

Consumer product to drive future growth...

Bajaj Electricals (BEL) reported a strong set of Q3FY21 numbers beating our estimates on the profitability front. Strong demand in consumer products (CP) was fuelled by the festive season, market share gains and opening up of metros driving segment sales up 34% YoY. Product wise, appliances, fan, lighting and Morphy Richard category sales were up 36%, 22%, 18% and 69%, respectively. The segment margins improved sharply by ~464 bps YoY to ~12% supported by better gross margin and various cost optimisation measures (lower logistics costs and other overheads) during the pandemic. The management has reiterated continuous investment in the CP segment to increase products offerings, brand building activities and increasing reach. This would help the company to achieve double digit revenue growth, going forward along with improved segment margin profile. On the project front, the focus remained on minimising losses. Hence, despite 18% YoY reduction in segment revenue, the company saw a substantial decline in segment losses. In 9MFY21, the company generated ~₹ 609 crore cash flow from operations (₹ 142 crore in Q3FY21). A substantial portion of this has been used to reduce debt, which was at ~₹ 441 crore now.

Margin share gains to stay, going forward

The unorganised/regional players in consumer product categories (~30% of industry size) have had a significant hit due to 1) Covid-19 related lockdowns, which led to logistics and labour related issues, 2) import ban of components from China and 3) a sharp rise in input prices. Hence, it is very difficult small players to reach pre-Covid level in the near to medium term. Hence, we believe the market share gains during 9MFY21 for organised players are permanent due to their strong reach and robust balance sheet position.

Focus on margin improvement, going forward

Despite higher advertisement expenses (up 29% YoY to ₹ 45 crore), the strong CP segment margin was a function of better gross margin and permanent savings in other overheads like logistics costs. EBITDA margin is likely to remain elevated supported by price hikes (in the range of 5-9% from January 2021) and increased focus on premium product category. We believe EBITDA margin will expand from 4.3% in FY20 to 9.5% by FY23E.

Valuation & Outlook

We believe strong demand outlook of consumer product category along with focus on acceleration of collections in the EPC business would further improve P&L and balance sheet of Bajaj Electricals, going forward. Given the strong performance and future outlook we tweak our earnings estimate upward by 37%, 47% for FY22E, FY23, respectively. We roll over our valuation on FY23E and value the stock on a SOTP by ascribing 25x, 8x of FY23E EBITDA, to CP and EPC business, respectively. We maintain our BUY stance on the stock with a revised target price of ₹ 1075 (earlier TP ₹ 585).

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	(CAGR 20-23E)
Net Sales	6679.4	4987.2	4764.4	5425.4	6015.1	6.4
EBITDA	340.1	208.3	345.3	431.0	568.8	39.8
EBITDA Margin (%)	5.1	4.2	7.2	7.9	9.5	
PAT	153.6	-10.3	210.2	265.9	385.5	LP
EPS (₹)	15.0	-0.9	18.5	23.4	33.9	
P/E(x)	61.4	-1018.6	NM	39.4	27.2	
Price/Book value (x)	8.9	7.8	7.3	6.4	5.3	
Mcap/sales (x)	1.6	2.1	2.2	1.9	1.7	
RoE (%)	14.5	(0.8)	13.2	16.2	19.5	
RoCE (%)	13.3	8.0	15.2	18.7	24.2	

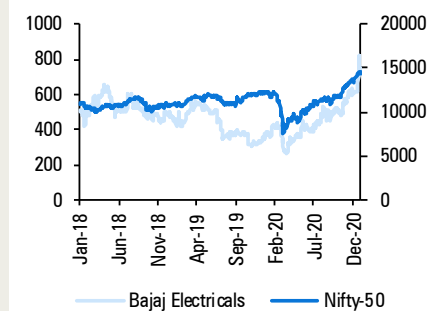
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	10,470.9
Total Debt (FY20) (₹ Crore)	836.1
Cash & Inv (FY20) (₹ Crore)	8.1
EV (₹ Crore)	11,298.9
52 week H/L	921 / 260
Equity capital (₹ Crore)	22.7
Face value (₹)	2.0

Price Performance



Key risk to our call

- Significant losses from project business in the coming future
- Lower than expected growth in the consumer product category

