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Consumer Staples & Discretionary

Q4FY21 result review and TP change

Target price Rs400

Earnings revision

| (%) | FY22E | FY23E |
|--------|-------|-------|
| Sales | ↑ 2.9 | ↑ 3.9 |
| EBITDA | ↑ 2.1 | ↑ 3.3 |
| PAT | ↑ 1.7 | ↑ 6.3 |

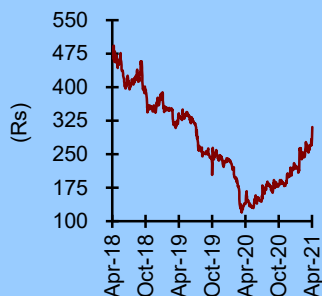
Target price revision

Rs400 from Rs350

Shareholding pattern

| | Sep '20 | Dec '20 | Mar '21 |
|-------------------------|------------|------------|------------|
| Promoters | 38.0 | 38.0 | 38.0 |
| Institutional investors | 41.9 | 41.8 | 40.3 |
| MFs and other | 17.7 | 16.8 | 17.7 |
| FIs/Banks | 0.0 | 0.0 | 0.0 |
| FPI | 24.2 | 25.0 | 22.6 |
| Others | 20.1 | 20.2 | 21.7 |

Price chart



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Bajaj Consumer Care

BUY
Maintain

Improving trajectory; this is a case of "trapped value" and not a value trap. BUY.

Rs312

Q4 volume grew by ~43% (our estimate; 2-year CAGR is flat). The improving fundamentals will likely (continue to) drive stock re-rating, in our view. Final dividend (announcement) of Rs4 (total of Rs10 for FY21; see Table 1 for dividend history) further allays consensus concerns (if any) on cash utilisation. 4Q revenue grew 40% (2-year CAGR of 1%). We like the renewed thrust on – (1) product relaunch (upgraded formulation), (2) new SKUs (filling white spaces), (3) communication (integrated campaign, thrust on digital and improved brand visibility across retail outlets) and (4) focus on categories beyond ADHO (Amla (gooseberry) market share gains through distribution expansion, new product launches). We stay believers - see report series "Value trap vs trapped value" - [link 1](#), [link 2](#) and [link 3](#). Retain BUY and top pick status.

We are hosting the conference call on April 20, Tuesday, 1100 hours IST ([Link](#)).

- **Revenue growth driven by continued rural demand and recovery in urban:** Revenue / EBITDA / PAT grew 40% / 157% / 120% respectively. Domestic volume growth (+43% - our estimate) was driven by 1) distribution drive, 2) continuous media presence and 3) focus on overall hair oil category. Hair oil category stabilised in Jan-Feb'21 with 1% value growth (3% volume growth). However, BaCo has significantly outperformed the hair oil category despite largely having presence in premium hair oil. General trade revenue grew 40% driven by rural growth of 61% and urban growth of 23%. Revenue from alternate channels (modern trade, e-commerce etc.) grew 61% YoY driven by e-commerce growing ~4x, continued recovery in Modern Trade. International business revenue grew 84%.
- **Margin decline due to higher input cost and inferior mix:** Gross margin declined 700bps YoY to 61.3% due to input cost inflation (LLP and Refined Mustard Oil price increased by 21% and 25% YoY respectively) and inferior mix. However, EBITDA margin expanded by 1,120bps YoY to 24.7% largely due to low base (lower absorption of costs due to negative operating leverage).
- **Other highlights:** 1) OCF / FCF grew by 31% / 33% to Rs2.4bn respectively, 2) working capital days improved by 4 days to zero days, 3) declared final dividend of Rs4 (Rs10 in FY21), 4) overall reach increased from 4mn to 4.3mn (increased from 2.6mn to 3.9mn for Amla Hair Oil), and 5) launched Bajaj Amla Aloe Vera.
- **Valuation and risks:** We increase our earnings estimates by 6% for FY23; modelling revenue / EBITDA / PAT CAGR of 10% / 9% / 7% over FY2021-23E. Reiterate BUY with DCF-based revised target price of Rs400 (was Rs350 earlier). At our target price, the stock will trade at 23x 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).

