



**Upcoming margin expansion from new product launches, and marketing activities leveraging existing strengths.**

**CMP: INR 165**

**Rating: Buy**

**Target Price: INR 364**

**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)	2,644
52w H/L (INR)	205 / 129
Avg Annual Volume (in 000')	456

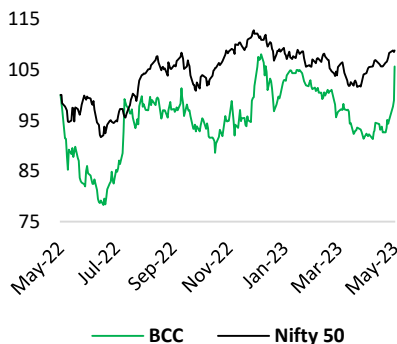
**Shareholding Pattern %**

(As on April 2023)

Promoters	39.35
FII	11.76
DII	19.21
Public & Others	29.69

Stock Performance (%)	1m	3m	12m
Bajaj Consumer Care	4.4	1.7	8.9
Nifty 50	14.1	4.3	5.4

**BCC Vs Nifty 50**



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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 Almond Drops hair oil commands a ~64% market share in the Light Hair Oil 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'. Recently, it has launched a new range of D2C personal care products online under the brand 'Natyv Soul' which has serums, oils, and hair masques.

**Investment Rationale:**

**Aggressive premiunization:** In order to boost margins, BCC is expanding its portfolio under the non-ADHO segment. Most of these are premium products on the D2C side under the digital-first brands 'Natyv Soul' and '100% Pure'. The company is also strategically premiumizing the ADHO portfolio with the launch of Almond drops with Argan Oil and Almond Drops Serum. Recently, they also launched Bajaj Almond Drops Moisturizing soap in June 2022 which received a good response from the market.

**Upcoming Margin expansion:** The aforementioned aggressive premiumization and expansion of the product portfolio combined with softening of raw material prices will lead to margin expansion in the long term. Light Liquid Paraffin (LLP) and Refined Mustard Oil (RMO) are key inputs whose prices have reduced significantly from their peak in Oct '22.

**Market leadership:** BCC as one of the oldest and most well-known FMCG companies in India, had pioneered and launched the Almond Drops Hair Oil (ADHO) category (in the 1980s) and launched Bajaj Almond Drops Hair Oil- their flagship brand. Currently, they have a 64% share in the Light Hair Oil segment. The company has expanded its addressable market with the new launches and its product portfolio addresses 85% of this market. The end goal of the company is to be an end-to-end hair care solutions provider.

INR Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	9,052	8,671	9,650	10,663	11,635
% Change	9.6%	-4.2%	11.3%	10.5%	9.1%
EBITDA	2,434	1,739	1,726	2,209	2,698
EBITDA Margin (%)	26.9%	20.1%	17.9%	20.7%	23.2%
% Change	18.7%	-28.6%	-0.7%	27.9%	22.2%
Adj. PAT	2,231	1,696	1,650	2,100	2,600
Adj. PAT Margin (%)	24.7%	19.6%	17.1%	19.7%	22.3%
% Change	20.8%	-24.0%	-2.8%	27.3%	23.8%
Adj. EPS (INR)	15.1	11.5	11.6	14.7	18.2
P/E (x)	10.9	14.3	14.3	11.2	9.1
ROIC	116.7%	75.6%	76.4%	97.6%	121.7%
ROE	29.5%	21.0%	19.7%	23.2%	26.2%
ROCE	31.1%	20.9%	20.0%	23.9%	26.6%
ROA	31.1%	21.6%	20.0%	24.1%	27.4%
Total debt/Equity (x)	0.01	-	-	-	-

Source: Company Filings & Arihant Capital Research

### Valuations & Recommendations

The hair oil industry has seen a slight de-growth in the past year or so due to higher commodity prices (inflationary pressures) being passed on leading to down trading across rural markets wherein consumers prefer smaller pack sizes/ less premium products due to shrinking wallets and lower disposable income as people prioritize essential purchases over discretionary ones. However, Bajaj Consumer Care has been seeing a relative easing of commodity prices and supply chain pressures in recent times owing to price corrections in a post- covid 19 economy. Compared to copra, most commodities remain relatively volatile and at elevated levels.

The company has grown despite the challenges faced by the operating environment because of its continuous portfolio expansion into new categories and premiumization of existing categories which helped build significant brand strength. They have also undertaken many wholesale and retail loyalty programs that have led to growth across general trade & modern trade channels. Initiatives like the Independence day event successfully boosted footfall across retail outlets. They have also substantially boosted their online visibility by partnering with numerous marketplaces like Amazon, Nykaa, and Purplle. Most of the products offered online are from the premium D2C portfolio.

On the front end, they have been taking branding and publicizing very seriously with their numerous online advertisements and style campaigns with movie stars like Parineeti Chopra to get consumers involved and engaged with the brand to revamp its image to appear more youthful. Recently, Kiara Advani was on-boarded as the brand ambassador.

Going forward, we expect the company to see significant margin expansion going forward up from current levels. This is on account of the growing share of high-margin, premium products coupled with the softening in key inputs like LLP (Light Liquid Paraffin), RMO (Refined Mustard Oil), and packaging costs will lead to long-term margins stabilizing at ~20%. The company is also expanding its addressable market outside hair care to include other personal care items like soaps which have received good responses from the market. Other new launches like Coco Onion and 100% pure coconut oil have also been displaying good growth across general trade as well as modern trade channels. Margins will stabilize at 18-20% in the medium term.

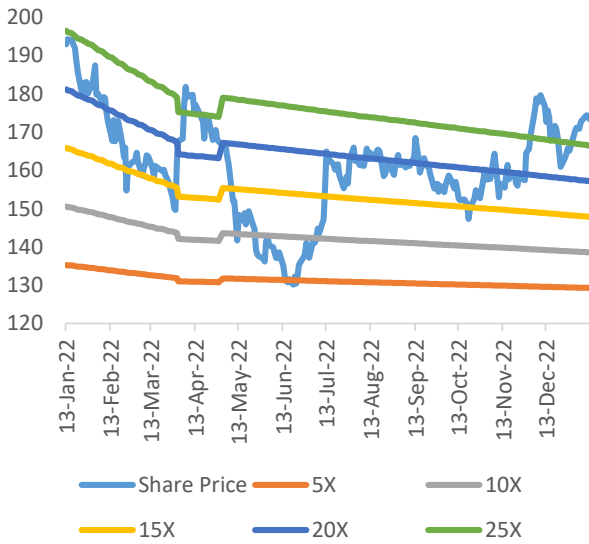
BCC's endeavor to grow its distribution network in rural areas through the van network and in urban areas through modern and general retail outlets protected its top-line performance during the pandemic. The aforementioned loyalty programs also helped greatly to keep demand momentum alive and consistent.

The company enjoys a debt-free status as of 2021, with consistent operating cash flows and a healthy cash position. On 19th December 2022, Bajaj Consumer Care commenced a share buyback via open market operations. The size will not exceed INR 808.9 Mn and the buyback price will not cross INR 240/ Share.

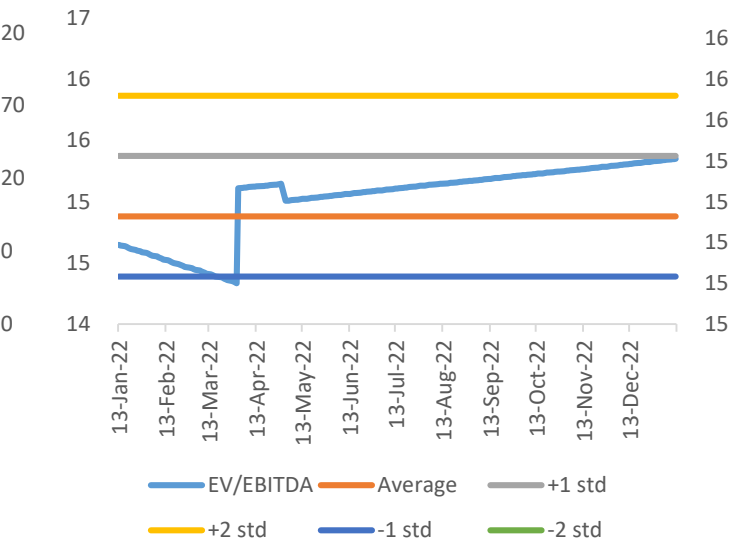
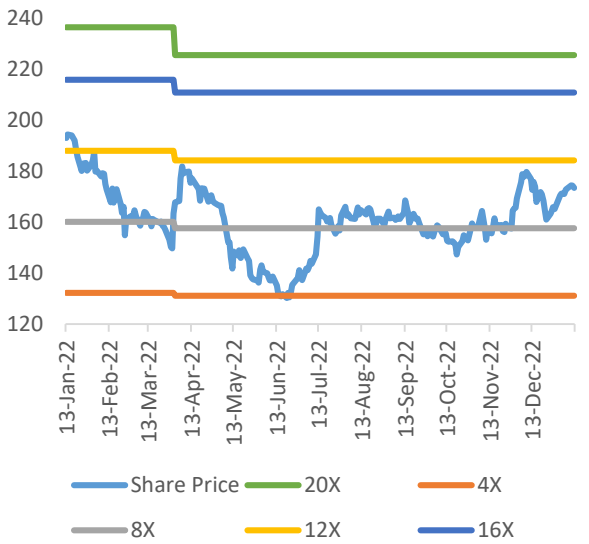
**We believe that Bajaj Consumer Care has a steady growth trajectory and significant margin expansion ahead of it owing to its existing market leadership in light hair oils, softening commodity input prices, aggressive premiumization-driven portfolio expansion of the ADHO (Almond Drops Hair Oil), and non- ADHO portfolio, and growing brand equity. The company has shown its resilience through the trials and tribulations presented by the pandemic, delivering a profitable performance throughout. It is continuously growing its addressable market, as well as it's the geographical presence of its new products across the country with the help of their already large distribution network, deepening its penetration in core markets, especially in rural areas. This is further cemented by its retail and wholesale loyalty programs across modern and general trade channels. Additionally, the continuous marketing and advertising activities across numerous platforms drive and encourage customer engagement with the brand, making its appeal more youthful and relevant to new-age buyers. We believe that there is a steady and gradual growth in profitability to be expected combined with growing market shares.**

**We initiate coverage with a "BUY" rating, and a Target Price of INR 364, valued at a P/E multiple of 20x the FY25E EPS of INR 18.22, indicating an upside of 121% from the CMP.**

