

Bajaj Consumer Care Ltd — Nov 2022 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:** The thesis remains a high-stakes transition: management is successfully buying volume growth and portfolio diversity in a declining market, but the cost is a structural collapse in margins that shows no sign of bottoming.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Miss	EBITDA margins (13.9%) fell significantly below the 15.3% reported in Q1 and the 20%+ historical floor.	☐
Earnings Quality	Low (Input cost pressure)	Profits suppressed by 51% YoY inflation in LLP and a 21.2% increase in A&P spend despite falling margins.	☐
Guidance Confidence	Weak	Management target of 20% EBITDA margin now requires a ~600 bps recovery with no clear RM cooling.	☐
Management Credibility	Neutral	Delivering on "Portfolio Diversification" (NPDs doubled YoY) but failing to protect the P&L from RM volatility.	☐
Business Quality Signal	Deteriorating (Short-term)	Core ADHO volume is negative while the category (LHO) is down 11.3%; Bajaj is losing its "cash cow" margin profile.	☐
Key Q&A Exchange	Q#2 (Percy Panthaki)	Management admitted the current 14% EBITDA margin is essentially at the mercy of LLP prices.	☐
The Street's Primary Anxiety	Margin Floor	Analysts are fixated on where Gross Margins (now 52.1%) will bottom out as pricing power hits a ceiling.	☐
Capital Cycle Stage	Investment	Heavy A&P spend (18.2%) to support Soap, Coco Onion, and digital-first brands (Natyv Soul).	☐
Margin / Return Ratio Trajectory	Deteriorating	EBITDA margins compressed from 23.2% to 13.9% YoY; Gross Margins down ~700 bps YoY.	☐
Pricing Power	Eroding	Management refrained from price hikes in Q2 despite 51% LLP inflation to protect volume in a weak rural market.	☐
FCF Conversion & Quality	Weak	H1 Trade Receivables nearly doubled (₹19.1 Cr to ₹37.4 Cr), suggesting credit extension to support growth.	☐
Competitive Moat Signals	Shrinking	Market share in LHO is flat/declining; new categories (Soaps/ Amla) are hyper-competitive with lower moats.	☐
Balance Sheet Strength	Strong	Cash and Investments of ~₹637 Cr provide a massive cushion for this painful transition.	☐
Working Capital Efficiency	Deteriorating	Receivables spike (H1) and inventory reduction suggest aggressive push into modern trade/e-com channels.	☐
Mgmt Guidance Track Record	Mixed	Accurate on revenue diversification; overly optimistic on margin resilience.	☐
Key Vulnerability / Red Flag	Rural Exposure	Rural Hair Oil market declined 9%; Bajaj's rural sales were "double-digit negative."	☐
Management Tone	Defensive	Cautiously optimistic on long-term portfolio but defensive regarding near-term margin recovery.	☐

Sentiment: ☐Neutral

Key Takeaways (Positives & Negatives): * **Positives:** Bajaj is successfully outperforming a brutal macro environment; while the total hair oil market declined 5.7% (volume), Bajaj grew hair oil volumes by 6.4%. This suggests significant market share gains from unorganized/weaker players. Modern Trade (+77%) and E-commerce (+180%) are now 18% of the business, rapidly de-risking the firm from the rural GT slump. * **Negatives:** The "ADHO Margin Umbrella" has folded. Historically a 20-25% EBITDA business, Bajaj is now operating at 14% as Light Liquid Paraffin (LLP) costs surged 51%. Management has reached a pricing ceiling, meaning they cannot pass on costs without killing volume. The push into Soaps and Amla helps revenue but dilutes the premium "specialty" nature of the business into a "commodity FMCG" profile. * **Street Concern:** Analysts are questioning the sustainability of the 18%+ A&P spend. Management's response—that cutting spend now would be "suicidal" for the new brands—implies that suppressed margins are the "new normal" for at least the next 2-3 years. * **Forward-Looking Watchpoint:** Monitor the LLP price index and Rural HSM (Hindi Speaking Market) recovery. If rural demand doesn't bounce in H2, the high A&P spend will become an unsustainable drag on the remaining cash reserves.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

