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## Consumer Staples & Discretionary

### Q1FY22 result review and earnings change

Target price Rs400

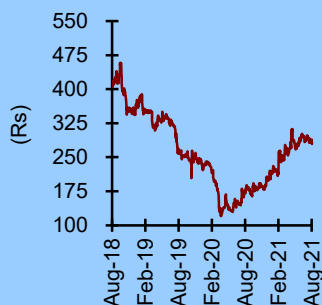
### Earnings revision

(%)	FY22E	FY23E
Sales	↓ 0.2	↑ 1.3
EBITDA	↑ 0.5	↑ 2.3
PAT	↓ 0.6	↑ 6.7

### Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	38.0	38.0	38.0
Institutional investors	41.8	40.3	41.5
MFs and other	16.8	17.7	16.1
FIs/Banks	0.0	0.0	0.0
FPI	25.0	22.6	25.4
Others	20.2	21.7	20.5

### Price chart



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INDIA

## Bajaj Consumer Care

**BUY**  
Maintain

1Q a miss. That said, execution is (likely)  
improving, results (may) follow

**Rs272**

1Q revenue grew 20.4% YoY (adjusted for sanitiser sales), however it declined 4.5% on 2-year CAGR basis. Rural continues to trend well along with some recovery in urban; wholesale continues to be impacted. RM pressure and weak product mix weighed on gross margins. While BaCo continues to execute well, we believe the results should be visible when things normalise. We like its focus on (1) investing in both brand building and distribution expansion and (2) focus on categories beyond ADHO (new product launches – ramping up Amla hair oil and launched Coconut hair oil), (3) new SKUs (filling white spaces). We stay believers - see report series "Value trap vs trapped value" - [link 1](#), [link 2](#) and [link 3](#). BUY.

We are hosting the conference call on August 06, Friday, 1100 hours IST ([Link](#)).

► **Revenue growth driven by continued rural demand and recovery in urban:** Revenue grew 10% YoY to Rs2.2bn; two key things to note here (1) Q1FY21 had sanitiser sales of ~Rs175mn, adjusting for which revenue growth was 20.4% YoY, (2) 2-year revenue CAGR was down 4.5% (weak base). It highlighted that (1) Growth in ADHO is on the back of large packs, (2) urban has shown signs of recovery with retail being the key growth driver, and (3) van operations have got to pre-recent-lockdown levels and will be scaled up further.

General trade revenue grew 6.2%. Revenue from alternate channels (modern trade, e-commerce etc.) grew 39.6% YoY driven strong growth in e-commerce growing and continued recovery in Modern Trade. International business revenue grew 58.6%. Key countries of Nepal, Bangladesh and GCC were impacted due to Covid-led restrictions.

► **Margin decline due to higher input cost and inferior mix:** On a reported basis, gross margin declined 515bps YoY to 59.3% (lowest level in the last seven years). However, the fall in margin is actually higher if we consider the impact of sanitiser sales in Q1 – as mentioned above, sanitiser sales in Q1FY21 was Rs~175mn and we believe its margin would be 40%. The fall in margins was due to (1) input cost inflation (LLP and Refined Mustard Oil price increased by 49% and 47%, respectively, and (2) weak product mix – Bajaj is ramping up Amla Aloe Vera hair oil which has a lower margin than its core product. EBITDA margin was down 472bps YoY to 24.3%.

► **Other highlight:** Bajaj Consumer launched coconut hair oil in July in select states; the 100ml SKU is priced Rs35 compared to Rs40 for Parachute. The distribution will be expanded to west and south India. We believe this is a good initiative as Bajaj looks to have a complete portfolio of hair oils in the medium term.

