

Bajaj Electricals

Growth and margin expansion to be curtailed, Downgrade to Sell

BJE's Q3FY25 revenue grew 5% YoY to Rs12.9bn (CentE Rs13.3bn). Consumer Products sales grew 9% YoY to Rs10.4bn led by Morphy Richards and domestic appliances. Lighting sales fell 8% YoY to Rs2.5bn owing to LED price erosion. GT channel revived with high single digit growth while alternate channel was flat YoY. Gross margin rose 200bps YoY to 31.1%, driven by price hikes. EBITDA margin was up 210bps YoY to 6.8%. PAT fell 11% YoY to Rs334mn (CentE Rs301mn). The key growth challenges faced by BJE are (1) It is more indexed towards rural markets where demand is affected due to high inflation and interest rates and (2) higher dependence on MFI and govt. channels (CSD / CPC) at 15% of sales which will continue to remain weak. BJE will increase spend on branding, GTM, manufacturing and digitalization which will weigh on margin. Thus, management expects FY27E EBITDA margin at 7% vs. earlier estimate of high single digit. We significantly cut our EPS for FY26E/27E by 40% each as we cut our EBITDA margin estimate by ~200bps each. We downgrade rating to SELL (from ADD) with a revised target price of Rs660 (Rs950 earlier) based on 35x FY27E EPS.

Consumer Products: Morphy Richards & domestic appliances posts healthy growth

Consumer Products sales grew 9% YoY to Rs10.4bn (led by festive push in Oct) and crossed Rs10bn sales mark after 2 years. Healthy double digit growth in MR (7.5-8% of 9M segment sales) and domestic appliances (water coolers and heaters) was offset by flat sales in fans and kitchen appliances. During Q3, BJE took 2-4% price hike across most categories (mixer grinders, water heaters, irons) in channels such as MFR & e-commerce. MFI (due to RBI action) and CSD/CPC is expected to remain weak for few more quarters. BJE's premium share in the segment is at 40% while for water heater and fans it is at 20-25%. Kitchen appliances will remain muted for 2-3 more quarters as inflationary pressure and elevated interest rates will continue to weigh on demand. EBIT margin rose 330bps YoY to 5% due to volume growth and healthy gross margin.

Lighting: LED price erosion continues to impact growth

Lighting sales fell 8% YoY to Rs2.5bn as healthy double-digit volume growth was offset by B2C LED price erosion (likely to continue for few more quarters). Professional lighting witnessed single-digit de-growth while price erosion is anticipated to extend in this category. Price erosion will likely stop once the DOB technology gets stabilized across the industry. EBIT margin fell 630bps YoY to 2.1% due to ad-spend worth Rs110mn (4.3% of lighting sales) towards 'Built-to-Shine' campaign. BJE will continue to invest in brand building to gain market share. Sales mix of Professional lighting: B2C is at 60%:40%.

Other KTAs: (1) Q3 OCF is Rs830mn and 9M OCF is Rs2.6bn. Net cash position is Rs4.2bn. (2) FY26 capex will be Rs1bn-Rs1.5bn. (3) Q3 ad-spend at 3.3% of consolidated sales.

Downgrade to SELL with a revised target price of Rs660

We expect BJE to post 11% revenue CAGR and 17% EPS CAGR over FY24-27E. BJE's growth is likely to be curtailed due to higher dependence on rural markets and MFI/govt. channels. Operating margin expansion till FY27 will be restricted to 7% due to rising expenses towards branding and other priorities. Downgrade to SELL.

Financial and valuation summary

YE Mar (Rs mn)	3QFY25A	3QFY24A	YoY (%)	2QFY25A	QoQ (%)	FY25E	FY26E	FY27E
Revenues	12,897	12,282	5.0	11,183	15.3	48,832	54,666	62,644
EBITDA	874	576	51.7	516	69.4	2,813	3,658	4,457
EBITDA margin (%)	6.8	4.7		4.6		5.8	6.7	7.1
Adj. Net profit	334	374	(10.7)	129	158.6	975	1,572	2,168
Adj. EPS (Rs)	2.9	3.2	(10.8)	1.1	158.6	8.5	13.6	18.8
EPS growth (%)						(28.3)	61.3	37.9
PE (x)						86.5	53.6	38.9
EV/EBITDA (x)						29.0	22.3	18.1
PBV (x)						5.6	5.2	4.8
RoE (%)						6.6	10.1	12.8
RoCE (%)						10.3	13.7	16.4

