

Bajaj Electricals

8 February 2019

Reuters: BJEL.BO; Bloomberg: BJE IN

Strong Performance Led By Robust Growth & Healthy Margins

Bajaj Electricals (BJE) reported 3QFY19 revenues of Rs21.6bn, up 89% YoY, led by a sharp surge in E&P sales owing to fast-track execution of power distribution orders in Uttar Pradesh. The top-line was significantly above our/consensus estimate of Rs16bn each. Consumer product sales grew 27% YoY to Rs7.6bn (35% of total revenues) aided by increased market penetration in the retail network post RREP roll-out. E&P segment revenues jumped 157% YoY to Rs14bn (65% of total revenues). With an inferior revenue mix (E&P segment forming 65% of total sales versus 48% YoY), gross margin fell 640bps YoY to 21.1% (FY18 gross margin was 27.5%). EBITDA rose 96% YoY to Rs1.4bn, aided by E&P segment, translating to EBITDA margin of 6.4%, up 30bps YoY. EBITDA margin was above our/consensus estimate of 4.6%/5.7%, respectively. EBIT margin of consumer product segment rose 80bps YoY to 7.3% owing to better operating leverage and revenue mix. EBIT margin of E&P segment was down 30bps YoY at 5.6%, (but above 4.1% posted in 2QFY19) and was at a healthy level considering likely pricing and execution pressure in Uttar Pradesh (UP) orders. PAT grew 74% YoY to Rs639mn, much above our/consensus estimate of Rs308mn/Rs405mn, respectively. We have increased our earnings estimates by 13%/7%/6% for FY19/FY20/FY21, respectively. We have retained Accumulate rating on BJE with a revised target price of Rs545 (from Rs515 earlier) based on SOTP method.

Healthy growth as well as margin in consumer product segment: Revenues of consumer product segment grew 27% YoY to Rs7.6bn in 3QFY19. Among product categories, appliances grew 40% YoY, Morphy Richards grew 33% YoY, fans grew 6% YoY while lighting sales declined owing to continuation of pricing pressure in LEDs and decline in CFL market. With increased market penetration post RREP roll-out, BJE is regaining its market share. BJE's current distribution network stands at 1,90,000 retailers and is now one of the deepest in India among all electrical firms. In 9MFY19, consumer product segment grew 26% YoY to Rs20bn with appliance/fan/lighting growing 33%/29%/12% YoY, respectively. BJE expects FY19 turnover of Rs28bn-Rs30bn, resulting in 25% growth, which it feels can sustain for three to four years. EBIT margin rose 80bps YoY to 7.3% in 3QFY19 and 220bps YoY to 6.7% in 9MFY19, largely owing to volume growth while the price hike was limited to 2%-3%. While BJE's margin are lower than its peers, BJE aims to increase its margin by 1% each for the next three years to reach double digits over the next three to four years owing to operating leverage benefit and improved revenue mix.

Robust execution in E&P segment: E&P revenues jumped 157% YoY to Rs14bn in 3QFY19 owing to execution of a large power distribution order from UP. In 4QFY18, BJE had won 16 rural electrification projects in UP worth Rs59.6bn under the Saubhagya Yojana, with an execution schedule of 15-20 months. As the project needs to be completed in a short time frame, the execution is on fast track, but will be margin-dilutive. In 3QFY19, Rs8.1bn revenues from the UP project was booked (Rs11.5bn in 9MFY19) while in FY19 and FY20, revenues worth Rs15bn each is likely to be booked. Based on the current order book of Rs57.9bn (Rs46.6bn power distribution, Rs10bn transmission towers and Rs1.3bn illumination projects), BJE expects revenues of Rs40bn in FY19 (60% growth). To execute the large order book and to meet the working capital needs, net debt has increased to Rs13.7bn, up by Rs6.4bn from FY18 level. EBIT margin stood at 5.6% in 3QFY19 (down 30bps YoY) and 5.2% in 9MFY19 (down 50bps YoY) and has a downside risk of 100bps in upcoming quarters owing to the UP project's accelerated execution.

