

May 14, 2024

RESULT REPORT Q4 FY24 | Sector: Consumer Durables

# Bajaj Electricals Ltd

## Heavy discounting in kitchen Appliances impacts performance; maintain Neutral

### Result Synopsis

Consumer products (CP) business registered revenue decline of 8% as kitchen appliances and GT (contributing 62% to revenue) has seen de-growth on muted demand and high discounting. Fans and Morphy Richards have seen single digit growth with premium fans growing faster than the economy fans. Margins were impacted on account of lower gross margins which was marred by high discounting in the muted environment. BJE had higher impact discounting as they had to clear old models by providing higher discounts as they have been aggressive in launching new models. Lighting revenue decline was on account of LED price erosion in consumer lighting and higher base effect in professional lighting. Company expects Appliances to recover closer to festive season and margins would follow post that. We have lowered our revenue estimates on increased competition and muted demand environment. We continue to maintain our Neutral rating on the stock with PT of Rs1,009 valuing the stock at 38x. Although the lead indicator that drives the consumption has been trending positive in Q4, we would however wait for the confirmation before we become constructive on the stock.

Demand has been alluding and now company believes appliances will start growing from the festive season, ill then Fans, coolers and water heaters will be growth drivers. Competition continues to behave in the irrational manner and have been resorting to discounting delaying the margin expansion for the company. 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 20.1% and 10.4% for FY25 (on low base) and FY26 respectively. We continue to maintain Neutral with PT of Rs1,009 valuing the company at 38x. 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 declined 8% yoy owing to weak consumer demand especially in appliances. Fans and Morphy Richards has registered high single-digit growth, with premium products growing faster than the economy segment.
- Margins** – Margins have been under pressure due to heavy price discounting in a weak demand environment and further BJE had to offer higher discounts to clear the old products
- A&P Spends & Price hikes** – A&P spends continues to be ~3% for Q4 as well as for FY24. The company has not taken any price increase in Q4, while they have increased prices in Q1 which will be effective May 16<sup>th</sup>.
- New launches** – Company continues to step up new launches at the premium end with more focus on the Nex brand. The company has launched 47 SKU's in the Fans and the Appliances segment, 8 in Morphy Richards and 18 SKU's in Kitchen space.

### Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,881	13,962	NA	-20.3	NA	Heavy discounting in kitchen Appliances impacts performance
EBITDA	497	965	NA	-30.0	NA	
EBITDA Margin (%)	4.2	7.3	NA	-310 bps	NA bps	
Adjusted PAT	293	570	NA	-34.2	NA	

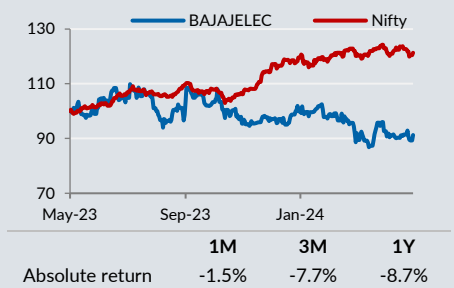
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 949
Target Price	: Rs 1,009
Potential Return	: +6.4%

### Stock data (as on May 14, 2024)

Nifty	22,218
52 Week h/l (Rs)	1177 / 851
Market cap (Rs/USD mn)	106130 / 1272
Outstanding Shares (mn)	115
6m Avg t/o (Rs mn):	76
Div yield (%):	0.4
Bloomberg code:	BJE IN
NSE code:	BAJAJELEC

### Stock performance



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

Promoter	62.8%
FII+DII	22.8%
Others	14.4%

### Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,009	1,148

### Δ in earnings estimates

	FY25e	FY26e
EPS (New)	20.6	26.6
EPS (Old)	24.0	30.0
% change	-14.7%	-11.3%

### Financial Summary

(Rs mn)	FY24E	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	80.5	46.0	35.7
BV	125.1	140.5	160.3
EV/EBITDA	41.8	26.5	21.0

