

23 July 2024

India | Equity Research | Company Update

Bajaj Electricals

White Goods

Exit of two key senior managerial personnel may have short-term impact; long-term outlook unchanged

The exit of two senior management members i.e. Anuj Poddar, MD & CEO and Ravindra Singh Negi, COO - Consumer Products may have near-term impact on Bajaj Electricals' (BJE) business strategy, in our view. However, we are confident that long-term growth potential remains intact as: (1) The strategy of 'house of brands' is likely to continue with strong investments in Nex premium products and re-launch of Nirlep. (2) The company has achieved strong distribution reach of over 0.2mn outlets. It also has the best distribution reach in rural markets among peers. We model the company to be net beneficiary of revival in rural markets. (3) It plans to induct Vishal Chadha as COO-Consumer Products w.e.f. Aug'24. There is already strong managerial talent with Rajesh Naik leading the lighting segment and EC Prasad driving strategy and finance. We believe any correction in stock price may be a buying opportunity for long-term investors. We remain constructive. Maintain **ADD**.

Achievements during Anuj Poddar's regime

Bajaj Electricals accomplished multiple milestones during Anuj Poddar's regime such as: (1) achieving net-cash balance sheet in Mar'22, (2) de-merger of EPC business in Sept'23, (3) relaunch of flagship 'Bajaj' brand, (4) long-term licensing agreement for 'Morphy Richards' and (5) establishing multi-brand strategy - 'house of brands'.

Second big exit in three months may result in vacuum

BJE has lost two key persons who were essential in re-shaping the company as (1) Anuj Poddar, MD and CEO and (2) Ravindra Singh Negi, COO of Consumer products. We believe the exits of two senior people may impact its strategy.

Appointment of new business heads

BJE has two core business segments including: (1) Consumer products and (2) lighting segment. It has inducted Mr. Vishal Chadha (ex-Britannia, Snapdeal, Nokia and Kohler), who has strong 28 years of industry experience, as COO of Consumer Products and Mr. Rajesh Naik will remain the Head - Lighting segment. Mr. EC Prasad will also be one of the key managerial taking care of finance and strategy functions.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	48,892	46,413	52,446	59,264
EBITDA	1,669	2,597	3,225	3,882
EBITDA Margin (%)	3.4	5.6	6.2	6.6
Net Profit	254	1,359	1,923	2,410
EPS (INR)	2.2	11.8	16.7	20.9
EPS % Chg YoY	(81.5)	434.3	41.6	25.3
P/E (x)	450.5	84.3	59.6	47.5
EV/EBITDA (x)	63.9	42.4	33.7	27.4
RoCE (%)	1.9	10.0	12.1	13.7
RoE (%)	1.4	8.1	12.8	14.6

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Market Data

Market Cap (INR)	115bn
Market Cap (USD)	1,370mn
Bloomberg Code	BJE IN
Reuters Code	BJEL.BO
52-week Range (INR)	1,168 /820
Free Float (%)	36.0
ADTV-3M (mn) (USD)	1.6

Price Performance (%)	3m	6m	12m
Absolute	4.6	(4.0)	(12.1)
Relative to Sensex	(4.7)	(16.7)	(32.9)

Earnings Revisions (%)	FY25E	FY26E
Revenue	-	-
EBITDA	-	-
EPS	-	-

Previous Reports

15-05-2024: [Q4FY24 results review](#)

06-02-2024: [Q3FY24 results review](#)

Strategy likely to remain the same

We model BJE to maintain the same strategy of (1) multiple brands targeting different consumer need, (2) it will also invest in strengthening new brand Nex which focuses on premium products and rollout of Nirlep. We model the company to be a net beneficiary of likely revival in rural markets as it has one of the strongest distribution and brand reach in rural markets.

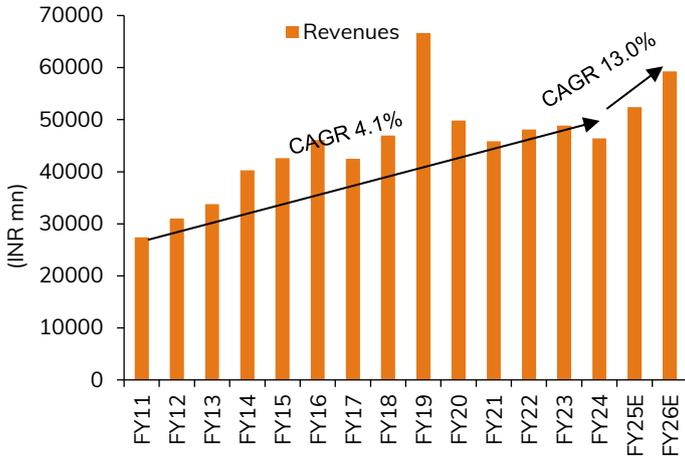
Valuation and risks

We model Bajaj Electricals to report revenue and PAT CAGRs of 13.0% and 33.2%, respectively, over FY24-26E. We value the stock as per DCF methodology with TP of INR 1,050 (implied P/E 51x FY26E).