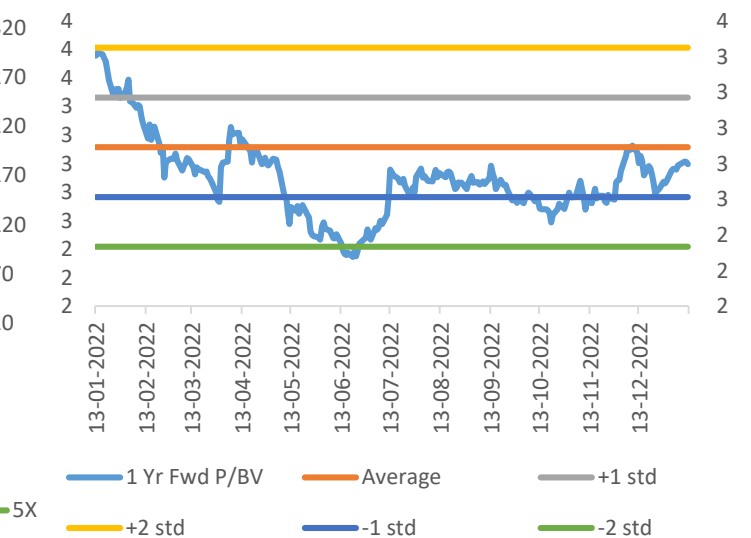
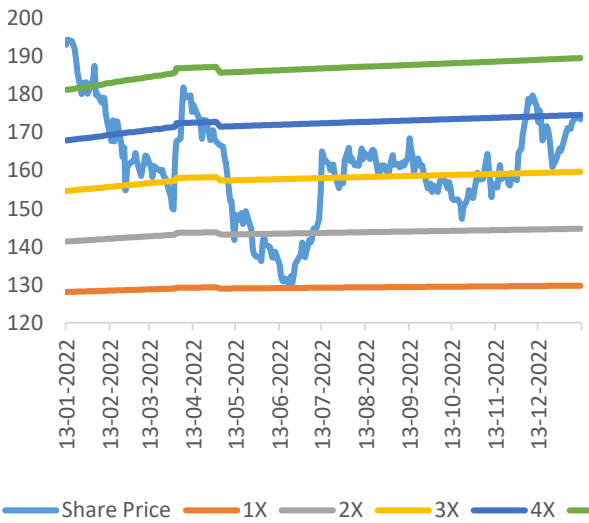
P/E Bands



EV/EBITDA Bands



P/BV Bands



**Investment Rationale**

**Aggressive Premiumization and Portfolio Expansion:**

The company has been undertaking aggressive portfolio expansion over the last 2 years, to diversify out of the ADHO segment. They have begun to diverge into non-hair oil products. Traditionally, about 90% of the company's revenue and 50% of the Advertisement and Promotion (A&P) expenses are directed toward the ADHO portfolio. They target the share of ADHO to non-ADHO to come down to 60-40 in the long run. In 2020, they launched Bajaj Zero Grey Hair Oil and 6x Vitamin- E oil Almond Oil. In 2021, they came out with Amla Aloe- Vera Oil (to grow the amla oil segment), Pure coconut oil, and the 2 digital-first brands: Bajaj 100% Pure and Natyv Soul. In 2022, they launched Coco-Onion hair oil, Bajaj Almond Moisturizing Soap, Bajaj Almond + Argan Hair Oil, and Bajaj Almond Drops Serum with Oil with premium packaging.

**6x Vitamin E Almond drops, and Zero Grey launched in 2020.**



Source: Annual Report & Arianth Capital Research

**Amla+ Aloe Vera Hair oil, 100% Pure coconut oil, and the brands '100% Pure' and 'Natyv Soul' in 2021.**



Hair Oil: 5 Variants

California Almond, Moroccan Argan, African Marula, Chilean Rosehip, French Apple Seed



Hair Serum: 2 Variants

French Sea Beet + Peruvian Sacha Inchi

Hair Mask: 2 Variants

African Shea Butter + Brazilian Buriti



Source: Annual Report & Arianth Capital Research

Almond Drops Serum with Oil, Coco Onion, Almond Drops + Argan (non sticky hair oil), and Almond Drops moisturizing Soap launched in 2022.



Source: Annual Report & Arihant Capital Research

### Leveraging distribution strengths:

The company has an incredibly strong pan-India distributor network across both rural and urban markets. As one of the key strengths of Bajaj Consumer, they have 44,28,675 outlets through which they reach 6cr+ customers as of FY22, which puts them in a comfortable position as the market leader in terms of outlet reach. Currently, they are driving retail reach (urban direct reach) to reduce the dependence on wholesale. General Trade momentum has improved due to their retail loyalty program in select cities, and they are looking to add more cities under this over the foreseeable future. As of FY22, they have a 700 nationwide van network. All distributors & super stockists are connected with a well-designed Distribution Management System (DMS) which provides real-time visibility of secondary sales and inventories to help with planning. They are currently trying to emphasize an Omni-channel presence to cater to consumer demands and buying patterns after the covid-19 pandemic. Organized Trade (Modern Trade + E-Commerce) has been scaling up well for them, and they are aggressively driving distribution and penetration. Modern Trade is a lucrative channel as it allows them to showcase independent brands in some of the largest retail chains. They have established long-term associations with some of the largest retail chains across the country. They service 4,500+ modern trade outlets, 70+ modern trade customers, and 8 lakhs + modern trade consumers. Going forward, BCC will leverage its modern trade presence in the southern and western markets to drive visibility, along with improving in-store execution and supply chain efficiencies. Over the years, there has been a significant shift in consumer buying patterns, from in-store to digital purchases, as is seen by the influx of new digital brands, especially in the premium segment. BCC hopped on the bandwagon with Natyv Soul and Bajaj 100% Pure launched exclusively in the e-commerce space and received a great initial response. They plan to scale up further in the realms of e-com and B2B. FY23 is dedicated to driving visibility in modern trade. They have tie-ups with major e-commerce players including Amazon, Flipkart, Grofers, Big Basket, Nykaa, Swiggy, Milk Basket, Purpille, Health & Glow, and Deal Share. They are present on 24 e-commerce websites and 7 B2B platforms. So far, the company does not plan on growing its distribution network, but will leverage the existing one to propel new launches.

**Growing rural penetration:**

The rural market accounts for nearly half of the overall domestic business. In order to grow rural penetration, in 2020 BCC began its ‘van initiative’ to increase penetration in rural areas. This has helped yield positive results and has softened the impact of the shrinking market due to the pandemic. The van operations helped push new product sales in rural areas, especially for launches like Coconut Oils, Sarson Amla, and Coco Jasmine which displayed good traction in demand. They continue to enter untapped markets with an aim to cover all rural towns with a population >5,000. Additionally, they will convert bigger vans into sub-stockists to strengthen the sub-stockist network. As of FY22, 50,000 villages have been penetrated.

**‘Van initiative’ in rural areas**

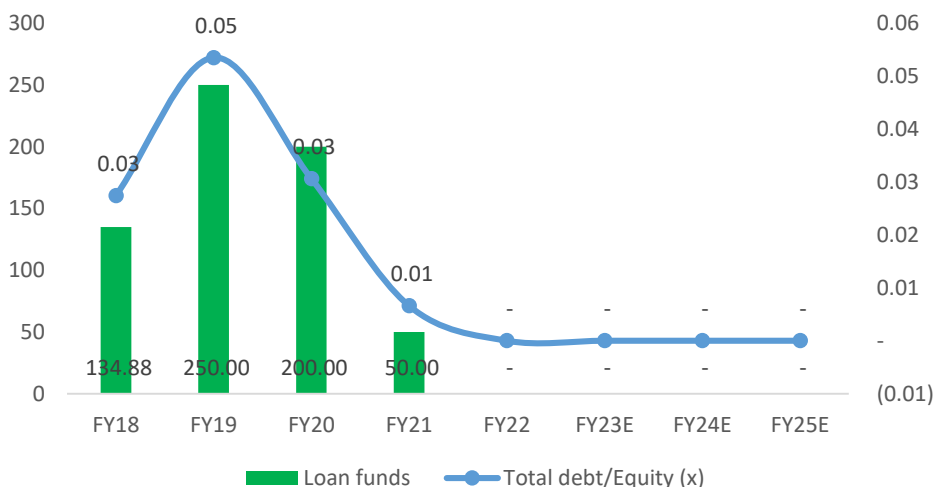


Source: Annual Report & Arianth Capital Research

**Healthy Balance Sheet:**

The company has a 0 debt position, and a Debt- Equity ratio of 0. There are no further capacity expansions planned, so debt is unlikely to increase drastically going forward.

**Balance Sheet Health (INR Mn)**

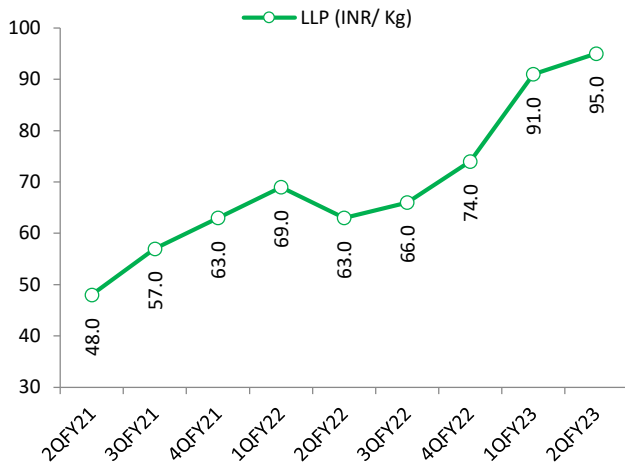


Source: Annual Report & Arianth Capital Research

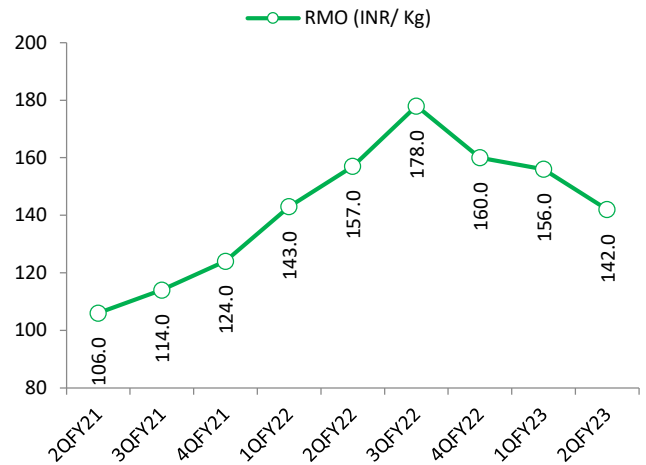
**Upcoming Margin Expansion and improving profitability:**

As prices of key raw materials like Light Liquid Paraffin (LLP) and Refined Mustard Oil (RMO) soften from their peak in Q1FY23, we expect to see significant margin expansion and improving profitability going forward as they comprise 70-80% of the raw material cost. As of now, LLP prices are in the range of INR 84/ Kg, which is almost a 12% decline from Q2FY23 levels. Their correction is relatively slow compared to price correction in RMO. This is because of an increase in crude oil prices, depreciation of INR against USD combined with tightness in refining capacities. RMO prices are on a downward trajectory as they started correcting a while back on account of a reduction in other edible oils like palm and soy. Removal of export duty on palm along with slowing demand globally has resulted in lowering mustard prices. This, combined with heavy premiumization of the product portfolio with the growth of digital-first D2C brands will greatly improve bottom-line performance. In the long term, EBITDA margins are expected to cross the 18-20% mark. The company is also undertaking several cost-saving initiatives to mitigate the inflationary trends that include: bringing a structural reduction in material costs; Value engineering: Optimization of specifications of glass and PET bottles; Alternate vendor development for CFC/Mustard oil/ Vitamin E etc.