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Consumer Electricals

05 February, 2025

SELL

Price: Rs731

Target Price: Rs660

Forecast return: -10 %

Institutional Research

Market Data

Bloomberg:	BJE IN
52 week H/L:	1,120/647
Market cap:	Rs83.9bn
Shares Outstanding:	115.3mn
Free float:	37.5%
Avg. daily vol. 3mth:	57,857
Source: Bloomberg	

Changes in the report

Rating:	SELL; Downgrade from ADD
Target price:	Rs660; down 30.5%
	FY25E: Rs8.5; down 21.9%
EPS:	FY26E: Rs13.6; down 40.7%
	FY27E: Rs18.8; down 39.7%
Source: Centrum Broking	

Shareholding pattern

	Dec-24	Sep-24	Jun-24	Mar-24
Promoter	62.7	62.8	62.8	62.8
FII	7.8	8.2	7.9	10.2
DII	15.9	15.6	14.8	12.6
Public/other	13.6	13.4	14.5	14.4
Source: BSE				

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY25	Actual Q3FY25	Variance (%)
Revenue	13,328	12,897	(3.2)
EBITDA	753	874	16.1
EBITDA margin (%)	5.6	6.8	120bps
PAT	301	334	10.8
EPS	2.6	2.9	10.8
Source: Centrum Broking			



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Consumer Electricals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY26E New	FY26E Old	% chg	FY27E New	FY27E Old	% chg
Revenue	54,666	57,767	(5.4)	62,644	66,432	(5.7)
EBITDA	3,658	4,975	(26.5)	4,457	6,217	(28.3)
EBITDA margin (%)	6.7	8.6		7.1	9.4	
Adj. PAT	1,572	2,652	(40.7)	2,168	3,596	(39.7)
Diluted EPS (Rs)	13.6	23.0	(40.7)	18.8	31.2	(39.7)

Source: Centrum Broking.

Bajaj Electricals versus NIFTY Midcap 100

	1m	6m	1 year
BJE IN	(6.4)	(26.9)	(31.2)
NIFTY Midcap 100	(7.1)	(7.1)	11.0

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY25E	FY26E	FY27E
Consumer Products revenue growth (%)	7.0	13.0	15.0
Consumer Products EBIT Margin (%)	3.0	4.3	5.0
Lighting revenue growth (%)	(1.0)	8.0	13.0
Lighting EBIT Margin (%)	6.0	6.4	7.0

Source: Centrum Broking

Valuations

We value BJE at 35x FY27E EPS and arrive at the target price of Rs660.

Valuations	Rs/share
FY27 EPS	18.8
PE (X)	35
Target price per share	660

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Key concall takeaways

Financial & business overview

- Q3 growth was aided by festive push.
- Consumer preference is moving towards premium and feature rich products. BJE is working hard to commercialize its premium offering and have seen initial success in Q3.
- Rs830mn positive OCF in Q3 and Rs2.6bn in 9MFY25. Net cash & investment position of Rs4.2 bn.
- Took price hike of 2-4% in almost all categories in consumer products such as mixers, water heaters, irons especially in channels such as MFR and e-commerce.
- Overall ad-spend in Q3 is 3.3% of consolidated sales. Will continue to maintain this level of ad-spend to gain market share.
- MFI and CSD/CPC channel are underperforming. MFI is weak since RBI action. Expected to remain weak for few more quarters. For BJE, MFI forms 5.5% of total sales and government channels like CSD and CPC forms 9% of sales. BJE is over-indexed vs peers in both these channels.
- Key margin lever is operating leverage benefit which they will achieve on attaining Rs60bn sales as BJE's cost structure is built considering this level of scale.
- Targeting to reduce warehouse and logistics cost by 1% of sales. For logistics cost, targeting benchmark of 5% of total sales, currently they are at 6.2%.
- By FY27, EBITDA margin should expand to 7%.
- Capex will be Rs1bn-Rs1.5bn for FY26.
- BJE has early mover advantage in quick commerce. Currently its share is low but will pick up gradually.
- BJE is more indexed towards rural, but with launch of new products it is now addressing the demand of urban markets as well.

Consumer Products

- Growth was led by festive demand push in Oct 2024. Crossed Rs10bn revenue threshold after two years.
- Domestic appliances posted strong double digit growth. Cooler and heaters growing in double digits.
- Morphy Richards (MR) has registered double digit growth for fifth straight quarter. Within MR, fastest growing products are coffee makers, food processors and personal grooming products.
- MR forms 7.5%-8% of 9MFY25 consumer product sales.
- Fans & Kitchen appliances remained flattish.
- Regained market share QoQ in some appliances category.
- Healthy gross margin expansion was offset by continued investments in brand building.
- For Consumer products segment, ad-spend was 3% of sales in Q3.
- Next product SKU launches will be in coolers.
- Have some product gaps in Fans.
- Premium product offerings form 20-25% share in water heaters and fans whereas for the entire segment it is 40%.
- Kitchen appliances is likely to remain muted for 2-3 quarters more as inflationary pressure and interest rates continues to remain high.
- Expect seasonal products geared towards summer to do well. For Fans, the endeavour will be to do better in Q4 than last quarter. Domestic appliances are likely to do well.

