

Bajaj Electricals

23 December 2014

Reuters: BJEL.BO; Bloomberg: BJE IN

Brighter Days Ahead; Retain Buy

We had a meeting with the management of Bajaj Electricals (BJE) recently to get the latest business update. Following are the key takeaways:

Consumer durables segment: BJE reported a 10% YoY growth in revenue in the consumer durables segment in 1HFY15 at Rs9.7bn, accounting for 50.6% of total revenue. It expects to achieve a 12% YoY growth in revenue in FY15E, primarily driven by volume growth as well as selective price hikes done in Morphy Richards products and in some models of fans. BJE believes that secondary sales across the industry are modest and for some players who reported higher revenue growth, it could be on account of higher primary sales because of inventory build-up at the distribution channel. BJE is moving away from stock-push strategy to brand-pull strategy and is cutting down on distributors in order to have uniform pricing at the retailer level as well as limiting only 15 days of inventory at the branch level (and 7 days at the regional despatch centre level). While this strategy has affected volume growth over the past few quarters, over the long term it will ensure stable pricing, better inventory management, prevent over-stocking, help in efficient utilisation of resources towards products having better demand and thus lead to improved working capital cycle, asset turnover as well as capital allocation.

Lighting segment: This segment accounts for 20.6% of 1HFY15 revenue, with lighting products and luminaires contributing 60% and 40% of the segment's sales, respectively. BJE is witnessing healthy revenue growth and margin in the luminaire division (covering commercial lighting, industrial lighting, area lighting, roadway lighting and urban architectural lighting) and is the market leader in area and road lighting, where future demand from new avenues like smart cities is likely to be buoyant. The company enjoys a decent market share in workspace lightning as well. Under lighting products division, while BJE is a strong player in CFL lighting, the decline in industry size because of a shift towards LED lighting has affected volume as well as margins (current gross margin at 17%). In case of LED lighting, the industry witnessed a sharp correction in prices from Rs700/unit to Rs300/unit. BJE expects the prices to stabilise in the range of Rs250-Rs300/unit and, therefore, it is now lining up new products to increase its product offerings (currently has products up to 5W, plans to add products up to 11W). BJE expects healthy growth in demand for LED lights to sustain for the next 4 to 5 years as the prices have become affordable in addition to benefits like higher life span of LED lighting products at 7 to 10 years (compared to 2 to 3 years in case of CFL lighting products) and lower energy consumption.

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Net revenue	33,773	40,298	47,273	53,790	62,313
EBITDA	1,109	818	1,769	3,186	4,193
PAT	512	(53)	448	1,516	2,293
EPS (Rs)	5.1	(0.5)	4.5	15.2	22.9
EPS growth (%)	(56.6)	NA	NA	238.8	51.2
EBITDA margin (%)	3.3	2.0	3.7	5.9	6.7
PER (x)	44.5	NA	50.9	15.0	9.9
P/BV (x)	3.1	3.2	3.1	2.7	2.2
EV/EBITDA (x)	21.5	31.4	15.2	8.2	6.1
Dividend yield (%)	0.9	0.7	0.9	1.1	1.3
RoCE (%)	10.8	5.9	13.2	23.3	28.9
RoE (%)	7.2	(0.7)	6.2	19.1	24.1

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Capital Goods

CMP: Rs228

Target Price: Rs305

Upside: 34%

Chirag Muchhala

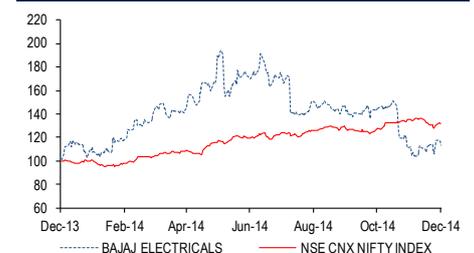
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Key Data

Current Shares O/S (mn)	100.7
Mkt Cap (Rsbn/US\$mn)	23/363.7
52 Wk H / L (Rs)	385/188
Daily Vol. (3M NSE Avg.)	543,791

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Bajaj Electricals	5.8	(32.2)	18.8
Nifty Index	(1.8)	10.8	32.7

