

Consumer product growth outlook remains intact...

Bajaj Electricals' consumer product segment reported 7% YoY revenue growth in FY21 despite loss of sales in Q1FY21. The company has maintained double digit growth guidance in consumer product (CP) for FY22 despite disruptions in May 2021 owing to lockdown. The urban regions, which contribute about two-third of segment sales will be key growth driver for Bajaj in the medium term as these regions are likely to recover fast from the pandemic. However, pent up demand in rural regions is unlikely to be same as last year due to deep penetration of Covid-19 in the hinterlands. The management expects a gradual recovery in consumer demand from Q2FY22 onwards. The management has also reiterated continuous investment in CP segment to increase products offerings, brand building activities and increasing reach. This would help BEL to achieve double digit revenue growth in FY21-23E along with improved segment margin profile. On the project front, the focus remained on reduction of exposure in the power distribution segment (the order book size declined from ₹ 828 crore in FY20 to ₹ 224 crore in FY21) and to report segment profit from H2FY22.

Strong performance of consumer products

Bajaj Electrical's Q4FY21 revenue fell ~3% YoY mainly due to 49% revenue dip in the project business. However, CP revenue growth came in at 31%, better than our estimate of 24%, mainly due to strong demand for consumer appliances (up 37% YoY), fans (up 36% YoY) and Morphy Richards (up 30% YoY). On the EPC front, the company's focus on reducing power distribution revenue exposure resulted in a sharp decline of segment revenue by 49% in Q4FY21. Going forward, we build in revenue CAGR of 11% in FY21-23E led by ~14% revenue CAGR in CP segment. For project business, we build in a flattish revenue CAGR of 4% for FY21-23E due to the company's focus to bid for only quality orders.

Double digit margin guidance of CP segment

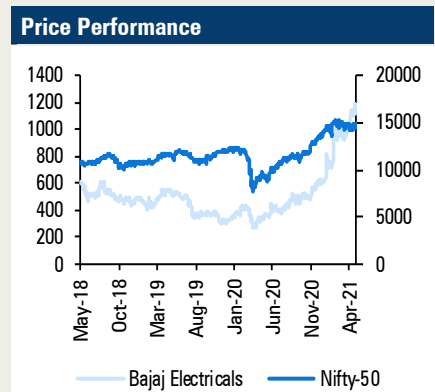
Bajaj's CP EBIT margin increased 190 bps YoY to 8.7% in Q4 (up 320 bps YoY to 9.6% in FY21) led by price hikes and higher operating leverage. On the EPC front, the company managed to reduce losses from ₹ 23 crore in Q4FY20 to ~ ₹ 8 crore in Q4FY21 due to reduction in exposure of low margin orders and various cost optimisation measures. While BEL guided that project business will start a positive contribution from FY22E onwards, the CP segment margin would see further improvement (EBIT margin of 10%+) owing to cost optimisation measures and focus on premiumisation.

Valuation & Outlook

We believe strong demand outlook of CP and focus on debt reduction (gross debt reduced by 60% in FY21) will lead to an improved RoE and RoCE for Bajaj Electrical, going forward. We value stock on a SOTP by ascribing 28x, 8x of FY23E EBITDA, to CP and EPC business, respectively. We maintain our **BUY** rating on the stock with a revised target price of ₹ 1280 (earlier ₹ 1075).



Particulars	
Particular	Amount
Market Capitalization (₹ Crore)	12,164.8
Total Debt (FY21) (₹ Crore)	304.3
Cash & Inv (FY21) (₹ Crore)	61.6
EV (₹ Crore)	12,407.5
52 week H/L	1224 / 349
Equity capital (₹ Crore)	22.7
Face value (₹)	2.0



- #### Key risk to our call
- Significant losses from project business in coming future
 - Lower-than-expected growth in consumer product category

