

# Bajaj Electricals Ltd

ADD

CMP Rs1,128

Target Rs1,193

Upside 5.5%

## Consumer products outperformance now priced in; downgrade to ADD

### Result Highlights

- ✓ **Quarter summary** – Bajaj Electricals missed revenue estimates largely on lower revenue from EPC segment. Consumer products business delivered better than expected revenue growth. Gross margins expanded on favorable business mix towards consumer products.
- ✓ **Consumer products business** – Consumer products registered 30.6% growth. All product categories except lighting led to growth in consumer business (Appliances +37%, Fans +36%, Morphy Richards +30% and Lighting -4%. Higher base led to growth being lower than peers.
- ✓ **EPC business** – EPC business saw 49% revenue decline with an EBIT loss of Rs79mn. This decline is in line with management initiatives of limiting power distribution business which has been a pain point for the company.
- ✓ **Working capital** – Working capital cycle has seen reduction to 122 days as on Mar'21 vs 135 days as on Mar'20 despite company making conscious decision to carry higher inventory to the tune of Rs1700mn. Reduction in working capital is on back of lower revenue from the EPC business.

**Valuation and view** – 4Q saw continuing growth momentum in consumer products, while EPC business saw subdued execution. All products except lighting continue to do well for the company. EPC business continues to see clean-up and is expected to be profitable from 3QFY22. Increased efficiencies and change in business mix led to EBITDA margin expansion despite higher A&P spends. Merger of Starlite Lighting with company should bring in additional efficiencies.

**We expect strong growth momentum to continue in consumer products business, with profitably returning in the EPC business 2HFY22 onwards. Company's strategy of carrying higher inventory will help them to better navigate commodity inflation headwinds. We expect FY21-23E Revenue/EBITDA/PAT CAGR of 14%/33%/44% and arrive at a PT of Rs1,193 valuing the company at 35x FY23 EPS. We downgrade to ADD from Buy given limited room for further upside post the strong run-up in recent past.**

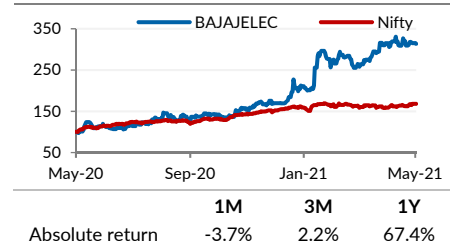
### Exhibit 1: Result table

(Rs mn)	Q4FY21	Q4FY20	% yoy	Q3FY21	% qoq
Total sales	12,585	13,007	(3.2)	15,001	(16.1)
EBITDA	726	373	94.6	1475	(50.7)
EBITDAM (%)	5.8	2.9		9.8	
Depreciation	179	195	-8.5	197	(9.2)
Interest	108	361	(70.1)	164.7	(34.6)
Other income	307	169	81.7	224	37.0
PBT	747	(14)	Nm	1338	(44.1)
Tax	175	(13)	Nm	356	(50.8)
Adjusted PAT	543	(8)	Nm	982	(44.7)
Reported PAT	543	(8)	Nm	982	(44.7)
PATM (%)	4.3	(0.1)		6.5	
EPS (Rs)	4.7	(0.1)		8.6	

### Stock data (as on May 25, 2021)

Nifty:	15,208
52 Week h/l (Rs)	1,224/349
Market cap (Rs/USD mn)	129,558/1,780
Outstanding Shares	115
6m Avg t/o (Rs mn):	337
Div yield (%):	NA
Bloomberg code:	BJE IN
NSE code:	BAJAJELEC

