

August 06, 2024

RESULT REPORT Q1 FY25 | Sector: Consumer Durables

# Bajaj Electricals Ltd

**Green shoots in rural demand coupled with bottoming out of consumer products results in upgrade; ADD**

## Result Synopsis

Consumer products (CP) business registered muted revenue growth of 3.7% on soft demand for kitchen appliances. Summer products (Fans, air coolers) and Morphy Richards premium small domestic appliances demonstrated better growth. Margins were subdued on back of operating de-leverage and higher brand investments. The company has been aggressively launching new products large part of it at the premium end. On the lighting front growth in professional lighting was marginally offset by drop in consumer lighting. Company believes worst is behind them for the consumer products and there has been sequential improvement. The company has taken corrective actions which includes price hikes, cutting of excessive discounts and focus remains to protect the margins. We maintain our revenue estimates as kitchen which has been key category is seeing signs of improvement. Management is witnessing green shoots in rural demand which has been pain point of the company. We upgrade the stock to ADD with PT of Rs1,062 as 1) Management believes worst for the consumer products is behind; 2) BJE will protect margins by taking appropriate actions and 3) Green shoots visible in the rural market which is key for BJE. We now value the stock at 40x as rural is expected to do well in the coming time given the steps taken by government is aimed at improving rural consumption.

Demand has been alluding and now company believes appliances will start growing from the festive season. BJE has been on right path with more focus on preimmunizing its portfolio and launching more products at the premium end. We now bake in revenue growth of 20% and 10% for FY25 (on low base) and FY26 respectively. We upgrade the stock to ADD with PT of Rs1,062 valuing the company at 40x. We expect the stock to re-rate once there is sustainable improvement in profitability and pick-up in rural demand.

## Result Highlights

- Business Update** – Revenue growth at 3.8% yoy has been muted as there has been soft demand for kitchen appliances and high single digit growth for fans as sub-economy fans have seen slower growth.
- Margins** – Higher brand investments and operating de-leverage results in subdued EBITDA despite 146bps gross margin expansion.
- A&P Spends & Price hikes** – A&P spends remains on the higher side ~4% of sales. The company has initiated ~3% price increase from mid-May.
- New launches** – Company continues to step up new launches at the premium end with more focus on the Nex brand. The company has launched 48 SKU's in the Fans and the Appliances segment, 7 in Morphy Richards, 12 SKU's in Kitchen space and 11 SKU's in Nex brand.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,549	12,761	NA	-9.5	NA	Soft demand for kitchen appliances impacts revenue growth
EBITDA	754	705	NA	6.9	NA	
EBITDA Margin (%)	6.5	5.5	NA	100 bps	NA bps	
Adjusted PAT	281	373	NA	-24.5	NA	

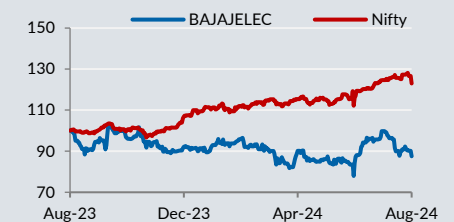
Source: Company, YES Sec

Reco	: ADD
CMP	: Rs 966
Target Price	: Rs 1,062
Potential Return	: +10.0%

## Stock data (as on Aug 06, 2024)

Nifty	23993
52 Week h/l (Rs)	1148 / 820
Market cap (Rs/USD mn)	110941 / 1322
Outstanding Shares (mn)	115
6m Avg t/o (Rs mn):	85
Div yield (%):	0.3
Bloomberg code:	BJE IN
NSE code:	BAJAJELEC