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Revenue	1,500.1	1,427.3	1,283.9	16.8	1,217.7	23.2	Consumer product category remains key growth driver
Other Income	22.4	9.5	7.2	213.3	9.0	149.5	
Raw Material Exp	8.5	61.6	104.5	-91.8	-21.9	-139.0	
Employee Exp	92.2	96.0	96.5	-4.5	94.7	-2.6	
Admin & Other exp	173.9	185.6	183.1	-5.0	142.8	21.8	
Erection & Subcont Exp	68.4	99.9	64.9	5.5	99.6	-31.3	
Purchase of Traded goods	975.0	837.1	741.3	31.5	781.2	24.8	
EBITDA	147.5	121.3	67.3	119.1	104.8	40.7	
EBITDA Margin (%)	9.8	8.5	5.2	459	8.6	14.2	Strong margin was largely supported by better gross margin in addition to savings in employee and other expenses during the period
Depreciation	19.7	20.3	18.7	5.5	19.0	3.6	
Interest	16.5	16.3	39.7	-58.5	22.0	-25.1	Debt repayment resulted in saving in interest cost during Q3FY21
Exceptional items	0.0	0.0	0.0		0.0		
PBT	133.8	94.3	16.1	730.9	72.8	83.8	
Total Tax	35.6	23.8	5.9	503.1	19.7	80.9	
PAT	98.2	70.5	9.4	949.0	53.1	84.9	Strong operational performance helped drive bottomline
Key Metrics							
Consumer Product	1152.8	993.0	860.2	34.0	792.2	45.5	Strong festive demand, opening up of metros and market share gains helped drive segment revenue
Engineering & Project	347.2	434.3	423	-18.0	425.3	-18.4	Slow execution of pending orders led to delay in revenue booking

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	4702.6	4764.4	1.3	5412.1	5425.4	0.2	5,937.4	6015.1	1.3	Marginal tweak in revenue growth, going forward
EBITDA	285.5	345.3	20.9	368.5	431.0	17.0	446.3	568.8	27.4	
EBITDA Margin %	6.1	7.2	115bps	6.8	7.9	114bps	7.5	9.5	196bps	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	134.7	210.2	56.0	194.0	265.9	37.1	261.9	385.5	47.2	
EPS (₹)	11.8	18.5	56.7	17.1	23.4	36.8	23.0	33.9	47.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier				Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E		
Consumer Durable (%)	12.7	5.4	18.3	12.6	-2.0	17.9	12.6	Market share gains, launch of new products and government thrust on various housing schemes are likely to drive demand for consumer product, going forward	
Engineering & Project (%)	-51.9	-20.6	4.2	6.7	-11.7	9.9	4.1	The 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 FY20-23E	

Source: Company, ICICI Direct Research

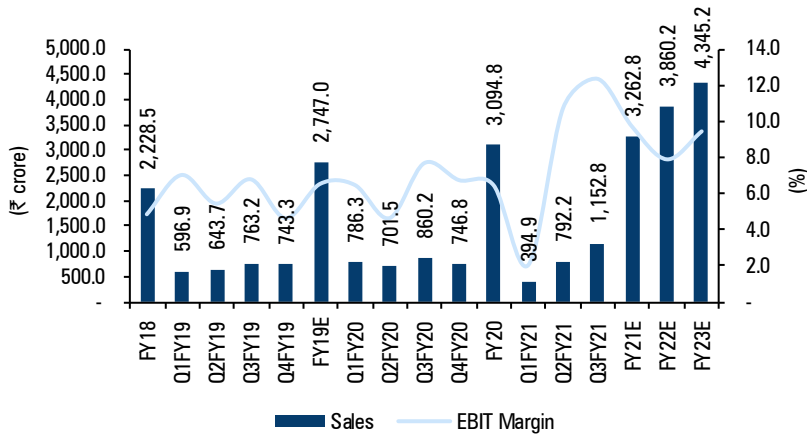
Exhibit 4: SOTP based valuation

(₹ crore)	EBITDA (FY23E)	EV/EBITDA	EV
Consumer Durable	432	25	10980
EPC	136.5	8	1147
Total EV			12127.0
Debt			236
Cash			327
Target Market cap			12217
No of shares			11
Target price/share			1075

