

## EPC business drags margin

Bajaj Electricals' (BEL's) performance was largely marred by the engineering & project business (EPC) wherein the topline grew a mere 7% YoY whereas profitability declined ~700 bps YoY to 4.2% in Q4FY19. However, the consumer durable (CD) business recorded decent topline growth of ~15% YoY with marginal increase in EBIT margin by 40 bps YoY to 6.2%. Hence, BEL's topline growth of ~10% YoY (I-direct estimate: ~14% YoY) was largely driven by CD business. EBITDA margin declined sharply by ~450 bps YoY at ~4% (I-direct estimate: 5%) due to lower profitability in the EPC business. Higher interest cost (up ~171% YoY) was largely due to a sharp increase in working capital requirement of EPC business. The management expects a decline in working capital requirement in FY20E with completion of UP projects, thus reducing overall debt, going forward. We believe the EBITDA margin will remain higher at ~7% (compared to five year average of 5%) led by higher profitability in the CD business that would also help drive overall PAT at a CAGR of 16% in FY19-21E.

## Consumer business leads topline growth

BEL's CD business recorded revenue growth of ~15%, 23% in Q4FY19, FY19, respectively, due to low base and increased reach post completion of RREP. This is largely driven by strong performance in the appliances category that grew ~22%, 30% YoY in Q4FY19, FY19, respectively, followed by the fan business, which grew 19%, 26% YoY, respectively. We model CD segment revenue CAGR of 17% in FY19-21E vs. management guidance of ~24%. However, EPC segment revenue growth at 7%, 58% YoY in Q4FY19, FY19, respectively, was due to execution of large ECP project in UP. The EPC segment revenue is expected to moderate in FY19-21E with focus on completion of existing projects.

## EPC business dents margin

CD business EBIT margin at 6.2%, 6.6% in Q4FY19, FY19 was up 40, 170 bps, respectively, YoY led by recovery in sales. However, EPC EBIT margin was down 700, 290 bps YoY in Q4FY19, FY19, respectively, led by execution of low margin power distribution orders in UP. The management reiterated on focusing of higher margin orders even in the loss of revenue, going forward. As a result, we believe EBITDA margin will remain at elevated level of ~7% in FY19-21E led by both CD and EPC business.

## Valuation & Outlook

Though we are positive on BEL's CD business (strong brand with reach of about ~200,000 touch points) the lumpiness of EPC business is weighing on overall profitability on BEL with higher debt level. On an SOTP basis, we value BEL's CD segment MCap at 1.4x FY21E sales (~40% discount to peers) and E&P segment at 6x FY21E EV/EBITDA. We maintain our **HOLD** rating.

### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	(CAGR 19-21E)
Net Sales	4261.7	4707.5	6673.1	6256.1	6683.1	0.1
EBITDA	242.8	293.4	366.9	444.2	490.8	15.7
EBITDA Margin (%)	5.7	6.2	5.5	7.1	7.34	
PAT	107.7	83.6	167.0	199.9	225.3	16.2
EPS (₹)	10.5	8.2	16.3	19.5	22.0	
P/E(x)	52.4	67.5	33.8	28.2	25.0	
Price/Book value (x)	6.5	6.0	5.2	4.8	4.2	
Mcap/sales (x)	1.3	1.2	0.8	0.9	0.8	
RoE (%)	12.4	13.7	15.5	17.2	16.7	
RoCE (%)	16.7	18.1	14.5	16.7	18.6	

Source: Company, ICICI Direct Research



### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,642.2
Total Debt (FY19) (₹ Crore)	1,577.5
Cash & Inv (FY19) (₹ Crore)	16.0
EV (₹ Crore)	7,203.8
52 week H/L	659 / 379
Equity capital (₹ Crore)	20.3
Face value (₹)	2.0

### Key Highlights

- Consumer segment revenue growth at 15% led by appliances and fan segment
- Dent in margin due to lower profitability from EPC business
- Management guided for ₹ 3400 crore revenue from CD and ~₹ 3000 crore from EPC segment in FY20
- Maintain our recommendation on the stock as HOLD with a revised target price of ₹ 525/share

