

Bajaj Electricals

Muted consumer demand impacts growth and margin

BJE's Q2FY24 revenue fell 4% YoY to Rs11.1bn, 7% below our estimate. Sales was impacted owing to muted consumer demand, shift in festive sales to Q3 and pricing constraints. Consumer Products revenue fell 3% YoY to Rs8.6bn as double digit growth in fans was offset by de-growth in appliances. Lighting sales fell 7% YoY to Rs2.6bn amid demand weakness and LED price erosion. BJE continues to de-risk its concentration on general trade (down 9% YoY), as it scale up alternate channels like modern retail (+28%), Institutional (+20%), CSD (+22%), E-commerce (+22%) and exports (+15%). Gross margin fell 100bps YoY to 29.7% while EBITDA margin fell 360bps YoY to 5.1%. Lower operating profit led to 46% YoY decline in PAT to Rs317mn, below our estimate of Rs472mn. BJE believes that once demand picks up, industry will stop discounting thus leading to healthy margin expansion. We trim our EPS estimate for FY24E/25E by 11%/10% and roll over valuation to Sept'25. Retain ADD rating with revised target of Rs1,120 (Rs1,200 earlier) based on P/E of 35x H1FY26E EPS.

Consumer Products: Fans growth offset by appliances de-growth

Consumer Products sales fell 3% YoY to Rs8.6bn with EBIT margin of 4.8%, down 220bps YoY. Fans growth was in healthy double digits but was offset by low double digit de-growth in Appliances and flat growth in Morphy Richards. BJE gained market share across fans, coolers and mixer grinders. Growth in fans were driven by new product launches while BJE didn't take any price hikes. Share of premium fans is at 20% of total while sub-economy fans are at 55% of total fan sales. Since past four quarters, kitchen appliances industry's growth is weak. BJE is addressing weakness in kitchen appliances through premiumization and growth in mixer grinders category. Appliances saw healthy growth in tertiary demand in October providing some comfort for primary offtake. Air coolers posted healthy double digit growth. The industry is currently undergoing heavy price discounting by major brands due to intense competition and low demand but would give it away once demand picks up. BJE believes that it has balanced the equation of growth vs. discounting vs. margin better than peers. BJE has increased its focus on brand awareness as ad-spends rose to 3% of sales in Q2FY24 vs. 2.3% YoY. Growth across key alternate channels were Modern format retail 28%, E-commerce 22%, Institutional 20%, CSD 22% and exports 15%.

Lighting: Weak consumer demand and LED price erosion impacts growth

Lighting sales fell 7% YoY to Rs2.6bn as segment faced demand headwinds as well as price erosion of 15-20% in B2C products due to reduction in input cost. Channel mix between B2C/B2B was at 40%/60% while trade/non-trade channel mix was at 57%/43%. EBIT margin contracted by 380bps YoY to 5.6% due to operating de-leverage.

Retain ADD rating with a revised target price of Rs1,120

We expect BJE to post 12% revenue CAGR over FY23-26E, while 120bps operating margin expansion and lower tax rate will drive 24% earnings CAGR. Maintain ADD with revised target of Rs1,120 based on P/E of 35x H1FY26E EPS.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	11,128	11,586	(4.0)	11,121	0.1	51,341	59,856	68,588
EBITDA	567	1,013	(44.1)	676	(16.2)	3,703	5,123	6,138
EBITDA margin (%)	5.1	8.7	(360bps)	6.1	(100bps)	7.2	8.6	8.9
Adj. Net profit	317	584	(45.8)	375	(15.6)	2,268	3,297	4,055
Adj. EPS (Rs)	2.8	5.1	(45.9)	3.3	(15.6)	19.7	28.6	35.2
EPS growth (%)						5.3	45.4	23.0
PE (x)						53.5	36.8	29.9
EV/EBITDA (x)						31.4	22.3	18.2
PBV (x)						5.7	5.1	4.5
RoE (%)						11.1	14.5	15.8
RoCE (%)						13.1	16.6	17.9

Source: Company, Centrum Broking

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Result Update

India I Consumer Electricals

06 November, 2023

ADD

Price: Rs1,049

Target Price: Rs1,120

Forecast return: 7%

Institutional Research

Market Data

Bloomberg:	BJE IN
52 week H/L:	1,193/862
Market cap:	Rs120.7bn
Shares Outstanding:	115.1mn
Free float:	37.4%
Avg. daily vol. 3mth:	82,064