Source: Company, ICICI Direct Research

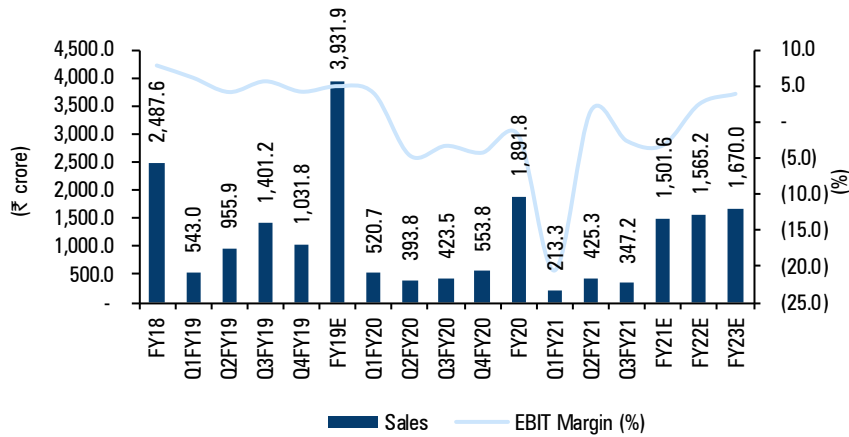
Financial story in charts

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



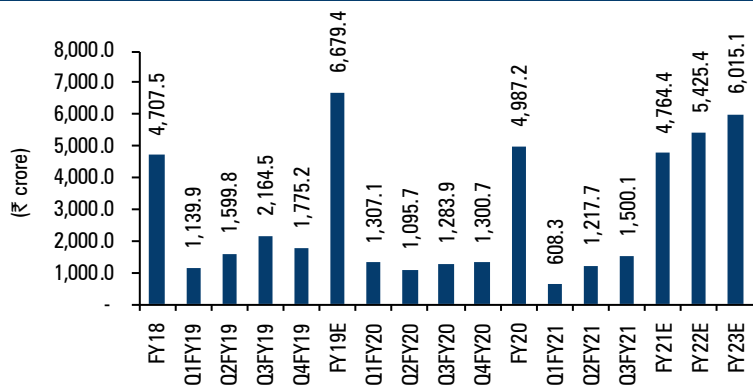
Source: Company, ICICI Direct Research

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



Source: Company, ICICI Direct Research

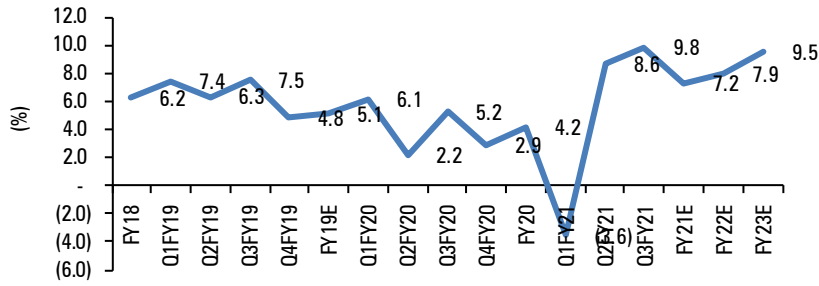
Exhibit 7: CD business to drive overall revenue, going ahead



Source: Company, ICICI Direct Research

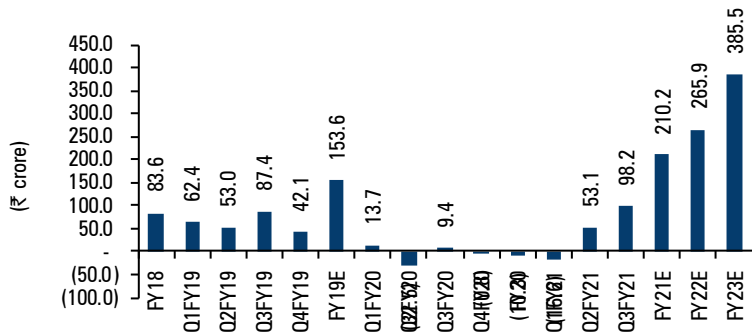
Financial story in charts

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:

