

Bajaj Electricals Ltd

BUY

CMP Rs411

Target Rs493

Upside 19.9%

HIGHLIGHTS

- ✓ Q4 results were inline with expectations as consumer (CP) business continued to gain strength
- ✓ CP business revenues were flat on a yoy basis, even after the company losing sales of ~Rs2bn due to lockdown. Margins expansion was curtailed at 210bps yoy in Q4 due to reallocation of overhead costs from EPC.
- ✓ Margin expansion also aided by sharp cut in A&P spends
- ✓ EPC business performance was weak due to some provisions taken by the company. EPC revenues were down 46.3% yoy, inline with the management's guidance.
- ✓ EPC orderbook remained flat sequentially at Rs17.3 (TLT Rs7bn, PD Rs8.3bn and Illumination Rs2bn)
- ✓ Balancesheet improvement was led by Rs1.3bn of OCF and Rs3.5bn of capital raising in Q4. Gross debt halved on a yoy basis to Rs10bn.
- ✓ Debt reduction would be led by strengthening of CP business and recovery of EPC receivables
- ✓ Interest costs to decline to Rs1bn in FY21 due to lower debt and reduction in interest costs

Our View

- ✓ We have cut our FY21/FY22 estimates by 55.7%/19.4% factoring slower recovery in demand and accounting for revenue loss during lockdown
- ✓ We maintain our Buy rating on the stock for a revised target price of Rs492, valuing the company at 26x FY22E P/E.

Valuation

- ✓ Valuations attractive at 21.7x FY22e P/E. Sharp earnings recovery coupled with improvement in return ratios, balance sheet and rising share of CP business would lead to valuation re-rating

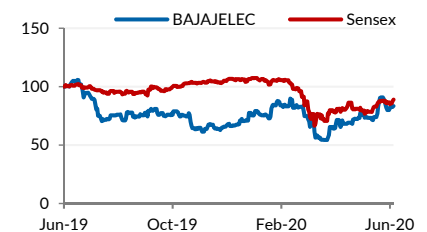
Risk to our call

- ✓ Delay in receivables from UP project
- ✓ Slower revival in consumer demand

Stock data (as on June 19, 2020)

Sensex:	34,732
52 Week h/l (Rs)	528 / 260
Market cap (Rs/USD mn)	46,730 / 613
Outstanding Shares	114
6m Avg t/o (Rs mn):	89
Div yield (%):	0.8
Bloomberg code:	BJE IN
NSE code:	BAJAJELEC

Stock performance



	1M	3M	1Y
Absolute return	13.0	25.0	(16.0)

Shareholding pattern (As of Jun'19 end)

Promoter	63.2
FII+DII	20.4
Others	16.4

Δ in earnings estimates

	FY21e	FY22e
EPS (New)	5.0	18.9
EPS (Old)	11.4	23.5
% change	(55.7)	(19.4)

Exhibit 1: Result table

(Rs mn)	Q4 FY20	Q4 FY19	% yoy	Q3 FY20	% qoq
Net sales	13,007	17,752	(26.7)	12,839	1.3
Operating profit	373	583	(36.0)	673	(44.6)
OPM (%)	2.9	3.3	-42 bps	5.2	-237 bps
Depreciation	(195)	(99)	98.0	(187)	4.7
Interest	(361)	(467)	(22.7)	(397)	(9.2)
Other income	169	260	(35.0)	72	136.2
PBT	(7)	(19)	(63.7)	(8)	(17.9)
PBT	(21)	259	(108.0)	153	(113.6)
Tax	13	(109)	(111.6)	(59)	(121.4)
PAT	(8)	150	(105.4)	94	(108.6)

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CON-CALL HIGHLIGHTS

CP business Q4 performance:

- ✓ January and February sales were strong with double-digit growth. Sales started declining from 15th March and the company lost ~Rs2bn of revenue due to shutdown
- ✓ Q4 performance: fans (0.3%), lighting (-4.1%), consumer appliances (1.4%), Morphy (5.7%)
- ✓ Company reduced A&P spends in March and aided in margin expansion
- ✓ A&P average is 3.5% came down to 2.9% in FY20, 94cr vs 99cr in FY19 (25cr of A&P spend was cut in Q4)
- ✓ Reallocation of overheads of EPC business impacted EBIT margins by 90bps in Q4 and 100bps in FY20

