

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

CMP: INR 172

Rating: Buy

Target Price: INR 373

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

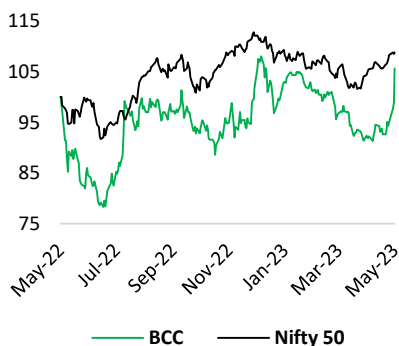
Shareholding Pattern %

(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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The company reported a healthy recovery with double-digit growth on the top and bottom lines coupled with margin expansion owing to softening LLP and RMO prices. Revenue from operations saw a volume-led growth of 14.3% to INR 249.41 Cr. GM was 55.4% vs 57.9% in Q4FY22. EBITDA Margins were 16.7% vs 15.9% in Q4FY22. PAT grew 13% to INR 40 Cr vs INR 36 Cr in Q4FY22. The urban market displayed mid-single digit volume and value growth whereas the rural market has displayed mid-single digit volume- value decline, but is starting to improve on a sequential basis. NPD growth and the premium ADHO portfolio continue to be pillars of growth for the company. The volume growth in FY23 was 5.6%.

Sequential improvement is visible: Though the market is facing a volume de-growth overall, there are signs of volume recovery in urban markets, and volume slowdown in rural markets has declined sequentially. The market decline is recovering.

RM price trajectory: LLP is down to INR 81/ kg vs INR 87 in Q3 due to subdued demand. RMO is also down to INR 125/ Kg vs INR 87 in Q3 owing to a good harvest. This reduction should reflect on margins from Q1FY24 onward. Prices are now less volatile and more range bound.

Upcoming product launches: The company has planned many NPDs on the almond side as well as the rest of the portfolio for the next year to be inclusive of hair care, skin care, and personal care. Any new product launches will not be margin dilutive.

Margin expectations: They have planned for FY24 to have a similar margin profile as Q4FY23 and noticeable margin expansion will follow in FY25. In the medium term, they will remain in the 18-20% range. GM will be maintained at 40-45% for new launches.

Outlook & valuation: This year, BCC saw healthy top-line growth and margin expansion on a low base. However, there was a visible recovery in volumes toward the end of FY23 which is promising. RM price correction, a superior product mix, and the growing distribution strength will lead to investments in advertising to pay off in FY24 onward. As they continue to lower the ADHO reliance in exchange for NPDs, we expect them to steadily gain market share across the addressable market. We assign a TP of INR 373, valued at a P/E multiple of 18x the FY26E EPS of INR 21. We recommend that investors Buy.

INR Mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	9,052	8,671	9,491	10,588	11,867	13,259
% Change	9.6%	-4.2%	9.5%	11.6%	12.1%	11.7%
EBITDA	2,434	1,739	1,412	1,835	2,414	3,027
EBITDA Margin (%)	26.9%	20.1%	14.9%	17.3%	20.3%	22.8%
% Change	18.7%	-28.6%	-18.8%	29.9%	31.6%	25.4%
Adj. PAT	2,231	1,696	1,392	1,800	2,364	2,960
Adj. PAT Margin (%)	24.7%	19.6%	14.7%	17.0%	19.9%	22.3%
% Change	20.8%	-24.0%	-17.9%	29.3%	31.3%	25.2%
Adj. EPS (INR)	15.1	11.5	9.8	12.6	16.6	20.7
P/E (x)	10.7	14.0	16.5	12.8	9.7	7.8
ROIC	116.7%	75.6%	54.3%	80.9%	110.4%	141.4%
ROE	29.5%	21.0%	17.6%	22.7%	27.6%	31.1%
ROCE	31.1%	20.9%	16.7%	21.9%	27.0%	30.6%
ROA	31.1%	21.6%	17.3%	22.6%	28.5%	32.5%
Total debt/Equity (x)	0.01	-	0.01	0.01	0.01	0.01