Lighting

- Consumer lighting saw double digit volume growth, but continued price erosion impacted value sales.
- For consumer lighting, spent Rs 110 mn (4.3% of segment sales) in advertisement as they launched 'Built To Shine' campaign. Ad-spend will continue to remain high to gain market share.
- Professional lighting saw single digit de-growth. Order book is Rs 2.3 bn.
- Sales mix is 60% professional lighting and 40% consumer lighting.
- Currently, price erosion is happening in consumer lighting. It will continue for few more quarters. In future, price erosion may happen in professional lighting also. Price erosion may stop once the DOB technology gets stabilized across the industry.
- GTM strategy was launched in 165 markets that registered double digit volume growth and single digit value growth. BJE will expand it on pan-India basis. Focus is on weighted distribution.

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Revenue	12,920	11,121	11,128	12,282	11,881	11,549	11,183	12,897	5.0	15.3
Direct Costs	9,077	7,827	7,824	8,710	8,510	7,958	7,783	8,880	1.9	14.1
Gross Profit	3,842	3,295	3,304	3,572	3,371	3,591	3,400	4,017	12.5	18.1
Staff Cost	881	900	963	958	828	932	923	995	3.8	7.7
Other Expenses	2,016	1,719	1,775	2,037	2,045	1,905	1,961	2,148	5.4	9.6
Total Expenditure	11,974	10,445	10,562	11,706	11,383	10,795	10,667	12,023	2.7	12.7
EBITDA	946	676	567	576	497	754	516	874	51.7	69.4
Depreciation	224	230	269	295	302	320	348	361	22.1	3.7
EBIT	722	446	298	281	196	435	168	513	82.7	205.2
Interest	120	115	141	204	176	158	173	187	(8.1)	8.2
Other Income	206	199	294	427	225	106	152	128	(70.1)	(15.8)
PBT	809	530	452	505	245	383	147	454	(10.0)	208.6
Tax	279	155	135	131	(49)	102	18	121	(8.1)	562.6
PAT	530	375	317	374	293	281	129	334	(10.7)	158.6
EPS (Rs/share)	4.6	3.3	2.8	3.2	2.5	2.4	1.1	2.9	(10.8)	158.6
As a % of revenue										
Direct Costs	70.3	70.4	70.3	70.9	71.6	68.9	69.6	68.9		
Gross Margin	29.7	29.6	29.7	29.1	28.4	31.1	30.4	31.1		
Staff Cost	6.8	8.1	8.7	7.8	7.0	8.1	8.3	7.7		
Other expenses	15.6	15.5	15.9	16.6	17.2	16.5	17.5	16.7		
EBITDA Margin	7.3	6.1	5.1	4.7	4.2	6.5	4.6	6.8		
PAT Margin	4.1	3.4	2.8	3.0	2.5	2.4	1.2	2.6		
Tax rate	34.5	29.2	29.8	26.0	(19.9)	26.6	12.4	26.6		

