

Bajaj Electricals

Performance highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY15	% qoq
Net sales	1,357	1,316	3.1	1,130	20.1
EBITDA	74	77	(2.9)	79	(5.4)
EBITDA Margin (%)	5.5	5.8	(34)	7.0	(148)
Adjusted PAT	35	47	(26.0)	29	18.4

Source: Company, Angel Research

For 4QFY2016, Bajaj Electricals (BEL)' top-line and bottom-line have come in below our estimates, owing to the poor performance of its Consumer durables business. The top-line growth was dampened by the poor performance of the Consumer durables and E&P segments. On the bottom-line front, the company reported a de-growth due to lower revenue growth, poor operating performance and higher taxes.

Top-line grows ~3% yoy: The top-line for the quarter rose by a mere ~3% yoy to ~₹1,357cr due to decline in the E&P and Consumer durables segments. The E&P segment de-grew by ~1.5% yoy to ~₹486cr while the Consumer durables segment de-grew by ~0.4% yoy to ~₹544cr. However, the Lighting segment reported a strong growth of ~18% yoy to ₹327cr which pulled up overall revenues and led the company to post a top-line growth for the quarter.

Poor operating performance dragged the overall profitability: For the quarter, the company's bottom-line declined by 26% yoy to ~₹35cr (vs ₹47cr in 4QFY2015) owing to a poor operating performance (margin contraction of 34bp yoy) and higher taxes.

Outlook and valuation: With 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 ~15% to ₹6,098cr and bottom-line to grow at CAGR of 29% to ₹159cr over FY2016-FY2018E. **We retain our Buy rating on the stock with a revised target price of ₹268.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	4,258	4,612	5,351	6,098
% chg	5.7	8.3	16.0	14.0
Net Profit	(14)	96	125	159
% chg	(14.0)	95.6	124.8	158.9
EBITDA Margin (%)	2.1	5.6	5.7	5.9
FDEPS (₹)	(1.4)	9.5	12.4	15.7
P/E (x)	(165.0)	24.1	18.4	14.5
P/BV (x)	3.4	3.0	2.7	2.3
RoE (%)	6.2	23.7	25.9	27.8
RoCE (%)	10.6	32.5	34.5	37.1
EV/Sales (x)	0.6	0.5	0.4	0.4
EV/EBITDA (x)	18.0	6.9	5.9	5.0

Source: Company, Angel Research; Note: CMP as of June 1, 2016

BUY

CMP	₹228
Target Price	₹268

Investment Period 12 months

Stock Info

Sector	Consumer durables
Market Cap (₹ cr)	2,303
Net Debt	93.4
Beta	1.0
52 Week High / Low	310 / 155
Avg. Daily Volume	70,956
Face Value (₹)	2
BSE Sensex	26,714
Nifty	8,180
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	12.3	(4.1)	36.5
BEL	38.0	(20.6)	30.7

3-Year Daily Price Chart



Source: Company, Angel Research

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Exhibit 1: 4QFY2016 performance highlights

Y/E March (₹ cr)	4QFY16	4QFY15	% yoy	3QFY15	% qoq	FY2016	FY2015	% chg
Net Sales	1,357	1,316	3.1	1,130	20.1	4,612	4,263	8.2
Consumption of RM	829	872	(4.9)	762	8.7	3,082	3,060	0.7
(% of Sales)	61.1	66.2		67.4		66.8	71.8	
Staff Costs	81	52	55.5	68	18.3	284	226	25.4
(% of Sales)	5.9	3.9		6.0		6.2	5.3	
Other Expenses	374	316	18.2	221	68.8	987.16	888.34	11.1
(% of Sales)	27.5	24.0		19.6		21.4	20.8	
Total Expenditure	1,283	1,239	3.5	1,052	22.0	4,353	4,174	4.3
Operating Profit	74	77	(2.9)	79	(5.4)	259	88	193.6
OPM	5.5	5.8		7.0		5.6	2.1	
Interest	22	27	(17.5)	29	(25.1)	101	104	(2.9)
Depreciation	7	7	5.5	7	(2.1)	27	29	(6.2)
Other Income	8	9	(16.1)	5	59.0	23	24	(5.9)
PBT (excl. Ext Items)	53	53	1.0	47	13.1	154	(21)	(837.7)
Ext (Income)/Expense	-	-	-	-	-	-	-	-
PBT (incl. Ext Items)	53	53	1.0	47	13.1	154	(21)	(837.7)
(% of Sales)	3.9	4.0		4.2		3.3	(0.5)	
Provision for Taxation	19	6		18		58	(7)	(944.0)
(% of PBT)	34.8	11.0		37.8		38	33	
Reported PAT	35	47	(26.0)	29	18.4	96	(14)	(785.4)
PATM	2.6	3.6		2.6		2.1	(0.3)	
Minority Interest After NP	-	-	-	-	-	-	-	-
Extra-ordinary Items	-	-	-	-	-	-	-	-
Reported PAT	35	47	(26.0)	29	18.4	96	(14)	(785.4)
Equity shares (cr)	10	10		10		10	10	
FDEPS (₹)	3.4	4.6	(26.0)	2.9	18.4	9.5	(1.4)	(785.4)