Market Cap	Rs40.2bn/US\$541mn	Year to Mar (Std)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BACO.BO/BAJAJCO IN	Revenue (Rs mn)	8,178	8,980	9,814	11,017
Shares Outstanding (mn)	147.5	Net Income (Rs mn)	1,906	2,236	2,400	2,755
52-week Range (Rs)	312/164	EPS (Rs)	12.9	15.2	16.3	18.7
Free Float (%)	62.0	% Chg YoY	(15.7)	17.3	7.3	14.8
FII (%)	25.4	P/E (x)	21.1	18.0	16.7	14.6
Daily Volume (US\$/'000)	5,389	CEPS (Rs)	13.3	15.6	16.7	19.1
Absolute Return 3m (%)	2.3	EV/E (x)	16.3	14.1	13.2	11.5
Absolute Return 12m (%)	67.0	Dividend Yield (%)	0.7	3.7	3.9	4.0
Sensex Return 3m (%)	12.6	RoCE (%)	29.4	30.2	29.2	29.8
Sensex Return 12m (%)	46.3	RoE (%)	28.1	28.6	27.7	28.1

Please refer to important disclosures at the end of this report

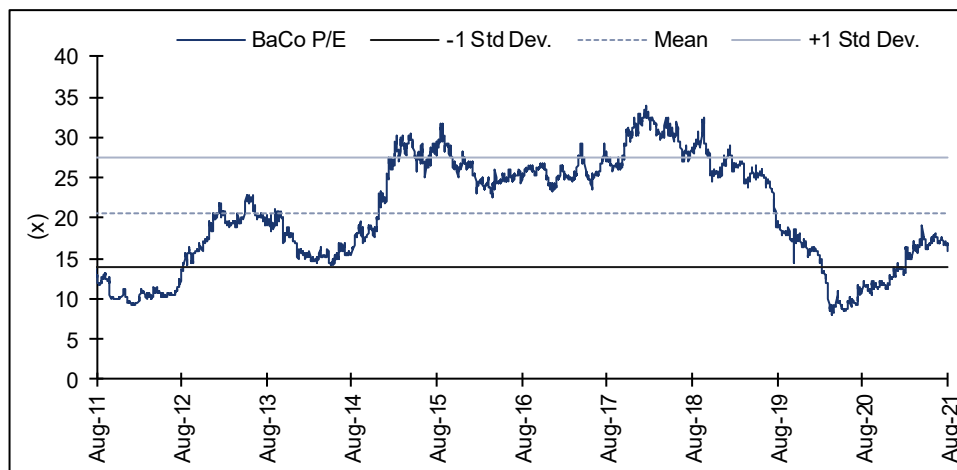
- **Valuation and risks:** We increase our earnings estimates by ~7% for FY23 due to adjustment for tax rate; modelling revenue / EBITDA / PAT CAGR of 11% / 11% / 11% over FY2021-23E. Reiterate **BUY** with DCF-based target price of Rs400. At our target price, the stock will trade at 21x P/E Mar'23E. Key downside risks are over-reliance on a single brand – ADHO and keyman risk (Mr. Jaideep Nandi, MD, who's driving a cultural transformation within Bajaj Consumer and the turnaround).