Source: Bloomberg

Engineering and projects (E&P) segment:

BJE posted a 25% YoY rise in revenue of the E&P segment in 1HFY15, (accounting for 28.8% of total revenue), but the segment suffered an operating loss of Rs341mn primarily on execution of legacy projects. While all legacy projects are closed operationally, receivables amounting to Rs3bn of some projects are pending for which BJE has already created a provision amounting to Rs900mn. BJE expects to achieve financial closure for all legacy projects in 2HFY15 and expects a minor provision for the same in 3QFY15. However, from 4QFY15 onwards, it aims to report normalised margins for the E&P segment. The segment currently has a strong order book of Rs32bn, split into Rs23bn for power distribution, Rs8bn for power transmission and Rs1bn for high mast and street lighting. The management expects healthy execution worth Rs10bn in 2HFY15E, while in FY16E it expects a turnover of Rs18bn-Rs20bn with a healthy operating margin of 6% to 7%.

Outlook and valuation

We expect revival in profitability of the E&P segment (driven by completion of legacy projects) as well as lighting and consumer durables segments (driven by improved volume growth). Turnaround in 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 23.3%/19.1%, respectively, in FY16E. We have valued BJE stock at 16x September 2016E earnings (a steep discount compared to peers) with a target price of Rs305.

Exhibit 1: Segment-wise snapshot

Y/E March	2QFY14	1QFY15	2QFY15	YoY (%)	QoQ (%)	1HFY14	1HFY15	YoY (%)
Revenue (Rsmn)								
Lighting	2,509	1,686	2,260	(10.0)	34.0	4,083	3,946	(3.4)
Consumer durables	4,491	5,046	4,657	3.7	(7.7)	8,812	9,703	10.1
Engineering & projects	2,416	2,142	3,373	39.6	57.4	4,410	5,515	25.1
Revenue mix (%)								
Lighting	26.6	19.0	22.0	-	-	23.6	20.6	-
Consumer durables	47.7	56.9	45.3	-	-	50.9	50.6	-
Engineering & projects	25.7	24.1	32.8	-	-	25.5	28.8	-
EBIT (Rsmn)								
Lighting	191	25	64	(66.5)	157.8	268	89	(66.8)
Consumer durables	386	346	278	(28.0)	(19.7)	790	625	(20.9)
Engineering & projects	(433)	(59)	(281)	(35.1)	374.2	(692)	(341)	(50.8)
EBIT margin (%)								
Lighting	7.6	1.5	2.8	-	-	6.6	2.3	-
Consumer durables	8.6	6.9	6.0	-	-	9.0	6.4	-
Engineering & projects	(17.9)	(2.8)	(8.3)	-	-	(15.7)	(6.2)	-

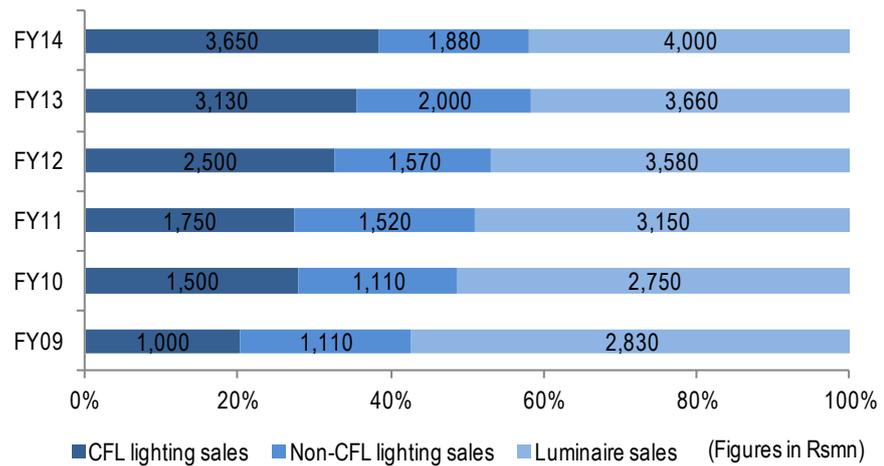
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Segment-wise estimates