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**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	1,772.9	1,837.2	1,606.3	10.4	2,161.8	-18.0	Revenue growth led by CD segment
Other Income	26.3	5.8	22.6	16.5	5.5	375.9	
Raw Material Exp	95.4	137.8	128.1	-25.5	45.1	111.6	
Employee Exp	81.5	101.0	74.0	10.1	91.6	-11.0	
Admin & Other exp	239.1	275.6	230.9	3.6	227.3	5.2	
Erection & Subcont Exp	183.8	132.2	119.3	54.1	103.8	77.2	
Purchase of Traded goods	1,103.6	1,065.6	919.1	20.1	1,556.2	-29.1	
EBITDA	69.3	125.0	135.0	-48.6	137.8	-49.7	
EBITDA Margin (%)	3.9	6.8	8.4	-449.2	6.4	-38.6	Lower EBITDA margin was mainly due to lower profitability from EPC business. Lower profitability of EPC business is attributable to execution of low margin orders
Depreciation	9.9	11.2	8.9	11.7	10.0	-0.9	
Interest	41.9	35.4	15.5	171.1	33.3	25.8	Higher interest cost was mainly due to rise in debt level
Exceptional items	0.0	0.0	89.4		0.0		
PBT	43.8	84.2	43.8	-0.1	100.0	-56.2	
Total Tax	15.3	30.3	36.5	-58.1	36.1	-57.6	
PAT	28.5	53.9	7.3	289.7	63.9	-55.4	PAT growth largely on account of low base of Q4FY18 (due to exceptional loss in the base quarter)
<b>Key Metrics</b>							
Consumer Durable	741.0	820.3	644.6	15.0	760.6	-2.6	Under the CD segment, appliances, fan and lighting category grew 22%, 19% and 6% YoY, respectively, largely on a low base
Engineering & Project	1,031.8	1,016.9	961.5	7.3	1,401.2	-26.4	Slow execution of big orders from UP have resulted in muted growth in segment during Q4FY19

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,914.2	6,256.1	(9.5)	7,044.1	6,683.1	(5.1)	We tweak our revenue estimate for FY20E-21E considering slow revenue booking in EPC business, going forward
EBITDA	487.9	444.2	(9.0)	512.2	490.8	(4.2)	
EBITDA Margin %	7.1	7.1	4bps	7.3	7.3	7bps	EBITDA margin to remain at elevated level owing to company's focus to maintain profitability in the consumer durable and EPC business, respectively
PAT	226.4	199.9	(11.7)	255.8	240.1	(6.1)	
EPS (₹)	22.1	19.5	(11.7)	25.0	23.4	(6.1)	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			Earlier			Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Consumer Durable (%)	(3.7)	23.0	19.4	15.9	13.9	13.9	Revenue CAGR of 17% in FY19-21E led by completion of RREP and increase in retail touch points
Engineering & Project (%)	25.4	58.1	-24.1	-3.2	-5.6	-8.2	We believe revenue growth in the E&P segment will normalise in FY20E-21E considering a strong base in FY19E (owing to order from Uttar Pradesh)

Source: Company, ICICI Direct Research

## Conference call highlights

### Consumer Durable segment

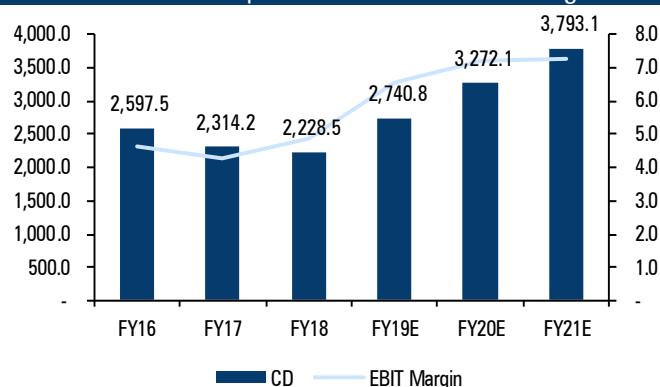
- Appliances, fan and lighting segment revenue grew 22%, 19% and 6% YoY, respectively, in Q4FY19. For FY19, revenue from appliances, fan and lighting business increased 30%, 26%, 10% YoY, respectively. The company's premium brand Morphy Richards de-grew ~20% and 1% in Q4FY19 and FY19, respectively
- RREP has now been fully rolled out pan India, which helps the company to reach out to end consumers through more than 2,05,000 retail outlets across the country. This has given the company an edge over the competition in terms of product availability and reach, which is driving segment growth
- The company has guided for maintaining gross margin in the CD segment with selective price hikes. EBIT margin of CD segment increased by 170 bps YoY to 6.6% in FY19. The company has guided for 1% point increase in EBIT margin in the FY19-21E
- The management has guided for strong revenue growth in CD segment by 20-25% in FY19-21E

