

Planned rationalization of trade schemes cut Q1

Bajaj Consumer's Q1FY25 print was below our estimates; Revenue/EBITDA/PAT declined by 9.0%/25.3%/19.7% YoY. Management attributed weak performance to, (1) planned cut in trade schemes and wholesale discounts, (2) stable performance in urban led by large packs, and (3) 17% growth in non-ADHO portfolio (~18% of sales). ADHO volume cut by 6.7%, yet large packs drove sales (4-year CAGR 9.4%) led by 26% contribution from organized trade (MT: +9%, E-com: +13%, CSD +15%). GT channel declined HSD on account adjustments in trade schemes, though on a high base international business grew 1%. Led by strong performances in Nepal (+76%) followed by Middle-East & ROW. Gross margins inched up to 55.3% (+62bp), yet EBITDA margins cut to 13.4% (-292bp) due to higher employee expenses (9.9%). Management guided for mid to high single-digit sales growth and deliver ~16-18% operating margin on the back of, (1) *Project Aarohan* – revamping route-to-market, (2) increase saliency of internal business, and (4) focus on high margin NPDs. With weaker performance we cut earnings and introduce FY27. We maintain ADD with a revised DCF-based TP Rs285 (implying 17.7x on avg. of FY26/27E EPS).

One-time channel hygiene impacted topline- ADHO volume decline 6%

BajajCon's Q1FY25 consol. revenue at Rs2.4bn declined by 9.0% YoY. Management attributed weak performance to, (1) planned cut in trade schemes and wholesale discounts, (2) stable performance in urban led by large packs, and (3) 17% growth in non-ADHO portfolio (~18% of sales). ADHO volume cut by 6.7%, yet large packs drove sales (4-year CAGR 9.4%) led by 26% contribution from organized trade (MT: +9%, E-com: +13%, CSD +15%). GT channel declined high-single-digit on account of adjustments in trade schemes. With high base international business grew 1% led by strong performances in Nepal (+76%), Middle-East (+45%), and ROW (+55%), though own distribution set up is now competed in Bangladesh. The company launched *Project-Aarohan* to revamp route-to-market with (1) geo tagging and fencing urban focus (+50k population towns) by enhancing market service to lift per capita sales to increase penetration by 40%, and cover >25k population town with direct coverage, improve van coverage in rural towns (<25k population) to achieve +10% additional coverage in villages. Company said, continued focus on portfolio diversification to deliver MSD revenue growth.

With flat LLP prices gross margins inched up at 55.3%; yet EBITDA margin cut to 13.4%

Gross margin inched up to 55.3% (+62bp YoY), driven by lower prices of key raw materials such as LLP and packing material while prices for RMO inched up in Q1. EBITDA declined by 25.3% to Rs324mn, due to higher employee costs (+9.9%), yet other expenses lowered (-4.2%) saw EBITDA margin cut to 13.4% (-292bp). Management aspires to spend ~18% of sales on ad-spend to support ADHO and NPDs yet expects to maintain EBITDA margin ~16%-18%. We expect with rising commodity inflation company may execute few price increases in 2HY25.

Valuation and risks – Maintain ADD, with a revised DCF-based target price of Rs285

We note with subdued revenue momentum, most leading companies focused on improving system hygiene in Q1. BajajCon took measure by cutting trade discounts in wholesale channel to improve GT throughput. Moreover *Project-Aarohan* targeted to improve depth in urban and width in rural markets could prove right strategy in the medium terms. With stable monsoon and govt. impetus on improving rural incomes, HSM market could show up demand recovery in medium term. We reckon focus on penetration led growth in HSM, and building Non-ADHO portfolio may lift sales. With weak Q1, we cut FY25E/26E earnings by 6.8%/7.2% and introduce FY27E. We retain ADD with a revised DCF based TP of Rs285 (implying 17.7x on avg. of FY26/27E EPS PS). Risks: failure of NPD and over-dependence on ADHO.

