

Bajaj Electricals

Soft demand and rural stress impacts topline and margin

BJE's Q3FY24 revenue fell 6% YoY to Rs12.3bn, 7%/12% below our/consensus estimate amidst weak consumer sentiments. Consumer Products revenue fell 8% YoY to Rs9.6bn affected by tepid demand in fans and appliances category. Lighting sales were flat YoY at Rs2.7bn amid demand weakness and LED price erosion. While sales from general trade was down 7% YoY, growth was healthy in alternate channels like modern retail (+28%), Institutional (+28%), E-commerce (+21%) and exports (+119%). Discounting by industry peers and various trade schemes for channel partners led to 460bps YoY decline in gross margin 29.1%. However at product and category level, gross margin was up 150bps YoY due to portfolio premiumization and savings in COGS. Reported EBITDA margin stood at 4.7%. Other expenses included a one-time warranty provision worth Rs230mn, excluding which adjusted EBITDA margin would have been 6.6% (broadly in-line with our/consensus estimate of 6.7%/6.9%). Reported PAT fell 40% YoY to Rs374mn. Amidst demand softness in rural and semi-urban areas, BJE is focusing on product premiumization and distribution reform. The management feels that they can achieve double digit margin in 2 years, if revenue grows in double digits. Factoring in the one-offs, we cut our FY24E EPS by 26% while EPS for FY25E/26E gets marginally trimmed by less than 2%. Retain ADD rating with revised target of Rs1,100 (Rs1,120 earlier) based on unchanged P/E of 35x H1FY26E EPS.

Consumer Products: Fans and appliances de-growth impacts performance

Consumer Products sales fell 8% YoY to Rs9.6bn with EBIT margin of 1.7%, down 580bps YoY. Sales were impacted owing to muted consumer sentiment and high base effect in (1) fans (3QFY23 had seen +60% YoY growth amid channel filling of non-BEE rated fans) and (2) RBP Points redemption contributing to Rs500mn in sales. In 3Q/9M FY24, fans reported de-growth in high teens/high-single digit. While Appliances de-grew in low single digit in 3QFY24, Morphy Richards grew in mid-single digit. In fan, large brands have resorted to discounting for market share gains. BJE undertook price hike of 2.5% in fans during Dec'23-Jan'24. With focus on portfolio premiumization, share of premium fans in rose by 6% while water heater rose by 2%. In Fans, BJE expects healthy value growth in long term due to (1) rise in ASP post BEE norms and (2) reducing replacement cycles. Kitchen appliances is witnessed slowdown, but BJE is focusing on more value offering under Bajaj brand while upgrading Morphy Richards to aspirational lifestyle brand.

Lighting: LED price erosion impacts growth but margin recovers

Lighting sales were flat YoY at Rs2.7bn as negative impact of muted volume growth and LED price erosion offset portfolio premiumization efforts (premium share up by 4%). However, EBIT margin rose 200bps YoY to 8.4% aided by gross margin improvement. BJE expects benefit of GTM in the segment to accrue in next 6 months.

Retain ADD rating with a revised target price of Rs1,100

We expect BJE to post 11% revenue CAGR over FY23-26E, while 140bps operating margin expansion and lower tax rate will drive 23% earnings CAGR. Maintain ADD with revised target of Rs1,100 based on unchanged P/E of 35x H1FY26E EPS.

Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	12,282	13,095	(6.2)	11,128	10.4	50,325	58,772	67,462
EBITDA	576	1,055	(45.4)	567	1.7	2,843	5,228	6,143
EBITDA margin (%)	4.7	8.1	(340bps)	5.1	(40bps)	5.6	8.9	9.1
Adj. Net profit	374	622	(39.9)	317	17.9	1,667	3,262	3,972
Adj. EPS (Rs)	3.2	5.4	(40.0)	2.8	17.9	14.5	28.3	34.5
EPS growth (%)						(22.6)	95.7	21.8
PE (x)						73.3	37.5	30.8
EV/EBITDA (x)						41.3	22.1	18.4
PBV (x)						5.9	5.2	4.7
RoE (%)						8.2	14.8	16.0
RoCE (%)						10.6	17.2	18.4