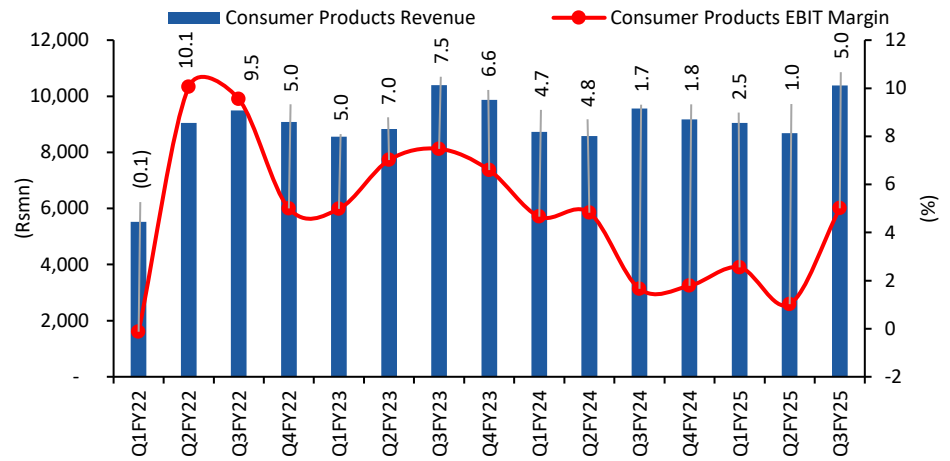
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	YoY (%)	QoQ (%)
Revenue (Rs mn)										
Consumer Products	9,865	8,726	8,576	9,567	9,171	9,052	8,683	10,385	8.5	19.6
Lighting solutions	3,054	2,395	2,553	2,716	2,710	2,498	2,501	2,513	(7.5)	0.5
Total	12,920	11,121	11,128	12,282	11,881	11,549	11,183	12,897	5.0	15.3
Revenue mix (%)										
Consumer Products	76.4	78.5	77.1	77.9	77.2	78.4	77.6	80.5		
Lighting solutions	23.6	21.5	22.9	22.1	22.8	21.6	22.4	19.5		
EBIT (Rs mn)										
Consumer Products	651	407	414	159	164	231	89	520	227.8	486.8
Lighting solutions	228	193	144	227	231	261	149	53	(76.8)	(64.6)
Total	879	600	558	386	395	492	238	573	48.4	141.0
EBIT margin (%)										
Consumer Products	6.6	4.7	4.8	1.7	1.8	2.5	1.0	5.0		
Lighting solutions	7.5	8.1	5.6	8.4	8.5	10.5	6.0	2.1		
Total	6.8	5.4	5.0	3.1	3.3	4.3	2.1	4.4		

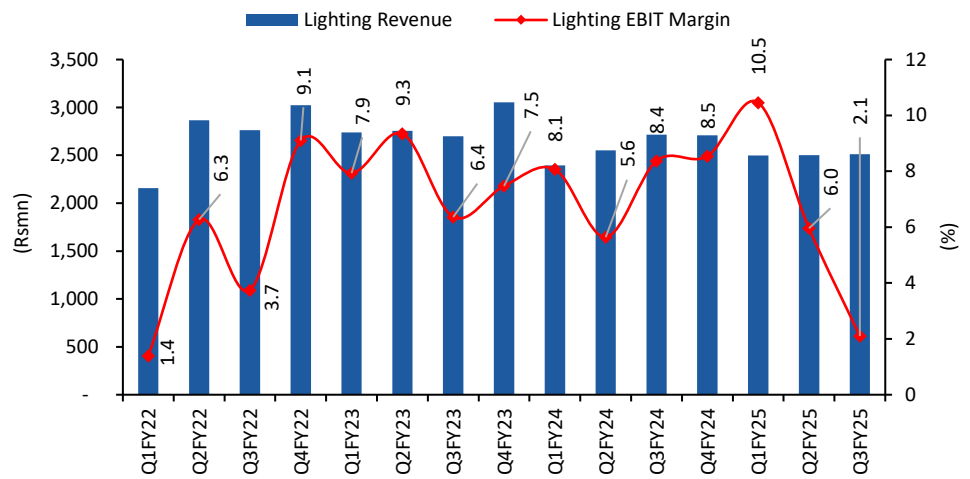
Source: Company Data, Centrum Broking

Exhibit 3: Consumer Products and EBIT margin trend



Source: Company Data, Centrum Broking.

Exhibit 4: Lighting revenue and EBIT margin trend



Source: Company Data, Centrum Broking.

P&L					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenues	48,892	46,413	48,832	54,666	62,644
Operating Expense	33,815	32,871	33,914	37,884	43,225
Employee cost	3,437	3,649	3,907	4,209	4,573
Others	7,893	7,296	8,198	8,916	10,390
EBITDA	3,748	2,597	2,813	3,658	4,457
Depreciation & Amortisation	738	1,096	1,401	1,494	1,565
EBIT	3,010	1,501	1,412	2,164	2,892
Interest expenses	436	635	717	760	806
Other income	450	865	605	693	804
PBT	3,024	1,731	1,300	2,097	2,890
Taxes	870	372	325	524	723
Effective tax rate (%)	28.8	21.5	25.0	25.0	25.0
PAT	2,154	1,359	975	1,572	2,168
Minority/Associates	0	0	0	0	0
Recurring PAT	2,154	1,359	975	1,572	2,168
Extraordinary items	0	0	0	0	0
Reported PAT	2,154	1,359	975	1,572	2,168

