

August 16, 2016

Bajaj Electricals

Performance highlights

Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
Net sales	952	996	(4.5)	1,357	(29.9)
EBITDA	56	55	2.0	74	(24.2)
EBITDA Margin (%)	5.9	5.6	37	5.5	44
Adjusted PAT	22	20	12.2	35	(36.3)

Source: Company, Angel Research

For 1QFY2017, Bajaj Electricals (BEL)' top-line and bottom-line have come in below our estimates. The top-line growth was dampened by the poor performance of the Consumer durables and E&P segments. However, on the bottom-line front, the company reported a modest growth due to slight improvement in the operating performance and lower interest cost, depreciation cost and taxes.

Top-line de-grew 5% yoy: The top-line de-grew by ~5% YoY to ₹952cr (below our estimate of ₹1,188cr), mainly due to de-growth of 8% YoY in the Consumer Durables segment to ₹548cr and lower growth of ~1% YoY in the E&P segment to ₹414cr.

Despite revenue de-growth, PAT grew ~12%: On the operating front, the company reported a mild margin improvement (OPM up by 37bp YoY to 5.9%), primarily on account of lower raw material costs during the quarter. The reported net profit grew by ~12% YoY to ₹22cr, again underperforming our estimate of ₹27cr, on account of lower sales growth.

Outlook and valuation: On expectation of timely execution of new projects in the E&P segment and with the Lighting and Consumer Durables segments expected to benefit from an improvement in consumer sentiments going forward, we expect the company's top-line to grow at a CAGR of ~12% to ₹5,805cr and bottom-line to grow at a CAGR of 24% to ₹147cr over FY2016-FY2018E. **We retain our Accumulate rating on the stock with a revised target price of ₹277.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	4,258	4,612	5,099	5,805
% chg	5.7	8.3	10.6	13.8
Net Profit	(14)	96	115	147
% chg	(14.0)	95.6	114.8	147.2
EBITDA Margin (%)	2.1	5.6	5.6	5.9
EPS (₹)	(1.4)	9.5	11.4	14.6
P/E (x)	(177.3)	25.9	21.5	16.8
P/BV (x)	3.6	3.2	2.9	2.6
RoE (%)	6.2	12.5	13.4	15.1
RoCE (%)	10.6	23.7	23.9	26.2
EV/Sales (x)	0.7	0.6	0.5	0.4
EV/EBITDA (x)	19.1	9.9	8.9	7.4

Source: Company, Angel Research; Note: CMP as of August 16, 2016

ACCUMULATE

CMP	₹245
Target Price	₹277

Investment Period 12 months

Stock Info	
Sector	Consumer durables
Market Cap (₹ cr)	2,566
Net Debt	93.4
Beta	1.0
52 Week High / Low	280 / 155
Avg. Daily Volume	251,779
Face Value (₹)	2
BSE Sensex	28,152
Nifty	8,672
Reuters Code	BJEL.BO
Bloomberg Code	BJE.IN

Shareholding Pattern (%)	
Promoters	63.6
MF / Banks / Indian Fls	5.9
FII / NRIs / OCBs	9.5
Indian Public / Others	21.0

Abs.(%)	3m	1yr	3yr
Sensex	9.2	2.3	48.6
BEL	9.3	(4.8)	58.8

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 1QFY2017 performance highlights

