

13 November 2024

India | Equity Research | Q2FY25 results review

Bajaj Consumer Care

Consumer Staples & Discretionary

Weak core [Almond Drops] a drag; demand recovery essential for growth aspirations

Bajaj Consumer (BaCo) had another disappointing print with 1% YoY revenue decline (~2% YoY volume decline) due to continued stress in wholesale channel for core ADHO (~80% revenue salience). Diversification journey continues, though at a moderated pace with 11% YoY growth in non-ADHO portfolio (~20% salience) led by continued scale-up of coconut hair oil (double-digit growth) and ADHO extensions. Plans to expand urban direct distribution and village reach by 40% and 10% augur well for revival of growth in ADHO portfolio, if executed well and demand environment improves. Management targets double-digit growth in medium term. Operating margin was under pressure due to commodity inflation (expects it to be in the range of 16-18%). BaCo has taken multiple initiatives to strengthen ADHO, though results are yet to be seen. Diversification of product portfolio are steps in the right direction. It's now a "show me" story. **BUY**.

Revenue declines due to continued stress for ADHO in wholesale channel

Revenue declined by 1% YoY to INR 2.3bn with 2% YoY volume decline due to continued stress in wholesale channel for ADHO leading to low single-digit decline (retail channel is relatively stable). Diversification journey continued with non-ADHO portfolio (~20% contribution) scaling up decently with revenue growth of 11% YoY led by a) strong double-digit growth in coconut hair oil (market share gains in Maharashtra) and b) almond drops skin & hair care range growing 33% YoY in 1HFY25. GT declined mid-single digit YoY with rural outperforming urban, while organised trade grew 10% YoY (~30% salience). International business grew 36% YoY.

Commodity inflation impacts operating margin

Gross margin contracted 197bps YoY to 53.2% due to inferior mix and commodity inflation. Commodity outlook is inflationary and price actions are being taken to protect gross margin. EBITDA margin decline is lower at 147bps YoY to 14.8% due to cut in ad-spends (-19% YoY) despite negative operating leverage. Management expects EBITDA margin to be in the range of 16-18%. EBITDA and adjusted PAT declined 10% and 14% YoY to INR 339mn and INR 332mn, respectively.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	9,499	9,677	9,524	10,511
EBITDA	1,414	1,582	1,464	1,716
EBITDA %	14.9	16.3	15.4	16.3
Net Profit	1,398	1,588	1,480	1,729
EPS (INR)	9.8	11.1	10.4	12.1
EPS % Chg YoY	(17.2)	13.4	(6.8)	16.8
P/E (x)	20.9	18.4	19.7	16.9
EV/EBITDA (x)	16.5	14.5	15.1	12.4
RoCE (%)	13.3	14.6	12.5	13.5
RoE (%)	16.8	18.8	16.4	17.5

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Market Data

Market Cap (INR)	28bn
Market Cap (USD)	333mn
Bloomberg Code	BAJAJCON IN
Reuters Code	BACO BO
52-week Range (INR)	289 /200
Free Float (%)	61.0
ADTV-3M (mn) (USD)	1.3

Price Performance (%)	3m	6m	12m
Absolute	(24.9)	(16.5)	(10.2)
Relative to Sensex	(23.7)	(24.8)	(30.7)

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E
Revenue	(7.3)	(7.3)
EBITDA	(13.8)	(13.5)
EPS	(14.6)	(14.9)

Previous Reports

11-08-2024: [Q1FY25 results review](#)

10-06-2024: [Company Update](#)

Revamping GT RTM to drive distribution expansion

BaCo is undertaking Project Aarohan to focus on improving distribution in high potential / performance towns while optimising presence in lower per capital sales / per capita consumption towns. It plans to increase its direct reach by 40% in urban markets (high potential towns) and increase its village reach by 10% while improving service levels (increase fleet on street) and getting right channel partners. Pilot for this project has been initiated in two states and will be launched nationally post implementation and feedback from these states. Direct distribution expansion if executed well will be a key driver for revival in growth trajectory of ADHO and expansion of ADHO extensions into GT as and when they scale up well in organised trade.