### Stock performance



### Shareholding pattern (As of Mar'21 end)

Promoter	63.2%
FII+DII	22.8%
Others	14.0%

### Financial Summary

(Rs mn)	FY21	FY22e	FY23e
Net Revenue	45,846	53,657	60,096
YoY Growth	-8.1%	17.0%	12.0%
EBITDA	3,032	4,259	5,344
Margins (%)	6.6	7.9	8.9
PAT	1,890	2,736	3,904
YoY Growth	NM	44.8%	42.7%
ROE	11.1	16.3	20.1
ROCE	15.1	21.3	25.5
EPS	16.5	23.9	34.1
P/E	68.6	47.4	33.2
EV/EBITDA	43.5	30.2	23.4

### Change in earnings estimates

	FY21	FY22e	FY23e
EPS (New)	16.5	23.9	34.1
EPS (Old)	16.5	19.9	30.9
% Change	NA	20.1	10.4

### Change in Rating and TP

	Rating	TP
New	ADD	1,193
Old	BUY	1,081

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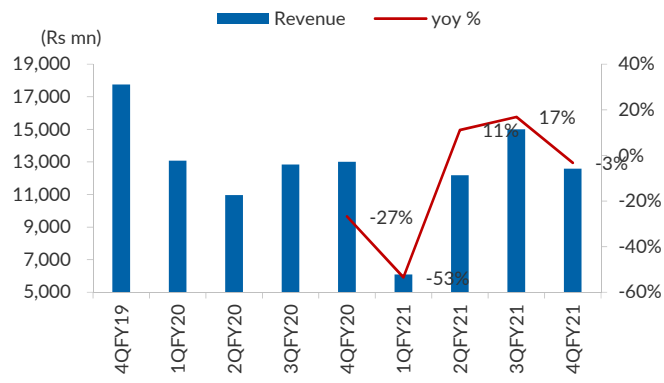
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## CONCALL TAKEAWAYS

- ✓ **Margins and Cashflow** – Gross margin for the consumer business has seen improvement as the company had taken price increase in Jan'20 and also benefitted from low priced inventory. Cashflow from operations continue to remain healthy at Rs500mn after adjusting for the Rs1700mn higher inventory which has been a conscious decision. Gross debt levels have 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 31% (Appliances +37%, Fans +36%, Morphy Richards +30% and lighting -4%); however, it is on back of higher base in Mar'20. Demand scenario need to be watched and expect pent up demand may not be as strong as previous year but there could be some spurt in demand for June. April demand has been much better than previous year but may has been below last year. Urban still contributes 2/3<sup>rd</sup> of the CD revenue. Expect urban to grow faster than rural this year as second wave has impacted rural more than urban. BJE is relative weak in Kitchen and Appliances in southern region. Revenue contribution East 31%, West 27%, North 26% and South 16%.
- ✓ **Starlite Merger** - Company has decided to merge Starlite Lighting with itself as that company has been of strategic importance and it will be prudent to merge and improve efficiencies.
- ✓ **EPC** – EPC receivables has come down to Rs14.7bn of which Rs5.63bn is receivables from UP project and Rs4bn from Bihar. Company is focusing on transmission and illumination which has seen increase in order book. In power distribution, the pain point, company is just focusing on completion of orders and recover receivables. Expect losses in EPC to be done away by Q2FY22, however due to second wave it could extend to Q3FY23.
- ✓ **Order book** – Company's order book stands at Rs11.1bn of which Transmission lines is Rs4.7bn, Power distribution is Rs2.24bn and Illumination is Rs4.1bn. Order book quality has improved as power distribution which had been the pain point for the company.
- ✓ **Inventory and supply chain** – Company has made conscious decision to keep higher inventory at the end of March. Company is carrying Rs1700mn of higher inventory as on March'21. Higher inventory is due to learnings of last year's COVID.
- ✓ **Price hikes and new launches** - Company has taken 6-8% price hike in Jan and another 3-4% from 1<sup>st</sup> of May which will now be effective post unlocking. Company has launched 170 SKU's in FY21.
- ✓ **Competitive intensity** – Competitive intensity continues to remain high as it consumer durables business has low entry barriers. Distribution and scale could provide advantage for any company.

