

# Bajaj Electricals (BJE IN)

Rating: HOLD | CMP: Rs1,060 | TP: Rs1,110

## RM inflation/ One off expenses mar 1Q earnings

### Quick Pointers:

- Fans/Appliances/Lighting/ Morphy Richards grew by 49%/75%/12%/85%
- Maintain guidance of minimum 9% CP margins

**We cut our FY22/23 earnings by 6.2% / 1.5% on soft 1Q given margin pressures on the back of 1) unabated commodity inflation and 2) various one-offs/ non comparable costs. CP margins were negatively impacted due to 1) reallocation of costs (Rs12cr) from EPC to CP 2) increased A&P spends (Rs29cr vs Rs14cr) 3) Delay in transition of logistics arrangement with Mahindra due to Covid (Rs5cr) 4) Employee incentives (Rs3cr) and 5) VRS in Hind Lamps facility (Rs2cr). However, with demand trend fairly healthy BJE is confident of sustaining CP margins at a minimum of 9% in FY22. With Illumination breaking even and sustained improvement in TLT, EPC remains on track of exiting FY22 on a profitable note.**

**We remain structurally positive on longer term prospects given 1) strong brand with leadership position in kitchen appliances 2) increasing shelf space by leveraging industry leading distribution network & brand strength and 3) improving balance sheet aided by robust cash flow generation. We estimate Sales/PAT to grow at CAGR of 13.9% / 41.8% over FY21-23E. We value the stock on SOTP & arrive at a target price of Rs1,110 (earlier Rs1,084) (derived P/E of 35x on Jun23 EPS, Consumer business valued at 37x). However, given sharp re-rating in the past 12-15 months (2.7x), we expect returns to be back ended as valuations at 35x FY23EPS remain rich. Maintain HOLD.**

**Sales up by 40.3%, Loss at Rs64mn:** Revenues grew by 40.3% YoY to Rs8.5bn with Consumer Products segment growing by 55.5%. Gross margin expanded by 500bps YoY to 33.1%. EBITDA stood at Rs71mn vs loss of Rs208mn YoY, with margins at 0.8% vs -3.4%. As a % of sales, Employee cost declined by 420bps while Other expenses was up by 500bps. Loss stood at Rs64mn vs Rs419mn YoY.

**Consumer products revenues up 55.5%; EBIT margins at 2.5%:** Consumer Products Revenue/ EBIT grew by 55.5%/ 46.8% YoY to Rs6.1bn/ Rs155mn; while margins contracted by 20bps YoY to 2.5%. EPC segment revenues grew by 12.3% to Rs2.4bn. Absolute EBIT loss of Rs133mn vs loss of Rs437mn. Margins at -5.6%

**Concall Takeaways:** 1) Fans/ Appliances/ Lighting/ Morphy Richards grew by 49%/ 75%/ 12%/ 85% in 1Q22 2) RM inflation of 12%-15% so far, have passed on 9-10% so far. 3) Price hikes: **May:** 3-5%; **July:** 3%; **Mid-August:** 3%-4% 4) Demand momentum remains healthy. July has seen a further uptick 5) CP margins impacted due to i) reallocation of expenses from EPC to CP (12cr) ii) delay in transition to Mahindra logistics (Rs5cr) iii) A&P (Rs15cr incremental) iv) Employee increments (Rs3cr) v) VRS (Rs2cr) 6) Maintain margin guidance of min 9% in FY22 7) Illumination segment has achieved break-even. Targeting double digit margins in next 2-3 years. 8) TLT: Incremental projects remain contribution positive. Addition to Rs1-2bn orders will help achieve overall positive contribution

August 11, 2021

## Q1FY22 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	1,110		1,084	
Sales (Rs. m)	50,199	59,365	50,214	59,275
% Chng.	-	0.2		
EBITDA (Rs. m)	3,667	5,204	3,896	5,358
% Chng.	(5.9)	(2.9)		
EPS (Rs.)	19.8	30.2	21.1	30.6
% Chng.	(6.2)	(1.5)		

