

## Favourable base, price hikes drive performance...

**About the stock:** Bajaj Electricals' business portfolio spans across consumer products (CP) and EPC (illumination, power transmission and power distribution).

- CP (appliances, fans, lighting) contributes ~78% to topline. Its premium brands include Morphy Richards and Nirlep. The company has over 2.3 lakh retail touch points across India
- The company has been reducing exposure in the EPC business with maximum on executing high margin business

**Q1FY23 Results:** Favourable base and price hike help drive margins in Q1; new launches and market share gains drive topline.

- Revenues were up 43% YoY to ₹ 1229 crore on a favourable base and new product launches in the consumer product segment. Consumer product revenue increased 58% YoY to ~ ₹ 973 crore
- EBITDA margin was up 602 bps YoY (135 bps QoQ) to 6.1% supported by price hikes and improved operating leverage
- BEL reported PAT of ₹ 42 crore against loss of ₹ 25 crore in Q1FY22 led by improved EBITDA margins and topline growth in Q1FY23

**What should investors do?** Bajaj Electricals' share price has grown to 3.5x over the past five years (from ~₹ 332 in August 2017 to ~₹ 1144 in August 2022).

- We revise our rating from HOLD to **BUY** on the stock

**Target Price and Valuation:** We value Bajaj Electrical (BEL) at ₹ 1340 using SOTP i.e.45x and 6x PE for CP and EPC respectively on FY24E EPS each.

### Key triggers for future price performance:

- Corporate restructuring (demerger of project business) will help Bajaj Electricals to focus on growing its core consumer product business
- Continuous focus on driving growth through CP categories (revenue contribution increased from 42% in FY19 to 78% in FY22). Rural electrification, urbanisation and housing for all (~11.2 mn new houses under PMAY) are key catalysts for CP revenue growth, going forward
- Focus to increase CP margins by 1% every year

**Alternate Stock Idea:** We also like Polycab in the same space

- Polycab is a leader in the wire & cable industry with organised market share of ~24%. Robust b/s with average RoE, RoCE of 18%, 22%, respectively
- BUY with a target price of ₹ 2680



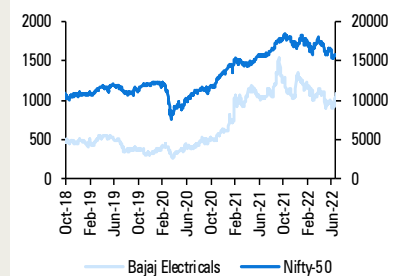
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	13,138.8
Total Debt (FY22) (₹ Crore)	44.9
Cash & Inv (FY22) (₹ Crore)	142.6
EV (₹ Crore)	13,041.2
52 week H/L	1589 / 858
Equity capital (₹ Crore)	22.7
Face value (₹)	2.0

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	63.1	63.1	63.1	63.0	63.0
FII	12.0	12.9	11.8	10.6	10.5
DII	11.3	11.1	11.6	12.1	12.4
Others	13.6	13.0	13.5	14.4	14.1

### Price Chart



### Recent event & key risks

- **Key Risk:** (i) Lower growth in the CP segment (ii) Lower EBITDA margin amid adverse product mix and higher advertisement expenses

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	6679.4	4987.2	4584.6	4813.0	2.5%	5537.2	6268.9	14%
EBITDA	340.1	208.3	303.2	250.2	1%	365.8	517.5	44%
EBITDA Margin (%)	5.1	4.2	6.6	5.2		6.6	8.3	
PAT	153.6	-10.3	189.0	124.4	4%	241.6	363.7	71%
EPS (₹)	15.0	-0.9	16.5	10.8		21.0	31.7	
P/E(x)	76.3	NM	69.4	105.6		54.4	36.1	
Price/Book value (x)	11.1	9.6	8.3	7.6		7.8	6.6	
Mcap/sales (x)	2.0	2.6	2.9	2.7		2.4	2.1	
RoE (%)	14.5	(0.8)	10.7	7.8		14.4	18.3	
RoCE (%)	13.3	7.9	15.1	13.5		19.6	24.2	

