

May 17, 2022

**RESULT REPORT Q4 FY22** | Sector: Consumer Durables

# Bajaj Electricals

**Satisfactory performance in challenging environment; maintain BUY; de-merger to unlock value**

## Result Synopsis

Consumer products (CP) business registered a satisfactory performance in Q4 despite high base and a challenging environment. Margins in the CP business were impacted by high commodity inflation and normalization of costs. EPC business continues to see clean-up action and has broken even in Q4. Management is confident of a gradual pick-up in demand and margin improvement from 2HFY23 as it has taken 5% price increase in April; EPC business is expected start generating profits from FY23 on annualized basis with some volatility in quarterly profitability. Consistent improvement in balance sheet with strong cash generation ability makes us confident of company's ability to overcome challenging environment. We continue with our positive stance on the company and maintain BUY. Further, demerger should lead to a sustained focus on CP business which can lead to outperformance driving a re-rating of the consumer products business.

We expect growth momentum in the consumer business to continue as BJE has been launching new SKU's across the categories at the premium end. This has resulted in market share increase in urban markets which has been a weak area for BJE. EPC business is now expected to turn profitable from FY23 on sustainable basis leading to a higher multiple. We have cut our FY23 and FY24 earnings as profitability is expected to improve only from 2HFY23 as commodity prices stabilize. We build in FY22-24E Revenue/EBITDA/PAT CAGR of 13%/54%/84% and maintain BUY with PT of Rs1,286 continuing to value the company at 35x FY24EPS. We expect the stock to re-rate with a further improvement in efficiencies and profitability in EPC business and concentrated focus on Consumer business.

## Result Highlights

- Quarter summary** - Bajaj Electricals delivered lower than estimated revenue with consumer products registering growth of 6.4% (Appliances -5.3%, Fans +22.2%, Morphy Richards -34.4% and Lighting -31.3%).
- Margins** - Margins in consumer business contracted by 251bps due to higher commodity prices as company had not taken any price increases in Q4. Margins are expected to back at normalized levels from 2HFY23
- EPC** - EPC business saw 4.7% revenue growth with an EBIT of Rs69.7mn. Company has broken even in Q4 and expects to be profitable on annualized basis from FY23 onwards
- Net Debt and Cashflow** - Company has turned net cash positive in FY22 after almost a decade. Its cashflow from operation stood at Rs2.6bn, which is 12<sup>th</sup> consecutive quarter of positive CFO.

## Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	13,343	13,922	NA	-4.2	NA	Slowdown in rural areas has resulted in lower than expected revenue growth
EBITDA	631	1,003	NA	-37.0	NA	
EBITDA Margin (%)	4.7	7.2	NA	-250 bps	NA bps	
Adjusted PAT	387	593	NA	-34.8	NA	

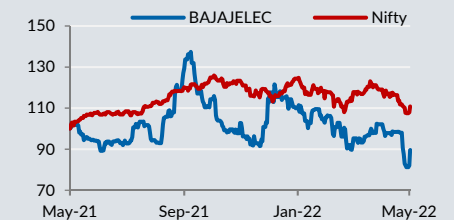
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 997
Target Price	: Rs 1,286
Potential Return	: +29.0%

## Stock data (as on May 17, 2022)

Nifty	16,259
52 Week h/l (Rs)	1589 / 861
Market cap (Rs/USD mn)	114731 / 1479
Outstanding Shares (mn)	115
6m Avg t/o (Rs mn):	264
Div yield (%):	0.3
Bloomberg code:	BJE IN
NSE code:	BAJAJELEC

## Stock performance



	1M	3M	1Y
Absolute return	-12.4%	-15.9%	-10.9%

## Shareholding pattern (As of Mar'22 end)

Promoter	63.0%
FII+DII	22.7%
Others	14.4%

## Δ in stance

(1-Yr) Rating	New	Old
Rating	BUY	BUY
Target Price	1,286	1,422

## Δ in earnings estimates

	FY23e	FY24e
EPS (New)	23.0	36.7
EPS (Old)	28.5	40.6
% change	-19.3%	-9.6%

## Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Revenue	48,130	54,730	61,224
YoY Growth	5.0%	13.7%	11.9%
EBIDTA	2,502	4,260	5,950
YoY Growth	-17.5	70.3	39.7
PAT	1,244	2,642	4,220
YoY Growth	-34.2%	112.4%	59.7%
ROE	8.3	14.5	20.3
EPS	13.1	23.0	36.7
P/E	75.9	43.3	27.1
BV	150.8	167.4	194.0
EV/EBITDA	45.4	26.4	18.5