**AAKASH FADIA**  
Analyst

aakash.fadia@ysil.in



## Exhibit 2: Quarterly snapshot (Consolidated)

Particulars (Rs mn)	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	y/y %	q/q %	FY24	FY23	y/y %
Sales	12,920	11,121	11,128	12,282	11,881	(8.0)	(3.3)	46,413	49,892	(7.0)
EBITDA	946	676	567	576	497	(47.4)	(13.7)	2,316	3,762	(38.4)
EBITDA Margin %	7.3	6.1	5.1	4.7	4.2			5.0	7.5	
Depreciation	224	230	269	295	302	34.9	2.2	1,096	757	44.8
EBIT	722	446	298	281	196	(72.9)	(30.4)	1,220	3,005	(59.4)
EBIT Margin %	5.6	4.0	2.7	2.3	1.6			2.6	6.0	
Interest charges	120	115	141	204	176	46.8	(13.7)	635	442	43.6
Other Income	206	199	294	427	225	8.8	(47.4)	1,145	452	153.5
PBT	809	530	452	505	245	(69.8)	(51.6)	1,731	3,015	(42.6)
Tax	279	155	135	131	-49	(117.4)	(137.0)	372	867	(57.1)
Effective Tax Rate (%)	34.5	29.2	29.8	26.0	-19.9	(157.6)	(176.5)	21.5	28.8	
PAT	530	375	317	374	293	(44.7)	(21.5)	1,359	2,148	(36.7)
PAT Margin %	4.1	3.4	2.8	3.0	2.5			2.9	4.3	
EPS (Rs)	4.6	3.3	2.8	3.3	2.6	(44.7)	(21.5)	12	19	(36.7)

Source: Company, YES Sec

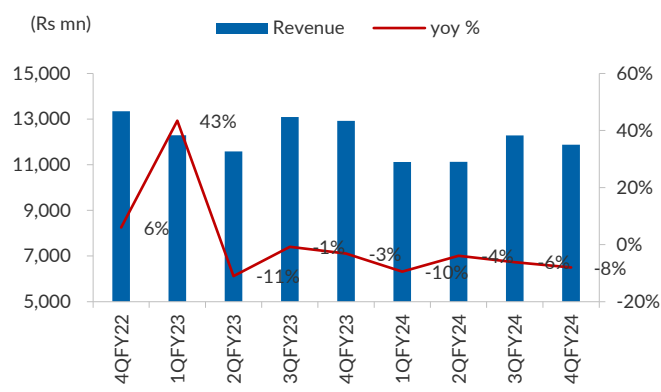
## Exhibit 3: Segmental Performance

Rs mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	y/y %	q/q %	FY24	FY23	y/y %
Consumer products	9,865	8,726	8,576	9,567	9,171	(7.0)	(4.1)	36,039	37,642	(4.3)
Lighting	3,054	2,395	2,553	2,716	2,710	(11.3)	(0.2)	10,374	11,250	(7.8)
Net Sales	12,920	11,121	11,128	12,282	11,881	(8.0)	(3.3)	46,413	52,311	(11.3)
PBIT										
Consumer products	650.8	406.5	413.6	158.6	163.5	(74.9)	3.1	1,142	2,473	(53.8)
Lighting	228.2	193.3	144.0	227.4	231.4	1.4	1.8	796	873	(8.8)
Total PBIT	879	615	558	386	395	(55.1)	2.3	1,954	3,411	(42.7)
Finance Costs	119.6	115.1	140.6	203.5	175.6	46.8	(13.7)	635	466	36.3
Unallocable expense	-50	-46	-35	-322	-25	(49.4)	(92.2)	-428	-105	307.9
as % of sales	-0.4	-0.4	-0.3	-2.6	-0.2		(24.2)	(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	809	546	452	505	245	(69.8)	(51.6)	1,747	3,050	(42.7)
PBIT Margins (%)						(bps)	(bps)			(bps)
Consumer products	6.6	4.7	4.8	1.7	1.8	(481)	12	3.2	6.6	(340)
Lighting	7.5	8.1	5.6	8.4	8.5	107	17	7.7	7.8	(8)
Total PBIT	6.8	5.5	5.0	3.1	3.3	(348)	18	4.2	6.5	(231)

