

# Bajaj Electricals

13 February 2015

Reuters: BJEL.BO; Bloomberg: BJE IN

## Final Phase Of Transition Pain; Retain Buy

Bajaj Electricals (BJE) posted 3QFY15 revenue of Rs10.3bn, flat on YoY basis and 11% lower than our/Bloomberg consensus estimates each. Profitability was impacted by a Rs830mn provision for future contingencies and write-offs in the E&P segment towards the pending receivables of legacy projects. Consequently, BJE reported an EBITDA loss of Rs351mn while higher interest costs of Rs285mn led to a net loss of Rs523mn compared to our/Bloomberg consensus estimates of profit of Rs46mn/Rs206mn, respectively. The management is confident of posting a turnaround in the E&P segment from the next quarter, after reporting operating losses for the past 11 quarters, as all legacy projects are closed operationally while the financial contingency relating to its receivables has been provided for. In consumer product segment, BJE is implementing its inventory management strategy and is hopeful of a healthy volume growth along with scale-up in LED portfolio. We believe BJE is in the final phase of its transition pain in both E&P and consumer product segments and can witness a healthy revival in profitability from FY16 onwards. Factoring in 3QFY15 performance and the revised outlook, we have realigned our earnings estimates (refer Exhibit 4). We have rolled forward our valuation to FY17E earnings with a revised target price of Rs300 (Rs305 earlier) based on unchanged P/E of 16x and retained Buy rating on the stock.

**E&P segment's legacy projects impact profitability:** The E&P segment reported 8% YoY growth in revenue to Rs2.9bn (28% of total revenue) with Rs761mn EBIT loss. BJE has operationally executed all legacy projects for which receivables worth Rs3bn is pending. In 9MFY15, BJE charged Rs1.66bn for these receivables via provisioning as well as writeoffs (Rs830mn charged in 3QFY15) and do not feel any further provisioning is required. The segment currently has a strong order book of Rs35bn, split into Rs27bn for power distribution, Rs8bn for power transmission and Rs1bn for high mast and street lighting. The management expects strong execution in FY16E along with a healthy operating margin of 6% to 7%.

**Consumer durables segment:** Consumer durables segment posted revenue of Rs5bn (49% of total revenue), flat on a YoY basis, with operating margin of 6.7%, up 70bps sequentially. In terms of volume off-take, while secondary sales were higher, dealer inventory was kept low by BJE resulting in lower primary sales. Among product categories, Morphy Richards and fans divisions did reasonably well.

**Lighting segment:** The lighting segment reported a 6% YoY decline in sales to Rs2.3bn (23% of total revenue), but its margins improved sequentially from 2.8% to 4.6% (on a similar revenue base). BJE is focusing to scale up its LED lights division and has done a soft launch of its products in January 2015. In February 2015, it won a large government tender for LED lights which will give it initial volume in this segment.

**Outlook:** While we have factored in a conservative margin profile scenario (refer Exhibit 5) across all three segments, a turnaround in profitability of the E&P segment, which alone accounts for 60%-65% of total capital employed, and stabilisation of consumer businesses will result in healthy earnings growth along with a sharp recovery in RoCE/RoE from 5.9%/(0.7)%, respectively, in FY14 to 27.6%/23.2%, respectively, in FY17E. We have valued BJE at 16x FY17E earnings (a steep discount compared to peers) with a target price of Rs300.

## BUY

**Sector:** Capital Goods

**CMP:** Rs222

**Target Price:** Rs300

**Upside:** 35%

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### Key Data

Current Shares O/S (mn)	100.7
Mkt Cap (Rsbn/US\$m)	22.4/359.3
52 Wk H / L (Rs)	385/191
Daily Vol. (3M NSE Avg.)	539,032

### Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Electricals	(7.3)	(18.4)	(5.0)
Nifty Index	4.7	12.7	43.2