## HIMANSHU NAYYAR

Lead Analyst

himanshu.nayyar@ysil.in

+91 22 6885 0521



AAKASH FADIA, Analyst

## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	y/y %	q/q %	FY22	FY21	y/y %
Sales	12,585	8,569	13,020	13,198	13,343	6.0	1.1	48,130	45,846	5.0
EBITDA	726	6	943	921	631	(13.1)	(31.4)	2,501	3,032	(17.5)
EBITDA Margin %	5.8	0.1	7.2	7.0	4.7			5.2	6.6	
Depreciation	179	173	168	173	178	(0.2)	3.0	692	752	(7.9)
EBIT	548	-167	775	748	453	(17.3)	(39.4)	1,809	2,280	(20.7)
EBIT Margin %	4.4	-2.0	6.0	5.7	3.4			3.8	5.0	
Interest charges	108	232	195	165	106	(1.6)	(35.6)	697	764	(8.8)
Other Income	307	85	212	176	210	(31.6)	19.2	683.5	692	(1.2)
PBT	718	-314	792	663	521	(27.4)	(21.4)	1663	2463	(32.5)
Tax	175	-64	167	182	135	(23.2)	(25.8)	419	573	(26.9)
Effective Tax Rate (%)	24.4	20.5	21.1	27.4	25.8			25.2	23.3	
PAT	543	-250	625	482	387	(28.7)	(19.7)	1244	1890	(34.2)
PAT Margin %	4.3	-2.9	4.8	3.6	2.9			2.6	4.1	
EPS (Rs)	4.7	-2.2	5.4	4.2	3.4	(28.9)	(19.7)	10.8	16.5	(34.3)

Source: Company, YES Sec

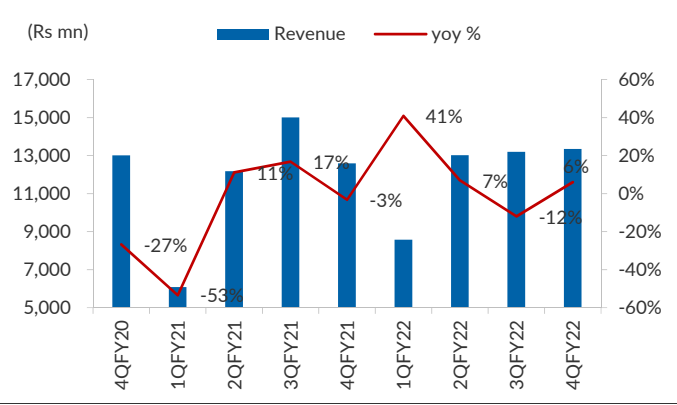
## Exhibit 3: Segmental Performance

Rs mn	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Consumer products	9,752	6,173	10,351	10,802	10,377	6.4	(3.9)	37,702	33,151	13.7
EPC	2,832	2,395	2,667	2,396	2,965	4.7	23.8	10,423	12,689	(17.9)
Others	1	1	3	1	1	8.3	44.4	6	6	(5.1)
Net Sales	12,585	8,569	13,020	13,198	13,343	6.0	1.1	48,130	45,846	5.0
PBIT										
Consumer products	845.0	60.4	1032.3	972.7	638.3	(24.5)	(34.4)	2703.7	3197.3	(15.4)
EPC	-79.3	-133.4	-135.4	-49.0	69.7	(187.9)	(242.2)	-248.1	-541.2	(54.2)
Others	-0.9	-1.3	0.8	-0.3	0.2	(122.2)	(166.7)	-0.6	-2.8	(78.6)
Total PBIT	765	-74	898	923	708	(7.4)	(23.3)	2,455	2,653	(7.5)
Finance Costs	107.7	232.0	194.8	164.6	106.0	(1.6)	(35.6)	697.4	764.3	(8.8)
Unallocable expense	-90	8	-90	-1	45	(149.8)	(6,514.3)	-37.6	-318.8	(88.2)
as % of sales	-0.7	0.1	-0.7	0.0	0.3	(146.9)	(6,444.5)	(0.1)	(0.7)	
Share of profit/ (loss) of an associate and a joint venture	0	0	0	0	0	#DIV/0!	#DIV/0!	0	0	
PBT	747	-314	793	760	557	(25.4)	(26.6)	1,795	2,208	(18.7)
PBIT Margins (%)						(bps)	(bps)			(bps)
Consumer products	8.7	1.0	10.0	9.0	6.2	(251)	(285)	7.2	9.6	(247)
EPC	(2.8)	(5.6)	(5.1)	(2.0)	2.4	515	440	(2.4)	(4.3)	188
Others	(75.0)	(162.5)	30.8	(33.3)	15.4	9,038	4,872	(10.7)	(47.5)	3,674
Total PBIT	6.1	(0.9)	6.9	7.0	5.3	(77)	(169)	5.1	5.8	(69)