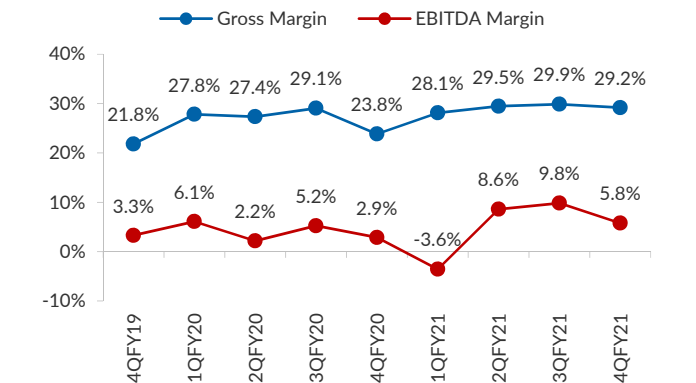
## CHARTS

**Exhibit 2: Revenue decline is on back of limiting of project business**



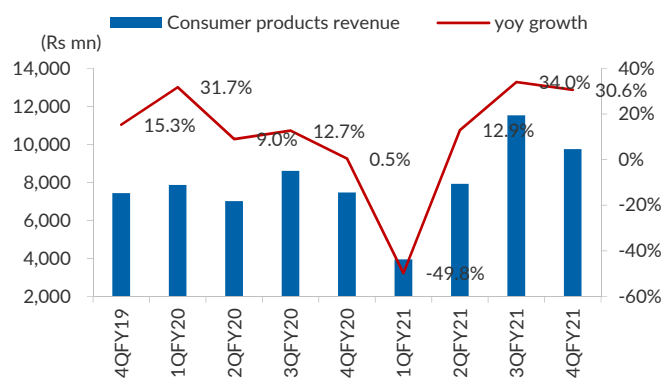
Source: Company, YES Sec - Research

**Exhibit 3: Change in business mix has led to gross margin expansion**



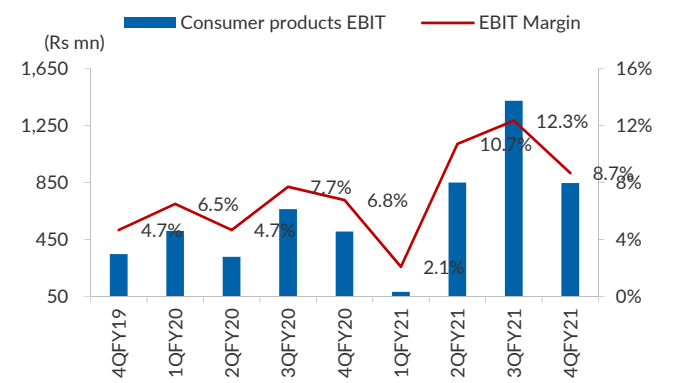
Source: Company, YES Sec - Research

**Exhibit 4: Appliances and Fan business have driven consumer products revenue**



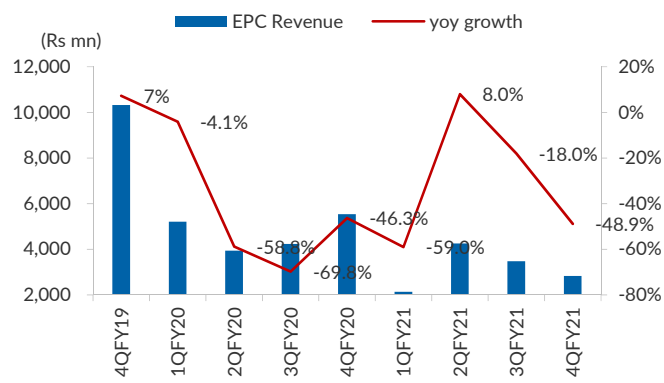
Source: Company, YES Sec - Research

**Exhibit 5: Increased efficiencies have led to margin expansion**



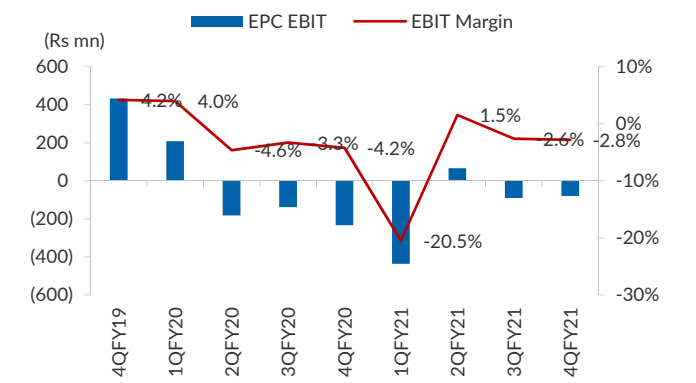
Source: Company, YES Sec - Research

**Exhibit 6: Conscious strategy of limiting project business has led to decline**



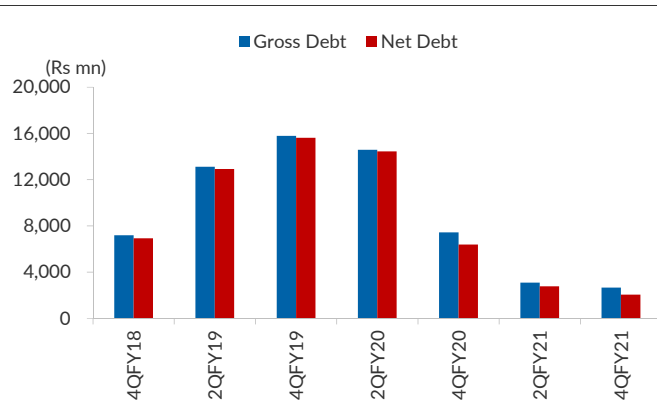
Source: Company, YES Sec - Research

**Exhibit 7: Legacy orders in power distribution has resulted in losses**



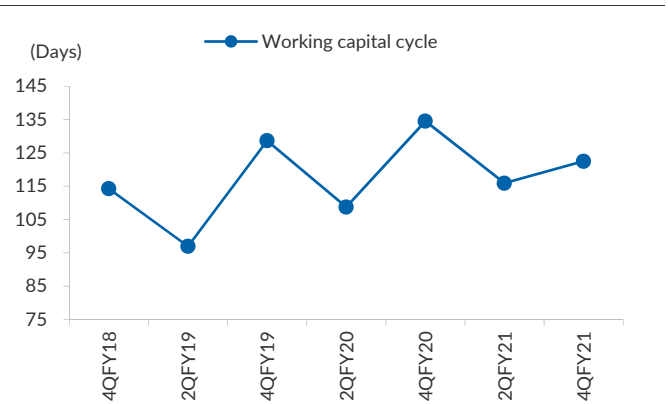