**Table 1: Q1FY22 result review***(Rs mn, year ending March 31)*

	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Revenue</b>	<b>2,153</b>	<b>1,961</b>	<b>10</b>	<b>2,460</b>	<b>(12)</b>	<b>9,146</b>	<b>8,442</b>	<b>8</b>
COGS	(876)	(697)	26	(953)	(8)	(3,294)	(2,729)	21
<b>Gross profit</b>	<b>1,277</b>	<b>1,264</b>	<b>1</b>	<b>1,507</b>	<b>(15)</b>	<b>5,852</b>	<b>5,713</b>	<b>2</b>
Staff cost	(229)	(214)	7	(208)	10	(822)	(836)	(2)
A&SP	(288)	(260)	11	(426)	(32)	(1,500)	(1,724)	(13)
Other opex	(237)	(220)	7	(265)	(11)	(1,095)	(1,048)	4
Total opex	(753)	(694)	8	(899)	(16)	(3,417)	(3,608)	(5)
<b>EBITDA</b>	<b>523</b>	<b>569</b>	<b>(8)</b>	<b>608</b>	<b>(14)</b>	<b>2,435</b>	<b>2,106</b>	<b>16</b>
Other income	83	106	(21)	63	31	345	299	16
Finance cost	3	4	(14)	3	2	13	42	(69)
D&A	11	14	(23)	15	(26)	58	53	9
<b>PBT</b>	<b>592</b>	<b>657</b>	<b>(10)</b>	<b>653</b>	<b>(9)</b>	<b>2,709</b>	<b>2,309</b>	<b>17</b>
Tax	(103)	(115)	(10)	(114)	(9)	(473)	(403)	17
<b>Recurring PAT</b>	<b>489</b>	<b>542</b>	<b>(10)</b>	<b>539</b>	<b>(9)</b>	<b>2,236</b>	<b>1,906</b>	<b>17</b>
Extraordinary items	-	-	-	-	-	-	-	-
<b>Net profit (reported)</b>	<b>489</b>	<b>542</b>	<b>(10)</b>	<b>539</b>	<b>(9)</b>	<b>2,236</b>	<b>1,906</b>	<b>17</b>
<b>EPS</b>	<b>3.3</b>	<b>3.7</b>	<b>(10)</b>	<b>3.7</b>	<b>(9)</b>	<b>15.2</b>	<b>12.9</b>	<b>17</b>
<b>% of operating revenues</b>								
COGS	40.7	35.6	514 bps	38.7	197 bps	36.0	32.3	369 bps
<b>Gross margin</b>	<b>59.3</b>	<b>64.4</b>	<b>-515 bps</b>	<b>61.3</b>	<b>-198 bps</b>	<b>64.0</b>	<b>67.7</b>	<b>-370 bps</b>
Staff cost	10.6	10.9	-31 bps	8.5	215 bps	9.0	9.9	-92 bps
A&SP cost	13.4	13.3	10 bps	17.3	-395 bps	16.4	20.4	-403 bps
Other opex	11.0	11.2	-24 bps	10.8	21 bps	12.0	12.4	-45 bps
<b>EBITDA margin</b>	<b>24.3</b>	<b>29.0</b>	<b>-472 bps</b>	<b>24.7</b>	<b>-41 bps</b>	<b>26.6</b>	<b>24.9</b>	<b>168 bps</b>
Income tax rate (% of PBT)	17.5	17.5	-1 bps	17.5	-1 bps	17.5	17.5	0 bps

