

## Lockdown, EPC business drag performance...

Bajaj Electricals' (BEL) Q4 revenue declined ~27% YoY led by E&P segment wherein revenue declined ~46% YoY while consumer durable (CD) revenue remained flat YoY despite revenue loss of last 10 days in March 2020. While sales in April were impacted by a complete lockdown, the sales recovery in May, June was better than the company's estimate due to pent up demand in the home & kitchen appliances categories. As a result, the company does not see a major dent on annual sales from the CD segments. On the EPC front, focus on reducing proportion of loss making projects would lead flattish revenue of the segment. However, it would benefit in terms of margin in the long term. The company did manage to improve D/E from 1.5x in FY19 to 0.6x in FY20 by substantial repayment of debt. As a result, interest cost declined ~14% in Q4FY20. The company plans to reduce debt by ~ ₹ 300 crore by FY21E and refinance existing debts by issuing NCDs that would reduce interest cost substantially, going ahead. We believe focus on strengthening balance sheet condition and rising proportion of CD business bodes well for BEL given its strong rural presence.

### Consumer business revenue remains flat despite lockdown

Despite a lockdown in March, CD business revenue posted marginal growth of 0.6% YoY led by growth in appliances, fans, Morphy Richards by 1.4%, 0.3%, 5.7%, respectively. The lighting division posted ~4% YoY dip in revenue. The company kept its focus on select product categories like fans, appliances and air coolers that are likely to see pent up demand and drive its topline at 12-15%, going forward. On the project front, BEL has changed its strategy to bid only transmission line towers (TLT) and illumination projects and reduce the exposure in the power distribution business (PD). As a result, segment revenue declined sharply by ~46% YoY. The current order book of EPC business is at ₹ 1730 crore, comprising ₹ 705 crore for TLT, ₹ 828 crore for PD and ₹ 197 crore for illumination projects.

### Margin of consumer business remains intact

Profitability of the CD business remains intact at 6.4% in Q4FY20 while losses in the EPC (of ₹ ~23 crore) dragged overall profitability. The EBITDA margin for Q4FY20 declined ~134 bps YoY to 2.6%.

### Valuation & Outlook

We have seen an improvement in balance sheet position with debt/equity reducing from 1.6x in FY19 to 0.6x in FY20. The company plans to further reduce debt by ~₹ 300 crore in FY21 and refinance existing debt, that would lead to a significant decline in interest outgo. Improved profitability, lighter balance sheet would help drive return ratios from FY22E onwards. On a SOTP based valuation, we value CD, EPC at 20x, 3x of FY22E EBITDA, respectively, and maintain **BUY** rating with a revised target price of ₹ 495.



#### Particulars

Particular	Amount
Market Capitalization (₹Crore)	4,672.7
Total Debt (FY 20) (₹Crore)	836.1
Cash & Inv (FY 20) (₹Crore)	104.7
EV (₹Crore)	5,404.1
52 week H/L	535 / 260
Equity capital (₹Crore)	22.7
Face value (₹)	2.0

#### Key Highlights

- Overall profitability of company impacted by poor performance in EPC segment
- Management now increasing its focus on consumer business while being cautious & selective in the EPC business
- Focus on profitability through better mix and debt reduction
- Maintain BUY rating with revised target price of ₹ 495/share