Source: Company, YES Sec

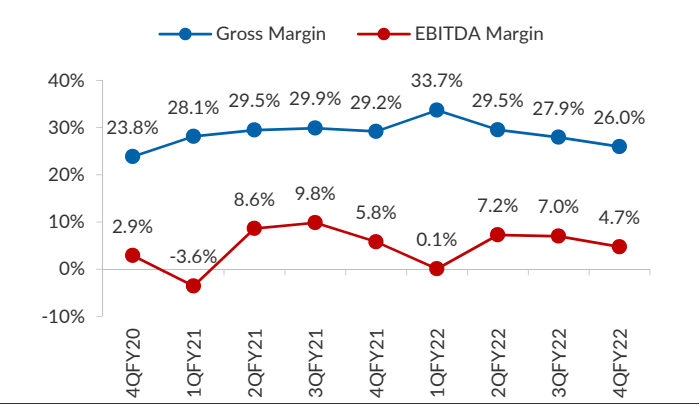
## CHARTS

**Exhibit 4: Slowdown in rural areas has resulted in soft revenue performance**



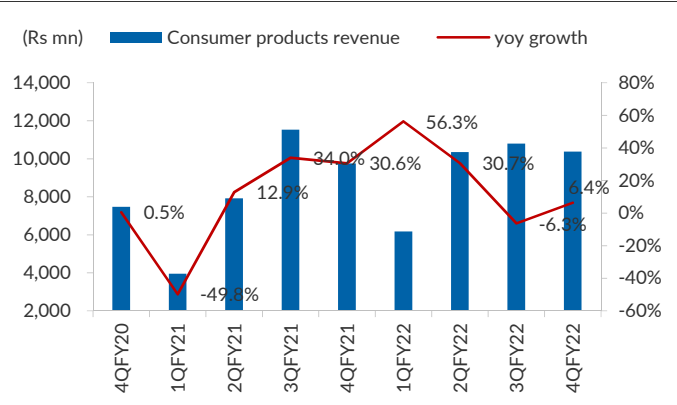
Source: Company, YES Sec

**Exhibit 5: High commodity inflation has impacted margins**



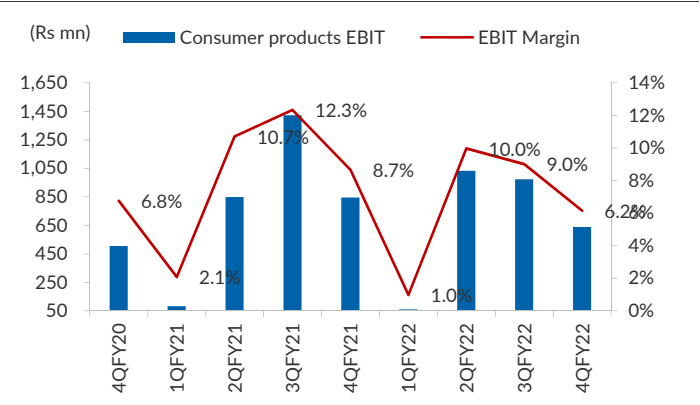
Source: Company, YES Sec

**Exhibit 6: High base and challenging environment has resulted in muted growth for CP**



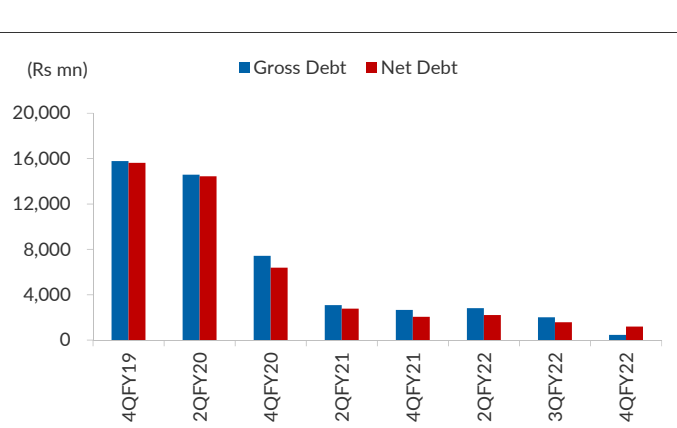
Source: Company, YES Sec

**Exhibit 7: High commodity inflation has led to lower EBIT margins**



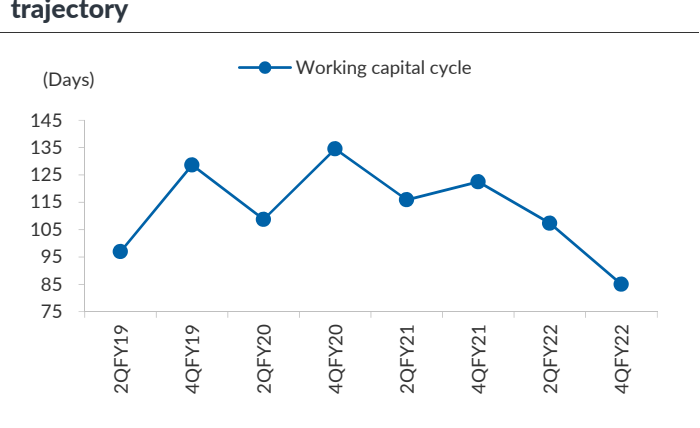
Source: Company, YES Sec

**Exhibit 8: Company has become net cash positive**



Source: Company, YES Sec

**Exhibit 9: Working capital cycle is on improvement trajectory**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Business Update** – Q4 has been tough quarter given cost increase in raw materials and supply chain challenges. Despite these challenging conditions BJE has delivered decent numbers. Rural demand has been soft and BJE has higher dependence on rural demand resulting in subdued revenue growth.
- **Margin** – Gross margin has contracted as there was no price hikes taken in Q4. Margins are expected to be normalized in 2HFY23.
- **Debt and Cashflows** – Company has become net debt free and has generated strong CFO resulting in strict control in capital employed.
- **Price hikes** – Company has not taken any price increase in Q4, Price increase has been taken in Q1 which will drive results in upcoming quarter. Price hikes of around 5% have been taken in April on average basis. Further price hikes have been kept on hold as competition is high and raw material prices have cooled off from highs.
