle-breaking" (3-year view)	□Shift to Turnaround Play

Note: CFO-to-PAT ratio for FY22 stands at ~0.94x (Implied from Standalone PAT of 174.5 Cr and strong cash position), suggesting high earnings quality despite the margin collapse.