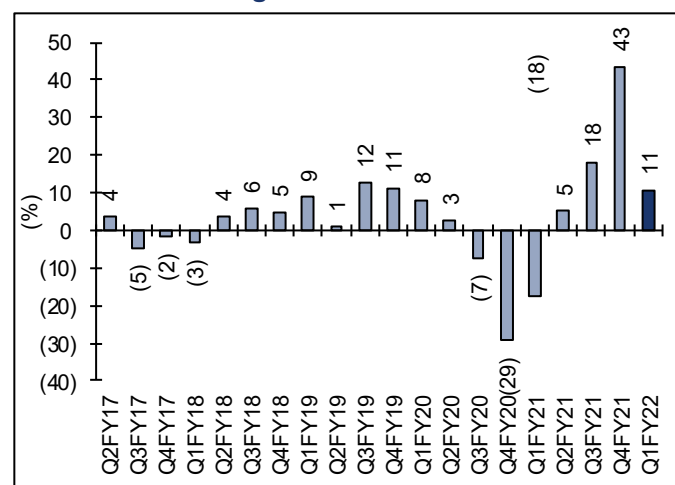
Source: Company data, I-Sec research

Chart 1: P/E bands



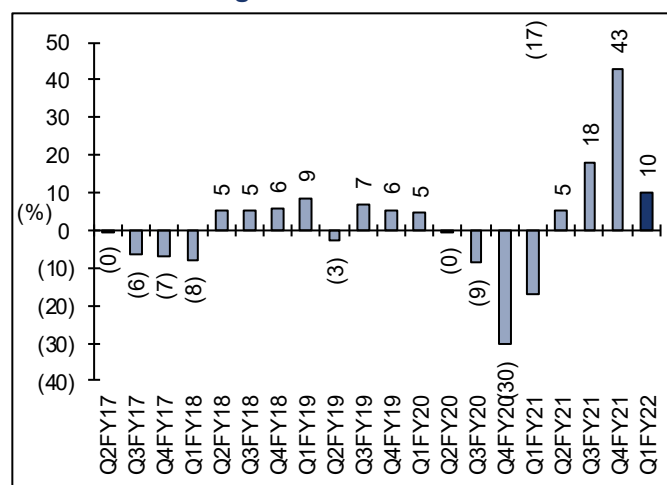
Source: Bloomberg, I-Sec research

Chart 2: Revenue growth



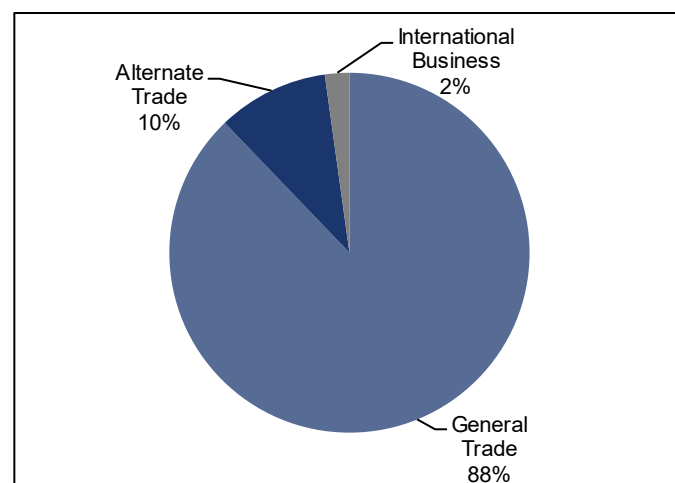
Source: Company data, I-Sec research

Chart 3: Volume growth



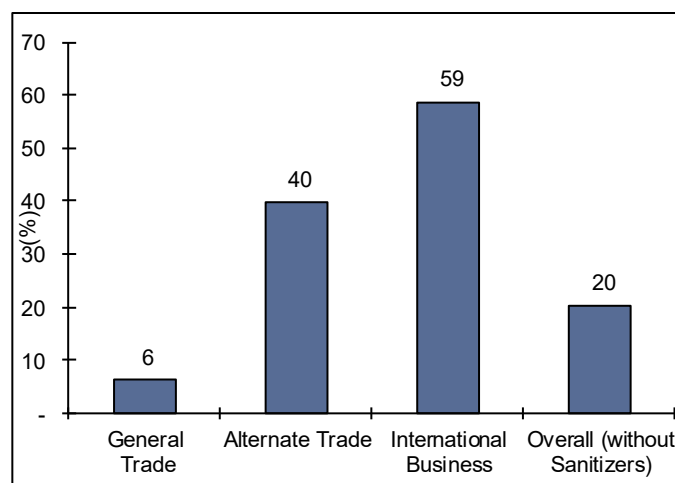
Source: Company data, I-Sec research

Chart 4: Channel salience (revenue) – Q1FY22



