Bajaj Consumer Care Ltd — Nov 2023 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on Top-line / Beat on Diversification **One-line:** Bajaj is successfully executing its "non-ADHO" pivot (now 19% of sales) to offset structural rural weakness in its core hair oil, while maintaining a rehabilitated 17% EBITDA margin floor.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Inline	Revenue (□228.7 Cr) flat YoY; EBITDA (□38.8 Cr) beat low expectations.	□
Earnings Quality	High (Core driven)	PAT growth (21%) driven by gross margin expansion (+280 bps) and cost control.	□
Guidance Confidence	Neutral	18-20% EBITDA target remains the "aspiration," but current 17% is the realistic floor.	□
Management Credibility	Strong	Delivered on "ADHO dependency reduction" (81% salience vs 86% in Q1).	□
Business Quality Signal	Stable/Improving	Multi-engine growth appearing (International +21%, NPD +37%) as core ADHO matures.	□
Key Q&A Exchange	Q#1 - Margin Path	Mgmt admits Gross Margin is stable but EBITDA fluctuates on "economies of scale."	□
The Street's Primary Anxiety	Rural Growth	Fear that ADHO has peaked in rural; mgmt confirmed low single-digit GT decline.	□
Capital Cycle Stage	Consolidation / R&D	Focused on extensions (Body Lotion/Shampoo) and "Ethnic" range (Henna).	□
Margin / Return Ratio Trajectory	Stable	EBITDA margin at 17% (up 300 bps YoY) but down from 18.4% in Q1.	□
Pricing Power	Stable	Taking tactical price hikes in larger packs while dropping price on 1 rural SKU.	□
FCF Conversion & Quality	Distorted	Trade receivables jumped 81% since March (MT/E-com credit cycles).	□
Competitive Moat Signals	Stable	ADHO market share holding; Coconut oil gaining share in Modern Trade.	□
Balance Sheet Strength	Strong	Zero debt; cash/investments ~□612 Cr; Worli building capex halted.	□
Working Capital Efficiency	Deteriorating	Receivables rising due to channel shift; DSO up from 18 to 20 days.	□
Mgmt Guidance Track Record	Reliable	Consistent execution on channel diversification (MT/E-com now ~20%).	□
Key Vulnerability / Red Flag	Rural Inflation	Q2 food inflation (peak 10.7%) crushed rural demand for hair oil sachets.	□
Management Tone	Cautiously Optimistic	Focused on "green shoots" in Oct and portfolio "fast to fail" agility.	□

Sentiment: □Positive

Key Takeaways (Positives & Negatives): * **Positives:** The diversification thesis is finally moving the needle; non-ADHO products (Coconut, Amla, Body Lotion, Henna) now contribute 19% of revenue, up from ~14% in Q1. International business is scaling (+21% H1) with Bangladesh growing 100%+, providing a high-margin structural lift. Gross margins have been successfully defended at 54.5% despite glass price inflation, thanks to RMO/LLP deflation and a tactical shift to PET packaging. * **Negatives:** The core ADHO brand is struggling in its heartland, with rural demand suffering from "ruthless" food inflation in Q2, leading to a value decline in hair oils. Working capital is under pressure as the business shifts from "cash-only" General Trade to credit-seeking Modern Trade and E-commerce, with receivables rising from ₹30.4 Cr to ₹55.2 Cr in six months. * **Street Concern:** Analysts are worried about the EBITDA margin path to 20%. Management responded that while Gross Margins are high, lower Q2 sales saliency hurt operating leverage; they expect margins to trend back toward 18-20% as volumes recover in H2. * **Watchpoint:** Success of the "Ethnic" range (Henna/Gulab Jal) in General Trade during H2; if Bajaj can replicate its Modern Trade success in the kirana channel for these products, it permanently de-risks the ADHO concentration.

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2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures primary. Concall used for Volume/Channel specifics.

