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INITIATING COVERAGE

BAJAJ ELECTRICALS

Bajaj Electricals

Making strides in its transformation journey

We initiate coverage on Bajaj Electricals (BJE) with a BUY rating and target price of INR 1,200. We believe BJE is a play on the growth opportunity in FMEG and anticipated rural recovery, given (1) its diverse product offerings along with a leadership position within key categories in home and kitchen appliances; (2) its well-entrenched distribution network; and (3) its higher rural saliency vs peers (c.2x of peers). After turning net cash (after four decades) and simplifying its corporate structure under Phase 1 of its transformation journey, in its next phase, BJE is focused on industry-leading growth and aims to achieve it through (1) refreshing the product portfolio; (2) offering products across the consumer value chain via a multi-brand strategy; and (3) stepping up investments in branding and innovation. We expect BJE's revenue/EBITDA/PAT to grow at a CAGR of 14/38/47% over FY24-27. At CMP, BJE trades at 28x FY27 EPS (10-40% discount to peers). We value the stock at 40x Jun'26 EPS to arrive at a TP of INR 1,200. Initiate coverage with a BUY rating.

- **Diverse product offerings with deep distribution reach:** With a comprehensive portfolio encompassing Consumer Products (Appliances, Fans, non-electrical Kitchen aids) and Lighting Solutions (Consumer, Professional), BJE's product depth and breadth are amongst the best in the FMEG industry. Moreover, it boasts one of the strongest distribution networks (200,000+ retail touchpoints across urban and rural markets) and a leadership position in key categories (Water Heaters, Mixer family, Irons). Given its higher saliency from rural regions (c.2x of peers), BJE is well-placed to benefit from the anticipated recovery in rural markets in H2FY25.
- **Striding along in its transformation journey:** In 2020, BJE embarked upon a multi-year transformation journey to build a future-ready Bajaj Electricals and has made considerable progress. Under Horizon 1, BJE has (1) turned net-debt free after four decades; (2) scaled up its FMEG core along with market-share gains in key categories; (3) simplified corporate structure (incl EPC demerger); and (4) transitioned into a professionally driven organization. Now in Horizon 2, BJE is focused on industry-leading growth through (1) refreshing the entire product portfolio (80-90% of the portfolio in the next 18 months); (2) evolve into a house of brands with offerings across the consumer value chain; (3) stepping up investments in branding and innovation; (4) improving weighted distribution; and (5) structurally improving margins.
- **Valuation and outlook:** We estimate revenue/EBITDA/PAT will grow at 14/38/47% over FY24-27E with 20%+ RoE and c.30% RoCE. Notwithstanding the near-term softness in demand (barring summer portfolio), we believe BJE is well-placed to gain from the much-anticipated improvement in demand (especially from H2FY25) along with margin expansion, led by (1) presence across small ticket daily use products; (2) offerings across the consumer value chain; (3) deep distribution network; (4) higher saliency to rural markets (3-4x of peers); and (4) cost efficiency measures along with higher oplev. We value the stock at 40x Jun'26 EPS to arrive at a target price of INR 1,200. Initiate coverage with a BUY rating

Financial summary

YE Mar (INR mn)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	49,771	45,731	47,882	48,892	46,413	52,694	60,582	69,666
EBITDA	2,069	3,015	2,511	3,748	2,597	3,809	5,130	6,862
APAT	(1)	1,719	1,500	2,154	1,359	2,009	3,041	4,324
Diluted EPS (INR)	(0.0)	15.0	13.1	18.7	11.8	17.4	26.4	37.5
P/E (x)	na	69.3	79.6	55.6	88.2	59.6	39.4	27.7
EV / EBITDA (x)	61.4	41.0	47.1	30.8	45.0	30.6	22.7	16.8
RoE (%)	(0.0)	11.5	9.0	11.8	8.1	13.2	17.5	21.2

Source: Company, HSIE Research | EPC business demerged from FY23

BUY

CMP *(as on 14 Jun 2024)*	INR 1,040
Target Price	INR 1,200
NIFTY	23,466

KEY STOCK DATA	
Bloomberg code	BJE IN
No. of Shares (mn)	115
MCap (INR bn) / ($ mn)	120/1,435
6m avg traded value (INR mn)	107
52 Week high / low	INR 1,193/820

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	8.9	3.5	(5.3)
Relative (%)	3.6	(5.7)	(27.1)

SHAREHOLDING PATTERN (%)	Dec-23	Mar-24
Promoters	62.85	62.80
FIs & Local MFs	12.11	12.61
FPIs	10.41	10.18
Public & Others	14.63	14.41
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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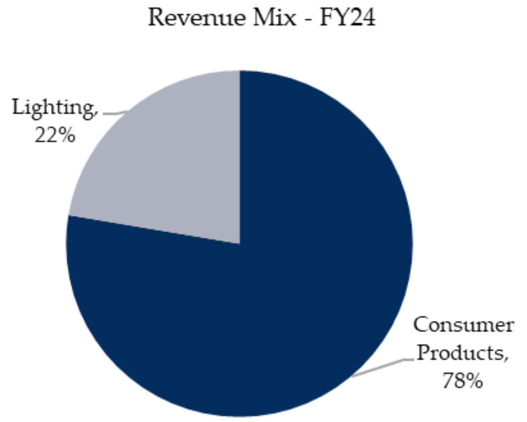
Bajaj Electricals — Evolving into a house of brands

Bajaj Electricals (BJE), a part of the Bajaj Group, is amongst the leading players in India's fast-moving electrical goods (FMEG) segment with a legacy of over eight decades. BJE's product portfolio comprises Consumer Products (Appliances, Fans, non-electrical Kitchen aids) and Lighting solutions (Consumer and Professional Lighting). During FY24, BJE successfully demerged its EPC division (Power Transmission and Power Distribution), making it a pure-play FMEG company.

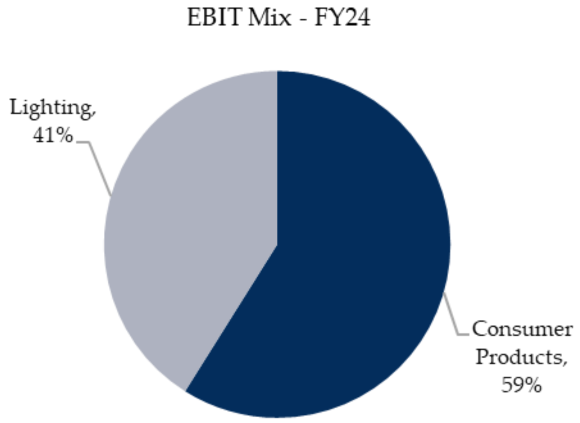
- BJE has undergone a remarkable transformation journey in recent years which includes (1) transition to a professionally managed company; (2) EPC demerger; (3) simplification of corporate structure; and (4) turning a debt-free company for the first time in over four decades.
- With the brand "BAJAJ" resonating more with the mass segment in FMEG, BJE is looking to gradually increase its premium offering by evolving into a house of brands. Today it operates four distinct brands: (1) BAJAJ – Built for Life (durable products); (2) Nex – Feel the future (premium; higher performance); (3) Morphy Richards – Happiness Engineered (premium lifestyle); and (4) Nirlep – Everyday Health.
- BJE has renewed its exclusive long-standing license agreement (2002) with Morphy Richards (MR) for another 15 years (w.e.f. 1st Jul'22) which shall empower it to plan and grow the MR business with a long-term view and a clear product development and expansion roadmap for the market which will be supported by brand building and go-to-market thrust.
- In 2018, BJE acquired Nirlep Appliances – a five-decade-old non-stick cookware company to propel its non-electrical appliances foray into cookware and related segments.
- BJE's distribution network of 200,000+ retail outlets is among the industry's highest. It is being serviced through 700+ distributors.
- BJE operates on an asset-light business model by outsourcing manufacturing (c.80% in FY24) by entering long-term tie-ups with vendors.
- It has a higher saliency from rural regions (c.2x of industry) in its revenue mix.

Exhibit 1: Consumer Products dominates revenue….