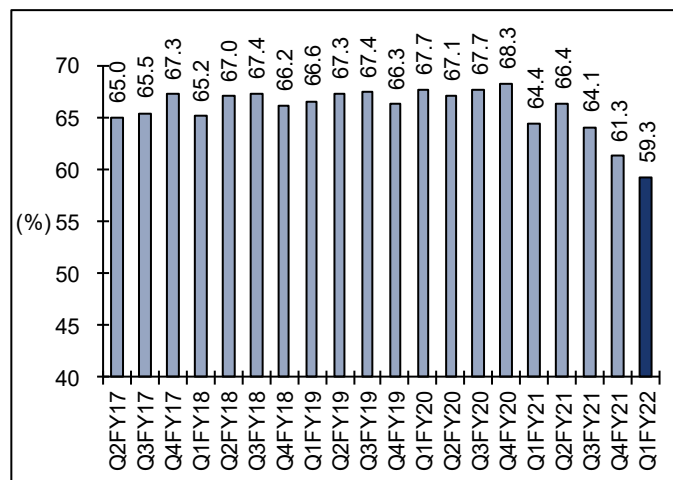
Source: Company data, I-Sec research

Chart 5: Channel value growth - Q1FY22



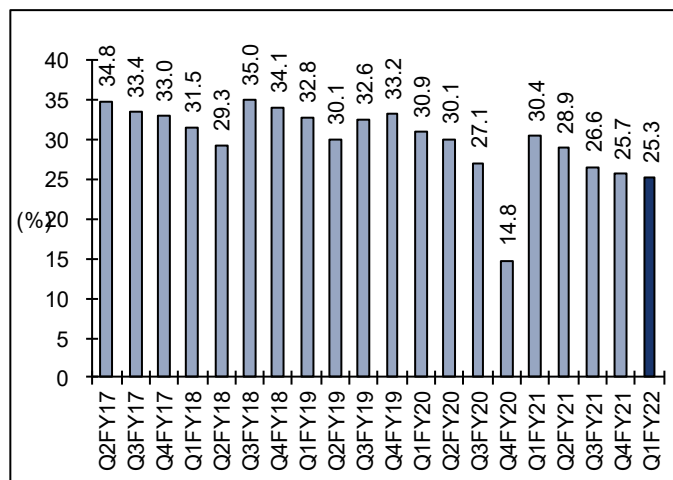
Source: Company data, I-Sec research

Chart 6: Gross margin



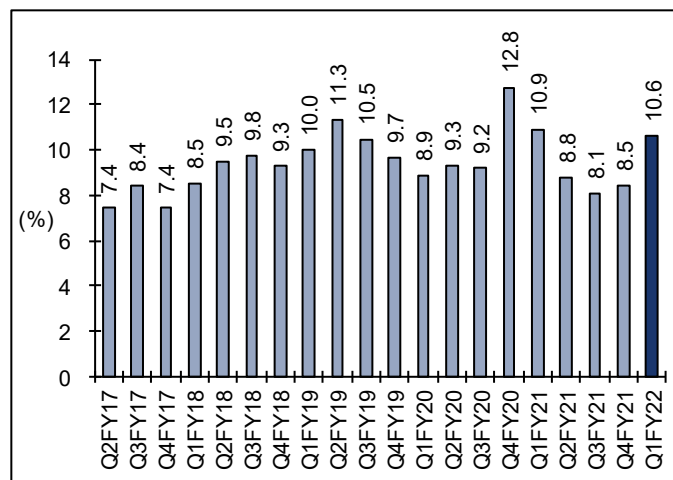
Source: Company data, I-Sec research

Chart 7: EBITDA Margin



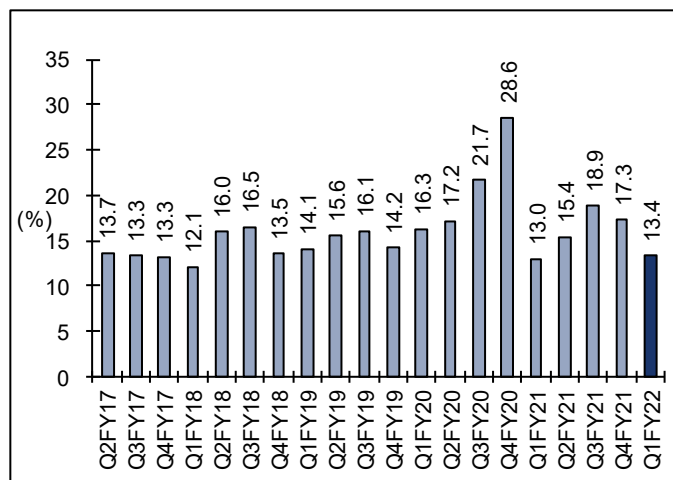
Source: Company data, I-Sec research

Chart 8: Staff costs (% of sales)



