![ANANDRATHI]

India I Equities

Consumer Durables

Company Update

Change in Estimates ☑ Target ☑ Reco ☐

7 August 2024

Bajaj Electricals

Weak Q1, but with early signs of rural recovery; maintaining a Hold

Rating: **Hold**
Target Price:(12-mth) Rs.1,004
Share Price: Rs.964

Softness in kitchen appliances led to Bajaj Electricals' weak Q1 performance. Early signs of rural recovery, however, suggest a stronger H2. The gross margin expansion was offset by operating de-leverage and increased A&P spends. Monitoring margin recovery is crucial; better rural demand or the mass category's revival could boost margins and profitability.

Weak Q1; early green shoots in rural demand visible. Q1 revenue grew 3.8% y/y (CP 3.7%, lighting 4.3%). Weak demand for appliances and the ongoing price erosion in consumer lighting contributed to Q1 weakness. Early signs of rural recovery, however, set expectations of a stronger H2. The gross margin rose 146bps y/y to 31.1%; the EBITDA margin, however, only 45bps to 6.5% due to operating de-leverage and higher ad-spends. Adj. PAT plunged 25.1% y/y to Rs281m due to higher depreciation (up 39.1% y/y), interest cost (up 37.1% y/y) and lower other income (down 46.7% y/y).

Logistics and R&D costs to dip ahead. Logistics issues, both in quality and cost, have persisted. To address this, the company has changed its logistics agents and opened warehouses to improve the turnaround time. It is targeting a 2% reduction in logistics costs (as percent of sales) by end-FY25. R&D costs have been high over the past 2-3 years as the company re-vamped its product portfolio. NPD contribution is ~40% and is expected to reach 60% by FY26, after which R&D costs should normalise.

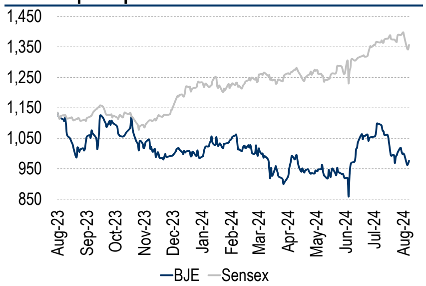
Outlook, Valuation. We model 9.9/45.9% revenue/adj. PAT CAGRs over FY24-26. At the CMP, the stock trades at 56.9x/38.4x FY25e/26e EPS. We maintain a Hold with a higher TP of Rs1,004 (Rs988 earlier), 40x FY26e EPS. **Key risks:** Persistent demand slowdown in the kitchen category could lead to a cut in our estimates. Inability to keep logistics costs in check could significantly dent margins.

Key data	BJE IN / BJEL.BO
52-week high / low	Rs.1,168 / 820
Sensex / Nifty	79,270 / 24,245
3-m average volume	$1.6m
Market cap	Rs.112bn / $1,339.9m
Shares outstanding	115m

Shareholding pattern (%)	Jun'24	Mar'24	Dec'23
Promoters	62.8	62.8	62.9
- of which, Pledged	-	-	-
Free Float	37.2	37.2	37.2
- Foreign Institutions	7.9	10.2	10.4
- Domestic Institutions	14.8	12.6	12.1
- Public	14.5	14.4	14.6

Estimates revision (%)	FY25e	FY26e
Sales	(1.4)	(3.6)
EBITDA	(5.1)	1.0
Net Income	(11.0)	1.6

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY22	FY23	FY24	FY25e	FY26e
Sales (Rs m)	48,130	48,892	46,413	50,331	56,039
Net profit (Rs m)	1,141	2,154	1,359	1,953	2,891
EPS (Rs)	9.9	18.7	11.8	17.0	25.1
P/E (x)	97.0	51.5	81.7	56.9	38.4
EV / EBITDA (x)	43.9	28.6	41.7	30.4	23.0
P/BV (x)	6.4	5.8	7.7	7.0	6.2
RoE (%)	7.2	11.3	9.4	12.3	16.0
RoCE (%) post-tax	7.2	11.2	8.2	10.7	13.5
Dividend yield (%)	0.3	0.4	0.3	0.4	0.7
Net debt / equity (x)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)

