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Q4FY20 result review  
and earnings revision

## White Goods

Target price: Rs419

### Earnings revision

(%)	FY21E	FY22E
Sales	↑ 9.1	↑ 0.6
EBITDA	↑ 77.0	↑ 9.6
EPS	nm	↑ 35

### Target price revision

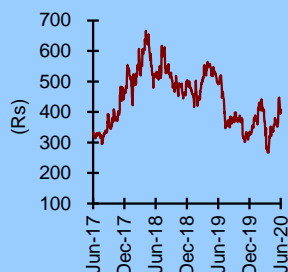
Rs419 from Rs311

### Shareholding pattern

(%)	Sep '19	Dec '19	Mar '20
Promoters	62.7	63.2	63.2
Institutional investors	17.7	18.6	20.4
MFs and others	11.2	11.2	11.4
Banks/Ins. Co.	0.7	0.5	0.5
FIs	5.8	6.9	8.5
Others	19.6	18.2	19.4

Source: BSE

### Price chart



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# Bajaj Electricals

**HOLD**

**Maintained**

**Rs411**

## Flat FY21 revenue guidance a positive surprise

Bajaj Electricals (BJE) reported 0.5 and 12.7% growth in its Consumer Durables (CD) segment while EPC revenues declined 46% and 52% in Q4FY20 and FY20 respectively. This combination has led to deleveraging of the balance sheet which we reckon will continue further in FY21E/FY22E. Management outlook of flat CD revenues and breakeven EPC EBIT in FY21 is a positive surprise leading to increase in our estimates. We factor a further 50% reduction in debt and 16% CAGR in CD EBIT between FY20E-FY22E. Maintain HOLD with a revised target price of Rs419 (earlier: Rs311).

- **Strong performance in CD continued in Q4FY20:** Q4FY20 consumer revenues (Rs7.5bn) were flat YoY despite lost business for ~15 days. While lighting segment declined by 4.1%, fan, appliance and Murphy Richards businesses grew by 0.3%, 1.4% and 5.7% respectively. Q4FY20 CD EBIT margin improved from 4.7% in Q4FY19 to 6.8% in Q4FY20 despite ~100bps higher cost allocation from EPC business offset by lower adspend of Rs940mn in Q4FY20 vs Rs990mn in Q4FY19.
- **Deleveraging will be a major earnings driver; discipline in EPC project selection key:** Debt reduced from ~Rs20bn in FY19 to ~Rs10bn in FY20 and we estimate it to further reduce to ~Rs700mn by FY21. 'Debt to Equity' ratio improved from ~1.6 in FY19 to ~0.7 in FY20. Deleveraging has been due to decrease in EPC revenues (from Rs30bn in FY19 to Rs19bn in FY20) while CD has always being FCF-positive. BJE has Rs19.7bn receivables from the EPC business with current orderbook at Rs17.3bn (transmission Rs7.1bn, power distribution Rs8.3bn, Illumination Rs2bn). Continued discipline in project selection and faster receipt of receivables in EPC can give a positive earnings surprise. Complete deleveraging can lead to increase of Rs15 in EPS (Rs1.7bn interest cost in FY20).
- **Expect EBIT to increase from Rs1.3bn in FY20 to Rs2.8bn in FY22E:** We expect EPC revenues of Rs19bn in FY21E (flat vs FY20) and Rs20bn in FY22E with EBIT-breakeven in FY21E and modest EBIT of Rs400mn in FY22E. ECD revenues are expected to remain flat in FY21E (Rs31bn) as per management guidance. This is a positive surprise driven by gradual business restoration trends seen in Q1FY21. While there were no sales in April, business revived to 65% and 80% in May and June respectively. We build ~15% growth in consumer topline in FY22E and expect CD EBIT margin to gradually increase from 6.5% in FY20 to 7%/7.5% in FY21E/FY22E.
- **CD strategy turns conservative from visionary (being practical will help in short term).** (1) Product focus will consciously be on mass market rather than the earlier stress on IoT and AI. In CY17, BJE launched Project Evolve, which aimed to use the power of AI, IoT, analytics and machine learning at the forefront of customer experience. (2) BJE would continue outsourcing and stay away from manufacturing while being prudent in adspend to conserve margin, especially in the wake of Covid-19.

