

Bajaj Electricals | BUY

Macro continues to take a toll

Bajaj Electricals' (BEL) posted another weak set of earnings in 3QFY24 as revenue declined 6% YoY on account of a) a weak demand scenario, particularly in the rural segment (BEL has higher exposure than peers in rural region, in our opinion), and b) high base (fans grew 64% YoY in 3QFY23 on inventory liquidation prior to BEE transition; provisioning of INR 500mn towards RBP points). Core categories saw 150bps improvement in underlying gross margin (thanks to premiumisation, product mix), though that was more than offset by high discounting in a few categories (c.350-400bps margin impact) coupled with adverse operating leverage (current monthly run rate at INR3bn-3.1bn vs. INR3.5bn for operating leverage to kick in). Secondary sales were better than primary sales, according to the company, which bodes well for primary sales in the coming months/quarters. Adjusted for interest on IT refund, PAT was INR 286mn, down 56% YoY/24% QoQ and 34% below JMFe (50% below consensus). We cut FY24-26EPS to reflect delayed recovery in growth/margins amidst a hyper-competitive environment. We roll forward to Mar'25TP of INR 1,390, basis 40x FY26EPS. We maintain BUY.

- 3QFY24 summary (excluding EPC):** Revenue declined by 6% YoY to INR 12.3bn (+10% QoQ, in line with JMFe) as **a)** Consumer products revenue declined by 8% YoY (+12%QoQ, in line with JMFe) due to tepid demand for appliances and high base of fans and **b)** Lighting (including B2B) revenue was flat YoY (+6%QoQ, 6% above JMFe). Consumer products EBIT margin contracted 610bps YoY (-370bps QoQ, 410 bps below JMFe) to 1.4% on account of a) one-time warranty provision of INR 230mn (INR210mn for consumer products; 220bps impact), and b) adverse operating leverage. EBITDA margin contracted by 350bps YoY to 4.5% (-70bps QoQ, 150bps below JMFe). EBITDA declined by 47% YoY to INR 550mn (-5%QoQ, 25% below JMFe/Consensus). Adj PAT fell by 56% YoY/24% QoQ to INR 286mn and was 34% below JMFe (50% below consensus).
- RREP 2.0:** BJE's RREP 1.0 helped in expanding its reach in tier 2/3/rural India, where a single distributor was appointed for the entire product portfolio. However, the company has recalibrated its distribution model now to focus its reach in Urban India, given its premiumisation strategy. The company is now adopting a tactical approach in appointing non-exclusive distributor/work with wholesalers (e.g., fans) to ensure improved reach and wallet share in urban retail counters. BEL adopted the same strategy for its lighting division 18 months ago and saw positive results. The company has expanded its distributor count from 645 in FY23 (550 in FY22) to 742 in Dec'23.
- Weakness in consumer products continues:** Consumer product revenue declined 8% YoY, primarily on account of weak demand and high base led by a) fans (grew 64% YoY as it liquidated non-BEE rated inventory), and b) redemption of RBP points (retailer bonding programme) in 3QFY23 (INR 500mn). Excluding these two factors, consumer products revenue would have been flat YoY, as per the management. Gross margin improved by over 150bps YoY (premiumisation and product mix), more than offset by



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	1,390
Upside/(Downside)	30.8%
Previous Price Target	1,470
Change	-5.4%

Key Data – BJE IN

Current Market Price	INR1,062
Market cap (bn)	INR122.3/US\$1.5
Free Float	37%
Shares in issue (mn)	114.6
Diluted share (mn)	115.1
3-mon avg daily val (mn)	INR66.7/US\$0.8
52-week range	1,193/862
Sensex/Nifty	71,731/21,772
INR/US\$	83.1