Financial and valuation summary

YE Mar (Rs mn)	1QFY25A	1QFY24A	YoY (%)	4QFY24A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	2,417	2,657	(9.0)	2,342	3.2	10,819	12,297	14,043
EBITDA	324	434	(25.3)	290	11.7	1,813	2,126	2,637
EBITDA margin (%)	13.4	16.3	(292bp)	12.4	103bp	16.8	17.3	18.8
Adj. Net profit	371	462	(19.7)	356	4.3	1,877	2,146	2,454
Adj. EPS (Rs)	2.6	3.2	(19.7)	2.5	4.3	13.1	15.0	17.2
EPS growth (%)						20.8	14.3	14.3
PE (x)						20.6	18.0	15.7
EV/EBITDA (x)						17.9	14.8	11.6
PBV (x)						4.2	3.7	3.4
RoE (%)						21.3	21.8	22.6
RoCE (%)						21.2	21.8	22.5

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India | Consumer

11 August, 2024

ADD

Price: Rs271

Target Price: Rs285

Forecast return: 5%

Institutional Research

Market Data

Bloomberg:	BAJAJCON IN
52 week H/L:	287/200
Market cap:	Rs37.3bn
Shares Outstanding:	137.6mn
Free float:	55.0%
Avg. daily vol. 3mth:	8,15,613

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	Rs285; from Rs253
EPS:	FY25E:Rs13.1; down 6.8%
	FY26E:Rs15.0; down 7.2%

Source: Centrum Broking

Shareholding pattern

	Jun-24	Mar-24	Dec-23	Sep-23
Promoter	39.3	39.3	39.4	39.4
FIIs	14.2	14.1	14.4	14.8
DIIIs	17.5	17.5	17.2	17.4
Public/other	29.0	29.1	29.1	28.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY25	Actual Q1FY25	Variance (%)
Revenue	2,750	2,417	(12.1)
EBITDA	423	324	(23.5)
EBITDA margin (%)	15	13	(200bps)
Other Income	164	152	(7.1)
Interest	3	2	(38.9)
Depreciation	24	23	(1.5)
PBT	561	451	(19.6)
Tax	100	80	(20.1)
Rep. PAT	461	371	(19.5)
Adj. PAT	461	371	(19.5)

Source: Bloomberg, Centrum Broking



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Consumer

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	10,819	11,096	(2.5)	12,297	12,669	(2.9)
EBITDA	1,813	1,971	(8.0)	2,126	2,317	(8.2)
EBITDA margin (%)	16.8	17.8	(104bp)	17.3	18.3	(101bp)
Adj. PAT	1,877	2,017	(6.9)	2,146	2,314	(7.3)
Diluted EPS (Rs)	13.1	14.1	(6.8)	15.0	16.2	(7.2)

Source: Centrum Broking

Bajaj Consumer Care versus NIFTY 50

	1m	6m	1 year
BAJAJCON	(0.2)	27.8	17.9
NIFTY 50	(0.5)	12.7	25.4

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E
ADHO Volume growth	7.2	8.5
Employee cost as % of sales	9.8	9.8
EBITDA margin (%)	16.8	17.3
Tax rate	18.5	20.0

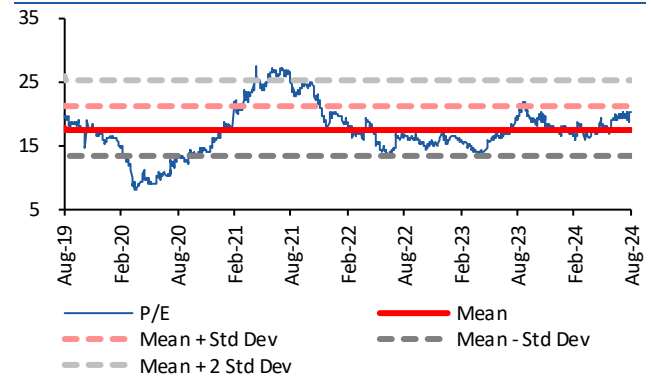
Source: Centrum Broking

Valuations

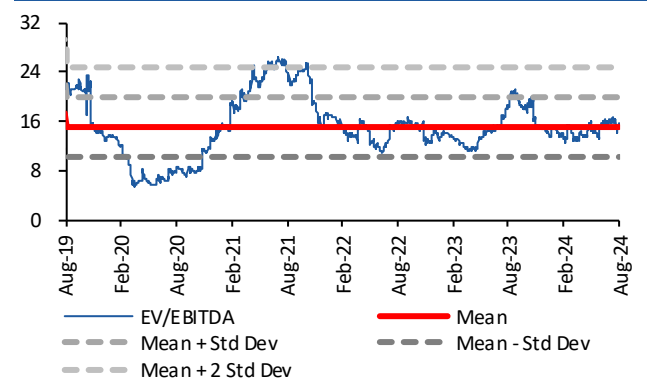
We note with subdued revenue momentum, most leading companies focused on improving system hygiene in Q1. BajajCon took measure by cutting trade discounts in wholesale channel to improve GT throughput. Moreover *Project-Aarohan* targeted to improve depth in urban and width in rural markets could prove right strategy in the medium terms. With stable monsoon and govt. impetus on improving rural incomes, HSM market could show up demand recovery in medium term. We reckon focus on penetration led growth in HSM, and building Non-ADHO portfolio may lift sales. With weak Q1, we cut FY25E/26E earnings by 6.8%/7.2% and introduce FY27E. We retain ADD with a revised DCF based TP of Rs285 (implying 17.7x on avg. of FY26/27E EPS PS). Risks: failure of NPD and over-dependence on ADHO.

