

## All round performance...

Bajaj Electricals reported strong Q2FY21 results with topline growth of 11% YoY to ₹ 1217 crore led by strong performance of consumer products segment, which grew a healthy 13% YoY. Strong demand from semi-urban & rural regions coupled with rise in work from home culture has led to the revival in demand for home appliances in urban India. On the engineering and project front, closure of power distribution projects in Bihar help drive revenue in Q2FY21. Key takeaways from conference call are: 1) Double digit revenue growth in the consumer product segment led by strong festive demand and opening up of metro & tier 1 cities, 2) Price hike of ~2.5% in selected product categories, 3) Market share gains from unorganised players, 4) One-time gain of provision write back to the tune of ₹ 40 crore in EPCs and 5) Focus on acceleration of collections in the EPC business. We believe focus on debt reduction (by improving collections in EPC business) along with improved margin profile would further lead to an improvement in return ratios, going forward. We introduce FY23E estimates with revenue CAGR of 6% in FY20-23E led by 9% CAGR in consumer product segments.

### Strong consumer products demand drives sales

ECD segment revenue in Q2FY21 grew ~13% YoY supported by a strong demand recovery post easing of lockdown restrictions. Product wise, appliances, fans, Morphy Richards (MR) revenue grew 14%, 20% and 12% YoY, respectively, while lighting revenues reached pre-Covid levels in Q2FY21. The faster recovery was supported by BEL's strong presence in suburban, rural markets and market share gains. On the project business, closure of about eight to nine projects in Bihar help drive revenue up 8% YoY. BEL has changed its strategy to bid only transmission line towers (TLT), illumination projects and reduced exposure in the power distribution business (PD). The current order book of EPC business is at ₹ 1474 crore (vs. ₹ 1799 crore in Q2FY20), comprising ₹ 482 crore for TLT, ₹ 602 crore for PD, ₹ 390 crore for illumination projects.

### One-time gain, saving in costs drives margin up

Consumer product business EBIT margin was up by 600 bps YoY at 10.7% while EPC business reported a turnaround in EBIT level from a loss of ₹ 18 crore to profit of ~₹ 7 crore. Write back of ₹ 40 crore in the project business along with saving in advertisement & other cost helped drive EBITDA margin up ~450 bps YoY to 8.6%.

### Valuation & Outlook

We introduce FY23E estimates with revenue CAGR of 6% led by ~9% CAGR in consumer product segments. We also believe execution of high margin orders along with improved profitability of consumer products would drive PAT, going forward. On an SOTP based valuation, we value CD, EPC at 23x, 3x of FY22E EBITDA, respectively, and maintain **BUY** rating with a revised target price of ₹ 585.

#### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net Sales	6679.4	4987.2	4702.6	5412.1	5937.4	6.0
EBITDA	340.1	208.3	285.5	368.5	446.3	28.9
EBITDA Margin (%)	5.1	4.2	6.1	6.8	7.5	
PAT	153.6	-10.3	134.7	194.0	261.9	NM*
EPS (₹)	15.0	-0.9	11.8	17.1	23.0	
P/E(x)	33.6	-557.4	NM	29.5	21.9	
Price/Book value (x)	4.9	4.3	4.2	3.8	3.4	
Mcap/sales (x)	0.9	1.1	1.2	1.1	1.0	
RoE (%)	14.5	(0.8)	8.3	13.0	15.4	
RoCE (%)	13.3	8.0	10.8	14.7	18.6	

Source: Company, ICICI Direct Research



#### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	5,730.0
Total Debt (FY20) (₹ Crore)	836.1
Cash & Inv (FY20) (₹ Crore)	8.1
EV (₹ Crore)	6,558.0
52 week H/L	545 / 260
Equity capital (₹ Crore)	22.7
Face value (₹)	2.0

#### Key Highlights

- Strong performance led by consumer product segment. EPC business also reported good bounce back in Q2FY21
- Management now increasing focus on consumer business while being cautious & selective on EPC business
- Focus on profitability through better mix and debt reduction
- Maintain BUY rating with revised target price of ₹ 585/share

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**Exhibit 1: Variance Analysis**