Metric	Current Qtr (Q2FY24)	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (₹Cr)	228.7	0.5%	-13.9%	→	Consolidated: ₹231.7 Cr. Value growth muted; volume grew 4%.
Gross Margin (%)	54.5%	↑ 270 bps	↓ 20 bps	↑	Defended via RMO/LLP deflation; offset by glass price hikes.
EBITDA (₹Cr)	38.8	21.6%	-20.8%	↑	Standalone. Q2 is seasonally lower saliency for ADHO.
EBITDA Margin %	17.0%	↑ 300 bps	↓ 140 bps	↑	YoY expansion driven by lower RM costs and ad-spend optimization.
PAT (₹Cr)	38.4	20.8%	-16.9%	↑	Consolidated PAT: ₹37.3 Cr (+17.8% YoY).
Ad Spend % of Rev	16.7%	↓ 150 bps	↑ 30 bps	→	Absolute spend ₹38.1 Cr. 75% TV / 25% Digital for ADHO.
Volume Growth (%)	4.0%	N/A	N/A	↑	Higher than value growth due to larger pack mix and NPD.
Store Count (Direct)	8.5 Lakhs	→	→	→	Direct reach through ~500 vans (2 lakh of the total).
International Rev %	~6.0% (est)	↑	↑	↑	H1 growth at 21%; scaling Middle East and Bangladesh.
Net Debt / (Cash)	(₹612 Cr)	→	→	→	Combined Cash + Investments (Consolidated).
Inventory Days (DIO)	46 Days	↑ 5 days	↑ 8 days	↓	Based on Sep'23 Bal Sheet; inventories up to ₹58.6 Cr.
Receivable Days (DSO)	22 Days	↑ 10 days	↑ 4 days	↓	Shift toward MT/E-commerce increasing credit cycle.

2B. SEGMENT BREAKDOWN

Segment	Revenue (□ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO (Core)	185.2 (est)	-4.8%	25%+	↓	Above	Impacted by rural sachet decline; larger packs growing.
NPD (New Products)	43.5 (est)	37.0%	10-15%	↑	Below	Now 19% of Rev. Coconut & Henna are primary drivers.
International	~14.0 (est)	21.0%	High	↑	Above	Bangladesh grew 100%+; UAE/KSA near teen growth.
Modern Trade	~35.0 (est)	19.0%	In-line	↑	In-line	Grew 2x in 8 quarters; share gains for ADHO/Coconut.
E-commerce	~10.0 (est)	28.0%	Lower	↑	Below	B2C E-com grew 55% in H1; 3x growth in 8 quarters.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Margins	18-20% EBITDA for FY24.	Needs ~19.5% EBITDA in H2 to hit lower bound. Feasible if volumes rebound.	Inline (17.8% H1).	Medium
Guidance	Volume	Double-digit growth for next year.	Requires significant rural turnaround and Henna scaling.	Miss (H1 at 7%).	High
Strategy	Portfolio	ADHO to be 50-70% of Rev (long-term).	Currently 81%. On track if NPD continues >30% growth.	Delivered (Q1: 86% -> Q2: 81%).	Low
Strategy	Distribution	Reach 10 lakh direct outlets.	Needs 1.5 lakh more direct adds. Long-term focus.	Stable (8.5L).	Low
Macro	Input Costs	RMO/LLP to remain range-bound.	Volatile; glass prices rising, forcing pack material shifts.	Delivered (GM +280bps).	Medium
Strategy	Capex	Money for brands/IT/ Inorganic only.	CWIP building (Worli) held. Evaluating M&A.	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 Path	Financials	"What is the path to 20% margin now that input costs have deflated and ad spend is at 16.5%?"	Management stated that EBITDA was hurt by lack of scale in Q2; they expect a 1-1.5% margin upside simply from volume recovery. Reaching 20% will require ADHO rural demand to return and NPD fixed costs to be absorbed.	None	4.0	Directional evidence
2	4.0	Percy Panthaki, IIFL	Mix Change	Financials	"Won't the margin mix get adverse as lower-margin NPDs become a higher percentage of revenue?"	Management expects EBITDA margins to hold or improve despite lower Gross Margins in NPDs because ad-spend and overheads will not scale linearly with sales. Structural cost reductions in packaging are also being used to offset mix dilution.	None	3.5	Balanced strategy
3	5.0	Percy Panthaki, IIFL	ADHO Performance	Business Overview	"What really went wrong with ADHO this quarter because it seems relatively on the lower side?"	Management clarified that business shifted from Sept to Oct due to delayed Diwali; Oct saw double-digit growth.	None	4.0	Clear and quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
						They admitted rural sachet sales were the specific point of struggle while larger packs performed well.			
4	4.0	Ankush Agrawal, Surge	RM Prices	Financials	"Sequential movement in RM prices vs Q1?"	Management noted LLP and RMO prices remained stable/range-bound while PET bottle prices moved downward. Glass remains the only inflationary headword, prompting a shift to PET for the 200ml SKU nationally.	None	5.0	Specific data
5	3.5	Aagam, Flute Aura	Assets/ CWIP	Financials	"What are the plans for the Worli building in CWIP?"	Management confirmed the project is in abeyance to prioritize investments in core brands and potential inorganic acquisitions. This signals better capital discipline than prior years.	None	4.0	Specific timeline
6	4.0	Pallavi Deshpande, Sameeksha	Rural Recovery	Management Commentary	"Is the advertising spend getting tilted toward urban/digital and hitting	Management denied this, stating 75% of ADHO spend remains in traditional TV, though digital increased	None	4.0	Vague but consistent