Valuations	Rs/share
DCF-based target price	Rs285
WACC (%)	11.0
Terminal growth (%)	5.1

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs bn)	CAGR (FY24-26E)			P/E (x)			EV/EBITDA (x)			RoE		
		Sales	EBITDA	EPS	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
HUL	6,454.9	8.8	10.1	11.1	63.7	57.7	51.6	41.4	38.0	33.9	20.2	21.9	23.8
Britannia	1,383.0	12.2	12.8	16.6	62.6	53.2	46.1	42.3	37.5	32.8	58.4	59.2	56.2
Dabur	1,106.2	12.1	18.0	18.4	61.9	51.7	44.1	44.6	37.5	31.5	19.6	21.1	21.9
Colgate	939.3	11.7	12.8	15.3	65.0	55.4	48.9	38.4	34.6	31.0	74.8	79.5	86.5
Emami	348.2	12.6	18.7	21.3	49.7	42.3	35.8	34.9	28.8	24.2	30.7	34.1	36.4
Bajaj Consumer	38.7	12.7	23.6	17.5	24.9	20.6	18.0	24.2	17.9	14.8	19.1	21.3	21.8

Source: Company, Centrum Broking

Exhibit 1: Key concall takeaways and metrics

Centrum Quarterly Monitor	Q4FY24	Q1FY25	Our Comments
Demand Environment	Rural demand outpace urban for the first time in FY24	Rural demand outpace urban while one time channel hygiene impacted top line	We see strong growth momentum for ADHO portfolio, yet expect NON-ADHO portfolio to grow faster with brand extensions
ADHO Volume Growth	ADHO volume decline 4%, yet ADHO sales grew ~15.0% on MT/E-com led by large packs	ADHO volume decline 6%, yet ADHO sales showed strong growth on MT/E-com led by large packs	Rural markets has seen demand bounce back with stability in monsoon and rural friendly budget
New Products Performance	Bajaj consumer has launched the summer lotion in March aims to capture early consumer interest and anticipation ahead of the warmer months	Bajaj launched Almond Drops Ultralight (Summer) Body Lotion, almond drop extension gaining traction in MT and E-com and scale up in 100% coconut oil portfolio	Management targets to expand its product range over digital only brands as well as penetrate in other regions, improving overall product mix which remains positive in the longer run
Margins	Management expect EBITDA margin in range of ~16%-18% over medium term	Management expect EBITDA margin in range of ~16%-18% over medium term	The pressure on gross margins has started easing out on the back of lower raw material prices in key commodities LLP