Source: Company, Centrum Broking

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

Result Update

India I Consumer Electricals

05 February, 2024

ADD

Price: Rs1,062

Target Price: Rs1,100

Forecast return: 4%

Institutional Research

Market Data

Bloomberg:	BJE IN
52 week H/L:	1,193/862
Market cap:	Rs122.3bn
Shares Outstanding:	115.1mn
Free float:	37.4%
Avg. daily vol. 3mth:	65,140

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	Rs1,100; down 1.8%
EPS:	FY24E: Rs14.5; down 26.5%
	FY25E: Rs28.3; down 1.0%
	FY26E: Rs34.5; down 2.0%

Source: Centrum Broking

Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	62.9	62.9	62.9	62.9
FIs	10.4	10.5	10.9	11.2
DIs	12.1	12.1	12.0	12.4
Public/other	14.6	14.6	14.3	13.5

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	13,249	12,282	(7.3)
EBITDA	890	576	(35.2)
EBITDA margin (%)	6.7	4.7	(200bps)
PAT	516	374	(27.6)
EPS	4.5	3.2	(27.6)

Source: Centrum Broking.



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Consumer Electricals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY25E New	FY25E Old	% chg	FY26E New	FY26E Old	% chg
Revenue	58,772	59,856	(1.8)	67,462	68,588	(1.6)
EBITDA	5,228	5,123	2.0	6,143	6,138	0.1
EBITDA margin (%)	8.9	8.6	30bps	9.1	8.9	20bps
Adj. PAT	3,262	3,297	(1.0)	3,972	4,055	(2.0)
Diluted EPS (Rs)	28.3	28.6	(1.0)	34.5	35.2	(2.0)

Source: Centrum Broking.

Bajaj Electricals versus NIFTY Midcap 100

	1m	6m	1 year
BJE IN	3.5	(5.1)	2.4
NIFTY Midcap 100	2.1	28.6	59.4

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Consumer Products revenue growth (%)	5.0	17.0	15.0
Consumer Products EBIT Margin (%)	5.0	8.3	8.7
Lighting revenue growth (%)	(4.0)	16.0	14.0
Lighting EBIT Margin (%)	7.8	8.5	8.9

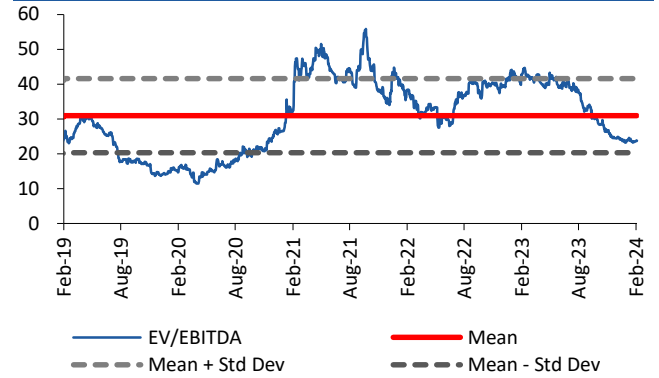
Source: Centrum Broking

Valuations

We value BJE at 35x H1FY26E EPS and arrive at the target price of Rs1,100.

Valuations	Rs/share
H1FY26 EPS	31.4
PE (X)	35
Target price per share	1,100

EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap	CAGR (FY23-26E)			P/E (x)			ROE (%)			ROCE (%)		
	(Rs mn)	Sales	EBITDA	EPS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
BJE	1,22,282	11.3	17.9	22.6	73.4	37.5	30.8	8.2	14.8	16.0	10.6	17.2	18.4
CROMPTON	1,92,102	14.2	16.1	21.4	39.9	28.6	23.2	17.2	21.3	22.9	14.2	18.5	20.9
HAVL	8,38,587	14.1	18.8	20.9	69.0	54.0	44.1	17.4	19.9	21.6	17.9	20.4	22.0
ORIENTEL	47,044	16.7	30.5	36.3	49.4	31.9	24.5	15.5	21.2	24.0	15.8	23.5	26.0
POLYCAB	6,58,240	19.3	19.5	20.3	37.2	33.1	28.9	23.8	22.5	21.8	24.6	23.4	22.7
VGRD	1,35,789	16.7	29.2	34.0	49.9	37.8	29.8	16.0	18.6	20.5	14.6	17.4	20.0