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					rural demand?"	from 5% to 25% to capture new-age customers. Rural weakness is attributed solely to food inflation, not ad-spend withdrawal.			
7	3.5	Pallavi Deshpande, Sameeksha	Cash Flow	Financials	"Cash flow from operations seen a slight deterioration, what would any guidance be?"	Management attributed the DSO increase (18 to 22 days) to the rising saliency of Modern Trade and E-commerce. They emphasized that General Trade remains "cash only," showing no change in core credit discipline.	None	4.0	Verifiable
8	4.0	Shirish Pardeshi, Centrum	Wholesale	Business Overview	"What is happening in the wholesale channel where it's been a pain for us?"	Management stated that for the first time, wholesale is performing better than retail as they stabilized market hygiene and avoided "dumping" inventory. This suggests a healthier, off-take-led supply chain.	None	4.0	Directional
9	4.5	Shirish Pardeshi, Centrum	Pricing Strategy	Management Commentary	"Will you take pricing corrections to drive	Management is taking price increases in larger ADHO	None	4.5	Clear & Quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded	Credibility	Verdict
					volume growth?"	packs where they have power, but will take a price drop on one high-penetration rural SKU. This "bifurcated" strategy aims to protect margins in urban while reclaiming rural share.			
10	3.5	Kaustubh Pawaskar, Sharekhan	Distribution	Business Overview	"What is the reach currently and what are the targets?"	Direct reach is 8.5 lakh outlets, with an aspirational target of 10 lakhs in the long-term. Focus is currently on expanding in West and East markets via the "Coconut route" rather than just ADHO.	None	3.5	Vague but consistent
11	3.0	Varun Bang, Byranston	Channel Strategy	Strategy	"Is the strategy for placing NPDs in different channels still evolving?"	Management clarified every product has a bespoke strategy; some go E-com to GT, others GT to MT (like Henna). It is an "omnichannel" approach rather than a single evolving path.	None	3.5	Directional

PATTERN FLAGS & SENTIMENT Analyst questions centered heavily on **Margin Sustainability** and **Rural Recovery**. There was skepticism about how Bajaj will reach a 20% EBITDA margin if the product mix shifts toward lower-margin new products. Management's posture was confident but realistic, shifting the narrative from "cost-cutting" to "operating leverage" (volume growth as the margin driver). Analysts were particularly focused on the **Sept-to-Oct shift**, trying to discern if the Q2 ADHO decline was structural or merely a calendar fluke.

Analyst Sentiment Verdict: The mood was **Cautiously Optimistic**. Analysts were impressed by the 37% NPD growth and the 100%+ growth in Bangladesh, which validates the diversification thesis. However, friction remains regarding the rural slowdown and the rising receivable days. Management's credibility is at a multi-quarter high because they resisted the temptation to "load the channel" in a weak quarter, maintaining cash-only discipline in GT despite flat revenue.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | | :--- | :--- | :--- | :--- | :--- | | **EBITDA Margins** | Targeted 18-20%. | Q2 was 17.0% due to "scale." | Target is an "average" for the year, not a floor for every quarter. | Margins are sensitive to volume dips. | | **Rural Recovery** | "Seeing improved conditions." | Admits "ruthless" food inflation hit Q2. | "Recovery" is currently based on October data, not a sustained Q2 trend. | Festive bounce might be temporary. |

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5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY24)	This Quarter (Q2 FY24)	Direction
ADHO Revenue Salience	86% of sales.	81% of sales.	↑ (Less dependent)
EBITDA Margin	18.4%	17.0%	↓ (Operating leverage)
NPD Growth (YoY)	~14%	37%	↑ (Accelerating)
Rural Performance	Flat.	Low single-digit decline.	↓ (Inflationary impact)
Receivable Days	18 Days.	22 Days.	↓ (Working capital drag)
Packaging Strategy	Glass-heavy.	Shift to PET for 200ml national.	↑ (Cost mitigation)
Channel Momentum	General Trade stable.	Modern Trade/E-com (+19-28%).	↑ (Channel pivot)
Tone on M&A	Evaluating.	Actively looking; prioritizing over building capex.	↑ (Strategic urgency)

STOP HERE.