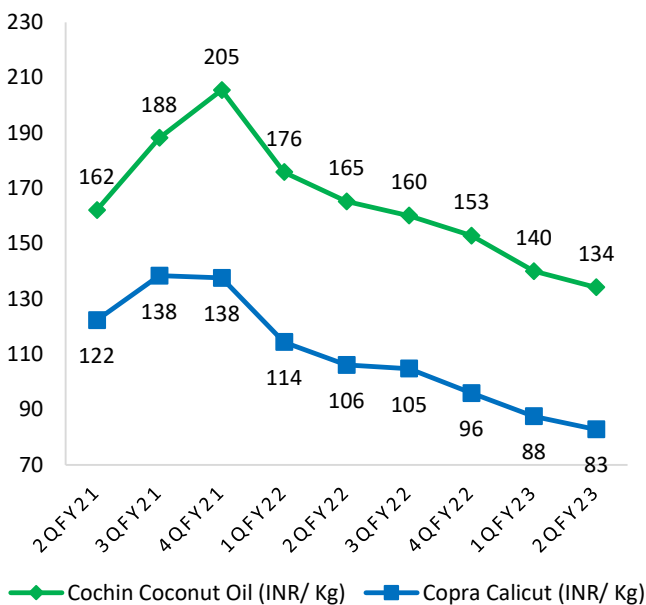
The above initiatives will result in a cost saving of INR 50 Mn for FY23. We believe that margin expansion is certain but gradual.



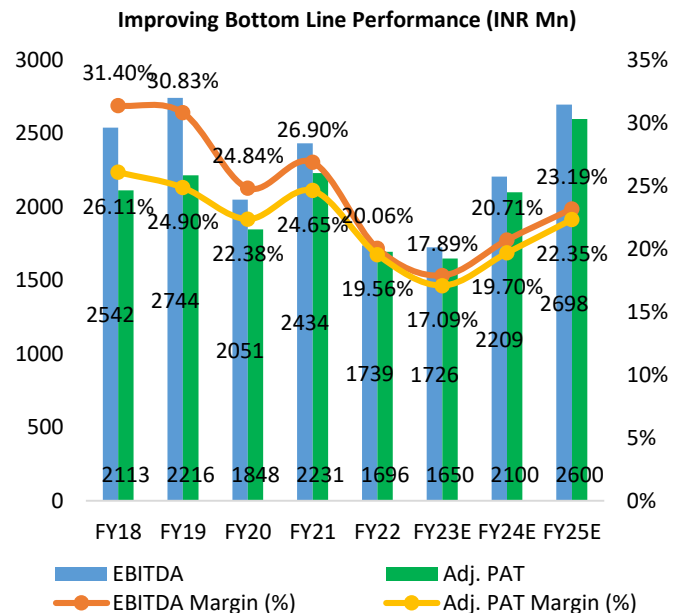
Source: Company Presentation & Arihant Capital Research



Source: Company Presentation & Arihant Capital Research



Source: Company Filings & Arihant Capital Research



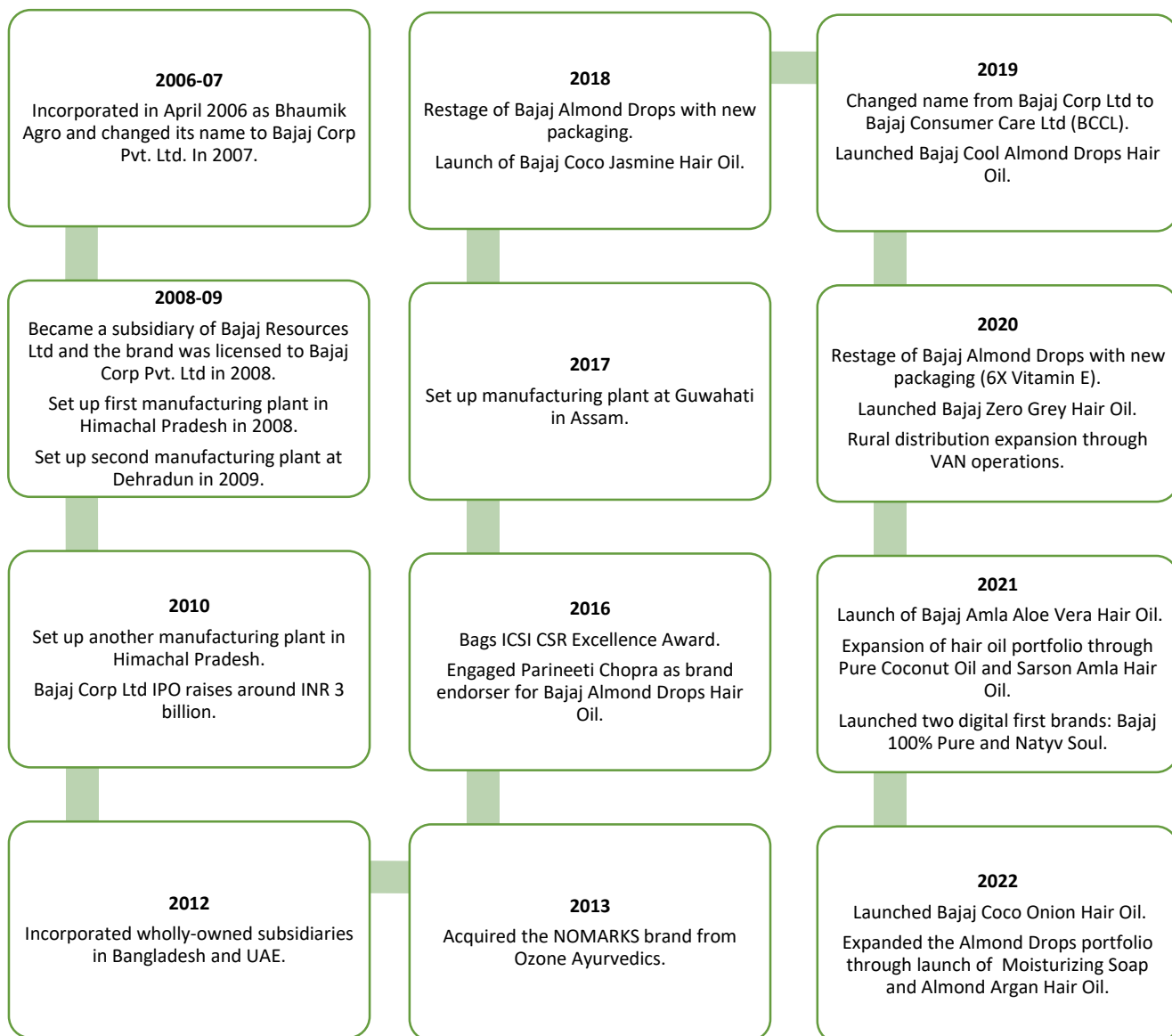
Source: Company Filings & Arihant Capital Research

**Market leadership, growth initiatives, and legacy:**

As one of the oldest and most reputed FMCG companies in India, they have a reputation that precedes them. Bajaj Consumer Care is a household name and has been growing its footprints steadily. They started in the hair care category and gradually established a strong foothold across the country. In order to cater to the emerging consumer needs, they forayed into the coconut and value-added coconut oil segment, thereby expanding the addressable market significantly. In addition to this, they also reinforced a consumer-centric approach through the launch of Natyv Soul and Bajaj 100% Pure brands to address the ever-evolving needs of the new-age consumers. Going forward, they will leverage the Bajaj Almond Drops brand to continue expanding beyond the hair oil category (as they did with the launch of the new soap) to drive business growth.

- Bajaj is one of India’s most trusted industrial houses with products in existence since pre- independence.
- Bajaj Almond Drops is one of India's most trusted hair oil brands.
- BCC has a >64% share in the LHO (Light Hair Oil) segment.
- They have 15+ brands and 100+ SKUs.
- Many new product launches are underway.
- They have an export presence in 30+ countries.
- Pan India distributor presence of 8,500+ across all states with a product reach to 4.3mn POS (points of sale)/ retail outlets.



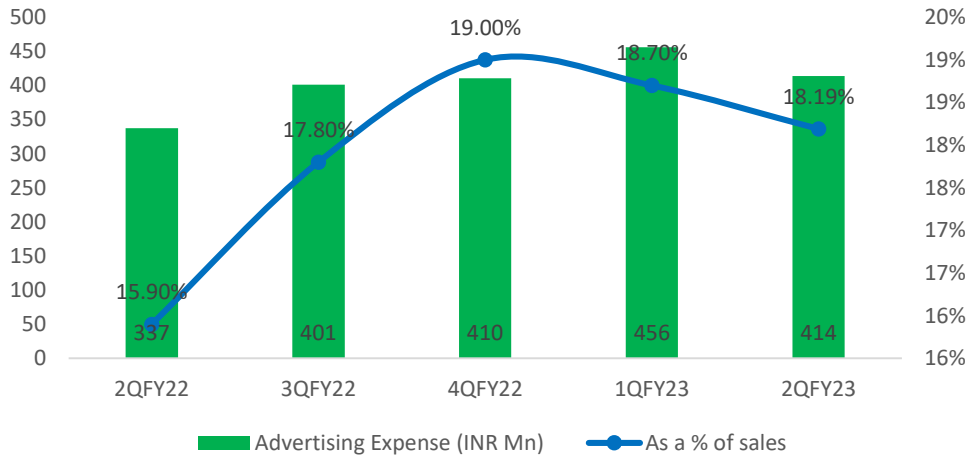


Source: Company Filings & Arianth Capital Research

**Aggressive promotional activities:**

The company has been undertaking aggressive promotional activities through campaigns and advertisements to increase brand recall, especially for new digital launches. Also, to remain up-to-date with current consumer behaviors and market trends they have efficiently strategized communication and marketing campaigns to reach viewers everywhere. All of this has solidified BCC’s position as a market leader in the light hair oil segment with Bajaj Almond Drops. Their footprint across social media platforms like Facebook, Instagram, and YouTube has increased drastically. Communication has also evolved to follow suit, focusing on a more youthful appeal. They have since made their advertisements more centered around the nutritional benefits of the products. For instance, with Almond Drops Hair Oil, they consciously tried to dial up the vitamin E quotient and its benefits. The company has not been skimping on ASP over the past few quarters, maintaining A&P spends in the 18-19% range. However, it is expected to come down to a healthy 15-16% of sales going forward.

Higher ASP owing to an increase in digital marketing and promotional campaigns



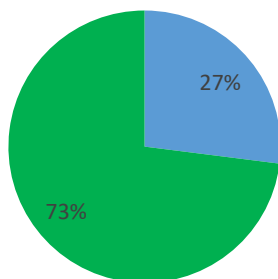
Source: Company Filings & Arihant Capital Research

**'Style Fearlessly' campaign**

Youth engagement driven 'Style Fearlessly' campaign. It was participatory, offering the audiences an opportunity to choose a hairdo for the Bollywood actor- Parineeti Chopra. It also featured some of the participants alongside the actor in the #stlyefearlessly Style Book on Instagram. It reached 2.2cr customers



Source: Annual Report & Arihant Capital Research



Post engagement campaigns, the share of Natyv Soul in the voice of the online hair care conversations is 27%.