Y/E March (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq	FY2016	FY2015	% chg
Net Sales	952	996	(4.5)	1,357	(29.9)	4,612	4,263	8.2
Consumption of RM	628	716	(12.3)	829	(24.2)	3,082	3,060	0.7
(% of Sales)	66.0	71.9		61.1		66.8	71.8	
Staff Costs	79	58	36.2	81	(2.5)	284	226	25.4
(% of Sales)	8.3	5.8		5.9		6.2	5.3	
Other Expenses	189	167	13.1	374	(49.4)	987.16	888.34	11.1
(% of Sales)	19.8	16.8		27.5		21.4	20.8	
Total Expenditure	895	941	(4.9)	1,283	(30.2)	4,353	4,174	4.3
Operating Profit	56	55	2.0	74	(24.2)	259	88	193.6
OPM	5.9	5.6		5.5		5.6	2.1	
Interest	23	25	(10.3)	22	3.3	101	104	(2.9)
Depreciation	7	7	(4.7)	7	(3.2)	27	29	(6.2)
Other Income	10	12	(17.5)	8	25.7	23	24	(5.9)
PBT (excl. Ext Items)	37	35	5.6	53	(31.0)	154	(21)	(837.7)
Ext (Income)/Expense								
PBT (incl. Ext Items)	37	35	5.6	53	(31.0)	154	(21)	(837.7)
(% of Sales)	3.9	3.5		3.9		3.3	(0.5)	
Provision for Taxation	14	14		19		58	(7)	(944.0)
(% of PBT)	37.7	41.2		34.8		38	33	
Reported PAT	23	20	11.9	35	(34.1)	96	(14)	(785.4)
PATM	2.4	2.1		2.6		2.1	(0.3)	
Minority Interest After NP								
Extra-ordinary Items	1	1						
Reported PAT	22	20.0	12.2	35	(36.3)	96	(14)	(785.4)
Equity shares (cr)	10	10		10		10	10	
FDEPS (₹)	2.2	2.0	12.2	3.4	(36.3)	9.5	(1.4)	(785.4)

Source: Company, Angel Research

Exhibit 2: Segment-wise performance

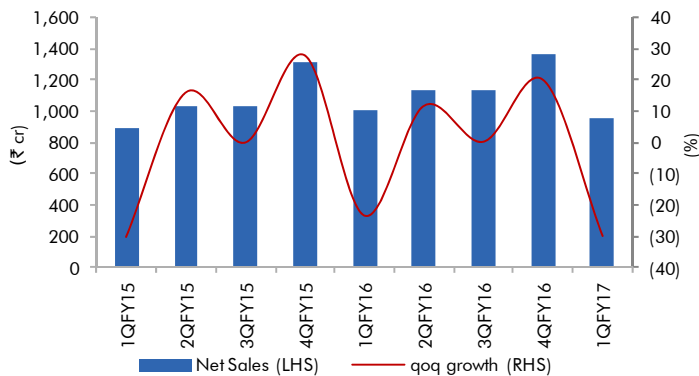
Y/E Mar (₹ cr)	1QFY17	1QFY16	% yoy	4QFY16	% qoq
Total Revenue					
A) Lighting	548	593	(7.6)	327	67.7
B) E&P	414	412	0.5	486	(14.8)
EBIT					
A) Lighting	23	12	100.3	21	12.9
B) E&P	19	38	(50.1)	27	(30.2)
EBIT Margin (%)					
A) Lighting	7.2	4.2		7.5	
B) E&P	3.4	6.9		5.0	

Source: Company, Angel Research

Poor performance of Consumer durables segment dragged the overall top-line growth

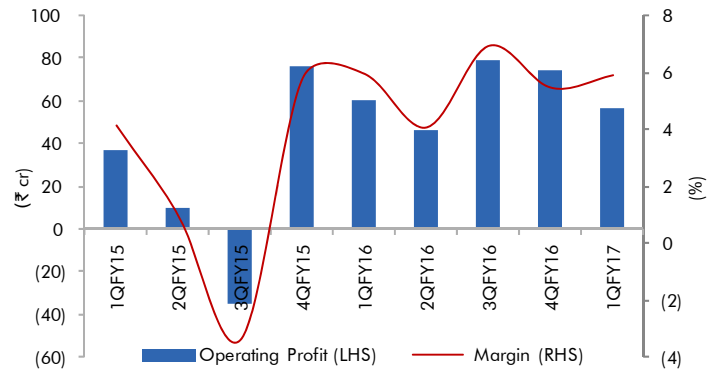
The top-line de-grew by ~5% YoY to ₹952cr (below our estimate of ₹1,188cr), mainly due to de-growth of 8% YoY in the Consumer durables segment to ₹548cr and lower growth of ~1% YoY in the E&P segment to ₹414cr.

Exhibit 3: Historical top-line trend



Source: Company, Angel Research

Exhibit 4: Historical operating performance trend



Source: Company, Angel Research

Despite revenue de-growth, PAT grew ~12% yoy

On the operating front, the company reported a mild margin improvement (OPM up by 37bp YoY to 5.9%), primarily on account of lower raw material costs during the quarter. The reported net profit grew by ~12% YoY to ₹22cr, underperforming our estimate of ₹27cr, on account of lower sales growth

Investment Rationale

Strong brands, leading market position and successful implementation of replenishment strategy - the key drivers

BEL has a strong brand positioning and a well-spread distribution network in comparison to its peers. It has collaborated with known global brands in each of its segments which has enabled it to grow at a robust pace over the years. The company has a leading position in consumer durables, ie in mixers, water heaters, fans, toasters, OTG and mixers.