Price Performance

%	1M	6M	12M
Absolute	3.5	-5.1	2.4
Relative*	3.9	-13.1	-13.1

* To the BSE Sensex

Financial Summary

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	47,882	48,774	48,211	55,498	63,463
Sales Growth (%)	4.7	1.9	-1.2	15.1	14.4
EBITDA	2,511	3,744	2,868	4,599	6,078
EBITDA Margin (%)	5.2	7.7	5.9	8.3	9.6
Adjusted Net Profit	1,500	2,296	1,451	2,851	4,007
Diluted EPS (INR)	13.0	19.9	12.6	24.8	34.8
Diluted EPS Growth (%)	12.8	52.9	-36.8	96.6	40.5
ROIC (%)	8.9	15.0	9.1	20.6	30.6
ROE (%)	9.0	12.4	7.3	14.3	19.7
P/E (x)	81.4	53.2	84.3	42.9	30.5
P/B (x)	7.0	6.2	6.1	6.1	5.9
EV/EBITDA (x)	48.2	31.6	40.5	25.2	18.7
Dividend Yield (%)	0.3	0.8	0.9	2.4	2.5

Source: Company data, JM Financial. Note:* Excluding EPC, Valuations as of 05/Feb/2024

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

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high competitive intensity (resulting into heavy discounting), one-time provision and negative operating leverage. Hence, EBIT margin declined 610bps YoY/370bps QoQ to 1.4%. The management highlighted that operating leverage kicks in at monthly turnover of INR 3.3bn; presently it is operating at lower levels of INR 3bn-3.1bn, which is impacting profitability (as most of the R&D, distribution and other overheads are frontloaded). The company undertook price hikes in Dec'23 (2-2.5% in fans), but partially reversed that with schemes/ discounts. The company talked of market share gains in some of its key categories such as fans and coolers in the past 4 quarters.

- **Lighting segment performance:** Lighting segment reported muted YoY growth (+6% QoQ, 6% above JMFe), wherein higher contribution from premium products offsets the price correction (decline upto 20-25% YoY in commodity products). EBIT margin expanded by 190bps YoY (+270 bps QoQ, 240bps above JMFe), thanks to product mix. The management is hopeful of revival in consumer demand in a couple of quarters.
- **Cut estimates; maintain BUY:** We cut our FY24 estimates by 31% to reflect 3QFY24 miss and cut FY25-26 estimates by 13%/7% respectively due to likely delayed recovery in demand and, consequently, adverse operating leverage. We roll forward to Mar'25 TP of INR 1,390, basis 40xMar'26EPS. We retain our faith in BEL as it a) continues to work on its long-term measures of brand building, product launch/refreshment, b) has not lost any meaningful market share and c) is more impacted due to demand environment (more external challenges). **BUY. Key Risk:** Deceleration in macro recovery and heightened competitive intensity.

Key takeaways from 3QFY24 Concall:

- Demand was sluggish largely throughout the quarter; however, momentum picked up in Dec'23. During 3Q, Morphy Richards grew in mid-single digit, appliances declined by low-single digit and fans fell by high teens. During 9MFY24, appliance was flat while fans declined by higher-single digit, due to the high base in 3QFY23.
- As per 3rd party data, BEL has seen gains in market share in fans and coolers by 100bps, largely led by alternate channels. Fans and coolers' growth over 2 years has been consistent, translating into market share gains.
- Post signing the long-term licence deal, the company launched differentiated products under Morphy Richards like coffee maker, steamers, air fryers, and digital toasters. Due to low-single digit product penetration, the management expects Morphy Richards to expand at a faster pace as the market evolves. Morphy Richards will have its major presence in top 50 cities, with a presence in the online channel; 60% of revenue is from alternate channel while the rest is from general trade.
- The company has made a one-time provision relating to write-off of INR 230mn (INR 210mn for consumer products and INR 20mn for lighting) worth of claims towards insurance on warranty of its products. The company used to account for insurance payments on amortisation basis (as products were few and was impacted the margins by 220bps in consumer products and 70bps in the lighting segment). Recurring provision for warranty will be in the range of INR 5mn0-60mn every quarter, which are usually in sync with the actual costs/claims.
- The company has seen 150bps gross margin expansion YoY on a like-to-like basis, owing to improvement in CoGS and premiumisation of product portfolio. However, some gains were lost in the form of discounts (at scheme level due to stiff competition; 350-400bps impact). The company hiked prices in Dec'23 and strategically linked discounts/schemes to volumes to expand overall scale of production. It plans to reverse these schemes once demand recovers. It hiked prices by 2.5% during the quarter.
- Advertisement spend during the quarter was lower at 2.8-2.9%, which the company will expand to ~4%.
- Logistics: BEL has been redoing its logistics exercise over the past 12-18 months; now its service levels are similar to that in 3QFY23 and continue to improve month on month on financial and operational logistics parameters.

