

# Bajaj Electricals

10 August 2018

Reuters: BJEL.BO; Bloomberg: BJE IN

## Growth And Margin Revival In Consumer Products Aids Performance

Bajaj Electricals (BJE) reported 1QFY19 revenues of Rs11.4bn, up 12% YoY and in line with our estimate, but 7% below consensus estimate. Gross margin improved 220bps YoY to 27.8%, on a low base, and was broadly in line with FY18 gross margin of 27.5%. The consumer durable segment (52% of total sales) grew 27% YoY to Rs6bn (35% volume growth) aided by healthy growth in LED lights, fans and certain kitchen appliances. E&P segment's revenues fell 3% YoY to Rs5.4bn (48% of total sales) while volume growth was 5% YoY. EBIT margin of consumer durable segment was healthy at 7% versus 0.7% in 1QFY18 (low-base quarter) and 4.9% in FY18. EBIT margin of E&P segment declined 100bps YoY to 6.1% because of infrastructure creation costs of Rs50-Rs60mn towards a large power distribution order received in Uttar Pradesh. EBITDA rose 76% YoY to Rs798mn, translating to a 260bps YoY rise in operating margin to 7%, above our/consensus estimate of 6.1%/6.5%, respectively. PAT grew 98% YoY to Rs405mn, on a low base, above our estimate of Rs345mn but in line with consensus estimate. Current E&P order book is strong at Rs76.6bn (3.1x of FY18 E&P revenues), largely owing to Rs59.6bn Uttar Pradesh rural electrification project order. The management aims to sustain 7% margin in consumer products as well as E&P segment in FY19. We have retained Accumulate rating on BJE with a revised target price of Rs605 (Rs560 earlier) based on SOTP method.

**Healthy revival in consumer product segment:** Revenues of consumer product segment grew 27% YoY to Rs6bn in 1QFY19 with the volume rising 35% YoY. Among product categories, fans grew 50% YoY, appliances grew 32% YoY, lighting grew 36% YoY and Morphy Richards grew 8% YoY. Premium fans led the growth in fan segment, constituting 40% of total fan sales. LED lights aided the growth in lighting segment. With the higher-than-industry growth in 1QFY19, BJE has gained market share across product categories which it lost during the RREP roll-out process in the past two years. BJE's distribution network is now spread across 500 districts through 1,50,000 retailers covering 85% of India. BJE expects FY19 turnover of Rs27bn-Rs28bn, translating to a growth of 22%-25%. Advertisement expenditure in 1QFY19 was at Rs155mn. With operating leverage benefit, stabilisation of RREP and improved revenue mix, EBIT margin was healthy at 7% versus 0.7% in 1QFY18 (low-base quarter) and 4.9% in FY18.

**Healthy order book of E&P segment to drive growth:** E&P revenues declined 3% YoY to Rs5.4bn in 1QFY19, but, volume growth was 5% YoY. EBIT margin declined 100bps YoY to 6.1% in 1QFY19 because of infrastructure creation costs of Rs50-Rs60mn towards a large power distribution order received from Uttar Pradesh. In 4QFY18, BJE had won rural electrification projects in Uttar Pradesh worth Rs59.6bn under the Saubhagya Yojana, with an execution schedule of 15-20 months. The billing for the Uttar Pradesh projects is likely to start from August 2018. However, a certain portion of the projects needs to be completed before December 2018. The Uttar Pradesh project does not have any price variation clause. Current order book of E&P segment is strong at Rs76.6bn comprising order for transmission (Rs12.9bn), power distribution (Rs61.5bn) and illumination projects (Rs2.2bn). BJE expects to garner revenues of Rs30bn-Rs32bn in FY19E, translating to growth of ~25%. BJE expects to sustain the EBIT margin profile of 7% in FY19E. To execute the large order book and to meet the working capital needs, gross debt has increased to Rs9.8bn including acceptances of Rs2.1bn.

**Outlook and valuation:** Over FY18-FY20E, we expect BJE to post 23% earnings CAGR driven by the execution of its strong E&P order book. We have assigned a P/E of 31x FY20E EPS to BJE's consumer product business (15% discount to peers) and 15x to E&P business. We have retained Accumulate rating on BJE with a SOTP-based target price of Rs605.