### Engineering & Project segment

- EPC segment, during the quarter, continued its execution of power distribution projects under the 'Saubhagya Scheme' in Uttar Pradesh, which formed a sizeable proportion of the EPC turnover
- As the margin on these orders are relatively lower, the overall margin of the segment have been impacted during the quarter
- The company has booked revenue of ₹ 1600 crore from UP projects (i.e. ~50% of total UP orders). The company is likely to execute remaining orders in FY20
- A sharp rise in debt level is on account of higher working capital requirement for UP projects. According to the management, the debt level to decline with completion of UP projects from FY20
- The current order book is at ₹ 4,844 crore, comprising ₹ 700 crore for transmission line towers; ₹ 4,032 crore for power distribution and ₹ 112 crore for illumination projects
- The management has guided for ₹ 3000 crore revenue from EPC segment in FY20E and bidding for only high margin orders. Also, the management is targeting contribution of EPC in total topline would not exceed 50%, going forward, while segment margin would be in the range of margin clocked in FY19

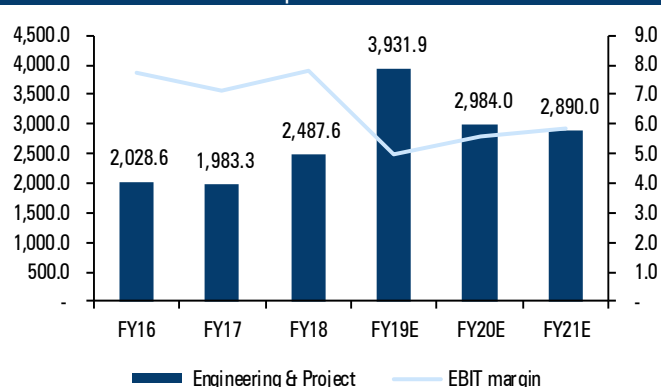
## Financial story in charts

**Exhibit 4: CD business performance to remain strong**



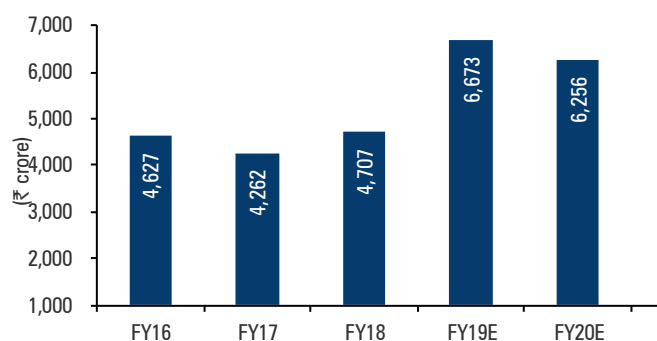
Source: Company, ICICI Direct Research

**Exhibit 5: EPC business expected to remain volatile**



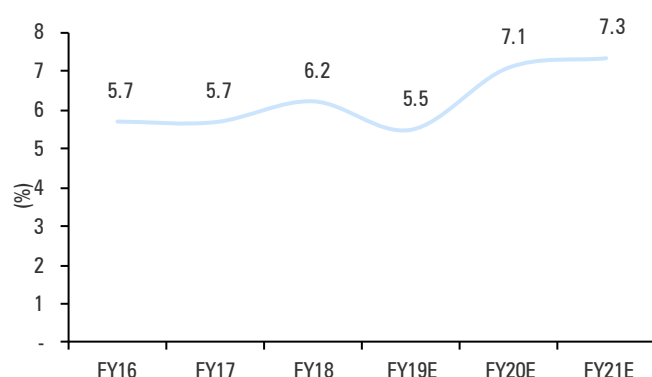
Source: Company, ICICI Direct Research

**Exhibit 6: CD business to drive sales growth**



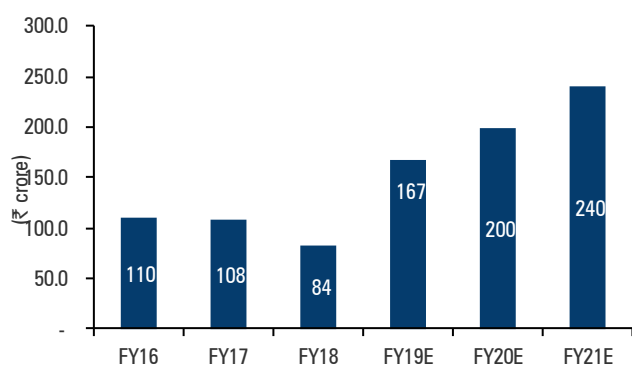