Exhibit 5: Strong brand associations

Products	Brand
Luminaries	Trilux Lenze (Germany)
Street Lights	CREE Lighting (USA), Disano (Italy)
Building management systems	Delta Controls (Canada)
LED	Rudd (US)
Appliances	Morphy Richards (UK), Nardi (Italy)
Fans	Disney (USA), Media (China)
Fire alarm system	Securiton (Switzerland)

Source: Company

BEL has revamped its product portfolio by discarding the non-performing products and introducing new products with better quality in addition to introduction of premium range products across categories. Though in the near term, there might be some pressure in terms of demand due to slackness in the market, but the outlook is positive post FY2017 as is being expected by most industry players. With per capita income on the rise for the urban population, discretionary spends are expected to increase, which will drive growth for the Consumer durables segment. Its high-end products also have a growing acceptance with consistent performance from brands like Morphy Richards.

Further, the government's ambitious plan to build smart cities will require smart lighting solutions and this will resultantly drive growth for the company's Lighting segment considering its well established position. Also, increasing focus on the LED division would ensure that decline in CFL due to switch of consumer preference would be addressed appropriately.

Outlook and Valuation

On expectation of timely execution of new projects in the E&P segment and with the Lighting and Consumer Durables segments expected to benefit from an improvement in consumer sentiments going forward, we expect the company's top-line to grow at a CAGR of ~12% to ₹5,805cr and bottom-line to grow at a CAGR of 24% to ₹147cr over FY2016-FY2018E. **We retain our Accumulate rating on the stock with a revised target price of ₹277.**

Company Background

BEL is a diversified company with interests in Lighting, Luminaries, Appliances, Fans, and Engineering & Projects. It has a strong network of more than 1,000 distributors and 5,000 dealers.

Key Concerns

- **Currency fluctuation:** BEL has a substantial part of its products imported from various associate foreign brands which pose a risk of currency fluctuation, thereby impacting profitability.
- **Inflation:** Inflationary pressure would resist volume pick up.

Profit and loss statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
Total operating income	3,377	4,030	4,258	4,612	5,099	5,805
% chg	9.0	19.3	5.7	8.3	10.6	13.8
Total Expenditure	3,223	3,884	4,113	4,353	4,811	5,462
Cost of Materials	2,655	2,959	3,082	3,082	3,466	3,958
Personnel	167	186	226	284	331	406
Others Expenses	401	739	804	987	1,014	1,098
EBITDA	154	145	146	259	288	343
% chg	(44.7)	(5.5)	0.0	78.2	11.0	19.3
(% of Net Sales)	4.6	3.6	3.4	5.6	5.6	5.9
Depreciation & Amortisation	14	25	29	27	34	37
EBIT	140	121	117	232	253	306
% chg	(47.5)	(13.5)	(3.5)	99.3	9.1	20.8
(% of Net Sales)	4.1	3.0	2.7	5.0	5.0	5.3
Interest & other Charges	69	78	105	101	105	110
Other Income	42	15	24	23	23	23
(% of PBT)	37.0	26.3	68.0	14.9	13.4	10.5
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	112	58	36	154	171	219
% chg	(48.4)	(48.6)	(38.0)	330.1	11.6	27.9
Prior Period & Extraord. Exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	112	58	36	154	171	219
Tax	18	(1)	(7)	58	57	72
(% of PBT)	15.8	(1.1)	(19.2)	37.7	33.0	33.1
PAT (reported)	94	58	43	96	115	147
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	94	58	43	96	115	147
% chg	32.9	(5.3)	(14.0)	95.6	114.8	147.2
(% of Net Sales)	2.8	1.4	1.0	2.1	2.3	2.5
Basic EPS (₹)	3.3	(0.5)	(1.4)	9.5	11.4	14.6
Fully Diluted EPS (₹)	3.3	(0.5)	(1.4)	9.5	11.4	14.6
% chg	(72.1)	(116.2)	162.7	(785.4)	20.1	28.2