- **Receivables** – Rs9.1bn receivables comes from EPC on the gross basis and Rs4.5bn from consumer business. It is seeing improvement as collection are being done at robust pace.
- **Illumination** – Illumination revenue for the quarter is Rs1.5bn and for FY22 is Rs6bn and is expected to grow at strong clip.
- **Market share** – Company has not lost any market share in rural and have managed to gain marginal market share in Urban areas. Have gained 200-300bps market share in Fans.
- **Channels** – E-commerce has seen slowdown in Q4, it was robust in 4QFY21. Other channels like government and Modern retail has seen higher growth.
- **UP Projects** – UP projects is on verge of completion and most of the packages have been completed and have also started receiving retention money. Currently there are Rs2.4bn of receivables from UP projects.
- **EPC** – EPC is expected to be now see break even on annualized basis, with some quarterly volatility.
- **Appliances** – Appliances business has been impacted due to high base.
- **Sourcing** – Company's current imports around 8-10% of which 90% is from the China. Dependence from China has been coming down.
- **E-commerce** – Company derives 11-12% of the revenue from E-commerce and it has seen slowdown in FY22 as compared to FY21.
- **Retail touch points** – Retail touchpoints now stand at 2,30,000, an increase of 11,000 in FY22.
- **Distribution** – Company already has strong distribution in place and expect the growth engine to fire once the demand situation improves.
- **Logistics costs savings** – Logistics costs savings has not been much as was projected given some delay in implementation as some internal and external environments are not supportive.
- **Fans** – Cost increase on account of increase in energy efficiency due to implementation of BEE rating is around 15-20%.