Source: Company, YES Sec

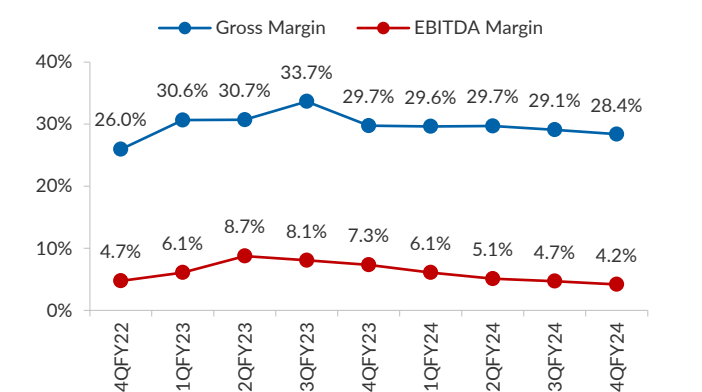
## CHARTS

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



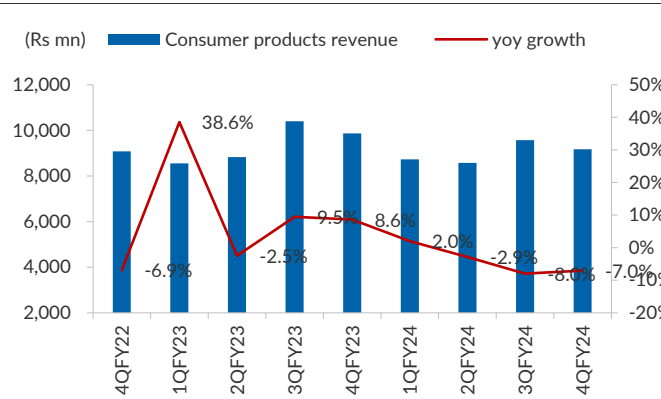
Source: Company, YES Sec

**Exhibit 5: Heavy discounting and muted demand has resulted in margin contraction**



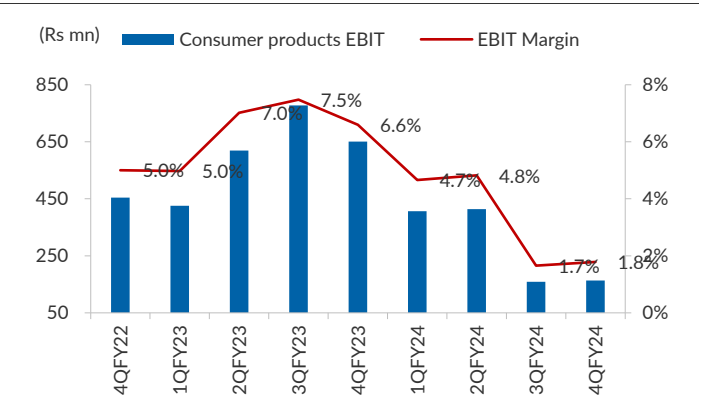
Source: Company, YES Sec

**Exhibit 6: Appliances has resulted in revenue decline**



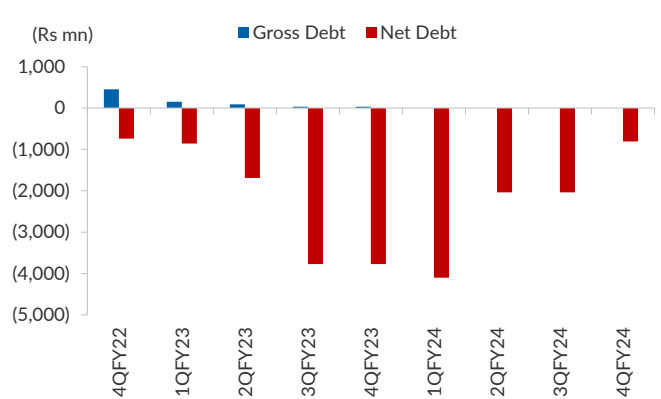
Source: Company, YES Sec

**Exhibit 7: Discounting has resulted in consumer products margin decline**



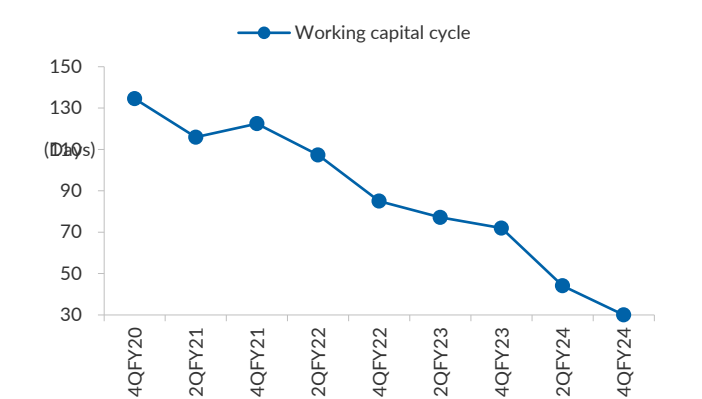
Source: Company, YES Sec

**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

### Heavy discounting in Kitchen appliances leads to low margins

- **Business Update** – Weak demand in Kitchen Appliances & de-growth in GT has resulted in revenue decline. Fans, Coolers and Morphy Richards has demonstrated double-digit growth. Balance sheet has been resilient. April has seen growth with Q1 looking far better than Q4
- **Margins** – Margins were lower as there has been discounting on back of weak demand. BJE's margins were lower as there was higher discounting from the company to liquidate the old products as there were new products being launched.
- **Fans** – Fans contributes 40% to the revenue, both premium and non-premium fans has seen single-digit volume growth, with premium segment growing faster than the non-premium fans. Lower growth was as some of the new products were launched towards the end of the quarter, hence pickup will be seen in Q1
- **New launches** – New launches were delayed and were launched towards the end of the quarter. Small motor BLDC fans were launched late, focus is on Nex brand which will be available in the channel