Source: Company, HSIE Research

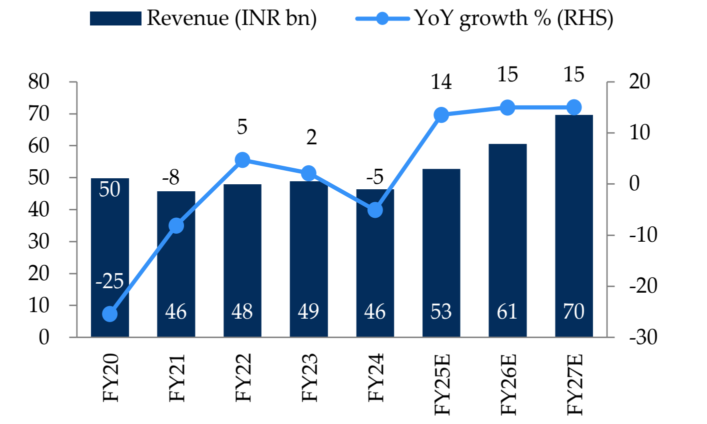
Exhibit 2: …. as well as EBIT



Source: Company, HSIE Research

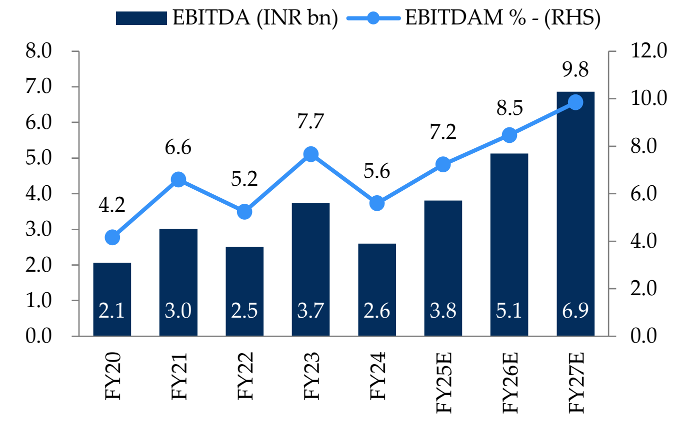
Story in charts

Exhibit 3: Revenue to grow at 14% CAGR over FY24-27E



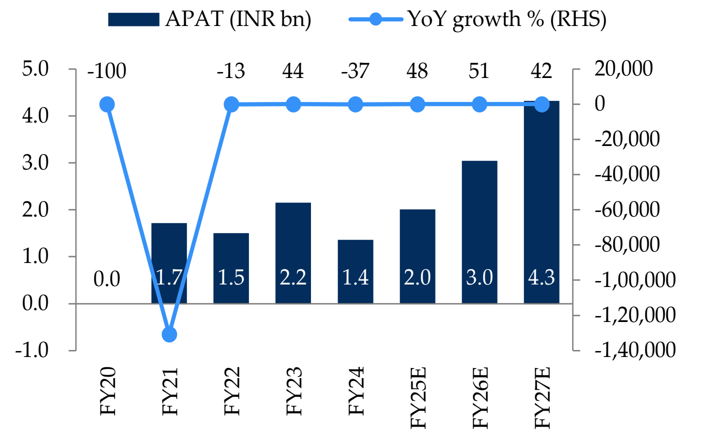
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 4: EBITDA to grow at 38% CAGR over FY24-27E



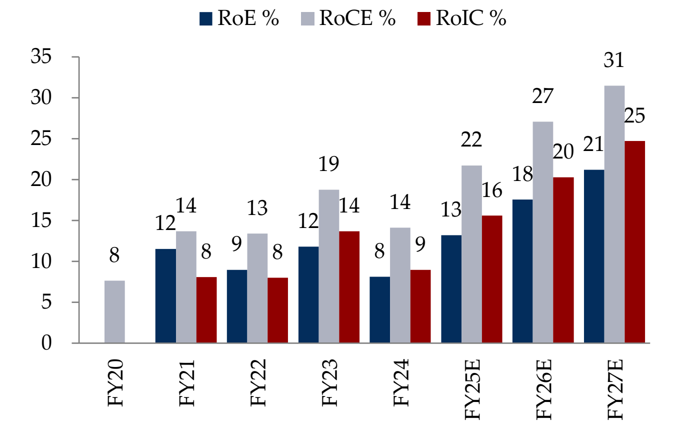
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 5: PAT to grow at 47% CAGR over FY24-27E



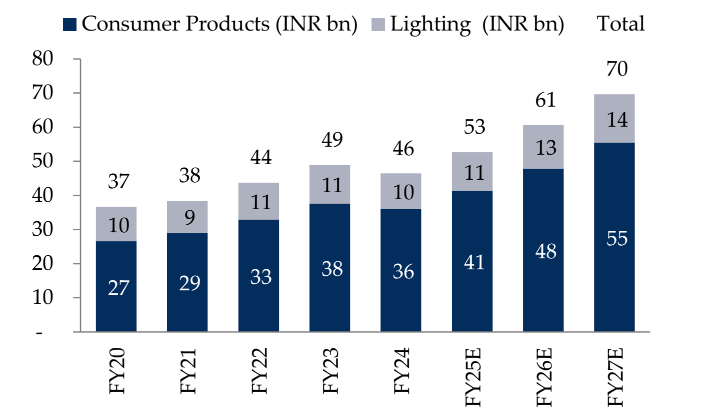
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 6: Return ratios set to improve



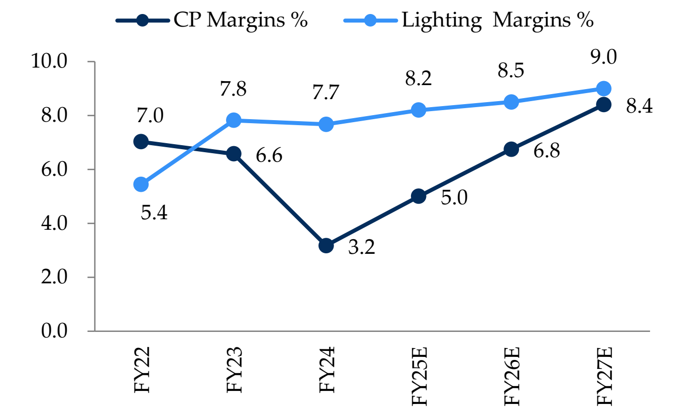
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 7: Revenue break-up of pure FMEG business



Source: Company, HSIE Research

Exhibit 8: Margins to improve across segments



Source: Company, HSIE Research | EPC business demerged from FY23

One-stop shop for all kitchen and home appliances

- **Product depth and breadth amongst the best in the industry:** With a comprehensive portfolio encompassing Consumer Products (Appliances, Fans, non-electrical Kitchen aids) and Lighting Solutions (Consumer and Professional Lighting), BJE's product depth and breadth are amongst the best in the industry. BJE has renewed its exclusive long-standing license agreement (2002) with Morphy Richards (MR) for another 15 years (w.e.f. 1st Jul'22) which shall empower it to plan and grow the MR business with a long-term view and a clear product development and expansion roadmap for the market which will be supported by brand building and go-to-market thrust. BJE, in 2018, acquired Nirlep Appliances to propel its non-electrical appliances foray into cookware and related segments. Most of its products are small ticket items like fans, irons, food preparation/ cooking appliances (mixers, food processors, juices, cookers etc.), LED bulbs, battens etc., which are used daily. With the brand "BAJAJ" resonating more with the mass aspirational segment in FMEG, the company is looking to gradually increase its premium offering by evolving into a house of brands.