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	1,217.4	1,095.7	11.1	608.3	100.1	Strong performance of consumer product segment helps drive performance in Q2FY21
Other Income	9.0	11.2	-19.4	7.1	27.5	
Raw Material Exp	-21.9	57.9	-137.8	132.6	-116.5	
Employee Exp	94.7	102.5	-7.6	96.8	-2.2	
Admin & Other exp	142.8	152.3	-6.3	79.3	80.1	
Erection & Subcont Exp	99.6	58.3	70.9	38.9	156.1	
Purchase of Traded goods	781.2	679.7	14.9	265.7	194.0	
EBITDA	104.5	23.8	338.2	-21.8	-580.5	
EBITDA Margin (%)	8.6	2.2	641	-3.6	-340.1	Strong margin largely supported by saving in other expenses (like advertisement expenses) and provision write back in project business
Depreciation	19.0	18.0	5.7	18.6	2.1	
Interest	22.0	45.1	-51.2	27.2	-19.1	Debt repayment (through rights issues and CFO) result in saving in interest cost during Q2FY21
Exceptional items	0.0	0.0		-28.4		
PBT	72.5	-28.1	-358.0	-32.1	-326.1	
Total Tax	19.7	3.8	424.5	-15.5	-227.2	
PAT	52.8	-32.5	-262.4	-16.6	-418.3	Strong operational performance helps drive bottomline
<b>Key Metrics</b>						
Consumer Product	792.2	701.5	12.9	394.9	100.6	Pent up demand along with market share gain from unorganised drive performance
Engineering & Project	425.3	394	8.0	213.3	99.4	Closure of power distribution projects in Bihar help drive performance

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Chg	Old	New	% Chg	Introduced	
Revenue	4484.7	4702.6	4.9	5289.0	5412.1	2.3	5937.4	We factor in current quarter performance and introduce FY23E with revenue CAGR of ~6% in FY20-23E
EBITDA	195.0	285.5	46.4	349.3	368.5	5.5	446.3	
EBITDA Margin %	4.3	6.1	177bps	6.6	6.8	21bps	7.5	We believe change in mix both in consumer durable side and EPC front would help drive profitability of business
PAT	73.5	134.7	83.2	171.4	194.0	13.2	261.9	
EPS (₹)	6.5	11.8	83.2	15.1	17.1	13.2	23.0	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

	Current			FY23E	Earlier		Comments
	FY20	FY21E	FY22E	Introduced	FY21E	FY22E	
Consumer Durable (%)	12.7	-2.0	17.9	12.6	-5.9	16.9	We believe CD business would witness faster recovery due to pent up demand post relaxation of lockdown
Engineering & Project (%)	-51.9	-11.7	9.9	4.1	-16.9	19.8	Company's focus to reduce exposure in the 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

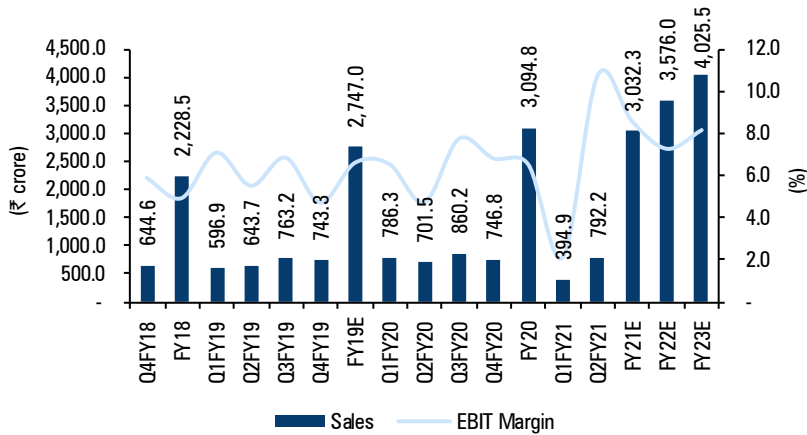
**Exhibit 4: SOTP based valuation**

(₹ crore)	EBITDA (FY22E)	EV/EBITDA	EV
Consumer Durable	276	23	6490
EPC	92.1	3	321
Total EV			6810.6
Debt			316
Cash			156
<b>Target Market cap</b>			<b>6650</b>
No of shares			11
<b>Target price/share</b>			<b>585</b>
CMP			504
Upside/(Downside) (%)			16