# Bajaj Electricals

- **Consumer business** – Appliances business has grown 13.5%, Fans have grown by 20.9%, Lighting has grown by 10.8% and Morphy Richards have de-grown by 4.6% for FY22. Mixer grinder and Geysers have been flattish. Need to improve market share in South in appliances.
- **A&P Spends** – A&P spends in Q4 was 2.7% and 3.1% for FY22.

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Equity capital	228	229	230	230	230
Reserves	13,255	15,651	17,087	18,997	22,048
Net worth	13,483	15,880	17,317	19,227	22,278
Debt	7,424	2,647	449	1,249	1,397
Deferred tax liab (net)	0	0	263	263	263
Other non current liabilities	1,780	1,224	1,169	1,259	1,353
Total liabilities	22,686	19,751	19,199	21,998	25,292
Fixed Asset	4,796	3,791	6,666	6,674	6,674
Investments	129	1,639	1,688	1,688	1,688
Other Non-current Assets	2,907	3,818	3,743	3,978	4,210
Net Working Capital	13,838	10,048	5,717	6,290	7,094
Inventories	6,989	9,711	9,979	11,246	12,580
Sundry debtors	25,365	19,162	13,606	15,294	17,109
Loans and Advances	48	39	78	88	99
Sundry creditors	9,099	9,602	12,355	14,049	15,716
Other current liabilities	13,012	12,514	8,105	9,043	9,966
Cash & equivalents	1,016	456	1,385	3,368	5,625
Total Assets	22,686	19,751	19,198	21,998	25,292

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	49,872	45,846	48,130	54,730	61,224
Operating profit	2,083	3,032	2,502	4,260	5,950
Depreciation	737	752	692	796	803
Interest expense	1,708	764	697	625	349
Other income	462	692	683	692	842
Profit before tax	100	2,208	1,795	3,531	5,640
Taxes	174	573	419	889	1,420
Minorities and other	29	-	-	-	-
Adj. profit	(103)	1,635	1,376	2,642	4,220
Exceptional items	-	(255)	(132)	-	-
Net profit	(103)	1,890	1,509	2,642	4,220

Source: Company, YES Sec

## Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before tax	1,808	2,972	2,493	4,156	5,989
Depreciation	737	752	692	796	803
Tax paid	(174)	(573)	(419)	(889)	(1,420)
Working capital Δ	6,677	2,199	4,283	(573)	(804)
Other operating items					
Operating cashflow	9,047	5,350	7,049	3,490	4,568
Capital expenditure	(1,511)	253	(3,567)	(804)	(804)
Free cash flow	7,536	5,603	3,482	2,686	3,764
Equity raised	3,458	508	273	-	-
Investments	(21)	82	(2)	-	-
Debt financing/disposal	(8,430)	(4,777)	(2,198)	800	148
Interest paid	(1,708)	(764)	(697)	(625)	(349)
Dividends paid	(432)	-	(345)	(732)	(1,169)
Net Δ in cash	904	(560)	928	1,984	2,256