## Stock performance



	1M	3M	1Y
Absolute return	-12.3%	1.5%	-12.5%

## Shareholding pattern (As of Mar'24 end)

Promoter	62.8%
FII+DII	22.7%
Others	14.5%

## Δ in stance

(1-Yr)	New	Old
Rating	ADD	NEUTRAL
Target Price	1,062	1,009

## Δ in earnings estimates

	FY25e	FY26e
EPS (New)	20.6	26.6
EPS (Old)	20.6	26.6
% change	0.0%	0.0%

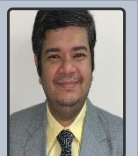
## Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Revenue	46,413	55,758	61,568
YoY Growth	-5.1%	20.1%	10.4%
EBIDTA	2,597	4,111	5,151
YoY Growth	-30.7%	58.3%	25.3%
PAT	1,359	2,378	3,060
YoY Growth	-36.9%	75.0%	28.6%
ROE	8.1	15.5	17.7
EPS	11.8	20.6	26.6
P/E	81.9	46.8	36.4
BV	125.1	140.5	160.3
EV/EBITDA	42.5	27.0	21.4

## AAKASH FADIA

Analyst

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## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Sales	11,121	11,128	12,282	11,881	11,549	3.8	(2.8)	46,413	49,892	(7.0)
EBITDA	676	567	576	497	754	11.6	51.6	2,316	3,762	(38.4)
EBITDA Margin %	6.1	5.1	4.7	4.2	6.5			5.0	7.5	
Depreciation	230	269	295	302	320	39.1	5.9	1,096	757	44.8
EBIT	446	298	281	196	435	(2.6)	122.3	1,220	3,005	(59.4)
EBIT Margin %	4.0	2.7	2.3	1.6	3.8			2.6	6.0	
Interest charges	115	141	204	176	158	37.1	(10.1)	635	442	43.6
Other Income	199	294	427	225	106	(46.7)	(52.7)	1,145	452	153.5
PBT	530	452	505	245	383	(27.8)	56.6	1,731	3,015	(42.6)
Tax	155	135	131	-49	102	(34.3)	(309.5)	372	867	(57.1)
Effective Tax Rate (%)	29.2	29.8	26.0	-19.9	26.6	(9.0)	(233.8)	21.5	28.8	
PAT	375	317	374	293	281	(25.1)	(4.1)	1,359	2,148	(36.7)
PAT Margin %	3.4	2.8	3.0	2.5	2.4			2.9	4.3	
EPS (Rs)	3.3	2.8	3.3	2.6	2.4	(25.1)	(4.1)	12	19	(36.7)