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#### Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	(CAGR 20-22E)
Net Sales	4707.5	6673.1	4977.1	4481.2	5185.6	2.1
EBITDA	293.4	349.0	206.9	199.7	345.2	29.2
EBITDA Margin (%)	6.2	5.2	4.2	4.5	6.66	
PAT	83.6	167.1	-0.1	46.5	167.8	NM*
EPS (₹)	8.2	16.3	0.0	4.1	14.8	
P/E(x)	50.3	25.2	-35943.6	100.4	27.8	
Price/Book value (x)	4.5	3.9	3.4	3.6	3.3	
Mcap/sales (x)	1.0	0.7	0.9	1.0	0.9	
RoE (%)	13.7	15.5	(0.0)	3.6	11.9	
RoCE (%)	18.1	13.8	8.4	6.7	13.4	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1,299.6	1,215.5	1,772.9	-26.7	1,281.5	1.4	Sharp decline in revenue from E&P segment and lockdown impacted revenue growth in Q4FY20
Other Income	19.4	12.6	26.3	-26.1	10.0	93.3	
Raw Material Exp	65.6	79.0	95.4	-31.3	90.8	-27.8	
Employee Exp	94.7	103.3	81.5	16.2	95.2	-0.5	
Admin & Other exp	175.3	170.2	239.1	-26.7	207.1	-15.4	
Erection & Subcont Exp	93.5	63.7	183.8	-49.2	64.9	44.0	
Purchase of Traded goods	837.1	753.6	1,103.6	-24.2	755.2	10.8	
EBITDA	33.4	45.7	69.4	-51.8	68.4	-51.1	
EBITDA Margin (%)	2.6	3.8	3.9	-134.1	5.3	-51.7	Profitability of CD business completely offset by losses in E&P segment. As a result, overall margin declined ~134 bps YoY
Depreciation	18.2	13.7	9.9	83.3	17.0	6.6	
Interest	35.8	27.2	41.9	-14.6	39.4	-9.2	Debt repayment (through rights issues and CFO) resulted saving in interest cost during Q4FY20
Exceptional items	0.0	0.0	0.0		0.0		
PBT	-1.1	17.4	43.9	-102.4	22.0	-104.8	
Total Tax	-1.1	4.4	15.3	-106.9	6.6	-116.0	
PAT	0.0	13.1	28.6	-100.0	15.5	-100.0	
<b>Key Metrics</b>							
Consumer Durable	745.7	804.3	741.0	0.6	857.9	-13.1	Despite revenue loss for last 10 days in March, revenue was flat YoY due to strong sales growth in first two months of quarter
Engineering & Project	553.8	411.2	1,032	-46.3	423.5	30.8	Decline in revenue from power distribution segment coupled with slow execution owing to lockdown impacted project business

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	4897.7	4481.2	-8.5	5387.8	5185.6	-3.8	We factor in lockdown impact of around one and half months on our estimates for FY21E
EBITDA	227.4	199.7	-12.2	324.3	345.2	6.4	
EBITDA Margin %	4.6	4.5	-19bps	6.0	6.7	64bps	We believe change in mix both in consumer durable side and EPC front would help drive profitability of business
PAT	64.2	46.5	-27.5	143.6	167.8	16.9	
EPS (₹)	5.7	4.1	-27.5	12.6	14.8	16.9	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current				Earlier		Comments
	FY19E	FY20	FY21E	FY22E	FY21E	FY22E	
Consumer Durable (%)	23.0	12.5	-5.6	13.8	3.3	13.9	We believe CD business would see faster recovery due to pent up demand post relaxation from lockdown
Engineering & Project (%)	58.1	-51.9	-17.1	19.4	-5.2	2.4	Company's focus on reducing exposure in power distribution segment and focus only on high profitability TLT and illumination business would keep segment revenue flat during FY20-22E

Source: Company, ICICI Direct Research

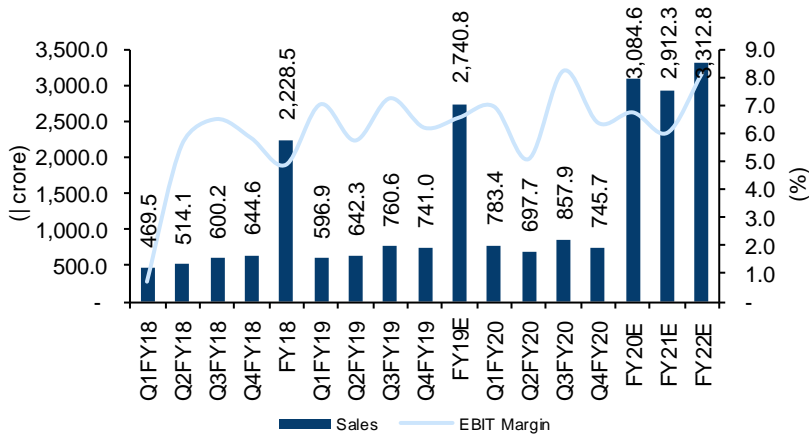
**Exhibit 4: SOTP based valuation**

₹ crore)	EBITDA (FY22E)	EV/EBITDA	EV
Consumer Durable	290	20	5941
EPC	55.2	3	193
Total EV			6134.2
Debt			661
Cash			149
<b>Target Market cap</b>			<b>5622</b>
No of shares			11
<b>Target price/share</b>			<b>495</b>