## Key takeaways of recent quarter & conference call highlights

### Q1FY23 Results: Favourable base, strong recovery in consumer product drives Q1 performance

- Consolidated revenue increased 43% YoY to ₹ 1229 crore led by consumer product (CP) segment revenue growth of ~58% YoY to ₹ 973 crore. Engineering & project division (E&P) segment revenue grew albeit at slow pace of ~6% due to focus on execution of quality orders (faster execution of illumination orders)
- Lighting, fan and appliances revenues increased ~90%, 65% and 53%, respectively, in Q1FY23. However, Morphy Richards' revenue declined ~9% YoY owing to slower volume offtake in the rural markets
- E&P segment revenue increased 7% YoY to ₹ 256 crore led by strong growth in the revenues from illumination projects (reported segment revenue over ₹ 150 crore in Q1FY23)
- On a three-year basis, CP segment revenue grew at a CAGR of 7.5% supported by launch of new products and market share gains. However, E&P segment revenues were at 50% of their pre-Covid level revenue as the company strategically bid quality orders only
- The company has taken a price hike of 5% in the CP segment in Q1FY23 to offset high raw material costs
- EBITDA margin increased 602 bps YoY to 6.1% on a distorted base of Q1FY22, which was impacted by one off cost (reallocation of unallocated expenses from EPC to CP). Gross margins improved 286 bps QoQ (down 617 bps YoY)
- EBIT margin of CP business increased 500 bps YoY to 6%. However, project business turned into profit and reported an EBIT of ~₹ 5 crore in Q1FY23 due to focus on execution of quality orders
- PAT came in at ~₹ 41 crore over a loss of ₹ 25 crore reported in Q1FY22 led by strong operational performance

### Q1FY23 Earnings Conference Call highlights:

- **Demand Outlook:**
  - The company expects strong growth in its consumer products led by festive demand and launch of new products across all segments.
  - BEL has launched ~10 new products in the fan segment and 13 new products in the appliances & LED lighting segment. Under the Illumination segment company launched 85 new products.
  - The company is looking into product development and product portfolio expansion for Morphy Richards and expects to see growth in this segment by FY23E or FY24E
  - BEL has a healthy order book of ₹ 913 crore comprising ₹ 714 crore for power transmission, ₹ 188 crore for illumination projects, ₹ 11 crore for power distribution. The company expects steady growth in the segment, going forward
- **Margins:**
  - BEL has taken ~5% price hike in Q1FY23 to offset inflationary pressure and rising input costs
  - The company expects improvement in CP EBIT margin in FY23 supported by easing raw material costs and other cost optimisation measures

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Havells	81,606	10428	13889	15982	18205	15	13	11	12	1040	1195	1212	1569	25	24	25	31	20	20	21	27	78	68	67	52
Crompton Greaves	23,380	4804	5394	7227	8185	15	14	13	13	617	578	524	658	34	16	16	20	32	24	20	23	38	40	45	36
Bajaj Electrical	13,139	4585	4813	5537	6269	7	5	7	8	189	124	242	364	15	14	20	24	11	8	14	18	69	106	54	36
Polycab	36,135	8792	12204	13528	15170	13	10	11	11	886	917	1003	1160	21	20	22	22	18	16	17	17	41	39	36	31
Symphony	6,373	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	60	53	35	26
V guard	10,271	2721	3498	4012	4379	11	10	9	10	202	228	233	292	24	21	24	27	17	16	18	20	50	45	44	35
Voltas	32,743	7556	7934	9816	11403	8	9	8	10	529	506	623	829	15	14	18	20	11	9	13	15	62	65	53	39