Source: Company, YES Sec

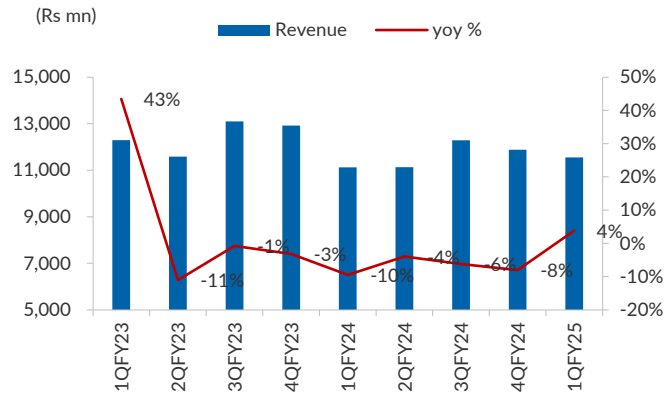
## Exhibit 3: Segmental Performance

Rs mn	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	y/y %	q/q %	FY24	FY23	y/y %
Consumer products	8,726	8,576	9,567	9,171	9,052	3.7	(1.3)	36,039	37,642	(4.3)
Lighting	2,395	2,553	2,716	2,710	2,498	4.3	(7.8)	10,374	11,250	(7.8)
Net Sales	11,121	11,128	12,282	11,881	11,549	3.8	(2.8)	46,413	52,311	(11.3)
PBIT										
Consumer products	406.5	413.6	158.6	163.5	230.8	(43.2)	41.2	1,142	2,473	(53.8)
Lighting	193.3	144.0	227.4	231.4	261.2	35.1	12.9	796	873	(8.8)
Total PBIT	615	558	386	395	492	(20.0)	24.6	1,954	3,411	(42.7)
Finance Costs	115.1	140.6	203.5	175.6	157.8	37.1	(10.1)	635	466	36.3
Unallocable expense	-46	-35	-322	-25	-49	7.0	93.3	-428	-105	307.9
as % of sales	-0.4	-0.3	-2.6	-0.2	-0.4			(0.9)	(0.2)	
Share of profit/ (loss) of an associate and a joint venture	0	0	0	0	0	NM	NM	0	0	
PBT	546	452	505	245	383	(29.8)	56.6	1,747	3,050	(42.7)
PBIT Margins (%)						(bps)	(bps)			(bps)
Consumer products	4.7	4.8	1.7	1.8	2.5	(211)	77	3.2	6.6	(340)
Lighting	8.1	5.6	8.4	8.5	10.5	239	192	7.7	7.8	(8)
Total PBIT	5.5	5.0	3.1	3.3	4.3	(127)	94	4.2	6.5	(231)