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	(CAGR 21-23E)
Net Sales	6679.4	4987.2	4584.6	5042.5	5665.4	11.2
EBITDA	340.1	208.3	303.2	410.0	580.0	38.3
EBITDA Margin (%)	5.1	4.2	6.6	8.1	10.2	
PAT	153.6	-10.3	189.0	272.5	408.6	47.1
EPS (₹)	15.0	-0.9	16.5	23.8	35.7	
P/E(x)	71.3	-1183.4	NM	45.0	30.0	
Price/Book value (x)	10.4	9.0	7.8	7.5	6.2	
Mcap/sales (x)	1.8	2.4	2.7	2.4	2.1	
RoE (%)	14.5	(0.8)	10.7	16.8	20.6	
RoCE (%)	13.3	7.9	15.1	20.0	26.1	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	1,258.5	1,438.8	1,300.7	-3.2	1,500.1	-16.1	Strong growth in consumer product category drives topline
Other Income	30.7	21.5	16.9	81.7	22.4	37.0	One-time gain of ₹ 17 crore from sale of property drives other
Raw Material Exp	-22.9	51.7	74.5	-130.7	8.5	-367.8	
Employee Exp	102.5	98.3	99.3	3.2	94.8	8.1	
Admin & Other exp	148.6	158.3	150.3	-1.2	171.2	-13.2	
Erection & Subcont Exp	36.8	72.2	93.5	-60.7	68.4	-46.3	
Purchase of Traded goods	877.3	913.7	822.6	6.7	975.0	-10.0	
EBITDA	72.6	115.4	37.3	94.6	147.5	-50.8	
EBITDA Margin (%)	5.8	8.0	2.9	290	9.8	-41.3	Strong margin largely supported improved profitability in the consumer product segments while there was substantial reduction in losses of project business in Q4FY21
Depreciation	17.9	19.9	19.5	-8.5	19.7	-9.2	
Interest	10.8	10.7	36.1	-70.1	16.5	-34.6	Debt repayment resulted in saving in interest cost during Q4FY21
Exceptional items	3.0	0.0	0.0		0.0		
PBT	71.8	106.3	-1.4	LP	133.8	-46.4	
Total Tax	17.5	26.8	-1.3	LP	35.6	-50.8	
PAT	54.3	79.5	-0.8	LP	98.2	-44.8	Strong operational performance helps turn losses into profit on a YoY basis
Key Metrics							
Consumer Product	975.2	923.0	746.8	30.6	1152.8	-15.4	Strong demand, market share gains drives demand of consumer products. However, performance of lighting segment remained subdued
Engineering & Project	283.2	515.8	554	-48.9	347.2	-18.4	Sharp decline in revenue booking from power distribution segments dragged overall revenue. Bajaj has increased focus on execution of high margin orders from transmission line tower and illumination projects

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5425.4	5042.5	(7.1)	6,015.1	5665.4	(5.8)	We tweak our revenue estimate downward for FY22E considering lockdown in Q1FY22E
EBITDA	431.0	410.0	(4.9)	568.8	580.0	2.0	
EBITDA Margin %	7.9	8.1	23bps	9.5	10.2	74bps	Factoring in improvement in profitability of consumer product business. In addition to this, guidance on improvement of profitability from project business would help drive margin, going forward
PAT	265.9	272.5	2.5	385.5	408.6	6.0	
EPS (₹)	23.2	23.8	2.6	33.7	35.7	6.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current			Earlier			Comments	
	FY20	FY21	FY22E	FY23E	FY21E	FY22E		FY23E
Consumer Durable (%)	12.7	7.1	11.3	16.7	-2.0	18.3	12.6	Market share gains, launch of new products and government thrust on various housing schemes likely to drive demand for consumer product, going forward
Engineering & Project (%)	-51.9	-32.9	6.7	0.6	-11.7	4.2	6.7	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 FY21-23E