| Market Cap | Rs45.9bn/US\$613mn | Year to Mar (Std) | FY20 | FY21P | FY22E | FY23E |
|--------------------------|--------------------|--------------------|--------|-------|-------|--------|
| Reuters/Bloomberg | BACO.BO/BAJAJCO IN | Revenue (Rs mn) | 8,178 | 8,980 | 9,837 | 10,877 |
| Shares Outstanding (mn) | 147.5 | Net Income (Rs mn) | 1,906 | 2,236 | 2,415 | 2,581 |
| 52-week Range (Rs) | 311/129 | EPS (Rs) | 12.9 | 15.2 | 16.4 | 17.5 |
| Free Float (%) | 62.0 | % Chg YoY | (15.7) | 17.3 | 8.0 | 6.9 |
| FII (%) | 22.6 | P/E (x) | 24.2 | 20.6 | 19.1 | 17.8 |
| Daily Volume (US\$/'000) | 4,180 | CEPS (Rs) | 13.3 | 15.6 | 16.8 | 17.9 |
| Absolute Return 3m (%) | 43.5 | EV/E (x) | 19.1 | 16.5 | 15.5 | 13.8 |
| Absolute Return 12m (%) | 103.7 | Dividend Yield (%) | 0.6 | 3.2 | 3.4 | 3.5 |
| Sensex Return 3m (%) | (2.8) | RoCE (%) | 29.4 | 30.2 | 29.0 | 29.6 |
| Sensex Return 12m (%) | 53.4 | RoE (%) | 28.1 | 28.6 | 27.8 | 26.8 |

Please refer to important disclosures at the end of this report

Table 1: Dividend History

| Financial year | Dividend per share (Rs) | as a % of Face Value |
|----------------|-------------------------|----------------------|
| FY11 | 2 | 41 |
| FY12 | 6 | 590 |
| FY13 | 7 | 650 |
| FY14 | 7 | 650 |
| FY15 | 12 | 1,150 |
| FY16 | 11 | 1,150 |
| FY17 | 11 | 1,150 |
| FY18 | 12 | 1,200 |
| FY19 | 14 | 1,400 |
| FY20 | 2 | 200 |
| FY21 | 10 | 1,000 |

Source: Company data, I-Sec research

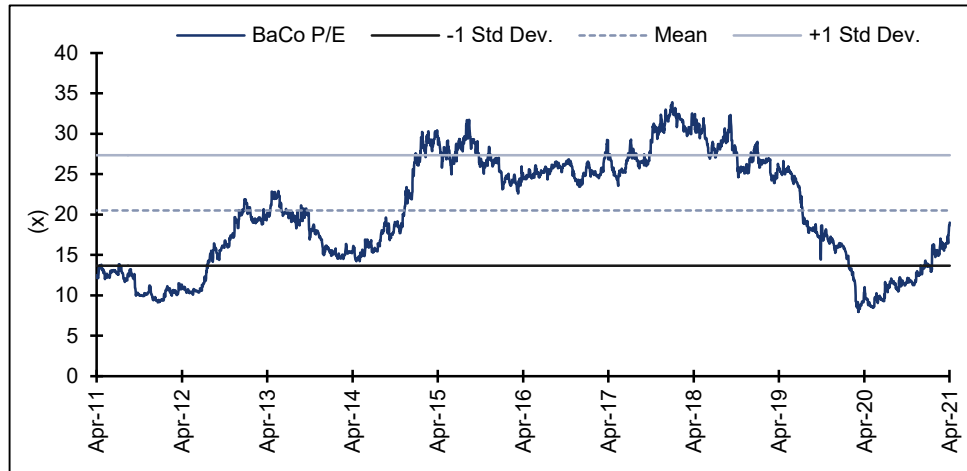
Table 2: Q4FY21 result review

(Rs mn, year ending March 31)