Source: Company, YES Sec

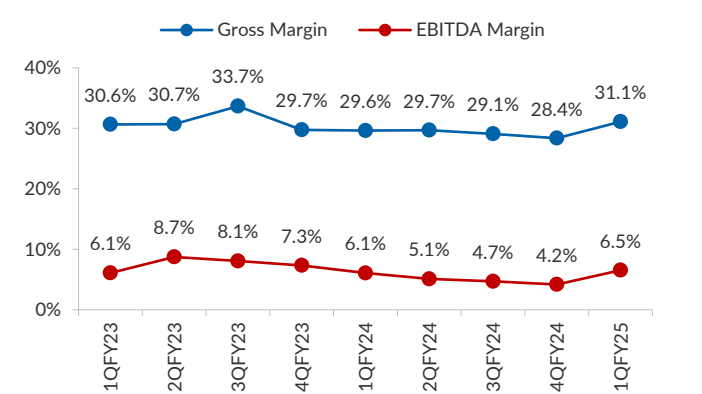
## CHARTS

**Exhibit 4: Subdued demand for kitchen appliances has impacted revenue**



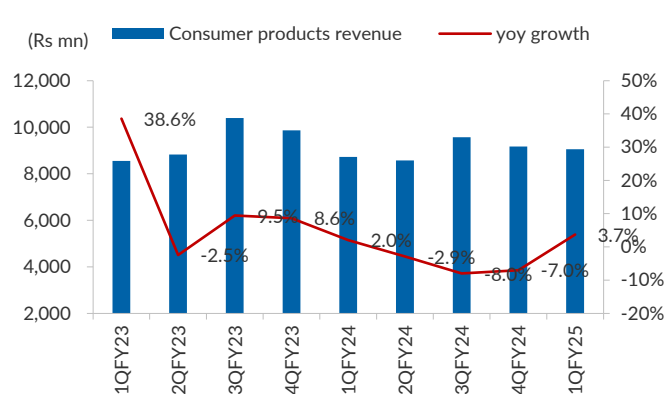
Source: Company, YES Sec

**Exhibit 5: Operating de-leverage has resulted in subdued margins**



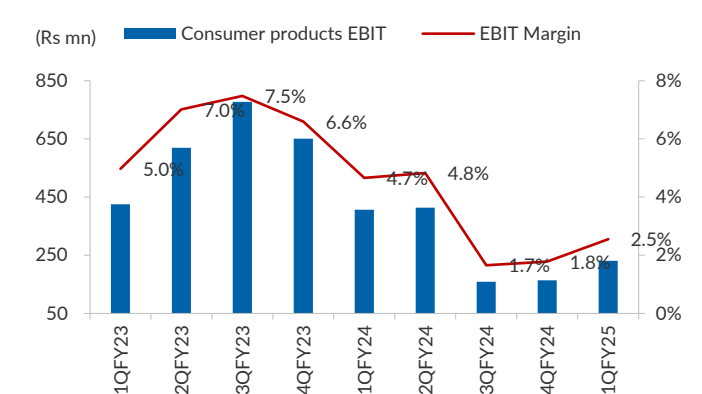
Source: Company, YES Sec

**Exhibit 6: Growth in summer products has been offset by subdued kitchen appliances**



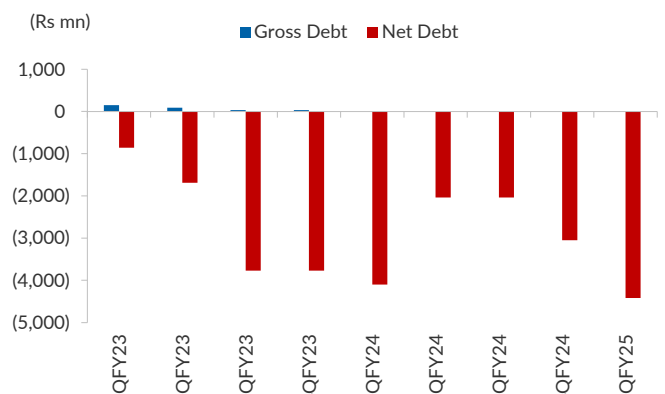
Source: Company, YES Sec

**Exhibit 7: Product mix and operating de-leverage impacts margin**



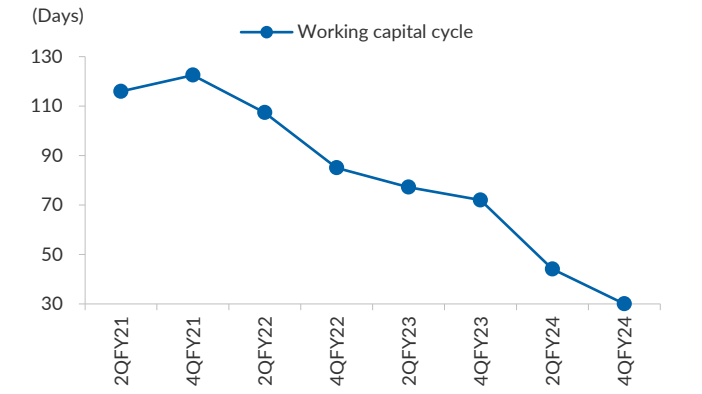
Source: Company, YES Sec

**Exhibit 8: Net cash position continues to remain healthy**



Source: Company, YES Sec

**Exhibit 9: Working capital cycle continues to improve**



Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- **Business Update** – Lighting solutions business has been on the growth path. Margins are expanding and company has reached double-digit margins, with consumer lighting now expected to do well lighting will continue to grow. The company believes its consumer products business has bottomed out and the company will be back on the growth path.
- **Consumer products** – Company is seeing green shoots in the rural demand. There has been strong demand from the channel catering to the rural areas. 2HFY25 will be much better.
- **Margins** – Gross margins has improved by 150bps, while similar is not visible in the EBITDA margin as there was higher A&P spends. Once the revenue starts to grow operating leverage will play out and EBITDA margin will follow. Focus on value for money has impacted margins as discounting largely happens at the entry level which company is part of.
- **Alternate channel contribution** – E-comm contributes 13% and overall alternate channel contributes 39%. Margins are not lower in the alternate channels
- **Morphy Richards**– Morphy Richards has seen mid-teen growth which has been encouraging
- **Price hikes** – The company has taken price increases in the range of 2-3% from mid-May.
- **Fans** – Fans growth has been below the industry as the company sales comes from sub-economy segment, while premium segment has grown faster. Next year onwards premium contribution will jump up significantly as Nex brand will drive premium sales
- **Kitchen Appliances** – The company has increased prices of the kitchen appliances (Mixer Grinder) which has not been well received by the market. Last year the company had reduced to aggressive discounting which has been rolled back and company will protect its margin and also expect volume growth to start from upcoming festive season
- **Nex brands** – Ceiling fans has seen expansion in category and company is launching TPW fans under the Nex brand and started booking for air-coolers for the next season. Nex will be brand for the cooling solutions.
- **Logistics costs** – Company is focusing on quality of logistics which has been hampering the sales. The company has changed C&F agent in June, the company has seen better sales in July on back of improvement in logistics.
- **Competitive intensity** – Competitive intensity has been increasing in Bajaj's product category and it will continue to remain high. Bajaj is focusing on quality and marketing it as build for life and will give higher warranty on the products