- **Price hikes** – There have been no price hikes in Q4, company has increased the prices in Q1 which will be effective from 16<sup>th</sup> May.
- **Consumer lighting** – Consumer lighting has not seen any volume growth, price erosion has impacted revenue.
- **A&P Spends** – A&P spends for the Q4 and FY24 stood at 3% of sales.
- **Appliances** – Coolers have been stocked out in Q1. All the leading brands are facing stockout like situation
- **Discounting**- There has been heavy discounting in the kitchen appliances space, where discounting is as high as 5-6%.
- **New product launches** – Next two years there will continuous launches of new products. The company is improving on brand score across the products categories.
- **Logistics** – The company has not been able to improve efficiency in logistics post moving logistics in-house. The company is looking to rope external consultant to improve logistical efficiencies.
- **Growth drivers** – Fans, coolers and water heater would be the growth drivers for next couple of quarters and company is banking on the festive season for growth in kitchen appliances
- **Channel mix** – GT contributes 62% to the revenue, while balance is other channels
- **EPR costs** – EPR costs for FY24 has been Rs90mn and for FY25 EPR costs is expected to be Rs120mn
- **Distributor** – The company has 749 distributors vs 660 in the previous year
- **Capex** – Capex is expected to be in range of 1-1.2bnbn for next couple of years which will be largely into molds for the new products
- **In-house manufacturing** is around 20% and will increase to 22% in FY25

## FINANCIALS

### Exhibit 10: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	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	FY24E	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	FY24E	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