Source: Company, ICICI Direct Research

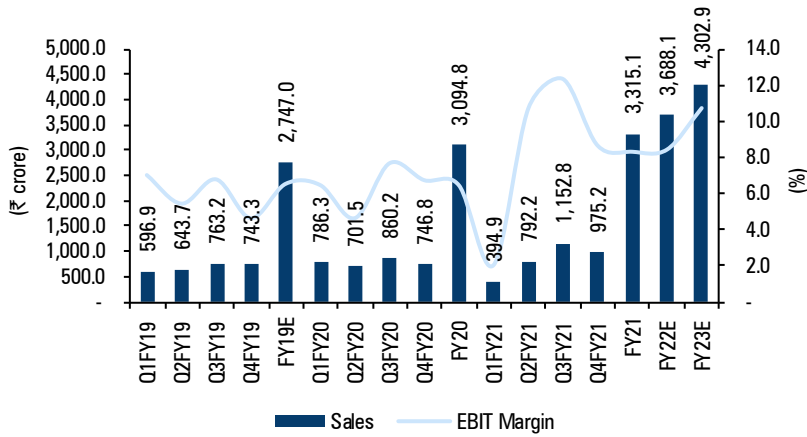
Exhibit 4: SOTP based valuation

(₹ crore)	EBITDA (FY23E)	EV/EBITDA	EV
Consumer Durable	481	28	13702
EPC	98.6	8	828
Total EV			14529.8
Debt			104
Cash			235
Target Market cap			14661
No of shares			11
Target price/share			1280

Source: Company, ICICI Direct Research

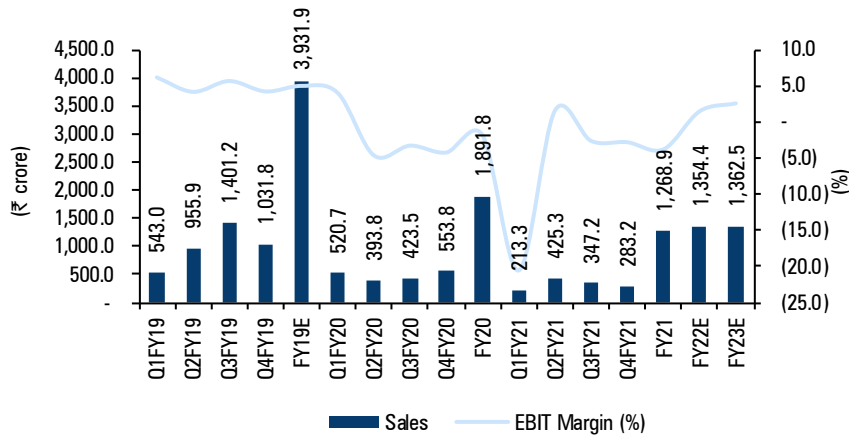
Financial story in charts

Exhibit 5: Strong demand, market share gains to drive revenue of CD



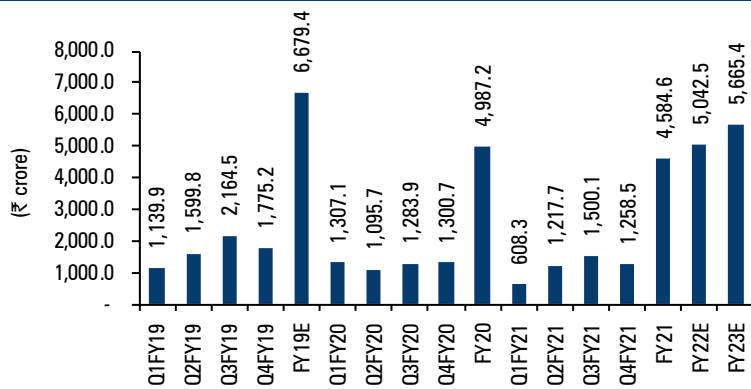
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

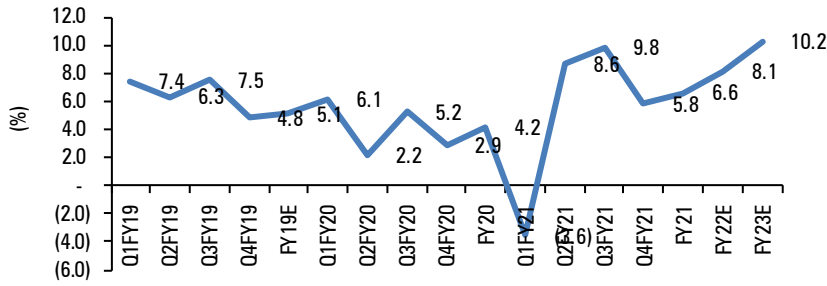
Exhibit 7: CD business to drive overall revenue of BEL, going ahead