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity capital	230	230	230	230	230
Reserves	17,087	18,842	14,182	15,955	18,237
Net worth	17,317	19,072	14,412	16,186	18,467
Debt	449	2	0	0	0
Deferred tax liab (net)	263	54	0	0	0
Other non current liabilities	1,169	1,375	2,344	2,431	2,505
Total liabilities	19,199	20,503	16,756	18,617	20,972
Fixed Asset	6,666	6,820	8,435	9,587	10,492
Investments	1,688	2,094	2,040	2,040	2,040
Other Non-current Assets	3,743	8,217	2,285	2,557	2,727
Net Working Capital	5,717	(42)	3,188	4,153	4,533
Inventories	9,979	9,756	7,566	10,113	11,167
Sundry debtors	13,606	11,311	11,761	13,519	14,928
Loans and Advances	78	115	113	136	150
Sundry creditors	12,355	17,960	18,417	22,125	24,431
Other current liabilities	8,105	5,961	2,635	2,927	3,113
Cash & equivalents	1,385	3,415	809	281	1,181
Total Assets	19,198	20,503	16,756	18,617	20,972

Source: Company, YES Sec

### Exhibit 11: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	48,130	48,892	46,413	55,758	61,568
Operating profit	2,502	3,748	2,597	4,111	5,151
Depreciation	692	738	1,096	1,343	1,590
Interest expense	697	436	635	444	400
Other income	683	450	865	854	928
Profit before tax	1,795	3,024	1,731	3,178	4,089
Taxes	419	870	372	800	1,029
Minorities and other	-	-	-	-	-
Adj. profit	1,376	2,154	1,359	2,378	3,060
Exceptional items	(132)	-	-	-	-
Net profit	1,509	2,154	1,359	2,378	3,060

Source: Company, YES Sec \*Financials are not comparable as EPC division has been de-merged to separate entity

## Exhibit 12: Cashflow Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Profit before tax	2,493	3,460	2,366	3,623	4,489
Depreciation	692	738	1,096	1,343	1,590
Tax paid	(419)	(870)	(372)	(800)	(1,029)
Working capital Δ	4,283	5,772	(3,294)	(964)	(381)
Other operating items					
Operating cashflow	7,049	9,100	(205)	3,202	4,669
Capital expenditure	(3,567)	(892)	(2,711)	(2,495)	(2,495)
Free cash flow	3,482	8,209	(2,916)	706	2,174
Equity raised	273	61	(5,673)	-	-
Investments	(2)	(419)	118	-	-
Debt financing/disposal	(2,198)	(447)	(2)	-	-
Interest paid	(697)	(436)	(635)	(444)	(400)
Dividends paid	(345)	(460)	(346)	(605)	(778)
Net Δ in cash	928	2,031	(2,607)	(528)	900