Source: Company, Centrum Broking

Key concall takeaways

Financials & Overview

- Consumer products decline YoY due to high base and soft demand. High base of last year due to (1) ~60% fans growth amidst non-BEE channel filling and (2) redemption in RBP Points contributing Rs500mn in sales
- OCF at Rs1.15bn in Q3FY24 and Rs2.1bn in 9MFY24
- In Q3FY24, secondary sales have trended ahead of primary sales
- January sales trend is similar to Q3FY24, expect pick-up in Feb-March
- Warranty insurance bought last year. It was first time in industry so no precedence of how to account for it. Initially decided to amortize over the period of insurance, but now decided to charge it off completely.
- From next quarter, warranty cost will be Rs50mn-60mn per quarter.
- Product and category level gross margin was up 150bps YoY due to product premiumization and savings on COGS. But schemes running across categories for commissions and incentives for trade has led to gross margin decline.
- Seeing weak consumer sentiment in economy, starting with rural and semi-urban and now also getting in lower income level consumers in urban
- Implementing RREP 2.0. Moving away from single distributor across all categories in a region, will now have more distributors. Also for large accounts in urban centres, implementing new model.
- Core of RREP such as pricing discipline, inventory management through not dumping is kept intact
- Retail count is 210,000 annually. Distributors have increased to 742 vs. 654 a year ago. Started to take non-exclusive distributors. Increasing retail count further is not going to give much incremental sales. Focus is more on extracting more sales from top 20,000 counters.
- Ad-spend = 2.8%-2.9% in Q3 as well as 9M vs. 4.3% in Q3 last year and 3.8-3.9% in FY23. When market becomes buoyant, can increase ad-spend to 4%
- Most capex is being made on dies and moulds, and not on capacity expansion. FY25 capex could be Rs400mn-Rs500mn, largely for Bajaj and Nex brand. Morphy Richards is largely an outsourcing model.
- In-house manufacturing share is 20% while outsourcing share is 80%
- Interest cost includes Rs110mn is for channel financing (Rs18bn is channel financing book) and Rs50mn for lease financing for warehouses
- Out of Rs230mn warranty provision, Rs210mn is for consumer products and Rs20mn for lighting
- Bajaj sales mix is 60% general trade, 40% alternate channels
- Volume growth was flat YoY
- Adding distributor in Nex and Nirlep on clean slate, green field basis
- NWC days are at 22-23 days
- If they grow in double digit for 2 years, then they can reach double digit operating margin in 2 years

Consumer Products

- 9M sales - appliances flat, fans single digit de-growth, MR single digit growth
- Q3 sales - appliances low single digit de-growth, fans high teens de-growth, MR mid-single single digit growth
- Rise in premium share by 6% in fans, 2% in water heaters
- There is a slowdown in kitchen appliances. Historically, they were focused on economy categories. Now, focusing on more value offerings.
- Fans value growth in long term should be healthy due to (1) rise in ASP post BEE norms and (2) Reducing replacement cycle
- Fans competitive intensity – number of players are reducing, but existing large players are discounting more for market share gains
- Fans price increase during Dec 2023 and Jan 2024 is 2.5%
- Morphy Richards is being upgraded to aspirational lifestyle brand. Channel sales mix is 60% alternate, 40% general trade. Focus is on top 50 cities in offline presence

Lighting

- Rise in premium share by 4% in lighting
- Should see growth in consumer lighting. GTM project in lighting should benefit after 6 months.