Source: Company, YES Sec - Research

**Exhibit 8: Gross and Net debt on declining trend**



Source: Company, YES Sec – Research

**Exhibit 9: NWC has improved in Q4 on yoy basis despite higher inventory**



Source: Company, YES Sec – Research

**Exhibit 10: Revenue and Margin Assumptions**

Rs mn	FY19	FY20	FY21E	FY22E	FY23E
Consumer Products	27,470	30,948	33,151	39,142	44,517
yoy	23.3	12.7	7.1	18.1	13.7
EPC	39,319	18,918	12,689	14,508	15,572
yoy	93.8	-51.9	-32.9	14.3	7.3
Others	5	7	6	7	7
yoy	35.1	42.2	-15.5	10.0	10.0
Net Sales	66,794	49,872	45,846	53,657	60,096
yoy	56.9	-25.3	-8.1	17.0	12.0
<b>PBIT</b>					
Consumer Products	1,659	2,004	3,197	3,405	4,229
PBIT %	6.0	6.5	9.6	8.7	9.5
EPC	1,953	-346	-541	363	856
PBIT %	5.0	-1.8	-4.3	2.5	5.5
Others	-3	-2	-3	-3	-3
PBIT %	-68.6	-21.5	-46.7	-46.7	-46.7
Total PBIT	3,608	1,656	2,653	3,765	5,082