Source: Company, ICICI Direct Research

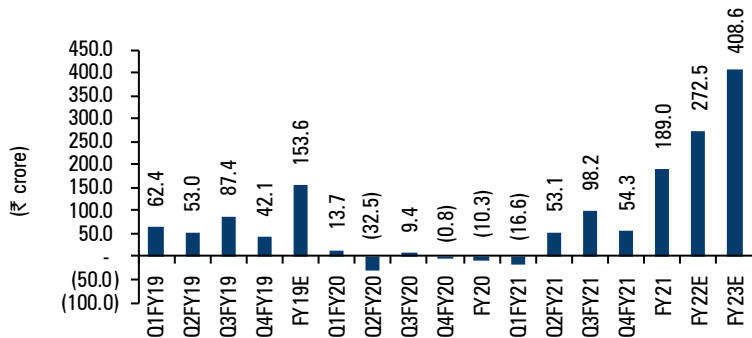
Financial story in charts

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:

- **Business outlook:** Despite weak Q1FY22 owing to lockdown, the company has maintained double digit growth guidance of consumer products segments for FY22. Focus is on increased revenue share from existing retailers, rather than increasing dealer network. The company sees significant future growth opportunities in the fans and kitchen appliances segments. On the geographical front, east, west, north contribute 31%, 27% 26%, respectively, while southern region has lower revenue contribution of 16%
- **Rural vs. Urban:** The company derives ~70% of revenue from urban regions. Hence, opening up of urban regions would help drive demand for the company in the medium term
- **Price hike:** BEL has initiated price hike in the range of 6-8% in January, which was sufficient to offset higher raw material in Q4FY21. The company further initiated price hikes of ~4% in May 2021
- **EBITDA margin:** Bajaj's recent tie up with Mahindra Logistics would help bring saving in logistics cost to the tune of 150-200 bps in the next three years. Some benefit of cost rationalisation measures are likely to stay in future. This will result in segment margin of 10%+, going forward (vs. 9.6% in FY21)
- **Working capital:** The higher inventory is largely due to anticipation of good sales of cooling product in Q4. However, the company expects the same to be liquidated post ease in lockdown restrictions
- **Market share:** While the company is the market leader in the water heater and mixer grinder segment, it is No. 3 and No. 4 players in the air cooler and fan segment, respectively
- For FY21, consumer product category recorded revenue growth of 7%, led by 13%, 11% and 5% revenue growth in the Morphy Richards, appliances and fan segment, respectively. The company has reported ~5% decline in revenue of lighting business
- The company plans to launch more B2C lighting products in the coming future to improve its lighting revenue
- Future investment will be on product and brand promotions, which will drive profitability, going forward

Engineering project construction (EPC)

- Order book as on FY21 was at ₹ 1116 crore, comprising ₹ 476 crore for transmission line towers (TLT); ₹ 224 crore for power distribution, ₹ 416 crore for illumination projects
- The segment receivables declined from ₹ 1973 crore in FY20 to ₹ 1435 crore in FY21. Receivables from UP and Bihar have reduced to ₹ 563 crore & ₹ 400 crore from ₹ 860 crore & ₹ 525 crore, respectively. Total ₹ 400 crore has been collected from power distribution business of EPC
- Focus is on reduced segment losses by cutting costs in the near term. The segment will start delivering profit from FY22 onward
- 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

Others

- **Merger of Starlite Lighting (SLL):** SLL became a 100% subsidiary after BEL bought remaining 57% stakes from its promoters for a cash consideration of ₹ 60 crore. SLL is involved in manufacturing lighting, water heater for BEL with annual turnover of ~₹ 173 crore. The said merger is a strategic move to simplify corporate structure, better utilise manufacturing capacity, deleverage balance sheet, benefit from lower interest cost. SLL has debt of ₹ 230 crore, which was guarantee by BEL