Exhibit 9: BJE offers a diverse product offering within Home Appliances and Kitchen Appliances

	Havells	Crompton	Bajaj	V-Guard	Polycab	Orient	Stove Kraft	TTKPT	Hawkins
Electricals									
Wires & Cables	✓	x	x	✓	✓	✓	x	x	x
Lighting	✓	✓	✓	x	✓	✓	✓	x	x
Pumps	✓	✓	x	✓	✓	x	x	x	x
Switches & Switchgears	✓	x	x	✓	✓	✓	x	x	x
Home Appliances									
Fans	✓	✓	✓	✓	✓	✓	x	x	x
Air Coolers	✓	✓	✓	✓	✓	✓	x	x	x
Water Heaters	✓	✓	✓	✓	✓	✓	x	x	x
Iron	✓	✓	✓	x	✓	✓	x	✓	x
UPS/Stabalisers	x	x	x	✓	x	x	x	x	x
Kitchen Appliances									
Water Purifier	✓	x	x	✓	x	x	x	✓	x
Mixer Grinders	✓	✓	✓	✓	x	✓	✓	✓	x
Pressure Cooker	x	✓	✓	✓	x	x	✓	✓	✓
Gas Stoves	x	✓	✓	✓	x	x	✓	✓	x
Non-Stick Cookware	x	✓	✓	✓	x	x	✓	✓	✓
Induction Cooktops	✓	✓	✓	✓	x	✓	✓	✓	✓
Rice Cooker	✓	✓	✓	✓	x	✓	✓	✓	x
Chimneys	✓	✓	x	✓	x	x	✓	✓	x
White Goods									
Colour TV	✓	x	x	x	x	x	x	x	x
Refrigerator	✓	x	x	x	x	x	x	x	x
Room AC	✓	x	x	x	x	x	x	x	x
Washing Machines	✓	x	x	x	x	x	x	x	x

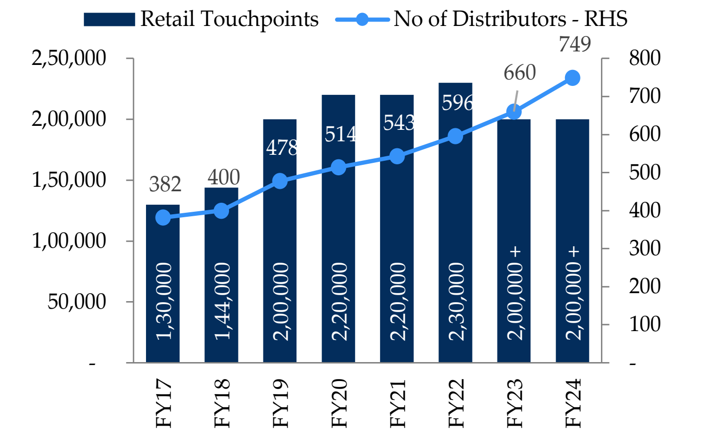
Source: Company; HSIE Research

Exhibit 10: Wide range of offerings catering to B2C and B2B segments

Source: Company; HSIE Research

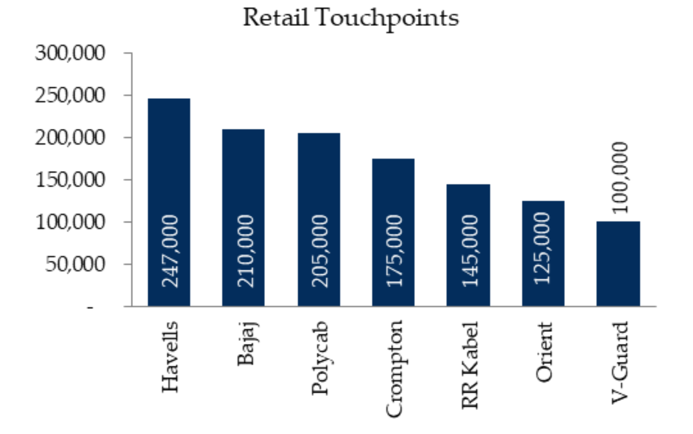
- **Strong distribution network:** With a legacy of over 80 years and successfully implementing the RREP program, BJE has one of the strongest distribution networks spanning both urban and rural markets amongst all consumer electrical companies. Its products are currently sold through +700 distributors and +200,000 retail touchpoints in India. Apart from the General Trade Channel (GT), which contributes c.60% of sales, BJE also sells through alternate channels like e-commerce (c.15% of sales), Modern Format Retail and institutional. In addition to this, its country-wide network of service centres (600+) is one of its major strengths.

Exhibit 11: Strong distributors/ retail network



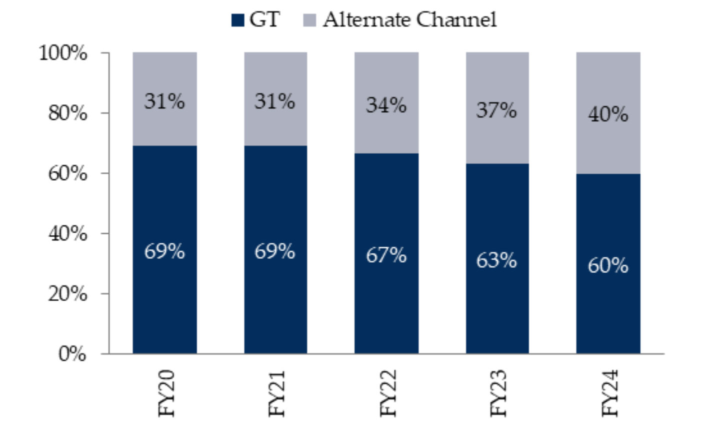
Source: Company, HSIE Research

Exhibit 12: Distribution network vs peers



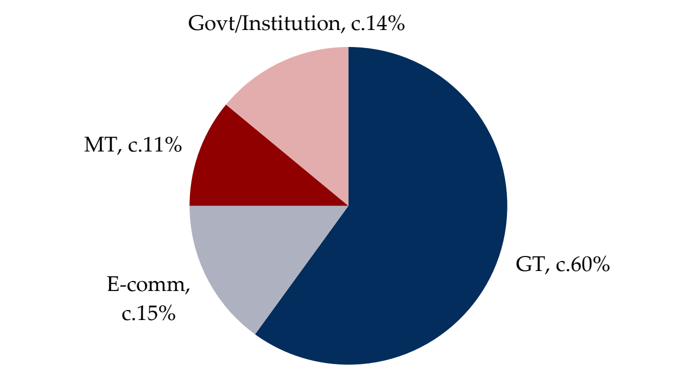
Source: Company, HSIE Research

Exhibit 13: Alternate channel mix on the rise



Source: Company, HSIE Research

Exhibit 14: Break-up of channel mix



Source: Company, HSIE Research

- **Leadership position in key categories; headroom for growth in others:** Over the past few years, BJE has consolidated its leadership position in key categories like mixer grinders, water heaters and irons. On the other hand, on the back of a refreshing product portfolio and filling product gaps, BJE has moved positions in fans (from 5th to 4th) and lighting (from 7th to 5th) in the last three years. Going ahead, the focus will be on defending its position in categories where it enjoys a leadership position while looking to further make inroads in other categories. BJE is amongst the top 3 players within the ECD and lighting segment in India.

Exhibit 15: Leadership position in key categories

Category	Market Size (INR bn)	BJE Rank #	Strategy	Peers
Appliances				
Mixers	50	#1	Defend	Preethi, TTK Prestige
Water Heaters	30-40	#1	Defend	AO Smith, Havells, V-Guard
Air Coolers	65-80	Top 3	Grow	Symphony, Voltas, Kenstar
Irons	12-15	#1	Defend	Phillips, Usha
Fans	140-150	Top 4	Grow	Crompton, Havells, Orient
Lighting	250	Top 5	Grow	Signify, Havells, Crompton, Orient, Syska
Kitchen Aids	65		Grow	TTK, Hawkins, Stove Kraft