Source: Centrum Broking

Conference call highlights

Demand Outlook

- Revenue for Q1FY25 decline by 9.0% YoY to Rs2.4bn; revenue impacted due to one-time market hygiene corrections in wholesale discount and rationalization of trade schemes for ADHO portfolio
- Volume declined 6.7% due to high base and one time market hygiene; expect wholesale channel would perform better
- Management expects urban demand to be remain stable while rural demand would improve supported by better monsoon and rural friendly budget
- Management expects high single-digit growth in FY25, driven by volume growth outpacing value growth, particularly due to the increasing contribution of the non-ADHO portfolio
- The margin outlook for the next few years is expected to remain stable, between 16% to 18% while maintaining balanced margins
- Management has launched Project Aarohan to revamp RTM; majorly target to 50k+ population towns in urban (1.4x reach) and rural coverage (1.1x villages)
- On raw material front, LLP is table while RMO has observed moderated inflation; overall management expects raw material would remain stable
- Strategic pillars for future would be (1) portfolio diversification in Hair & Skin Care range, (2) aggressive growth in Organise trade, (3) Higher saliency in International business and (4) Non- ADHO portfolio continue to scale up
- Non ADHO portfolio grew 17% led by recent launches, step up digital spend, traction gain by almond drop extension on MT and E-com
- Bajaj 100% pure coconut oil registered strong growth, Consistent market share gain has observed several HSM states
- Management projects 40% contribution of non-ADHO in top line over the next five years
- The Company has started Geo Tagging & Fencing in urban markets; pilot has started in Maharashtra & MP
- Bajaj launched Almond Drops Ultralight (Summer) Body Lotion, almond drop extension gaining traction in MT and E-com and scale up in 100% coconut oil portfolio
- Initial response was positive for Bajaj Almond Drops Shampoo, Conditioner and Lotion on MT & E-com supported by extensive sampling and digital media
- Company focused on portfolio diversification in hair and skin care with Increased saliency of International business and increasing penetration in focus markets, management guided for mid-high single digit growth in FY25
- Current portfolio contribution: ADHO – 83.0%, Non ADHO – 17.0% (NPD 18.0%) for 4Q FY24
- Bangladesh contributed 1% on console sales and management expects stability on sales would take time
- Higher pack sales has observed strong growth while sachet has been struggling
- Management would maintain the A&P level and no major capex expected in FY25

Channel cometary

- GT sales declined by high-single digit due to one-time market hygiene corrections
- Organised Trade grew by ~12% in Q1; E-commerce grew 13%

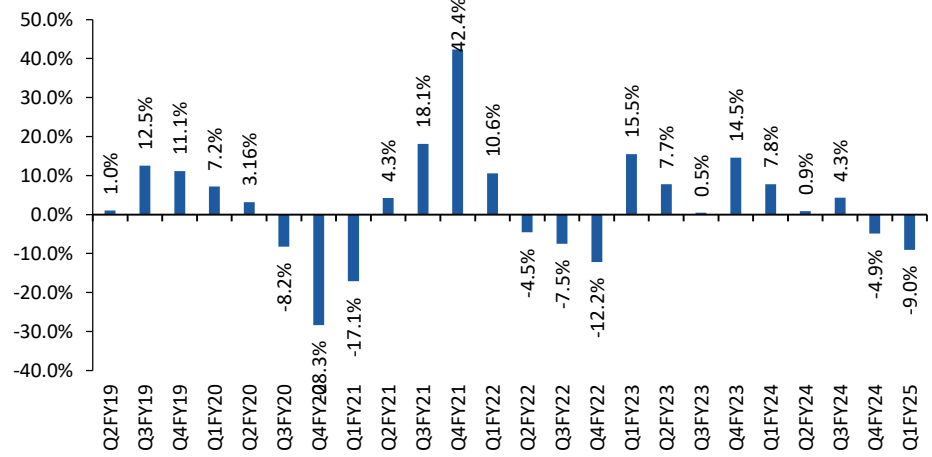
International Business

- International Business grew by 1% during Q1 on a consolidated basis led by Nepal (76%), Middle East (45%) and RoW (+43%)
- The Company has completed the transition in Bangladesh from national to own-distribution

Margins

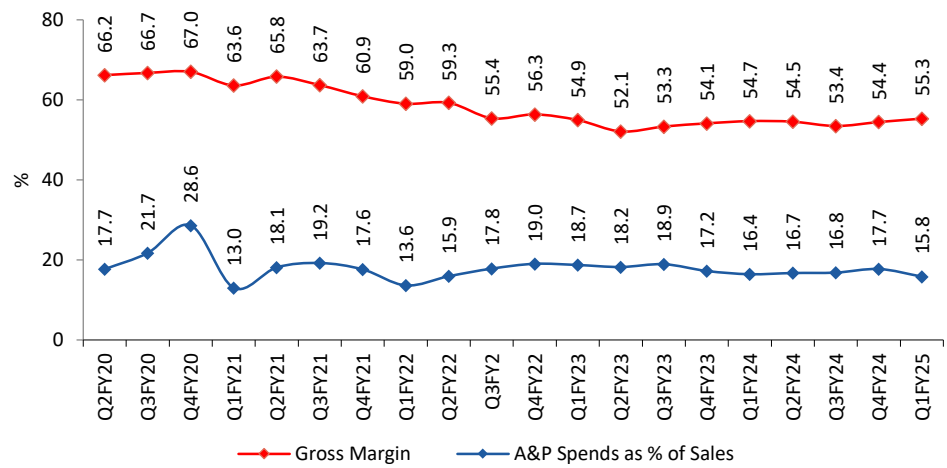
- Gross margin inched up to 55.3% (+62bp YoY), driven by lower prices of key raw materials such as RMO, LLP and packing material
- EBITDA declined by 25.3% to Rs324mn, due to higher employee exp. +9.9%, yet other expenses declined by -4.2%
- EBITDA margin dropped to at 13.4% (-292bp)
- A&P made up 15.8% of net sales compared to 16.6% on Q1FY24
- PAT declined by 19.7% YoY to Rs371mn, despite 45% lower interest cost and rise in other income by 1.2%