Market Cap	Rs46.7bn/US\$613mn
Reuters/Bloomberg	BJEL.BO/BJE IN
Shares Outstanding (mn)	113.8
52-week Range (Rs)	520/267
Free Float (%)	36.8
FII (%)	8.5
Daily Volume (US\$'000)	1,241
Absolute Return 3m (%)	25.0
Absolute Return 12m (%)	(16.0)
Sensex Return 3m (%)	23.1
Sensex Return 12m (%)	(10.2)

Year to March	FY19	FY20P	FY21E	FY22E
Revenue (Rs mn)	66,794	49,872	50,110	55,776
Net Income (Rs mn)	1,564	-93	1,076	1,907
EPS (Rs)	15.3	-0.8	9.5	16.8
% Chg YoY	(4.1)	nm	nm	77.3
P/E (x)	26.9	-504.3	43.5	24.5
CEPS (Rs)	19.6	5.7	16.1	23.6
EV/E (x)	15.0	24.5	19.1	14.3
Dividend Yield	0.9	-	-	-
RoCE (%)	13.9	-6.5	8.3	12.0
RoE (%)	15.7	-0.8	7.7	12.3

Please refer to important disclosures at the end of this report

Table 1: Q4FY20 result review (consolidated)

(Rs mn)	Q4FY20	Q4FY19	% chg. YoY	Q3FY20	% chg. QoQ
<b>Total Operating Income</b>	<b>13,007</b>	<b>17,752</b>	<b>(26.7)</b>	<b>12,839</b>	<b>1.3</b>
<b>Total Operating Expenses</b>	<b>12,633</b>	<b>17,169</b>	<b>(26.4)</b>	<b>12,165</b>	<b>3.8</b>
(Increase) / decrease in stock in trade	(94)	(298)		273	
Raw Materials and Goods Consumed	839	1,407	(40.3)	772	8.7
Purchase of traded goods	8,226	10,932	(24.8)	7,413	11.0
Erection and subcontracting expenses	935	1,838	(49.1)	649	44.1
Personnel expenses	962	826	16.5	965	(0.3)
Other expenditure	1,765	2,463	(28.3)	2,094	(15.7)
<b>EBITDA</b>	<b>373</b>	<b>584</b>	<b>(36.0)</b>	<b>673</b>	<b>(44.6)</b>
Depreciation & Amortization	195	99	98.0	187	4.7
Other Income	169	260	(35.0)	72	136.2
Less: Gross Interest	361	467	(22.7)	397	(9.2)
<b>Recurring Pre-tax Income</b>	<b>(21)</b>	<b>259</b>	<b>(108.0)</b>	<b>153</b>	<b>(113.6)</b>
Less: Taxes	(13)	109	(111.6)	59	(121.4)
<b>Recurring Net Income</b>	<b>(8)</b>	<b>150</b>	<b>(105.4)</b>	<b>94</b>	<b>(108.6)</b>
Operating margin (%)	2.9	3.3	-42bps	5.2	-237bps
Gross margin (%)	23.8	21.8	203bps	29.1	-523bps
Effective tax rate (%)	60.9	41.9	1894bps	38.6	2223bps
NPM (%)	(0.1)	0.8	-91bps	0.7	-79bps

Source: Company data; I-Sec research

Table 2: Segmental breakup of revenues and EBIT

(Rs mn)	Q4FY20	Q4FY19	% chg. YoY	Q3FY20	% chg. QoQ
<b>Consumer durables</b>					
Revenue	7,468	7,433	0.5	8,602	(13.2)
EBIT	505	347	45.6	662	(23.7)
EBIT margin (%)	6.8	4.7	210bps	7.7	-93bps
<b>EPC</b>					
Revenue	5,538	10,318	(46.3)	4,235	30.8
EBIT	(234)	434	(153.9)	(138)	68.9
EBIT margin (%)	(4.2)	4.2	-842bps	(3.3)	-95bps

Source: Company data; I-Sec research

Q4 consumer revenues (Rs7.5bn) were flat despite lost business for ~15 days. While lighting segment declined by 4.1%, fan, appliance and Murphy Richards businesses grew by 0.3%, 1.4% and 5.7% respectively. Q4FY20 CD EBIT margin improved from 4.7% in Q4FY19 to 6.8% in Q4FY20 despite ~100bps higher cost allocation from EPC business offset by lower adspend of Rs940mn in Q4FY20 vs Rs990mn in Q4FY19.