Source: Company, ICICI Direct Research

**Exhibit 7: EBITDA margin trend**



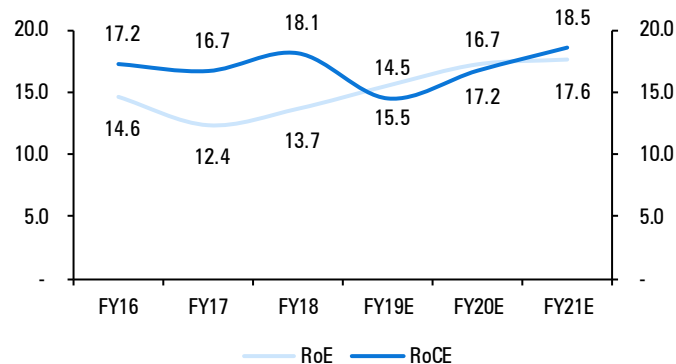
Source: Company, ICICI Direct Research

**Exhibit 8: PAT growth trend**



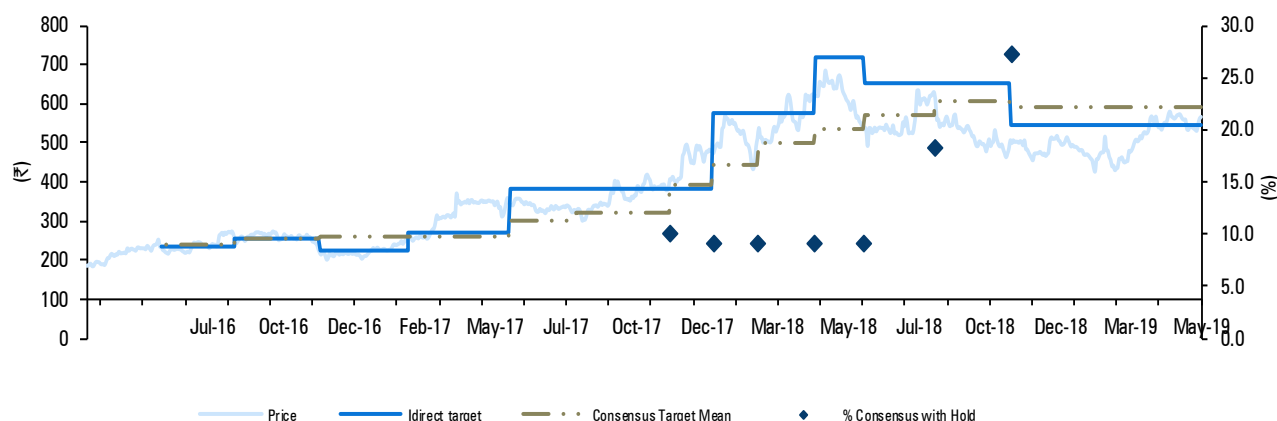
Source: Company, ICICI Direct Research

**Exhibit 9: Return ratios**



Source: Company, ICICI Direct Research

### Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

### Exhibit 11: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position	Change
1	Bajaj Group of Industries	31-03-2019	36.8%	37.67M	+0.30M
2	Bajaj (Kiran)	31-03-2019	5.1%	5.25M	0
3	Bajaj (Anant)	31-03-2019	4.9%	4.98M	0
4	Aditya Birla Sun Life AMC Limited	31-03-2019	2.5%	2.53M	+0.43M
5	Bajaj (Shekhar P)	31-03-2019	2.4%	2.50M	0
6	HDFC Asset Management Co., Ltd.	30-04-2019	2.4%	2.46M	+1.56M
7	Reliance Nippon Life Asset Management Limited	31-03-2019	2.3%	2.33M	-0.07M
8	Bajaj (Niraj)	31-03-2019	1.8%	1.89M	-0.30M
9	Caisse de Depot et Placement du Quebec	31-03-2019	1.7%	1.75M	0
10	Principal Asset Management Private Limited	31-03-2019	1.4%	1.48M	+0.08M

Source: Reuters, ICICI Direct Research

### Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
HDFC Asset Management Co., Ltd.	+12.85M	+1.56M	Bajaj (Niraj)	-2.42M	-0.30M
Aditya Birla Sun Life AMC Limited	+3.44M	+0.43M	Reliance Nippon Life Asset Management Limited	-0.53M	-0.07M
Bajaj Group of Industries	+2.42M	+0.30M	DHFL Pramerica Asset Managers Private Limited	-0.26M	-0.03M
Principal Asset Management Private Limited	+0.64M	+0.08M	AQR Capital Management, LLC	-0.18M	-0.02M
Capital Investment Trust Corporation	+0.56M	+0.08M	Dimensional Fund Advisors, L.P.	-0.10M	-0.01M