■ Natyv Soul ■ Other brands

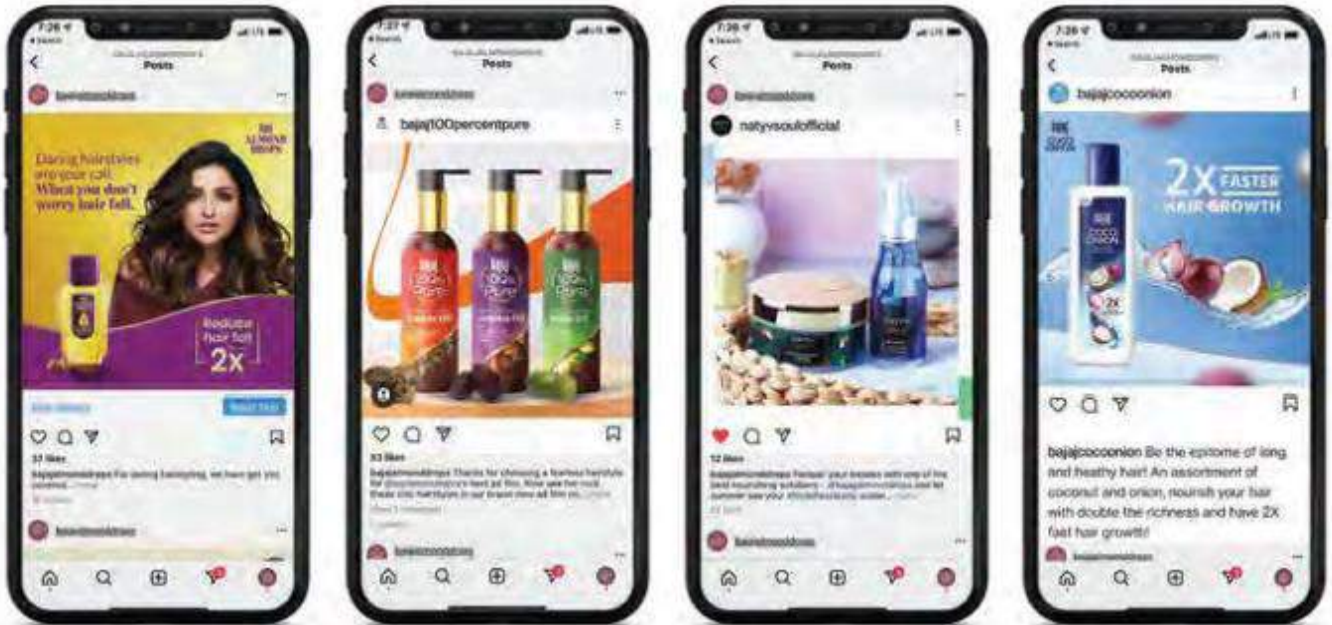
Source: Company Filings & Arihant Capital Research

New theme of '2X hair fall reduction,' the claim to strengthening nourishment equity



Source: Annual Report & Arihant Capital Research

Spearheading communication and campaigns across social media platforms whilst simultaneously Dialing up the element of 'Style' as younger consumers are looking for enhancement along with nourishment



Source: Annual Report & Arihant Capital Research

Kiara Advani on boarded as new brand ambassador for Bajaj Almond Hair Oil in December 2022



Source: Live Mint & Arihant Capital Research

ADHO Marketing Activities



Source: Annual Report & Arihant Capital Research

Consistent Media presence across the Quarter has led to increased visibility on E-Commerce Platforms. Shown above is the 'Almond Superfood' campaign.



Source: Annual Report & Arihant Capital Research

Social media and influencer collaborations with localized festive occasions along with Search/Displays in Amazon + Flipkart. It also offered promotional support to select few SKUs.

Youtube and TV ads collectively added 66 lakh views in Q2FY23



Source: Annual Report & Arihant Capital Research



Source: Annual Report & Arihant Capital Research

Social media marketing gained 5.6cr impressions on posts made. In Q2FY23

**Company Overview:**

- Bajaj Consumer Care has been a market leader in hair oils since the 1980s. A majority of the company's revenue comes from ADHO (Almond Drops Hair Oil) products. However, they also have a presence in other premium products like Hair Serums, and Hair Masks.
- Their urban-rural revenue share is around 50-50.
- They currently own 15 brands, have 100+ SKUs, and ~8,100 direct and indirect distributors.
- Currently, the company has 3 wholly-owned manufacturing units, 8 outsourced manufacturing units, 21 warehouses with 1,62,650 sq ft of warehousing space, a 700 nationwide van network, and 10 total offices.
- Distribution is the backbone of the company and they service 44 lakh outlets all over India. As of now, they are largely dependent on B2B (wholesale), though they are trying to shift more toward retail distribution.

**Sales & Distribution Channels:**Organized Trade (Modern Trade & eCommerce):





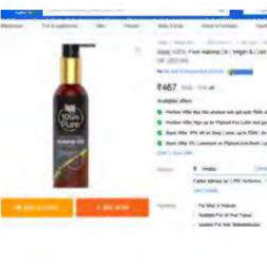
**Modern trade** is a lucrative channel as it allows the company to showcase its independent brands on the shelves of some of the largest retail chains. BCC has been able to establish long-term associations with said retail chains across the country. They plan on leveraging their strong channel network across southern and western regions. Currently, they service >4,500 modern trade outlets with >15% share in key markets to about >800,000 customers. Overall Modern trade has grown by 77% YoY in Q2FY23 and currently contributes to ~9% of sales. This is on the back of good visibility with top retailers. They also conduct events and have loyalty programs with retailers and have introduced channel-specific packs in select key-products which have been yielding good results. Additionally, Bajaj 100% pure, Bajaj Coco- Onion, and in the ADHO Portfolio- Almond + Argan Non-Sticky Hair Oil & Serum with oil has grown well across retail channels. Modern Trade is largely ADHO-led. The launches across general trade and modern trade are kept as different as possible as they have different target markets.

**Activations across modern trade outlets like large format retail stores**

Source: Company presentation & Arihant Capital Research

**E-commerce** has grown 180% as of Q2FY23 and contributes to ~9% of sales. This is on the back of more premium launches and digital-first D2C brands and also by robust media and consumer promo plans with timely execution and differentiated portfolio strategy. Over the years, there has been a significant shift in consumer buying patterns, from in-store to digital purchases, as seen by the influx of new digital brands (mostly in the premium segment). In 2020 they launched two digital-first brands, Natyv Soul and Bajaj 100% Pure, to cater to this shift. The process of innovating and building capabilities in the e-commerce business is well underway. Leveraging performance and marketing initiatives will increase shares in the personal care category. BCC has tie-ups with all the major e-commerce players: Amazon, Flipkart, Grofers, Big Basket, Nykaa, Swiggy, Milk Basket, Purple, Health & Glow, and Deal Share, etc. Similar to Modern trade, e-commerce's excellent growth was steered by Bajaj Coco Onion, Natyv Soul, and Bajaj 100% pure. E-commerce growth has also been ADHO- Led with new launches in the soaps, serums, and oil+ serums category.

Tie-up with all major E-commerce players like Amazon, Flipkart, Grofers, Big Basket, Nykaa, Swiggy, Milk Basket, Purple, Health & Glow and Deal Share

			
<p>Bajaj Almonds Drop selling on Amazon</p>	<p>Natyv Soul selling on Nykaa</p>	<p>100% Pure oil selling on Flipkart</p>	<p>100% Coconut oil selling on Big Basket</p>
			

Source: Company presentation & Arihant Capital Research

**General Trade:**

Through general trade, they serve 44 Lakh+ outlets and 6cr+ customers. BCC has strategically grown its network across rural and urban areas, and as a result of this, pan-India implementation of retail loyalty programs has been easy (in line with their objective to reduce the dependency on wholesale and increase the share of retail). These programs have helped build the NPD pipeline across urban areas. This channel is distribution led and is a core capability of BCC. As of Q2FY23 it contributes to ~75% of sales and has grown in the mid-single digits YoY. The share of brands like Bajaj 100% pure coconut oil is witnessing good traction across select geographies in GT.

**New product placements across general trade channels**



Source: Company presentation & Arihant Capital Research

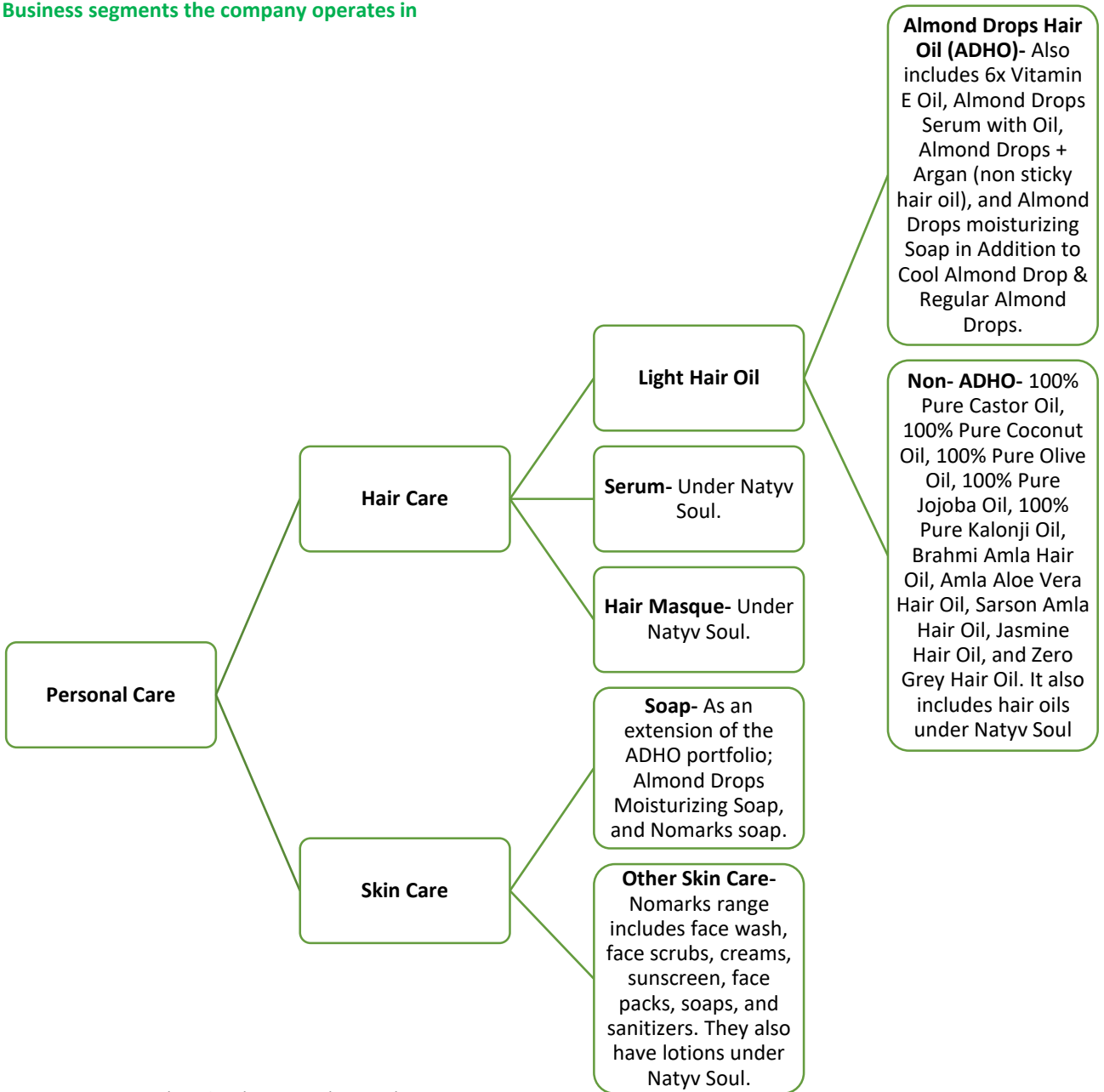
**International Business:**

Currently comprises ~4% of revenues and has grown ~50% YoY in Q2FY23. Middle Eastern and African markets have been performing well backed by efficient distribution and servicing. This segment has witnessed strong growth in the RoW led by the opening of new countries and subsequent portfolio expansion. Currently, BCC is present in 30+ countries with a specialized focus on SAARC, Gulf and Middle East, ASEAN, and African regions.