Source: Company, Anand Rathi Research

Manish Valecha
Research Analyst

Prasheel Gandhi
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Net revenue	**48,130**	**48,892**	**46,413**	**50,331**	**56,039**
Growth (%)	5.0	1.6	(5.1)	8.4	11.3
Direct costs	34,253	33,815	32,871	34,476	38,106
Gross margins (%)	28.8	30.8	29.2	31.5	32.0
SG&A	11,376	11,330	10,945	12,282	13,216
EBITDA	**2,502**	**3,748**	**2,597**	**3,572**	**4,716**
EBITDA margins (%)	**5.2**	**7.7**	**5.6**	**7.1**	**8.4**
Depreciation	692	738	1,096	1,308	1,469
Other income	683	450	865	956	1,177
Finance costs	697	436	635	604	560
PBT	1,927	3,024	1,731	2,617	3,864
Effective tax rates (%)	33.5	28.8	21.5	25.4	25.2
+Associates / (Minorities)	(41)	-	-	-	-
Net income	1,241	2,162	1,311	1,953	2,891
Adj. Net income	**1,141**	**2,154**	**1,359**	**1,953**	**2,891**
WANS	114.9	115.1	115.2	115.2	115.2
FDEPS	**9.9**	**18.7**	**11.8**	**17.0**	**25.1**
FDEPS growth (%)	(32.2)	88.7	(36.9)	43.7	48.1

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
Share capital	230	230	230	230	230
Net worth	17,316	19,072	14,412	15,904	18,047
Debt	449	2	-	-	-
Minority interest	(263)	-	-	-	-
DTL / (Assets)	(814)	54	(53)	(53)	(53)
Capital employed	**16,687**	**19,128**	**14,359**	**15,851**	**17,994**
Net tangible assets	5,570	5,603	7,104	7,296	7,328
Net intangible assets	221	205	170	170	170
Goodwill	1,900	1,900	1,900	1,900	1,900
CWIP (tang. & intang.)	282	406	618	618	618
Investments (strategic)	49	60	49	49	49
Investments (financial)	-	408	301	301	301
Current assets (excl. cash)	29,653	37,643	25,389	27,532	30,655
Cash	1,425	3,702	2,747	2,566	2,807
Current liabilities	22,414	30,799	23,919	24,582	25,835
Working capital	7,239	6,843	1,470	2,950	4,820
Capital deployed	**16,687**	**19,128**	**14,359**	**15,851**	**17,994**
Contingent liabilities	-	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
PBT	**1,809**	**3,010**	**1,501**	**2,265**	**3,247**
+ Non-cash items	692	738	1,096	1,308	1,469
Oper. prof. before WC	2,502	3,748	2,597	3,572	4,716
- Incr. / (dec.) in WC	6,573	396	5,373	(1,481)	(1,870)
Others incl. taxes	(646)	(870)	(372)	(664)	(972)
Operating cash-flow	**8,429**	**3,274**	**7,598**	**1,428**	**1,874**
- Capex (tang. + intang.)	1,542	879	2,774	1,500	1,500
Free cash-flow	**6,887**	**2,395**	**4,824**	**(72)**	**374**
Acquisitions	**-**	**-**	**-**	**-**	**-**
- Div. (incl. buyback & taxes)	345	460	346	461	749
+ Equity raised	1	0	0	-	-
+ Debt raised	(4,257)	(447)	(2)	-	-
- Fin investments	2	419	(118)	-	-
- Misc. (CFI + CFF)	(1,475)	1,208	(5,551)	352	616
Net cash-flow	**809**	**2,277**	**(956)**	**(181)**	**241**

Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

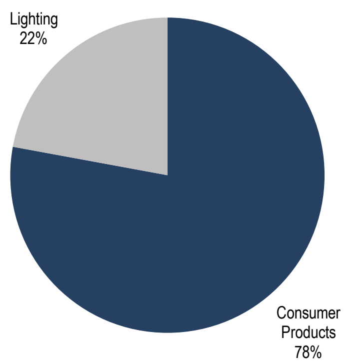
Year-end: Mar	FY22	FY23	FY24	FY25e	FY26e
P/E (x)	97.0	51.5	81.7	56.9	38.4
EV / EBITDA (x)	49.0	31.3	39.2	28.6	21.6
EV / Sales (x)	2.5	2.4	2.2	2.0	1.8
P/B (x)	6.4	5.8	7.7	7.0	6.2
RoE (%)	7.2	11.3	9.4	12.3	16.0
RoCE (%) (post-tax)	7.2	11.2	8.2	10.7	13.5
RoIC (%) (post-tax)	7.9	14.3	10.5	13.1	16.4
DPS (Rs)	3.0	4.0	3.0	4.0	6.5
Dividend yield (%)	0.3	0.4	0.3	0.4	0.7
Dividend payout (%) - incl. DDT	27.8	21.3	26.4	23.6	25.9
Net debt / equity (x)	(0.1)	(0.2)	(0.2)	(0.2)	(0.2)
Receivables (days)	103	84	92	92	92
Inventory (days)	76	73	60	60	60
Payables (days)	94	134	145	135	125
CFO : PAT %	738.4	152.0	559.2	73.1	64.8

Source: Company, Anand Rathi Research

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Revenue break-up, Q1 FY25



Source: Company

Fig 7 – Quarterly financial summary

Quarterly (Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Y/Y (%)	Q/Q (%)
Net sales	**11,292**	**11,586**	**13,095**	**12,920**	**11,121**	**11,128**	**12,282**	**11,881**	**11,549**	***3.8***	***(2.8)***
Gross profit	3,271	3,557	4,408	3,842	3,295	3,304	3,572	3,371	3,591	*9.0*	*6.5*
Margins (%)	*29.0*	*30.7*	*33.7*	*29.7*	*29.6*	*29.7*	*29.1*	*28.4*	*31.1*	*146 bps*	*272 bps*
EBITDA	**733**	**1,013**	**1,055**	**946**	**676**	**753**	**576**	**497**	**754**	***11.6***	***51.6***
Margins (%)	*6.5*	*8.7*	*8.1*	*7.3*	*6.1*	*6.8*	*4.7*	*4.2*	*6.5*	*45 bps*	*234 bps*
Depreciation	166	174	174	224	230	269	295	302	320	*39.1*	*5.9*
Interest	72	94	151	120	115	141	204	176	158	*37.1*	*(10.1)*
Other income	81	48	114	206	199	108	427	225	106	*(46.7)*	*(52.7)*
Extraordinary Items	-	-	-	-	-	-	-	-	-	*NA*	*NA*
PBT	**576**	**794**	**845**	**809**	**530**	**451**	**505**	**245**	**383**	***(27.8)***	***56.6***
Tax	158	210	223	279	155	135	131	(49)	102	*(34.3)*	*(309.5)*
ETRs (%)	*27.4*	*26.4*	*26.4*	*34.5*	*29.2*	*29.9*	*26.0*	*(19.9)*	*26.6*		
Reported PAT	430	602	611	518	371	272	374	293	281	*(24.3)*	*(4.1)*
Adj. PAT	**436**	**567**	**622**	**530**	**375**	**316**	**374**	**293**	**281**	***(25.1)***	***(4.1)***
Adj. EPS	**3.8**	**4.9**	**5.4**	**4.6**	**3.3**	**2.7**	**3.2**	**2.5**	**2.4**	***(25.1)***	***(4.1)***

As % of total income	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	bps y/y	bps q/q
Gross margins	29.0	30.7	33.7	29.7	29.6	29.7	29.1	28.4	31.1	*146*	*272*
SG&A	22.5	22.0	25.6	22.4	23.5	22.9	24.4	24.2	24.6	*101*	*37*
EBITDA margins	6.5	8.7	8.1	7.3	6.1	6.8	4.7	4.2	6.5	*45*	*234*
Depreciation	1.5	1.5	1.3	1.7	2.1	2.4	2.4	2.5	2.8	*70*	*23*
Interest	0.6	0.8	1.2	0.9	1.0	1.3	1.7	1.5	1.4	*33*	*(11)*
Other income	0.7	0.4	0.9	1.6	1.8	1.0	3.5	1.9	0.9	*(87)*	*(97)*
Extraordinary items	-	-	-	-	-	-	-	-	-	-	-
PBT	5.1	6.9	6.5	6.3	4.8	4.1	4.1	2.1	3.3	*(145)*	*126*
ETRs	27.4	26.4	26.4	34.5	29.2	29.9	26.0	(19.9)	26.6	*(263)*	*NA*
Adj. PAT margins	3.9	4.9	4.7	4.1	3.4	2.8	3.0	2.5	2.4	*(94)*	*NA*