Financial summary

Exhibit 10: Profit and loss statement					₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E				
Net Sales	4987.2	4584.6	5042.5	5665.4				
Growth (%)	7.8	-8.1	10.0	12.4				
Raw Material Expenses	342.4	350.2	307.6	412.6				
(Increase)/Decrease in stocks	88.9	-270.7	0.0	0.0				
Purchase of traded goods	2898.4	2916.1	3009.0	3330.0				
Employee Expenses	401.6	394.5	419.0	430.3				
Erection & subcontracting exp	310.7	243.7	187.3	177.1				
Other expenses	643.1	545.9	612.8	623.2				
Total Operating Expenditure	4778.9	4281.4	4632.5	5085.4				
EBITDA	208.3	303.2	410.0	580.0				
Growth (%)	-21.2	45.5	35.2	41.5				
Other Income	46.2	69.2	63.8	71.1				
Interest	170.8	76.4	30.7	21.5				
PBDT	83.7	295.9	443.0	629.6				
Depreciation	73.7	75.2	78.7	83.3				
PBT before Exceptional Items	10.0	220.8	364.4	546.3				
Less: Exceptional Items	0.0	-25.5	0.0	0.0				
PBT	10.0	246.3	364.4	546.3				
Total Tax	17.4	57.3	91.8	137.7				
PAT	-10.3	189.0	272.5	408.6				

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E				
Profit after Tax	-10.3	189.0	272.5	408.6				
Depreciation	73.7	75.2	78.7	83.3				
CF before working capital changes	234.2	340.6	381.9	513.4				
Net Increase in Current Assets	796.2	312.2	230.3	-234.5				
Net Increase in Current Liabilities	-187.2	19.1	68.1	101.3				
Net CF from operating act	843.2	671.8	680.3	380.2				
(Purchase)/Sale of Fixed Assets	-149.5	-144.4	-100.0	-100.0				
Long term loans and advances	-28.9	12.5	-21.4	-29.2				
Others	36.2	-10.7	-50.0	-55.0				
Net CF from Investing act	-142.2	-142.7	-171.4	-184.2				
Inc / (Dec) in Loan Funds	-744.3	-536.7	-50.0	-150.0				
Total Outflow on account of div	-40.6	-40.9	-54.5	-54.5				
Net CF from financing act	-612.4	-572.2	-305.1	-226.0				
Net Cash flow	88.5	-43.1	203.8	-30.1				
Cash & Cash Equi at the beg.	16.3	104.7	61.6	265.4				
Cash	104.7	61.6	265.4	235.4				

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E				
Equity Capital	22.7	22.9	22.9	22.9				
Reserve and Surplus	1325.5	1555.2	1603.4	1957.5				
Total Shareholders funds	1348.2	1578.1	1626.3	1980.4				
Total Debt	841.0	304.3	254.3	104.3				
Liability	2292.2	1973.7	1971.9	2176.0				
Asset								
Total Gross Block	804.3	948.7	1048.7	1148.7				
Less Total Accumulated Dep	360.5	435.7	514.3	597.6				
Net Block	443.8	513.1	534.4	551.1				
Total CWIP	9.4	9.4	9.4	9.4				
Total Fixed Assets	453.2	522.4	543.8	560.5				
Other Investments	0.0	0.0	50.0	105.0				
Inventory	698.9	986.4	828.9	931.3				
Debtors	2536.5	1916.9	1796.0	1862.6				
Other Current Assets	446.2	409.6	450.5	506.2				
Cash	104.7	61.6	265.4	235.4				
Total Current Assets	3802.3	3447.0	3420.6	3625.0				
Creditors	909.9	960.2	911.8	853.7				
Provisions	110.4	111.3	105.7	99.0				
Total Current Liabilities	2275.0	2294.0	2362.2	2463.4				
Net Current Assets	1527.3	1153.0	1058.4	1161.6				
Deferred Tax Assets	45.3	52.5	52.5	52.5				
Other non current assets	0.0	0.0	0.0	0.0				
Other non current assets	227.2	214.7	236.2	265.3				
Total Assets	2292.3	1973.8	1971.9	2176.0				