Source: Company, ICICI Direct Research

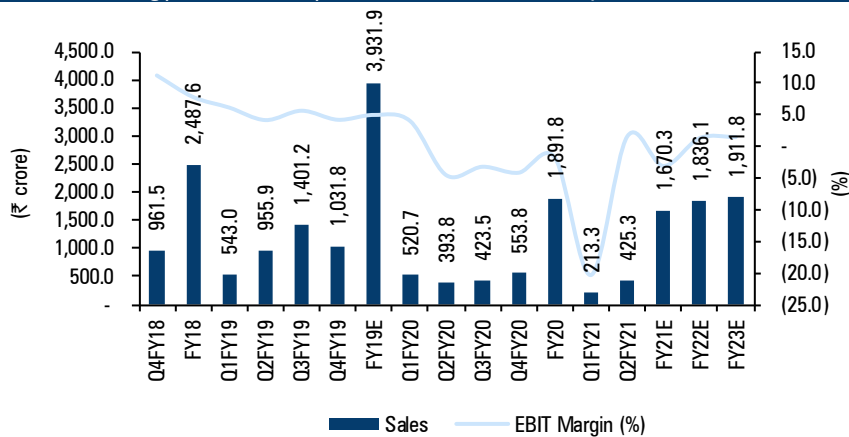
## Financial story in charts

Exhibit 5: Gradual recovery in revenue of CD from H2FY21E



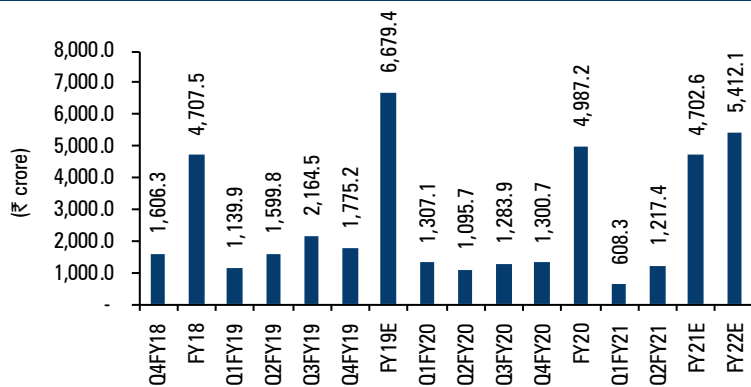
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

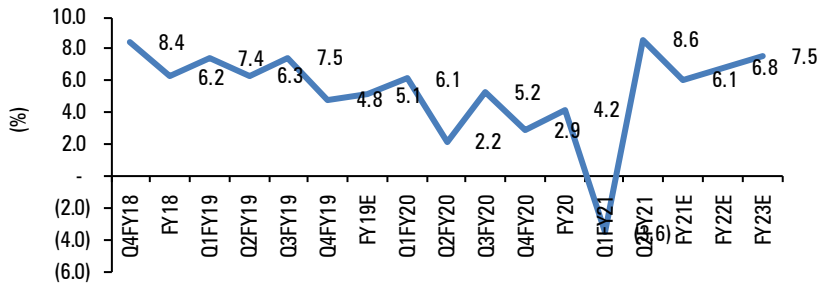
Exhibit 7: CD business to drive overall revenue of BEL, going ahead



Source: Company, ICICI Direct Research

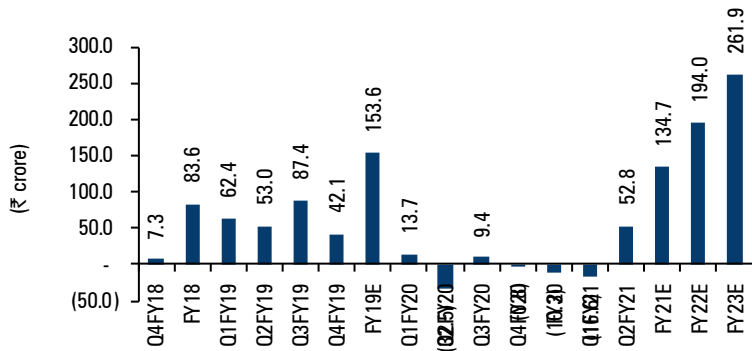
## Financial story in charts

**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:

- Supply related issues due to regional lockdowns helped the company to gain market share from unorganised segment
- Rise in work from home culture helped boost demand for consumer appliances in Q2FY21. Work from home demand helped drive sales of premium product segments
- It was one of the highest EBIT at consumer product business in the last 10 years
- Sales contribution from e-commerce sales increased to ~13% in Q2FY21 compared to ~11% in FY20
- Price hikes of 2.5% in selected product categories to offset rising input costs
- Strong demand continued in October 2020 supported by festive season round the corner
- The management expects double digit growth in the consumer product category in H2FY21

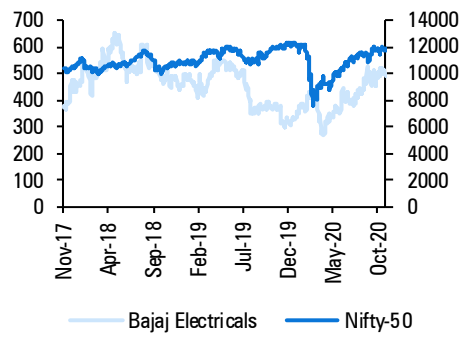
### Engineering project construction (EPC)