Valuation and risks

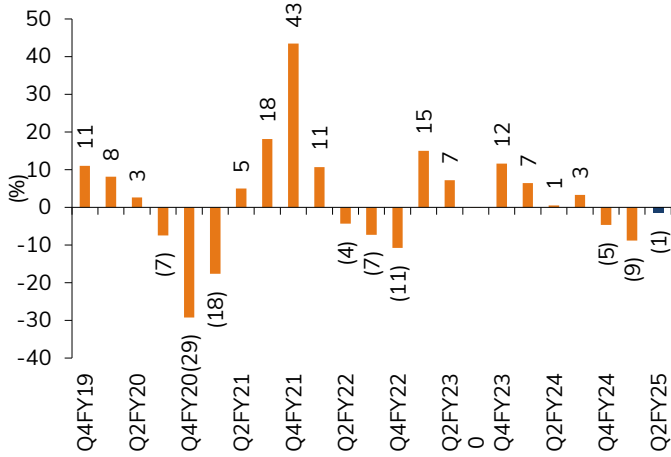
We cut our earnings estimates by ~15% for FY25E/26E, modelling revenue / EBITDA / PAT CAGR of 4% / 4% / 4% over FY24-26E, respectively. Maintain **BUY** with DCF-based revised target price of INR 240 (was INR 320 earlier). At our target price, the stock will trade at 20x P/E Mar'26E. Downside risks: Over reliance on a single brand – ADHO and higher-than-expect commodity inflation and failure of new product launches.

Exhibit 1: Q2FY25 result review (standalone)

INR mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	1HFY25	1HFY24	YoY (%)
Net Revenue	2,288	2,319	(1)	2,412	(5)	4,700	4,960	(5)
COGS	(1,071)	(1,040)	3	(1,062)	1	(2,133)	(2,219)	(4)
Gross profit	1,216	1,278	(5)	1,350	(10)	2,566	2,741	(6)
Staff cost	(259)	(238)	9	(270)	(4)	(529)	(486)	9
A&SP	(309)	(381)	(19)	(372)	(17)	(682)	(806)	(15)
Other opex	(309)	(282)	10	(334)	(7)	(643)	(602)	7
Total opex	(878)	(901)	(3)	(976)	(10)	(1,854)	(1,894)	(2)
EBITDA	339	377	(10)	374	(9)	713	847	(16)
Other income	89	114	(22)	110	(19)	199	220	(10)
Finance cost	1	3	(43)	2	(13)	3	5	(43)
D&A	24	23	3	22	9	46	46	2
PBT	402	465	(14)	460	(13)	862	1,016	(15)
Tax	(70)	(81)	(14)	(80)	(13)	(151)	(177)	(15)
Recurring PAT	332	384	(14)	380	(13)	711	838	(15)
Extraordinary items	-	-	-	-	-	-	-	-
Net profit (reported)	332	384	(14)	380	(13)	711	838	(15)
EPS	2.3	2.7	(14)	2.7	(13)	5.0	5.9	(15)
% of operating revenues								
COGS	46.8	44.9	196 bps	44.0	281 bps	45.4	44.7	65 bps
Gross margin	53.2	55.1	-197 bps	56.0	-282 bps	54.6	55.3	-66 bps
Staff cost	11.3	10.3	105 bps	11.2	11 bps	11.3	9.8	146 bps
A&SP cost	13.5	16.4	-291 bps	15.4	-190 bps	14.5	16.2	-175 bps
Other opex	13.5	12.2	134 bps	13.8	-32 bps	13.7	12.1	153 bps
EBITDA margin	14.8	16.3	-147 bps	15.5	-71 bps	15.2	17.1	-191 bps
Income tax rate (% of PBT)	17.5	17.5	-1 bps	17.5	-1 bps	17.5	17.5	0 bps