Exhibit 2: Quarterly net sales growth trends – YoY



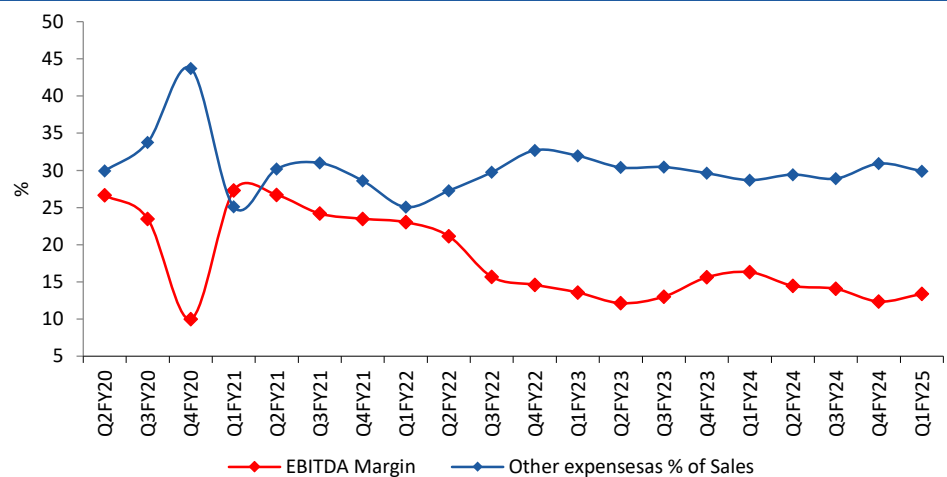
Source: Company Data, Centrum Broking

Exhibit 3: Gross margin and ad-spend trends



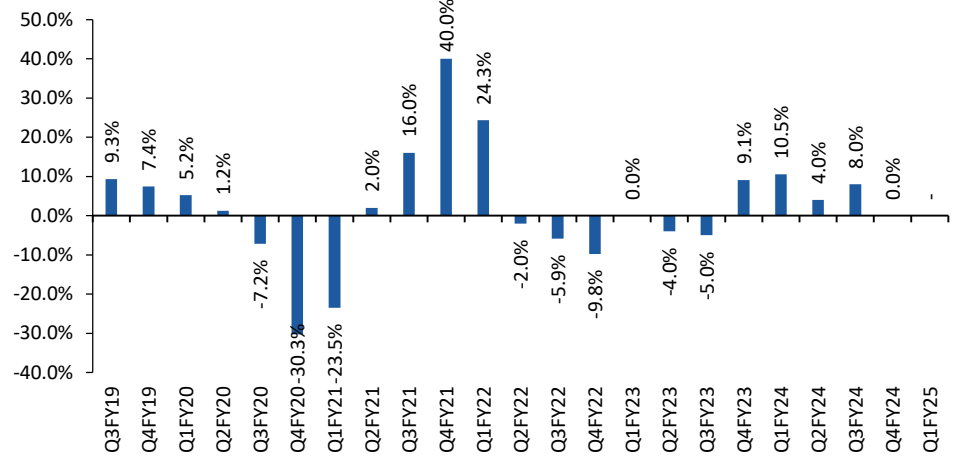
Source: Company Data, Centrum Broking

Exhibit 4: EBITDA margin & Other exp. trend



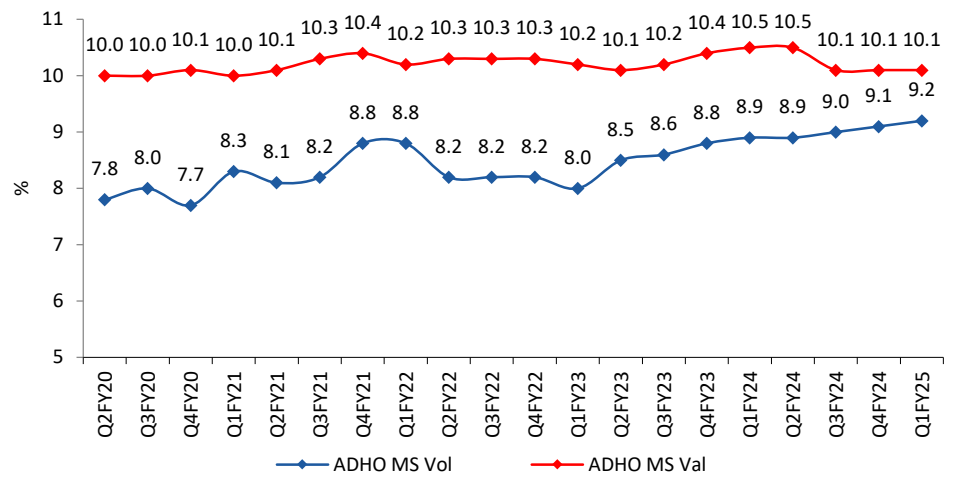
Source: Company Data, Centrum Broking

Exhibit 5: ADHO quarterly volume growth trend – YoY



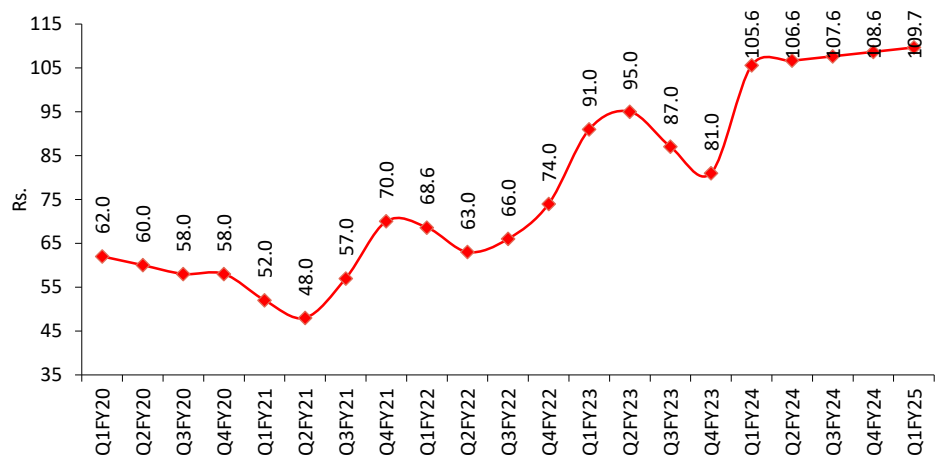
Source: Company Data, Centrum Broking