Segment-wise trend	FY12	FY13	FY14	FY15E	FY16E	FY17E
(A) Lighting revenue (Rsmn)	7,648	8,604	9,530	10,292	11,630	13,375
% growth	21.2	12.5	10.8	8.0	13.0	15.0
Operating profit (Rsmn)	593	583	485	360	500	669
Operating margin (%)	7.8	6.8	5.1	3.5	4.3	5.0
(B) Consumer durables revenue (Rsmn)	15,005	18,246	19,252	21,562	24,796	29,011
% growth	17.5	21.6	5.5	12.0	15.0	17.0
Operating profit (Rsmn)	1,512	1,745	1,478	1,402	1,810	2,321
Operating margin (%)	10.1	9.6	7.7	6.5	7.3	8.0
(C) Engineering & projects revenue (Rsmn)	8,319	6,909	11,501	15,397	17,339	19,900
% growth	0.1	(17.0)	66.5	33.9	12.6	14.8
Operating profit (Rsmn)	265	(1,243)	(1,032)	0	867	1,194
Operating margin (%)	3.2	(18.0)	(9.0)	0.0	5.0	6.0

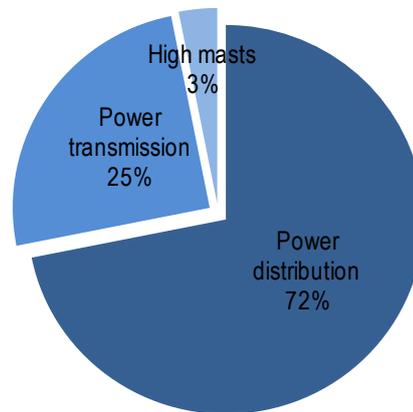
Source: Nirmal Bang Institutional Equities Research

Exhibit 3: Lighting segment's revenue break-up



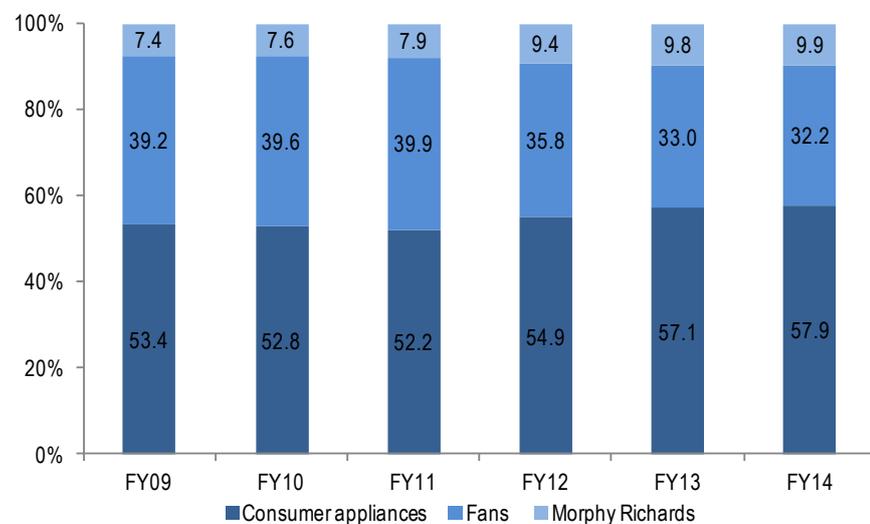
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 4: E&P segment's order book break-up as on 1HFY15



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Consumer durable segment's revenue break-up