## Earnings revision and valuation

Management guidance of flat consumer durables (CD) segment revenues and breakeven EPC EBIT in FY21 is a positive surprise leading to increase in our estimates.

**Table 3: Estimates adjusted for sharp decline in EPC business**

(Rs mn, year ending March 31)

	FY21E			FY22E		
	New	Old	% chg.	New	Old	% chg.
Sales	50,110	45,930	9.1	55,776	55,459	0.6
EBITDA	2,678	1,514	76.9	3,559	3,247	9.6
PAT	1,076	-78	nm	1,907	1,413	35.0
<b>EBIT</b>						
Consumer Durable	2,177	1,427	53	2,683	2,270	18
EPC	38	(400)	nm	400	576	-31
Un-allocable expenses	(294)	266	nm	(303)	(371)	-18
Total	1,921	761	152	2,780	2,474	12

Source: Company data, I-Sec research

## Financial summary

**Table 4: Profit & loss statement**
*(Rs mn, year ending March 31)*

	FY19	FY20P	FY21E	FY22E
<b>Operating Income (Sales)</b>	<b>66,794</b>	<b>49,872</b>	<b>50,110</b>	<b>55,776</b>
of which Consumer Durables	27,470	30,948	31,102	35,768
of which EPC	39,319	18,918	19,000	20,000
<b>Operating Expenses</b>	<b>63,393</b>	<b>47,789</b>	<b>47,432</b>	<b>52,217</b>
<b>EBITDA</b>	<b>3,401</b>	<b>2,083</b>	<b>2,678</b>	<b>3,559</b>
% margins	5.1	4.2	5.3	6.4
Depreciation & Amortisation	439	737	757	780
<b>EBIT</b>	<b>2962</b>	<b>1346</b>	<b>1921</b>	<b>2779</b>
of which Consumer Durables	1659	2004	2177	2683
of which EPC	1953	-346	38	400
of which unallocable ( net of other income)	-650	-311	-294	-303
Gross Interest	1176	1708	856	619
Other Income	650	462	400	410
<b>Recurring PBT</b>	<b>2,435</b>	<b>100</b>	<b>1,465</b>	<b>2,570</b>
Add: Extraordinaries	-	-	-	-
Less: Taxes	875	174	369	648
Add: Share of profit / (loss) of associates	(24)	(29)	(20)	(15)
Less: Minority Interest	(28)	(10)	(15)	(20)
<b>Net Income (Reported)</b>	<b>1,536</b>	<b>(103)</b>	<b>1,076</b>	<b>1,907</b>
<b>Recurring Net Income</b>	<b>1,564</b>	<b>(93)</b>	<b>1,076</b>	<b>1,907</b>

Source: Company data, I-Sec research

**Table 5: Balance sheet**
*(Rs mn, year ending March 31)*

	FY19	FY20P	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	47,062	40,271	36,492	37,569
of which cash & cash eqv.	164	1,047	786	745
Total Current Liabilities & Provisions	30,777	23,780	21,711	22,385
<b>Net Current Assets</b>	<b>16,285</b>	<b>16,492</b>	<b>14,782</b>	<b>15,184</b>
<b>Non cash Investments</b>	<b>357</b>	<b>393</b>	<b>393</b>	<b>393</b>
<b>Net Fixed Assets</b>	<b>3,773</b>	<b>3,327</b>	<b>3,328</b>	<b>3,051</b>
of which Capital Work-in-Progress	95	110	110	110
<b>Total Assets</b>	<b>20,437</b>	<b>21,441</b>	<b>19,707</b>	<b>19,833</b>
<b>Liabilities</b>				
Borrowings	10,453	7,424	4,614	2,832
Deferred Tax Liability	(576)	(451)	(451)	(451)
Equity Share Capital	205	228	228	228
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	10,355	13,255	14,331	16,238
<b>Net Worth</b>	<b>10,559</b>	<b>13,483</b>	<b>14,558</b>	<b>16,465</b>
<b>Total Liabilities</b>	<b>20,437</b>	<b>21,441</b>	<b>19,707</b>	<b>19,833</b>