Key risks: Steep increase in competition and raw material prices, and failure of new product launches.

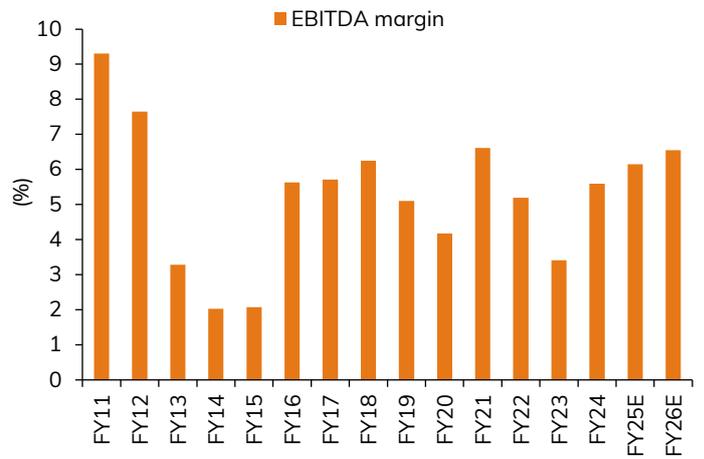
Key charts – Annual

Exhibit 1: Revenue and revenue growth



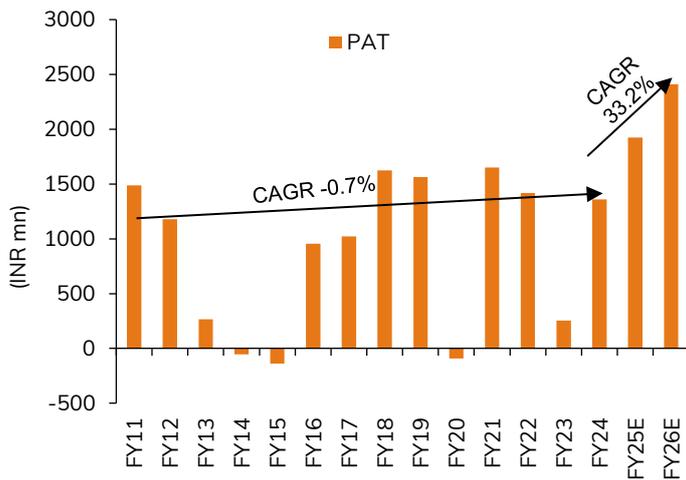
Source: Company data, I-Sec research

Exhibit 2: EBITDA margin



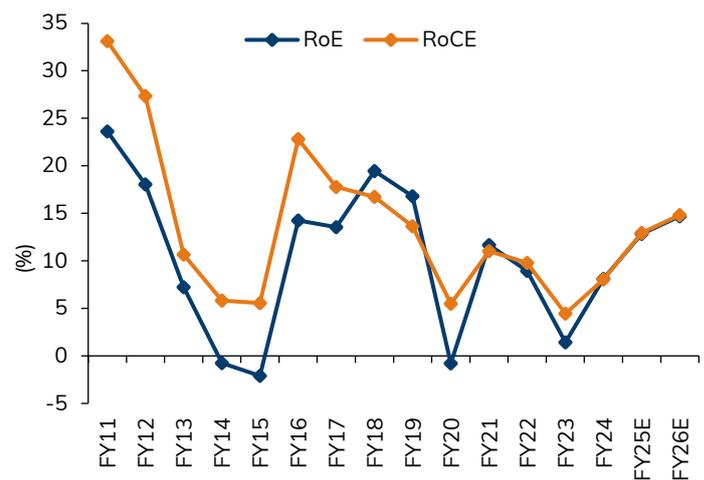
Source: Company data, I-Sec research

Exhibit 3: PAT and PAT growth



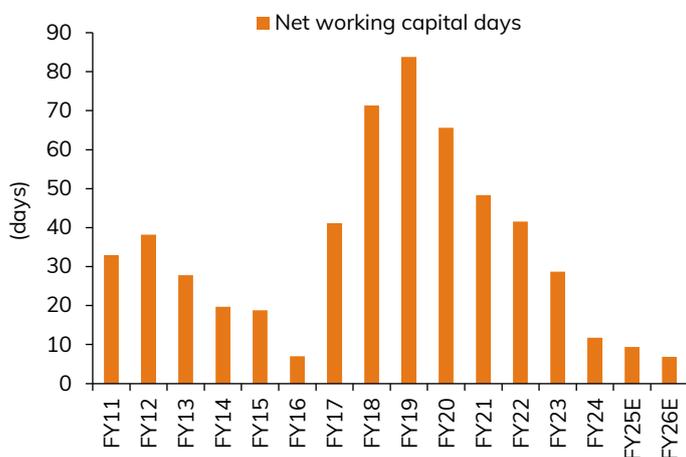
Source: Company data, I-Sec research

Exhibit 4: RoE and RoCE



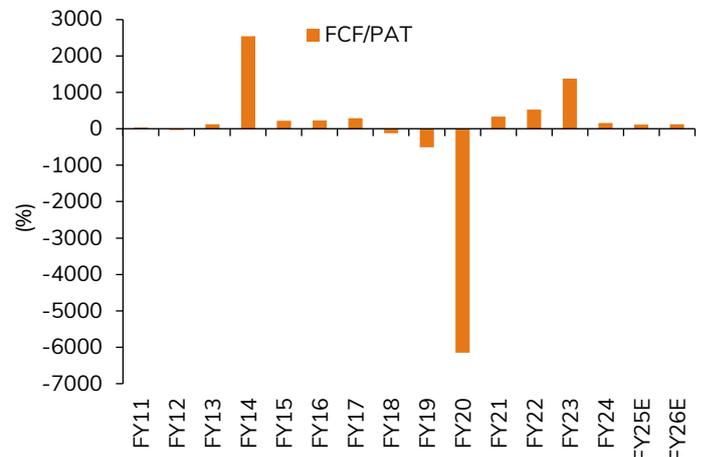
Source: Company data, I-Sec research

Exhibit 5: Net working capital days



Source: Company data, I-Sec research

Exhibit 6: FCF/PAT (%)



Source: Company data, I-Sec research

Valuation and risks

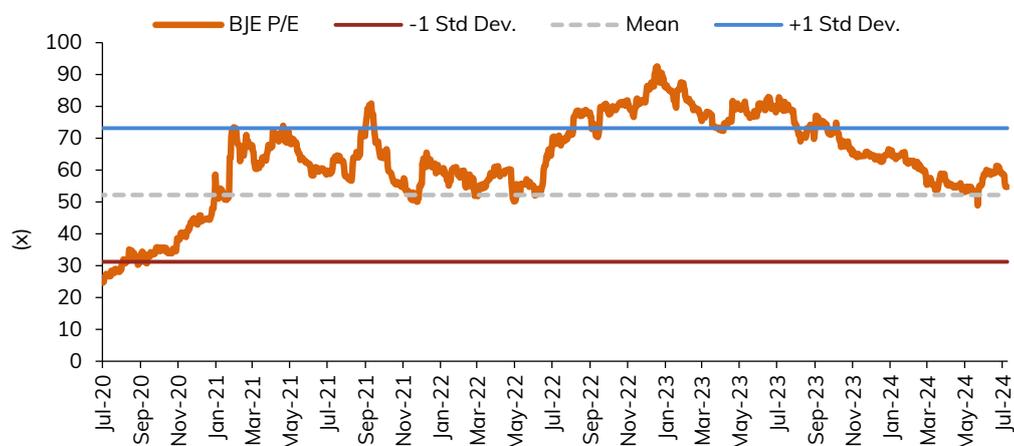
We model Bajaj Electricals to report revenue and PAT CAGRs of 13.0% and 30.6% over FY24-FY26E. At our DCF-based unchanged target price of INR 1,050, implied P/E works out to 51x FY26E EPS. Maintain ADD.

Exhibit 7: DCF-based valuation

Particulars	
Cost of Equity (%)	11.0%
Terminal growth rate (%)	4.0%
Discounted interim cash flows (INR mn)	40,716
Discounted terminal value (INR mn)	68,370
Total equity value (INR mn)	1,09,087
Value per share (INR)	1,050

Source: Company data, I-Sec research

Exhibit 8: Mean PE (x) and standard deviations



Source: I-Sec research, Bloomberg

Risks

Sharp increase in input prices and competitive pressures

Major increase in input prices and/or increase in competitive pressures may result in downside to our estimates.

Delays in launch of new plants/products

Any delays in launch of new products and/or plants may result in lower earnings than estimated.