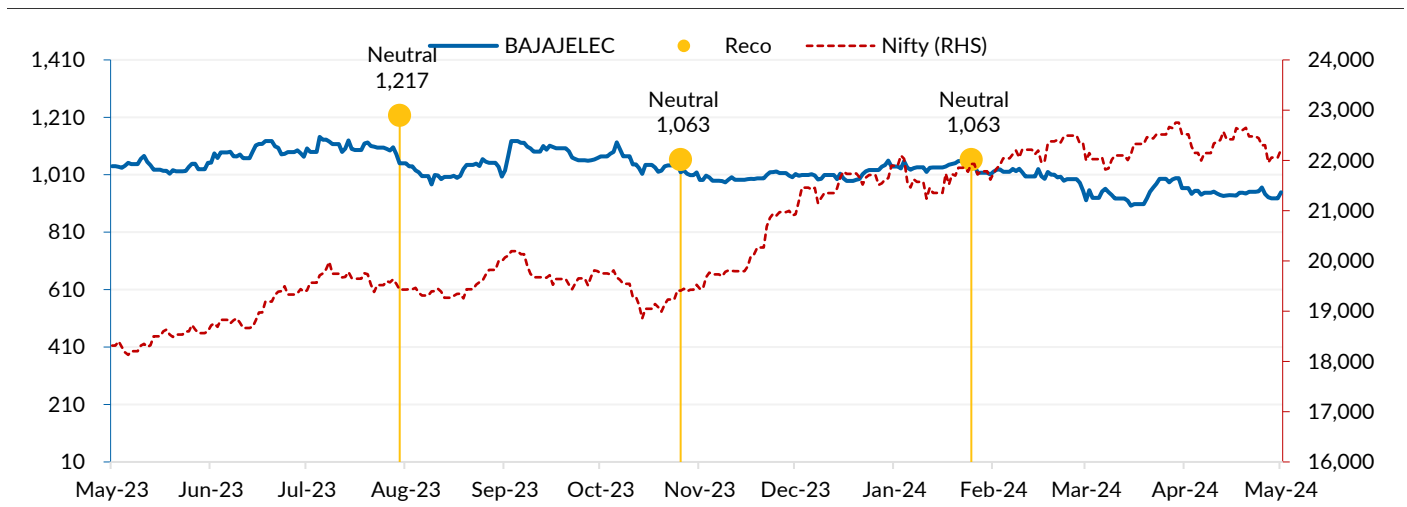
Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Tax burden (x)	0.77	0.71	0.78	0.75	0.75
Interest burden (x)	0.72	0.87	0.73	0.88	0.91
EBIT margin (x)	0.05	0.07	0.05	0.06	0.07
Asset turnover (x)	1.16	1.15	1.12	1.35	1.32
Financial leverage (x)	2.51	2.35	2.49	2.70	2.70
RoE (%)	8.3	11.8	8.1	15.5	17.7

## Exhibit 14: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	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	FY24E	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	80.9	56.6	66.3	44.2	35.2
P/CEPS	63.0	41.1	40.9	30.2	25.0
P/B	7.1	6.4	6.0	5.5	4.9
EV/EBIDTA	48.4	33.5	38.2	27.8	22.6
<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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**Registered Address:** 2<sup>nd</sup> Floor, North Side, YES BANK House,  
Off Western Express Highway, Santacruz East,  
Mumbai - 400 055, Maharashtra, India.

**Correspondence Address:** 7<sup>th</sup> Floor, Urmi Estate Tower A, Ganpatrao  
Kadam Marg, Opp. Peninsula Business Park, Lower Parel (West),  
Mumbai - 400 013, Maharashtra, India.

✉ research@ysil.in | Website: www.yesinvest.in

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**Details of Compliance Officer:** Name: Aditya Goenka,  
**Email id:** compliance@ysil.in, **Contact No:** 022- 65078127 (Extn: 718127)

**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in



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5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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