Source: Bloomberg

Changes in the report

Rating:	ADD; Unchanged
Target price:	Rs1,120; down 6.7%
EPS:	FY24E: Rs19.7; down 11.2% FY25E: Rs28.6; down 9.8%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	62.9	62.9	62.9	62.9
FIIs	10.5	10.9	11.2	11.3
DIIIs	12.1	12.0	12.4	12.2
Public/other	14.6	14.3	13.5	13.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	11,920	11,128	(6.6)
EBITDA	791	567	(28.4)
EBITDA margin (%)	6.6	5.1	(150bps)
PAT	472	317	(32.9)
EPS	4.1	2.8	(32.9)

Source: Centrum Broking.



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Consumer Electricals

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	51,341	54,422	(5.7)	59,856	62,762	(4.6)
EBITDA	3,703	4,103	(9.7)	5,123	5,601	(8.5)
EBITDA margin (%)	7.2	7.5	(30bps)	8.6	8.9	(30bps)
Adj. PAT	2,268	2,554	(11.2)	3,297	3,653	(9.8)
Diluted EPS (Rs)	19.7	22.2	(11.2)	28.6	31.7	(9.8)

Source: Centrum Broking.

Bajaj Electricals versus NIFTY Midcap 100

	1m	6m	1 year
BJE IN	(1.2)	0.7	1.1
NIFTY Midcap 100	(0.9)	24.2	26.0

Source: Bloomberg, NSE

Key assumptions

Y/E Mar	FY24E	FY25E	FY26E
Consumer Products revenue growth (%)	8.0	17.0	15.0
Consumer Products EBIT Margin (%)	6.5	8.0	8.5
Lighting revenue growth (%)	(5.0)	15.0	13.0
Lighting EBIT Margin (%)	7.5	8.5	9.0

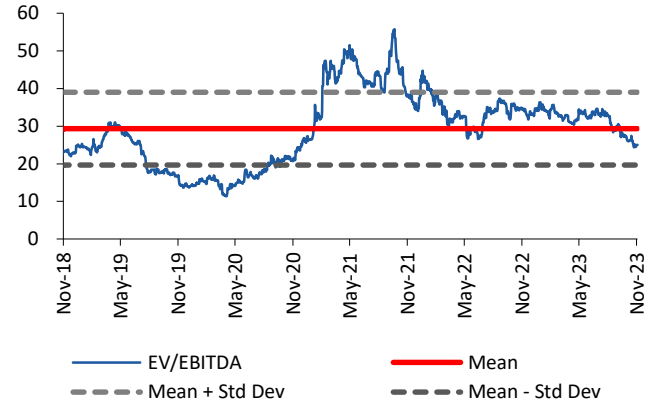
Source: Centrum Broking

Valuations

We value BJE at 35x H1FY26E EPS and arrive at the target price of Rs1,120.

Valuations	Rs/share
H1FY26 EPS	31.9
PE (X)	35
Target price per share	1,120

EV/EBITDA mean and standard deviation



Peer comparison

Company	Mkt Cap	CAGR (FY23-25E)			P/E (x)			ROE (%)			ROCE (%)		
	(Rs mn)	Sales	EBITDA	EPS	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
BJE	1,21,477	10.6	16.9	23.7	56.4	53.6	36.8	11.6	11.1	14.5	13.2	13.1	16.6
CROMPTON	1,80,016	13.9	14.0	20.4	38.9	37.4	26.8	18.1	17.2	21.3	12.7	14.2	18.5
HAVL	7,91,334	14.3	20.0	23.0	73.6	60.5	48.7	17.1	18.8	21.1	16.9	19.3	21.5
ORIENTEL	46,767	16.4	34.0	40.5	61.5	46.1	31.2	13.5	16.4	21.2	16.0	16.7	23.5
POLYCAB	7,71,051	21.1	23.7	25.0	60.6	43.6	38.9	20.9	24.2	22.7	21.4	24.8	23.4
VGRD	1,26,908	18.2	33.9	38.6	67.2	46.7	34.9	12.5	15.9	18.7	11.6	14.5	17.5