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	49,771	45,731	50,199	59,365
EBITDA (Rs. m)	2,069	3,015	3,667	5,204
Margin (%)	4.2	6.6	7.3	8.8
PAT (Rs. m)	(1)	1,719	2,265	3,457
EPS (Rs.)	0.0	15.0	19.8	30.2
Gr. (%)	NA	NA	31.8	52.6
DPS (Rs.)	-	-	5.5	8.0
Yield (%)	-	-	0.5	0.8
RoE (%)	0.0	11.5	13.2	17.5
RoCE (%)	8.0	15.3	17.8	22.7
EV/Sales (x)	2.5	2.7	2.4	2.0
EV/EBITDA (x)	61.3	40.9	33.4	23.1
PE (x)	NA	70.6	53.6	35.1
P/BV (x)	8.7	7.6	6.6	5.7

### Key Data

BJEL.BO | BJE IN

52-W High / Low	Rs.1,225 / Rs.418
Sensex / Nifty	54,526 / 16,282
Market Cap	Rs.121bn/ \$ 1,632m
Shares Outstanding	115m
3M Avg. Daily Value	Rs.360.41m

### Shareholding Pattern (%)

Promoter's	63.10
Foreign	12.03
Domestic Institution	10.97
Public & Others	13.90
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	2.3	0.9	142.3
Relative	(1.7)	(4.7)	70.7

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**Exhibit 1: Q4FY21 Result Overview (Rs m): Sales grew by 40.3% YoY; Adj loss at Rs64mn**

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
<b>Net Sales</b>	<b>8,528</b>	<b>6,077</b>	<b>40.3</b>	<b>12,545</b>	<b>45,731</b>	<b>49,771</b>	<b>(8.1)</b>
<b>Expenditure</b>							
Operating & Manufacturing Expenses	5,709	4,372	30.6	8,915	32,402	36,420	(11.0)
<i>% of Net Sales</i>	<i>66.9</i>	<i>71.9</i>		<i>71.1</i>	<i>70.9</i>	<i>73.2</i>	
<b>Gross Profit</b>	<b>2,819</b>	<b>1,705</b>	<b>65.4</b>	<b>3,630</b>	<b>13,328</b>	<b>13,351</b>	<b>(0.2)</b>
<i>% of Net Sales</i>	<i>33.1</i>	<i>28.1</i>		<i>28.9</i>	<i>29.1</i>	<i>26.8</i>	
Personnel Cost	1,020	983	3.7	1,006	3,883	3,960	(2.0)
<i>% of Net Sales</i>	<i>12.0</i>	<i>16.2</i>		<i>8.0</i>	<i>8.5</i>	<i>8.0</i>	
Other Expenses	1,729	930	85.9	1,908	6,430	7,321	(12.2)
<i>% of Net Sales</i>	<i>20.3</i>	<i>15.3</i>		<i>15.2</i>	<i>14.1</i>	<i>14.7</i>	
Total Expenditure	8,457	6,285	34.5	11,828	42,715	47,702	(10.5)
<b>EBITDA</b>	<b>71</b>	<b>(208)</b>	<b>NA</b>	<b>716</b>	<b>3,015</b>	<b>2,069</b>	<b>45.7</b>
<i>Margin (%)</i>	<i>0.8</i>	<i>(3.4)</i>		<i>5.7</i>	<i>6.6</i>	<i>4.2</i>	
Other income	133	78	70.3	318	553	526	5.0
Depreciation	144	172	(16.2)	163	693	680	1.8
<b>EBIT</b>	<b>60</b>	<b>(302)</b>	<b>NA</b>	<b>871</b>	<b>2,875</b>	<b>1,916</b>	<b>50.1</b>
Interest	147	269	(45.4)	106	756	1,692	(55.3)
<b>PBT before exceptional item</b>	<b>(87)</b>	<b>(571)</b>	<b>NA</b>	<b>765</b>	<b>2,120</b>	<b>224</b>	<b>846.8</b>
Total Taxes	(23)	(152)		175	575	225	155.5
<i>ETR (%)</i>	<i>26.0</i>	<i>26.7</i>		<i>22.9</i>	<i>27.1</i>	<i>100.6</i>	
<b>Adj. PAT</b>	<b>(64)</b>	<b>(419)</b>	<b>NA</b>	<b>590</b>	<b>1,545</b>	<b>(1)</b>	<b>NA</b>
Exceptional item	-	147		(30)	292	-	NA
<b>PAT</b>	<b>(64)</b>	<b>(272)</b>	<b>NA</b>	<b>560</b>	<b>1,836</b>	<b>(1)</b>	<b>NA</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup (Rs m): Consumer Products sales up 55.5%; Margins at 2.5%**