Source: Company, YES Sec

## Exhibit 13: Du-pont analysis

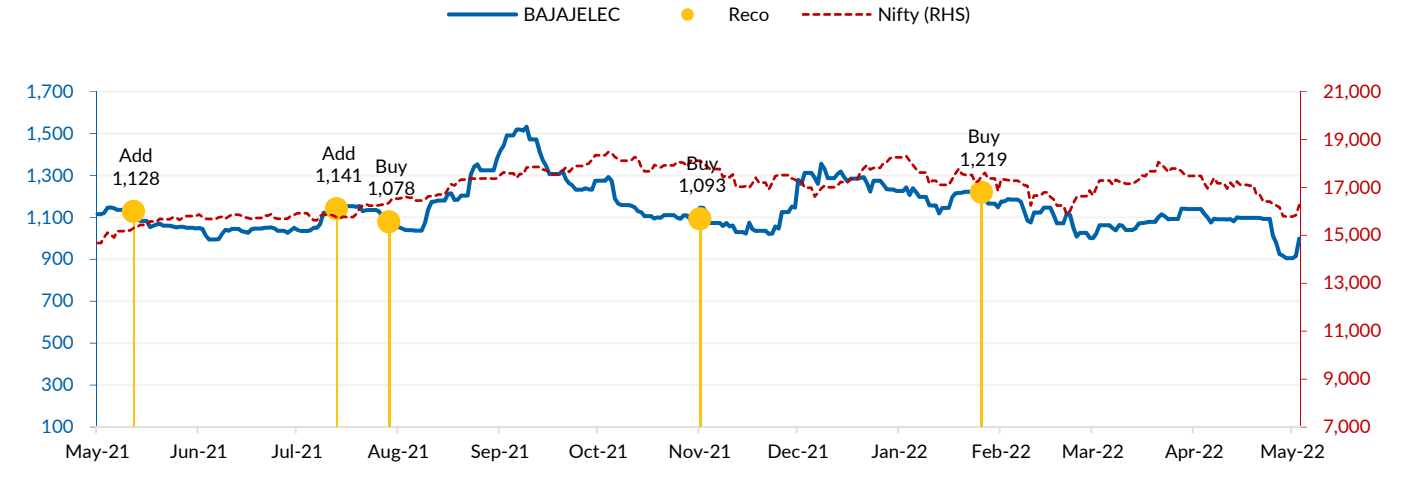
Y/e 31 Mar (Rs mn)	FY20	FY21	FY22	FY23E	FY24E
Tax burden (x)	(1.03)	0.74	0.77	0.75	0.75
Interest burden (x)	0.06	0.74	0.72	0.85	0.94
EBIT margin (x)	0.04	0.06	0.05	0.08	0.10
Asset turnover (x)	1.02	1.04	1.16	1.27	1.25
Financial leverage (x)	4.05	3.01	2.51	2.37	2.36
RoE (%)	(0.9)	11.1	8.3	14.5	20.3

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY20	FY21	FY22	FY23E	FY24E
<b>Growth matrix (%)</b>					
Revenue growth	(25)	(8.1)	5.0	13.7	11.9
Op profit growth	(39)	45.5	(17.5)	70.3	39.7
EBIT growth	(50)	64.4	(16.1)	66.7	44.1
Net profit growth	(107)	(1,687.2)	(15.8)	91.9	59.7
<b>Profitability ratios (%)</b>					
OPM	4.2	6.6	5.2	7.8	9.7
EBIT margin	3.6	6.5	5.2	7.6	9.8
Net profit margin	(0.2)	3.6	2.9	4.8	6.9
RoCE	7.6	15.1	13.7	21.7	27.1
RoNW	(0.9)	11.1	8.3	14.5	20.3
RoA	(0.2)	3.7	3.3	6.1	8.6
<b>Per share ratios</b>					
EPS	(0.9)	16.5	13.1	23.0	36.7
Dividend per share	3.2	-	3.0	6.4	10.2
Cash EPS	5.6	20.8	18.0	29.9	43.7
Book value per share	118.5	138.6	150.8	167.4	194.0
<b>Valuation ratios</b>					
P/E	(1,101.3)	60.4	75.9	43.3	27.1
P/CEPS	179.0	43.2	59.1	33.3	22.8
P/B	8.4	7.2	6.6	6.0	5.1
EV/EBIDTA	57.5	38.4	45.4	26.4	18.5
<b>Payout (%)</b>					
Dividend payout	(420)	-	25.0	27.7	27.7
Tax payout	174	26.0	23.3	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	186	152.6	103.2	102.0	102.0
Inventory days	51	77.3	75.7	75.0	75.0
Creditor days	66.6	76.4	93.7	93.7	93.7



## Recommendation Tracker



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Off Western Express Highway, Santacruz East,  
Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 4<sup>th</sup> Floor, AFL House,  
Lok Bharti Complex, Marol Maroshi Road, Andheri East,  
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Investment Manager to YSL Alternates Alpha Plus Fund (Cat III AIF) SEBI  
Registration No.: IN/AIF3/20-21/0818 | AMFI ARN Code - 94338.

**Details of Compliance Officer:** Name: Vaibhav Purohit,  
Email id: compliance@yasil.in, Contact No: +91-22-6885 0278