

Bajaj Consumer Care Ltd — May 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Strong Beat **One-line:** Bajaj has successfully arrested the margin slide and volume de-growth, delivering a significant rebound in EBITDA margins (17.9%) and double-digit volume growth (9.9%) as raw material pressures eased and Urban/NPD momentum offset Rural weakness.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Strong Beat	Revenue (+11.7% YoY) and EBITDA (+12.2% YoY) both outperformed Q3's stagnant levels.	☐
Earnings Quality	High (Core driven)	Growth driven by volume rebound (9.9%) and Gross Margin expansion (+110 bps QoQ).	☐
Guidance Confidence	Strong	Management reaffirmed the 17-20% EBITDA margin target and the 30% NPD saliency goal.	☐
Management Credibility	Strong	Delivered on the promise that margins would recover as LLP/ RMO prices softened.	☐
Business Quality Signal	Improving	Non-ADHO portfolio (NPD) now contributes 12% of sales; salience of pure ADHO is reducing.	☐
Key Q&A Exchange	Q#2 (Diversification)	Management confirmed they will only launch products with 40-45% gross margins.	☐
The Street's Primary Anxiety	Rural Recovery	Analysts pressed on Rural HSM (UP/Bihar) recovery; Mgmt admitted it's "gradual" but not yet robust.	☐
Capital Cycle Stage	Investment	High A&P (17-18%) continues to fund the transition from "Hair Oil" to "Personal Care."	☐
Margin Trajectory	Improving	EBITDA margins recovered to 17.9% from 14.8% in Q3 FY23.	☐
Pricing Power	Stable	Taking "northward" pricing only; avoiding discounts in ADHO to maintain brand equity.	☐
FCF Conversion & Quality	Strong	Inventory levels reduced (₹1.3 Cr vs ₹57.1 Cr YoY) while trade receivables rose slightly.	☐
Competitive Moat Signals	Stable	ADHO volume growth at 9.9% suggests the brand is regaining share in the premium LHO segment.	☐
Balance Sheet Strength	Strong	Cash/Investments exceed ₹700 Cr; debt-free.	☐
Working Capital Efficiency	Improving	Inventory days decreasing; optimization of packaging material reduced costs by ₹5.8 Cr.	☐
Mgmt Guidance Track Record	Reliable	Followed through on channel diversification (E-com/MT now 16% of sales).	☐
Key Vulnerability	Rural HSM Exposure	UP/Bihar remains the primary drag on overall volume potential.	☐
Management Tone	Confident	Tone shifted from "defensive/consolidating" in Q3 to "cautiously optimistic" in Q4.	☐

Sentiment: ☐Positive

Key Takeaways: * **Positives:** The narrative has shifted from "survival" to "profitable scale-up." Volume growth of 9.9% in a flat industry (-0.8%) proves market share gains. The margin expansion to 17.9% was achieved despite high A&P (17.2% of sales), suggesting that once A&P rationalizes, 20%+ margins are attainable. NPD saliency at 12% (₹113 Cr) provides a credible roadmap to de-risk ADHO. * **Negatives:** Rural demand remains the "missing link," with a 6.2% volume decline in the quarter. While HSM (Hindi Speaking Market) declines are narrowing (single digits now vs high mid-teens previously), the recovery is not yet self-sustaining. * **Street Concern:** Analysts are focused on the "Quality of the Rebound"—specifically, whether the volume growth is sustainable or just a function of a low base. Management responded by highlighting the double-digit growth in Urban Retail and the "loyalist" wholesale programs. * **Forward-Looking Watchpoint:** The launch of the new "Personal Care" range in FY24. If Bajaj can replicate its E-commerce success in General Trade for soaps and serums, the stock will likely re-rate as a FMCG-lite player rather than a commodity-sensitive oil player.

2. BUSINESS PERFORMANCE

2A. KEY METRICS (Consolidated) DATA SOURCE: PPT as primary source. Concall for commentary.