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios					₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E				
Per Share Data								
EPS	-0.9	16.5	23.8	35.7				
Cash EPS	5.6	23.1	30.7	42.9				
BV	118.6	137.8	142.0	172.9				
DPS	3.6	3.6	4.8	4.8				
Operating Ratios								
EBITDA Margin	4.2	6.6	8.1	10.2				
PAT Margin	-0.2	3.7	5.4	7.2				
Return Ratios								
RoE	-0.8	10.7	16.8	20.6				
RoCE	7.9	15.1	20.0	26.1				
RoIC	4.3	8.1	12.2	16.1				
Valuation Ratios								
EV / EBITDA	61.9	40.9	29.6	20.7				
P/E	NM	64.9	45.0	30.0				
EV / Net Sales	2.6	2.7	2.4	2.1				
Market Cap / Sales	2.4	2.7	2.4	2.1				
Price to Book Value	9.0	7.8	7.5	6.2				
Turnover Ratios								
Asset turnover	2.2	2.3	2.6	2.6				
Debtor Days	185.6	152.6	130.0	120.0				
Creditor Days	66.6	76.4	66.0	55.0				
Solvency Ratios								
Debt / Equity	0.6	0.2	0.2	0.1				
Current Ratio	3.6	3.2	3.1	3.6				
Quick Ratio	2.9	2.2	2.3	2.6				

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,774	2,970	Buy	2,66,027	33.4	36.7	45.4	83.0	75.5	61.1	49.6	45.4	36.8	25.0	26.2	28.0	29.6	30.8	33.5
Astral Polytechnik (ASTPOL)	1,787	1,915	Hold	26,923	20.3	21.8	29.3	87.9	82.1	61.1	55.0	51.8	39.6	27.5	27.0	31.4	21.5	20.7	23.9
Amber Enterprises (AMBEN)	2,956	3,015	Buy	9,296	29.8	68.2	97.6	99.1	43.3	30.3	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,080	1,280	Buy	12,279	16.5	23.8	35.7	64.9	45.0	30.0	40.9	29.6	20.7	15.1	20.0	26.1	10.7	16.8	20.6
Berger Paints (BERPAI)	752	810	Hold	73,034	7.6	9.7	12.4	98.9	77.3	60.8	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	398	480	Buy	24,955	9.8	9.2	11.9	40.5	43.5	33.5	33.1	32.5	25.4	34.4	36.1	42.1	31.9	28.7	33.2
Dixon Technologies (DIXTEC)	3,954	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	232	250	Hold	7,320	7.8	8.9	10.8	29.6	26.0	21.5	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,031	1,255	Buy	64,324	16.7	16.7	22.0	61.9	61.6	46.8	40.1	40.8	31.3	24.9	24.0	30.0	20.1	19.5	24.4
Kansai Nerolac (KANNER)	556	655	Buy	29,964	9.9	12.1	14.4	56.4	45.9	38.6	36.6	31.1	26.2	17.2	20.3	21.5	13.2	15.7	16.6
Moldtek Packaging (MOLP)	464	600	Buy	1,286	16.5	20.8	28.0	28.2	22.3	16.6	15.4	12.6	9.8	20.7	23.6	27.8	19.9	20.9	23.1
Pidilite Industries (PIDIND)	1,888	2,035	Hold	95,873	22.2	26.3	31.8	85.1	71.8	59.4	55.9	47.3	39.9	23.8	23.9	29.9	20.2	20.1	25.2
Polycab India (POLI)	1,599	1,385	Buy	23,806	57.9	67.2	79.7	27.6	23.8	20.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,122	2,390	Hold	26,955	77.0	64.9	72.4	27.6	32.7	29.3	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,059	1,345	Hold	7,408	15.3	28.5	39.5	69.2	37.2	26.8	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	79	75	Buy	1,787	4.4	9.6	-	17.9	8.2		5.7	3.8		8.4	13.7		5.5	11.2	
V-Guard Ind (VGUARD)	221	265	Buy	9,465	4.2	6.1	7.1	52.2	36.4	31.2	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	1,027	1,150	Buy	33,966	16.0	21.2	28.9	64.2	48.6	35.5	50.8	41.8	29.8	15.0	19.5	23.0	10.6	14.4	17.1

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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