EPC business:

- ✓ Q4 margins impacted as the company has taken some provisions in EPC business during the quarter
- ✓ EPC execution was good till Feb end...post that execution was low due to labor shortage
- ✓ EBIT loss to continue for 2 more quarters, however for the year the company expects to breakeven
- ✓ EPC business: inventory of Rs1.9bn, receivables Rs19.73bn, other assets Rs2.8bn and payables at Rs11.04bn
- ✓ All projects have started execution, however labor issues prevail
- ✓ UP project accounted for Rs4.23bn of Power Distribution orderbook

Balancesheet:

- ✓ Gross debt reduced to Rs10bn, down from Rs20bn at the end of FY19, 350cr from rights and 650cr from operating cashflow.
- ✓ CFO - 127cr in Q4 and Rs650cr in FY20
- ✓ The company plans to reduce debt further by 350cr in FY21
- ✓ Interest costs to come down to Rs1bn in FY21
- ✓ Company's short term rating should improve. To benefit from that the company plans to raise money through CPS to reduce interest costs

Consumer business in Q1:

- ✓ April zero sales. May 60-65% of last year sales (was higher than expectations)
- ✓ June expected to be 80-90% of last year
- ✓ 80% of distributors are operational, of that 40% fully operational and rest are partially open
- ✓ Contribution from Metros is still low and hence the company has not reached last year levels in June
- ✓ FY21 CP revenues target is to reach last year level
- ✓ Post lockdown company has seen good primary sales of fans. Pickup in cooler sales was slow
- ✓ Growth drivers for company: Fans, Kitchen appliances, Water heaters, Coolers, Lighting, Iron

- ✓ FY21: gross margin expansion via sourcing, value engineering, improving product mix
- ✓ Cost saving on employee and other overhead costs would be invested into A&P
- ✓ Imports account for 15% of total consumption, largely from China
- ✓ Company is looking at reducing this via local purchase or imports from other countries

Exhibit 2: Segmental analysis

Rs mn	Q4 FY20	Q4 FY19	yoy(%)	Q3 FY20	qoq (%)
Revenues					
Consumer Products	7,468	7,433	0.5	8,602	(13.2)
EPC	5,538	10,318	(46.3)	4,235	30.8
Total	13,007	17,752	(26.7)	12,839	1.3
EBIT					
Consumer Products	505	347	45.6	662	(23.7)
EPC	(234)	434	-	(138)	68.9
Total	269	778	(65.5)	524	(48.8)
EBIT Margin (%)					
			bps yoy		bps qoq
Consumer Products	6.8	4.7	210	7.7	(93)
EPC	(4.2)	4.2	(842)	(3.3)	(95)
Blended	2.1	4.4	(232)	4.1	(202)

Source: Company, YES Sec – Research

Exhibit 3: Financial Summary

Y/e 31 Mar (Rs mn)	FY18	FY19	FY20	FY21E	FY22E
Revenues	47,253	66,794	49,872	47,543	55,319
yoy growth (%)	10.9	41.4	(25.3)	(4.7)	16.4
Operating profit	3,113	3,401	2,083	2,066	3,872
OPM (%)	6.6	5.1	4.2	4.3	7.0
Pre-exceptional PAT	1,803	1,536	-103	570	2,147
Reported PAT	1,803	1,536	-103	570	2,147
yoy growth (%)	76.5	(14.8)	-	-	277.0
EPS (Rs)	17.7	15.0	-0.9	5.0	18.9
P/E (x)	23.3	27.4	-454.8	82.1	21.8
Price/Book (x)	4.5	4.0	3.5	3.3	3.0
EV/EBITDA (x)	15.7	17.0	26.6	25.0	12.6
Debt/Equity (x)	0.8	1.5	0.7	0.5	0.3
RoE (%)	20.0	15.4	(0.9)	4.1	14.5
RoCE (%)	22.5	17.3	7.3	7.9	17.0

Source: Company, YES Sec – Research

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