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenue	13,272	11,292	11,586	13,095	12,920	11,121	11,128	12,282	(6.2)	10.4
Direct Costs	9,847	8,021	8,029	8,687	9,077	7,827	7,824	8,710	0.3	11.3
Gross Profit	3,425	3,271	3,557	4,408	3,842	3,295	3,304	3,572	(19.0)	8.1
Staff Cost	906	810	856	891	881	900	963	958	7.6	(0.5)
Other Expenses	1,884	1,728	1,688	2,462	2,016	1,719	1,775	2,037	(17.2)	14.8
Total Expenditure	12,638	10,559	10,573	12,040	11,974	10,445	10,562	11,706	(2.8)	10.8
EBITDA	635	733	1,013	1,055	946	676	567	576	(45.4)	1.7
Depreciation	163	166	174	174	224	230	269	295	69.7	9.9
EBIT	472	567	839	881	722	446	298	281	(68.1)	(5.6)
Interest	104	72	94	151	120	115	141	204	35.0	44.7
Other Income	224	81	48	114	206	199	294	427	273.8	45.1
PBT	556	576	794	845	809	530	452	505	(40.2)	11.8
Tax	135	158	210	223	279	155	135	131	(41.2)	(2.6)
PAT	421	419	584	622	530	375	317	374	(39.9)	17.9
EPS (Rs/share)	3.7	3.6	5.1	5.4	4.6	3.3	2.8	3.2	(40.0)	17.9

As a % of revenue

Direct Costs	74.2	71.0	69.3	66.3	70.3	70.4	70.3	70.9		
Gross Margin	25.8	29.0	30.7	33.7	29.7	29.6	29.7	29.1		
Staff Cost	6.8	7.2	7.4	6.8	6.8	8.1	8.7	7.8		
Other expenses	14.2	15.3	14.6	18.8	15.6	15.5	15.9	16.6		
EBITDA Margin	4.8	6.5	8.7	8.1	7.3	6.1	5.1	4.7		
PAT Margin	3.2	3.7	5.0	4.7	4.1	3.4	2.8	3.0		
Tax rate	24.2	27.4	26.4	26.4	34.5	29.2	29.8	26.0		

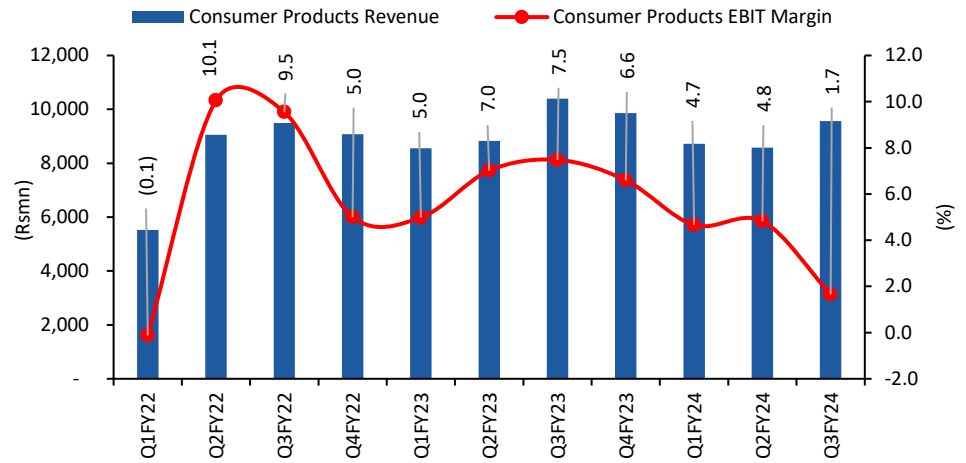
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YoY (%)	QoQ (%)
Revenue (Rs mn)										
Consumer Products	9,080	8,554	8,829	10,395	9,865	8,726	8,576	9,567	(8.0)	11.6
Lighting solutions	3,023	2,738	2,757	2,700	3,054	2,395	2,553	2,716	0.6	6.4
Total	12,103	11,292	11,586	13,095	12,920	11,121	11,128	12,282	(6.2)	10.4
Revenue mix (%)										
Consumer Products	75.0	75.7	76.2	79.4	76.4	78.5	77.1	77.9		
Lighting solutions	25.0	24.3	23.8	20.6	23.6	21.5	22.9	22.1		
EBIT (Rs mn)										
Consumer Products	454	426	620	778	651	407	414	159	(79.6)	(61.7)
Lighting solutions	275	217	260	174	228	193	144	227	30.6	57.9
Total	729	644	880	953	879	600	558	386	(59.5)	(30.8)
EBIT margin (%)										
Consumer Products	5.0	5.0	7.0	7.5	6.6	4.7	4.8	1.7		
Lighting solutions	9.1	7.9	9.4	6.4	7.5	8.1	5.6	8.4		
Total	6.0	5.7	7.6	7.3	6.8	5.4	5.0	3.1		