Exhibit 6: ADHO market share trends in THO



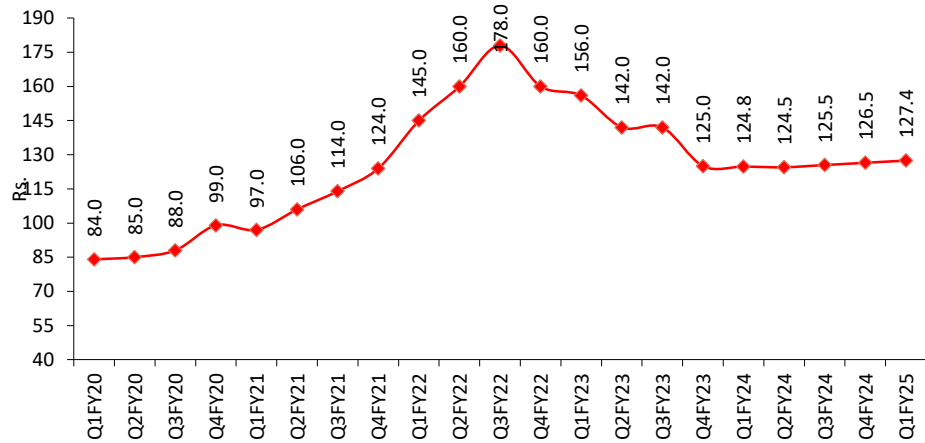
Source: Company Data, Centrum Broking

Exhibit 7: Key raw material trend – LLP price



Source: Company Data, Centrum Broking

Exhibit 8: Key raw material trend – RMO price



Source: Company Data, Centrum Broking

Exhibit 9: Brand Performance Highlights

ADHO



- Flat sequentially, while YoY declined on account of planned one time market hygiene corrections in wholesale discount and rationalization of trade schemes