Source: Company, ICICI Direct Research

We believe last three year’s CP segment revenue CAGR at 7.5% was largely driven by new product launches and regaining lost market share in key product categories. The CP segment exit EBIT margin at 6% in Q1FY23 is mere 50 bps lower than its pre Covid level margin, which, we believe, is encouraging. However, the EBIT margin is yet lower than company’s long term EBIT margin guidance of 10-11%. We believe, this is largely due to adverse product mix (lower growth in the Morphy Richards products, slow ramp up of premium fans & lighting segments). Going forward, the management has reiterated double digit revenue growth in the CP segment through market share gains supported by launch of new products (in the lighting and appliances categories) and expansion in new geographies. The management has stated, further improvement in segment EBIT margin (to double digit level) through better product mix and continued focus on cost optimisation measures. Its E&P segment is likely to grow at CAGR of 10% led by higher government capex and margin improvement through execution of high margin orders. The CP segment revenue, PAT is likely to grow at a CAGR of 15% and ~47%, respectively, over FY22-24E. We model BEL’s consolidated revenue, PAT CAGR of 14%, 71% respectively over FY22-24E. We upgrade our rating on the stock from HOLD to BUY; valuing the company at ₹ 1340/share, 45x PE of CP (20% discount to Havells) and 6x PE of EPC respectively on FY24E EPS.

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Revenue	1,229.1	1,215.5	856.9	43.4	1,334.3	-7.9	Favourable base and strong demand for home appliances drove revenues in Q1
Other Income	8.3	11.7	8.5	-2.7	21.0	-60.6	
Raw Material Exp	837.3	821.7	530.8	57.7	947.2	-11.6	Higher raw material cost dragged gross margin
Employee Exp	102.3	100.9	106.3	-3.7	92.2	10.9	
Admin & Other exp	163.6	166.5	153.4	6.6	162.8	0.5	
Erection & Subcont Exp	15.2	37.5	37.6	-59.7	40.8	-62.9	
EBITDA	74.8	59.9	0.6	NM	63.1	18.4	
EBITDA Margin (%)	6.1	4.9	0.1	602 bps	4.7	135 bps	Improved profitability of the project business and positive operating leverage in the consumer business helped complete offset raw material cost pressure, resulting in expansion in EBITDA margin by 602 bps YoY
Depreciation	18.6	18.4	17.3	7.3	17.8	4.1	
Interest	7.8	6.5	23.2	-66.3	10.6	-26.3	
Exceptional items	0.0	0.0	0.0		3.6		
PBT	56.7	46.5	-31.4	NM	52.1	8.8	
Total Tax	15.5	11.7	-6.4	NM	13.5	15.2	
PAT	41.19	34.8	-25.0	NM	38.7	6.5	Higher bottomline on a YoY basis is attributable to strong operational performance in Q1
<b>Key Metrics</b>							
Consumer Product	972.9	965.2	617.3	57.6	1037.7	-6.2	Favourable base and strong demand of consumer appliances in April - May 2022 drove overall segment revenue growth. BEL took a price hike of ~5% in Q1
Engineering & Project	256.1	250.3	240	6.9	296.5	-13.6	Revenue growth was largely driven by faster execution of illumination segment orders

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,442.0	5537.2	1.7	6152.1	6268.9	1.9	We slightly tweak our revenue estimate upward over FY23E-24E considering new product launches and market share gains in key product categories
EBITDA	341.3	365.8	7.2	446.3	517.5	16.0	
EBITDA Margin %	6.3	6.6	31bps	7.3	8.3	95bps	We revise our margin estimate upward over FY23E-24E factoring in better than expected margins in Q1FY23 and easing raw material costs
PAT	252.6	241.6	(4.4)	338.6	363.7	7.4	Lower PAT estimate is attributable to lower other income and higher tax provisions
EPS (₹)	22.0	21.0	(4.4)	29.5	31.7	7.4	