| | Q4FY21 | Q4FY20 | YoY (%) | Q3FY21 | QoQ (%) | FY21 | FY20 | YoY (%) |
|--------------------------------|--------------|--------------|------------|--------------|------------|--------------|--------------|-----------|
| Net Revenue | 2,460 | 1,754 | 40 | 2,473 | (1) | 9,146 | 8,442 | 8 |
| COGS | (953) | (556) | 71 | (887) | 7 | (3,294) | (2,729) | 21 |
| Gross profit | 1,507 | 1,197 | 26 | 1,586 | (5) | 5,852 | 5,713 | 2 |
| Staff cost | (208) | (224) | (7) | (201) | 4 | (822) | (836) | (2) |
| A&SP | (426) | (502) | (15) | (466) | (9) | (1,494) | (1,724) | (13) |
| Other opex | (265) | (236) | 13 | (287) | (8) | (1,100) | (1,048) | 5 |
| Total opex | (899) | (961) | (6) | (954) | (6) | (3,417) | (3,608) | (5) |
| EBITDA | 608 | 236 | 157 | 631 | (4) | 2,435 | 2,106 | 16 |
| Other income | 63 | 84 | (24) | 92 | (31) | 345 | 299 | 16 |
| Finance cost | 3 | 9 | (64) | 3 | 4 | 13 | 42 | (69) |
| D&A | 15 | 14 | 7 | 15 | (1) | 58 | 53 | 9 |
| PBT | 653 | 297 | 120 | 706 | (7) | 2,709 | 2,309 | 17 |
| Tax | (114) | (52) | 121 | (123) | (7) | (473) | (403) | 17 |
| Recurring PAT | 539 | 245 | 120 | 582 | (7) | 2,236 | 1,906 | 17 |
| Extraordinary items | - | - | - | - | - | - | - | - |
| Net profit (reported) | 539 | 245 | 120 | 582 | (7) | 2,236 | 1,906 | 17 |
| EPS | 3.7 | 1.7 | 120 | 3.9 | (7) | 15.2 | 12.9 | 17 |
| % of operating revenues | | | | | | | | |
| COGS | 38.7 | 31.7 | 700 bps | 35.9 | 284 bps | 36.0 | 32.3 | 369 bps |
| Gross margin | 61.3 | 68.3 | -701 bps | 64.1 | -285 bps | 64.0 | 67.7 | -370 bps |
| Staff cost | 8.5 | 12.8 | -431 bps | 8.1 | 34 bps | 9.0 | 9.9 | -92 bps |
| A&SP cost | 17.3 | 28.6 | -1130 bps | 18.9 | -155 bps | 16.3 | 20.4 | -409 bps |
| Other opex | 10.8 | 13.4 | -265 bps | 11.6 | -84 bps | 12.0 | 12.4 | -39 bps |
| EBITDA margin | 24.7 | 13.5 | 1124 bps | 25.5 | -83 bps | 26.6 | 24.9 | 168 bps |
| Income tax rate (% of PBT) | 17.5 | 17.4 | 5 bps | 17.5 | 0 bps | 17.5 | 17.5 | 0 bps |