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## ACCUMULATE

Sector: Capital Goods

CMP: Rs624

Target Price: Rs605

Downside: 3%

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### Key Data

Current Shares O/S (mn)	102.1
Mkt Cap (Rsbn/US\$m)	64.1/933.1
52 Wk H / L (Rs)	706/295
Daily Vol. (3M NSE Avg.)	762,440

### Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Electricals	13.8	16.8	107.6
Nifty Index	4.8	9.7	16.8

Source: Bloomberg

Y/E March (Rsmn)	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)
Revenues	10,205	16,063	11,399	11.7	(29.0)
Raw material costs	7,595	11,664	8,234	8.4	(29.4)
Employee costs	764	740	849	11.1	14.6
Other expenses	1,394	2,309	1,518	8.9	(34.2)
Total expenditure	9,752	14,713	10,601	8.7	(27.9)
EBITDA	452	1,350	798	76.5	(40.9)
EBITDA margin (%)	4.4	8.4	7.0	-	-
Depreciation	80	89	92	14.8	3.4
Interest costs	150	155	177	17.9	14.4
Other income	105	226	93	(11.2)	(58.7)
PBT	327	1,332	623	90.2	(53.2)
Tax	123	365	218	77.6	(40.4)
Extra-ordinary items	-	(894)	-	-	-
PAT	205	73	405	97.7	454.4
PAT margin (%)	2.0	0.6	3.6	-	-
EPS (Rs)	2.0	0.7	4.0	96.3	449.3

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	45,903	42,617	47,075	58,215	71,664
EBITDA	2,642	2,428	2,934	3,978	5,059
Adjusted net profit	1,103	1,077	1,730	2,114	2,628
Adjusted EPS (Rs)	10.8	10.6	17.0	20.7	25.8
Adjusted EPS growth (%)	NA	(2.4)	60.7	22.2	24.3
EBITDA margin (%)	5.8	5.7	6.2	6.8	7.1
P/E (x)	57.7	59.1	36.8	30.1	24.2
P/BV (x)	8.4	7.3	6.7	5.9	5.1
EV/EBITDA (x)	27.0	28.2	24.1	18.5	15.1
Dividend yield (%)	0.4	0.5	0.6	1.0	1.3
RoCE (%)	15.0	15.0	15.6	16.5	17.7
RoE (%)	14.6	12.4	8.9	19.5	21.1

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segment-wise snapshot

Y/E March	1QFY18	4QFY18	1QFY19	YoY (%)	QoQ (%)	FY17	FY18	YoY (%)
<b>Revenues (Rsmn)</b>								
Consumer products	4,695	6,446	5,969	27.1	(7.4)	23,142	22,285	(3.7)
Engineering & projects	5,598	9,615	5,430	(3.0)	(43.5)	19,833	24,876	25.4
<b>Revenue mix (%)</b>								
Consumer products	45.6	40.1	52.4	-	-	53.8	47.3	-
Engineering & projects	54.4	59.9	47.6	-	-	46.2	52.7	-
<b>EBIT (Rsmn)</b>								
Consumer products	33	376	420	1,181.1	11.7	990	1,087	9.7
Engineering & projects	398	1,082	333	(16.2)	(69.2)	1,417	1,946	37.4
<b>EBIT margin (%)</b>								
Consumer products	0.7	5.8	7.0	-	-	4.3	4.9	-
Engineering & projects	7.1	11.2	6.1	-	-	7.1	7.8	-

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Actual performance versus our estimates, Bloomberg consensus estimates

1QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	11,399	11,523	(1.1)	12,292	(7.3)
EBITDA	798	707	12.9	801	(0.4)
PAT	405	345	17.5	416	(2.6)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 4: Change in our estimates

(Rsmn)	Old		New		Deviation (%)	
	FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Y/E March						
Revenues	60,647	73,813	58,215	71,664	(4.0)	(2.9)
EBITDA	4,191	5,264	3,978	5,059	(5.1)	(3.9)
PAT	2,255	2,764	2,114	2,628	(6.2)	(4.9)