Source: Company, ICICI Direct Research

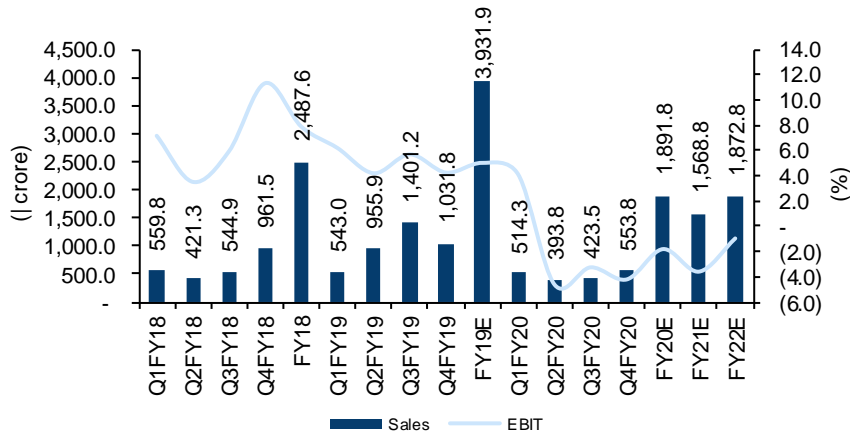
### Financial story in charts

Exhibit 5: Gradual recovery in revenue of CD from H2FY21E



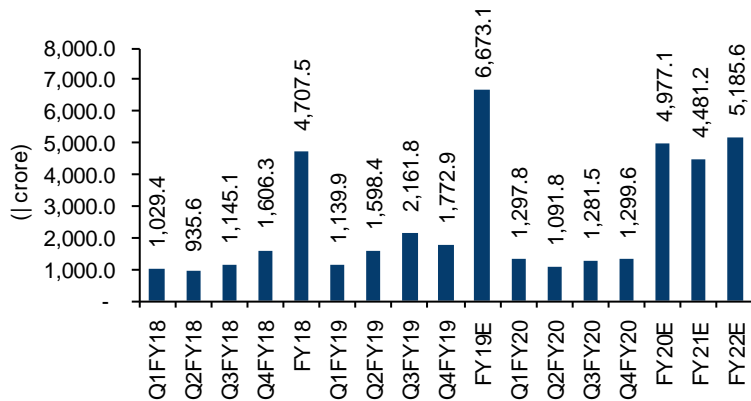
Source: Company, ICICI Direct Research

Exhibit 6: Strategy to focus only TLT, illuminations to keep revenue flat



Source: Company, ICICI Direct Research

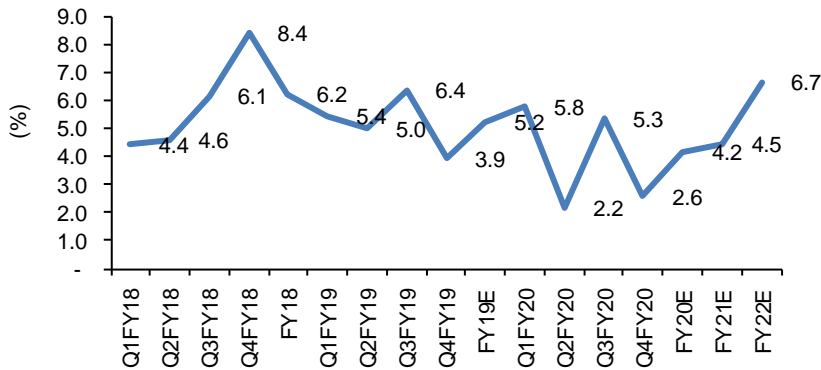
Exhibit 7: CD business to drive overall revenue of BEL, going ahead