Outlook and valuation: Over FY18-FY21E, we expect BJE to post 15% revenue CAGR and 12% adjusted earnings CAGR. We have assigned a P/E of 30x September 2020E EPS to BJE's consumer product business (15% discount to peers) and 10x to E&P business. We have retained Accumulate rating on BJE with a SOTP-based target price of Rs545.

ACCUMULATE

Sector: Capital Goods

CMP: Rs519

Target Price: Rs545

Upside: 5%

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Key Data

Current Shares O/S (mn)	102.4
Mkt Cap (Rsbn/US\$m)	52.7/738.5
52 Wk H / L (Rs)	706/416
Daily Vol. (3M NSE Avg.)	213,365

Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Electricals	4.3	(16.8)	5.3
Nifty Index	2.8	(2.8)	5.7

Source: Bloomberg

Y/E March (Rsmn)	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
Net revenues	11,451	15,984	21,618	88.8	35.2	31,012	49,002	58.0
Raw material costs	8,304	12,353	17,051	105.3	38.0	22,485	37,639	67.4
Staff costs	827	987	916	10.8	(7.1)	2,439	2,751	12.8
Other expenses	1,618	1,845	2,273	40.5	23.2	4,504	5,637	25.2
Total expenditure	10,748	15,185	20,240	88.3	33.3	29,427	46,027	56.4
EBITDA	703	799	1,378	96.0	72.4	1,585	2,975	87.8
EBITDA margin (%)	6.1	5.0	6.4	-	-	5.1	6.1	-
Depreciation	83	94	100	19.9	6.2	251	286	13.9
Interest costs	144	230	333	132.1	44.7	434	740	70.4
Other income	96	58	55	(42.5)	(4.2)	306	206	(32.8)
PBT	572	533	1,000	74.8	87.8	1,206	2,156	78.7
Tax	204	192	361	77.0	88.1	443	771	73.9
PAT	368	341	639	73.6	87.6	763	1,385	81.5
PAT margin (%)	3.4	2.1	3.0	-	-	2.5	2.8	-
EPS (Rs)	3.6	3.4	6.3	72.4	85.8	7.5	13.6	80.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 1: Financial summary

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	42,617	47,075	67,977	69,394	71,835
EBITDA	2,428	2,934	3,933	4,292	4,751
Adjusted net profit	1,077	1,730	1,868	2,070	2,444
Adjusted EPS (Rs)	10.5	16.9	18.3	20.2	23.9
Adjusted EPS growth (%)	(2.4)	60.7	8.0	10.8	18.0
EBITDA margin (%)	5.7	6.2	5.8	6.2	6.6
P/E (x)	49.3	30.7	28.4	25.7	21.7
P/BV (x)	6.1	5.6	4.9	4.2	3.7
EV/EBITDA (x)	23.9	20.5	17.1	15.9	14.0
Dividend yield (%)	0.5	0.7	0.6	0.8	1.0
RoCE (%)	15.0	15.6	13.9	13.5	15.2
RoE (%)	12.4	8.9	17.1	16.5	17.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise snapshot

Y/E March	3QFY18	2QFY19	3QFY19	YoY (%)	QoQ (%)	9MFY18	9MFY19	YoY (%)
Revenues (Rsmn)								
Consumer products	6,002	6,423	7,606	26.7	18.4	15,838	19,997	26.3
Engineering & projects	5,449	9,559	14,012	157.1	46.6	15,261	29,000	90.0
Revenue mix (%)								
Consumer products	52.4	40.2	35.2	-	-	50.9	40.8	-
Engineering & projects	47.6	59.8	64.8	-	-	49.1	59.2	-
EBIT (Rsmn)								
Consumer products	391	369	552	41.2	49.6	711	1,341	88.8
Engineering & projects	321	397	790	146.4	99.2	864	1,520	75.8
EBIT margin (%)								
Consumer products	6.5	5.7	7.3	-	-	4.5	6.7	-
Engineering & projects	5.9	4.1	5.6	-	-	5.7	5.2	-