Source: Company, HSIE Research

Exhibit 16: BJE is amongst top 3 players within ECD and lighting segment

Revenue (INR mn)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY19-22	FY19-24
Crompton* (Co Level)	41,051	44,789	45,203	48,035	53,941	68,696	73,128	6.4%	10.3%
Havells (ECD + Lighting)	27,383	33,999	30,197	34,616	44,377	48,973	51,086	9.3%	8.5%
Bajaj Electricals (Co Level)	28,753	33,716	36,688	38,421	43,711	48,892	46,413	9.0%	6.6%
Orient Electric (Co Level)	15,998	18,644	20,618	20,326	24,484	25,292	28,121	9.5%	8.6%
Polycab (FMEG)	4,853	6,433	8,356	10,341	12,544	12,512	12,828	24.9%	14.8%
V-Guard (ECD + Sunflame)	5,750	6,779	6,745	7,367	10,640	13,335	17,184	16.2%	20.4%
ECD (INR mn)									
Crompton	28,281	32,136	33,890	37,571	43,110	47,557	53,922	10.3%	10.9%
Havells	15,696	20,964	20,054	23,770	30,669	32,958	34,818	13.5%	10.7%
Bajaj Electricals	18,593	23,391	26,583	28,997	32,904	37,642	36,039	12.0%	9.0%
Orient Electric	12,181	13,296	14,916	15,139	17,993	17,518	19,828	10.6%	8.3%
Polycab	3,640	4,825	6,267	7,756	9,910	9,864	10,100	27.1%	15.9%
V-Guard	5,750	6,779	6,745	7,367	10,640	12,766	14,443	16.2%	16.3%
Lighting (INR mn)									
Crompton	12,770	12,653	11,312	10,464	10,831	10,581	9,982	-5.1%	-4.6%
Havells	11,687	13,035	10,143	10,846	13,709	16,015	16,268	1.7%	4.5%
Bajaj Electricals	10,160	10,325	10,106	9,424	10,807	11,250	10,374	1.5%	0.1%
Orient Electric	4,074	5,348	5,702	5,187	6,491	7,774	8,294	6.7%	9.2%
Polycab	1,213	1,608	2,089	2,585	2,634	2,648	2,728	17.9%	11.1%

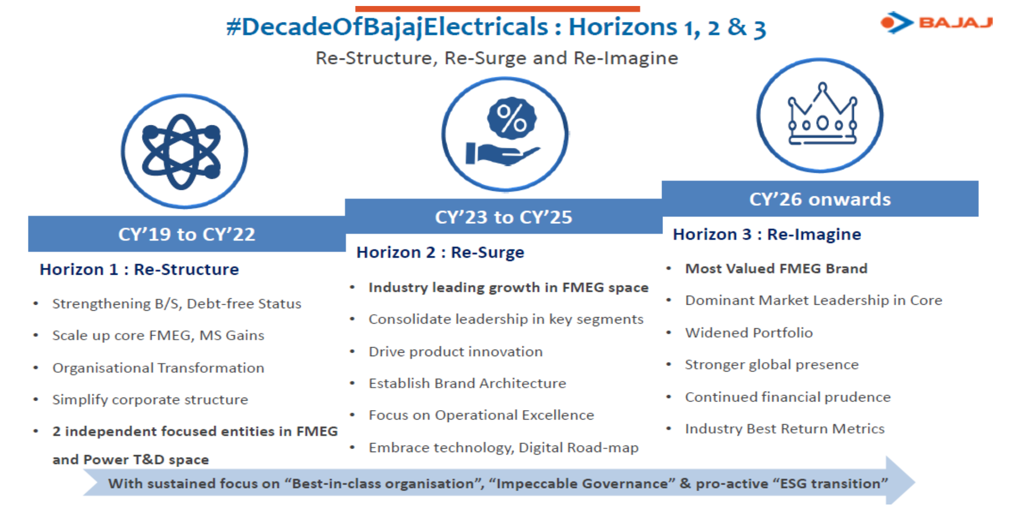
Source: Company, HSIE Research *Crompton includes BGAL from FY23 onwards

- **Presence across the value chain; high rural saliency vs peers:** The majority of BJE’s products are small ticket items like fans, irons, food preparation/ cooking appliances (mixers, food processors, juices, cookers etc.), LED bulbs, battens etc., which are used daily. While most of its products are positioned as durable products, it caters to mass-premium/premium demand through its brands “Morphy Richards” and “NEX” thereby catering to consumer needs across the value chain. Moreover, BJE has a higher saliency from rural regions in its revenue mix compared to its peers in the industry (c.2x of the industry average). While the rural market has been soft over the past few quarters due to inflationary pressures, we believe demand for fans, lights, mixer grinders, and air coolers in rural markets has been increasing, given (1) last-mile connectivity due to rural electrification undertaken by the government; (2) improving quality of power supply (availability); and (3) rising disposable income on the back of improving agricultural income. Given its presence across small ticket daily use products, a wide range of product offerings and a deep distribution network, BJE is well-placed to capture the increase in demand for these products arising from (1) an increase in demand in rural India; (2) consolidation and shift to organised segment; (3) urbanization; (4) energy-efficient appliances; and (5) changing consumer tastes and preferences.

Making strides in its transformation journey

In 2020, BJE embarked upon a multi-year transformation journey to build a future-ready Bajaj Electricals which comprises strengthening people, processes and systems as well as overall organizational culture to drive superior performance on a more institutionalized basis. The multi-year transformation journey has been divided into three key phases: (1) Horizon 1: Restructure; (2) Horizon 2: Resurge; (3) Horizon 3: Reimagine. After having successfully executed Horizon 1, BJE is currently implementing Horizon 2 with a focus on growth and excellence.

Exhibit 17: Snapshot of BJE's multi-year transformation journey

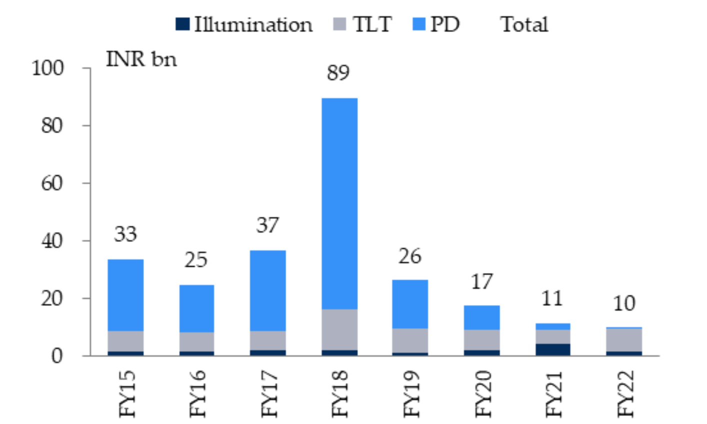


Source: Company, HSIE Research

Successfully executed Horizon 1: Restructure

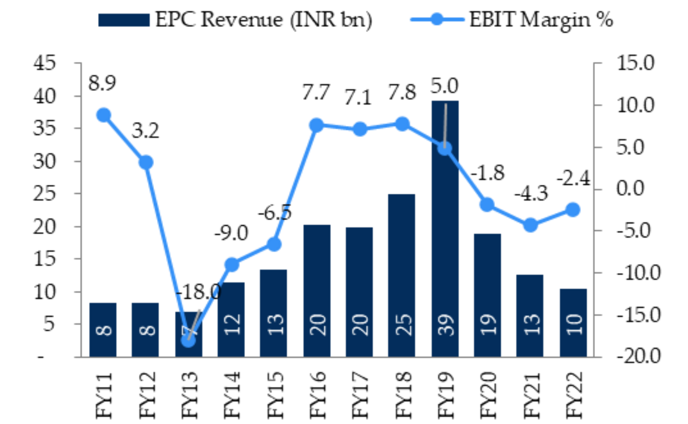
- **Turned net-debt free after over four decades:** Over FY14-19, BJE saw its gross debt ballooning from INR 3bn to INR 16bn due to (1) aggressive order booking spree in Transmission Line Tower (TLT) leading to losses between FY13-15 and (2) massive order book win of INR 75bn in Q4FY18 from UP government for power distribution (PD) projects which was accompanied by negative operating cashflows resulting in a significant increase in debt. Since then, the management took a strategic call to contain the EPC business and focus on asset turns, return profile and cash generation. As a result, over FY20-22, BJE cumulatively generated INR 22bn in operating cash flows. This along with the INR 3.5bn right issue (Mar'20) helped turn BJE into a net cash company after over four decades. Moreover, given sustained cash generation, the board has amended the dividend distribution policy intending to maintain dividend pay-out between of 20-40%.

