

Bajaj Consumer Care Ltd — Nov 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Weak Miss **One-line:** Management continues to iterate on a "structural foundation" while the topline remains trapped in a five-year stagnation, making the transition thesis increasingly dependent on a speculative recovery in rural ADHO and unproven RTM efficiency.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance / Prior Quarter	Weak Miss	Revenue down 0.5% YoY; H2 now requires ~21% growth to hit annual guidance.	□
Earnings Quality	High (Core driven)	No major one-offs; hit taken from raw material (RM) inflation in copra.	□
Guidance Confidence	Weak	Reaffirmed 10% mid-term growth despite H1 revenue decline of 5% YoY.	□
Management Credibility	Neutral	Transparent about past failures, but "Aarohan" results are still in pilot phase.	□
Business Quality Signal	Stable	Non-ADHO saliency at 20%; International growing at 36%.	□
Key Q&A Exchange	Q#3 — 5-Year Stagnation	Analyst noted topline is flat and EBITDA is half vs 5 years ago; MD blames market.	□
The Street's Primary Anxiety	Growth Stagnation	Is ADHO structurally impaired? Mgmt says it's a "cyclical" demand issue.	□
Capital Cycle Stage	Consolidation	Investing in RTM (Aarohan) and digitalization (Geofencing) over expansion.	□
Margin / Return Ratio Trajectory	Deteriorating	EBITDA Margin compressed to 14.6% from 16.3% YoY due to RM costs.	□
Pricing Power	Stable	Took 6% price hike in Coconut oil; ADHO premium pricing maintained.	□
FCF Conversion & Quality	Weak	Trade receivables jumped ₹20.5 Cr (46%) in H1, suggesting channel stress.	□
Competitive Moat Signals	Stable	ADHO market share remains steady despite cheaper competition.	□
Balance Sheet Strength	Strong	Net cash positive; financial assets (investments) at ₹396.0 Cr.	□
Working Capital Efficiency	Deteriorating	Inventory and Receivables both increased since March 2024.	□
Mgmt Guidance Track Record	Mixed	Historical tendency to miss topline targets while hitting cost targets.	□
Key Vulnerability / Red Flag	Negative Operating Leverage	Employee costs grew 10% while revenue was flat, squeezing margins.	□
Management Tone	Transparent & Patient	Acknowledged "hard uphill climb" but refused to downsize for margins.	□

Sentiment: □Neutral

Key Takeaways: * **Positives:** Diversification is no longer a "plan"—Non-ADHO now contributes 20% of revenue (CAGR of 32% over 3 years). International business is a bright spot (+36% YoY), with Bangladesh doubling despite political unrest. Digital transformation is maturing, with 83% of urban outlets geotagged and geofencing pilots active in three major states. * **Negatives:** The core Almond Drops Hair Oil (ADHO) remains the anchor, with volume CAGR at -1.3% over three years. Gross margins are under pressure from Copra inflation (pricing gap vs Marico narrowing) and Refined Mustard Oil (+11%). Employee costs continue to grow at double digits (up to ₹27.0 Cr) without commensurate topline growth, leading to margin erosion. * **Street Concern:** The most bruising analyst pushback centered on the 5-year performance: the business has essentially traded EBITDA for "structural foundations" that have yet to yield a growth inflection. * **Forward Watchpoint:** The transition from "Project Aarohan" pilot (UP/MP) to Pan-India rollout in Q3/Q4. If H2 does not show significant double-digit volume recovery, the 10% FY25 growth guidance will be mathematically impossible.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source. Discrepancy noted: PPT lists Q2 Consol Revenue at ₹230.6 Cr; Standalone at ₹225.4 Cr.

Metric	Current Qtr	YoY Change	QoQ Change	Trend	Mgmt Commentary
Revenue (Consol)	₹230.6 Cr	↓ 0.5%	↓ 4.6%	↓	Volume growth +1.1%; Urban sluggish, Rural resilient.
Gross Margin (%)	52.7%	↓ 180 bps	↓ 260 bps	↓	Hit by copra inflation and adverse product mix (higher NPD).
EBITDA (Consol)	₹33.6 Cr	↓ 11.1%	↓ 10.6%	↓	Negative operating leverage from employee costs and RM.
EBITDA Margin %	14.6%	↓ 170 bps	↓ 100 bps	↓	Investing in RTM and people despite topline pressure.
PAT (Consol)	₹31.8 Cr	↓ 14.6%	↓ 14.3%	↓	Impacted by lower EBITDA and lower Other Income.
Ad Spend % of Rev	13.9%	↓ 260 bps	↓ 180 bps	↓	Spend reduced to offset margin pressure; 16-18% target.
Volume Growth (%)	1.1%	↑ 780 bps*	↓ 560 bps	↑	*Volume was -6.7% in Q1; improvement seen in Rural GT.
Employee Cost	₹27.0 Cr	↑ 9.9%	↑ 0.0%	↓	Fixed cost investment in "quality people" for transition.
Net Debt / (Cash)	(₹447.8 Cr)	↓ 31.8%	↓ 28.1%	↓	Cash reduced due to buyback/dividends; includes investments.
Interest Coverage	336x	↑ 167%	↑ 11%	↑	Finance cost minimal at ₹0.1 Cr.
Receivables (Consol)	₹64.5 Cr	↑ 43.3%**	↑ 46.5%**	↓	**Vs March 2024; indicates higher credit/channel loading.