Source: Company, Nirmal Bang Institutional Equities Research

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

3QFY19 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenues	21,618	15,950	35.5	16,098	34.3
EBITDA	1,378	734	87.7	921	49.6
PAT	639	308	107.5	405	57.8

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in our estimates

(Rsmn)	Old			New			Deviation (%)		
	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Revenues	63,857	68,956	70,554	67,977	69,394	71,835	6.5	0.6	1.8
EBITDA	3,425	4,020	4,517	3,933	4,292	4,751	14.8	6.8	5.2
PAT	1,652	1,932	2,306	1,868	2,070	2,444	13.1	7.1	6.0

Source: Company, Nirmal Bang Institutional Equities Research

Financial statements
Exhibit 5: Income statement

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	42,617	47,075	67,977	69,394	71,835
% growth	(7.2)	10.5	44.4	2.1	3.5
Raw material costs	30,511	34,149	52,682	53,225	54,595
Staff costs	3,289	3,179	4,079	4,302	4,526
Other overheads	6,390	6,812	7,283	7,574	7,964
Total expenditure	40,190	44,140	64,043	65,102	67,084
EBITDA	2,428	2,934	3,933	4,292	4,751
% growth	(8.1)	20.9	34.0	9.1	10.7
EBITDA margin (%)	5.7	6.2	5.8	6.2	6.6
Other income	356	532	319	329	362
Interest costs	804	589	1,038	1,080	986
Depreciation	299	339	384	404	424
Profit before tax	1,680	2,538	2,831	3,137	3,702
Tax	604	809	962	1,067	1,259
Extra-ordinary items	-	(894)	-	-	-
Reported net profit	1,077	836	1,868	2,070	2,444
Adjusted net profit	1,077	1,730	1,868	2,070	2,444
Adjusted PAT margin (%)	2.5	3.7	2.7	3.0	3.4
Adjusted EPS (Rs)	10.5	16.9	18.3	20.2	23.9
% growth	(2.4)	60.7	8.0	10.8	18.0

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Balance sheet

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Share capital	203	204	205	205	205
Reserves	8,512	9,243	10,743	12,322	14,152
Net worth	8,715	9,448	10,948	12,527	14,357
Short-term loans	5,286	7,062	14,562	16,062	14,062
Long-term loans	170	115	115	115	115
Total loans	5,455	7,176	14,676	16,176	14,176
Total liabilities	14,170	16,624	25,624	28,703	28,533
Net block	3,100	3,126	3,127	3,123	3,099
Capital work-in-progress	79	35	50	50	50
Intangible assets	-	61	61	61	61
Investments	803	145	145	145	145
Inventories	5,712	5,792	9,382	9,770	10,171
Debtors	16,467	20,121	29,612	30,800	31,490
Cash	653	257	473	1,033	955
Other current assets	3,494	4,455	6,662	6,939	6,824
Total current assets	26,325	30,625	46,128	48,543	49,440
Creditors	6,359	8,546	12,268	11,666	12,265
Other current liabilities & provisions	10,338	9,558	12,354	12,288	12,732
Total current liabilities	16,697	18,103	24,622	23,954	24,998
Net current assets	9,628	12,522	21,506	24,589	24,443
Deferred tax asset (net)	559	735	735	735	735
Total assets	14,170	16,624	25,624	28,703	28,533