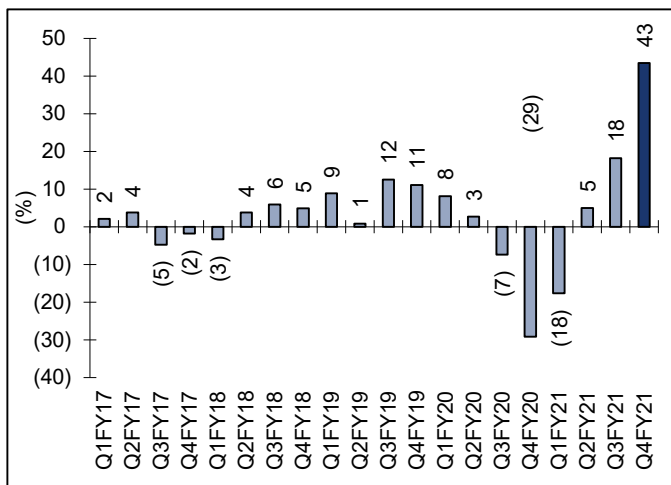
Source: Company data, I-Sec research

Chart 1: P/E bands



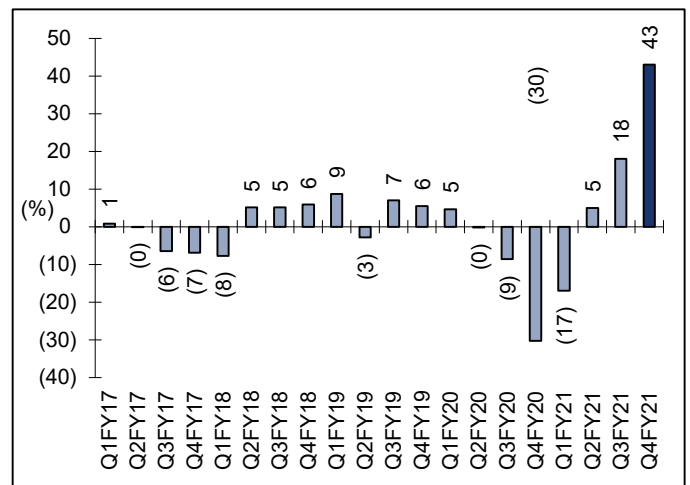
Source: Bloomberg, I-Sec research

Chart 2: Revenue growth



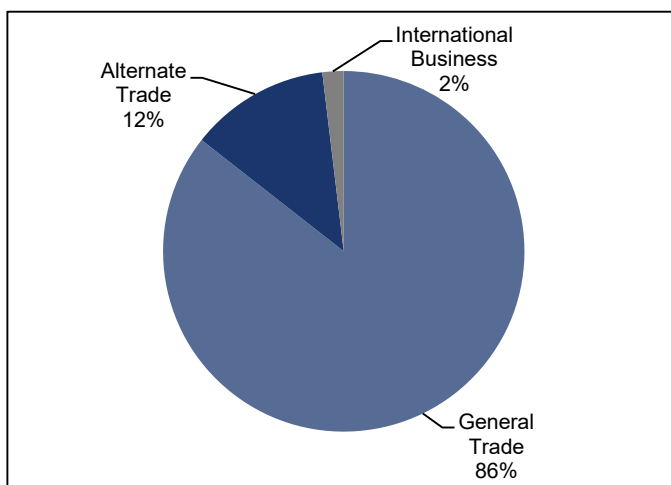
Source: Company data, I-Sec research

Chart 3: Volume growth



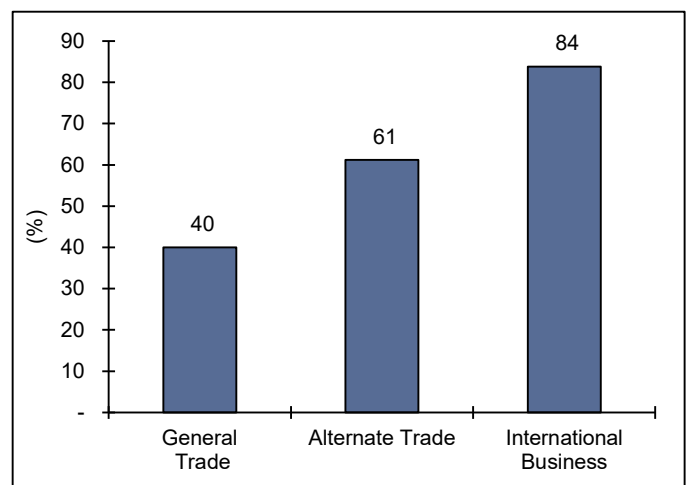
Source: Company data, I-Sec research

Chart 4: Channel salience (revenue) – Q4FY21



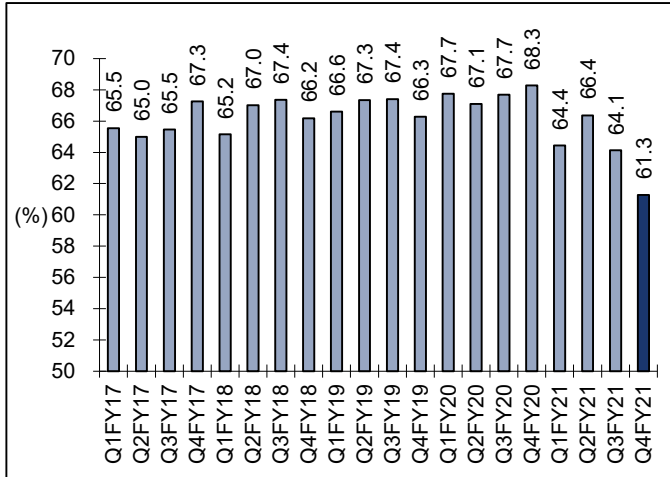
Source: Company data, I-Sec research

Chart 5: Channel value growth (Q4FY21)