- The management has guided for capex for INR 400mn-500mn for FY25, which will majorly pertain to dyes moulds for new products. Currently, in-house manufacturing contributes 20%, which the management aims to increase to 25% in the next couple of years.

Exhibit 1. Quarterly performance

INR mn	3Q23A	3Q24A	YoY	4-yr CAGR	2Q24A	QoQ	3Q24E	Var	9MFY23	9MFY24	YoY	4-yr CAGR
Net Sales	13,081	12,288	-6%	-1%	11,128	10%	12,249	0%	35,852	34,536	-4%	-2%
Cost of RM Consumed	8,668	8,725	1%	-1%	7,800	12%	8,390	4%	24,626	24,296	-1%	-2%
Gross Profit	4,414	3,563	-19%	-1%	3,327	7%	3,858	-8%	11,225	10,240	-9%	0%
Gross Margin	33.7%	29.0%	-470 bps	10 bps	29.9%	-90 bps	31.5%	-250 bps	31.3%	29.7%	-170 bps	160 bps
Employee Costs	876	939	7%	0%	945	-1%	973	-4%	2,503	2,765	10%	-1%
% of sales	6.7%	7.6%	90 bps	20 bps	8.5%	-90 bps	7.9%	-30 bps	7.0%	8.0%		20 bps
Other Expenses	2,495	2,074	-17%	0%	1,802	15%	2,155	-4%	5,955	5,652	-5%	0%
Total Expenditure	12,038	11,738	-2%	-1%	10,547	11%	11,518	2%	33,084	32,712	-1%	-2%
EBITDA	1,043	550	-47%	-5%	581	-5%	730	-25%	2,767	1,824	-34%	1%
EBITDA Margin	8.0%	4.5%	-350 bps	-90 bps	5.2%	-70 bps	6.0%	-150 bps	7.7%	5.3%	-240 bps	60 bps
Depreciation	158	289	83%	14%	256	13%	264	10%	467	759		11%
EBIT	885	261	-71%	-16%	324	-20%	466	-44%	2,301	1,064	-54%	-4%
Other Income	133	126	-5%	6%	321	-61%	250	-50%	299	671		19%
Finance Costs	149	204	36%	-15%	141	45%	140	45%	310	459	48%	-23%
Forex Loss/(Gain)	0	0	NM	NM	0	NM	0		0	0		NM
XO (Income)/Expenses	0	-327	NM	NM	0	NM	0		0	-327		NM
Profit Before Tax	868	510	-41%	23%	505	1%	576	-11%	2,290	1,603	-30%	62%
Tax Expense	223	131	-41%	19%	126	4%	145	-10%	590	415		15%
Tax Rate	25.7%	25.7%	0 bps	-410 bps	25.0%	70 bps	25.2%	50 bps	25.8%	25.9%		
Reported Net Profit	645	379	-41%	25%	378	0%	431	-12%	1,699	1,188	-30%	NM
Reported EPS	5.6	3.3	-41%	22%	3.3	0%	3.8	-12%	14.8	10.3		NM
Adjusted Net Profit	645	286	-56%	17%	378	-24%	431	-34%	1,699	1,094	-36%	NM
Adjusted EPS	5.6	2.5	-56%	13%	3.3	-24%	3.8	-34%	14.8	9.5	-36%	NM