Source: ICICI Direct Research

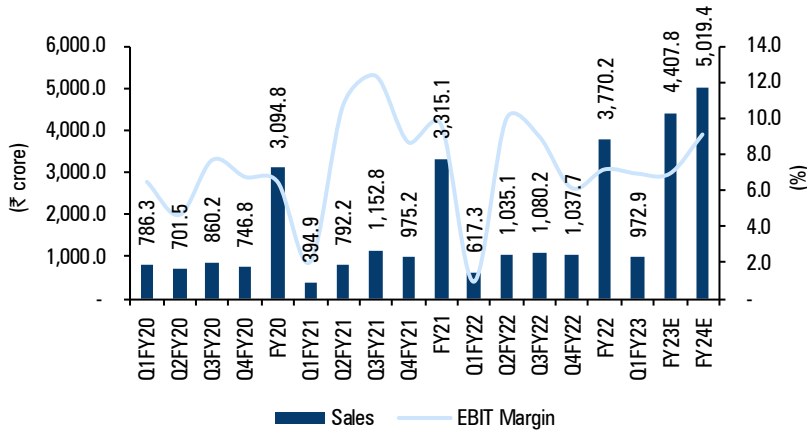
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21	FY22	FY23 E	FY24E	FY23E	FY24E	
Consumer Projects (%)	12.7	7.1	13.7	16.9	13.9	11.2	14.0	Market share gains, launch of new products and government thrust on various housing schemes likely to drive demand of consumer product, going forward. We model segment revenue CAGR of 15% in FY22-24E
Engineering & Project (%)	-51.9	-32.9	-17.9	8.4	10.6	20.1	9.7	The company's focus on reducing exposure in the power distribution segment and focus only on high profitability TLT and illumination business would help drive segment revenue over FY22-24E