2B. SEGMENT BREAKDOWN

Segment	Revenue (₹ Cr)	YoY Growth	Margin	Trend	vs Co. Avg	Key Development
ADHO	~₹184 Cr*	↓ 2.0%*	20.0%+	↓	Above	Mid-packs de-growing; Large packs (650ml+) strong.
Non-ADHO (NPD)	~₹46.1 Cr	↑ 11.0%	~14%	↑	Below	Now 20% of sales; Coconut and Skin range leading.
International	~₹13.8 Cr	↑ 36.0%	Not stated	↑	Above	Bangladesh doubled; ROW (USA/ Malaysia) +50%.
E-commerce	~₹30.0 Cr	↑ 32.0%	Above MT	↑	Above	Saliency at 13%; Quick Commerce grew 42%.
Modern Trade	~₹39.2 Cr	↑ 4.0%	Not stated	→	Below	Independent chains performing well.

*Estimated based on 80/20 saliency split.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Revenue	10% Medium-term Growth.	Needs 21% growth in H2 FY25 to reach 8% annual growth; highly unlikely.	Mixed	High
Guidance	Margins	16% - 18% EBITDA.	Requires 200bps expansion in H2 vs H1 (15.1%).	Stable but currently at lower bound.	Moderate
Guidance	Volume / Capacity	Scale Quick Commerce.	Triple-digit growth target vs current 42%.	New focus.	Moderate
Strategy	Portfolio Diversification	40% Non-ADHO in 5 years.	Needs to maintain 30%+ CAGR in NPD.	On track (now at 20%).	Low
Macro	Input Cost	Copra/Mustard Inflation.	Pricing taken (6%); monitor sequential peaks.	Accurate tracking.	Moderate
Balance	Capital Allocation	Searching for acquisitions.	₹447 Cr cash buffer available.	No deal closed yet.	High

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.0	Abneesh Roy, Nuvama	RTM Tech	Management	"What exact benefits will come in the urban areas once... all the outlets will be covered [by geotagging]?"	Management explained that geotagging/ fencing eliminates "phantom outlets," forcing sales reps to physically visit all 40 assigned stores rather than just 30 and faking the rest. This structural efficiency is expected to improve cost-to-sales and outlet productivity in urban markets over the next 2 quarters.	None	4.5	Clear and quantified
2	4.5	Abneesh Roy, Nuvama	RM/ Coconut	Business Overview	"...how is the market leader retaliating because... it's not possible for you to have the same sourcing advantage [in Copra]?"	Management claimed that despite smaller scale, their forward-purchasing and deep understanding of NAFED/ Kerala union dynamics have resulted in "better pricing" than larger peers in some quarters. If true, Bajaj can maintain its 10% MRP discount to Marico without sacrificing unit economics, a key competitive advantage.	None	3.5	Bold claim
3	5.0	Anshum Nandecha	Stagnation	Financials	"5 years back, we were at around ₹900 crores top	Management admitted that ADHO did not project the severe market	None	4.0	Candid admission

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					line... we are still at the similar level... and half the amount of bottom line."	"tanking" but argued the company is now structurally better with 20% NPD saliency and professionalized teams. The business has essentially reset its base, but the valuation now relies entirely on the successful scale-up of these new foundations.			
4	4.0	Gaurav Gandhi	Quick Commerce	Business Overview	"how are we looking at improving our sales from these quick commerce platforms... because 42% is good, but not good enough."	Management expressed disappointment with 42% growth and is targeting triple-digit expansion by improving assortment and regional availability. Quick commerce is currently more profitable than traditional e-commerce, offering a margin tailwind if they hit these scale targets.	Exact margin delta	4.0	Specific on trend
5	4.0	Shirish Pardeshi	Margins	Financials	"If the coconut portion is going to be stronger... how this margin story is going to pan out in next 3 to 4 quarters?"	Management noted that while Coconut/Amla are lower margin, AD Extensions (shampoo/serum) have 55% gross margins similar to ADHO. Margin recovery	None	4.0	Logical rationale