Source: Company, YES Sec

## Exhibit 13: Du-point analysis

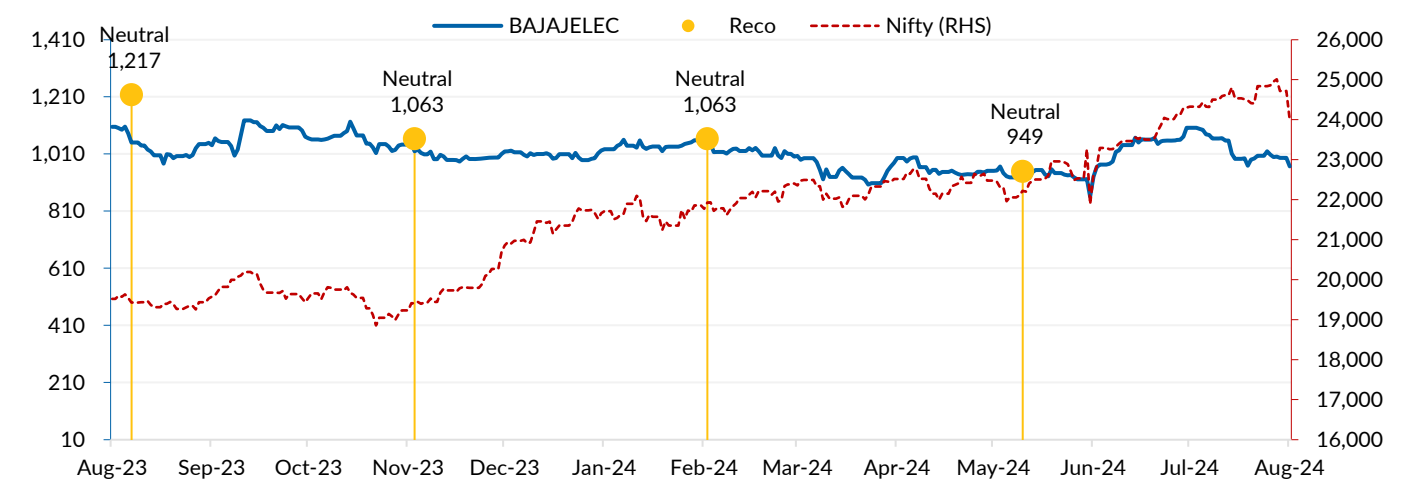
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Tax burden (x)	0.77	0.71	0.78	0.75	0.75
Interest burden (x)	0.72	0.87	0.73	0.88	0.91
EBIT margin (x)	0.05	0.07	0.05	0.06	0.07
Asset turnover (x)	1.16	1.15	1.12	1.35	1.32
Financial leverage (x)	2.51	2.35	2.49	2.70	2.70
RoE (%)	8.3	11.8	8.1	15.5	17.7

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
<b>Growth matrix (%)</b>					
Revenue growth	5.0	1.6	(5.1)	20.1	10.4
Op profit growth	(17.5)	49.8	(30.7)	58.3	25.3
EBIT growth	(16.1)	38.8	(31.6)	53.1	23.9
Net profit growth	(15.8)	56.5	(36.9)	75.0	28.6
<b>Profitability ratios (%)</b>					
OPM	5.2	7.7	5.6	7.4	8.4
EBIT margin	5.2	7.1	5.1	6.5	7.3
Net profit margin	2.9	4.4	2.9	4.3	5.0
RoCE	13.7	18.8	14.1	23.7	25.9
RoNW	8.3	11.8	8.1	15.5	17.7

Y/e 31 Mar	FY22	FY23	FY24	FY25E	FY26E
RoA	3.3	5.0	3.3	5.8	6.5
<b>Per share ratios</b>					
EPS	13.1	18.7	11.8	20.6	26.6
Dividend per share	3.0	4.0	3.0	5.3	6.8
Cash EPS	18.0	25.1	21.3	32.3	40.4
Book value per share	150.8	165.7	125.1	140.5	160.3
<b>Valuation ratios</b>					
P/E	73.5	51.6	81.9	46.8	36.4
P/CEPS	57.3	38.4	45.3	29.9	23.9
P/B	6.4	5.8	7.7	6.9	6.0
EV/EBIDTA	44.0	28.8	42.5	27.0	21.4
<b>Payout (%)</b>					
Dividend payout	25.0	21.4	25.4	25.4	25.4
Tax payout	23.3	28.8	21.5	25.2	25.2
<b>Liquidity ratios</b>					
Debtor days	103.2	84.4	92.5	88.5	88.5
Inventory days	75.7	72.8	59.5	66.2	66.2
Creditor days	93.7	134.1	144.8	144.8	144.8

## Recommendation Tracker



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