Source: Reuters, ICICI Direct Research

### Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-18
Promoter	62.9	62.9	62.8	62.7	62.7
FII	9.7	9.9	9.6	7.1	5.7
DII	5.4	5.0	5.3	7.2	8.6
Others	22.0	22.2	22.4	23.0	23.0

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Net Sales</b>	<b>4707.5</b>	<b>6673.1</b>	<b>6256.1</b>	<b>6683.1</b>
Growth (%)	1.7	41.8	-6.2	6.8
Raw Material Expenses	327.1	469.2	277.4	370.7
(Increase)/Decrease in stocks	0.1	-216.7	0.0	0.0
Purchase of traded goods	2777.2	4461.4	3977.7	4035.1
Employee Expenses	317.9	356.7	363.8	361.1
Erection & subcontracting exp	310.4	443.8	314.5	316.8
Other expenses	739.4	697.0	609.5	833.3
Total Operating Expenditure	4414.0	6324.8	5811.9	6192.3
<b>EBITDA</b>	<b>293.4</b>	<b>366.9</b>	<b>444.2</b>	<b>490.8</b>
Growth (%)	11.1	25.0	21.1	10.5
Other Income	53.2	65.4	23.4	21.6
Interest	58.9	115.9	116.2	96.2
PBDT	287.8	297.9	351.4	416.2
Depreciation	33.9	38.5	40.7	46.8
PBT before Exceptional Items	253.8	259.4	310.7	369.5
Less: Exceptional Items	89.4	0.0	0.0	0.0
PBT	164.5	259.4	310.7	369.5
Total Tax	80.9	92.4	110.8	129.3
<b>PAT</b>	<b>83.6</b>	<b>167.0</b>	<b>199.9</b>	<b>240.1</b>

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	83.6	167.0	199.9	240.1
Depreciation	33.9	38.5	40.7	46.8
CF bef working capital changes	176.4	321.4	356.8	383.1
Net Increase in Current Assets	-549.7	-1569.8	636.7	103.6
Net Increase in Current Liabilities	148.1	694.2	-432.9	3.1
<b>Net CF from operating act</b>	<b>-225.3</b>	<b>-554.3</b>	<b>560.5</b>	<b>489.8</b>
(Purchase)/Sale of Fixed Assets	-38.2	-47.9	-50.0	-50.0
Long term loans and advances	80.2	-91.6	13.4	-13.7
Other non current assets	10.7	-33.2	-30.0	-30.0
Other Investments	10.7	-33.2	-30.0	-30.0
Deferred Tax Assets	-17.6	9.8	0.0	0.0
<b>Net CF from Investing act</b>	<b>82.9</b>	<b>-165.5</b>	<b>-66.6</b>	<b>-93.7</b>
Inc / (Dec) in Equity Capital	0.1	0.1	0.0	0.0
Inc / (Dec) in Loan Funds	172.1	859.9	-250.0	-250.0
Total Outflow on account of div	-42.6	-42.6	-36.6	-36.6
<b>Net CF from financing act</b>	<b>102.8</b>	<b>710.4</b>	<b>-480.4</b>	<b>-382.8</b>
Net Cash flow	-39.5	-9.4	13.6	13.4
Cash & Cash Equi at the beg.	64.9	25.4	16.0	29.6
<b>Cash</b>	<b>25.4</b>	<b>16.0</b>	<b>29.6</b>	<b>42.9</b>