Source: Company, ICICI Direct Research

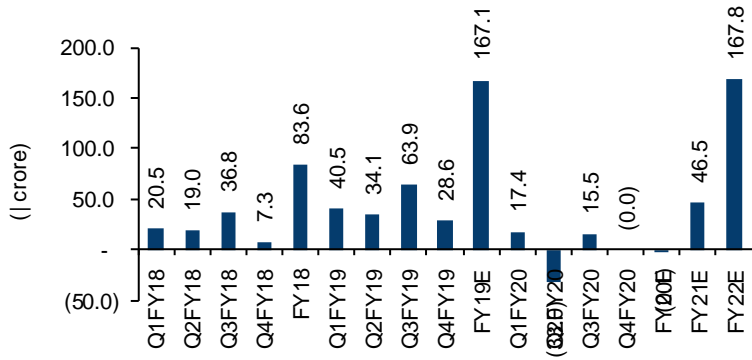
### Financial story in charts

**Exhibit 8: Improved profitability of CD business, limited losses from EPC to drive margin**



Source: Company, ICICI Direct Research

**Exhibit 9: PAT growth to largely be driven by CD business**



Source: Company, ICICI Direct Research

## Conference Call takeaway

### Consumer Durables:

- Despite a lockdown and loss of revenue for almost 10 days in March 2020, CD sales was flattish due to strong sales growth during the first two months of the quarter
- Sub-segment wise, appliances, fans, Morphy Richards grew 1.4%, 0.3%, 5.7% YoY, respectively. However, revenue from lighting segment fell ~4.1% YoY in Q4FY20. For FY20, consumer business grew 13% YoY at ₹ 3081 crore led by fans and appliances category
- The company reported EBIT of ₹ 208 crore up by ~16% YoY and EBIT margin of 6.8% in FY20.
- Total 80% of its dealers are operational. BEL expects secondary sales to pick up gradually. Pent up demand from sub urban/ rural regions would drive growth in FY21E
- Launched ~150 SKUs in FY20. Fans, kitchen appliances and air coolers category will be future growth drivers
- Despite a revenue loss for almost one and half months, the company is confident of recovering its lost sales in the coming months and closing FY21 at a same level of FY20. Further expects 12-15% growth in ECD segment for medium to long term

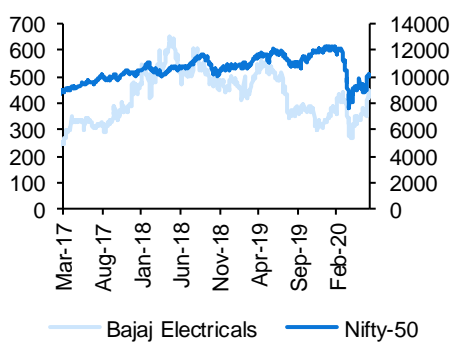
### Engineering project construction (EPC)

- Revenue contribution from project business fell significantly from ~60% in FY19 to ~40% in FY20
- For FY20 segment revenue fell ~52% YoY to ₹ 1892 crore while company reported loss of ₹ ~35 crore
- Order book as FY20 was at ₹ 1730 crore, comprising ₹ 705 crore for transmission line towers (TLT); ₹ 828 crore for power distribution, ₹ 197 crore for illumination projects
- Out of ₹ 828 crore of power distribution orders, the order from UP was at ₹ 423 crore
- Capital employed of EPC business is: inventory ₹ 190 crore, receivables ₹ 1973 crore, others ₹ 282 crore. Payables was at ₹ 1104 crore. Thus, total capital employed of EPC business ₹ 1414 crore
- BEL stopped bidding for last mile power distribution projects like rural electrification. The company is largely focusing on TLT and illumination projects which are relatively better margin business
- The receivables of the project business declined from ₹ 2630 crore in FY19 to ₹ 1973 crore in FY20. Focus was on completing the existing orders and collection of cash
- In the near term, profitability of the project business may remain under pressure with revival being witnessed from FY22E onwards
- The company would maintain the size of the project business (at the same level for FY20) has no near term plans to bid for any projects

### Others

- The company is working on various cost optimisation measures wherein various fixed costs and A&P will be reduced in order to maintain profitability of the company
- Debt/equity improved from 1.5x in FY19 to 0.5x in FY20 through reduction in gross debt by ~ ₹ 600 crore in FY20
- By the end of FY21, the company would further reduce the debt by ~ ₹ 300 crore. This would lead to significant drop in interest cost from FY21 onwards
- Import exposure from China and other South Asian countries is mere 15% in total revenue while rest is outsourced locally. Hence, we do not see any major threat if supply get disrupted from China