Source: Company, JM Financial

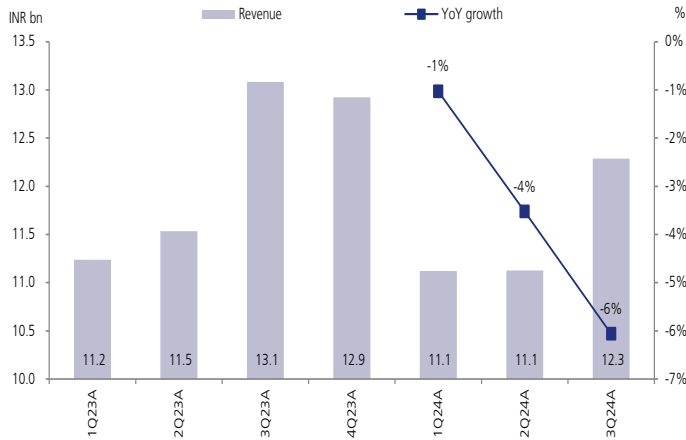
Exhibit 2. Segment performance

INR mn	3Q23A	3Q24A	YoY	4-yr CAGR	2Q24A	QoQ	3Q24E	Var	9MFY23	9MFY24	YoY	4-yr CAGR
Net Sales												
Consumer Products	10,381	9,572	-8%	3%	8,575	12%	9,684	-1%	27,656	26,872	-3%	4%
Lighting Solutions	2,700	2,716	1%	NM	2,553	6%	2,565	6%	8,196	7,664	-6%	NM
Total	13,081	12,288	-6%	-1%	11,128	10%	12,249	0%	35,852	34,536	-4%	-2%
EBIT												
Consumer Products	782	138	-82%	-34%	440	-69%	533	-74%	1,838	1,018	-45%	NA
Lighting Solutions	174	227	31%	NM	144	58%	154	48%	651	565	-13%	NA
Total	956	366	-62%	-10%	584	-37%	686	-47%	2,490	1,583	-36%	1%
EBIT Margins												
Consumer Products	7.5%	1.4%	-610 bps	-680 bps	5.1%	-370 bps	5.5%	-410 bps	6.6%	3.8%	-290 bps	NA
Lighting Solutions	6.4%	8.4%	190 bps	NA	5.6%	270 bps	6.0%	240 bps			0 bps	NA
Total	7.3%	3.0%	-430 bps	-150 bps	5.3%	-230 bps	5.6%	-260 bps	6.9%	4.6%	-240 bps	50 bps
Capital Employed												
Consumer Products	4,647	7,681	65%	23%	5,868	31%	NA	NA	4,647	7,681	65%	23%
Lighting Solutions	1,513	-100	NM	NA	232	NM	NA	NA	1,513	-100	-107%	NM
Discontinued Operations (EPC)	5,807	0	NM	NM	8,798	NM	NA	NA	5,807	0	-100%	NM
Unallocable	7,004	7,198	3%	NM	8,029	-10%	NA	NA	7,004	7,198	3%	NM
Total	18,971	14,779	-22%	9%	22,926	-36%	NA	NA	18,971	14,779	-22%	9%