Source: Company, Nirmal Bang Institutional Equities Research

## Financial statements

### Exhibit 5: Income statement

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Net sales	45,903	42,617	47,075	58,215	71,664
% growth	7.7	(7.2)	10.5	23.7	23.1
Raw material costs	33,837	30,511	34,149	42,730	53,390
Staff costs	2,851	3,289	3,179	4,133	4,945
Other overheads	6,573	6,390	6,812	7,374	8,270
Total expenditure	43,260	40,190	44,140	54,237	66,605
EBITDA	2,642	2,428	2,934	3,978	5,059
% growth	199.1	(8.1)	20.9	35.6	27.2
EBITDA margin (%)	5.8	5.7	6.2	6.8	7.1
Other income	481	356	532	452	497
Interest costs	1,081	804	589	872	1,195
Depreciation	274	299	339	355	380
Profit before tax	1,769	1,680	2,538	3,203	3,982
Tax	665	604	809	1,089	1,354
Extra-ordinary items	-	-	(894)	-	-
Reported net profit	1,103	1,077	836	2,114	2,628
Adjusted net profit	1,103	1,077	1,730	2,114	2,628
Adjusted PAT margin (%)	2.4	2.5	3.7	3.6	3.7
Adjusted EPS (Rs)	10.8	10.6	17.0	20.7	25.8
% growth	NA	(2.4)	60.7	22.2	24.3

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
Share capital	202	203	204	204	204
Reserves	7,361	8,512	9,243	10,623	12,271
Net worth	7,563	8,715	9,448	10,827	12,475
Short-term loans	7,251	5,286	7,062	11,062	13,862
Long-term loans	958	170	115	115	115
Total loans	8,209	5,455	7,176	11,176	13,976
<b>Total liabilities</b>	<b>15,772</b>	<b>14,170</b>	<b>16,624</b>	<b>22,003</b>	<b>26,452</b>
Net block	2,764	3,100	3,126	3,155	3,176
Capital work-in-progress	207	79	35	50	50
Intangible assets	1	-	61	61	61
Investments	797	803	145	145	145
Inventories	5,067	5,712	5,792	7,492	9,654
Debtors	16,711	16,467	20,121	25,360	31,807
Cash	555	653	257	1,168	1,046
Other current assets	3,002	3,494	4,455	5,705	7,023
Total current assets	25,335	26,325	30,625	39,725	49,530
Creditors	5,714	6,359	8,546	10,185	12,433
Other current liabilities & provisions	8,109	10,338	9,558	11,684	14,812
Total current liabilities	13,823	16,697	18,103	21,869	27,245
Net current assets	11,512	9,628	12,522	17,856	22,284
Deferred tax asset (net)	493	559	735	735	735
<b>Total assets</b>	<b>15,772</b>	<b>14,170</b>	<b>16,624</b>	<b>22,003</b>	<b>26,452</b>

### Exhibit 6: Cash flow

Y/E March (Rsmn)	FY16	FY17	FY18	FY19E	FY20E
EBIT	2,369	2,129	2,595	3,623	4,680
(Inc.)/dec. in working capital	(4,496)	1,981	(3,289)	(4,424)	(4,551)
<b>Cash flow from operations</b>	<b>(2,127)</b>	<b>4,110</b>	<b>(694)</b>	<b>(801)</b>	<b>129</b>
Other income	481	356	532	452	497
Depreciation	274	299	339	355	380
Tax paid (-)	(665)	(604)	(809)	(1,089)	(1,354)
<b>Net cash from operations</b>	<b>(2,037)</b>	<b>4,161</b>	<b>(631)</b>	<b>(1,083)</b>	<b>(348)</b>
Capital expenditure (-)	(436)	(507)	(321)	(400)	(400)
<b>Net cash after capex</b>	<b>(2,474)</b>	<b>3,654</b>	<b>(952)</b>	<b>(1,483)</b>	<b>(748)</b>
Interest paid (-)	(1,081)	(804)	(589)	(872)	(1,195)
Dividends paid (-)	(340)	(341)	(429)	(735)	(980)
Inc./(dec.) in short-term borrowing	5,100	(1,965)	1,776	4,000	2,800
Inc./(dec.) in long-term borrowing	(751)	(789)	(55)	-	-
Inc./(dec.) in total borrowings	4,350	(2,754)	1,721	4,000	2,800
Inc./(dec.) in investments	(203)	(7)	658	-	-
<b>Cash from financial activities</b>	<b>2,726</b>	<b>(3,905)</b>	<b>1,364</b>	<b>2,394</b>	<b>626</b>
Others	(75)	349	(807)	-	-
Opening cash balance	377	555	653	257	1,168
Closing cash balance	555	653	257	1,168	1,046
Change in cash balance	178	98	(395)	911	(123)