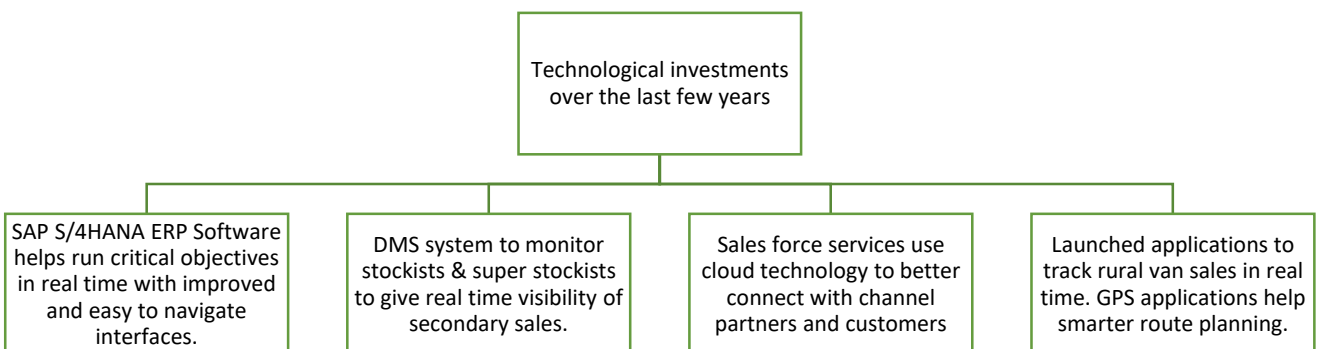
Source: Company Filings & Arihant Capital Research

Business segments the company operates in



Source: Company Filings & Arihant Capital Research

Digitization of the Value Chain to maximize productivity and efficiencies



Source: Company Filings & Arihant Capital Research

## Key Personnel

Name	Current Position	Previous organization and position	Experience (Yrs.)
<b>Mr Jaideep Nandi</b>	MD	Asian Paints PPG Ltd – CEO	30
<b>Mr Dilip Kumar Maloo</b>	CFO	Bajaj Corp- VP- Finance	30
<b>Mr Amit Bakde</b>	Head Sales	Marico- Head of Sales- South East Asia	19
<b>Mr Rajesh Menon</b>	Head Supply Chain, Operation & IT	Asian Paints - General Manager - Material and Head - Chemical Business	25
<b>Mr Vijay Sivadas</b>	General Manager - Trade Marketing & Analytics	Abbott - Head of Sales	14
<b>Mr Vivek Mishra</b>	Head Legal & CS	Mondelez International - Legal Counsel & Company Secretary	13
<b>Mr Pankaj Nigam</b>	Head IT	The Kraft Heinz Company - Head - IT & SAP	14
<b>Mr Anuj Awasthi</b>	Head -Organized trade, E-commerce & International business	Godrej Consumer Product Limited - Head Organised Trade	18
<b>Mr Abhishek Prasad</b>	Head Marketing	Pidilite Industries- VP Marketing	21
<b>Mr. Naresh Gehlaud</b>	Head Operations	Emami- Sr. GM- Operations	24

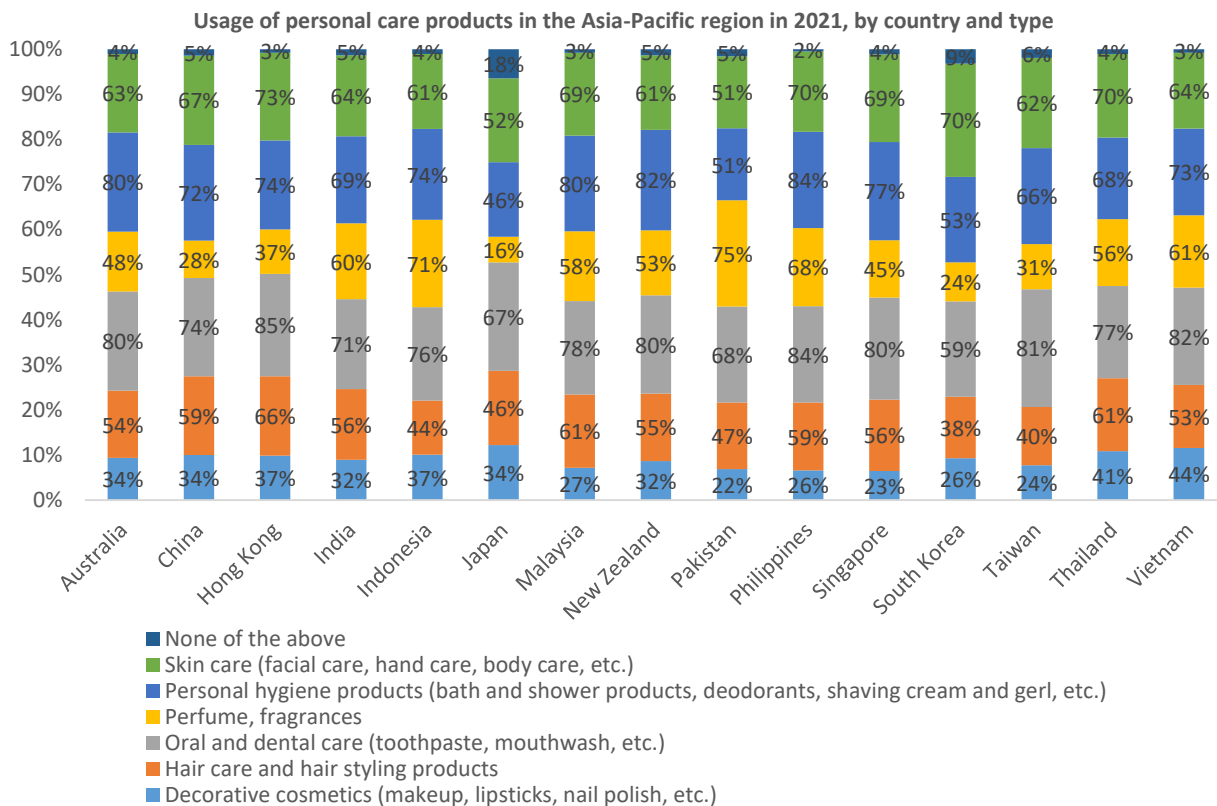
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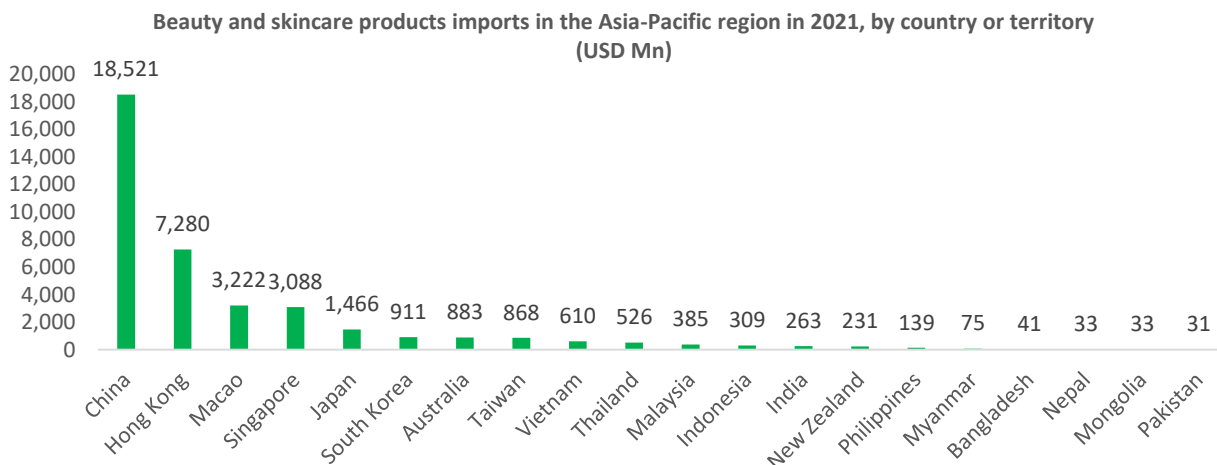
**Industry Background**

**Global FMCG Industry**

For the past couple of years, the FMCG industry has been demonstrating reliable growth and ROI despite pandemic woes. However, due to shifts in customer behaviors, buying habits, and demographics, the year continues to remain tough for most FMCG brands. With a recession knocking at the door and the soaring cost of living, 2023 will be a tough year for the industry. A few trends have taken shape through the pandemic that will shape the future of the industry. For instance, there has been a drastic increase in the usage of D2C and Digital Channels as the pandemic pushed the digital maturity of consumers many years into the future. Today, consumers are much more willing to engage with FMCG brands in a multichannel way. In 2022 online grocery sales in the US rose 17%. This trend is going to continue as more people turn toward online channels. Another trend that has taken off is the trend of ethical and sustainable shopping to be more environmentally conscious. In 2022, about 41% of internet users worldwide discontinued using products/ services that were known to be non-environment-friendly/ non-ethical. Additionally, health and wellness have started to become a priority among shoppers as people have become more proactive toward health, and products with more nutritional benefits have since taken precedence.