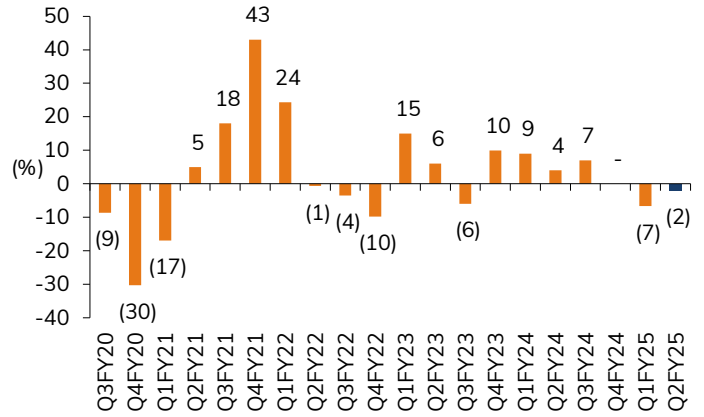
Source: I-Sec research, Company data

Exhibit 2: Revenue growth



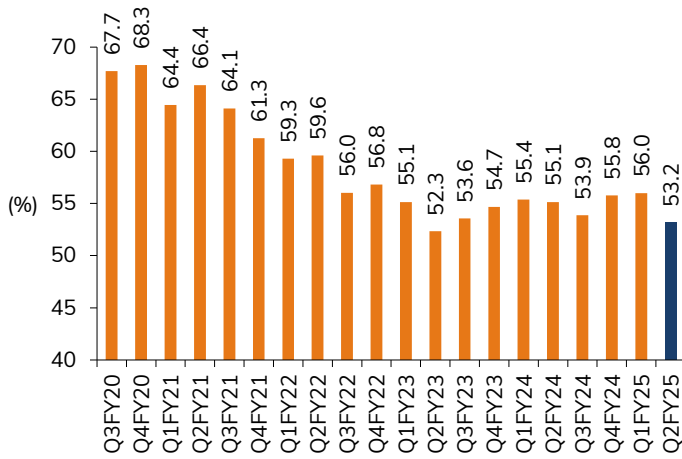
Source: Company data, I-Sec research

Exhibit 3: Volume growth



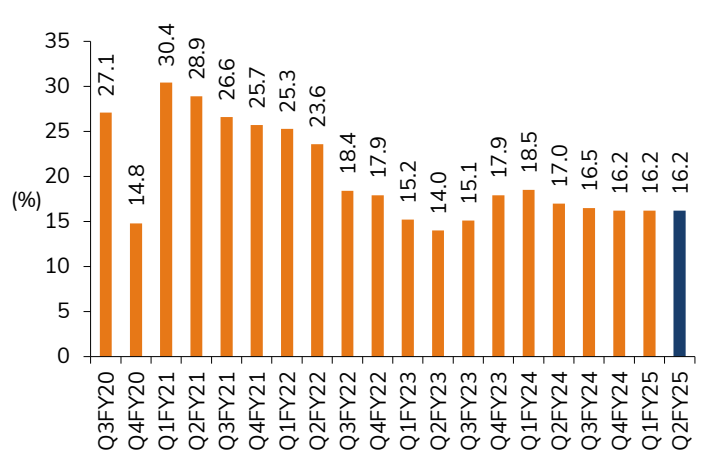
Source: Company data, I-Sec research

Exhibit 4: Gross margin



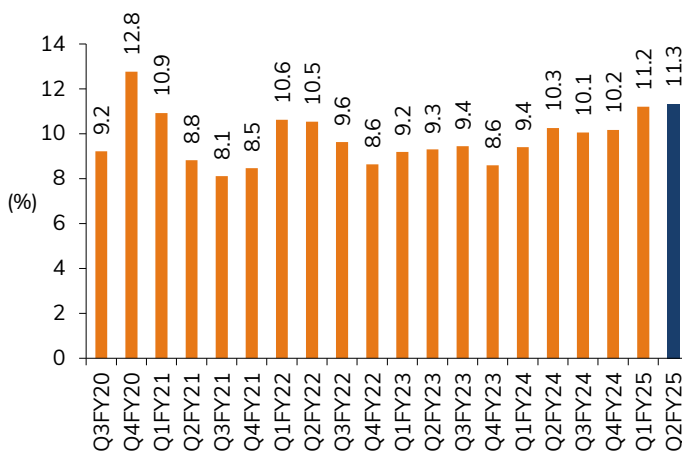
Source: Company data, I-Sec research

Exhibit 5: EBITDA margin



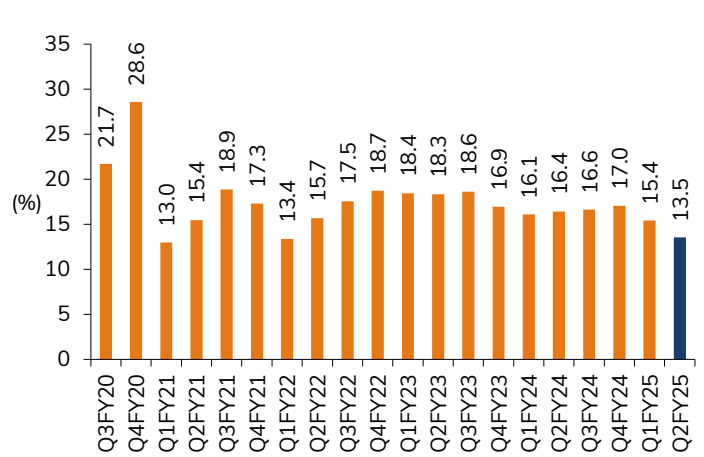
Source: Company data, I-Sec research

Exhibit 6: Staff costs (% of sales)



Source: Company data, I-Sec research

Exhibit 7: Ad spends (% of sales)



Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	39.3	39.3	41.0
Institutional investors	31.6	31.6	31.6
MFs and others	14.8	14.8	17.9
Insurance	2.5	2.4	2.3
FIIIs	14.3	14.4	11.4
Others	29.1	29.1	27.4