Y/e March	Q1FY22	Q1FY21	YoY gr. (%)	Q4FY21	FY21	FY20	YoY gr. (%)
<b>Revenues</b>							
Consumer Products	6,132	3,944	55.5	9,712	33,035	30,846	7.1
EPC	2,395	2,133	12.3	2,832	12,689	18,918	(32.9)
<b>EBIT</b>							
Consumer Products	155	105	46.8	851	3,240	2,082	55.6
<i>EBIT margin (%)</i>	<i>2.5</i>	<i>2.7</i>		<i>8.8</i>	<i>9.8</i>	<i>6.8</i>	
EPC	(133)	(437)	NA	(79)	(541)	(346)	NA
<i>EBIT margin (%)</i>	<i>(5.6)</i>	<i>(20.5)</i>		<i>(2.8)</i>	<i>(4.3)</i>	<i>(1.8)</i>	

Source: Company, PL

**Exhibit 3: SOTP: Implied PE of 35x Jun23 EPS**

Jun23	Basis	Multiple	Per Share	Value (Rs)	Valuation %
Consumer Products	P/E	37.0	29.7	1100	99%
EPC	P/E	5.0	2	10	1%
<b>Target Price</b>				<b>1,110</b>	<b>100%</b>

Source: PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>49,771</b>	<b>45,731</b>	<b>50,199</b>	<b>59,365</b>
YoY gr. (%)	(25.4)	(8.1)	9.8	18.3
Cost of Goods Sold	36,420	32,402	35,115	41,274
Gross Profit	13,351	13,328	15,085	18,092
Margin (%)	26.8	29.1	30.1	30.5
Employee Cost	3,960	3,883	4,016	4,393
Other Expenses	4,919	6,430	4,347	4,869
<b>EBITDA</b>	<b>2,069</b>	<b>3,015</b>	<b>3,667</b>	<b>5,204</b>
YoY gr. (%)	(40.6)	45.7	21.6	41.9
Margin (%)	4.2	6.6	7.3	8.8
Depreciation and Amortization	680	693	647	723
<b>EBIT</b>	<b>1,389</b>	<b>2,323</b>	<b>3,020</b>	<b>4,481</b>
Margin (%)	2.8	5.1	6.0	7.5
Net Interest	1,692	756	433	325
Other Income	526	727	503	561
<b>Profit Before Tax</b>	<b>224</b>	<b>2,294</b>	<b>3,090</b>	<b>4,717</b>
Margin (%)	0.4	5.0	6.2	7.9
Total Tax	225	575	825	1,259
Effective tax rate (%)	100.6	25.1	26.7	26.7
<b>Profit after tax</b>	<b>(1)</b>	<b>1,719</b>	<b>2,265</b>	<b>3,457</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>(1)</b>	<b>1,719</b>	<b>2,265</b>	<b>3,457</b>
YoY gr. (%)	NA	NA	31.8	52.6
Margin (%)	-	3.8	4.5	5.8
Extra Ord. Income / (Exp)	-	118	-	-
<b>Reported PAT</b>	<b>(1)</b>	<b>1,836</b>	<b>2,265</b>	<b>3,457</b>
YoY gr. (%)	NA	NA	23.3	52.6
Margin (%)	-	4.0	4.5	5.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	(1)	1,836	2,265	3,457
<b>Equity Shares O/s (m)</b>	<b>114</b>	<b>115</b>	<b>115</b>	<b>115</b>
<b>EPS (Rs)</b>	<b>0.0</b>	<b>15.0</b>	<b>19.8</b>	<b>30.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>7,545</b>	<b>8,463</b>	<b>8,961</b>	<b>9,545</b>
Tangibles	7,451	8,350	8,798	9,331
Intangibles	94	113	163	213
<b>Acc: Dep / Amortization</b>	<b>3,503</b>	<b>3,855</b>	<b>4,208</b>	<b>4,700</b>
Tangibles	3,437	3,763	4,082	4,526
Intangibles	65	92	127	174
<b>Net fixed assets</b>	<b>4,042</b>	<b>4,608</b>	<b>4,753</b>	<b>4,845</b>
Tangibles	4,014	4,587	4,716	4,805
Intangibles	29	21	37	40
Capital Work In Progress	109	178	178	178