Source: Company, JM Financial

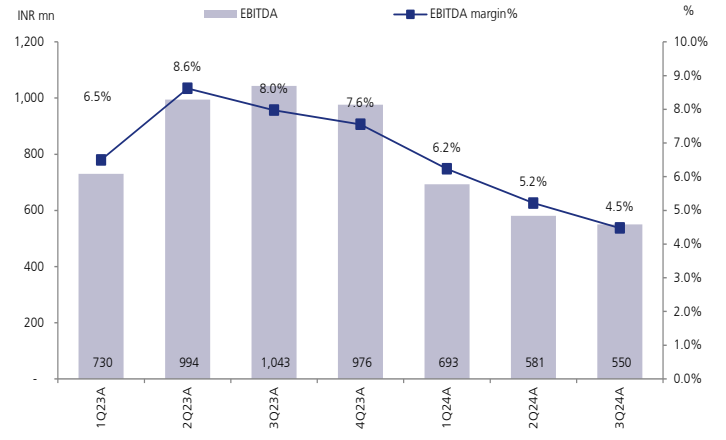
Charts

Exhibit 3. Revenue trajectory



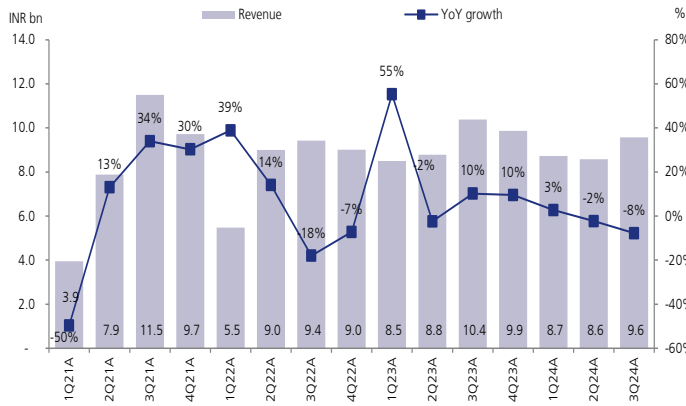
Source: Company, JM Financial

Exhibit 4. EBITDA margin



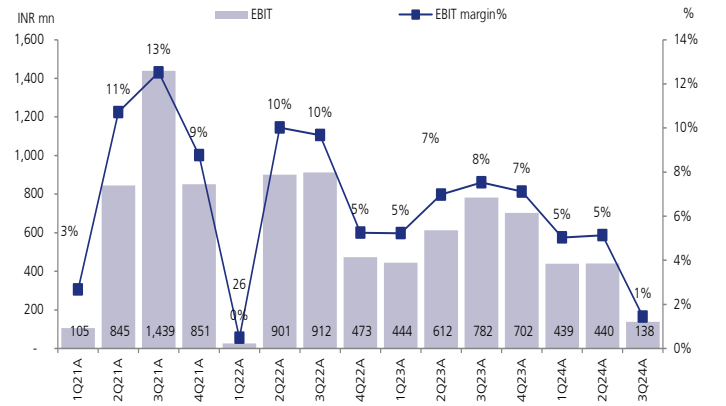
Source: Company, JM Financial

Exhibit 5. Consumer products revenue



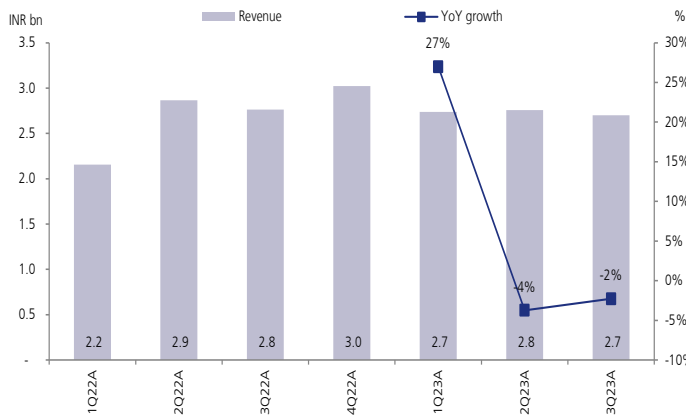
Source: Company, JM Financial

Exhibit 6. Consumer products EBIT



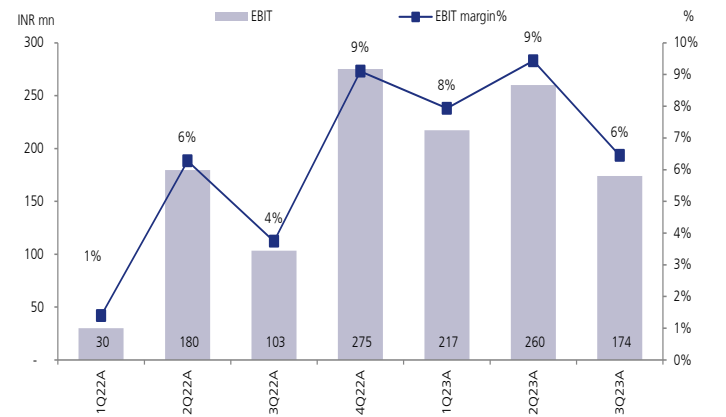
Source: Company, JM Financial

Exhibit 7. Lighting solutions revenue



Source: Company, JM Financial

Exhibit 8. Lighting solutions margins



Source: Company, JM Financial

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	47,882	48,774	48,211	55,498	63,463	
Sales Growth	4.7%	1.9%	-1.2%	15.1%	14.4%	
Other Operating Income	0	0	0	0	0	
Total Revenue	47,882	48,774	48,211	55,498	63,463	
Cost of Goods Sold/Op. Exp	34,134	33,650	33,989	38,293	43,472	
Personnel Cost	3,954	3,365	3,769	4,070	4,396	
Other Expenses	7,283	8,015	7,586	8,535	9,517	
EBITDA	2,511	3,744	2,868	4,599	6,078	
EBITDA Margin	5.2%	7.7%	5.9%	8.3%	9.6%	
EBITDA Growth	-16.7%	49.1%	-23.4%	60.4%	32.1%	
Depn. & Amort.	630	675	1,046	1,087	1,131	
EBIT	1,881	3,069	1,822	3,512	4,947	
Other Income	724	525	900	1,100	1,210	
Finance Cost	687	430	650	800	800	
PBT before Excep. & Forex	1,918	3,165	2,072	3,812	5,357	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	1,918	3,165	2,072	3,812	5,357	
Taxes	418	869	622	961	1,350	
Extraordinary Inc./Loss(-)	-132	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	1,368	2,296	1,451	2,851	4,007	
Adjusted Net Profit	1,500	2,296	1,451	2,851	4,007	
Net Margin	3.1%	4.7%	3.0%	5.1%	6.3%	
Diluted Share Cap. (mn)	115.0	115.1	115.1	115.1	115.1	
Diluted EPS (INR)	13.0	19.9	12.6	24.8	34.8	
Diluted EPS Growth	12.8%	52.9%	-36.8%	96.6%	40.5%	
Total Dividend + Tax	345	921	1,151	2,878	3,108	
Dividend Per Share (INR)	3.0	8.0	10.0	25.0	27.0	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	1,786	3,177	2,072	3,812	5,357	