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	9,499	9,677	9,524	10,511
Operating Expenses	8,085	8,095	8,060	8,795
EBITDA	1,414	1,582	1,464	1,716
EBITDA Margin (%)	14.9	16.3	15.4	16.3
Depreciation & Amortization	81	95	97	103
EBIT	1,333	1,487	1,367	1,613
Interest expenditure	9	10	5	5
Other Non-operating Income	371	446	431	487
Recurring PBT	1,695	1,924	1,793	2,094
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	297	336	313	366
PAT	1,398	1,588	1,480	1,729
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	1,398	1,588	1,480	1,729
Net Income (Adjusted)	1,398	1,588	1,480	1,729

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	7,222	7,788	8,583	9,636
of which cash & cash eqv.	5,889	6,226	7,046	7,941
Total Current Liabilities & Provisions	1,157	1,305	1,284	1,417
Net Current Assets	6,065	6,483	7,299	8,219
Investments	1,666	1,713	1,713	1,713
Net Fixed Assets	458	449	399	350
ROU Assets	-	-	-	-
Capital Work-in-Progress	14	14	14	14
Total Intangible Assets	6	7	7	7
Long Term Loans & Advances	130	124	124	124
Deferred Tax assets	-	-	-	-
Total Assets	8,339	8,791	9,556	10,428
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	38	48	48	48
Other Liabilities	93	88	88	88
Minority Interest	-	-	-	-
Equity Share Capital	143	143	143	143
Reserves & Surplus	8,066	8,512	9,278	10,150
Total Net Worth	8,209	8,655	9,421	10,292
Total Liabilities	8,339	8,791	9,556	10,428

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	2,358	2,359	2,412	2,288
% growth (YoY)	3.2	(3.5)	(8.7)	(1.3)
EBITDA	373	363	374	339
Margin %	15.8	15.4	15.5	14.8
Other Income	110	117	110	89
Extraordinary	-	-	-	-
Adjusted Net Profit	376	373	380	332

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(Rs mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	1,430	1,592	1,895	2,203
Working Capital Changes	(96)	(69)	4	(26)
Capital Commitments	(59)	(41)	(47)	(54)
Free Cashflow	980	1,143	1,539	1,757
Other investing cashflow	638	121	-	-
Cashflow from Investing Activities	579	80	(47)	(54)
Issue of Share Capital	-	-	-	-
Interest Cost	(1)	0	(5)	(5)
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(590)	(1,141)	(714)	(857)
Others	(1,034)	(57)	-	-
Cash flow from Financing Activities	(1,626)	(1,198)	(719)	(862)
Chg. in Cash & Bank balance	(8)	67	820	895
Closing cash & balance	116	205	1,190	2,084

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.8	11.1	10.4	12.1
Diluted EPS (Adjusted)	9.8	11.1	10.4	12.1
Cash EPS	10.4	11.8	11.0	12.8
Dividend per share (DPS)	5.0	3.0	5.0	6.0
Book Value per share (BV)	57.5	60.6	66.0	72.1
Dividend Payout (%)	51.0	27.0	48.3	49.6
Growth (%)				
Net Sales	8.4	1.4	(1.6)	10.3
EBITDA	(20.8)	11.9	(7.5)	17.2
EPS (INR)	(17.2)	13.4	(6.8)	16.8
Valuation Ratios (x)				
P/E	20.9	18.4	19.7	16.9
P/CEPS	19.7	17.4	18.5	15.9
P/BV	3.6	3.4	3.1	2.8
EV / EBITDA	16.5	14.5	15.1	12.4
P / Sales	3.1	3.1	3.1	2.8
Dividend Yield (%)	2.4	1.5	2.4	2.9
Operating Ratios				
Gross Profit Margins (%)	52.9	54.1	53.6	53.7
EBITDA Margins (%)	14.9	16.3	15.4	16.3
Effective Tax Rate (%)	17.5	17.5	17.5	17.5
Net Profit Margins (%)	14.7	16.4	15.5	16.4
Working Capital Days	7.0	9.8	9.6	10.2
Inventory Turnover Days	19.8	20.4	20.1	21.2
Fixed Asset Turnover (x)	12.3	12.0	11.3	11.7
Receivables Days	12.3	16.5	16.2	17.1
Payables Days	17.9	15.2	14.9	15.8
Net Debt / Equity (x)	(0.7)	(0.7)	(0.7)	(0.8)
Net Debt / EBITDA (x)	(4.2)	(3.9)	(4.8)	(4.6)
Profitability Ratios				
RoCE (%)	13.3	14.6	12.5	13.5
RoE (%)	16.8	18.8	16.4	17.5
RoIC (%)	49.2	51.7	47.0	56.3

Source Company data, I-Sec research

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