Segment-wise (Rs m)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Y/Y (%)	Q/Q (%)
Net sales											
Consumer products	8,554	8,829	10,395	9,865	8,726	8,576	9,567	9,171	9,052	*3.7*	*(1.3)*
Lighting	2,738	2,757	2,700	3,054	2,395	2,553	2,716	2,710	2,498	*4.3*	*(7.8)*
Sales mix (%)											
Consumer products	69.6	72.0	70.0	76.4	78.5	77.1	77.9	77.2	78.4		
Lighting	22.3	22.5	18.2	23.6	21.5	22.9	22.1	22.8	21.6		
EBIT											
Consumer products	426	619	777	651	407	414	159	164	231	*(43.2)*	*41.2*
Lighting	217	258	172	228	193	144	227	231	261	*35.1*	*12.9*
EBIT margins (%)											
Consumer products	*5.0*	*7.0*	*7.5*	*6.6*	*4.7*	*4.8*	*1.7*	*1.8*	*2.5*	*(211) bps*	*77 bps*
Lighting	*7.9*	*9.3*	*6.4*	*7.5*	*8.1*	*5.6*	*8.4*	*8.5*	*10.5*	*239 bps*	*192 bps*

Source: Company

Q1 FY25 Concall key takeaways

Financials and business outlook

- Muted growth due to soft kitchen demand. Expects better H2 with recovery in rural demand.
- GT channel grew 3% y/y in Q1; alternative channels grew faster (e-com/MFR 21%/16% y/y), constituting 39% of revenue, (e-com 13%). GT and alternative channel margins were similar.
- Better product mix and higher share of premium products raised the gross margin 150bps. The EBITDA margin was squeezed though, by more A&P spend (4% of sales in Q1) and operating de-leverage.
- Despite a larger scale, the company's margins are lower than peers', due to the adverse product mix (greater proportions of economy and sub-economy products), greater rural contribution, and 80% outsourcing, significantly higher than competitors.
- Key levers of margin expansion: premiumization, digitalisation, controlling logistics costs, pricing, better supply-chain management.
- R&D costs have been high in the past 2-3 years as the company re-vamped its product range. NPD contribution: ~40%, expected at 60% by FY26, after which R&D costs should normalize.
- Logistics issues, both quality and cost, persisted. To address this, the company changed its logistics agents and opened warehouses to improve turnaround time. Targeting a 2% reduction in logistics costs (as percent of sales) by end-FY25.
- Rising competition in FMEG. To differentiate itself, focusing on patented products with greater durability, technological innovation.
- In Q1, it launched 78 products in CP, 33 in lighting.

CP

- **Category-wise performance.** Growth in summer products and Morphy Richards offset by decline in kitchen appliances.
- **Kitchens.** Demand subdued due to greater shares of economy and sub-economy products. Better H2 expected, with demand recovery and portfolio premiumization plans.
- **Pricing strategy, kitchen appliances.** The company discounted products last year but found resistance against recent price hikes of mixer grinders. Yet, management is optimistic about future growth due to demand recovery and will focus on margin preservation.
- **Morphy Richards** grew in high teens.
- **Fans** grew in high single digits, but below the industry average due to the adverse product mix and higher rural share. Cooling products brought >50% to gross sales. Prices hiked 2-3% in May'24. With the Nex brand scaling up, share of premium products expected to rise.
- **Nex brand expansion.** Launched TPW and air-coolers, with plans to position the brand as a cooling specialist beyond ceiling fans.
- **Segment margins** subdued due to operating de-leverage and higher A&P spend.

Lighting

- **Sub-category performance.** Growth in professional lighting partly offset by decline in consumer lighting.
- **Consumer lighting.** LED price erosion continues. Volume growth decent. Implementing new GTM strategy targeting double-digit growth in the category.
- **Margins** improved due to higher gross margins and closure of legacy projects in professional lighting.