Source: Company, Centrum Broking

Key concall takeaways

Financials & Overview

- Tough quarter due to weak consumer demand and shift in festive sales to Q3
- Vendor financing – BJE operates Rs8bn credit line, bears int cost of 3.5% only
- A&P spends was 3% in 2QFY24 vs. 2.3% YoY.
- Transitioning from outsourced model of logistics to in-house. Could see 1% improvement in one year and 2.5% in couple of years.
- General Trade was soft due to weakness in rural markets, while modern format retail chains saw healthy growth of 20% YoY.
- 400-500bps expansion in gross margin was offset by schemes and discounts.
- Q3 has started on a positive note with October demand being better
- More than 100 SKUs launched across consumer categories

Consumer Products

- Fans grew in healthy double digits, Appliances posted low double digit de-growth. Morphy Richards was flat YoY
- Gained market share in fans, coolers and mixer grinders.
- In Fans, Bajaj continues to grow in double digits due to new product launches. No price hikes was taken in the Q2
- Premium fans share is at 20% of total while sub-economy fans are at 55% of total fans sales.
- Since past 4 quarters, kitchen industry growth is weak. Bajaj is offsetting it through overall premiumization and growth in mixers category.
- In Appliances, saw healthy growth in tertiary demand in October, giving some comfort for primary offtake.
- Growth for air coolers was in high double digits, became no. 2 from no. 4.
- Have balanced the equation of growth vs. discounting vs. margin better than other peers.
- The industry will likely do away with discounting once demand picks up thus leading to healthy margin expansion.

Lighting

- B2C lighting saw price erosion of 15-20% due to reduction in input cost.
- B2C lighting was weak due to price erosion weaker demand.
- Channel mix: B2C/B2B – 40%/60%. Trade/Non-trade mix : 57%/43%.
- Professional Lighting order execution time is 6 months.

Quarterly performance trend

Exhibit 1: Quarterly Financial Snapshot

Y/E March (Rs mn)	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue	11,586	11,121	11,128	(4.0)	0.1
Direct Costs	8,029	7,827	7,824	(2.6)	(0.0)
Gross Profit	3,557	3,295	3,304	(7.1)	0.3
Staff Cost	856	900	963	12.5	7.1
Other Expenses	1,688	1,719	1,775	5.1	3.2
Total Expenditure	10,573	10,445	10,562	(0.1)	1.1
EBITDA	1,013	676	567	(44.1)	(16.2)
Depreciation	174	230	269	54.9	17.0
EBIT	839	446	298	(64.5)	(33.3)
Interest	94	115	141	49.9	22.2
Other Income	48	199	294	509.5	47.9
PBT	794	530	452	(43.1)	(14.8)
Tax	210	155	135	(35.8)	(13.0)
PAT	584	375	317	(45.8)	(15.6)
EPS (Rs/share)	5.1	3.3	2.8	(45.9)	(15.6)
As a % of revenue					
Direct Costs	69.3	70.4	70.3		
Gross Margin	30.7	29.6	29.7		
Staff Cost	7.4	8.1	8.7		
Other expenses	14.6	15.5	15.9		
EBITDA Margin	8.7	6.1	5.1		
PAT Margin	5.0	3.4	2.8		
Tax rate	26.4	29.2	29.8		

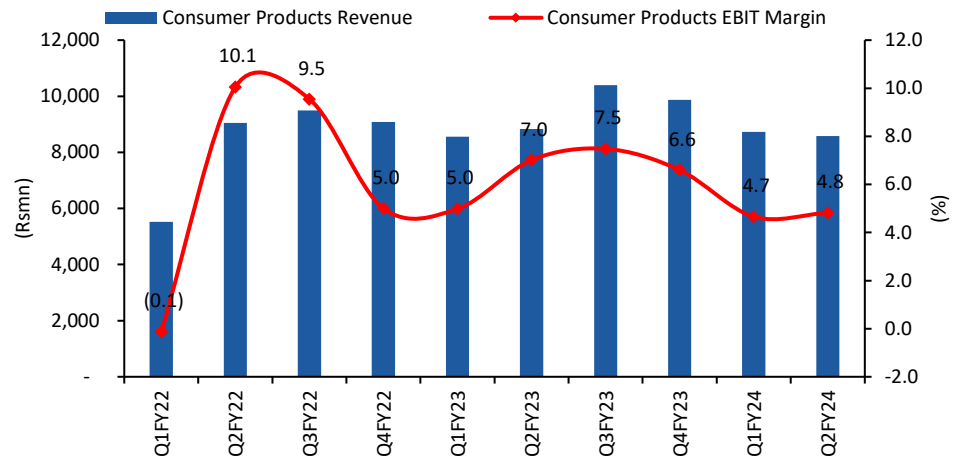
Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Segmental Snapshot