Source: Company, YES Sec – Research

## FINANCIALS

### Exhibit 11: Balance sheet

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity capital	205	228	229	229	229
Reserves	10,354	13,255	15,651	17,498	20,856
Net worth	10,559	13,483	15,880	17,728	21,085
Debt	15,853	7,424	2,647	2,889	2,075
Deferred tax liab (net)	0	0	0	0	0
Other non current liabilities	924	1,780	1,224	1,310	1,431
Total liabilities	27,337	22,686	19,751	21,927	24,591
Fixed Asset	4,022	4,796	3,791	3,322	2,843
Investments	108	129	1,639	1,639	1,639
Other Non-current Assets	2,580	2,907	3,818	4,245	4,598
Net Working Capital	20,515	13,838	10,048	8,753	9,175
Inventories	8,302	6,989	9,711	7,350	8,232
Sundry debtors	31,438	25,365	19,162	21,316	23,050
Loans and Advances	26	48	39	46	51
Sundry creditors	11,041	9,099	9,602	9,408	10,537
Other current liabilities	12,514	13,012	12,514	14,212	15,621
Cash & equivalents	112	1,016	456	3,968	6,336
Total Assets	27,337	22,686	19,751	21,927	24,591

### Exhibit 12: Income statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Revenue	66,794	49,872	45,846	53,657	60,096
Operating profit	3,401	2,083	3,032	4,259	5,344
Depreciation	439	737	752	768	784
Interest expense	1,176	1,708	764	520	373
Other income	649	462	692	684	1,032
Profit before tax	2,435	100	2,208	3,656	5,218
Taxes	875	174	573	920	1,313
Minorities and other	24	29	-	-	-
Adj. profit	1,536	(103)	1,635	2,736	3,904
Exceptional items	-	-	(255)	-	-
Net profit	1,536	(103)	1,890	2,736	3,904

## Exhibit 13: Cash flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Profit before tax	3,611	1,808	2,972	4,176	5,591
Depreciation	439	737	752	768	784
Tax paid	(875)	(174)	(573)	(920)	(1,313)
Working capital Δ	(8,686)	6,677	2,199	1,295	(422)
Other operating items					
Operating cashflow	(5,511)	9,047	5,350	5,319	4,640
Capital expenditure	(1,240)	(1,511)	253	(299)	(305)
Free cash flow	(6,751)	7,536	5,603	5,020	4,334
Equity raised	89	3,458	508	(505)	-
Investments	(31)	(21)	82	-	-
Debt financing/disposal	8,677	(8,430)	(4,777)	242	(814)
Interest paid	(1,176)	(1,708)	(764)	(520)	(373)
Dividends paid	(431)	(432)	-	(383)	(547)
Net Δ in cash	(106)	904	(560)	3,512	2,368