Outlook and Valuations

Weak industry demand for kitchen appliances and the ongoing price erosion in consumer lighting hindered growth. However, early signs of rural recovery offer cautious optimism. As an economical and rural-focused brand, Bajaj could see revenue growth and better margins with a revival in the economy category and rural demand.

Post-Q1, we trim our revenue estimates slightly owing to a weaker start to FY25. While we cut our FY25e margin 27bps due higher freight cost and R&D, we raise our FY26e margin 38bps owing to a higher share of premium products, lower fright and R&D costs. We model 9.9/45.9% revenue/adj. PAT CAGRs over FY24-26.

Fig 8 – Estimates change

	Actual	New		Old		Variance (%)	
(Rs m)	FY24	FY25e	FY26e	FY25e	FY26e	FY25	FY26
Net sales	46,413	50,331	56,039	51,054	58,142	(1.4)	(3.6)
EBITDA	2,597	3,572	4,716	3,763	4,671	(5.1)	1.0
EBITDA margins (%)	*5.6*	*7.1*	*8.4*	*7.4*	*8.0*	*(27) bps*	*38 bps*
PBT	1,731	2,617	3,864	2,931	3,805	(10.7)	1.6
Adj. PAT	1,359	1,953	2,891	2,194	2,847	(11.0)	1.6
Adj. EPS	11.8	17.0	25.1	19.0	24.7	(11.0)	1.6

Source: Anand Rathi Research

Valuation and Rating. At the CMP, the stock trades at 56.9x/38.4x FY25e/26e EPS. We maintain a Hold, with a higher TP of Rs1,004 (Rs988 earlier), 40x FY26e EPS.

Key risks

- Persistent demand slowdown in the kitchen category could lead to a cut in our estimates.
- Inability to keep logistics cost in check could significantly dent margins.

Appendix

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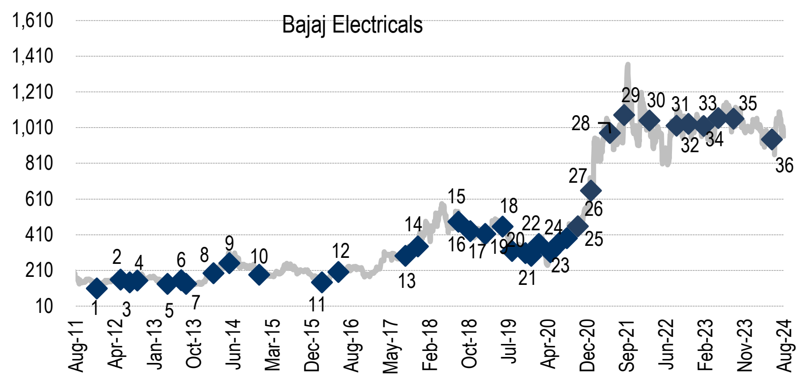
Important Disclosures on subject companies

Rating and Target Price History (as of 7 August 2024)



	Date	Rating	TP (Rs)	Share Price (Rs)
23	23-Apr-20	**Hold**	388	350
24	19-Jun-20	**Hold**	451	410
25	11-Aug-20	**Hold**	462	432
26	5-Nov-20	**Buy**	637	504
27	4-Feb-21	**Buy**	914	768
28	25-May-21	**Buy**	1,376	1,128
29	11-Aug-21	**Buy**	1,307	1,059
30	10-Feb-22	**Hold**	1,284	1,188
31	16-Aug-22	**Hold**	1,228	1,141
32	16-Nov-22	**Hold**	1,231	1,123
33	2-Feb-23	**Hold**	1,210	1,146
34	24-May-23	**Hold**	1,206	1,188
35	12-Aug-23	**Hold**	1,194	1,184
36	17-May-24	**Hold**	988	925

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Ratings Guide (12 months)			
	Buy	**Hold**	**Sell**
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
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Compliance officer-Deepak Kedia, email id - deepakkedia@rathi.com, Contact no. +91 22 6281 7000

Grievance officer-Madhu Jain-email id- grievance@rathi.com, Contact no. +91 22 6281 7191

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.