Source: Statista, Aриhant Capital Research

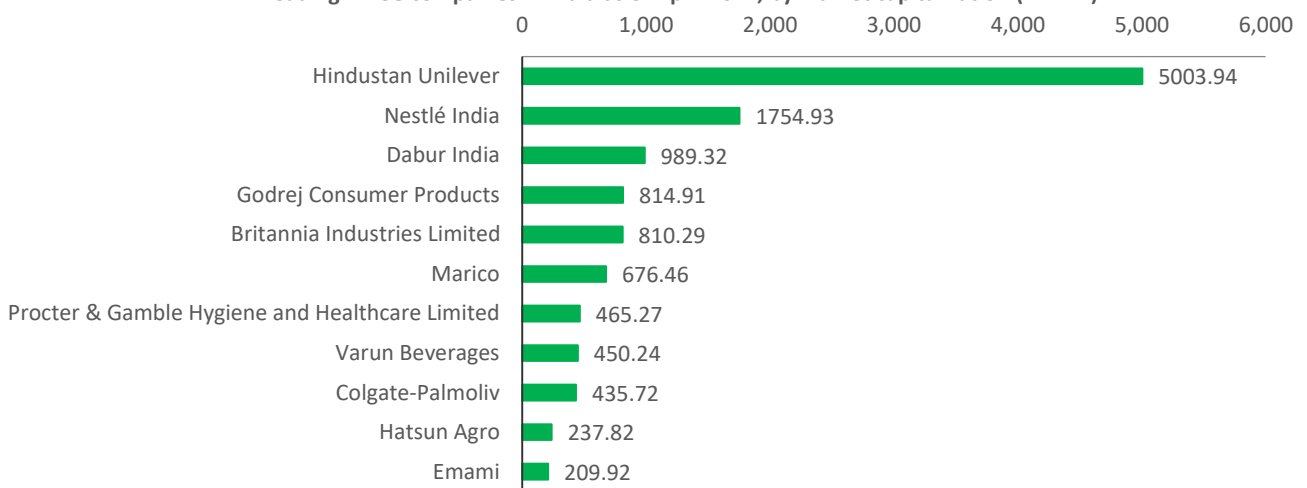


Source: Statista, Aриhant Capital Research

### Indian FMCG Industry

FMCG is the 4<sup>th</sup> largest sector in the Indian economy. There are three main segments in the sector — food and beverages, which accounts for 19% of the sector; healthcare, which accounts for 31% of the share; and household and personal care, which accounts for the remaining 50% share. Urban consumption contributes to about 55% of the revenue share, while rural consumption accounts for 45%. The rise in rural consumption will drive the FMCG market going forward. Price increases across product categories will offset the impact of rising raw material prices, along with volume growth and a resurgence in demand for discretionary items, which are driving growth. The Indian online grocery market is expected to proliferate over the next few years and reach new levels of growth. The FMCG sector has also received good investments and support from the Government recently. It has witnessed healthy FDI inflows, and the budget for 2023 has been well accommodated for the FMCG industry. Shrinkflation (reducing the size/ quantity of a product while keeping the price unchanged) has become a growing phenomenon in India due to the surge in raw material costs following the war in Ukraine. It pushed several FMCG companies to resort to such a practice to ensure there is no impact on demand. Companies are hoping to recover the lost ground in 2023 and are looking toward a recovery in margins and volumes, especially from distressed rural areas amid softening commodity prices. FMCG companies are cautiously optimistic and expect the rural market to bounce back in 2023 riding on a good harvest season, government impetus, and improvement in farm income. Besides, they expect the tailwinds of emerging channels like modern trade and e-commerce to drive urban demand, and aid in the growth of premium discretionary categories. The results of growth-enhancing policies such as the PLI Scheme and increased infrastructure spending will start yielding outcomes from 2023. Furthermore, with the emphasis on manufacturing, government incentives like lower taxes will work in unison and aid growth.

Leading FMCG companies in India as of April 2022, by market capitalization (INR Bn)

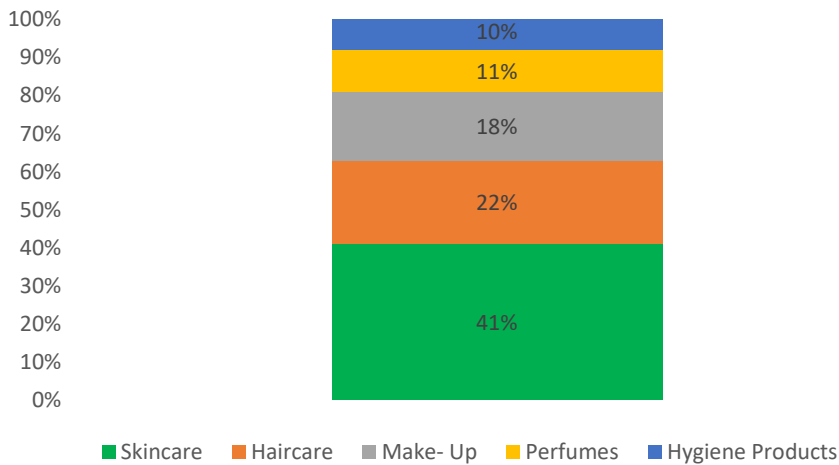


Source: Statista, Arianth Capital Research

### Global Hair Care Industry

The products include shampoo, conditioner, oil, serum, and others used in hair nourishment in a variety of forms—liquids, gels, creams, lotions, etc. Growing concerns among consumers and the availability of new, more effective, and safer hair care products have led to a significant increase in the use of these products which boosted the market growth. The beauty and personal care industry comprising skin care, cosmetics, hair care, and personal care has been affected by the COVID-19 pandemic as there have been widespread retail and convenience store closures leading to the weakening sales of various hair and scalp care products in the global market. The global hair care market size reached USD 82.3 Bn in 2022. Looking forward, the IMARC Group expects the market to reach USD 107.2 Bn by 2028, exhibiting a CAGR of 4.4% during 2023-2028. Presently, several companies are introducing novel and innovative products (like silicone and sulfate-free shampoos) to keep up with the continuously evolving hair trends. Moreover, improving living standards, and increasing disposable income levels are positively influencing the demand for hair care products worldwide. There has been a considerable shift towards sustainable manufacturing and chemical-free products, and more manufacturers are incorporating natural oils, aloe vera, cocoa butter, and other organic ingredients into new products. They are also offering multi-purpose products via online distribution channels to expand product portfolios and attract more consumers. Other factors, including the rising demand for premium hair care solutions, increasing investments in promotional activities like celebrity endorsements, and improving product packaging, continue to drive the market further.

Cosmetic Market Worldwide (2021)



Source: Statista, Arianth Capital Research

### Indian Hair Care Industry

Over the medium term, the changing consumer dynamics and increasing product awareness are expected to majorly drive the market. These changes are due to the high millennial population, migration toward cities, and rising women's employment. Also, the focus on the premium sector has been identified to grow among the urban and youth population. Products designed for focused hair types are gaining popularity among users, with companies now focusing on products rich in active ingredients. Moreover, increasing internet penetration and the push of e-commerce companies to attract consumers are driving sales from e-commerce. In contrast, sales from physical retail channels continue to dominate the market. India's hair care and styling products market is a highly fragmented market due to the presence of various giants and local players such as L'Oreal, Henkel, Procter & Gamble, Hindustan Unilever Limited, Garnier, and others. Product innovation is one of the most widely adopted strategies with the infusion of natural and organic ingredients to meet the growing requirements of consumers. About 87% of Indian consumers have used shampoo in the last 6 months, while 70% have used hair oil. Only 22% have used a rinse-off conditioner. Among women, 93% have used a shampoo, 27% have used a rinse-off conditioner, and 73% have used hair oil. According to Bonafide research, the Indian Hair Care market is expected to grow at an 8% CAGR over 2023- 2028n and will cross a value of INR 44,800 Cr.

### Global Hair Oil Industry

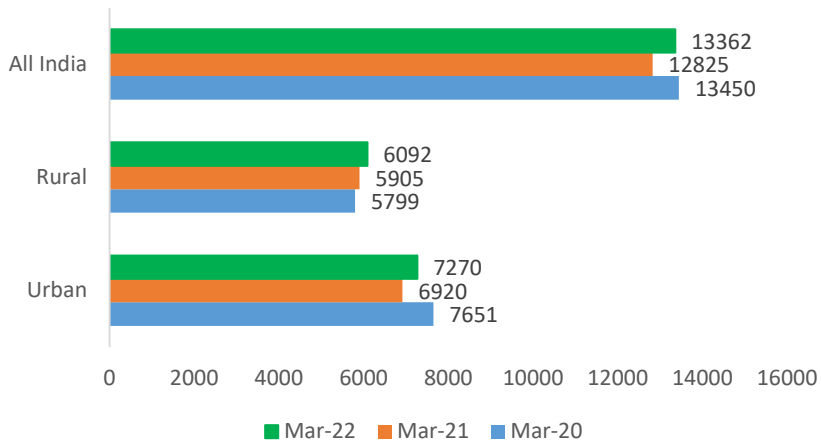
According to Expert Market Research, the global hair oil market is expected to grow at a CAGR of 4.7% during the period 2023-2028. Asia-Pacific dominates the hair oil market due to cultural reasons. Rising demand for hair oils to treat hair fall and hair growth-promoting oils are key factors to drive market growth. Additionally, the rising demand for Ayurvedic hair oils from natural ingredients is also driving the market. The global hair oil market consists of heavy oil, light oil, cooling oil, and others. Light hair oils are used for overnight treatments as they penetrate the hair more deeply. Hence, they are expected to register a rapid revenue CAGR. Out of all the oilseeds, coconut oil has the highest demand globally due to its extensive usage in southeast Asian countries. Based on distribution channels, the online segment is expected to clock in the highest CAGR going ahead as working professionals prefer online modes of delivery.

### India Hair Oil Market

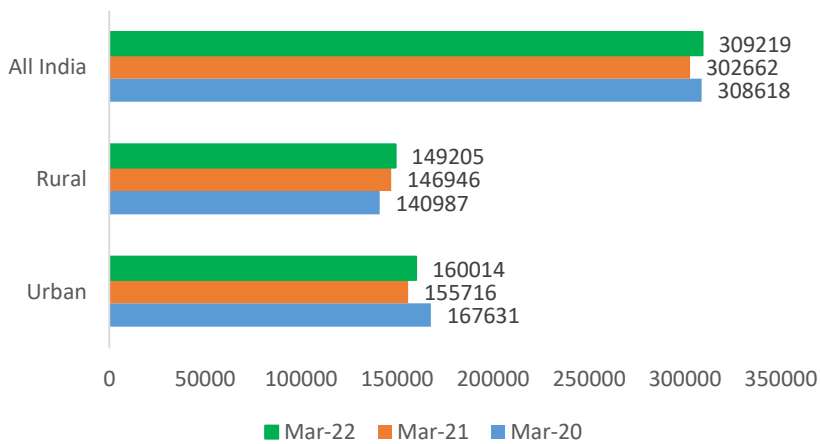
Hair oils remain an essential part of the Indian consumer's regime for healthy hair. The resilience of hair oil consumption is driven by deep-rooted traditions and has led to constant upgradation by the industry. Hair oil will continue to be relevant in the future, driven by the need for nourishment, given the multitude of styling treatments and an increasingly polluted external environment. Cultural trends of self-expression led by social media will also lead to more innovation and oils suited to specific needs. Currently, in rural India, there is a trend towards low-price brands (INR 10 / INR 20). In urban India, there is a trend towards innovation and experimentation, complemented by a willingness to pay for new products, giving niche creations an added impetus. The experimentation quotient of Indian consumers has widened, as they are embracing trying unique/ unconventional ingredients in hair oils. Traditional Indian herbs as well as international ingredients are gaining popularity. As a result, ingredients like onion and argan oil are now a part of the consumer basket. Bolstering e-commerce, and the impact of global trends are further fueling this growing trend. A large number of consumers are trending towards products that are cleaner, in terms of being clear of

toxic ingredients, and leaning towards being organic and environment friendly. The deep connection of today’s youth with social media is compelling brands to use digital media to reach out to them. Brands need to be youthful and modern in their presentation, in addition to working with influencers and bloggers to grow brand reach and validation.