Exhibit 18: Massive order win in PD during FY18



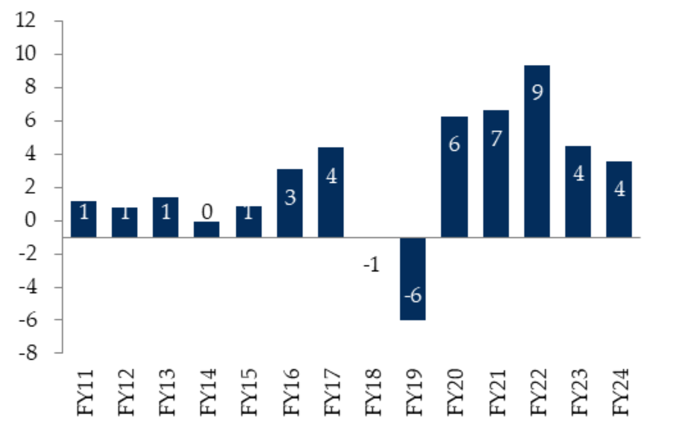
Source: Company, HSIE Research

Exhibit 19:EPC margin under stress post PD order win



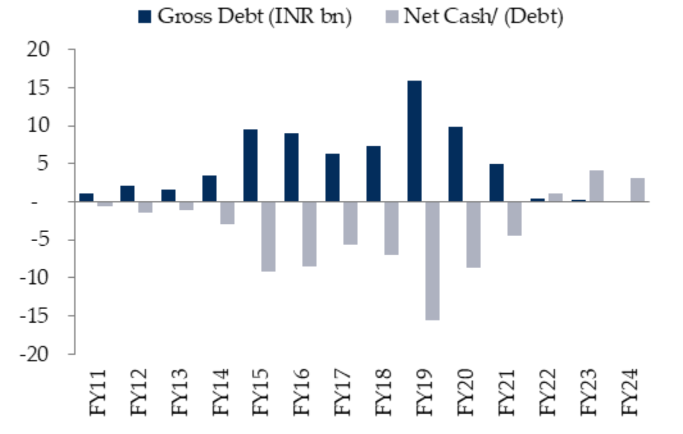
Source: Company, HSIE Research

Exhibit 20: Post FY19, focus on generating positive OCF



Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 21:Turned net cash company after four decades



Source: Company, HSIE Research | EPC business demerged from FY23

- **Within FMEG, scaled up the core along with share gains in key categories:** In April 2016, BJE moved to a new distribution system dubbed "Range and Reach Expansion Program (RREP) - away from the traditional wholesale-led model which involved higher discounts and dead stock. Under RREP, the focus was on secondary sales while increasing the depth and breadth of the distribution network with each retail customer served weekly (replenishment of inventory) leading to lower working capital requirements for the retailer and consequently higher RoI. This allowed BJE to maintain its #1 position in appliances which grew at a CAGR of 12% over FY19-22. Moreover, it regained some of its lost market share in fans (moving from #5 to #4) as it grew at 14% CAGR over FY19-22. Within B2C lighting, BJE improved its market positioning from #7 to #5 while being amongst the top 2 players in B2B lighting.

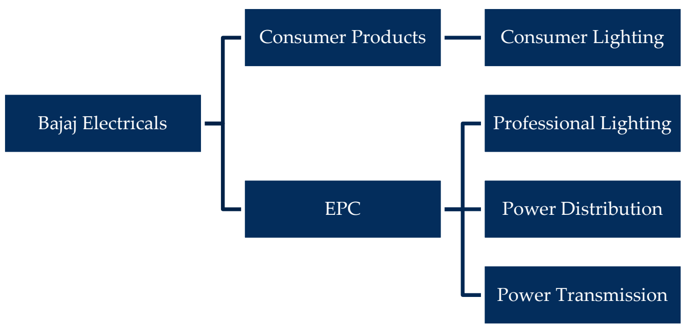
Exhibit 22: Key tenets of RREP 1.0

Traditional Distribution Model	Distribution Model post RREP 1.0
Sales driven on basis of targets and deals **(Push Sales)**	Sales driven by improving availability and other enablers **(Pull Sales)**
Primary Sales Focus	**Secondary Sale** Focus
Billing: Monthly to distributors/ wholesalers	**Billing: Regular** based on replenishment
Inventory: Higher inventory level in the channel	**Inventory: Lower** channel inventory and faster turns
Little effort by channel partners to develop secondary market	Direct Sales officer initiates market development
Tracking of secondary sales: No	**Tracking of secondary sales:** Yes

Source: Company; HSIE Research

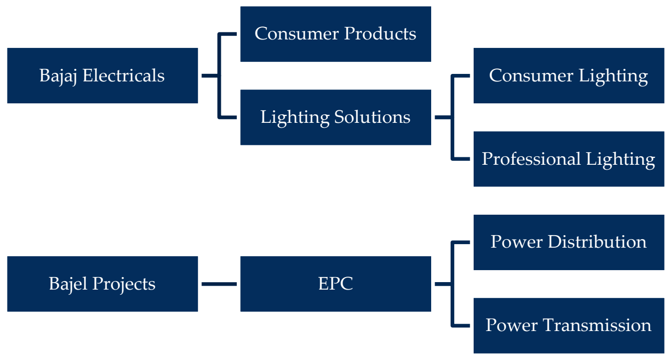
- **Simplification of corporate structure:** BJE, over the past 3-4 years, has initiated various measures in its bid to simplify the corporate structure to help drive growth and efficiencies in the long term. It has successfully demerged the EPC business (Power Transmission and Power Distribution) into a separate listed entity – "Bajel Projects Limited" thereby making BJE a pure-play FMEG player. It has demerged the manufacturing business of Hind Lamps into BJE while also completing the merger of Starlite which has provided it better control over the manufacturing operations of these companies. Moreover, NCLT has approved the merger of Nirlep Appliances with BJE. BJE has also unified the Illumination and B2C lighting business with a separate procurement, supply chain, marketing and GTM team.