NPDs + Traditional




- Continues to scale up well with growth of 16% QoQ and 17% YoY
- Premium portfolio of Almond Drop Hair and Skin care range registered a growth of 72% YoY and is witnessing good traction in multiple categories
- Bajaj 100% Pure Coconut Oil witnessed robust growth

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Source: Company

Exhibit 10: Almond Drops Hair Oil Q1 FY25 Performance

- Rationalized Quantity Promotion Scheme (QPS) slabs between small and large wholesalers along with trade scheme. This resulted in higher temporary decline largely in sachets
- Packaging conversion done from Glass to PET in 190 ml is receiving good response from consumers & is scaling up well
- 700 ml launched last year in GT consistently scaling up over last 4 quarters
- Overall large packs continue to perform well with a 4 Year CAGR of 9.4%



Source: Company

Exhibit 11: Marketing Initiatives

Programmatic Advertising	Influencer Marketing	Driving Social Media via Trending Content
 <p>Objective: Build incremental reach and tap TV dark market Platforms: YouTube & Top OTT Shows Views : 1.79Cr VTR : 89%</p>	 <p>84 Influencers deployed in Q4 (Amazon Affiliate Influencers, KOL & Micro) ER% : 3%</p>	 <p>Improvement in ER% due to relevant creatives ER% : 2.2% Hair oil industry benchmark for ER% on organic posts – 1.7%</p>

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Source: Company

Exhibit 12: Quarterly Consolidated Financial Summary

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
Net Sales	2,465	2,297	2,266	2,462	2,657	2,317	2,364	2,342	2,417
Cost of goods sold	1,111	1,101	1,058	1,130	1,204	1,054	1,100	1,067	1080
Employee Expenses	232	219	223	218	257	246	248	261	282
Other Exp	788	698	690	729	762	682	683	724	731
Operating Profit (Core EBITDA)	335	279	295	385	434	335	333	290	324
Depreciation	21	18	22	24	23	25	25	26	23
EBIT	314	261	273	361	410	311	308	264	300
Interest	2	3	3	2	3	3	2	2	2
Other Income	97	126	133	133	151	146	138	174	153
Profit Before Tax	409	384	403	492	558	454	443	436	451
Tax	70	67	71	87	96	81	79	80	80
Tax rate (%)	17.2	17.5	17.6	17.7	17.2	17.9	17.9	18.3	17.8
Adjusted PAT	339	317	332	405	462	373	364	356	371
Growth (%)									
Net Sales	15.5	7.7	0.5	14.5	7.8	0.9	4.3	-4.9	-9.0
EBITDA	-31.9	-38.1	-16.5	22.5	29.4	20.2	12.7	-24.7	-25.3
Adj. PAT	-30.7	-31.9	-13.6	13.0	36.4	17.7	9.5	-12.1	-19.7
Margin (%)									
Gross Margin	54.9	52.1	53.3	54.1	54.7	54.5	53.4	54.4	55.3
EBITDA	13.6	12.2	13.0	15.6	16.3	14.5	14.1	12.4	13.4
EBIT	12.7	11.4	12.0	14.7	15.4	13.4	13.0	11.3	12.4
APAT	13.7	13.8	14.6	16.4	17.4	16.1	15.4	15.2	15.4