Source: ICICI Direct Research

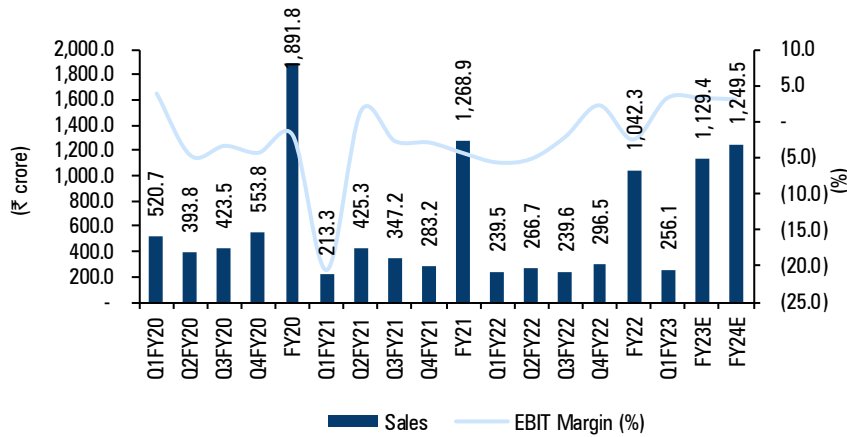
## Financial story in charts

Exhibit 5: CD segment revenue growth trend



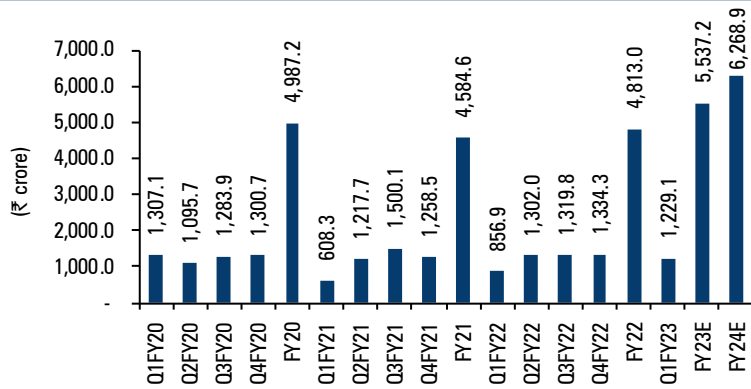
Source: Company, ICICI Direct Research

Exhibit 6: Faster execution of illumination orders drives E&P segment revenue



Source: Company, ICICI Direct Research

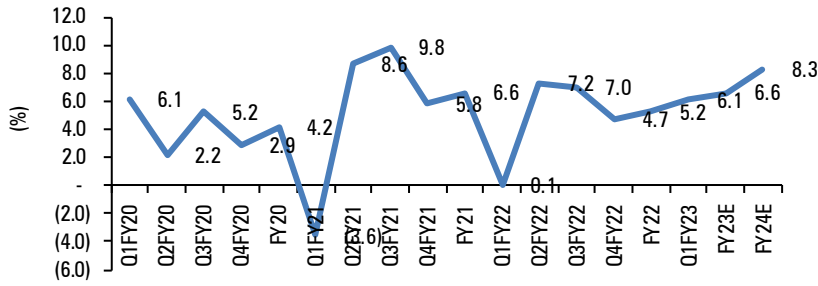
Exhibit 7: Market share gains, CD business to drive overall revenue, going ahead



Source: Company, ICICI Direct Research

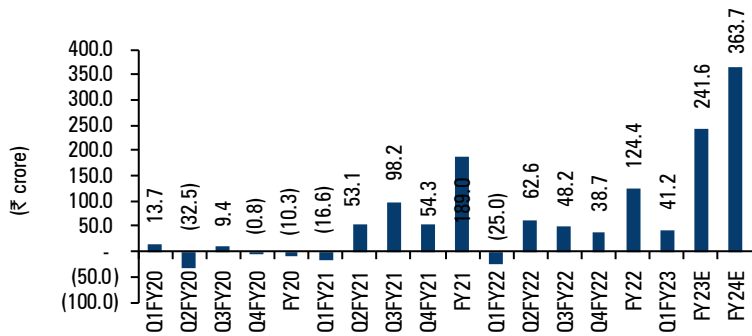
### Financial story in charts

Exhibit 8: Price hikes, improved product mix to drive margin



Source: Company, ICICI Direct Research

Exhibit 9: PAT growth to largely be driven by CD business



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>4584.6</b>	<b>4813.0</b>	<b>5537.2</b>	<b>6268.9</b>
Growth (%)		5.0	15.0	13.2
Raw Material Expenses	350.2	598.2	514.8	532.9
(Increase)/Decrease in stocks	-270.7	17.1	0.0	0.0
Purchase of traded goods	2916.1	2676.1	3309.3	3688.0
Employee Expenses	394.5	401.4	417.4	446.3
Erection & subcontracting exp	243.7	134.0	92.3	124.9
Other expenses	545.9	606.0	683.3	783.6
Total Operating Expenditure	4281.4	4562.9	5171.4	5751.4
<b>EBITDA</b>	<b>303.2</b>	<b>250.2</b>	<b>365.8</b>	<b>517.5</b>
Growth (%)		-17.5	46.2	41.5
Other Income	69.2	68.3	56.4	61.9
Interest	76.4	69.7	25.2	17.9
PBDT	295.9	248.8	396.9	561.4
Depreciation	75.2	69.2	73.1	75.2
PBT before Exceptional Items	220.8	179.5	323.9	486.2
Less: Exceptional Items	-25.5	13.2	0.0	0.0
PBT	246.3	166.3	323.9	486.2
Total Tax	57.3	41.9	82.3	122.5
<b>PAT</b>	<b>189.0</b>	<b>124.4</b>	<b>241.6</b>	<b>363.7</b>