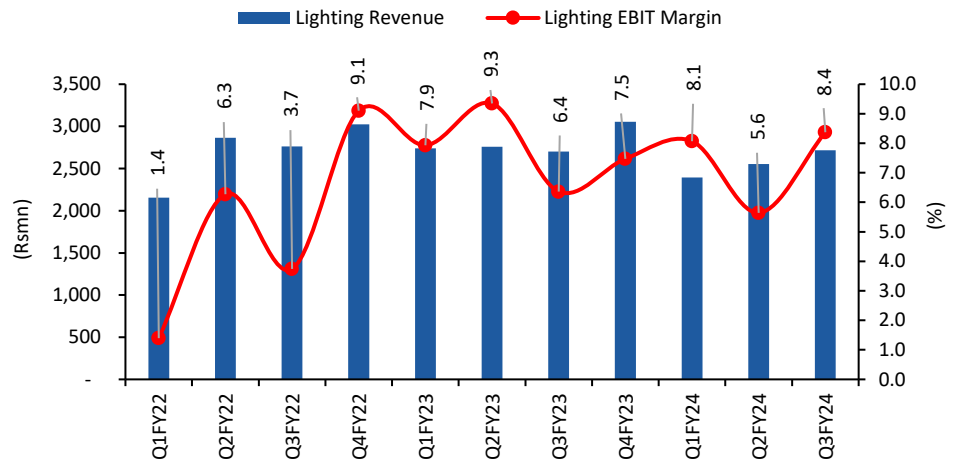
Source: Company Data, Centrum Broking

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)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	47,882	48,892	50,325	58,772	67,462
Operating Expense	34,134	33,815	35,479	40,552	46,279
Employee cost	3,954	3,437	3,825	4,525	5,060
Others	7,283	7,893	8,178	8,466	9,980
EBITDA	2,511	3,748	2,843	5,228	6,143
Depreciation & Amortisation	630	738	1,090	1,121	1,142
EBIT	1,881	3,010	1,754	4,107	5,001
Interest expenses	687	436	654	720	792
Other income	724	450	1,216	973	1,099
PBT	1,786	3,024	2,315	4,360	5,308
Taxes	418	870	648	1,097	1,336
Effective tax rate (%)	23.4	28.8	28.0	25.2	25.2
PAT	1,368	2,154	1,667	3,262	3,972
Minority/Associates	0	0	0	0	0
Recurring PAT	1,368	2,154	1,667	3,262	3,972
Extraordinary items	0	0	0	0	0
Reported PAT	1,368	2,154	1,667	3,262	3,972
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	4.7	2.1	2.9	16.8	14.8
EBITDA	(16.7)	49.2	(24.1)	83.9	17.5
Adj. EPS	(25.7)	57.2	(22.6)	95.7	21.8
Margins (%)					
Gross	28.7	30.8	29.5	31.0	31.4
EBITDA	5.2	7.7	5.6	8.9	9.1
EBIT	3.9	6.2	3.5	7.0	7.4
Adjusted PAT	3.0	4.4	3.3	5.6	5.9
Returns (%)					
ROE	8.2	11.6	8.2	14.8	16.0
ROCE	10.4	13.2	10.6	17.2	18.4
ROIC	8.7	15.1	9.2	21.8	25.3
Turnover (days)					
Gross block turnover ratio (x)	5.9	5.2	5.0	5.5	6.1
Debtors	125	109	114	105	104
Inventory	104	109	106	97	95
Creditors	116	150	155	138	134
Net working capital	70	81	93	98	105
Solvency (x)					
Net debt-equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)
Interest coverage ratio	3.7	8.6	4.3	7.3	7.8
Net debt/EBITDA	(0.4)	(1.0)	(1.7)	(1.3)	(1.5)
Per share (Rs)					
Adjusted EPS	11.9	18.7	14.5	28.3	34.5
BVPS	151.9	170.4	181.4	202.7	228.2
CEPS	17.4	25.1	23.9	38.1	44.4
DPS	3.0	4.0	3.5	7.0	9.0
Dividend payout (%)	25.2	21.4	24.2	24.7	26.1
Valuation (x)					
P/E	89.2	56.7	73.3	37.5	30.8
P/BV	7.0	6.2	5.9	5.2	4.7
EV/EBITDA	48.3	31.6	41.3	22.1	18.4
Dividend yield (%)	0.3	0.4	0.3	0.7	0.8