Source: Company, Angel Research

Exhibit 2: Segment-wise performance

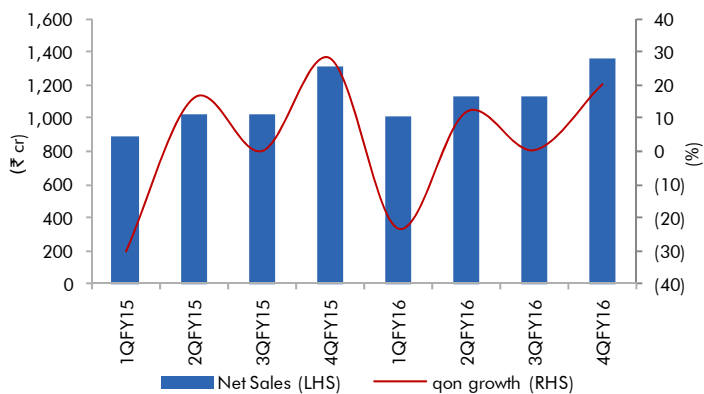
Y/E Mar (₹ cr)	4QFY16	4QFY15	% chg (yoy)	3QFY16	% chg (qoq)
Total Revenue					
A) Lighting	327	276	18.2	277	18.1
B) Cons Durables	544	546	(0.4)	535	1.7
C) E&P	486	494	(1.5)	319	52.7
EBIT					
A) Lighting	23	12	100.3	20.72	12.9
B) Cons Durables	19	38	(50.1)	26.85	(30.2)
C) E&P	32	23	39.1	26.85	20.3
EBIT Margin (%)					
A) Lighting	7.2	4.2		7.5	
B) Cons Durables	3.4	6.9		5.0	
C) E&P	6.6	4.7		8.4	

Source: Company, Angel Research

Flat top-line growth due to lower sales in E&P and Consumer durables segments

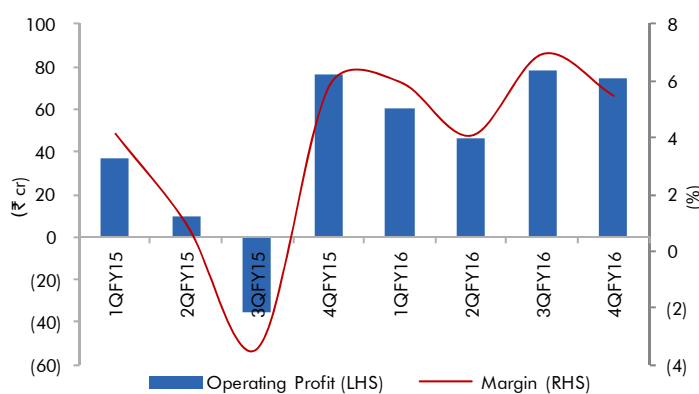
The company's top-line for the quarter rose by a mere ~3% yoy to ~₹1,357cr due to decline in the E&P and Consumer durables segments' revenues. The E&P segment de-grew by ~1.5% yoy to ~₹486cr while the Consumer durables segment de-grew by ~0.4% yoy to ~₹544cr. However, the Lighting segment reported a strong growth of ~18% yoy to ₹327cr which pulled up overall revenues and led the company to post a top-line growth for the quarter.

Exhibit 3: Lighting boosts top-line...



Source: Company, Angel Research

Exhibit 4: Operating performance



Source: Company, Angel Research

Operating margin contracts by 34bp yoy, impacts bottom-line

For the quarter, the company's bottom-line declined by 26% yoy to ~₹35cr (vs ₹47cr in 4QFY2015) owing to a poor operating performance (margin contraction of 34bp yoy) and higher taxes.

Investment Rationale

Strong brands, leading market position and successful implementation of its 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. BEL has a leading position in consumer durables - 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

With expectation of timely execution of the new projects in the E&P segment and with 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 ~15% to ₹6,098cr and bottom-line to grow at a CAGR of 29% to ₹159cr over FY2016-FY2018E. **We retain our Buy rating on the stock with a revised target price of ₹268.**