Source: Bloomberg

Y/E March (Rsmn)	3QFY14	2QFY15	3QFY15	YoY (%)	QoQ (%)	9MFY14	9MFY15	YoY (%)
Net sales	10,274	10,295	10,293	0.2	(0.0)	27,589	29,464	6.8
Raw material costs	7,810	7,901	8,039	2.9	1.8	21,550	22,686	5.3
Employee costs	456	711	561	22.9	(21.1)	1,443	1,745	20.9
Other expenses	1,430	1,585	2,045	43.0	29.0	3,832	4,918	28.4
Total expenditure	9,697	10,197	10,644	9.8	4.4	26,825	29,349	9.4
EBITDA	577	98	(351)	NA	NA	763	116	(84.8)
EBITDA margin (%)	5.6	1.0	(3.4)	-	-	2.8	0.4	-
Depreciation	104	72	71	(32.0)	(1.7)	184	225	22.5
Interest costs	197	258	285	44.3	10.4	557	776	39.2
Other income	25	29	99	300.4	243.2	64	150	135.1
PBT	300	(203)	(608)	NA	NA	86	(735)	NA
Tax	99	(61)	(86)	NA	NA	33	(127)	NA
PAT	200	(142)	(523)	NA	NA	53	(608)	NA
EPS (Rs)	2.0	(1.4)	(5.2)	NA	NA	0.5	(6.0)	NA

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 1: Financial summary

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	33,773	40,298	43,654	50,059	56,883
EBITDA	1,109	818	760	2,621	3,617
Net profit	512	(53)	(353)	1,090	1,871
EPS (Rs)	5.1	(0.5)	(3.5)	10.9	18.7
EPS growth (%)	(56.6)	NA	NA	NA	71.6
EBITDA margin (%)	3.3	2.0	1.7	5.2	6.4
PER (x)	43.3	NA	NA	20.4	11.9
P/BV (x)	3.0	3.1	3.4	3.0	2.5
EV/EBITDA (x)	21.0	30.7	34.8	9.9	6.9
Dividend yield (%)	0.9	0.7	0.9	1.1	1.4
RoCE (%)	10.8	5.9	4.3	20.4	27.6
RoE (%)	7.2	(0.7)	(5.2)	15.8	23.2

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 2: Segment-wise snapshot

Y/E March	3QFY14	2QFY15	3QFY15	YoY (%)	QoQ (%)	9MFY14	9MFY15	YoY (%)
<b>Revenue (Rsmn)</b>								
Lighting	2,472	2,260	2,318	(6.2)	2.6	6,555	6,264	(4.4)
Consumer durables	5,110	4,657	5,072	(0.7)	8.9	13,922	14,775	6.1
Engineering & projects	2,689	3,373	2,905	8.0	(13.9)	7,098	8,420	18.6
<b>Revenue mix (%)</b>								
Lighting	24.1	22.0	22.5	-	-	23.8	21.3	-
Consumer durables	49.8	45.3	49.3	-	-	50.5	50.2	-
Engineering & projects	26.2	32.8	28.2	-	-	25.7	28.6	-
<b>EBIT (Rsmn)</b>								
Lighting	129	64	107	(16.8)	66.5	397	196	(50.6)
Consumer durables	498	278	342	(31.3)	23.0	1,288	967	(24.9)
Engineering & projects	(135)	(281)	(761)	462.5	170.7	(827)	(1,102)	33.2
<b>EBIT margin (%)</b>								
Lighting	5.2	2.8	4.6	-	-	6.1	3.1	-
Consumer durables	9.7	6.0	6.7	-	-	9.2	6.5	-
Engineering & projects	(5.0)	(8.3)	(26.2)	-	-	(11.7)	(13.1)	-

Source: Company, Nirmal Bang Institutional Equities Research

## Exhibit 3: Actual performance versus our estimates, Bloomberg consensus estimates

3QFY15 (Rsmn)	Actual	Our estimate	Deviation (%)	Bloomberg cons. est.	Deviation (%)
Revenue	10,293	11,582	(11.1)	11,595	(11.2)
EBITDA	(351)	371	NA	515	NA
PAT	(523)	46	NA	206	NA