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	230	230	230	230	230
Reserves & surplus	17,217	19,380	20,644	23,101	26,038
Shareholders fund	17,447	19,611	20,875	23,331	26,268
Minority Interest	0	0	0	0	0
Total debt	358	2	0	0	0
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	0	0	0	0	0
Total liabilities	17,805	19,612	20,875	23,331	26,268
Gross block	8,183	9,350	10,105	10,655	11,105
Less: acc. Depreciation	(2,491)	(3,096)	(4,185)	(5,306)	(6,449)
Net block	5,693	6,255	5,920	5,349	4,657
Capital WIP	279	405	50	50	50
Net fixed assets	5,972	6,660	5,970	5,399	4,707
Non Current Assets	0	0	0	0	0
Investments	1,795	2,201	2,201	2,201	2,201
Inventories	9,760	10,496	10,206	11,444	12,679
Sundry debtors	13,577	15,648	15,856	18,034	20,331
Cash & Cash Equivalents	1,419	3,692	4,887	6,667	8,962
Loans & advances	930	1,065	1,006	1,175	1,349
Other current assets	5,749	7,386	6,542	7,640	8,770
Trade payables	12,240	15,603	14,483	16,110	17,751
Other current liab.	8,960	11,223	10,568	12,342	14,167
Provisions	1,011	656	689	723	760
Net current assets	9,224	10,806	12,757	15,785	19,414
Total assets	17,805	19,612	20,875	23,331	26,268

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,786	3,024	2,315	4,360	5,308
Depreciation & Amortisation	630	738	1,090	1,121	1,142
Net Interest	687	436	654	720	792
Net Change – WC	6,574	692	(757)	(1,248)	(1,334)
Direct taxes	(418)	(870)	(648)	(1,097)	(1,336)
Net cash from operations	9,259	4,020	2,654	3,855	4,572
Capital expenditure	(3,075)	(1,426)	(400)	(550)	(450)
Acquisitions, net	0	0	0	0	0
Investments	(157)	(406)	0	0	0
Others	0	0	0	0	0
Net cash from investing	(3,232)	(1,832)	(400)	(550)	(450)
FCF	6,027	2,188	2,254	3,305	4,122
Issue of share capital	1	1	0	0	0
Increase/(decrease) in debt	(4,279)	(357)	(2)	0	0
Dividend paid	(345)	(460)	(403)	(806)	(1,036)
Interest paid	(687)	(436)	(654)	(720)	(792)
Others	86	1,338	0	0	0
Net cash from financing	(5,224)	85	(1,059)	(1,525)	(1,828)
Net change in Cash	803	2,273	1,195	1,780	2,295

Source: Company, Centrum Broking

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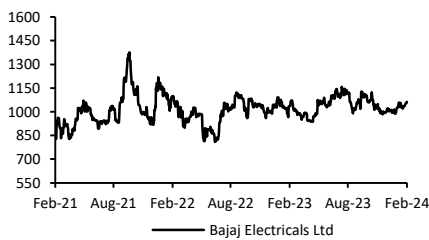
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Bajaj Electricals



Source: Bloomberg

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