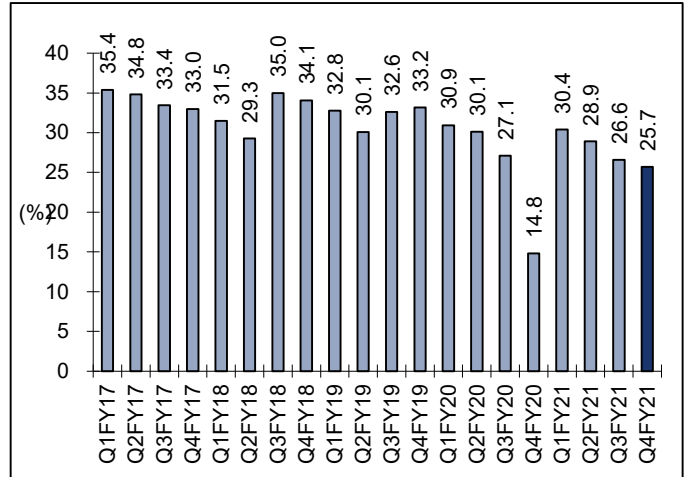
Source: Company data, I-Sec research

Chart 6: Gross margin



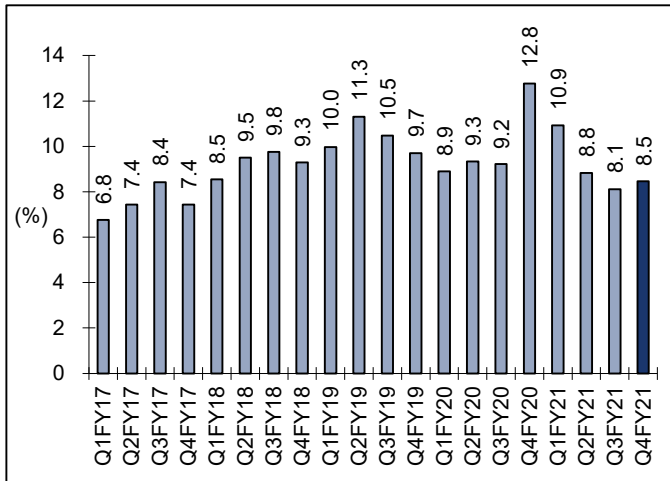
Source: Company data, I-Sec research

Chart 7: EBITDA Margin



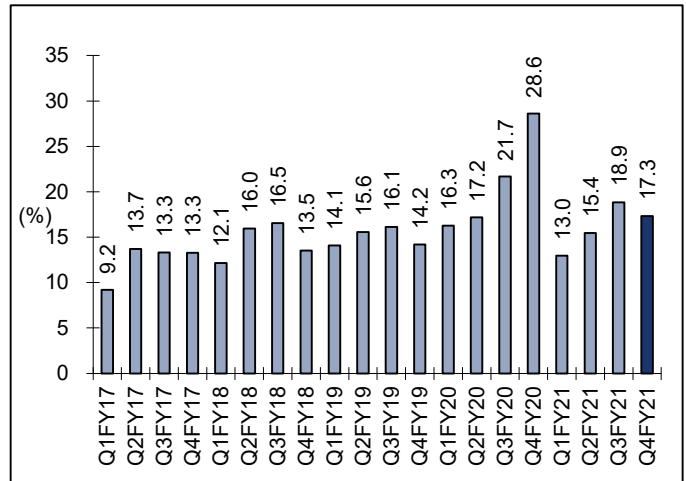
Source: Company data, I-Sec research

Chart 8: Staff costs (% of sales)



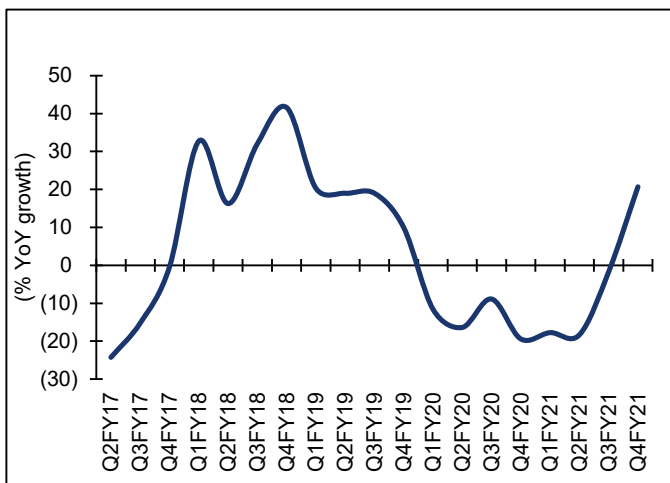
Source: Company data, I-Sec research

Chart 9: Ad-spends (% of sales)