Source: Company Data, Centrum Broking

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	9,491	9,680	10,819	12,297	14,043
Operating Expense	7,305	7,277	7,423	8,375	9,389
Employee cost	892	1,012	1,060	1,205	1,348
Others	0	0	523	591	669
EBITDA	1,294	1,392	1,813	2,126	2,637
Depreciation & Amortisation	85	99	98	105	114
EBIT	1,209	1,292	1,716	2,021	2,523
Interest expenses	10	10	19	19	19
Other income	0	0	0	0	0
PBT	1,688	1,890	2,303	2,683	3,272
Taxes	296	336	426	537	818
Effective tax rate (%)	17.5	17.8	18.5	20.0	25.0
PAT	1,392	1,554	1,877	2,146	2,454
Minority/Associates	0	0	0	0	0
Recurring PAT	1,392	1,554	1,877	2,146	2,454
Extraordinary items	0	0	1	1	1
Reported PAT	1,392	1,554	1,878	2,147	2,455
Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	9.5	2.0	11.8	13.7	14.2
EBITDA	(19.7)	7.5	30.3	17.3	24.0
Adj. EPS	(17.9)	15.4	20.8	14.3	14.3
Margins (%)					
Gross	53.6	54.3	54.8	55.1	56.3
EBITDA	13.6	14.4	16.8	17.3	18.8
EBIT	12.7	13.4	15.9	16.4	18.0
Adjusted PAT	14.7	16.1	17.4	17.5	17.5
Returns (%)					
ROE	17.4	19.1	21.3	21.8	22.6
ROCE	17.4	19.0	21.2	21.8	22.5
ROIC	50.8	50.3	69.9	84.2	94.1
Turnover (days)					
Gross block turnover ratio (x)	5.7	5.6	5.8	6.1	6.4
Debtors	10	14	12	9	9
Inventory	45	44	49	53	54
Creditors	38	35	41	47	45
Net working capital	234	246	251	251	244
Solvency (x)					
Net debt-equity	(0.7)	(0.7)	(0.8)	(0.8)	(0.8)
Interest coverage ratio	132.9	137.1	96.0	112.6	139.6
Net debt/EBITDA	(4.5)	(4.5)	(4.1)	(3.9)	(3.5)
Per share (Rs)					
Adjusted EPS	9.4	10.9	13.1	15.0	17.2
BVPS	53.8	58.5	65.1	72.6	79.5
CEPS	10.0	11.6	13.8	15.8	18.0
DPS	4.0	8.0	6.6	7.5	10.3
Dividend payout (%)	42.4	73.4	50.0	50.0	60.0
Valuation (x)					
P/E	28.7	24.9	20.6	18.0	15.7
P/BV	5.0	4.6	4.2	3.7	3.4
EV/EBITDA	26.3	24.2	17.9	14.8	11.6
Dividend yield (%)	1.5	3.0	2.4	2.8	3.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	143	143	143	143	143
Reserves & surplus	7,754	8,163	9,103	10,177	11,159
Shareholders fund	7,935	8,354	9,294	10,368	11,350
Minority Interest	0	0	0	0	0
Total debt	93	88	88	88	88
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	8,028	8,442	9,381	10,455	11,438
Gross block	1,657	1,736	1,866	2,015	2,185
Less: acc. Depreciation	(483)	(582)	(679)	(784)	(898)
Net block	1,175	1,154	1,187	1,231	1,287
Capital WIP	277	278	278	278	278
Net fixed assets	1,881	1,862	1,895	1,939	1,995
Non Current Assets	46	50	50	50	50
Investments	0	0	0	0	0
Inventories	513	562	757	854	950
Sundry debtors	304	440	281	322	383
Cash & Cash Equivalents	5,942	6,300	7,521	8,472	9,399
Loans & advances	0	7	8	9	11
Other current assets	554	611	682	776	886
Trade payables	450	402	708	711	798
Other current liab.	748	961	1,074	1,221	1,394
Provisions	18	32	35	40	46
Net current assets	6,097	6,525	7,432	8,463	9,389
Total assets	8,028	8,442	9,381	10,455	11,438

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	1,688	1,890	2,303	2,683	3,272
Depreciation & Amortisation	85	99	98	105	114
Net Interest	(378)	(405)	(205)	(234)	(268)
Net Change – WC	(117)	(60)	315	(80)	(1)
Direct taxes	(296)	(339)	(426)	(537)	(818)
Net cash from operations	1,015	1,163	2,086	1,939	2,300
Capital expenditure	(64)	(48)	(131)	(149)	(170)
Acquisitions, net	0	0	0	0	0
Investments	332	(230)	0	0	0
Others	378	405	205	234	268
Net cash from investing	646	126	74	85	98
FCF	1,661	1,290	2,160	2,024	2,399
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(33)	(52)	0	0	0
Dividend paid	(590)	(1,141)	(939)	(1,073)	(1,472)
Interest paid	(1)	0	0	0	0
Others	(1,002)	(6)	0	0	0
Net cash from financing	(1,626)	(1,198)	(939)	(1,073)	(1,472)
Net change in Cash	35	91	1,222	951	926

Source: Company, Centrum Broking

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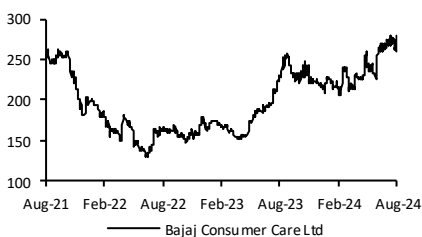
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Bajaj Consumer Care Ltd



Source: Bloomberg

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