Goodwill	-	-	-	-
Non-Current Investments	6,091	5,835	5,263	4,950
Net Deferred tax assets	453	525	627	783
Other Non-Current Assets	2,008	1,855	1,832	2,024
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	6,908	9,710	7,564	8,132
Trade receivables	20,490	15,115	14,181	16,780
Cash & Bank Balance	1,047	616	1,699	3,475
Other Current Assets	4,364	3,990	4,141	4,245
<b>Total Assets</b>	<b>45,585</b>	<b>42,501</b>	<b>40,318</b>	<b>45,499</b>
<b>Equity</b>				
Equity Share Capital	228	229	229	229
Other Equity	13,565	15,818	18,083	20,910
<b>Total Network</b>	<b>13,793</b>	<b>16,047</b>	<b>18,312</b>	<b>21,140</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	799	246	196	146
Provisions	956	431	439	505
Other non current liabilities	714	676	627	742
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	6,576	2,342	2,510	2,078
Trade payables	9,003	9,441	8,177	9,046
Other current liabilities	13,729	13,309	10,043	11,829
<b>Total Equity &amp; Liabilities</b>	<b>45,585</b>	<b>42,501</b>	<b>40,318</b>	<b>45,499</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	224	2,294	3,090	4,717
Add. Depreciation	680	693	647	723
Add. Interest	1,692	756	433	325
Less Financial Other Income	526	727	503	561
Add. Other	(357)	(300)	(122)	(191)
Op. profit before WC changes	2,239	3,443	4,048	5,574
Net Changes-WC	4,486	3,270	(1,141)	(302)
Direct tax	(451)	(116)	(825)	(1,259)
<b>Net cash from Op. activities</b>	<b>6,274</b>	<b>6,597</b>	<b>2,083</b>	<b>4,012</b>
Capital expenditures	(284)	(98)	(792)	(814)
Interest / Dividend Income	49	85	-	-
Others	(228)	(1,092)	107	15
<b>Net Cash from Inv. activities</b>	<b>(462)</b>	<b>(1,105)</b>	<b>(684)</b>	<b>(799)</b>
Issue of share cap. / premium	3,482	105	-	-
Debt changes	(6,311)	(5,216)	118	(482)
Dividend paid	(432)	-	-	(630)
Interest paid	(1,646)	(941)	(433)	(325)
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(4,908)</b>	<b>(6,052)</b>	<b>(315)</b>	<b>(1,437)</b>
<b>Net change in cash</b>	<b>904</b>	<b>(560)</b>	<b>1,083</b>	<b>1,776</b>
Free Cash Flow	5,990	6,499	1,291	3,198

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	0.0	15.0	19.8	30.2
CEPS	6.0	21.1	25.4	36.5
BVPS	121.2	140.1	159.9	184.6
FCF	52.7	56.7	11.3	27.9
DPS	-	-	5.5	8.0
<b>Return Ratio(%)</b>				
RoCE	8.0	15.3	17.8	22.7
ROIC	0.0	9.0	12.2	17.5
RoE	0.0	11.5	13.2	17.5
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.5	0.1	0.1	(0.1)
Net Working Capital (Days)	135	123	99	98
<b>Valuation(x)</b>				
PER	NA	70.6	53.6	35.1
P/B	8.7	7.6	6.6	5.7
P/CEPS	177.6	50.3	41.7	29.0
EV/EBITDA	61.3	40.9	33.4	23.1
EV/Sales	2.5	2.7	2.4	2.0
Dividend Yield (%)	-	-	0.5	0.8