Source: Company Filings & Arihant Capital Research

INR Mn (consolidated)	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Net Revenue	2462	2266	2150	8.63%	14.54%
Other Operating Income	32	29	33	9.83%	-2.28%
Raw Material Costs	1130	1058	938	6.78%	20.41%
Gross Profit	1,364	1,238	1,244	10.24%	9.66%
Gross Margin	55.42%	54.61%	57.88%	81bps	-246bps
Employee costs	218	223	194	-2.24%	12.25%
Other Expenses	729	690	703	5.70%	3.79%
Other Non Operating Income	101	104	107	-2.61%	-5.20%
EBITDA	417	324	347	28.49%	20.10%
<i>EBITDA margin %</i>	<i>16.72%</i>	<i>14.13%</i>	<i>15.91%</i>	<i>258bps</i>	<i>81bps</i>
Depreciation	24	22	14	6.80%	76.49%
EBIT	494	406	440	21.74%	12.24%
Finance costs	2	3	1	-20.68%	108%
PBT	492	403	439	22.03%	12.01%
Tax Expense	87	71	81	22.81%	7.81%
Effective tax rate %	17.74%	17.63%	18.43%	11bps	-69bps
PAT	405	332	358	21.87%	12.96%
Add: Other Comprehensive Income	-4	-1	-3	285.12%	-58.58%
Consolidated PAT	400	331	355	20.97%	12.60%
<i>PAT margin %</i>	<i>15.42%</i>	<i>13.79%</i>	<i>15.53%</i>	<i>163bps</i>	<i>-11bps</i>
EPS (INR)	2.79	2.26	2.43	23.45%	14.81%

Source: Company Filings & Arihant Capital Research

Q4FY23 Earnings call highlights:

- In Q4, modern trade grew 51% (9% of sales) and e-commerce is 7% of sales. This year saw an improvement in footfalls across urban retail. The republic day sale also spurred on modern trade well, and so did the serums, argan range, and Natyv Soul. NPD sales doubled this year to 12% of sales (target 30% in 2-3 years), and the international business grew 56% owing to increased distribution in focus geographies.
- The ADHO share (only almond oil) was 86% for the year which is targeted to come down to 60% over the next ~3 years owing to a growing share of NPDs and other oils. ADHO grew 11.4% YoY and 10.4% QoQ owing to high-energy marketing campaigns
- Ad spending will remain at 16-18% of sales. 25% of the Ad spends were on the digital side, which is now scaling up to 30%. 60% of ad spends are dedicated toward ADHO, and 40% toward NPDs (this gap is becoming smaller).
- They are now present across 8.5 lakh outlets of which 6.5 lakh are direct and the rest are van sales in rural areas. During the year they added 50,000 more points but the quality of distribution has improved.
- Over the next 5 years they expect a 2-digit growth rate YoY.
- They will be focusing on pushing different product offerings across different geographies for NPDs.
- The tax rate for FY24- FY25 should be similar to what it is for FY23.
- Wholesale loyalty programs are implemented from a long-term perspective and have led to strong ADHO volume growth. Since ADHO pricing is similar across the country it helps build wholesaler faith. Retail programs are more occasion focused. More NPDs will be moving into retail now and the channel will be seeing strong product activations. The share of wholesale- retail- rural is 25-25-50.
- The buyback brought the promoter's share from 38% to 39.35% in April.
- The marketing focuses on certain products like argan and 100% pure will be higher as per market responses.
- Any future pricing actions will only be upward, not downward.
- There is some cost restructuring expected by the company to improve efficiencies.

Consolidated Financials

Profit and Loss (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	9,052	8,671	9,491	10,588	11,867	13,259
Raw materials cost	(3,297)	(3,688)	(4,399)	(4,663)	(4,896)	(5,141)
Gross Profit	5,754	4,983	5,091	5,925	6,970	8,118
<i>Gross Margin (%)</i>	63.6%	57.5%	53.6%	56.0%	58.7%	61.2%
Other operating Income	167	129	118	132	152	175
Employee Cost	(850)	(883)	(892)	(945)	(1,002)	(1,062)
Advertising	(1,570)	(1,477)	(1,745)	(1,885)	(2,035)	(2,198)
Other expenses	(1,067)	(1,013)	(1,161)	(1,393)	(1,671)	(2,005)
EBITDA	2,434	1,739	1,412	1,835	2,414	3,027
<i>EBITDA Margin (%)</i>	26.9%	20.1%	14.9%	17.3%	20.3%	22.8%
Depreciation	(63)	(51)	(85)	(87)	(88)	(89)
EBIT	2,372	1,688	1,327	1,748	2,326	2,938
Other Income	345	386	371	445	534	641
Interest	(14)	(10)	(10)	(11)	(12)	(13)
PBT	2,704	2,065	1,688	2,182	2,848	3,566
Tax	(472)	(368)	(296)	(382)	(484)	(606)
Adj. PAT	2,231	1,696	1,392	1,800	2,364	2,960
<i>Adj. PAT Margin (%)</i>	24.7%	19.6%	14.7%	17.0%	19.9%	22.3%

Balance sheet (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
SHARE CAPITAL	148	148	143	143	143	143
Other Equity	7,424	7,949	7,754	7,769	8,421	9,384
Total Share Holder's Fund	7,571	8,096	7,897	7,912	8,564	9,527
Loan funds	50	-	61	61	61	61
Current liab & provisions	1,297	1,218	1,286	1,561	1,649	1,744
Liabilities and Share Capital	8,918	9,315	9,244	9,534	10,274	11,332
Net fixed assets	1,738	1,793	1,881	1,820	1,762	1,713
Investments	5,846	6,116	5,750	5,750	5,750	5,750
Deferred Tax Assets/ Tax assets (NET)	45	2	3	3	3	3
Current assets	1,289	1,402	1,609	1,961	2,759	3,866
Total Assets	8,918	9,315	9,244	9,534	10,274	11,332