## Exhibit 14: Du-pont analysis

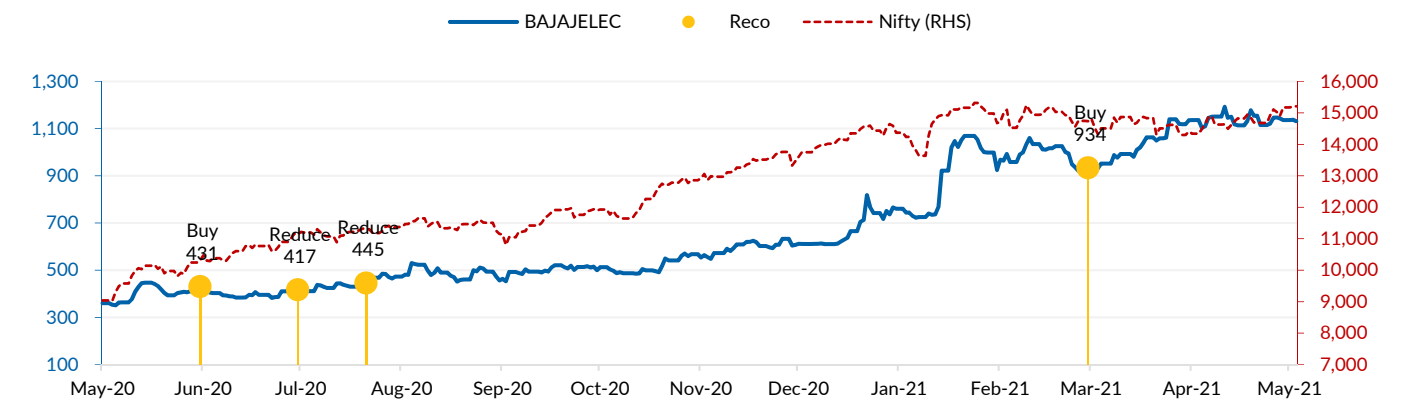
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Tax burden (x)	0.63	(1.03)	0.74	0.75	0.75
Interest burden (x)	0.67	0.06	0.74	0.88	0.93
EBIT margin (x)	0.05	0.04	0.06	0.08	0.09
Asset turnover (x)	1.55	1.02	1.04	1.20	1.22
Financial leverage (x)	4.34	4.05	3.01	2.66	2.54
RoE (%)	15.4	(0.9)	11.1	16.3	20.1

## Exhibit 15: Ratio analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
<b>Growth matrix (%)</b>					
Revenue growth	42	(25)	(8.1)	17.0	12.0
Op profit growth	16	(39)	45.5	40.5	25.5
EBIT growth	15	(50)	64.4	40.5	33.9
Net profit growth	(5)	(107)	(1,687.2)	67.4	42.7
<b>Profitability ratios (%)</b>					
OPM	5.1	4.2	6.6	7.9	8.9
EBIT margin	5.4	3.6	6.5	7.8	9.3
Net profit margin	2.3	(0.2)	3.6	5.1	6.5
RoCE	16.8	7.6	15.1	21.3	25.5
RoNW	15.4	(0.9)	11.1	16.3	20.1
RoA	3.6	(0.2)	3.7	6.1	7.9
<b>Per share ratios</b>					
EPS	15.0	(0.9)	16.5	23.9	34.1
Dividend per share	3.5	3.2	-	3.3	4.8
Cash EPS	19.3	5.6	20.8	30.6	40.9
Book value per share	103.1	118.5	138.6	154.8	184.1
<b>Valuation ratios</b>					
P/E	75.4	(1,249.3)	68.6	47.4	33.2
P/CEPS	59	203	49	37	28
P/B	11.0	9.5	8.2	7.3	6.1
EV/EBIDTA	38.7	64.8	43.5	30.2	23.4
<b>Payout (%)</b>					

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E
Dividend payout	28	NM	-	14.0	14.0
Tax payout	36	174	26.0	25.2	25.2
Liquidity ratios					
Debtor days	172	186	152.6	145.0	140.0
Inventory days	45	51	77.3	50.0	50.0
Creditor days	60.3	66.6	76.4	64.0	64.0

## Recommendation tracker



Source: Company, YES Sec – Research

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9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
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**BUY:** Potential return >15% over 12 months

**ADD:** Potential return +5% to +15% over 12 months

**REDUCE:** Potential return -10% to +5% over 12 months

**SELL:** Potential return <-10% over 12 months

**NOT RATED / UNDER REVIEW**

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