- Some benefit of cost rationalisation measures are likely to stay in future, resulting in improvement in segment margin, going forward
- Price hike in the range 5-9% in January 2021 to offset higher input cost
- Sales contribution from e-commerce sales increased to ~11% in Q3FY21. Online sales grew 79% YoY in Q3FY20
- Strong demand continued in Q4FY21 on strong summer demand
- Inventory build-up has started in the wake of upcoming season
- Dealer network has increased from 501 in Q3FY20 to 530 by the end of December 2020
- Future investment will be on product and brand promotions, which will drive profitability, going forward

Engineering project construction (EPC)

- Order book in Q3FY21 was at ₹ 1220 crore, comprising ₹ 388 crore for transmission line towers (TLT); ₹ 501 crore for power distribution, ₹ 331 crore for illumination projects
- Focus on reduce segment losses by cutting costs in near term. The segment will start delivery profit from FY22 onward
- A ₹ 125 crore collection was witnessed in Q3FY21. The receivables of EPC business were at ₹ 1597 crore (vs. ₹ 1973 crore of which receivables from UP orders were at ~ ₹ 690 crore by the end of 9MFY21 (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

Others

- Continuous effort to reduce debt by improving collection. Debt as on December 2020 reduced to ₹ 441 crore vs. ₹ 962 crore in March 2020
- The advertisement expenses was ₹ 45 crore in during Q3FY21 as compared to ₹ 35 crore
- Focus on rationalisation of costs such as logistics, employee costs and other overheads

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	4987.2	4764.4	5425.4	6015.1
Growth (%)	7.8	-4.5	13.9	10.9
Raw Material Expenses	342.4	171.0	434.0	484.7
(Increase)/Decrease in stocks	88.9	0.0	0.0	0.0
Purchase of traded goods	2898.4	2935.5	3154.6	3508.1
Employee Expenses	388.9	381.9	395.6	394.3
Erection & subcontracting exp	310.7	279.2	216.4	224.5
Other expenses	655.7	552.6	679.9	721.8
Total Operating Expenditure	4778.9	4419.1	4994.4	5446.3
EBITDA	208.3	345.3	431.0	568.8
Growth (%)	-21.2	65.8	24.8	32.0
Other Income	46.2	60.0	68.4	75.9
Interest	170.8	80.9	57.1	36.1
PBDT	83.7	324.4	442.3	608.6
Depreciation	73.7	77.2	86.8	93.2
PBT before Exceptional Items	10.0	247.2	355.5	515.3
Less: Exceptional Items	0.0	-28.4	0.0	0.0
PBT	10.0	275.6	355.5	515.3
Total Tax	17.4	65.4	89.6	129.9
PAT	-10.3	210.2	265.9	385.5

Source: Company, ICICI Direct Research

Exhibit 12: 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	1406.9	1618.7	1950.0
Total Shareholders funds	1347.6	1429.6	1641.4	1972.8
Total Debt	836.1	656.1	486.1	236.1
Liability	2256.7	2158.8	2200.5	2281.9
Asset				
Total Gross Block	806.3	826.3	876.3	926.3
Less Total Accumulated Dep	360.5	437.7	524.5	617.7
Net Block	445.8	388.6	351.8	308.6
Total CWIP	9.4	9.4	9.4	9.4
Total Fixed Assets	455.2	398.0	361.2	317.9
Other Investments	40.0	40.0	70.0	105.0
Inventory	690.8	783.2	862.1	659.2
Debtors	2536.5	2480.1	1932.3	1977.6
Other Current Assets	443.7	424.7	499.1	553.4
Cash	8.1	127.3	129.7	326.6
Total Current Assets	3679.1	3815.3	3423.2	3516.8
Creditors	900.3	1044.2	1040.5	988.8
Provisions	109.7	156.6	126.8	120.5
Total Current Liabilities	2270.2	2392.0	1981.1	2011.6
Net Current Assets	1409.0	1423.3	1442.1	1505.2
Deferred Tax Assets	45.3	45.3	45.3	45.3
Other non current assets	0.0	0.0	0.0	0.0
Other non current assets	269.5	214.4	244.1	270.7
Total Assets	2256.7	2158.8	2200.5	2281.9