Overall Hair Oil Market Value (INR Cr)

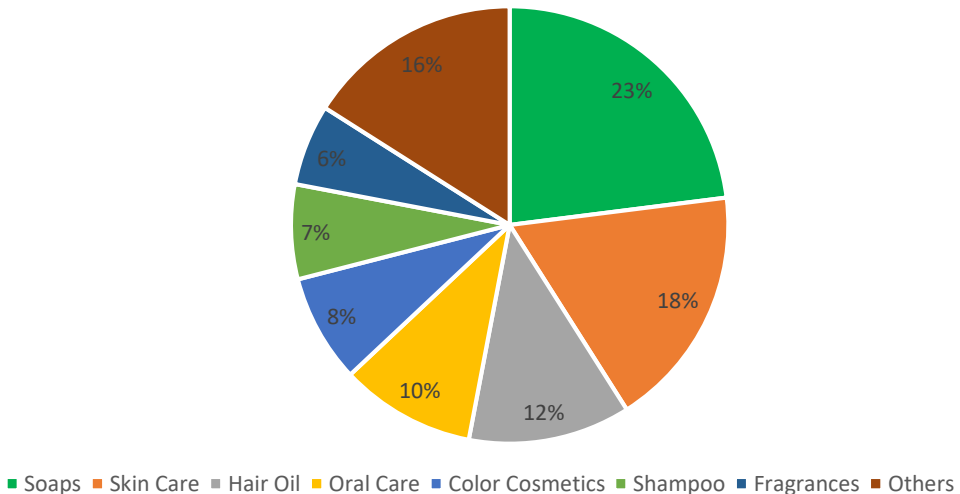


Overall Hair Oil Market Volume (INR Cr)



Source: Annual Report, Arihant Capital Research

Beauty and personal care market across India as of May 2022



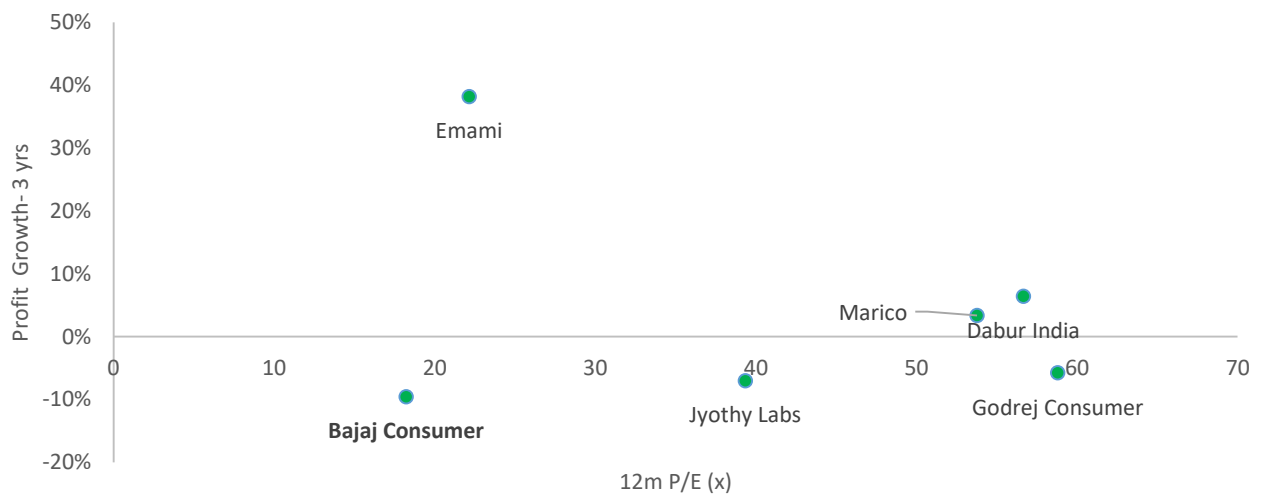
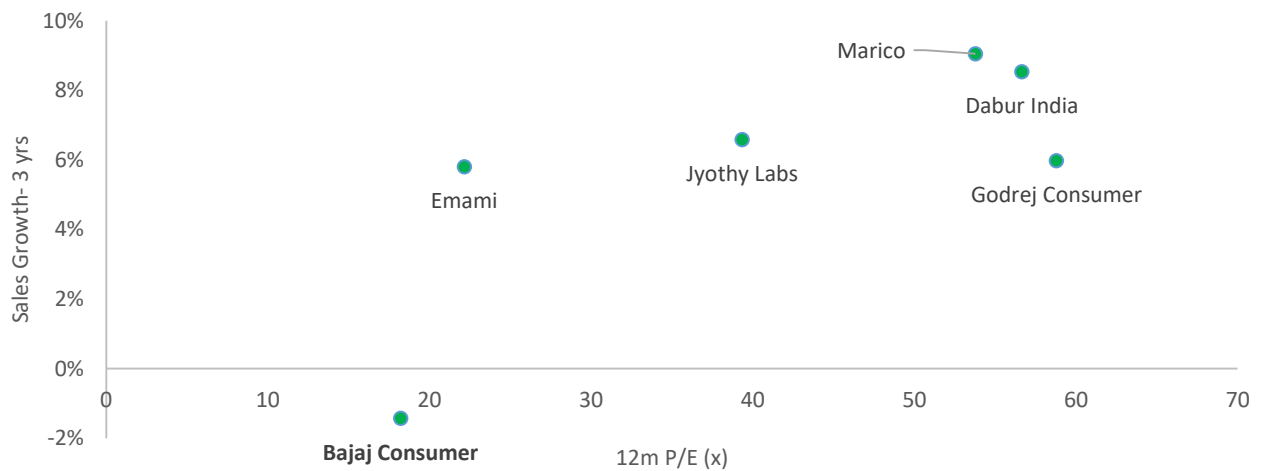
Source: Statista & Arihant Capital Research

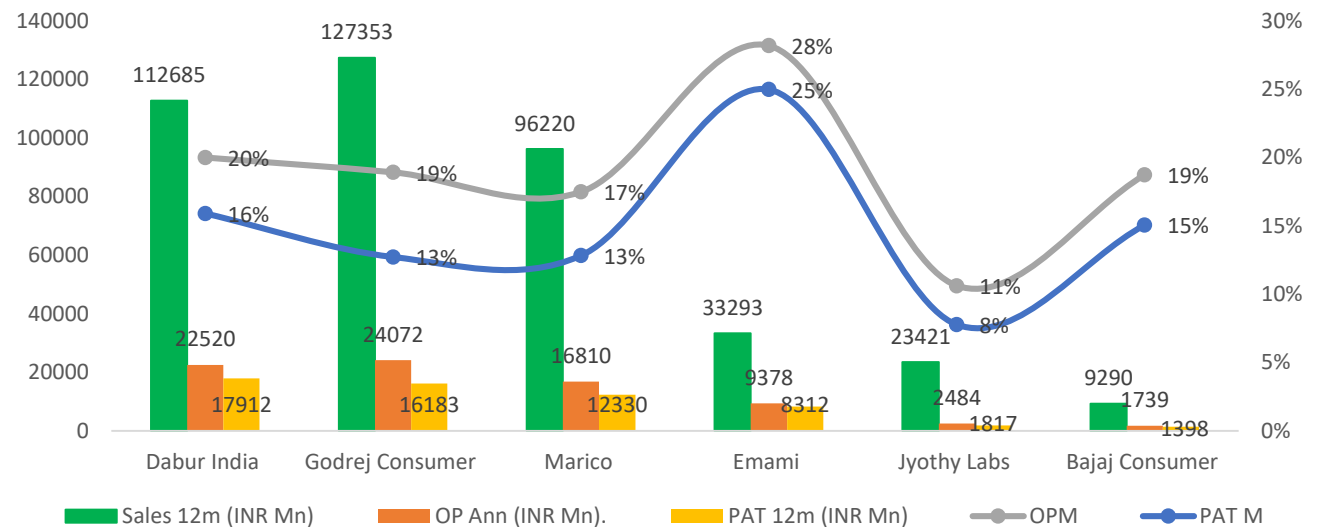
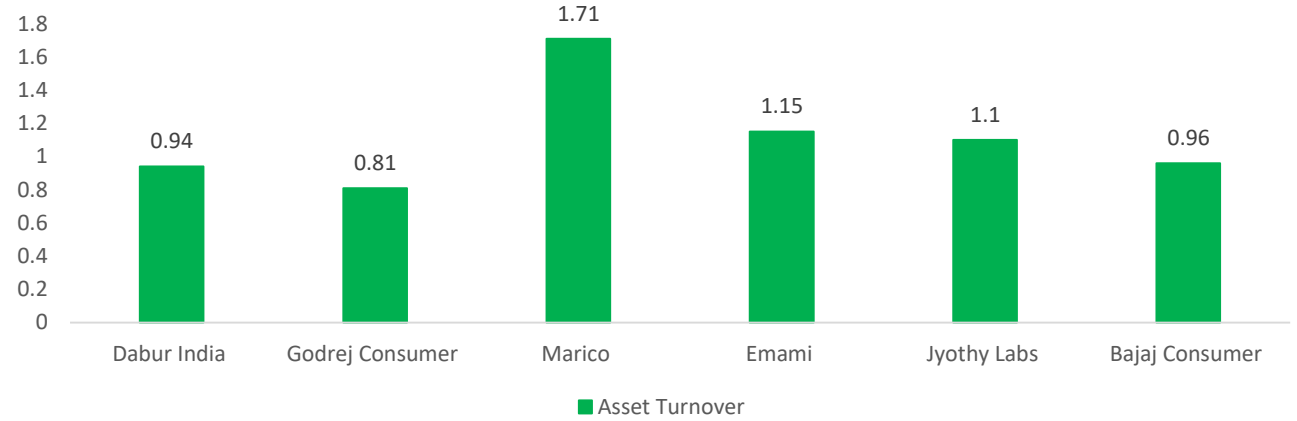
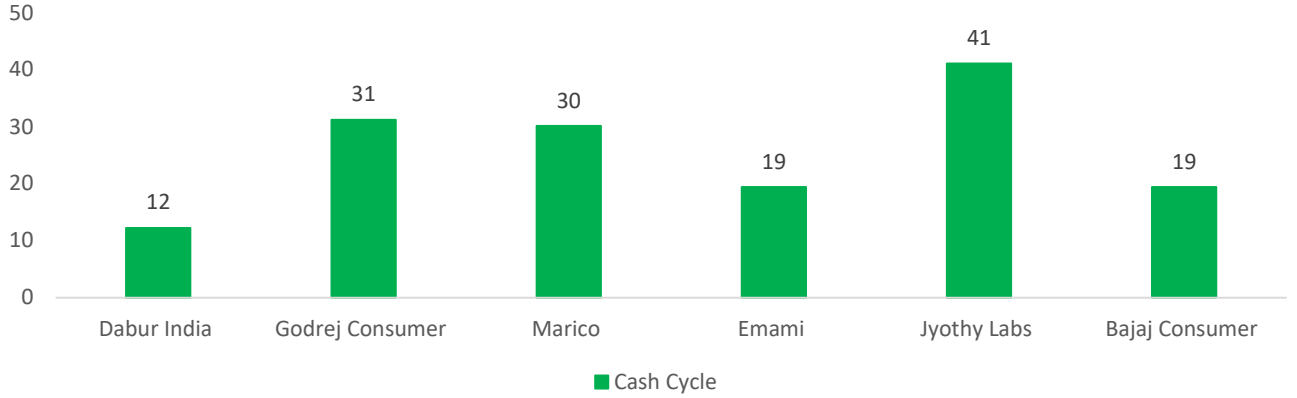
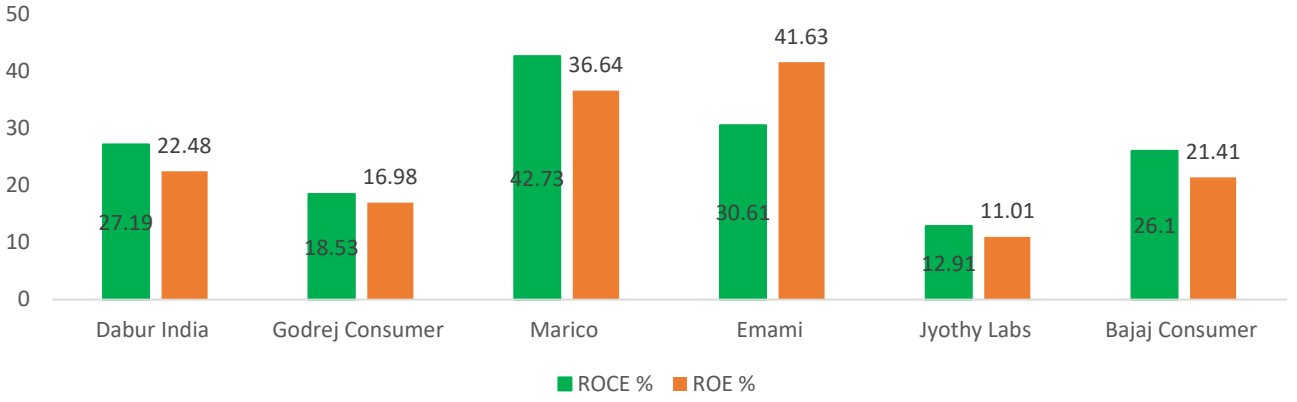
Peer Comparison: Annual Reports, Screener, Arihant Capital Research