Exhibit 10: Historical price trend



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	62.7	62.7	62.7	62.7	63.2
FII	5.7	5.4	5.4	5.7	8.0
DII	8.6	9.9	12.3	12.4	12.5
Others	23.0	22.0	19.7	19.2	16.4

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Net Sales</b>	<b>6673.1</b>	<b>4977.1</b>	<b>4481.2</b>	<b>5185.6</b>
Growth (%)	44.2	-25.4	-10.0	15.7
Raw Material Expenses	469.2	305.1	295.2	430.2
(Increase)/Decrease in st	-216.7	88.0	0.0	0.0
Purchase of traded goods	4461.4	2938.3	2673.7	3075.7
Employee Expenses	356.7	383.4	382.7	367.4
Erection & subcontracting	443.8	310.6	269.3	264.2
Other expenses	796.0	650.7	587.9	620.0
Total Operating Expenditu	6324.8	4770.2	4281.5	4840.4
<b>EBITDA</b>	<b>349.0</b>	<b>206.9</b>	<b>199.7</b>	<b>345.2</b>
Growth (%)	32.1	-40.7	-3.5	72.9
Other Income	65.4	52.6	21.0	36.2
Interest	115.9	169.2	77.6	63.7
PBDT	297.9	90.4	143.0	317.7
Depreciation	38.5	68.0	80.7	93.3
PBT before Exceptional lte	259.5	22.4	62.4	224.3
Less: Exceptional Items	0.0	0.0	0.0	0.0
PBT	259.5	22.4	62.4	224.3
Total Tax	92.4	22.5	15.8	56.5
<b>PAT</b>	<b>167.1</b>	<b>-0.1</b>	<b>46.5</b>	<b>167.8</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Equity Capital	20.5	22.7	22.7	22.7
Reserve and Surplus	1057.3	1356.5	1274.9	1388.6
Total Shareholders funds	1077.8	1379.2	1297.7	1411.4
Total Debt	1577.5	836.1	716.1	661.1
<b>Liability</b>	<b>2723.2</b>	<b>2288.4</b>	<b>2086.8</b>	<b>2145.5</b>
<b>Asset</b>				
Total Gross Block	606.0	755.1	775.1	825.1
Less Total Accumulated Dep	281.4	349.4	430.0	523.4
Net Block	324.7	405.8	345.1	301.8
Total CWIP	6.9	9.4	9.4	9.4
Total Fixed Assets	331.6	415.1	354.5	311.1
Other Investments	40.0	40.0	40.0	40.0
Inventory	821.0	690.8	736.6	852.4
Debtors	3142.6	2536.5	2357.2	1918.0
Other Current Assets	520.2	443.7	399.5	477.1
Cash	16.1	104.7	118.4	148.9
Total Current Assets	4499.9	3775.8	3611.7	3396.4
Creditors	1092.1	900.3	920.8	994.5
Provisions	106.1	109.7	138.1	121.2
Total Current Liabilities	2437.1	2270.2	2179.2	1893.6
<b>Net Current Assets</b>	<b>2062.9</b>	<b>1505.6</b>	<b>1432.5</b>	<b>1502.9</b>
Deferred Tax Assets	63.8	45.3	45.3	45.3
Other non current assets	0.0	0.0	0.0	0.0
<b>Other non current assets</b>	<b>214.3</b>	<b>269.5</b>	<b>201.7</b>	<b>233.4</b>
<b>Total Assets</b>	<b>2723.3</b>	<b>2288.4</b>	<b>2086.8</b>	<b>2145.5</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Profit after Tax	167.1	-0.1	46.5	167.8
Depreciation	38.5	68.0	80.7	93.3
CF before working capital changes	321.4	237.0	204.8	324.9
Net Increase in Current Assets	-1569.8	812.8	177.7	245.8
Net Increase in Current Liabilities	694.2	-166.9	-91.0	-285.6
<b>Net CF from operating act</b>	<b>-554.2</b>	<b>883.0</b>	<b>291.6</b>	<b>285.1</b>
(Purchase)/Sale of Fixed Assets	-47.9	-151.6	-20.0	-50.0
Long term loans and advances	-91.6	-55.2	67.8	-31.7
Others	-26.0	21.4	0.0	0.0
<b>Net CF from Investing act</b>	<b>-165.5</b>	<b>-185.3</b>	<b>47.8</b>	<b>-81.7</b>
Inc / (Dec) in Loan Funds	859.9	-741.4	-120.0	-55.0
Total Outflow on account of div	-42.6	-40.6	-40.6	-54.1
<b>Net CF from financing act</b>	<b>710.4</b>	<b>-609.0</b>	<b>-325.7</b>	<b>-172.9</b>
Net Cash flow	-9.3	88.6	13.7	30.5
Cash & Cash Equi at the beg.	25.4	16.1	104.7	118.4
<b>Cash</b>	<b>16.1</b>	<b>104.7</b>	<b>118.4</b>	<b>148.9</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
<b>Per Share Data</b>				
EPS	16.3	0.0	4.1	14.8
Cash EPS	20.1	6.0	11.2	23.0
BV	105.3	121.3	114.1	124.1
DPS	4.2	3.6	3.6	4.8
<b>Operating Ratios</b>				
EBITDA Margin	5.2	4.2	4.5	6.7
PAT Margin	2.5	0.0	1.0	3.2
<b>Return Ratios</b>				
RoE	15.5	0.0	3.6	11.9
RoCE	13.8	8.4	6.7	13.4
RoIC	8.5	4.5	4.2	10.2
<b>Valuation Ratios</b>				
EV / EBITDA	16.5	23.8	24.0	13.6
P/E	25.2	NM	100.4	27.8
EV / Net Sales	0.9	1.0	1.1	0.9
Market Cap / Sales	0.6	0.8	0.9	0.8
Price to Book Value	3.9	3.4	3.6	3.3
<b>Turnover Ratios</b>				
Asset turnover	2.5	2.2	2.1	2.4
Debtor Days	171.9	186.0	192.0	135.0
Creditor Days	59.7	66.0	75.0	70.0
<b>Solvency Ratios</b>				
Debt / Equity	1.5	0.6	0.6	0.5
Current Ratio	3.7	3.6	3.3	2.9
Quick Ratio	3.1	3.0	2.6	2.1