Y/E March	Q2FY23	Q1FY24	Q2FY24	YoY (%)	QoQ (%)
Revenue (Rs mn)					
Consumer Products	8,829	8,726	8,576	(2.9)	(1.7)
Lighting solutions	2,757	2,395	2,553	(7.4)	6.6
Total	11,586	11,121	11,128	(4.0)	0.1
Revenue mix (%)					
Consumer Products	76.2	78.5	77.1		
Lighting solutions	23.8	21.5	22.9		
EBIT (Rs mn)					
Consumer Products	620	407	414	(33.3)	1.7
Lighting solutions	260	193	144	(44.6)	(25.5)
Total	880	600	558	(36.7)	(7.0)
EBIT margin (%)					
Consumer Products	7.0	4.7	4.8		
Lighting solutions	9.4	8.1	5.6		
Total	7.6	5.4	5.0		

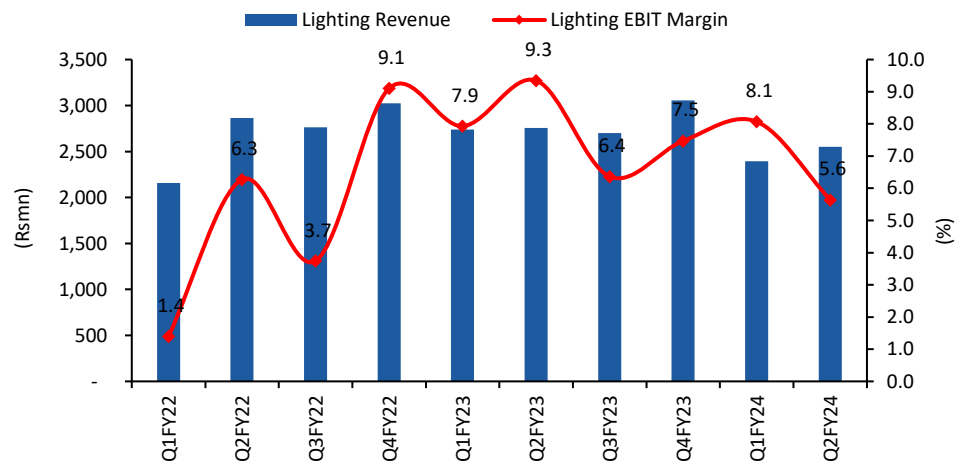
Source: Company Data, Centrum Broking

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	51,341	59,856	68,588
Operating Expense	34,134	33,815	35,631	41,300	47,051
Employee cost	3,954	3,437	4,107	4,609	5,144
Others	7,283	7,893	7,900	8,824	10,254
EBITDA	2,511	3,748	3,703	5,123	6,138
Depreciation & Amortisation	630	738	1,051	1,134	1,178
EBIT	1,881	3,010	2,652	3,989	4,961
Interest expenses	687	436	567	624	686
Other income	724	450	946	1,040	1,144
PBT	1,786	3,024	3,031	4,406	5,419
Taxes	418	870	763	1,109	1,364
Effective tax rate (%)	23.4	28.8	25.2	25.2	25.2
PAT	1,368	2,154	2,268	3,297	4,055
Minority/Associates	0	0	0	0	0
Recurring PAT	1,368	2,154	2,268	3,297	4,055
Extraordinary items	0	0	0	0	0
Reported PAT	1,368	2,154	2,268	3,297	4,055
Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	4.7	2.1	5.0	16.6	14.6
EBITDA	(16.7)	49.2	(1.2)	38.3	19.8
Adj. EPS	(25.7)	57.2	5.3	45.4	23.0
Margins (%)					
Gross	28.7	30.8	30.6	31.0	31.4
EBITDA	5.2	7.7	7.2	8.6	8.9
EBIT	3.9	6.2	5.2	6.7	7.2
Adjusted PAT	3.0	4.4	4.4	5.5	5.9
Returns (%)					
ROE	8.2	11.6	11.1	14.5	15.8
ROCE	10.4	13.2	13.1	16.6	17.9
ROIC	8.7	15.1	14.3	20.9	25.1
Turnover (days)					
Gross block turnover ratio (x)	5.9	5.2	5.1	5.7	6.3
Debtors	125	109	113	105	104
Inventory	104	109	106	97	95
Creditors	116	150	154	137	134
Net working capital	70	81	94	101	109
Solvency (x)					
Net debt-equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.4)
Interest coverage ratio	3.7	8.6	6.5	8.2	8.9
Net debt/EBITDA	(0.4)	(1.0)	(1.4)	(1.4)	(1.6)
Per share (Rs)					
Adjusted EPS	11.9	18.7	19.7	28.6	35.2
BVPS	151.9	170.4	186.1	208.7	236.0
CEPS	17.4	25.1	28.8	38.5	45.5
DPS	3.0	4.0	4.0	6.0	8.0