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	189.0	124.4	241.6	363.7
Depreciation	75.2	69.2	73.1	75.2
CF before working capital changes	340.6	263.4	339.9	456.8
Net Increase in Current Assets	312.2	695.5	-270.3	-391.2
Net Increase in Current Liabilities	19.1	-146.4	323.1	326.5
<b>Net CF from operating act</b>	<b>671.8</b>	<b>812.5</b>	<b>392.7</b>	<b>392.2</b>
(Purchase)/Sale of Fixed Assets	-144.4	-154.2	-70.0	-70.0
Long term loans and advances	12.5	-60.8	-41.4	-41.9
Others	-10.7	-216.5	-55.0	-55.0
<b>Net CF from Investing act</b>	<b>-142.7</b>	<b>-431.4</b>	<b>-166.4</b>	<b>-166.9</b>
Inc / (Dec) in Loan Funds	-536.7	-259.4	-10.0	-10.0
Total Outflow on account of div	-40.9	-41.0	-54.7	-54.7
<b>Net CF from financing act</b>	<b>-572.2</b>	<b>-300.1</b>	<b>-329.7</b>	<b>-82.6</b>
Net Cash flow	-43.1	80.9	-103.5	142.7
Cash & Cash Equi at the beg.	104.7	61.6	142.6	39.1
<b>Cash</b>	<b>61.6</b>	<b>142.6</b>	<b>39.1</b>	<b>181.8</b>

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	22.9	23.0	23.0	23.0
Reserve and Surplus	1555.2	1708.6	1655.7	1964.7
Total Shareholders funds	1578.1	1731.6	1678.7	1987.7
Total Debt	304.3	44.9	34.9	24.9
<b>Liability</b>	<b>1973.7</b>	<b>1844.0</b>	<b>1781.1</b>	<b>2080.1</b>
<b>Asset</b>				
Total Gross Block	948.7	1084.1	1154.1	1224.1
Less Total Accumulated Dep	435.7	504.9	578.0	653.2
Net Block	513.1	579.2	576.1	570.8
Total CWIP	9.4	28.2	28.2	28.2
Total Fixed Assets	522.4	607.4	604.3	599.0
Other Investments	0.0	4.9	59.9	114.9
Inventory	986.4	997.9	1137.8	1288.1
Debtors	1916.9	1360.6	1441.2	1631.6
Other Current Assets	409.6	331.1	381.0	431.3
Cash	61.6	142.6	39.1	181.8
Total Current Assets	3447.0	2832.4	2999.3	3533.2
Creditors	960.2	1235.5	1421.4	1609.2
Provisions	111.3	101.6	116.9	132.4
Total Current Liabilities	2294.0	2147.6	2470.8	2797.2
<b>Net Current Assets</b>	<b>1153.0</b>	<b>684.8</b>	<b>528.6</b>	<b>735.9</b>
Deferred Tax Assets	52.5	81.4	81.4	81.4
Other non current assets	0.0	0.0	0.0	0.0
<b>Other non current assets</b>	<b>214.7</b>	<b>275.5</b>	<b>316.9</b>	<b>358.8</b>
<b>Total Assets</b>	<b>1973.7</b>	<b>1844.0</b>	<b>1781.1</b>	<b>2080.1</b>

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per Share Data</b>				
EPS	16.5	10.8	21.0	31.7
Cash EPS	23.1	16.9	27.4	38.2
BV	137.8	150.8	146.2	173.1
DPS	3.6	3.6	4.8	4.8
<b>Operating Ratios</b>				
EBITDA Margin	6.6	5.2	6.6	8.3
PAT Margin	3.7	2.8	4.4	5.8
<b>Return Ratios</b>				
RoE	10.7	7.8	14.4	18.3
RoCE	15.1	13.5	19.6	24.2
RoIC	8.1	9.3	14.2	19.3
<b>Valuation Ratios</b>				
EV / EBITDA	44.1	52.1	35.9	25.1
P/E	NM	105.6	54.4	36.1
EV / Net Sales	2.9	2.7	2.4	2.1
Market Cap / Sales	2.9	2.7	2.4	2.1
Price to Book Value	8.3	7.6	7.8	6.6
<b>Turnover Ratios</b>				
Asset turnover	2.3	2.6	3.1	3.0
Debtor Days	152.6	103.2	95.0	95.0
Creditor Days	76.4	93.7	93.7	93.7
<b>Solvency Ratios</b>				
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	3.2	2.0	1.9	1.9
Quick Ratio	2.2	1.3	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct universe (Consumer Discretionary)