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	5,351	6,098
% chg	9.0	19.3	5.7	8.3	16.0	14.0
Total Expenditure	3,223	3,884	4,113	4,353	5,048	5,736
Cost of Materials	2,655	2,959	3,082	3,082	3,637	4,157
Personnel	167	186	226	284	348	427
Others Expenses	401	739	804	987	1,063	1,152
EBITDA	154	145	146	259	303	361
% chg	(44.7)	(5.5)	0.0	78.2	16.7	19.4
(% of Net Sales)	4.6	3.6	3.4	5.6	5.7	5.9
Depreciation & Amortisation	14	25	29	27	34	37
EBIT	140	121	117	232	268	324
% chg	(47.5)	(13.5)	(3.5)	99.3	15.5	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	12.4	9.7
Share in profit of Associates	-	-	-	-	-	-
Recurring PBT	112	58	36	154	186	237
% chg	(48.4)	(48.6)	(38.0)	330.1	21.2	27.3
Prior Period & Extraord. Exp./(Inc.)	-	-	-	-	-	-
PBT (reported)	112	58	36	154	186	237
Tax	18	(1)	(7)	58	61	78
(% of PBT)	15.8	(1.1)	(19.2)	37.7	33.0	33.0
PAT (reported)	94	58	43	96	125	159
Add: Share of earnings of asso.	-	-	-	-	-	-
ADJ. PAT	94	58	43	96	125	159
% chg	32.9	(5.3)	(14.0)	95.6	124.8	158.9
(% of Net Sales)	2.8	1.4	1.0	2.1	2.3	2.6
Basic EPS (₹)	3.3	(0.5)	(1.4)	9.5	12.4	15.7
Fully Diluted EPS (₹)	3.3	(0.5)	(1.4)	9.5	12.4	15.7
% chg	(72.1)	(116.2)	162.7	(785.4)	30.6	27.3

Balance sheet

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
SOURCES OF FUNDS						
Equity Share Capital	20	20	20	20	20	20
Reserves & Surplus	709	689	667	747	847	966
Shareholders Funds	729	709	687	767	867	987
Minority Interest	-	-	-	-	-	-
Total Loans	166	348	409	212	200	200
Deferred Tax Liability	17	16	13	13	13	13
Total Liabilities	912	1,074	1,109	992	1,080	1,199
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	2,507	2,737
Inventories	421	447	475	505	586	652
Sundry Debtors	938	1,235	1,290	1,365	1,583	1,737
Cash	50	54	38	59	59	43
Loans & Advances	142	137	167	55	64	61
Other Assets	336	467	471	349	214	244
Current liabilities	1,263	1,627	1,734	1,758	1,850	1,964
Net Current Assets	625	714	707	575	657	774
Deferred Tax Asset	25	42	62	62	62	62
Mis. Exp. not written off	-	-	-	-	-	-
Total Assets	912	1,074	1,109	992	1,080	1,199

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	69	(6)	(21)	154	186	237
Depreciation	14	25	29	27	34	37
Change in Working Capital	12	(130)	(42)	153	(82)	(132)
Interest / Dividend (Net)	66	73	100	101	105	110
Direct taxes paid	(40)	1	7	(58)	(61)	(78)
Others	19	31	15	-	-	-
Cash Flow from Operations	141	(7)	88	378	182	174
(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)	(25)	(40)
Interest / Dividend (Net)	(116)	106	(51)	(104)	(105)	(110)
Cash Flow from Financing	(142)	89	(53)	(316)	(142)	(150)
Inc./(Dec.) in Cash	(2)	6	(14)	21	0	(16)
Opening Cash balances	52	48	52	38	59	59
Closing Cash balances	50	54	38	59	59	43

Key Ratios

Y/E March	FY13	FY14	FY15	FY16E	FY17E	FY18E
Valuation Ratio (x)						
P/E (on FDEPS)	70.0	(433.5)	(165.0)	24.1	18.4	14.5
P/CEPS	35.1	118.4	152.6	18.7	14.5	11.7
P/BV	3.2	3.2	3.4	3.0	2.7	2.3
Dividend yield (%)	0.9	0.7	0.7	0.7	1.1	1.7
EV/Sales	0.7	0.6	0.6	0.5	0.4	0.4
EV/EBITDA	15.5	17.4	18.0	6.9	5.9	5.0
EV / Total Assets	1.1	0.9	0.9	0.9	0.8	0.8
Per Share Data (₹)						
EPS (Basic)	3.3	(0.5)	(1.4)	9.5	12.4	15.7
EPS (fully diluted)	3.3	(0.5)	(1.4)	9.5	12.4	15.7
Cash EPS	6.5	1.9	1.5	12.2	15.8	19.4
DPS	2.0	1.5	1.5	1.5	2.5	3.9
Book Value	72.2	70.2	68.1	76.0	85.9	97.7
Returns (%)						
ROCE	15.6	11.4	10.6	32.5	34.5	37.1
Angel ROIC (Pre-tax)	17.1	12.9	11.7	37.0	38.8	40.6
ROE	12.9	8.2	6.2	23.7	25.9	27.8
Turnover ratios (x)						
Asset Turnover (Gross Block)	10.4	10.8	9.9	9.8	10.5	11.0
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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Disclosure of Interest Statement	Bajaj Electricals
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

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)