Dividend payout (%)	25.2	21.4	20.3	20.9	22.7
Valuation (x)					
P/E	88.6	56.4	53.5	36.8	29.9
P/BV	6.9	6.2	5.7	5.1	4.5
EV/EBITDA	47.9	31.4	31.4	22.3	18.2
Dividend yield (%)	0.3	0.4	0.4	0.6	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	21,188	23,794	26,928
Shareholders fund	17,447	19,611	21,418	24,024	27,159
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	21,418	24,024	27,159
Gross block	8,183	9,350	10,105	10,505	10,905
Less: acc. Depreciation	(2,491)	(3,096)	(4,146)	(5,280)	(6,457)
Net block	5,693	6,255	5,959	5,226	4,448
Capital WIP	279	405	50	50	50
Net fixed assets	5,972	6,660	6,009	5,276	4,498
Non Current Assets	0	0	0	0	0
Investments	1,795	2,201	2,201	2,201	2,201
Inventories	9,760	10,496	10,250	11,655	12,891
Sundry debtors	13,577	15,648	16,176	18,367	20,670
Cash & Cash Equivalents	1,419	3,692	5,151	7,302	9,875
Loans & advances	930	1,065	1,027	1,197	1,372
Other current assets	5,749	7,386	6,674	7,781	8,916
Trade payables	12,240	15,603	14,545	16,407	18,047
Other current liab.	8,960	11,223	10,782	12,570	14,403
Provisions	1,011	656	689	723	760
Net current assets	9,224	10,806	13,262	16,602	20,514
Total assets	17,805	19,612	21,418	24,024	27,159

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	1,786	3,024	3,031	4,406	5,419
Depreciation & Amortisation	630	738	1,051	1,134	1,178
Net Interest	687	436	567	624	686
Net Change – WC	6,574	692	(998)	(1,188)	(1,340)
Direct taxes	(418)	(870)	(763)	(1,109)	(1,364)
Net cash from operations	9,259	4,020	2,888	3,866	4,579
Capital expenditure	(3,075)	(1,426)	(400)	(400)	(400)
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)	(400)	(400)
FCF	6,027	2,188	2,488	3,466	4,179
Issue of share capital	1	1	0	0	0
Increase/(decrease) in debt	(4,279)	(357)	(2)	0	0
Dividend paid	(345)	(460)	(460)	(691)	(921)
Interest paid	(687)	(436)	(567)	(624)	(686)
Others	86	1,338	0	0	0
Net cash from financing	(5,224)	85	(1,029)	(1,314)	(1,607)
Net change in Cash	803	2,273	1,459	2,152	2,572

Source: Company, Centrum Broking

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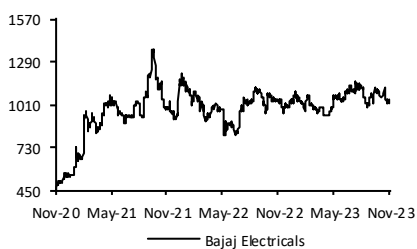
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Bajaj Electricals



Source: Bloomberg

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