Sector / Company	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)			RoE (%)				
			FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	3,26,540	33.4	32.2	47.1	56.6	101.8	105.9	72.2	60.1	66.3	67.4	48.1	40.6	29.6	27.1	36.4	39.1	25.0	23.0	30.2	31.9
Berger Paints (BERPAI)	Hold	65,757	7.4	8.6	9.9	12.3	91.4	78.9	68.3	55.0	55.1	49.6	43.5	35.9	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	26,946	9.8	6.9	11.6	13.4	50.8	72.0	43.2	37.3	32.0	41.5	26.9	23.0	17.2	12.1	19.5	21.1	13.2	9.2	14.7	15.6
Pidilite Industries (PIDIND)	Hold	1,34,110	22.2	23.8	26.8	35.5	119.1	111.1	98.7	74.3	79.6	72.5	65.7	50.3	23.8	22.2	23.2	27.6	20.2	18.8	19.6	23.0
Bajaj Electricals (BAJELE)	BUY	13,139	16.5	10.8	21.0	31.7	69.4	105.6	54.4	36.1	44.1	52.1	35.9	25.1	15.1	13.5	19.6	24.2	10.7	7.8	14.4	18.3
Crompton Greaves(CROGR)	Hold	23,380	9.8	9.2	8.4	10.5	37.9	40.4	44.6	35.5	31.0	30.5	27.2	22.5	34.4	16.2	16.0	19.7	31.9	24.0	20.5	22.6
Havells India (HAVIND)	Hold	81,606	16.7	19.1	19.4	25.1	78.5	68.3	67.3	52.0	51.4	45.2	45.4	35.9	24.9	23.7	24.6	31.4	20.1	19.9	20.9	26.6
Polycab India (POLI)	Buy	36,135	59.3	61.4	67.1	77.6	40.8	39.4	36.0	31.2	31.7	27.7	23.7	20.4	20.6	20.2	21.8	22.1	17.9	15.6	16.5	16.7
Symphony (SYMLIM)	Hold	6,373	15.3	17.3	26.1	34.8	59.6	52.7	34.9	26.2	44.6	38.5	26.8	20.2	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	10,271	4.7	5.3	5.4	6.8	50.5	44.6	44.1	35.2	32.0	30.2	28.8	23.0	23.9	21.2	23.7	26.6	16.7	16.2	17.9	20.3
Voltas Ltd (VOLTAS)	Hold	32,743	16.0	15.3	18.8	25.1	61.9	64.7	52.5	39.5	50.3	47.1	39.0	29.7	15.0	14.0	17.5	20.3	10.6	9.2	12.6	14.9
Amber Enterprises (AMBE)	Hold	7,652	24.7	33.0	50.2	80.0	91.9	68.7	45.2	28.4	34.5	29.1	21.1	15.6	7.7	6.8	10.6	13.9	5.2	6.4	9.5	13.1
Dixon Technologies (DIXTE)	Buy	23,028	27.3	32.1	55.4	83.6	142.3	121.0	70.0	46.4	80.3	61.1	39.6	28.3	23.5	17.7	27.0	31.4	21.7	19.1	30.9	34.1
Supreme Indus (SUPIND)	Buy	24,072	77.0	76.2	77.1	87.0	24.6	24.9	24.6	21.8	18.2	19.0	19.1	16.4	33.1	25.9	24.2	24.9	30.9	25.2	23.9	24.1
Astral Ltd (ASTPOL)	Hold	39,895	20.3	24.4	25.8	35.9	97.7	81.4	77.1	55.3	61.2	52.1	45.9	35.0	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1

Source: Bloomberg, ICICI Direct Research



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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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