Depn. & Amort.	630	754	1,046	1,087	1,131	
Net Interest Exp. / Inc. (-)	558	309	-250	-300	-410	
Inc (-) / Dec in WCcap.	6,812	493	1,549	-16	393	
Others	-28	-6	0	0	0	
Taxes Paid	-446	-225	-622	-961	-1,350	
Operating Cash Flow	9,312	4,503	3,795	3,623	5,121	
Capex	-726	-833	-600	-600	-600	
Free Cash Flow	8,587	3,670	3,195	3,023	4,521	
Inc (-) / Dec in Investments	0	0	0	0	0	
Others	-144	-160	900	1,100	1,210	
Investing Cash Flow	-870	-993	300	500	610	
Inc / Dec (-) in Capital	143	90	0	0	0	
Dividend + Tax thereon	0	0	-1,151	-2,878	-3,108	
Inc / Dec (-) in Loans	-7,957	-1,379	-2	0	0	
Others	91	0	-650	-800	-800	
Financing Cash Flow	-7,723	-1,289	-1,803	-3,678	-3,908	
Inc / Dec (-) in Cash	720	2,221	2,293	446	1,824	
Opening Cash Balance	615	1,419	3,692	5,985	6,430	
Closing Cash Balance	1,335	3,640	5,985	6,430	8,254	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	17,447	19,611	19,910	19,884	20,783	
Share Capital	230	230	230	230	230	
Reserves & Surplus	17,217	19,380	19,680	19,654	20,553	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	358	2	0	0	0	
Def. Tax Liab. / Assets (-)	-814	54	54	54	54	
Total - Equity & Liab.	16,991	19,666	19,964	19,938	20,837	
Net Fixed Assets	4,336	6,319	5,873	5,386	4,855	
Gross Fixed Assets	6,577	9,248	10,168	10,768	11,368	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	2,674	3,349	4,395	5,482	6,613	
Capital WIP	434	420	100	100	100	
Investments	1,795	906	906	906	906	
Current Assets	33,070	39,923	34,646	38,122	42,940	
Inventories	9,760	10,496	9,766	11,329	13,029	
Sundry Debtors	13,577	15,648	9,252	9,540	9,600	
Cash & Bank Balances	1,419	3,692	5,985	6,430	8,254	
Loans & Advances	8,315	10,087	9,642	10,822	12,058	
Other Current Assets	0	0	0	0	0	
Current Liab. & Prov.	22,210	27,482	21,461	24,476	27,864	
Current Liabilities	12,240	15,603	10,281	11,925	13,714	
Provisions & Others	9,970	11,879	11,181	12,550	14,150	
Net Current Assets	10,860	12,441	13,185	13,646	15,076	
Total - Assets	16,991	19,666	19,964	19,938	20,837	

