

# Bajaj Electricals

## Strong all-round performance with market share gains; remain cautious at current valuations

- ✓ **Our View** - This is second consecutive quarter of earnings beat for the company led by solid performance of Consumer products division. Company has been strategically reducing its exposure to EPC business. Given that there has been a sharp re-rating given an improving balance sheet and prudent capital allocation, further re-rating would be dependent on sustenance of strong growth rates in the consumer business, which might be difficult in the near term. We remain cautious on the name at current valuations.
- ✓ **Margins and Cashflow** - Gross margin for the consumer business has seen improvement on change in product mix. Cashflow from operations continue to remain healthy at Rs 1.4bn bulk of which is used to repay debt. Debt levels has gone down on QoQ basis. Large part of margin improvement in consumer business is sustainable. Long term goal is to improve margins on sustainable basis.
- ✓ **Consumer business** - Growth in consumer business is 34% of which Appliances business grew 36%, Fans 28%, Lighting 18% and Morphy Richards 69%. Margins in this segment has improved sharply to 12.3% led by combination of cost controls and operating leverage playing out. Some part of the costs is likely to come back with A&P spends being restored in Q3. A&P spends stood at 3.9% of sales vs 2.9% in 3QFY20. Market share has increased at the expense of smaller and unorganized players.
- ✓ **EPC** - EPC receivables has come down to Rs16bn of which Rs6.9bn is receivables from UP project. There has been some recovery in Q3 leading to reduction in receivables. Company has adopted calibrated approach to bring down EPC revenue. EPC is expected to turn around to profit by 2HFY22. EPC losses are not expected to remain at elevated levels as earlier. Receivables have been fully provided. Company is comfortable with EPC business at 25% of the overall revenue.
- ✓ **Order book** - Company's order book stands at Rs12.2bn of which Transmission lines is Rs3.8bn, Power distribution is Rs5bn and Illumination is Rs3.3bn.
- ✓ **Channel inventory and supply chain** - Channel inventory is at optimal level as Bajaj operates on inventory replenishment model under RREP and TOC. Supply side challenges continues to persist and is expected to remain for next 2 quarters. This will give opportunity for market share gains for organized players.
- ✓ **Distribution and Channel expansion** - Dealer additions in Q3 stood at 530 vs 501 in Q2FY21. Online business saw growth of 79% yoy and now contributes 11% to the consumer business revenue. All channels except Canteen sales department and Police canteens are firing.
- ✓ **Price hikes and new launches** - Price hikes have been taken from 1<sup>st</sup> Jan to the tune of 5-9% depending on category at the current juncture is sufficient to cover for increased commodity prices.
- ✓ **Premiumization** - Company is looking to increase its offering in premium segment across all product categories and churn out more products quickly with strong emphasis on R&D.

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**Exhibit 1: Quarterly Summary**

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Net Sales	12,839	12,177	15,001	16.8	23.2
Raw Material	9106	8589	10520	15.5	22.5
as % of sales	70.9	70.5	70.1		
Employee Cost	965	947	922	(4.5)	(2.6)
as % of sales	7.5	7.8	6.1		
Other operating expenses	2094	1594	2085	(0.4)	30.8
as % of sales	16.3	13.1	13.9		
Total Expenditure	12165	11129	13527	11.2	21.5
EBITDA	673	1048	1475	119.0	40.7
EBITDA Margin	5.2	8.6	9.8		
Other Income	72	90	224	213.3	149.5
EBIDT	745	1138	1699	128.1	49.3
Depreciation	187	190	197	5.5	3.6
Interest	397.2	220.0	164.7	(58.5)	(25.1)
Share of profit / (loss) of an associate and a joint venture	-8	0	0		
PBT	153	728	1338	776.0	83.8
Exceptional	0.0	0.0	0.0		
PBT After Exceptional	153	728	1338	776.0	83.8
Tax	59	197	356	503.1	80.9
ETR	38.6	27.0	26.6		
PAT	94	531	982	947.8	84.9

Rs mn	Q3FY20	Q2FY21	Q3FY21	YoY (%)	QoQ (%)
Consumer Products	8,602	7,922	11,528	34.0	45.5
EPC	4,235	4,253	3,472	(18.0)	(18.4)
Others	2	3	1	(35.0)	(53.6)
Net Sales	12,839	12,177	15,001	16.8	23.2
PBIT					
Consumer Products	662	848	1422	114.9	67.7
PBIT %	7.7	10.7	12.3		
EPC	-138	66	-91	(34.4)	(238.0)
PBIT %	-3.3	1.5	-2.6		
Others	1	1	-1	(244.4)	(316.7)
PBIT %	45.0	21.4	-100.0		
Total PBIT	524	915	1,330	153.7	45.4
Finance Costs	397	220	165	(58.5)	(25.1)
Unallocable expense	-34	-33	-172	407.1	417.7
as % of sales	-0.3	-0.3	-1.1		
Exceptional	0	0	0		
Share of profit / (loss) of an associate and a joint venture	-8	0	0		
PBT	153	728	1338	776.0	83.8

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