Metric	Current Qtr (Q4 FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	246.2	+14.5%	+9.2%	↑	Volume-led growth (9.9%). Urban (+4.1%) offset Rural (-6.2%).
Gross Margin (%)	54.1%	-220 bps	+110 bps	↑	YoY hit by RM; QoQ recovery due to softening LLP (-7%) and RMO (-12%).
EBITDA (₹Cr)	42.9	+18.7%	+27.7%	↑	Significant sequential recovery; structural cost savings of ₹5.8 Cr in FY23.
EBITDA Margin %	17.4%	+60 bps	+260 bps	↑	Rebounding toward the 18-20% target range.
PAT (₹Cr)	40.5	+13.0%	+22.0%	↑	Driven by operational recovery; Other Income contributed ₹10.1 Cr.
ROCE (%)	~18-20% (est)	-	-	→	Based on annualized PAT and Equity base.
Cash Flow (OCF)	Not explicit	-	-	↑	Inventory down ₹5.8 Cr; implies healthy OCF conversion.
Net Debt / (Cash)	(752.9)	-	-	→	Total Financial Assets (Investments + Cash).
Ad Spend % of Rev	17.2%	-180 bps	-170 bps	↓	Absolute spend stable at ~₹42 Cr; % down due to higher denominator.
Inventory Days	~58 Days	-	-	↑	Inventory reduced YoY; supply chain optimization in place.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO (Core)	211.7 (est)	+11.4%	High	↑	Inline	Volume growth 9.9%. Saliency now 86% of total.
NPD (New Products)	34.5 (est)	+100%+	~40-45%	↑	Above	FY23 sales @ ₹113 Cr. Soap, Serum, and Argan oil scaling.
International	12.3 (est)	+151%	High	↑	Above	Bangladesh local mfg started; strong MEA growth.
E-commerce	17.2	+63%	High	↑	Above	Now 7% of total sales. Doubled in FY23 vs FY22.
Modern Trade	22.2	+51.4%	Moderate	↑	Above	Now 9% of total sales. 2.2x scale in 2 years.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	Target 17% to 20% EBITDA margin in near-to-mid term.	Feasible; Q4 already at 17.4%. Needs RM stability.	Delivered (Recovered from 14.8%).	Low
Guidance	Portfolio	NPD to reach 30% saliency long-term.	Currently 12%; needs 20%+ CAGR in NPD while ADHO grows <5%.	On Track (12% vs ~3-4% 2 yrs ago).	Medium
Guidance	Rural	Cautiously optimistic on gradual recovery.	Requires HSM markets (UP/ Bihar) to hit +ve volume growth.	Mixed (Still declining at 6%).	High
Strategy	Almond Umbrella	Extend ADHO into Hair Care & Skin Care (FY24).	Needs 2-3 successful launches in Hair/Skin categories.	On Track (Soap/ Serum successful).	Medium
Macro	RM Costs	LLP and RMO to remain range-bound.	Linked to global crude and edible oil complex.	Reliable (Prices corrected as predicted).	Medium
Balance	Capital Allocation	Buyback of ₹80.9 Cr completed.	49.14 lakh shares extinguished; promoter stake up to 39.35%.	Delivered.	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
1	4.5	Percy Panthaki, IIFL	Margin Floor	Financials	"Are we confident of retaining high-teen margins here on, or is this a blip?"	Management confirmed 18% is the "bare minimum" they are looking at, with a target of 20% by the mid-term as cost structures optimize. This signals that the 14-15% margin era is over unless RM sees another hyper-inflationary spike.	None	4.0	Floor Established
2	4.0	Tejash Shah, Avendus Spark	RM & Margins	Financials	"Is the 20% margin target assuming RM tailwinds continue?"	Management noted LLP and RMO are currently range-bound and their goal is to maintain 17-20% regardless of slight volatility. This suggests internal cost efficiencies (£5.8 Cr savings) are now large enough to cushion RM spikes.	None	4.0	Margin Resilience
3	4.5	Tejash Shah, Avendus Spark	Diversification	Strategy	"Will diversification dilute margins?"	Management stated a strict rule: new products will only be launched if they have gross margins closer to ADHO (avoiding anything below 40-45%). This de-risks the thesis that	None	5.0	Quality Growth

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						"growth will kill profitability."			
4	3.5	Shirish Pardeshi, Centrum	HSM Markets	Business Overview	"How is the demand situation in the HSM (UP) market?"	Management admitted HSM is still a pain point with single-digit declines but noted significant sequential improvement from Q3's mid-teen declines. Recovery in the heartland remains the biggest catalyst for a volume re-rating.	None	4.0	Recovery Watch
5	4.0	Shirish Pardeshi, Centrum	Wholesale Loyalty	Strategy	"What is the nature of the wholesale loyalty program?"	Management explained they have shifted from short-term "month-end top-ups" to long-term volume-linked loyalty to ensure price stability. This improves earnings quality by reducing channel stuffing and "cross-border" price wars.	None	5.0	Quality Earnings
6	3.0	Kaustav Bubna, BMSPL	ADHO Long-term	Business Overview	"How do you see the ADHO market shaping up over 3-5 years?"	Management expects 3% to 5% volume growth for the hair oil category, with ADHO potentially outperforming as premiumization	None	3.0	Mature Core