Source: Company data, I-Sec research

**Table 8: Quarterly trend**
*(Rs mn, year ending March 31)*

	Jun-19	Sep-19	Dec-19	Mar-20
Net sales	13,071	10,957	12,839	13,007
% growth (YoY)	14.7	-31.5	-40.6	-26.7
EBITDA	798	239	673	373
Margin (%)	6.1	2.2	5.2	2.9
Other income	109.3	111.5	71.6	169.1
Net profit	137	(325)	94	(8)

Source: Company data

**Table 6: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY19	FY20P	FY21E	FY22E
<b>Operating Cash flow before WC changes</b>	<b>1,506</b>	<b>432</b>	<b>1,432</b>	<b>2,277</b>
Working Capital Changes	(6,911)	572	1,449	(443)
<b>Operating cash flow</b>	<b>(5,405)</b>	<b>1,004</b>	<b>2,881</b>	<b>1,834</b>
Capital Commitments	(1,262)	(323)	(733)	(503)
<b>Free Cash Flow</b>	<b>(6,668)</b>	<b>681</b>	<b>2,148</b>	<b>1,331</b>
<b>Others</b>	<b>6,574</b>	<b>421</b>	<b>(2,410)</b>	<b>(1,372)</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(94)</b>	<b>1,102</b>	<b>(261)</b>	<b>(41)</b>

Source: Company data, I-Sec research

**Table 7: Key ratios**
*(Year ending March 31)*

	FY19	FY20P	FY21E	FY22E
<b>Per Share Data (in Rs.)</b>				
EPS(Basic Recurring)	15.3	(0.8)	9.5	16.8
Diluted Recurring EPS	15.0	(0.9)	9.5	16.8
Recurring Cash EPS	19.6	5.7	16.1	23.6
Dividend per share (DPS)	3.5	-	-	-
Book Value per share (BV)	103.1	118.5	128.0	144.8

**Growth Ratios (%)**

Operating Income	41.6	(25.3)	0.5	11.3
EBITDA	15.9	(38.8)	28.5	32.9
Recurring Net Income	(3.7)	nm	nm	77.3
Diluted Recurring EPS	(4.1)	nm	nm	77.3
Diluted Recurring CEPS	1.7	(71.1)	184.5	46.7

**Valuation Ratios (x)**

P/E	26.9	nm	43.5	24.5
P/CEPS	21.0	72.6	25.5	17.4
P/BV	4.0	3.5	3.2	2.8
EV / EBITDA	15.0	24.5	19.1	14.3
EV / Operating Income	0.8	1.0	1.0	0.9
EV / Operating FCF	(9.4)	50.8	17.7	27.8

**Operating Ratios (%)**

Raw Material/Sales	77.3	73.0	72.3	71.7
Other Income / PBT	26.7	461.0	27.3	16.0
Effective Tax Rate	35.9	174.2	25.2	25.2
NWC / Total Assets	78.9	72.0	71.0	72.8
Inventory Turnover (days)	49.8	76.7	81.1	81.1
Receivables (days)	140.9	207.9	174.9	149.1
Payables (days)	94.0	146.1	108.9	87.7
D/E Ratio with acceptances (x)	1.6	0.74	0.5	0.3

**Profitability Ratios (%)**

Rec.Net Income Margins	2.3	(0.2)	2.1	3.4
RoCE	13.9	(6.5)	8.3	12.0
RoNW	15.7	(0.8)	7.7	12.3
Dividend Payout Ratio	22.9	-	-	-
Dividend Yield	0.9	-	-	-
EBITDA Margins	5.1	4.2	5.3	6.4

Source: Company data, I-Sec research

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