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>12,142</b>	<b>14,967</b>	<b>12,545</b>	<b>8,528</b>
YoY gr. (%)	11.2	16.8	(3.5)	40.3
Raw Material Expenses	8,597	10,518	8,915	5,709
Gross Profit	3,544	4,449	3,630	2,819
Margin (%)	29.2	29.7	28.9	33.1
<b>EBITDA</b>	<b>1,031</b>	<b>1,475</b>	<b>716</b>	<b>71</b>
YoY gr. (%)	333.4	115.8	114.2	(134.4)
Margin (%)	8.5	9.9	5.7	0.8
Depreciation / Depletion	177	181	163	144
<b>EBIT</b>	<b>855</b>	<b>1,295</b>	<b>554</b>	<b>(73)</b>
Margin (%)	7.0	8.7	4.4	(0.9)
Net Interest	216	164	106	147
Other Income	98	59	318	133
<b>Profit before Tax</b>	<b>736</b>	<b>1,190</b>	<b>765</b>	<b>(87)</b>
Margin (%)	6.1	7.9	6.1	(1.0)
Total Tax	196	356	175	(23)
Effective tax rate (%)	26.7	29.9	22.9	26.0
<b>Profit after Tax</b>	<b>540</b>	<b>834</b>	<b>590</b>	<b>(64)</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>540</b>	<b>834</b>	<b>590</b>	<b>(64)</b>
YoY gr. (%)	(263.6)	439.4	NA	(84.6)
Margin (%)	4.4	5.6	4.7	(0.8)
Extra Ord. Income / (Exp)	-	174	(30)	-
<b>Reported PAT</b>	<b>540</b>	<b>1,008</b>	<b>560</b>	<b>(64)</b>
YoY gr. (%)	(263.6)	552.1	NA	(76.3)
Margin (%)	4.4	6.7	4.5	(0.8)
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>540</b>	<b>1,008</b>	<b>560</b>	<b>(64)</b>
Avg. Shares O/s (m)	-	114	115	-
<b>EPS (Rs)</b>	<b>-</b>	<b>7.3</b>	<b>5.1</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	06-Jul-21	Hold	1,084	1,050
2	25-May-21	Hold	1,084	1,131
3	06-Apr-21	BUY	1,033	991
4	04-Feb-21	BUY	884	768
5	08-Jan-21	BUY	647	637
6	05-Nov-20	BUY	605	505
7	06-Oct-20	BUY	564	498

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Asian Paints	BUY	3,511	3,159
2	Avenue Supermarts	BUY	3,744	3,397
3	Bajaj Electricals	Hold	1,084	1,050
4	Britannia Industries	Accumulate	3,911	3,505
5	Burger King India	BUY	250	158
6	Colgate Palmolive	Accumulate	1,846	1,710
7	Crompton Greaves Consumer Electricals	BUY	518	468
8	Dabur India	Hold	588	614
9	Emami	Accumulate	624	573
10	Havells India	Accumulate	1,226	1,151
11	Hindustan Unilever	Accumulate	2,535	2,378
12	ITC	BUY	258	212
13	Jubilant FoodWorks	Accumulate	3,404	3,065
14	Kansai Nerolac Paints	Accumulate	661	628
15	Marico	Hold	525	547
16	Mold-tek Packaging	BUY	598	510
17	Nestle India	Accumulate	19,290	18,023
18	Pidilite Industries	UR	-	2,179
19	Titan Company	Accumulate	1,916	1,800
20	Voltas	Hold	1,014	1,025
21	Westlife Development	BUY	572	496

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

## **ANALYST CERTIFICATION**

### **(Indian Clients)**

We/I, Mr. Amnish Aggarwal- MBA, CFA, Mr. Paarth Gala- B.Com Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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