Exhibit 23: Operating structure pre-demerger



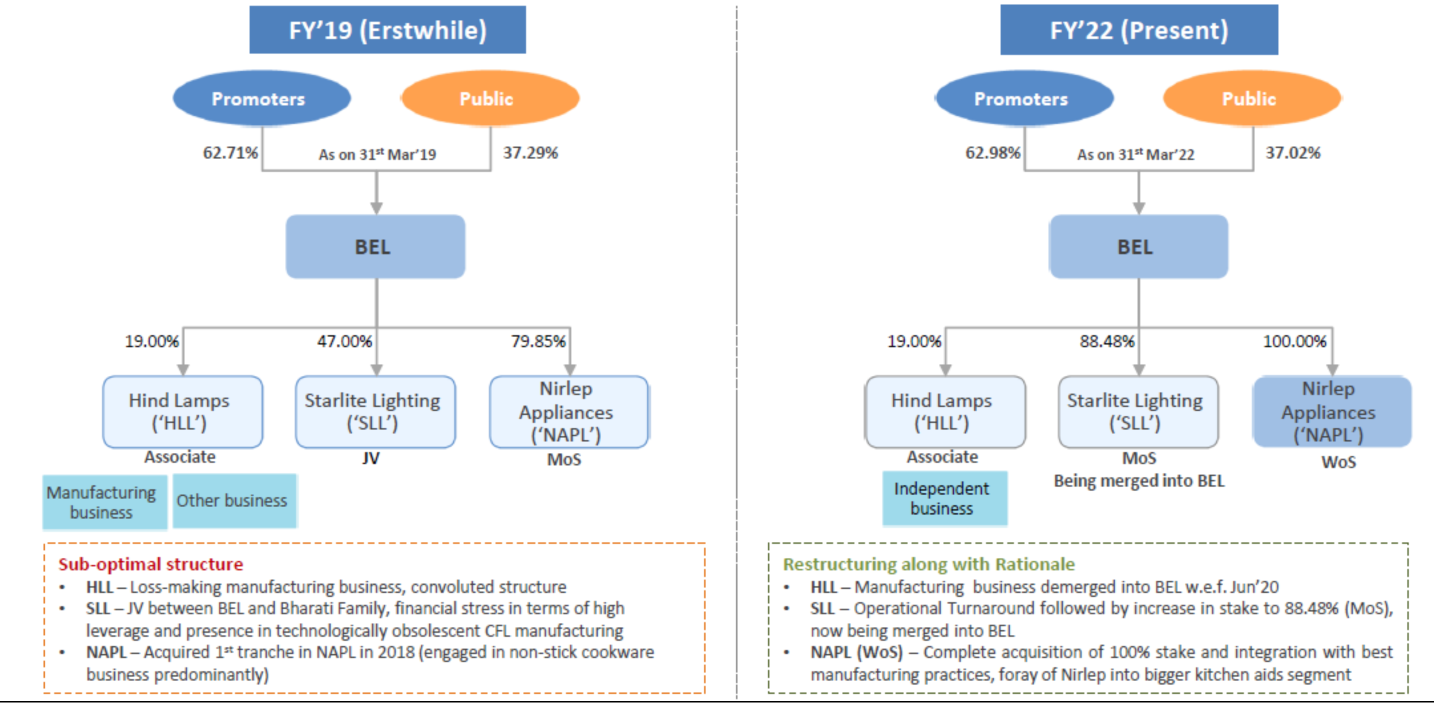
Source: Company, HSIE Research

Exhibit 24:Demerged EPC into separate entity



Source: Company, HSIE Research

Exhibit 25: Demerged manufacturing business of HLL into BJE; SLL and NAPL merged into BJE



Source: Company; HSIE Research

- **Transitioned to a professionally driven organisation:** On the organisational front as well, BJE has transitioned to a role-based, flatter organisation from designation-based earlier (compression to 8 bands from erstwhile 13+). BJE has transitioned from being a promoter-owned cum managed organisation to a promoter-owned, professionally managed company. In addition to Mr Anuj Poddar being elevated as MD, BJE elevated Rajesh Naik as head of the lighting business and is on the lookout for a new COO for the consumer products business post the resignation of Ravindra Negi (who joined Orient Electric as MD).

Horizon 2 (Resurge) execution a WIP

- **Refreshing product portfolio; Evolving into a house of brands:** Over the years, given the slow rate of innovations and lack of product refresh, BJE's offerings have largely lagged behind the competition in terms of aesthetics. To buck this trend, BJE has developed a strong product development roadmap with meaningful innovations and consumer value propositions. Over the last two years, BJE has launched 500+/700+ SKUs in Consumer Products/Lighting segments. These launches have helped plug gaps in the portfolio, helped drive greater premiumization and grow market share across categories.

  In this product refresh cycle, BJE has already refreshed 30-35% of its product portfolio and aims to have 80-90% of the product refreshed in the next 1-1.5 years. Moreover, with the brand "BAJAJ" resonating more with the mass segment in FMEG, it is looking to gradually increase its premium offering by evolving into a house of brands. Today it operates four distinct brands: (1) BAJAJ – Built for Life (durable products); (2) Nex – Feel the future (premium; higher performance); (3) Morphy Richards – Happiness Engineered (premium lifestyle); and (4) Nirlep – Everyday Health.

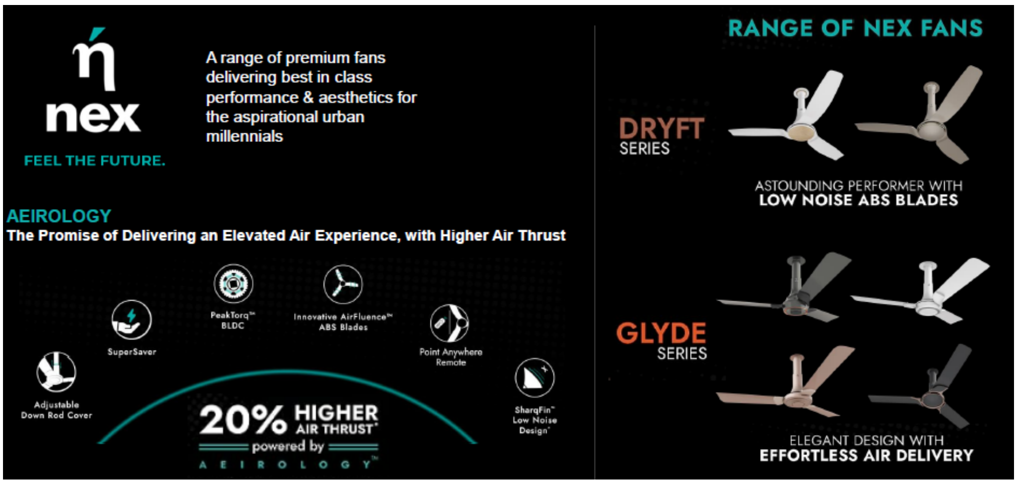
Exhibit 26: Evolving into a house of brands

Source: Company, HSIE Research

Exhibit 27:NPD contribution on the rise / SKU launches

Source: Company, HSIE Research

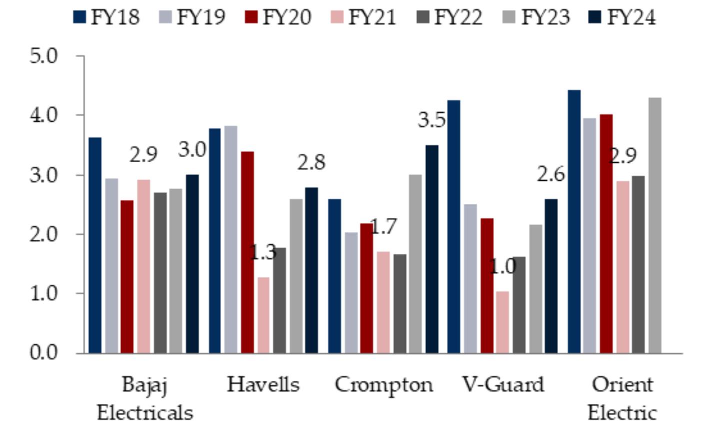
Exhibit 28: Launched technology and premium focused brand "Nex"



Source: Company, HSIE Research

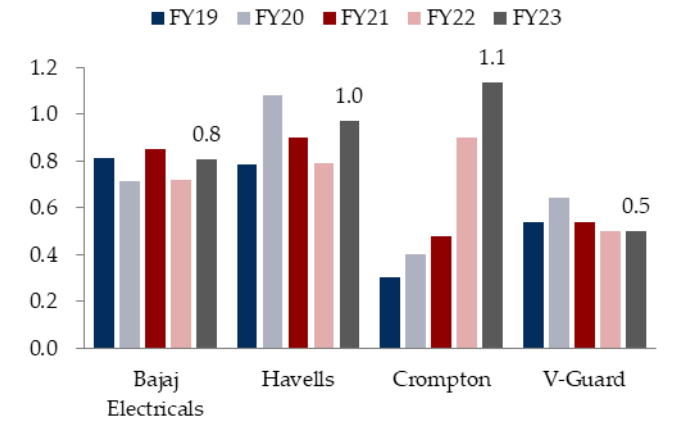
- **Stepping up investments in branding and innovation:** BJE's ad spends have historically been lower compared to its peers. However, to improve brand visibility in today's competitive environment, there is a greater thrust on increasing investments in branding. Over the past few years, BJE has stepped up its investments in branding and is looking to maintain this over the medium to long term. Another key focus area is R&D, where BJE has upped its spending from 0.7-1% of sales and is expected to hover around 2% in near term. Through its newly built R&D centre "AB Square" in Navi Mumbai, BJE will focus on product refreshment, new product development, R&D, design and testing capabilities.

Exhibit 29: BJE's A&P spends vs peers



Source: Company, HSIE Research

Exhibit 30: BJE to step up R&D spends to c.2% of sales



Source: Company, HSIE Research

Exhibit 31: 30-35% of product portfolio has been refreshed; 80-90% to be refreshed over next 18 months

Source: Company; HSIE Research

- **Implementing RREP 2.0; to focus on weighted distribution (over numerical):** BJE is in the process of implementing RREP 2.0, which will look to retain some features from the RREP 1.0 while revisiting/changing certain aspects to suit the evolving business environment. Earlier, principles of the theory of constraints (TOC) were applied as a one-size-fits-all across categories, geographies, urban/rural etc. This meant collapsing all product categories under one segment and having one distributor for all product categories which was proving to be counterproductive as the distributors did not have the bandwidth or inclination to service all product categories. Now under RREP 2.0, depending on the needs of the market/ product category, BJE remains open to employing hybrid distributors who can cater to or specialize by focusing on different product categories. Moreover, with 200k+ retail touchpoints, BJE is now focusing on extracting more from these counters rather than just looking at numerical expansion. The focus remains on increasing SSSG, filling in product gaps and increasing wallet share.