Source: Company, JM Financial

Dupont Analysis

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Margin	3.1%	4.7%	3.0%	5.1%	6.3%
Asset Turnover (x)	2.6	2.7	2.4	2.8	3.1
Leverage Factor (x)	1.1	1.0	1.0	1.0	1.0
RoE	9.0%	12.4%	7.3%	14.3%	19.7%

Key Ratios

Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
BV/Share (INR)	151.7	170.4	173.0	172.8	180.6
ROIC	8.9%	15.0%	9.1%	20.6%	30.6%
ROE	9.0%	12.4%	7.3%	14.3%	19.7%
Net Debt/Equity (x)	-0.1	-0.2	-0.3	-0.3	-0.4
P/E (x)	81.4	53.2	84.3	42.9	30.5
P/B (x)	7.0	6.2	6.1	6.1	5.9
EV/EBITDA (x)	48.2	31.6	40.5	25.2	18.7
EV/Sales (x)	2.5	2.4	2.4	2.1	1.8
Debtor days	103	117	70	63	55
Inventory days	74	79	74	75	75
Creditor days	98	126	83	86	87

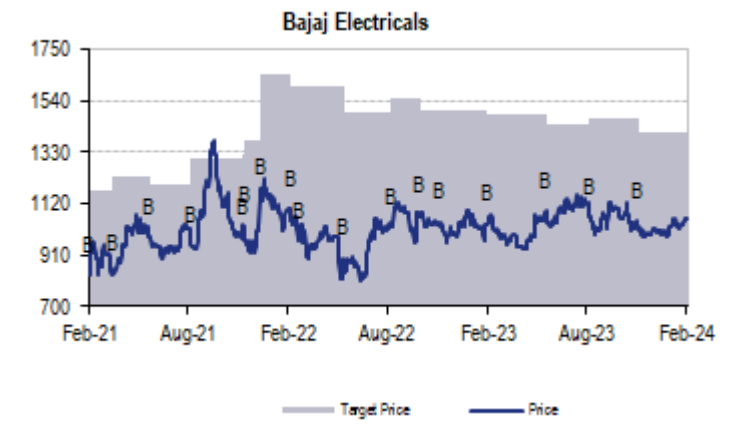
Source: Company, JM Financial

*excluding EPC. The company has classified its EPC business as 'Discontinued Operations' with effect from appointed date of 1st Apr'22.

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
11-Aug-20	Hold	480	
6-Nov-20	Hold	530	10.4
1-Dec-20	Hold	530	0.0
5-Feb-21	Buy	1,170	120.8
22-Mar-21	Buy	1,230	5.1
26-May-21	Buy	1,200	-2.4
11-Aug-21	Buy	1,300	8.3
14-Nov-21	Buy	1,320	1.5
16-Nov-21	Buy	1,380	4.5
15-Dec-21	Buy	1,650	19.6
8-Feb-22	Buy	1,600	-3.0
24-Feb-22	Buy	1,600	0.0
17-May-22	Buy	1,490	-6.9
13-Aug-22	Buy	1,550	4.0
3-Oct-22	Buy	1,500	-3.2
8-Nov-22	Buy	1,500	0.0
3-Feb-23	Buy	1,480	-1.3
23-May-23	Buy	1,440	-2.7
11-Aug-23	Buy	1,470	2.1
6-Nov-23	Buy	1,410	-4.1

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% for stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REITs refers to Real Estate Investment Trusts.

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