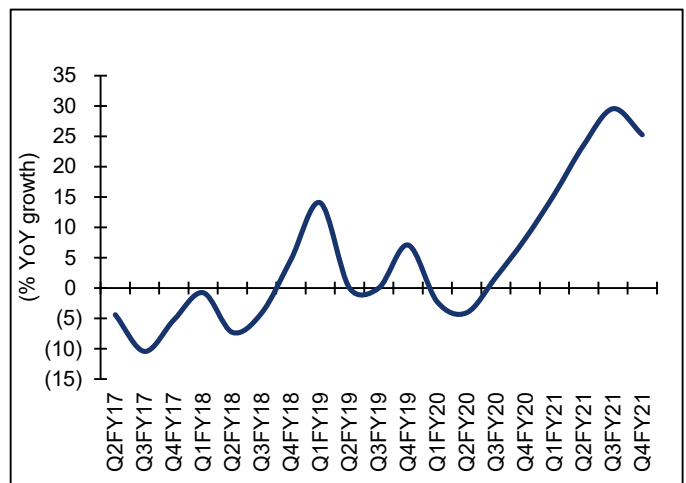
Source: Company data, I-Sec research

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 3: Profit & loss statement
(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---|--------------|--------------|--------------|---------------|
| Net Sales & Operating income | 8,178 | 8,980 | 9,837 | 10,877 |
| Operating Expenses | 6,072 | 6,545 | 7,252 | 7,960 |
| EBITDA | 2,106 | 2,435 | 2,586 | 2,916 |
| <i>% margins</i> | 25.7 | 27.1 | 26.3 | 26.8 |
| Depreciation & Amortisation | 53 | 58 | 60 | 63 |
| Gross Interest | 42 | 13 | 14 | 14 |
| Other Income | 299 | 345 | 414 | 611 |
| Recurring PBT | 2,309 | 2,709 | 2,926 | 3,450 |
| Less: Taxes | 403 | 473 | 511 | 868 |
| Less: Minority Interest | - | - | - | - |
| Net Income (Reported) | 1,906 | 2,236 | 2,415 | 2,581 |
| Extraordinaries (Net) | - | - | - | - |
| Recurring Net Income | 1,906 | 2,236 | 2,415 | 2,581 |

Source: Company data, I-Sec research

Table 4: Balance sheet
(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|--|--------------|--------------|--------------|--------------|
| Assets | | | | |
| Total Current Assets | 6,269 | 7,110 | 8,103 | 9,092 |
| <i>of which cash & cash eqv.</i> | 117 | 87 | 968 | 1,821 |
| Total Current Liabilities & Provisions | 1,318 | 1,229 | 1,346 | 1,488 |
| Net Current Assets | 4,951 | 5,881 | 6,757 | 7,604 |
| Investments | 1,482 | 1,485 | 1,485 | 1,485 |
| Net Fixed Assets | 447 | 427 | 393 | 480 |
| Capital Work-in-Progress | 92 | 71 | 71 | 71 |
| Total Assets | 6,972 | 7,865 | 8,706 | 9,640 |
| Liabilities | | | | |
| Borrowings | 200 | 50 | 25 | - |
| Deferred Tax Liability | - | - | - | - |
| Minority Interest | - | - | - | - |
| Equity Share Capital | 148 | 148 | 148 | 148 |
| <i>Face Value per share (Rs)</i> | 1 | 1 | 1 | 1 |
| Reserves & Surplus* | 6,624 | 7,667 | 8,533 | 9,492 |
| Less: Misc. Exp. n.w.o. | - | - | - | - |
| Net Worth | 6,772 | 7,815 | 8,681 | 9,640 |
| Total Liabilities | 6,972 | 7,865 | 8,706 | 9,640 |