- **Driving structural improvement in margins:** Historically, BJE's FMEG margins have been low (5-7% vs >10% for peers) given its value-for-money product offerings. It is looking to address this by (1) improving gross margins through increasing ASP and increasing premiumization of the portfolio; (2) margin expansion in lighting; (3) op-lev on an increasing scale; and (4) optimizing logistics cost. <u>We note that BJE is transitioning its logistics arrangement back from 3P to in-house which has led to a 200-250bps drag on margins. They have hired an external consultant to help with the same.</u> In addition to this, despite seeing first-level-margins (before discounts) improving by 150bps in FY24, BJE's margins have been under pressure due to (1) higher discounts and schemes in the face of competitive intensity; (2) inability to completely pass on cost increase (BEE rating transition in fans); and (3) reassessment of product warranty – c.50bps. BJE has already taken one round of price hikes in May'24. We believe the margins have hit a trough and expect improvement here onwards, led by (1) calibrated price hikes; (2) logistics efficiency; (3) improving product mix; and (4) higher operating leverage.

Financials and valuation

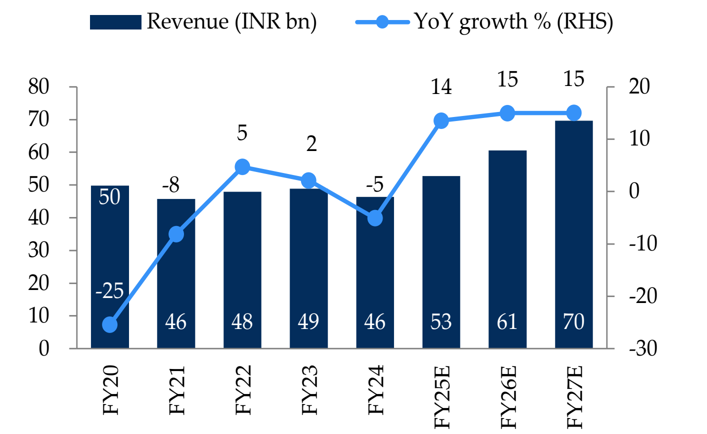
Revenue to grow at 14% CAGR over FY24-27E

We expect revenue to grow at a CAGR of 14% over FY24-27E. We expect the growth to be led by Consumer Products (15% CAGR) while Lighting revenues can grow at 11% CAGR over the same period. Refreshing product portfolios, filling in gaps in product offerings, increasing investments in branding, and improving weighted distribution are key enablers for growth across both segments.

EBITDA and PAT to grow at 38/47% CAGR over FY24-27E

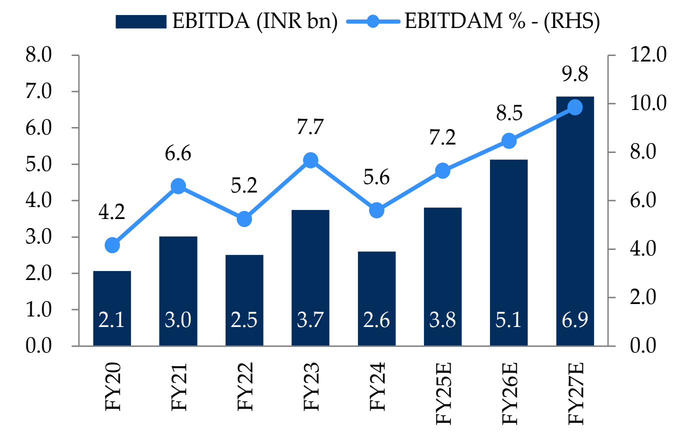
Despite seeing first-level-margins (before discounts) improving by 150bps in FY24, BJE's margins have been under pressure on account of (1) steep discounts and schemes due to heightened competitive intensity; (2) inability to completely pass on cost increase (BEE rating transition in fans); (3) reassessment of product warranty – c.50bps); (4) highest logistics costs (transition back to in-house vs 3P); and (5) negative oplev. We believe the margin has hit a trough and expect it to expand by 420bps to 9.8%, led by (1) improving mix; (2) cost efficiency measures; (3) calibrated pricing action; and (4) improving operating leverage leading to an EBITDA CAGR of 38% over FY24-27E. We estimate PBT will grow at a CAGR of 49% to INR 5.8bn over FY24-27, aided by rising treasury income. PAT could grow at 47% CAGR to INR 4.3bn.

Exhibit 32: Revenue to grow at 14% CAGR over FY24-27E



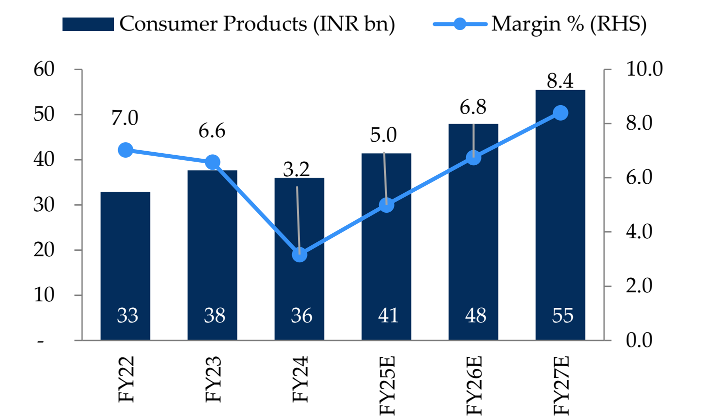
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 33: Margins to expand by 420bps



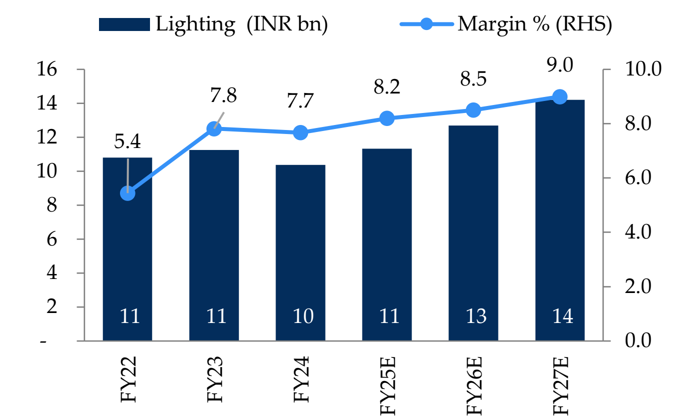
Source: Company, HSIE Research | EPC business demerged from FY23

Exhibit 34: CP revenues to grow at 15% CAGR



Source: Company, HSIE Research

Exhibit 35: Lighting revenues to grow at 11%



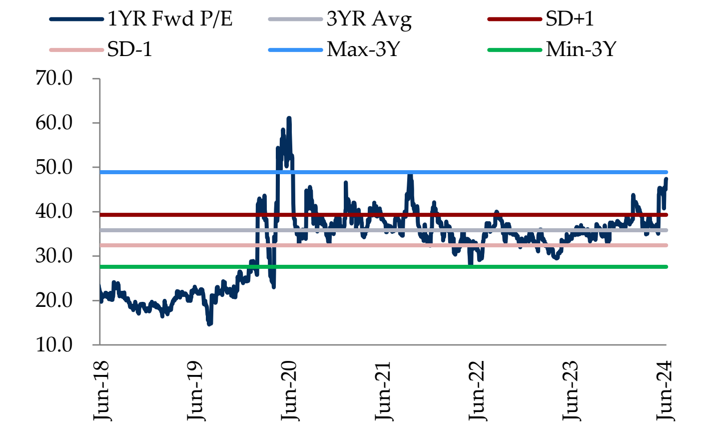
Source: Company, HSIE Research

Valuation

BJE has shown exceptional execution capabilities under Horizon 1 of its transformational journey wherein the company (1) turned net cash; (2) scaled up its core segments while gaining market share in key categories; (3) revamped its distribution network; and (4) simplified its corporate structure (including EPC demerger). We remain believers of the transformational journey the company has set out on and expect similar execution in the next leg of the journey where the focus is on (1) refreshing the product portfolio; (2) offerings across the consumer value chain through multi-brand strategy; (3) stepping up investments in branding and innovation; (4) improve weightage distribution; and (4) structural improvement in margins.