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

Metric	Current Qtr (Q2 FY23)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	229.7	7.7%	-6.8%	↓	Growth driven by volumes (5.8%) and NPD scaling. Urban GT grew double-digits; Rural GT was double-digit negative.
Gross Margin (%)	52.1%	-710 bps	-280 bps	↓	Heavily impacted by 51% YoY inflation in LLP and 18% sequential increase in consumption price of LLP.
EBITDA (₹Cr)	31.8	-35.5%	-15.4%	↓	Decline due to gross margin contraction and sustained high A&P spend (18.4% of sales for H1).
EBITDA Margin %	13.9%	-930 bps	-140 bps	↓	Management cited higher inventory consumption cost in Q2 vs Q1. Target remains 20% mid-term.
PAT (₹Cr)	31.7	-31.9%	-6.5%	↓	Aided by Other Income (₹9.9 Cr), offsetting operational weakness.
EPS (₹)	2.14	-31.9%	-6.5%	↓	Calculated from Consolidated PAT.
Volume Growth (%)	5.8%	N/A	-8.2%	↓	Total volume growth 5.8% (Hair oils 6.4%). Outperformed category degrowth of 5.7%.
Ad Spend % of Rev	18.2%	+180 bps	-50 bps	↑	50% of spend on ADHO, 50% on non-ADHO. YouTube views for #stylefearlessly reached 4.7 Cr.
Net Debt / (Cash)	(637.1)	N/A	↑	→	Cash & Investments (₹19.2 Cr Current + ₹17.9 Cr Bank/Cash). Zero debt.
LLP Price (YoY)	+51.0%	N/A	N/A	↓	Remained volatile; Q2 consumption price was 18% higher than Q1.
RMO Price (YoY)	-11.0%	N/A	N/A	↑	Mustard oil has seen correction due to bumper crop; expected to help margins marginally in H2.
Receivables (₹ Cr)	37.4	+133%	+10%	↓	H1 Receivables (₹37.4 Cr) vs FY22 (₹19.1 Cr). Indicates credit support to channels.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO	190.7 (est)	2%	High	→	Above Avg	Value growth of 2% despite volume decline; Market share in LHO flat.
NPD (New Prods)	27.6 (est)	100%+	Mixed	↑	Above Avg	Sales of NPDs more than doubled; 12% of H1 revenue. Includes Soap, Coco Onion.
International	9.2 (est)	60%	N/A	↑	Above Avg	Led by Middle East & Africa; Nepal remains muted due to macro issues.
E-commerce	20.7	180%	N/A	↑	Above Avg	Now 9% of total sales; Brands gaining share on Amazon/Flipkart.
Modern Trade	20.7	77%	N/A	↑	Above Avg	Now 9% of total sales; led by high-teens growth in retail loyalty programs.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	Goal to return to 20% EBITDA margins mid-term.	Requires ₹13-15 Cr additional EBITDA per quarter; unlikely without 20% RM price drop.	Missed (Trending down)	High
Guidance	A&P Spends	Average 15-16% of sales over 2-3 years.	Currently at 18.2%; needs revenue to grow 20%+ to dilute spend.	On Track (Investing)	Medium
Strategy	Portfolio	Non-ADHO to reach 40% of total revenue.	Currently at 17%; needs non-ADHO to grow at 50% CAGR for 3 years.	On Track (NPDs doubled)	High
Strategy	Digital	Increase digital spend from current 20% of total A&P.	Was <5% two years ago; clearly pivoting to cord-cutters.	Delivered	Low
Macro	Demand	Recovery expected in rural in near/mid-term.	Rural is currently -9% (Category); needs major festive/monsoon tailwind.	Not Delivered	High
Strategy	M&A	Actively tracking D2C brands with investment banker.	Cash balance (₹600 Cr+) is sufficient for a mid-sized acquisition.	New Initiative	Medium

4. ANALYST Q&A

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
1	4.5	Percy Panthaki, IIFL	Pricing Power	Financials	"What is the price increase sitting in our results and have you actioned any in the last 2-3 months?"	Management stated they took 4% pricing in the last 4 quarters but none in the last 3 months due to weak demand. This confirms that Bajaj is currently unable to use pricing as a lever to offset the 51% LLP inflation, placing the entire margin burden on cost-cutting.	None	5.0	Ceiling Reached
2	5.0	Percy Panthaki, IIFL	Margin Floor	Financials	"Do you think the EBITDA margin posted this quarter is the trough?"	Management indicated that while RMO is correcting, LLP remains high and Q2 facially absorbed a high-cost inventory hit. This suggests Q2 might be the floor <i>only if</i> LLP does not spike further; otherwise, margins remain at risk.	H2 Margin Guidance	3.0	Trough Uncertain
3	4.0	Percy Panthaki, IIFL	Category Health	Business Overview	"Nielsen says Hair Oil is declining 5%; why is this happening?"	Management attributed the decline to inflationary pressures eating into rural disposable income, forcing consumers to prioritize essentials over discretionary hair oils. This signals that Hair Oil is now being treated as a "semi-discretionary" item in rural India, a major	None	4.0	Rural De-prioritization