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

## Exhibit 4: Change in our earnings estimates

(Rsmn)	Old			New			Variation (%)		
	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Revenue	47,273	53,790	62,313	43,654	50,059	56,883	(7.7)	(6.9)	(8.7)
EBITDA	1,769	3,186	4,193	760	2,621	3,617	(57.0)	(17.7)	(13.7)
PAT	448	1,516	2,293	(353)	1,090	1,871	NA	(28.1)	(18.4)

Source: Nirmal Bang Institutional Equities Research

**Exhibit 5: Segment-wise estimates**

Segment-wise trend	FY12	FY13	FY14	FY15E	FY16E	FY17E
<b>(A) Lighting revenue (Rsmn)</b>	7,648	8,604	9,530	9,816	10,993	12,642
<i>% growth</i>	21.2	12.5	10.8	3.0	12.0	15.0
Operating profit (Rsmn)	593	583	485	324	440	594
<i>Operating margin (%)</i>	7.8	6.8	5.1	3.3	4.0	4.7
<b>(B) Consumer durable revenue (Rsmn)</b>	15,005	18,246	19,252	20,792	23,287	26,780
<i>% growth</i>	17.5	21.6	5.5	8.0	12.0	15.0
Operating profit (Rsmn)	1,512	1,745	1,478	1,393	1,700	2,142
<i>Operating margin (%)</i>	10.1	9.6	7.7	6.7	7.3	8.0
<b>(C) Engineering &amp; projects revenue (Rsmn)</b>	8,319	6,909	11,501	13,024	15,755	17,434
<i>% growth</i>	0.1	(17.0)	66.5	13.2	21.0	10.7
Operating profit (Rsmn)	265	(1,243)	(1,032)	(964)	473	872
<i>Operating margin (%)</i>	3.2	(18.0)	(9.0)	(7.4)	3.0	5.0

Source: Nirmal Bang Institutional Equities Research

## Financial statements

### Exhibit 6: Income statement

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net sales	33,773	40,298	43,654	50,059	56,883
% growth	9.0	19.3	8.3	14.7	13.6
Raw material costs	26,547	32,016	33,177	37,945	43,231
Staff costs	1,673	1,860	2,183	2,403	2,617
Other overheads	4,445	5,604	7,534	7,090	7,418
Total expenditure	32,665	39,480	42,893	47,438	53,266
EBITDA	1,109	818	760	2,621	3,617
% growth	(53.2)	(26.2)	(7.1)	244.9	38.0
EBITDA margin (%)	3.3	2.0	1.7	5.2	6.4
Other income	168	153	198	218	240
Interest costs	690	783	1,038	945	813
Depreciation	145	247	291	338	373
Exceptional items	247	-	-	-	-
Profit before tax	690	(60)	(371)	1,557	2,672
Tax	178	(7)	(18)	467	802
Net profit	512	(53)	(353)	1,090	1,871
PAT margin (%)	1.5	(0.1)	(0.8)	2.2	3.3
EPS (Rs)	5.1	(0.5)	(3.5)	10.9	18.7
% growth	(56.6)	NA	NA	NA	71.6

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Share capital	200	200	200	200	200
Reserves	7,087	6,896	6,309	7,107	8,626
Net worth	7,286	7,096	6,509	7,307	8,826
Short-term loans	1,254	2,137	2,737	2,237	1,537
Long-term loans	345	1,306	1,806	1,806	1,806
Total loans	1,600	3,443	4,543	4,043	3,343
<b>Total Liabilities</b>	<b>8,886</b>	<b>10,539</b>	<b>11,052</b>	<b>11,350</b>	<b>12,170</b>
Gross block	3,260	3,723	4,598	5,048	5,598
Depreciation	996	1,231	1,522	1,859	2,232
Net block	2,264	2,492	3,076	3,189	3,366
Capital work-in-progress	59	26	50	50	50
Investments	298	673	673	673	673
Inventories	4,212	4,467	4,712	5,007	5,420
Debtors	9,379	12,427	13,216	14,121	14,650
Cash	501	544	252	365	589
Loans and advances	1,657	2,020	2,013	2,155	2,299
Other current assets	3,125	4,024	3,565	3,749	4,278
Total current assets	18,874	23,482	23,759	25,397	27,236
Creditors	9,823	11,997	12,949	14,127	15,012
Other current liabilities & provisions	2,864	4,390	3,810	4,085	4,397
Total current liabilities	12,688	16,387	16,760	18,212	19,409
Net current assets	6,187	7,095	6,999	7,185	7,827
Deferred tax asset (net)	79	253	253	253	253
<b>Total assets</b>	<b>8,886</b>	<b>10,539</b>	<b>11,052</b>	<b>11,350</b>	<b>12,170</b>