Name	Altman Z- Score
Dabur India	14.94
Godrej Consumer	11.54
Marico	18.38
Emami	12.25
Jyothy Labs	8.34
<b>Bajaj Consumer</b>	<b>7.72</b>

Name	Pitroski F-Score
Dabur India	3
Godrej Consumer	5
Marico	4
Emami	4
Jyothy Labs	7
<b>Bajaj Consumer</b>	<b>5</b>

Name	P/E	Ind PE
Dabur India	56.66	39.62
Godrej Consumer	58.79	39.62
Marico	53.78	39.62
Emami	22.15	39.62
Jyothy Labs	39.34	39.62
<b>Bajaj Consumer</b>	<b>18.22</b>	<b>39.62</b>





**Consolidated Financials**

<b>Profit and Loss (INR Mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
Net Sales	8093	8901	8258	9,052	8,671	9,650	10,663	11,635
Raw materials cost	-2695	-3035	-2735	(3,297)	(3,688)	(4,241)	(4,495)	(4,720)
Gross Profit	5399	5866	5522	5,754	4,983	5,409	6,168	6,915
<i>Gross Margin (%)</i>	66.7%	65.9%	66.9%	63.6%	57.5%	56.1%	57.8%	59.4%
Other operating Income	194	284	264	167	129	116	130	149
Employee Cost	-771	-972	-869	(850)	(883)	(900)	(936)	(992)
Advertising	-1196	-1400	-1755	(1,570)	(1,477)	(1,743)	(1,883)	(1,977)
Other expenses	-1084	-1035	-1111	(1,067)	(1,013)	(1,155)	(1,270)	(1,397)
EBITDA	2542	2744	2051	2,434	1,739	1,726	2,209	2,698
<i>EBITDA Margin (%)</i>	31.4%	30.8%	24.8%	26.9%	20.1%	17.9%	20.7%	23.2%
Depreciation	-74	-71	-58	(63)	(51)	(51)	(52)	(53)
EBIT	2468	2673	1993	2,372	1,688	1,675	2,156	2,645
Other Income	244	170	299	345	386	348	417	501
Interest	-12	-12	-42	(14)	(10)	(11)	(12)	(13)
PBT	2700	2831	2250	2,704	2,065	2,012	2,562	3,133
Tax	-587	-616	-402	(472)	(368)	(362)	(461)	(533)
Adj. PAT	2113	2216	1848	2,231	1,696	1,650	2,100	2,600
<i>Adj. PAT Margin (%)</i>	26.1%	24.9%	22.4%	24.7%	19.6%	17.1%	19.7%	22.3%

<b>Balance sheet (INR Mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
SHARE CAPITAL	148	148	148	148	148	143	143	143
Other Equity	4777	4526	6384	7,424	7,949	8,223	8,896	9,783
Total Share Holder's Fund	4925	4674	6532	7,571	8,096	8,366	9,039	9,925
Loan funds	135	250	200	50	-	-	-	-
Current liab & provisions	1001	1111	1414	1,297	1,218	1,424	1,493	1,560
<b>Liabilities and Share Capital</b>	<b>6061</b>	<b>6034</b>	<b>8146</b>	<b>8,918</b>	<b>9,315</b>	<b>9,790</b>	<b>10,532</b>	<b>11,485</b>
Net fixed assets	1734	1769	1776	1,738	1,793	1,772	1,755	1,717
Investments	3074	2509	4463	5,846	6,116	6,116	6,116	6,116
Deferred Tax Assets/ Tax assets (NET)	-12	-14	62	45	2	2	2	2
Current assets	1266	1770	1845	1,289	1,402	1,899	2,658	3,649
<b>Total Assets</b>	<b>6061</b>	<b>6034</b>	<b>8146</b>	<b>8,918</b>	<b>9,315</b>	<b>9,790</b>	<b>10,532</b>	<b>11,485</b>

<b>Cash Flow Statement (INR Mn)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>	<b>FY25E</b>
<b>Cash Flow from Operating Activities</b>								
Profit before tax, Extraordinary & Prior Time Period	2698	2831	2250	2,704	2,065	2,012	2,562	3,133
Depreciation & Amortisation	74	71	58	63	51	51	52	53
Other Non- Operating expenses	-234	-131	-246	(350)	(363)	-	-	-
Operating Cash Flow before Working Capital change	2537	2771	2062	2,416	1,753	2,063	2,614	3,185
Working Capital Inflow / (Outflow) (b)	-143	-394	206	411	(140)	15	(31)	(29)
Cash generated from Operating Activities (a) + (b)	2394	2377	2268	2,827	1,612	2,078	2,583	3,156
Direct Tax Paid	593	614	478	456	327	362	461	533
<b>Cash used (-)/(+) generated for Operating Activities</b>	<b>1801</b>	<b>1764</b>	<b>1790</b>	<b>2,371</b>	<b>1,285</b>	<b>1,716</b>	<b>2,122</b>	<b>2,623</b>
<b>Cash Flow from Investing Activities</b>								
Purchase of Fixed Assets	-189	-123	-70	(27)	(109)	(30)	(35)	(15)
Other Investing activities	558	809	-1656	(1,036)	116	-	-	-
<b>Cash used (-)/(+) generated for Investing Activities</b>	<b>368</b>	<b>686</b>	<b>-1726</b>	<b>(1,063)</b>	<b>7</b>	<b>(30)</b>	<b>(35)</b>	<b>(15)</b>
<b>Cash Flow from Financing Activities</b>								
Payment of Dividend and Dividend Tax	-2130	-2489	0	(1,180)	(1,180)	(571)	(1,428)	(1,713)
Other Financing activities	-25	105	-91	(162)	(59)	(809)	-	-
<b>Cash used (-)/(+) generated for Financing Activities</b>	<b>-2155</b>	<b>-2384</b>	<b>-91</b>	<b>(1,342)</b>	<b>(1,239)</b>	<b>(1,380)</b>	<b>(1,428)</b>	<b>(1,713)</b>
Forex fluctuation	-1	-3	-5	1	(3)	-	-	-
Total Increase / (Decrease) in Cash and Cash Equivalents	13	62	-31	(34)	51	306	659	895
<b>Opening Cash and Bank balance</b>	<b>54</b>	<b>66</b>	<b>128</b>	<b>98</b>	<b>64</b>	<b>115</b>	<b>421</b>	<b>1,080</b>
<b>Closing Cash and Bank balance</b>	<b>66</b>	<b>128</b>	<b>98</b>	<b>64</b>	<b>115</b>	<b>421</b>	<b>1,080</b>	<b>1,975</b>
<b>Increase/(Decrease) in Cash and Bank balance</b>	<b>13</b>	<b>62</b>	<b>-31</b>	<b>(34)</b>	<b>51</b>	<b>306</b>	<b>659</b>	<b>895</b>

Source: Annual Report, Arianth Capital Research

## Ratios

Ratios	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share data</b>					
EPS (INR)	15.13	11.50	11.56	14.72	18.22
Growth %	20.76	(23.98)	0.53	27.34	23.79
Book NAV/share (INR)	51.33	54.89	58.64	63.36	69.58
FDEPS (INR)	15.13	11.50	11.56	14.72	18.22
CEPS (INR)	15.55	11.84	11.92	15.09	18.59
CFPS (INR)	15.06	7.86	9.96	11.95	14.88
DPS (INR)	10.00	8.00	4.00	10.00	12.00
<b>Return ratios</b>					
Return on assets (%)	26.41	18.72	17.34	20.74	23.69
Return on equity (%)	29.47	20.95	19.72	23.24	26.19
Return on capital employed (%)	31.43	21.65	20.00	24.07	27.35
<b>Turnover ratios</b>					
Asset turnover (x)	4.87	4.91	5.15	5.73	6.24
Sales/Total assets (x)	1.07	0.95	1.01	1.05	1.06
Sales/Net FA (x)	5.15	4.91	5.41	6.05	6.70
Working capital/Sales (x)	(0.01)	0.01	0.01	0.01	0.01
Receivable days	9.05	8.05	12.00	12.00	12.00
Inventory days	17.41	24.03	24.03	24.03	24.03
Payable days	37.09	23.54	30.01	31.05	32.01
Working capital days	(4.06)	3.89	2.92	3.69	4.31
<b>Liquidity ratios</b>					
Current ratio (x)	1.00	1.20	1.39	1.85	2.42
Quick ratio (x)	0.66	0.71	0.92	1.36	1.91
Interest cover (x)	172.45	167.29	150.87	176.58	196.92
Total debt/Equity (%)	0.66	-	-	-	-
Net debt/Equity (%)	-	-	-	-	-
<b>Valuation</b>					
PER (x)	10.77	14.17	14.10	11.07	8.94
Price/Book (x)	3.18	2.97	2.78	2.57	2.34
EV/Net sales (x)	2.63	2.73	2.36	2.08	1.83
EV/EBITDA (x)	9.76	13.63	13.21	10.03	7.88
EV/EBIT (x)	10.02	14.04	13.62	10.27	8.03

Source: Annual Report, Arianth Capital Research



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**Stock Rating Scale**

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

**Absolute Return****Research Analyst  
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