Exhibit 9: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	62.9	62.8	62.8
Institutional investors	22.5	22.8	22.7
MFs and others	11.6	12.1	14.6
FIs/Banks	-	-	-
Insurance	0.3	0.3	0.2
FIIIs	10.6	10.4	7.9
Others	14.6	14.4	14.5

Source: Bloomberg

Exhibit 10: Price chart



Source: Bloomberg

Financial Summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	48,892	46,413	52,446	59,264
Operating Expenses	47,223	43,816	49,221	55,383
EBITDA	1,669	2,597	3,225	3,882
EBITDA Margin (%)	3.4	5.6	6.2	6.6
Depreciation & Amortization	817	1,096	985	1,101
EBIT	852	1,501	2,241	2,781
Interest expenditure	484	635	234	234
Other Non-operating Income	758	865	575	689
Recurring PBT	1,127	1,731	2,582	3,235
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	872	372	658	825
PAT	254	1,359	1,923	2,410
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	17	(47)	-	-
Net Income (Reported)	272	1,312	1,923	2,410
Net Income (Adjusted)	254	1,359	1,923	2,410

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	33,717	25,821	27,937	31,186
of which cash & cash eqv.	3,705	2,747	2,458	2,812
Total Current Liabilities & Provisions	26,165	21,576	24,125	27,262
Net Current Assets	7,552	4,245	3,812	3,924
Investments	5,753	4,023	5,823	7,623
Net Fixed Assets	4,977	5,900	6,400	6,149
ROU Assets	-	-	-	-
Capital Work-in-Progress	425	635	-	-
Total Intangible Assets	1,900	1,900	1,900	1,900
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	20,607	16,703	17,935	19,596
Liabilities				
Borrowings	1,481	2,344	2,344	2,344
Deferred Tax Liability	54	(53)	(53)	(53)
provisions	-	-	-	-
other Liabilities	-	-	-	-
Equity Share Capital	230	230	230	230
Reserves & Surplus	18,842	14,182	15,414	17,075
Total Net Worth	19,072	14,412	15,644	17,306
Minority Interest	-	-	-	-
Total Liabilities	20,607	16,703	17,935	19,596

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	11,121	11,128	12,282	11,881
% growth (YoY)	(1.5)	(4.0)	(6.2)	(8.0)
EBITDA	676	567	576	497
Margin %	6.1	5.1	4.7	4.2
Other Income	199	294	427	225
Extraordinaries	(5)	(39)	-	(4)
Adjusted Net Profit	371	278	374	293

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	4,115	3,453	3,053	3,752
Working Capital Changes	429	705	145	241
Capital Commitments	(607)	(1,307)	(850)	(850)
Free Cashflow	3,508	2,146	2,203	2,902
Other investing cashflow	(354)	(1,304)	(1,800)	(1,800)
Cashflow from Investing Activities	(961)	(2,611)	(2,650)	(2,650)
Issue of Share Capital	90	51	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	(669)	(293)	-	-
Dividend paid	(345)	(460)	(691)	(749)
Others	-	-	-	-
Cash flow from Financing Activities	(924)	(703)	(691)	(749)
Chg. in Cash & Bank balance	2,229	139	(288)	353
Closing cash & balance	3,418	1,140	2,458	2,812

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	2.2	11.8	16.7	20.9
Adjusted EPS (Diluted)	2.2	11.8	16.7	20.9
Cash EPS	9.3	21.3	25.2	30.5
Dividend per share (DPS)	3.0	4.0	6.0	6.5
Book Value per share (BV)	165.6	125.1	135.8	150.2
Dividend Payout (%)	135.5	33.9	35.9	31.1
Growth (%)				
Net Sales	1.6	(5.1)	13.0	13.0
EBITDA	(33.3)	55.6	24.2	20.3
EPS (INR)	(81.5)	434.3	41.6	25.3
Valuation Ratios (x)				
P/E	450.5	84.3	59.6	47.5
P/CEPS	106.9	46.7	39.4	32.6
P/BV	6.0	7.9	7.3	6.6
EV / EBITDA	63.9	42.4	33.7	27.4
P / Sales	2.3	2.5	2.2	1.9
Dividend Yield (%)	0.3	0.4	0.6	0.7
Operating Ratios				
Gross Profit Margins (%)	31.2	29.7	31.4	31.8
EBITDA Margins (%)	3.4	5.6	6.2	6.6
Effective Tax Rate (%)	77.4	21.5	25.5	25.5
Net Profit Margins (%)	0.5	2.9	3.7	4.1
NWC / Total Assets (%)	18.7	9.0	7.5	5.7
Net Debt / Equity (x)	(0.4)	(0.3)	(0.4)	(0.5)
Net Debt / EBITDA (x)	(4.8)	(1.7)	(1.8)	(2.1)
Profitability Ratios				
RoCE (%)	1.9	10.0	12.1	13.7
RoE (%)	1.4	8.1	12.8	14.6
RoC (%)	3.0	17.6	21.3	27.3
Fixed Asset Turnover (x)	6.3	5.3	5.3	5.4
Inventory Turnover Days	81	58	62	62
Receivables Days	111	89	97	97
Payables Days	193	161	174	174

Source Company data, I-Sec research

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