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						returns. This puts a "mature" but stable valuation cap on the core cash cow.			
7	4.0	Varun Bang, Bryanston	Digital Focus	Strategy	"Do you need to narrow the focus on Natyv Soul and Pure Oils?"	Management agreed they went "overboard" and are now consolidating Natyv Soul under "Argan" as the hero ingredient to focus spends. This reflects a shift from "spray and pray" product launches to focused brand building.	None	4.5	Lean Strategy
8	4.5	Anup Ramachandra, AMP	E-com Execution	Financials	"Why are products frequently 'currently unavailable' on Amazon?"	Management admitted to occasional aberrations but claimed their e-commerce team revamp has significantly improved fulfillment. This is a critical operational KPI for the 7% of sales now coming through digital.	Part of frequency	3.0	Operational Red

PATTERN FLAGS & SENTIMENT

- **The Pivot to Profitability:** Analysts were noticeably less skeptical than in Q3. The primary concern has shifted from "where is the margin floor?" to "how fast can you reach 20%?". Management's new "40-45% Gross Margin rule" for NPDs was the most well-received strategic detail, as it addresses the core fear of margin dilution.

- **Wholesale Cleanup:** Multiple questions touched on wholesale dynamics. Management's firm stance against month-end stuffing and "cross-border" inflows indicates a structural improvement in the quality of their reported numbers.
- **Execution in Digital:** The friction point regarding Amazon stock-outs suggests that while demand for NPD is high, the back-end supply chain for non-ADHO products is still maturing.

Analyst Sentiment Verdict: ☐Neutral to ☐Positive. The tone was constructive. Analysts appreciated the transparency regarding rural struggles and the clear, quantified rebound in EBITDA. The credibility of the MD (Jaideep Nandi) has improved as he delivered on the margin recovery path outlined in previous quarters. The only unresolved tension is the exact timeline for Rural HSM to turn positive.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
NPD Saliency	Scaling as per plan.	30% target is "long-term," not within 2 years.	Clarified that 30% saliency won't happen overnight; organic growth takes time.	Low; prevents over-hyping.
Rural Growth	"Showing signs of recovery."	Still declining at 6.2%; recovery is "gradual" and slow.	The recovery is more of a "lessening of decline" than actual growth.	Medium; volume drag.
Stock-outs	Robust digital growth.	Supply chain gaps led to stock-outs on hero NPDs (Castor/ Argan).	Demand is outstripping supply chain agility for new categories.	Low; fixable.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY23)	This Quarter (Q4 FY23)	Direction
EBITDA Margin	14.8%	17.4% (Consol) / 17.9% (SA)	↑
Volume Growth	-4.2% (9M avg)	+9.9% (Q4)	↑
Revenue Growth	+0.1%	+11.7%	↑
Rural Decline	-7.5%	-6.2%	↑ (Narrowing)
International	+36%	+151%	↑
Buyback Status	Ongoing	Completed (₹80.9 Cr)	→
NPD Contribution	13% (Q3)	12% (Full Year FY23)	→ (Stable)
Management Tone	Cautiously Defiant	Cautiously Optimistic	↑
Wholesale Program	Channel cleanup ongoing	Loyalty program fully implemented	↑

INVESTOR NOTES: * **Thesis Change?** No. The "Diversified Personal Care" thesis is being validated by the numbers. * **Earnings Quality:** Excellent. Growth is volume-led (9.9%) and inventory is down, meaning secondary sales are likely matching or exceeding primary sales. * **The "Kiara" Effect:** A&P efficiency is improving; absolute spend is flat but supporting a much wider portfolio (ADHO + Soap + Serum). * **CFO Lever:** Inventory reduction from ₹57.1 Cr to ₹51.3 Cr is a silent positive for free cash flow generation. * **Forensic Flag:** Promoter stake increased by ~1.3% solely via the buyback (Promoters did not participate). This is a strong signal of alignment at the current valuation.