- Order book in Q2FY21 was at ₹ 1474 crore, comprising ₹ 482 crore for transmission line towers (TLT); ₹ 602 crore for power distribution, ₹ 390 crore for illumination projects
- The receivables of EPC business were at ₹ 1720 crore of which receivables from UP orders were at ~ ₹ 730 crore by the end of H2FY21 (receivables from UP order were at ₹ 820 crore in Q1FY21)
- 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
- In the near term, profitability of the project business may remain under pressure with revival being witnessed from FY22E onwards

### Others

- There was a reduction in debt by ~₹ 400 crore as on September 2020. There will be focus on further improvement in collections, going forward
- The A&P spends were lower at 2.1% in Q2FY21 as compared to ~3% of consumer product sales in Q2FY20. A&P spend would be revised with improvement in demand condition. Hence, profitability is expected to normalise, going forward (4-4.5% of consumer product sales)

**Exhibit 10: Historical price trend**



Source: Bloomberg, Company, ICICI Direct Research

**Exhibit 11: Shareholding Pattern**

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	62.7	62.7	63.2	63.2	63.1
FII	5.4	5.7	8.0	9.2	9.5
DII	12.3	12.4	12.5	12.5	13.1
Others	19.7	19.2	16.4	15.2	14.3

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Net Sales</b>	<b>4987.2</b>	<b>4702.6</b>	<b>5412.1</b>	<b>5937.4</b>
Growth (%)	7.8	-5.7	15.1	9.7
Raw Material Expenses	342.4	283.1	487.1	478.6
(Increase)/Decrease in stocks	88.9	0.0	0.0	0.0
Purchase of traded goods	2898.4	2827.2	3110.2	3458.2
Employee Expenses	388.9	373.9	417.0	390.1
Erection & subcontracting exp	310.7	286.8	259.2	275.9
Other expenses	655.7	567.3	692.5	797.8
Total Operating Expenditure	4778.9	4417.1	5043.5	5491.1
<b>EBITDA</b>	<b>208.3</b>	<b>285.5</b>	<b>368.5</b>	<b>446.3</b>
Growth (%)	-21.2	37.1	29.1	21.1
Other Income	46.2	18.8	32.5	35.6
Interest	170.8	80.7	55.0	39.7
PBDT	83.7	223.6	346.0	442.2
Depreciation	73.7	79.9	86.6	92.0
PBT before Exceptional Items	10.0	143.6	259.4	350.2
Less: Exceptional Items	0.0	-28.4	0.0	0.0
PBT	10.0	172.1	259.4	350.2
Total Tax	17.4	37.4	65.4	88.2
<b>PAT</b>	<b>-10.3</b>	<b>134.7</b>	<b>194.0</b>	<b>261.9</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-10.3	134.7	194.0	261.9
Depreciation	73.7	79.9	86.6	92.0
CF before working capital changes	234.2	295.3	335.6	393.7
Net Increase in Current Assets	822.7	30.8	354.7	136.6
Net Increase in Current Liabilities	-192.0	90.8	-384.7	9.3
<b>Net CF from operating act</b>	<b>864.9</b>	<b>417.0</b>	<b>305.6</b>	<b>539.6</b>
(Purchase)/Sale of Fixed Assets	-151.6	-20.0	-50.0	-50.0
Long term loans and advances	-71.2	57.9	-31.9	-23.6
Others	-32.3	0.0	-30.0	-35.0
<b>Net CF from Investing act</b>	<b>-255.1</b>	<b>37.9</b>	<b>-111.9</b>	<b>-108.6</b>
Inc / (Dec) in Loan Funds	-749.2	-180.0	-90.0	-250.0
Total Outflow on account of div	-40.6	-40.6	-54.1	-54.1
<b>Net CF from financing act</b>	<b>-618.0</b>	<b>-388.9</b>	<b>-199.1</b>	<b>-343.8</b>
Net Cash flow	-8.2	66.0	-5.4	87.1
Cash & Cash Equi at the beg.	16.3	8.1	74.1	68.6
<b>Cash</b>	<b>8.1</b>	<b>74.1</b>	<b>68.6</b>	<b>155.7</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	22.7	22.7	22.7	22.7
Reserve and Surplus	1324.8	1331.4	1471.3	1679.1
Total Shareholders funds	1347.6	1354.1	1494.0	1701.9
Total Debt	836.1	656.1	566.1	316.1
<b>Liability</b>	<b>2256.7</b>	<b>2083.2</b>	<b>2133.2</b>	<b>2091.0</b>
<b>Asset</b>				
Total Gross Block	806.3	826.3	876.3	926.3
Less Total Accumulated Dep	360.5	440.5	527.0	619.1
Net Block	445.8	385.9	349.3	307.2
Total CWIP	9.4	9.4	9.4	9.4
Total Fixed Assets	455.2	395.2	358.6	316.6
Other Investments	40.0	40.0	70.0	105.0
Inventory	690.8	773.0	860.0	650.7
Debtors	2536.5	2447.9	1927.6	1952.0
Other Current Assets	443.7	419.2	497.9	546.2
Cash	8.1	74.1	68.6	155.7
Total Current Assets	3679.1	3714.3	3354.2	3304.7
Creditors	900.3	1030.7	1037.9	976.0
Provisions	109.7	154.6	126.5	119.0
Total Current Liabilities	2270.2	2361.0	1976.3	1985.6
<b>Net Current Assets</b>	<b>1409.0</b>	<b>1353.3</b>	<b>1377.9</b>	<b>1319.1</b>
Deferred Tax Assets	45.3	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>269.5</b>	<b>211.6</b>	<b>243.5</b>	<b>267.2</b>
<b>Total Assets</b>	<b>2256.7</b>	<b>2083.2</b>	<b>2133.2</b>	<b>2091.0</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per Share Data</b>				
EPS	-0.9	11.8	17.1	23.0
Cash EPS	5.6	18.9	24.7	31.1
BV	118.5	119.1	131.4	149.7
DPS	3.6	3.6	4.8	4.8
<b>Operating Ratios</b>				
EBITDA Margin	4.2	6.1	6.8	7.5
PAT Margin	-0.2	2.4	3.6	4.4
<b>Return Ratios</b>				
RoE	-0.8	8.3	13.0	15.4
RoCE	8.0	10.8	14.7	18.6
RoIC	4.3	7.1	11.1	14.4
<b>Valuation Ratios</b>				
EV / EBITDA	31.4	22.1	16.9	13.2
P/E	-557.4	NM	29.5	21.9
EV / Net Sales	1.3	1.3	1.1	1.0
Market Cap / Sales	1.1	1.2	1.1	1.0
Price to Book Value	4.3	4.2	3.8	3.4
<b>Turnover Ratios</b>				
Asset turnover	2.2	2.3	2.5	2.8
Debtor Days	185.6	190.0	130.0	120.0
Creditor Days	65.9	80.0	70.0	60.0
<b>Solvency Ratios</b>				
Debt / Equity	0.6	0.5	0.4	0.2
Current Ratio	3.6	3.1	2.8	2.9
Quick Ratio	3.0	2.4	2.1	2.3