Cash Flow Statement (INR Mn)	FY21	FY22	FY23	FY24E	FY25E	FY26E
Cash Flow from Operating Activities						
Profit before tax, Extraordinary & Prior Time Period	2,704	2,065	1,688	2,182	2,848	3,566
Depreciation & Amortisation	63	51	85	87	88	89
Other Non- Operating expenses	(350)	(363)	(346)	-	-	-
Operating Cash Flow before Working Capital change	2,416	1,753	1,428	2,269	2,936	3,655
Working Capital Inflow / (Outflow) (b)	411	(140)	(117)	172	(24)	(26)
Cash generated from Operating Activities (a) + (b)	2,827	1,612	1,310	2,441	2,912	3,629
Direct Tax Paid	456	327	296	382	484	606
Cash used (-)/(+) generated for Operating Activities	2,371	1,285	1,015	2,058	2,428	3,023
Cash Flow from Investing Activities						
Purchase of Fixed Assets	(27)	(109)	(64)	(25)	(30)	(40)
Other Investing activities	(1,036)	116	710	-	-	-
Cash used (-)/(+) generated for Investing Activities	(1,063)	7	646	(25)	(30)	(40)
Cash Flow from Financing Activities						
Payment of Dividend and Dividend Tax	(1,180)	(1,180)	(590)	(1,426)	(1,712)	(1,997)
Other Financing activities	(162)	(59)	(1,036)	(358)	-	-
Cash used (-)/(+) generated for Financing Activities	(1,342)	(1,239)	(1,626)	(1,785)	(1,712)	(1,997)
Forex fluctation	1	(3)	(10)	-	-	-
Total Increase / (Decrease) in Cash and Cash Equivalents	(34)	51	24	249	686	986
Opening Cash and Bank balance	98	64	115	139	388	1,074
Closing Cash and Bank balance	64	115	139	388	1,074	2,060
Increase/(Decrease) in Cash and Bank balance	(34)	51	24	249	686	986

Source: Company Filings & Arianth Capital Research

Ratios	FY21	FY22	FY23	FY24E	FY25E	FY26E
Per Share data						
EPS (INR)	15.13	11.50	9.76	12.62	16.57	20.75
Growth %	20.76	(23.98)	(15.14)	29.28	31.34	25.19
Book NAV/share (INR)	51.33	54.89	55.36	55.47	60.04	66.79
FDEPS (INR)	15.13	11.50	9.76	12.62	16.57	20.75
CEPS (INR)	15.55	11.84	10.36	13.22	17.19	21.37
CFPS (INR)	15.06	7.86	7.49	11.31	13.28	16.74
DPS (INR)	10.00	8.00	8.00	10.00	12.00	14.00
Return ratios						
Return on assets (%)	26.41	18.72	15.15	19.43	24.16	27.69
Return on equity (%)	29.47	20.95	17.63	22.75	27.60	31.07
Return on capital employed (%)	31.43	21.65	17.30	22.52	28.38	32.38
Turnover ratios						
Asset turnover (x)	4.87	4.91	4.91	5.68	6.84	7.78
Sales/Total assets (x)	1.07	0.95	1.03	1.14	1.21	1.24
Sales/Net FA (x)	5.15	4.91	5.31	6.03	6.97	8.04
Working capital/Sales (x)	(0.01)	0.01	0.02	0.00	0.00	0.00
Receivable days	9.05	8.05	11.71	12.00	12.00	12.00
Inventory days	17.41	24.03	19.72	19.72	19.72	19.72
Payable days	37.09	23.54	20.06	29.79	30.89	31.85
Working capital days	(4.06)	3.89	7.21	0.54	1.20	1.78
Liquidity ratios						
Current ratio (x)	1.00	1.20	1.31	1.30	1.73	2.29
Quick ratio (x)	0.66	0.71	0.89	0.92	1.33	1.87
Interest cover (x)	172.45	167.29	136.31	163.24	197.48	226.76
Total debt/Equity (%)	0.66	-	0.77	0.77	0.71	0.64
Net debt/Equity (%)	-	-	-	-	-	-
Valuation						
PER (x)	10.77	14.17	16.70	12.92	9.84	7.86
Price/Book (x)	3.18	2.97	2.94	2.94	2.71	2.44
EV/Net sales (x)	2.63	2.73	2.44	2.16	1.87	1.60
EV/EBITDA (x)	9.76	13.63	16.37	12.47	9.19	7.00
EV/EBIT (x)	10.02	14.04	17.42	13.08	9.54	7.22

Source: Annual Report, Arihant Capital Research

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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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