

**Upcoming margin expansion from new product launches and market development.**

**CMP: INR 159**

**Outlook: Positive**

**Stock Info**

BSE	533229
NSE	BAJAJCON
Bloomberg	BAJAJCON:IN
Reuters	BAC0ta.BO
Sector	Personal Care
Face Value (INR)	1
Equity Capital (INR cr)	810
Mkt Cap (INR cr)	2,350
52w H/L (INR)	207 / 129
Avg Yearly Volume (in 000')	601

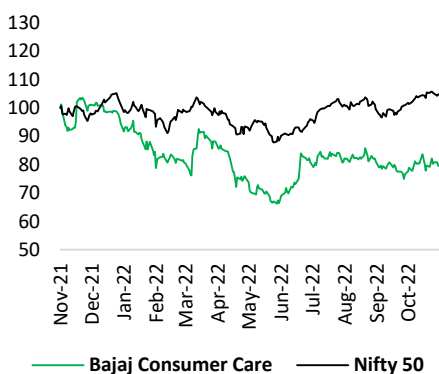
**Shareholding Pattern %**

(As on Sept, 2022)

Promoters	38.0
FII	12.1
DII	17.5
Public & Others	32.4

Stock Performance (%)	1m	3m	12m
Bajaj Consumer Care	4.4	(1.2)	(18.9)
Nifty 50	3.5	4.2	5.37

**BCC Vs Nifty 50**



Bajaj Consumer Care Ltd (BCC) is one of the most reputed FMCG companies in India and has established itself as a leader in the light hair oil category of hair oil with a presence in and outside India. Its flagship brand of Almond Drops hair oil commanding a >60% market share in its category and derives most of the company's revenue. Though the company is largely present in hair care with its vast offering of oils (hair oils, coconut oils, virgin cold pressed oils, and premium oils) it also has an offering of skincare products under the brand 'Nomarks'.

**Investment Rationale:**

**Raw Material Prices and margin expectations:** Copra is no longer at elevated levels. Other commodities are facing inflation. A downward price trajectory expected for Mustard oil and for LLP is already taking place. Glass is on an upward trend. With correction in RM prices and improving macroeconomic conditions, they target 20% margins in the long term.

**Pricing Action:** No price increases were taken in last 3 months especially in rural markets. 4% price hikes were taken over the last 4 quarters, and 7% over the last 6 quarters.

**Pack Sizes:** LUPs in the range of INR 10-20 gained well across rural and urban areas but medium sized packs in INR 50-70 range de grew especially in rural areas. Large size packs did perform well.

**NPDs:** The sales of NPDs were 2x in Q2 YoY. This is in line with the long term strategy of the company to build a robust portfolio beyond ADHO.

**Ad spends:** Ad spends are currently 18-19% but they will come down to 15-16% as the long term average which will lead to a 2.5% gain on margins. The A&P spend for the quarter was at 18.2% of sales, which was higher by 22.2% YoY. This was on account of media spend to support ADHO and new TVCs of Bajaj Coco Onion and Almond Drop Soap as well as digital marketing on all brands. They continue to grow their footprint in the digital space. Digital ad spend is 20% of total ad spend. It was entirely on ADHO. They undertake regional marketing activities to carve out market shares in rural areas.

**The international business** reported a strong growth of 60% YoY in Q2. New channel partners were appointed in major markets in Middle East and Africa region which yielded good results. Nepal saw muted growth due to its macroeconomic environment. Rest of the world performed well, led by opening of new countries and portfolio expansion.

**The portfolio:** The company now operates in 83% of its addressable market with its new launches. Share of Amla portfolio remained steady in mid-single digits. Steady progress is seen in Bajaj 100% pure coconut oil. Bajaj's Coco Onion saw good traction in modern trade and e-commerce while distribution expansion continues in general trade.

**Hair oil market** contracted- 5.5% value and 5.7% volume. Rural markets sharp decline of 9% due to high inflation and downtrading.

**Valuation & Outlook :** Overall, despite a weak macroeconomic environment from subdued demand in rural areas, they continued to drive business growth with a focus on longer term targets with portfolio enhancement and dynamic marketing actions, despite weak current demand. With the festive season and a normal monsoon leading to good harvests, there is a recovery in demand conditions expected. The stock is currently valued at a TTM PE of 16.36x.

INR Cr	FY22	FY21	FY20	FY19	FY18
Revenue	880	922	852	918	828
EBITDA	174	243	205	274	254
EBITDA Margin	19.77%	26.36%	24.06%	29.85%	30.68%
PAT	170	223	185	222	211
PAT Margin	19.32%	24.19%	21.71%	24.18%	25.48%

Source: Company filings & Arihant Research

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**Investment Rationale:**

**E-commerce** continues to scale up well, growing 180% YoY in Q2 of and contributes around 9% of total sales backed by robust media and consumer promo plans and differentiated portfolio strategy. The brands gained significant market share on Amazon and Flipkart and were amongst the top hair oil brands in peak season. Special pack strategy worked well. The range of digital first brands for premium pure oils such as 100% pure and Natyv Soul are supported with digital marketing and are scaling up well.

**New developments in ADHO:** The almond drop soap launch in Q1 supported with TV and digital media continues to receive good feedback from consumers. Almond plus Argan Oil with serum has been doing well on e-commerce and will drive offtakes in the coming quarters. The ADHO portfolio will become a significant part of the portfolio in the midterm. Increased investments through visibility on e-commerce platforms, as well as consistent media presence in Hindi speaking markets has resulted in increase of SOV of ADHO to 18% vs 14% last year.

**Financial Performance:** BCC registered Q2FY23 revenue growth of 7.2% with 5.8% volume growth YoY. Gross margins were lower this quarter at ~52% due to peak commodity inflation and higher commodity consumption cost. EBITDA Margins were 14% for Q2FY23.

**Trade channels:** General Trade sales in urban areas grew in 2 digits' vs rural sales where there was a decline. Retail continues to scale up with a high-teens growth on the back of loyalty programs, which helped the NPD portfolio. Expansion of wholesale loyalty program helped grow the wholesale business in mid-single digits. Rural slowdown was evident especially in the HSM markets. Modern Trade and e-commerce registered excellent growth and continue to scale up well. The performance of non ADHO portfolio in both these channels has been good. Modern trade sales grew 77% YoY and is 9% of sales. This is on back of well executed fulfillment, visibility and significant market share gains across top retailers. The company is creating channel-specific packs in key products which has been yielding good results. The canteen business also saw a revival in Q2.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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