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E	FY20	FY21	FY22E
Asian Paints (ASIPA)	1,622	1,900	Buy	1,55,550	29.9	32.5	38.6	54.2	49.9	42.0	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	905	900	Hold	13,635	16.6	14.2	20.0	54.6	63.5	45.2	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4
Amber Enterprises (AM)	1,510	1,565	Hold	4,748	52.2	15.1	54.9	28.4	98.1	27.0	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7
Bajaj Electricals (BAJEL)	411	495	Buy	4,673	0.0	4.1	14.8	NM	100.4	27.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Essel Propack (ESSPRC)	194	190	Hold	5,518	6.7	6.0	7.9	29.0	32.3	24.6	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2
Havells India (HAVIND)	566	575	Buy	35,313	11.7	7.8	13.2	48.2	72.3	42.8	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	387	415	Buy	20,856	9.9	7.8	10.4	39.0	49.5	37.2	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,400	1,485	Hold	71,775	21.9	18.3	26.2	64.0	76.4	53.4	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6
Polycab India (POLI)	802	855	Buy	11,940	51.4	36.2	53.2	15.6	22.2	15.1	9.6	12.4	9.1	26.5	16.9	20.3	20.0	12.3	15.6
Supreme Indus (SUPINC)	1,147	1,040	Hold	14,570	38.5	36.8	27.6	39.7	31.2	41.5	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Symphony (SYMLIM)	910	1,055	Buy	6,366	26.0	23.7	35.1	35.0	38.4	25.9	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9
V-Guard Ind (VGUARD)	172	210	Buy	7,322	4.4	3.5	5.1	39.5	48.6	33.8	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2
Voltas Ltd (VOLTAS)	548	635	Buy	18,124	15.8	9.5	21.4	34.8	57.7	25.6	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9

Source: Company, ICICI Direct Research



## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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