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						shift in consumer behavior.			
4	4.5	Abneesh Roy, Nuvama	Digital Strategy	Management Commentary	"What is the transition in digital ad mix and where do you see it in 3 years?"	Management revealed digital spend has jumped from 5% to 20% of total A&P in 2.5 years. This pivot is essential for the "Nativ Soul" and "100% Pure" brands but represents a higher customer acquisition cost (CAC) in the short term.	Specific 3-year target	3.5	Digital Pivot
5	3.5	Abneesh Roy, Nuvama	M&A	Strategy	"Are we on the lookout for D2C website startups given liquidity drying up?"	Management confirmed they are actively tracking targets with an investment banker as valuations become more "benign." This indicates that inorganic growth is now a core pillar of the strategy to hit the 40% non-ADHO target.	None	4.0	Inorganic Intent
6	4.0	Abneesh Roy, Nuvama	Structural Risk	Business Overview	"Is hair oil as a habit structurally changing for millennials?"	Management argued that usage is not changing, but rather the "experimentation" with ingredients like Onion and Vitamin C is increasing. This confirms the need for the rapid NPD launch cycle to prevent the core brand from	None	3.5	Ingredient-Led Shift

Q#	Relevance (1–5)	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility (1–5)	Verdict
						becoming obsolete.			
7	4.0	Prakash Kapadia, Anived	Down- trading	Business Overview	"What is happening in rural? Are people moving to Copra or loose oil?"	Management noted that the "mid-packs" (₹40-70), which are the core rural SKUs, are getting hit the hardest. This identifies the specific segment where Bajaj is losing the most volume, as urban consumers continue to buy large packs.	None	4.0	Mid-Pack Squeeze
8	4.0	Samir Rachh, Nippon India	NPD Margins	Financials	"Do new products have higher gross margins than the average portfolio?"	Management admitted a mixed bag: some are higher, but many are "trade-led" with lower margins and lower A&P support. This implies that the 40% non-ADHO goal may structurally lower the corporate gross margin profile forever.	Specific NPD margins	2.5	Structural Dilution
9	3.5	Shirish Pardeshi, Centrum	Wholesale Strategy	Business Overview	"Is it a conscious strategy that we have cut the wholesale?"	Management clarified that wholesale grew 6-7% and is not being defocused, but rather retail is being "complemented." This response seeks to soothe fears that Bajaj is abandoning its core rural distribution strength.	None	3.5	Balanced Channel
10	4.0		Promoter Stress	Governance	"Promoter companies	Management deflected the	Promoter Intent	2.0	Governance Overhang

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		Vaibhav Badjatya, Honesty			are facing defaults; can the promoter clarify plans for their holding?"	question to the Chairman, while asserting that the promoter remains "deeply involved" in regular reviews. This remains a significant overhang on the stock, as operational weakness coincides with perceived promoter liquidity issues.			

PATTERN FLAGS & SENTIMENT

Theme 1: The Margin vs. A&P Paradox. Analysts repeatedly questioned why A&P remains at 18-19% when EBITDA is crashing. Management's posture was defensive but unwavering: they view this as a multi-year investment phase. The concern is unresolved because if RM costs don't cool, Bajaj will have to eventually choose between brand equity and insolvency-level margins.

Theme 2: Rural irrelevance vs. Urban Scaling. There is a clear pattern of Bajaj successfully pivoting to Modern Trade and E-commerce (+77% and +180%) while Rural GT languishes. Management appeared confident in their ability to win in "New India" (digital/urban) but was unable to provide a timeline for a rural turnaround. This suggests the stock is transitioning from a "Rural Consumption Play" to an "Urban Specialty Personal Care Play."

Analyst Sentiment Verdict: Skeptical/Concerned. Analysts were impressed by the volume outperformance (growing 6% in a 6% declining market) but were clearly alarmed by the 14% EBITDA margin and the spike in H1 receivables. The friction point was management's refusal to cut A&P or provide a margin floor. Management credibility is currently "under observation"—they have delivered on the portfolio shift, but the financial cost of that shift is higher than the Street anticipated.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed (Opening)	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
EBITDA Target	Aiming for 20%.	Admits it depends entirely on LLP cooling.	Target is now "hope-based" rather than "execution-based."	High; no internal lever left.
Wholesale	Focus is intact.	Retail grew 18% while wholesale grew single digits.	Core wholesale engine is losing relative importance.	Medium; execution risk in GT.
NPD Margins	Diversification is good.	Many NPDs are "trade-led" with lower margins.	Revenue growth is dilutive to the historic margin profile.	High; ROE compression.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY23)	This Quarter (Q2 FY23)	Direction
Gross Margin	54.9%	52.1%	↓
EBITDA Margin	15.3%	13.9%	↓
LLP Cost Basis	+33% YoY	+51% YoY	↓
Volume Momentum	14% (Hair Oils 15%)	5.8% (Hair Oils 6.4%)	↓
Channel Salience	MT + E-com at 14%	MT + E-com at 18%	↑
Rural Demand	"Weak but positive"	"Double-digit negative"	↓
Amla Performance	+47% Growth	Mid-single digit growth	↓
Receivables	₹19.1 Cr (FY22 end)	₹37.4 Cr (H1 end)	↓
Management Tone	Optimistic on volume	Cautious/Defensive on margins	□

STOP HERE.