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						is therefore contingent on the "Almond" extension portfolio scaling faster than the pure "Coconut" volume play.			
6	4.5	Percy Panthaki	EBITDA Mix	Financials	"ADHO is quite profitable... Some of the new businesses... might be loss-making. Could you give us some idea as to what these 2 parts are?"	Management quantified that ADHO maintains 20%+ EBITDA margins, while the delta between ADHO and the Non-ADHO consolidated margin is roughly 6%. This confirms the NPD portfolio is currently dilutive (at ~14% EBITDA) but not "loss-making" in aggregate.	None	4.5	Specific breakdown
7	4.5	Percy Panthaki	ADHO Volume	Business Overview	"FY20 is a very low base... would I be right in estimating that versus pre-COVID levels, the volumes of ADHO are down about 15%?"	Management clarified that on a 3-year CAGR basis, ADHO volume decline is -2.7% and value is -1.3%. This reveals a long-term erosion of the core brand's footprint that price hikes haven't been able to mask, requiring the NPD portfolio to carry the entire growth burden.	None	4.0	Data-driven
8	4.0	Nikhil, SiMPL	Cost Structure	Financials	"...our personnel	Management defended the	None	3.0	Evaluative

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					costs... is actually now incrementally more than the overall company top line growth... are we getting enough efficiencies?"	employee cost jump from ₹20 Cr to ₹30 Cr as an investment in "quality people" that prevents the company from being even worse off. This suggests a rigid cost floor; margins cannot expand unless the topline inflects, as management refuses to downsize.			

PATTERN FLAGS & SENTIMENT * **The "Structural" Defense:** Management repeatedly uses the word "structural" (foundations, processes, people) to justify flat financial performance. Analysts are clearly losing patience with this narrative, as evidenced by the blunt questioning regarding the 5-year stagnation in both topline and EBITDA. * **Commodity Confidence:** Management appears surprisingly confident in their ability to play the Copra market against the "market leader" (Marico). This confidence is either a signal of superior supply chain agility or a potential risk if they misjudge the next cycle. * **Pivot to Quick Commerce:** There is an urgent shift toward Quick Commerce (QC) as the primary growth engine for urban markets. Management's dissatisfaction with 42% growth suggests they are pivoting resources away from stagnant traditional e-commerce toward QC.

Analyst Sentiment Verdict: Skeptical and weary. While analysts appreciate the transparency regarding margin dilution (ADHO vs. NPD), they are frustrated by the lack of operating leverage. Management's credibility is currently "neutral"—they have built the promised organization, but they haven't delivered the promised growth. The biggest risk is that the "structural foundations" have been built for a market demand that may never return to pre-2019 levels.

GUIDANCE GAPS REVEALED IN Q&A | Topic | What Mgmt Claimed (Opening) | What Q&A Revealed | Gap / Walk-back | Risk to Thesis | |-----|-----|-----|-----|-----| | ADHO Growth | Resilience in core. | 3-year volume CAGR is -2.7%. | Core brand is in structural decline, not just "cyclical." | High; NPD must work. | | Margins | 16-18% Range. | NPD is 600bps dilutive. | Higher NPD saliency (target 40%) will structurally lower the corporate margin ceiling. | Moderate; P/E compression. | | RTM Efficiency | Project Aarohan success. | Cost-to-sales "will look higher" without scale. | Fixed cost investments are ahead of revenue realization. | High; Margin risk in H2. |

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
Revenue Growth	-9.0% YoY (Consol)	-0.5% YoY (Consol)	↑ Improving
Volume Growth	-6.7% (Standalone)	+1.1% (Consol)	↑ Improving
Gross Margin	55.3%	52.7%	↓ Deteriorating
EBITDA Margin	15.6%	14.6%	↓ Deteriorating
NPD Saliency	18% of revenue	20% of revenue	↑ Improving
Copra Strategy	Pricing taken in June	6% price hike total; gap vs leader narrowing	☐ Stable
Geofencing	Not active	Active in UP, MP, MH	↑ Improving
Bangladesh	RTM transition	Topline doubled YoY	↑ Improving
Ad Spend	15.7%	13.9%	↓ Rationalized
Receivables	₹44.0 Cr (Mar'24)	₹64.5 Cr	↓ Deteriorating