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	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPAI)	2,223	2,440	Buy	2,13,186	29.0	28.9	35.9	76.7	77.1	61.9	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTPOL)	1,155	1,120	Hold	17,401	16.6	15.0	23.3	69.7	77.2	49.6	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AMBEN)	2,317	2,600	Buy	7,286	52.2	19.0	70.6	44.4	121.9	32.8	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJELE)	504	585	Buy	5,730	-0.9	11.8	17.1	NM	42.6	29.5	31.4	22.1	16.9	8.0	10.8	14.7	-0.8	8.3	13.0
Berger Paints (BERPAI)	655	580	Hold	63,614	6.8	6.1	9.7	97.0	106.9	67.3	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL (ESSPRO)	254	270	Buy	8,014	6.7	7.0	9.5	37.8	36.2	26.8	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	821	835	Buy	51,222	11.7	14.1	16.4	69.9	58.2	50.1	42.5	32.7	28.4	19.6	21.5	24.4	17.0	18.5	20.0
Kansai Nerolac (KANNER)	521	605	Buy	28,078	9.9	10.3	12.0	52.4	50.8	43.3	35.6	33.2	29.3	17.6	18.4	19.6	14.1	14.3	15.1
Pidilite Industries (PIDIND)	1,614	1,595	Buy	81,959	22.1	17.8	28.0	73.0	90.5	57.7	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	920	1,040	Buy	13,697	51.4	58.4	62.9	17.9	15.8	14.6	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,459	1,695	Buy	18,533	36.8	44.9	47.8	39.7	32.5	30.5	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	844	960	Buy	5,904	26.0	20.5	32.0	32.4	41.1	26.4	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	39	47	Hold	882	7.5	3.4	9.4	5.2	11.5	4.2	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	171	210	Buy	7,324	4.3	3.7	5.3	39.6	46.2	32.3	28.2	31.0	22.9	24.8	20.1	25.2	18.6	15.1	19.4
Voltas Ltd (VOLTAS)	742	725	Buy	24,540	15.8	10.7	22.7	47.1	69.4	32.7	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

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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## ANALYST CERTIFICATION

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