Source: Company data, I-Sec research

Table 5: Quarterly trends
(Rs mn, year ending March 31)

| | Jun 20 | Sep 20 | Dec 20 | Mar 21 |
|----------------------------|--------------|--------------|--------------|--------------|
| Net sales | 1,961 | 2,253 | 2,473 | 2,460 |
| <i>% growth (YoY)</i> | (18.4) | 3.8 | 16.9 | 40.3 |
| EBITDA | 569 | 627 | 631 | 608 |
| Margin (%) | 29.0 | 27.8 | 25.5 | 24.7 |
| Other income | 106 | 84 | 92 | 63 |
| Extraordinaries (Net) | - | - | - | - |
| Adjusted Net profit | 542 | 573 | 582 | 539 |

Source: Company data, I-Sec research

Table 6: Cashflow statement
(Rs mn, year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---|----------------|----------------|--------------|--------------|
| Operating Cashflow | 1,639 | 1,961 | 2,489 | 2,659 |
| Working Capital Changes | 177 | 414 | 5 | 6 |
| Capital Commitments | (47) | (22) | (26) | (150) |
| Free Cashflow | 1,769 | 2,353 | 2,468 | 2,515 |
| Cashflow from Investing Activities | (1,763) | (1,064) | (26) | (150) |
| Issue of Share Capital | 0 | 0 | - | - |
| Inc (Dec) in Borrowings | (91) | (162) | (39) | (39) |
| Dividend paid | - | (1,180) | (1,549) | (1,623) |
| Chg. in Cash & Bank balance | (37) | (31) | 880 | 853 |
| Closing cash & balance | 117 | 87 | 968 | 1,821 |

Source: Company data, I-Sec research

Table 7: Key ratios
(Year ending March 31)

| | FY20 | FY21P | FY22E | FY23E |
|---------------------------------|--------|-------|-------|-------|
| Per Share Data (Rs) | | | | |
| EPS | 12.9 | 15.2 | 16.4 | 17.5 |
| Cash EPS | 13.3 | 15.6 | 16.8 | 17.9 |
| Dividend per share (DPS) | 2.0 | 10.0 | 10.5 | 11.0 |
| Book Value per share (BV) | 45.9 | 53.0 | 58.9 | 65.4 |
| Growth (%) | | | | |
| Net Sales | (7.2) | 8.3 | 9.8 | 10.6 |
| EBITDA | (24.4) | 15.6 | 6.2 | 12.8 |
| PAT | 27.4 | 29.6 | 29.1 | 31.1 |
| DPS | (85.7) | 400.0 | 5.0 | 4.8 |
| Valuation Ratios (x) | | | | |
| P/E | 24.2 | 20.6 | 19.1 | 17.8 |
| P/CEPS | 23.5 | 20.1 | 18.6 | 17.4 |
| P/BV | 6.8 | 5.9 | 5.3 | 4.8 |
| EV / EBITDA | 19.1 | 16.5 | 15.5 | 13.8 |
| EV / Sales | 4.9 | 4.5 | 4.1 | 3.7 |
| Operating Ratios | | | | |
| Raw Material / Sales (%) | 35.3 | 38.7 | 38.4 | 38.0 |
| Employee cost / Sales (%) | 10.2 | 9.2 | 9.5 | 9.4 |
| Other exps / Sales (%) | 32.0 | 26.9 | 28.0 | 27.8 |
| Other Income / PBT (%) | 12.9 | 12.7 | 14.2 | 17.7 |
| Effective Tax Rate (%) | 17.5 | 17.5 | 17.5 | 25.2 |
| Working Capital (days) | 18.3 | (0.5) | (0.7) | (0.8) |
| Inventory Turnover (days) | 27.7 | 17.3 | 17.3 | 17.3 |
| Receivables (days) | 12.8 | 10.6 | 10.6 | 10.6 |
| Payables (days) | 36.1 | 27.9 | 27.9 | 27.9 |
| Net D/E (x) | (0.6) | (0.8) | (0.8) | (0.8) |
| Profitability Ratios (%) | | | | |
| Net Income Margins | 22.6 | 24.4 | 24.0 | 23.2 |
| RoACE | 29.4 | 30.2 | 29.0 | 29.6 |
| RoAE | 28.1 | 28.6 | 27.8 | 26.8 |
| Dividend Payout | 15.5 | 66.0 | 64.1 | 62.9 |
| Dividend Yield | 0.6 | 3.2 | 3.4 | 3.5 |
| EBITDA Margins | 25.7 | 27.1 | 26.3 | 26.8 |

Source: Company data, I-Sec research

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