Ratios					
YE Mar	FY23A	FY24A	FY25E	FY26E	FY27E
Growth (%)					
Revenue	2.1	(5.1)	5.2	11.9	14.6
EBITDA	49.2	(30.7)	8.3	30.0	21.8
Adj. EPS	57.2	(37.0)	(28.3)	61.3	37.9
Margins (%)					
Gross	30.8	29.2	30.6	30.7	31.0
EBITDA	7.7	5.6	5.8	6.7	7.1
EBIT	6.2	3.2	2.9	4.0	4.6
Adjusted PAT	4.4	2.9	2.0	2.9	3.5
Returns (%)					
ROE	11.8	8.1	6.6	10.1	12.8
ROCE	13.4	11.1	10.3	13.7	16.4
ROIC	15.2	10.0	10.1	14.2	17.7
Turnover (days)					
Gross block turnover ratio (x)	7.2	5.4	4.6	4.5	4.8
Debtors	93	91	90	88	88
Inventory	105	96	83	82	82
Creditors	163	202	199	189	184
Net working capital	79	33	38	41	49
Solvency (x)					
Net debt-equity	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)
Interest coverage ratio	8.6	4.1	3.9	4.8	5.5
Net debt/EBITDA	(1.0)	(1.1)	(0.9)	(0.8)	(0.8)
Per share (Rs)					
Adjusted EPS	18.7	11.8	8.5	13.6	18.8
BVPS	165.7	125.1	130.5	140.1	152.9
CEPS	25.1	21.3	20.6	26.6	32.4
DPS	4.0	3.0	3.0	4.0	6.0
Dividend payout (%)	21.4	25.4	35.5	29.3	31.9
Valuation (x)					
P/E	39.1	62.0	86.5	53.6	38.9
P/BV	4.4	5.8	5.6	5.2	4.8
EV/EBITDA	21.5	31.4	29.0	22.3	18.1
Dividend yield (%)	0.5	0.4	0.4	0.5	0.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Equity share capital	230	230	231	231	231
Reserves & surplus	18,842	14,182	14,811	15,922	17,398
Shareholders fund	19,072	14,412	15,041	16,153	17,628
Minority Interest	0	0	0	0	0
Total debt	2	0	0	0	0
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	19,074	14,412	15,041	16,153	17,628
Gross block	6,788	8,523	10,541	12,091	12,941
Less: acc. Depreciation	(2,480)	(2,777)	(4,178)	(5,672)	(7,237)
Net block	4,308	5,746	6,363	6,419	5,705
Capital WIP	406	618	50	50	50
Net fixed assets	6,820	8,435	8,483	8,540	7,825
Non Current Assets	0	0	0	0	0
Investments	1,763	1,708	1,408	1,408	1,408
Inventories	9,756	7,566	7,898	9,030	10,421
Sundry debtors	11,311	11,761	12,308	13,929	16,133
Cash & Cash Equivalents	3,702	2,747	2,660	2,788	3,719
Loans & advances	365	616	977	1,093	1,253
Other current assets	16,211	5,445	5,860	6,560	7,517
Trade payables	17,960	18,417	18,583	20,551	23,093
Other current liab.	12,182	4,882	5,371	6,013	6,891
Provisions	657	620	651	683	718
Net current assets	10,545	4,216	5,097	6,152	8,343
Total assets	19,074	14,412	15,041	16,153	17,628

Cashflow					
YE Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Profit Before Tax	3,024	1,731	1,300	2,097	2,890
Depreciation & Amortisation	738	1,096	1,401	1,494	1,565
Net Interest	436	635	717	760	806
Net Change – WC	962	5,373	(968)	(927)	(1,259)
Direct taxes	(870)	(372)	(325)	(524)	(723)
Net cash from operations	4,291	8,463	2,126	2,899	3,279
Capital expenditure	519	(2,746)	(1,450)	(1,550)	(850)
Acquisitions, net	0	0	0	0	0
Investments	32	55	301	0	0
Others	0	0	0	0	0
Net cash from investing	552	(2,691)	(1,150)	(1,550)	(850)
FCF	4,843	5,772	976	1,349	2,429
Issue of share capital	1	0	0	0	0
Increase/(decrease) in debt	(357)	(2)	0	0	0
Dividend paid	(460)	(346)	(346)	(461)	(692)
Interest paid	(436)	(635)	(717)	(760)	(806)
Others	(1,306)	(5,745)	0	0	0
Net cash from financing	(2,559)	(6,727)	(1,063)	(1,222)	(1,498)
Net change in Cash	2,284	(956)	(87)	128	931

Source: Company, Centrum Broking

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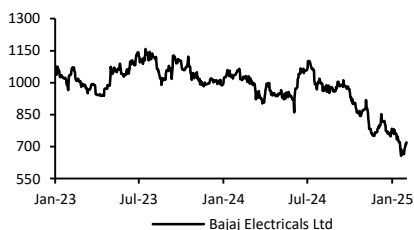
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Bajaj Electricals



Source: Bloomberg

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