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 7: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
EBIT	964	571	469	2,284	3,245
(Inc.)/dec. in working capital	485	(865)	(196)	(72)	(418)
<b>Cash flow from operations</b>	<b>1,449</b>	<b>(295)</b>	<b>273</b>	<b>2,211</b>	<b>2,826</b>
Other income	168	153	198	218	240
Depreciation	145	247	291	338	373
Interest paid (-)	(690)	(783)	(1,038)	(945)	(813)
Tax paid (-)	(178)	7	18	(467)	(802)
Dividends paid (-)	(233)	(176)	(234)	(292)	(351)
<b>Net cash from operations</b>	<b>661</b>	<b>(847)</b>	<b>(492)</b>	<b>1,063</b>	<b>1,474</b>
Capital expenditure (-)	(598)	(442)	(900)	(450)	(550)
<b>Net cash after capex</b>	<b>63</b>	<b>(1,289)</b>	<b>(1,392)</b>	<b>613</b>	<b>924</b>
Inc./(dec.) in short-term borrowing	(379)	883	600	(500)	(700)
Inc./(dec.) in long-term borrowing	(59)	961	500	-	0
Inc./(dec.) in total borrowings	(438)	1,844	1,100	(500)	(700)
Inc./(dec.) in investments	143	(376)	-	-	0
<b>Cash from financial activities</b>	<b>(295)</b>	<b>1,468</b>	<b>1,100</b>	<b>(500)</b>	<b>(700)</b>
Others	196	(136)	-	-	0
Opening cash	536	501	544	252	365
Closing cash	501	544	252	365	589
Change in cash	(36)	43	(292)	113	224

Source: Company, Nirmal Bang Institutional Equities Research

### Exhibit 9: Key ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
<b>Per share (Rs)</b>					
EPS	5.1	(0.5)	(3.5)	10.9	18.7
Book value	72.9	71.0	65.1	73.1	88.3
<b>Valuation (x)</b>					
P/E	43.3	NA	NA	20.4	11.9
P/BV	3.0	3.1	3.4	3.0	2.5
EV/EBITDA	21.0	30.7	34.8	9.9	6.9
EV/sales	0.7	0.6	0.6	0.5	0.4
<b>Return ratios (%)</b>					
RoCE	10.8	5.9	4.3	20.4	27.6
RoE	7.2	(0.7)	(5.2)	15.8	23.2
RoIC	11.9	6.6	4.8	22.3	30.6
<b>Profitability ratios (%)</b>					
EBITDA margin	3.3	2.0	1.7	5.2	6.4
EBIT margin	2.9	1.4	1.1	4.6	5.7
PAT margin	1.5	(0.1)	(0.8)	2.2	3.3
<b>Turnover ratios</b>					
Total asset turnover ratio (x)	3.8	4.1	4.0	4.5	4.8
Debtor days	101	99	115	110	100
Inventory days	42	39	41	39	37
Creditors days	124	124	145	145	135
<b>Solvency ratios (x)</b>					
Debt-equity	0.2	0.5	0.7	0.6	0.4
Interest coverage	1.4	0.7	0.5	2.4	4.0

Source: Company, Nirmal Bang Institutional Equities Research

## Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
7 May 2014	Buy	305	380
30 May 2014	Buy	320	380
1 August 2014	Buy	287	335
9 October 2014	Buy	277	335
14 November 2014	Buy	244	305
23 December 2014	Buy	228	305
9 January 2015	Buy	237	305

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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