Source: Company, 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	47,273	53,790	62,313
% growth	9.0	19.3	17.3	13.8	15.8
Raw material costs	26,547	32,016	36,637	40,988	47,358
Staff costs	1,673	1,860	2,151	2,367	2,742
Other overheads	4,445	5,604	6,717	7,249	8,021
Total expenditure	32,665	39,480	45,504	50,603	58,120
EBITDA	1,109	818	1,769	3,186	4,193
% growth	(53.2)	(26.2)	116.2	80.1	31.6
EBITDA margin (%)	3.3	2.0	3.7	5.9	6.7
Other income	168	153	160	176	194
Interest costs	690	783	998	859	739
Depreciation	145	247	291	338	373
Exceptional items	247	-	-	-	-
Profit before tax	690	(60)	639	2,166	3,275
Tax	178	(7)	192	650	983
Net profit	512	(53)	448	1,516	2,293
PAT margin (%)	1.5	(0.1)	0.9	2.8	3.7
EPS (Rs)	5.1	(0.5)	4.5	15.2	22.9
% growth	(56.6)	NA	NA	238.8	51.2

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
EBIT	964	571	1,478	2,849	3,820
(Inc./dec. in working capital)	485	(865)	(717)	(566)	(1,018)
Cash flow from operations	1,449	(295)	760	2,282	2,802
Other income	168	153	160	176	194
Depreciation	145	247	291	338	373
Interest paid (-)	(690)	(783)	(998)	(859)	(739)
Tax paid (-)	(178)	7	(192)	(650)	(983)
Dividends paid (-)	(233)	(176)	(234)	(292)	(351)
Net cash from operations	661	(847)	(212)	995	1,297
Capital expenditure (-)	(598)	(442)	(900)	(450)	(550)
Net cash after capex	63	(1,289)	(1,112)	545	747
Inc./(dec.) in short-term borrowing	(379)	883	600	(500)	(700)
Inc./(dec.) in long-term borrowing	(59)	961	500	-	-
Inc./(dec.) in total borrowings	(438)	1,844	1,100	(500)	(700)
Inc./(dec.) in investments	143	(376)	-	-	-
Cash from financial activities	(295)	1,468	1,100	(500)	(700)
Others	196	(136)	-	-	-
Opening cash	536	501	544	532	577
Closing cash	501	544	532	577	624
Change in cash	(36)	43	(12)	45	47

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	7,110	8,334	10,275
Net worth	7,286	7,096	7,310	8,534	10,475
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
Total Liabilities	8,886	10,539	11,853	12,577	13,819
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	4,915	5,399	5,885
Debtors	9,379	12,427	13,187	14,260	15,427
Cash	501	544	532	577	624
Loans and advances	1,657	2,020	2,100	2,324	2,496
Other current assets	3,125	4,024	3,501	3,790	3,889
Total current assets	18,874	23,482	24,235	26,350	28,321
Creditors	9,823	11,997	12,414	13,611	14,159
Other current liabilities & provisions	2,864	4,390	4,021	4,328	4,686
Total current liabilities	12,688	16,387	16,435	17,938	18,845
Net current assets	6,187	7,095	7,800	8,412	9,476
Deferred tax asset (net)	79	253	253	253	253
Total assets	8,886	10,539	11,853	12,577	13,819

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY13	FY14	FY15E	FY16E	FY17E
Per share (Rs)					
EPS	5.1	(0.5)	4.5	15.2	22.9
Book value	72.9	71.0	73.1	85.4	104.8
Valuation (x)					
P/E	44.5	NA	50.9	15.0	9.9
P/BV	3.1	3.2	3.1	2.7	2.2
EV/EBITDA	21.5	31.4	15.2	8.2	6.1
EV/sales	0.7	0.6	0.6	0.5	0.4
Return ratios (%)					
RoCE	10.8	5.9	13.2	23.3	28.9
RoE	7.2	(0.7)	6.2	19.1	24.1
RoIC	11.9	6.6	14.8	25.9	32.0
Profitability ratios (%)					
EBITDA margin	3.3	2.0	3.7	5.9	6.7
EBIT margin	2.9	1.4	3.1	5.3	6.1
PAT margin	1.5	(0.1)	0.9	2.8	3.7
Turnover ratios					
Total asset turnover ratio (x)	3.8	4.1	4.2	4.4	4.7
Debtor days	101	99	110	103	97
Inventory days	42	39	41	39	37
Creditors days	124	124	132	128	117
Solvency ratios (x)					
Debt-equity	0.2	0.5	0.6	0.5	0.3
Interest coverage	1.4	0.7	1.5	3.3	5.2

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

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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