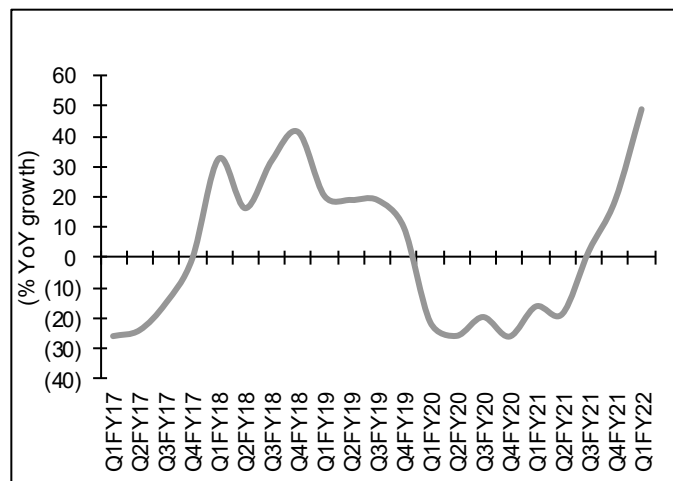
Source: Company data, I-Sec research

Chart 9: Ad-spends (% of sales)



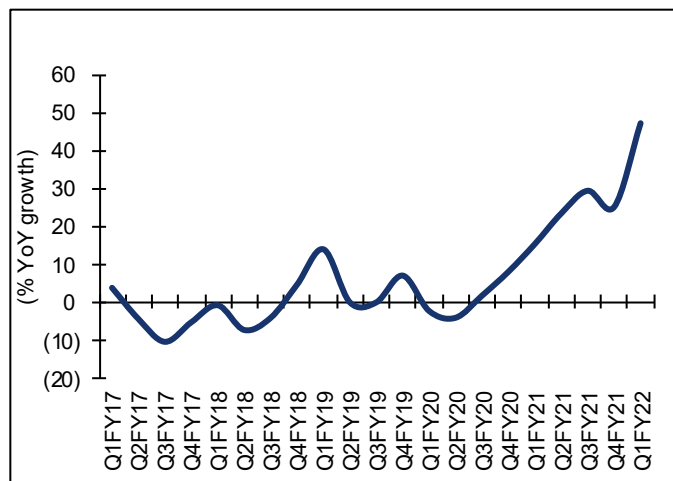
Source: Company data, I-Sec research

Chart 10: LLP price change



Source: Company data, I-Sec research

Chart 11: Refined oil price change



Source: Company data, I-Sec research

## Financial summary

**Table 2: Profit & loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Net Sales &amp; Operating income</b>	<b>8,178</b>	<b>8,980</b>	<b>9,814</b>	<b>11,017</b>
<b>Operating Expenses</b>	<b>6,072</b>	<b>6,545</b>	<b>7,214</b>	<b>8,035</b>
<b>EBITDA</b>	<b>2,106</b>	<b>2,435</b>	<b>2,600</b>	<b>2,982</b>
% margins	25.7	27.1	26.5	27.1
Depreciation & Amortisation	53	58	59	63
Gross Interest	42	13	14	14
Other Income	299	345	381	454
<b>Recurring PBT</b>	<b>2,309</b>	<b>2,709</b>	<b>2,908</b>	<b>3,359</b>
Less: Taxes	403	473	508	605
Less: Minority Interest	-	-	-	-
<b>Net Income (Reported)</b>	<b>1,906</b>	<b>2,236</b>	<b>2,400</b>	<b>2,755</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,906</b>	<b>2,236</b>	<b>2,400</b>	<b>2,755</b>

Source: Company data, I-Sec research

**Table 3: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	6,269	7,110	8,084	9,268
of which cash & cash eqv.	117	87	914	1,936
Total Current Liabilities & Provisions	1,318	1,229	1,343	1,507
<b>Net Current Assets</b>	<b>4,951</b>	<b>5,881</b>	<b>6,741</b>	<b>7,761</b>
Investments	1,482	1,485	1,485	1,485
Net Fixed Assets	447	427	394	481
Capital Work-in-Progress	92	71	71	71
<b>Total Assets</b>	<b>6,972</b>	<b>7,865</b>	<b>8,691</b>	<b>9,798</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>200</b>	<b>50</b>	<b>25</b>	<b>-</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Minority Interest	-	-	-	-
Equity Share Capital	148	148	148	148
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	6,624	7,667	8,518	9,650
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>6,772</b>	<b>7,815</b>	<b>8,666</b>	<b>9,798</b>
<b>Total Liabilities</b>	<b>6,972</b>	<b>7,865</b>	<b>8,691</b>	<b>9,798</b>