Exhibit 6: Cash flow

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
EBIT	2,129	2,595	3,549	3,888	4,327
(Inc.)/dec. in working capital	1,981	(3,289)	(8,769)	(2,523)	68
Cash flow from operations	4,110	(694)	(5,219)	1,366	4,396
Other income	356	532	319	329	362
Depreciation	299	339	384	404	424
Tax paid (-)	(604)	(809)	(962)	(1,067)	(1,259)
Net cash from operations	4,161	(631)	(5,479)	1,032	3,922
Capital expenditure (-)	(507)	(321)	(400)	(400)	(400)
Net cash after capex	3,654	(952)	(5,879)	632	3,522
Interest paid (-)	(804)	(589)	(1,038)	(1,080)	(986)
Dividends paid (-)	(341)	(429)	(368)	(491)	(614)
Inc./(dec.) in short-term borrowing	(1,965)	1,776	7,500	1,500	(2,000)
Inc./(dec.) in long-term borrowing	(789)	(55)	-	-	-
Inc./(dec.) in total borrowings	(2,754)	1,721	7,500	1,500	(2,000)
Inc./(dec.) in investments	(7)	658	-	-	-
Cash from financial activities	(3,905)	1,364	6,094	(71)	(3,601)
Others	349	(807)	-	-	-
Opening cash balance	555	653	257	473	1,033
Closing cash balance	653	257	473	1,033	955
Change in cash balance	98	(395)	216	561	(78)

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Key ratios

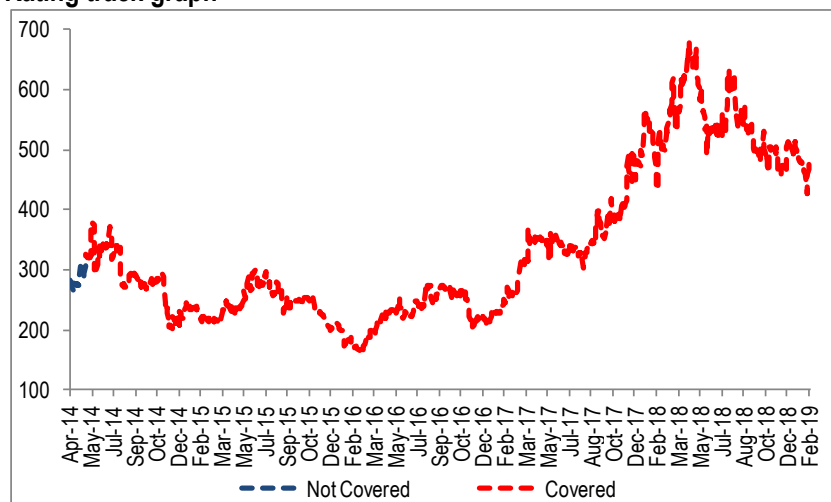
Y/E March	FY17	FY18	FY19E	FY20E	FY21E
Per share (Rs)					
Adjusted EPS	10.5	16.9	18.3	20.2	23.9
Book value	85.1	92.3	107.0	122.4	140.3
Valuation (x)					
P/E	49.3	30.7	28.4	25.7	21.7
P/BV	6.1	5.6	4.9	4.2	3.7
EV/EBITDA	23.9	20.5	17.1	15.9	14.0
EV/sales	1.4	1.3	1.0	1.0	0.9
Return ratios (%)					
RoCE	15.0	15.6	13.9	13.5	15.2
RoE	12.4	8.9	17.1	16.5	17.0
RoIC	16.7	16.0	14.2	14.1	15.8
Profitability ratios (%)					
EBITDA margin	5.7	6.2	5.8	6.2	6.6
EBIT margin	5.0	5.5	5.2	5.6	6.0
PAT margin	2.5	3.7	2.7	3.0	3.4
Turnover ratios					
Total asset turnover ratio (x)	3.0	2.8	2.7	2.4	2.5
Debtor days	142	157	159	162	160
Inventory days	68	62	65	67	68
Creditor days	76	91	85	80	82
Solvency ratios (x)					
Debt-equity	0.6	0.8	1.3	1.3	1.0
Interest coverage	2.6	4.4	3.4	3.6	4.4

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
9 October 2018	Accumulate	494	605
2 November 2018	Accumulate	504	515
9 January 2019	Accumulate	489	515
8 February 2019	Accumulate	519	545

Rating track graph



DISCLOSURES

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Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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