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Key ratios

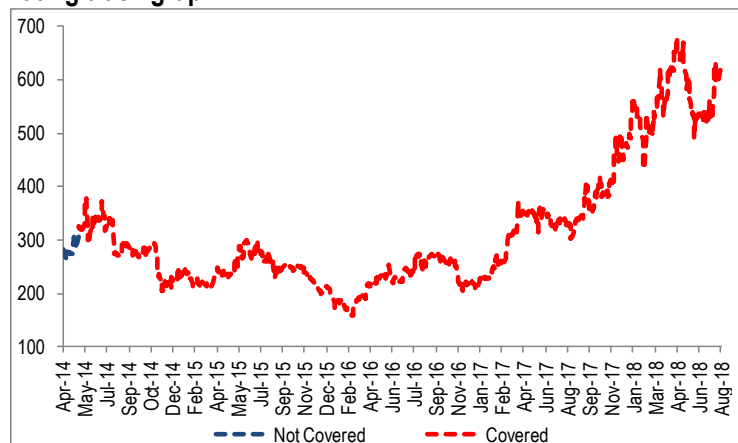
Y/E March	FY16	FY17	FY18	FY19E	FY20E
<b>Per share (Rs)</b>					
EPS	10.8	10.6	17.0	20.7	25.8
Book value	74.1	85.4	92.6	106.1	122.2
<b>Valuation (x)</b>					
P/E	57.7	59.1	36.8	30.1	24.2
P/BV	8.4	7.3	6.7	5.9	5.1
EV/EBITDA	27.0	28.2	24.1	18.5	15.1
EV/sales	1.6	1.6	1.5	1.3	1.1
<b>Return ratios (%)</b>					
RoCE	15.0	15.0	15.6	16.5	17.7
RoE	14.6	12.4	8.9	19.5	21.1
RoIC	16.4	16.7	16.0	17.5	18.5
<b>Profitability ratios (%)</b>					
EBITDA margin	5.8	5.7	6.2	6.8	7.1
EBIT margin	5.2	5.0	5.5	6.2	6.5
PAT margin	2.4	2.5	3.7	3.6	3.7
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	2.9	3.0	2.8	2.6	2.7
Debtor days	133	142	157	159	162
Inventory days	55	68	62	64	66
Creditor days	62	76	91	87	85
<b>Solvency ratios (x)</b>					
Debt-equity	1.1	0.6	0.8	1.0	1.1
Interest coverage	2.2	2.6	4.4	4.2	3.9

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 May 2014	Buy	305	380
30 May 2014	Buy	320	380
1 August 2014	Buy	287	335
9 October 2014	Buy	277	335
14 November 2014	Buy	244	305
23 December 2014	Buy	228	305
9 January 2015	Buy	237	305
13 February 2015	Buy	222	300
15 April 2015	Buy	238	300
29 May 2015	Buy	269	341
8 July 2015	Buy	273	341
7 August 2015	Buy	274	349
12 October 2015	Buy	240	349
6 November 2015	Buy	240	325
8 January 2016	Buy	201	325
11 February 2016	Buy	178	288
12 April 2016	Buy	216	288
31 May 2016	Buy	236	290
12 July 2016	Buy	242	290
23 August 2016	Buy	260	300
13 October 2016	Buy	256	300
11 November 2016	Buy	231	302
10 January 2017	Buy	233	302
14 February 2017	Buy	260	345
7 April 2017	Buy	344	345
2 June 2017	Buy	340	400
6 July 2017	Buy	330	400
4 August 2017	Buy	328	400
30 August 2017	Buy	337	400
9 October 2017	Buy	390	400
10 November 2017	Buy	383	450
9 January 2018	Buy	560	450
9 February 2018	Accumulate	508	550
6 April 2018	Accumulate	605	550
24 May 2018	Accumulate	584	560
10 July 2018	Accumulate	553	560
10 August 2018	Accumulate	624	605

## Rating track graph



## DISCLOSURES

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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