Source: Company data, I-Sec research

**Table 4: Quarterly trends**
*(Rs mn, year ending March 31)*

	Sep 20	Dec 20	Mar 21	Jun 21
<b>Net sales</b>	<b>2,253</b>	<b>2,473</b>	<b>2,460</b>	<b>2,153</b>
% growth (YoY)	3.8	16.9	40.3	9.8
<b>EBITDA</b>	<b>627</b>	<b>631</b>	<b>608</b>	<b>523</b>
Margin (%)	27.8	25.5	24.7	24.3
Other income	84	92	63	83
Extraordinaries (Net)	-	-	-	-
<b>Adjusted Net profit</b>	<b>573</b>	<b>582</b>	<b>539</b>	<b>489</b>

Source: Company data, I-Sec research

**Table 5: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>1,639</b>	<b>1,961</b>	<b>2,473</b>	<b>2,832</b>
Working Capital Changes	177	414	(33)	2
Capital Commitments	(47)	(22)	(26)	(150)
<b>Free Cashflow</b>	<b>1,769</b>	<b>2,353</b>	<b>2,414</b>	<b>2,684</b>
<b>Cashflow from Investing Activities</b>	<b>(1,763)</b>	<b>(1,064)</b>	<b>(26)</b>	<b>(150)</b>
Issue of Share Capital	0	0	-	-
Inc (Dec) in Borrowings	(91)	(162)	(39)	(39)
Dividend paid	-	(1,180)	(1,549)	(1,623)
<b>Chg. in Cash &amp; Bank balance</b>	<b>(37)</b>	<b>(31)</b>	<b>826</b>	<b>1,022</b>
Closing cash & balance	117	87	914	1,936

Source: Company data, I-Sec research

**Table 6: Key ratios**
*(Year ending March 31)*

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	12.9	15.2	16.3	18.7
Cash EPS	13.3	15.6	16.7	19.1
Dividend per share (DPS)	2.0	10.0	10.5	11.0
Book Value per share (BV)	45.9	53.0	58.7	66.4
<b>Growth (%)</b>				
Net Sales	(7.2)	8.3	9.5	12.2
EBITDA	(24.4)	15.6	6.8	14.7
PAT	(15.7)	17.3	7.3	14.8
DPS	(85.7)	400.0	5.0	4.8
<b>Valuation Ratios (x)</b>				
P/E	21.1	18.0	16.7	14.6
P/CEPS	20.5	17.5	16.3	14.3
P/BV	5.9	5.1	4.6	4.1
EV / EBITDA	16.3	14.1	13.2	11.5
EV / Sales	4.2	3.8	3.5	3.1
<b>Operating Ratios</b>				
Raw Material / Sales (%)	35.3	38.4	37.8	37.2
Employee cost / Sales (%)	10.2	9.2	9.3	9.2
Other exps / Sales (%)	32.0	27.2	28.5	28.5
Other Income / PBT (%)	12.9	12.7	13.1	13.5
Effective Tax Rate (%)	17.5	17.5	17.5	18.0
Working Capital (days)	18.3	(0.5)	0.7	0.6
Inventory Turnover (days)	27.7	17.3	17.3	17.3
Receivables (days)	12.8	10.6	12.0	12.0
Payables (days)	36.1	27.9	27.9	27.9
Net D/E (x)	(0.6)	(0.8)	(0.8)	(0.8)
<b>Profitability Ratios (%)</b>				
Net Income Margins	22.6	24.4	24.0	24.5
RoACE	29.4	30.2	29.2	29.8
RoAE	28.1	28.6	27.7	28.1
Dividend Payout	15.5	66.0	64.5	58.9
Dividend Yield	0.7	3.7	3.9	4.0
EBITDA Margins	25.7	27.1	26.5	27.1

Source: Company data, I-Sec research

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