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	20.4	20.5	20.5	20.5
Reserve and Surplus	924.0	1057.2	1143.0	1346.6
Total Shareholders funds	944.4	1077.7	1163.5	1367.0
Total Debt	717.6	1577.5	1327.5	1077.5
<b>Liability</b>	<b>1729.4</b>	<b>2723.2</b>	<b>2558.9</b>	<b>2512.5</b>
<b>Asset</b>				
Total Gross Block	561.6	606.0	656.0	706.0
Less Total Accumulated Dep	242.9	281.4	322.0	368.8
Net Block	318.7	324.7	334.0	337.2
Total CWIP	3.5	6.9	6.9	6.9
Total Fixed Assets	322.2	331.6	340.9	344.2
Other Investments	6.9	40.0	70.0	100.0
Inventory	579.2	821.0	788.4	750.7
Debtors	2012.1	3142.6	2571.0	2471.8
Loans and Advances	0.1	0.0	0.0	0.0
Other Current Assets	322.7	520.2	487.7	521.0
Cash	25.4	16.0	29.6	42.9
Total Current Assets	2939.5	4499.9	3876.7	3786.5
Creditors	854.6	1092.1	1028.4	1098.6
Provisions	76.0	106.1	99.9	106.7
Total Current Liabilities	1742.9	2437.1	2004.1	2007.3
<b>Net Current Assets</b>	<b>1196.6</b>	<b>2062.8</b>	<b>1872.6</b>	<b>1779.2</b>
Deferred Tax Assets	73.5	63.8	63.8	63.8
Other non current assets	0.0	0.0	0.0	0.0
<b>Assets</b>	<b>122.7</b>	<b>214.3</b>	<b>200.9</b>	<b>214.6</b>

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios ₹ crore				
(Year-end March)	FY18	FY19E	FY20E	FY21E
<b>Per Share Data</b>				
EPS	8.2	16.3	19.5	23.4
Cash EPS	11.5	20.1	23.5	28.0
BV	92.2	105.2	113.6	133.5
DPS	4.2	4.2	3.6	3.6
<b>Operating Ratios</b>				
EBITDA Margin	6.2	5.5	7.1	7.3
PAT Margin	2.7	2.5	3.2	3.6
<b>Return Ratios</b>				
RoE	13.7	15.5	17.2	17.6
RoCE	18.1	14.5	16.7	18.5
RoIC	11.2	9.0	12.9	14.9
<b>Valuation Ratios</b>				
EV / EBITDA	21.6	19.6	15.6	13.6
P/E	67.5	33.8	28.2	23.5
EV / Net Sales	1.3	1.1	1.1	1.0
Market Cap / Sales	1.2	0.8	0.9	0.8
Price to Book Value	6.0	5.2	4.8	4.1
<b>Turnover Ratios</b>				
Asset turnover	2.7	2.5	2.4	2.7
Debtor Days	156.0	171.9	150.0	135.0
Creditor Days	66.3	59.7	60.0	60.0
<b>Solvency Ratios</b>				
Debt / Equity	0.8	1.5	1.1	0.8
Current Ratio	3.1	3.7	3.4	3.1
Quick Ratio	2.5	3.1	2.7	2.5

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,369	1,600	Buy	131,287	23.1	26.9	31.8	59.4	50.8	43.1	36.0	30.4	25.3	30.0	32.0	32.5	23.2	24.6	24.6
Astral Polytechnik (ASTPOL)	1,231	1,250	Hold	14,741	16.5	20.9	27.9	74.7	58.8	44.1	36.4	29.1	22.8	20.7	22.7	26.0	15.4	16.6	18.3
Bajaj Electricals (BAJELE)	550	525	Hold	5,613	18.9	21.4	26.3	29.2	25.7	20.9	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	752	800	Buy	46,917	14.1	17.3	20.4	53.5	43.4	36.9	37.2	28.8	24.0	29.4	31.0	31.1	22.2	22.7	22.5
Kansai Nerolac (KANNNR)	421	455	Hold	22,689	8.7	9.7	11.3	48.5	43.5	37.2	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,197	1,335	Buy	61,363	18.5	22.0	26.1	64.7	54.3	45.9	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	132	136	Hold	4,147	6.2	6.7	7.9	21.3	19.7	16.6	9.3	8.3	7.2	16.9	17.4	19.3	13.9	13.7	15.0
Supreme Indus (SUPIND)	1,038	1,075	Buy	13,185	35.3	39.3	44.8	29.4	26.4	23.2	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,161	1,110	Hold	8,122	18.8	25.9	31.7	61.7	44.9	36.6	37.7	52.5	35.2	41.3	25.5	34.5	31.5	22.6	29.9
V-Guard Ind (VGUARD)	206	205	Hold	8,769	3.3	4.2	5.1	62.1	49.1	40.0	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	576	605	Hold	19,050	15.5	18.3	21.9	37.1	31.5	26.3	27.5	28.8	22.7	19.8	17.3	19.9	14.8	12.7	15.1
Time Techno (TIMTEC)	86	80	Hold	1,945	8.8	10.8	12.7	9.8	7.9	6.8	5.4	5.3	4.7	14.9	14.7	15.5	12.2	12.2	13.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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