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	-10.3	210.2	265.9	385.5
Depreciation	73.7	77.2	86.8	93.2
CF before working capital changes	234.2	368.3	409.8	514.8
Net Increase in Current Assets	822.7	-17.0	394.4	103.4
Net Increase in Current Liabilities	-192.0	121.8	-410.9	30.5
Net CF from operating act	864.9	473.1	393.4	648.7
(Purchase)/Sale of Fixed Assets	-151.6	-20.0	-50.0	-50.0
Long term loans and advances	-71.2	55.1	-29.7	-26.5
Others	-32.3	0.0	-30.0	-35.0
Net CF from Investing act	-255.1	35.1	-109.7	-111.5
Inc / (Dec) in Loan Funds	-749.2	-180.0	-170.0	-250.0
Total Outflow on account of div	-40.6	-40.6	-54.1	-54.1
Net CF from financing act	-618.0	-389.1	-281.2	-340.2
Net Cash flow	-8.2	119.2	2.4	196.9
Cash & Cash Equi at the beg.	16.3	8.1	127.3	129.7
Cash	8.1	127.3	129.7	326.6

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	-0.9	18.5	23.4	33.9
Cash EPS	5.6	25.3	31.0	42.1
BV	118.5	125.7	144.4	173.5
DPS	3.6	3.6	4.8	4.8
Operating Ratios				
EBITDA Margin	4.2	7.2	7.9	9.5
PAT Margin	-0.2	4.0	4.9	6.4
Return Ratios				
RoE	-0.8	13.2	16.2	19.5
RoCE	8.0	15.2	18.7	24.2
RoIC	4.3	9.2	13.5	19.1
Valuation Ratios				
EV / EBITDA	54.2	31.8	25.1	18.2
P/E	-1018.6	NM	39.4	27.2
EV / Net Sales	2.3	2.3	2.0	1.7
Market Cap / Sales	2.1	2.2	1.9	1.7
Price to Book Value	7.8	7.3	6.4	5.3
Turnover Ratios				
Asset turnover	2.2	2.2	2.5	2.6
Debtor Days	185.6	190.0	130.0	120.0
Creditor Days	65.9	80.0	70.0	60.0
Solvency Ratios				
Debt / Equity	0.6	0.5	0.3	0.1
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 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)	2,376	3,010	Hold	2,27,858	32.8	39.9	46.3	72.4	59.5	51.3	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	2,001	2,225	Hold	30,147	22.2	30.4	37.1	90.1	65.7	54.0	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	2,705	3,015	Buy	8,506	29.8	68.2	97.6	90.6	39.7	27.7	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	921	585	Buy	10,471	11.8	17.1	23.0	NM	54.0	40.0	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	729	675	Hold	70,800	7.8	9.7	11.7	93.7	75.5	62.1	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	411	480	Buy	25,770	7.9	9.5	12.0	51.7	43.2	34.1	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	214	250	Hold	6,752	7.8	8.9	10.8	27.3	24.0	19.8	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	1,110	1,255	Hold	69,253	16.1	17.8	22.9	69.0	62.4	48.4	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	585	675	Buy	31,527	9.7	12.7	15.0	60.0	46.0	39.1	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,728	1,920	Buy	87,748	22.1	28.2	32.9	78.0	61.3	52.5	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,285	1,385	Buy	19,131	57.9	67.2	79.7	22.2	19.1	16.1	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	1,942	2,010	Buy	24,669	62.2	50.0	58.0	31.2	38.9	33.5	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,000	1,090	Hold	6,996	13.1	29.8	40.0	76.1	33.6	25.0	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	53	43	Hold	1,199	7.5	4.0	9.1	7.1	13.3	5.8	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	242	280	Buy	10,365	4.2	6.1	7.0	57.2	39.8	34.4	37.2	27.9	24.1	23.6	27.9	28.8	16.8	21.1	21.8
Voltas Ltd (VOLTAS)	1,004	845	Hold	33,206	12.3	22.6	29.8	81.6	44.4	33.7	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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