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	20	20	20	20	20	20
Reserves & Surplus	709	689	667	747	839	950
Shareholders Funds	729	709	687	767	859	970
Minority Interest	-	-	-	-	-	-
Total Loans	166	348	409	212	200	200
Deferred Tax Liability	17	16	13	13	13	13
Total Liabilities	914	1,077	1,111	992	1,072	1,183
APPLICATION OF FUNDS						
Gross Block	326	372	432	472	512	552
Less: Acc. Depreciation	97	120	152	179	213	251
Net Block	229	252	280	293	299	301
Capital Work-in-Progress	6	3	3	3	3	3
Investments	30	67	59	59	59	59
Current Assets	1,887	2,341	2,441	2,333	2,447	2,661
Inventories	421	447	475	505	559	620
Sundry Debtors	938	1,235	1,290	1,365	1,509	1,654
Cash	50	54	38	59	63	68
Loans & Advances	142	137	167	55	112	87
Other Assets	336	467	471	349	204	232
Current liabilities	1,263	1,627	1,734	1,758	1,798	1,904
Net Current Assets	625	714	707	575	649	757
Deferred Tax Asset	25	42	62	62	62	62
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	914	1,077	1,111	992	1,072	1,183

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	69	(6)	(21)	154	171	220
Depreciation	14	25	29	27	34	37
Change in Working Capital	12	(130)	(42)	153	(70)	(103)
Interest / Dividend (Net)	66	73	100	101	105	110
Direct taxes paid	(40)	1	7	(58)	(57)	(72)
Others	19	31	15	-	-	-
Cash Flow from Operations	141	(7)	88	378	184	191
(Inc.)/ Dec. in Fixed Assets	14	(114)	(41)	(40)	(40)	(40)
(Inc.)/ Dec. in Investments	14	(38)	8	-	-	-
Cash Flow from Investing	(0)	(76)	(49)	(40)	(40)	(40)
Issue of Equity	1	4	13	-	-	-
Inc./(Dec.) in loans	-	-	-	(197)	(12)	-
Dividend Paid (Incl. Tax)	(28)	(20)	(15)	(15)	(23)	(37)
Interest / Dividend (Net)	(116)	106	(51)	(104)	(105)	(110)
Cash Flow from Financing	(142)	89	(53)	(316)	(140)	(147)
Inc./(Dec.) in Cash	(2)	6	(14)	21	4	5
Opening Cash balances	52	48	52	38	59	63
Closing Cash balances	50	54	38	59	63	68

Key Ratios

Y/E March	FY13	FY14	FY15	FY16	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	75.3	(465.8)	(177.3)	25.9	21.5	16.8
P/CEPS	37.7	127.2	164.0	20.1	16.6	13.4
P/BV	3.4	3.5	3.6	3.2	2.9	2.6
Dividend yield (%)	0.8	0.6	0.6	0.6	0.9	1.5
EV/Sales	0.8	0.7	0.7	0.6	0.5	0.4
EV/EBITDA	16.6	18.6	19.1	9.9	8.9	7.4
EV / Total Assets	1.2	1.0	1.0	0.9	0.9	0.8
Per Share Data (₹)						
EPS (Basic)	3.3	(0.5)	(1.4)	9.5	11.4	14.6
EPS (fully diluted)	3.3	(0.5)	(1.4)	9.5	11.4	14.6
Cash EPS	6.5	1.9	1.5	12.2	14.8	18.3
DPS	2.0	1.5	1.5	1.5	2.3	3.6
Book Value	72.2	70.2	68.1	76.0	85.1	96.1
Returns (%)						
ROCE	15.6	11.4	10.6	23.7	23.9	26.2
Angel ROIC (Pre-tax)	17.1	12.9	11.7	27.0	27.0	29.4
ROE	12.9	8.2	6.2	12.5	13.4	15.1
Turnover ratios (x)						
Asset Turnover (Gross Block)	10.4	10.8	9.9	9.8	10.0	10.5
Inventory / Sales (days)	46	40	41	40	40	39
Receivables (days)	101	112	111	108	108	104
Payables (days)	49	50	49	50	51	52
WC cycle (ex-cash) (days)	98	103	102	98	97	91

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Bajaj Electricals

1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)