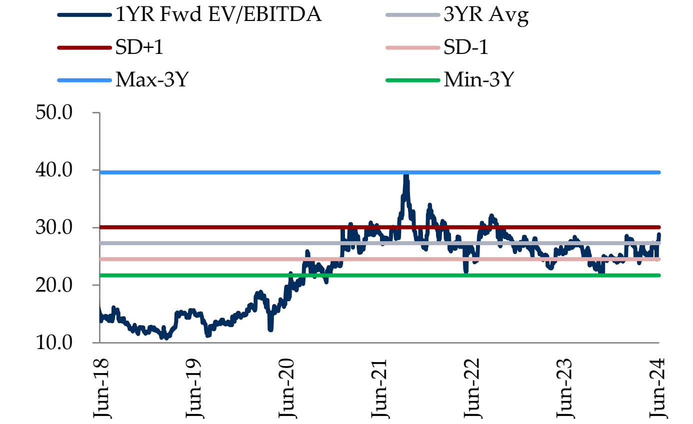
Notwithstanding the near-term softness in demand (barring summer portfolio), we believe BJE is well-placed to gain from the much-anticipated improvement in demand (especially from H2FY25), led by (1) presence across small ticket daily use products; (2) offerings across the consumer value chain; (3) deep distribution network; and (4) higher saliency to rural markets (c.2x of peers). Moreover, we believe the margins have hit a trough and expect improvement from here, led by (1) calibrated price hikes; (2) logistics efficiency; (3) improving product mix; and (4) higher operating leverage. We estimate revenue/EBITDA/PAT will grow at 14/38/47% over FY24-27E with 20%+ RoE and c.30% RoCE. BJE currently trades at 28x FY27 EPS vs 47x Havells/ 36x V-Guard/ 31x Crompton/ 29x TTK Prestige/ 24x Orient Electric (implied PEG for BJE as 1.3 vs 3.1/2.3/2.0/2.7/1.4 for Havells/V-Guard/Crompton/TTK/Orient respectively). We value the stock at 40x Jun'26 EPS to arrive at a target price of INR 1,200. Initiate coverage with a BUY rating.

Exhibit 36: 1-year forward P/E chart



Source: Bloomberg, HSIE Research

Exhibit 37: 1-year forward EV/EBITDA chart



Source: Bloomberg, HSIE Research

The key risk to the call:

- Heightened competitive intensity leading to irrational pricing by peers in a short time frame can hurt profitability.
- A steep rise in input prices coupled with inability to take price hikes can dampen profitability.
- Sluggish demand environment can impact growth prospects of the industry.
- Inability to keep pace with rapid technological advancements can lead to market share loss.

Annexure

Board of Directors

Name		Management Role
Family Representation on Board of Directors		
Shekhar Bajaj	Executive Chairman	Yes
Pooja Bajaj	Executive Director	Yes
Rajiv Bajaj	Non-Executive Director	No
Madhur Bajaj	Non-Executive Director	No
Other Board of Directors		
Anuj Poddar	Managing Director & CEO	Yes
Shailesh Haribhakti	Independent Director	
Sudarshan Sampathkumar	Independent Director	
Vikram Hosangady	Independent Director	
Swati Salgaocar	Independent Director	
Saurabh Kumar	Independent Director	

Auditors list

Name	
SRBC & Co LLP	Auditors
R Nanabhoy & Co	Cost Auditor
Anant B Khamankar & Co	Secretarial Auditors

Financials

Standalone P&L

Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Revenues	**49,771**	**45,731**	**47,882**	**48,892**	**46,413**	**52,694**	**60,582**	**69,666**
Growth (%)	(25.4)	(8.1)	4.7	2.1	(5.1)	13.5	15.0	15.0
Material Expenses	36,420	32,402	34,133	33,815	32,871	36,623	41,801	47,721
Employee Expense	3,960	3,883	3,954	3,437	3,649	3,478	3,938	4,528
Other Expenses	7,321	6,430	7,283	7,893	7,296	8,785	9,713	10,555
EBITDA	**2,069**	**3,015**	**2,511**	**3,748**	**2,597**	**3,809**	**5,130**	**6,862**
EBITDA Growth (%)	(40.6)	45.7	(16.7)	49.2	(30.7)	46.7	34.7	33.8
EBITDA Margin (%)	**4.2**	**6.6**	**5.2**	**7.7**	**5.6**	**7.2**	**8.5**	**9.8**
Depreciation	680	693	630	738	1,096	1,279	1,310	1,441
EBIT	**1,389**	**2,323**	**1,881**	**3,010**	**1,501**	**2,530**	**3,820**	**5,421**
Other Income (Including EO Items)	526	727	724	450	865	783	876	997
Interest	1,692	756	687	436	635	635	641	653
PBT	**224**	**2,294**	**1,918**	**3,024**	**1,731**	**2,678**	**4,055**	**5,766**
Total Tax	225	575	418	870	372	670	1,014	1,441
Exceptional Gain/ (loss)	-	118	(132)	-	-	-	-	-
RPAT	**(1)**	**1,836**	**1,368**	**2,154**	**1,359**	**2,009**	**3,041**	**4,324**
Adjusted PAT	**(1)**	**1,719**	**1,500**	**2,154**	**1,359**	**2,009**	**3,041**	**4,324**
APAT Growth (%)	na	na	(12.7)	43.6	(36.9)	47.8	51.4	42.2
EPS	**(0.0)**	**15.0**	**13.1**	**18.7**	**11.8**	**17.4**	**26.4**	**37.5**
EPS Growth (%)	na	na	(13.0)	43.4	(37.0)	47.8	51.4	42.2

Source: Company, HSIE Research | EPC business demerged from FY23

Standalone Balance Sheet

Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS								
Share Capital - Equity	228	229	230	230	230	230	230	230
Other Equity	13,565	15,818	17,217	18,845	14,182	15,845	18,379	21,943
Total Shareholders Funds	**13,793**	**16,047**	**17,447**	**19,075**	**14,412**	**16,075**	**18,610**	**22,174**
Long Term Debt	799	246	118	-	-	-	-	-
Short Term Debt	9,004	4,774	240	2	-	-	-	-
Total Debt	**9,804**	**5,020**	**358**	**2**	**-**	**-**	**-**	**-**
Net Deferred Taxes	(453)	(525)	(814)	54	(53)	(26)	14	72
Other Non Current Liabilities	1,686	1,115	1,148	1,375	2,344	2,529	2,756	2,996
TOTAL SOURCES OF FUNDS	**24,829**	**21,657**	**18,139**	**20,506**	**16,703**	**18,578**	**21,380**	**25,241**
APPLICATION OF FUNDS								
Net Block	**2,809**	**2,715**	**3,205**	**3,114**	**3,524**	**4,680**	**5,605**	**6,398**
Goodwill	**-**	**-**	**1,636**	**1,900**	**1,900**	**1,900**	**1,900**	**1,900**
CWIP	109	178	434	419	635	500	500	500
Intangible assets	29	21	11	192	154	194	231	267
Right of Use Assets	1,205	612	686	1,195	2,222	2,303	2,573	2,753
Non Current Investments	529	378	487	65	49	49	49	49
Other Non Current Assets	7,571	8,572	6,635	4,224	3,673	3,748	3,837	3,917
Total Non-current Assets	**12,251**	**12,477**	**13,093**	**11,109**	**12,157**	**13,374**	**14,695**	**15,785**
Current-Investments	-	-	-	408	301	501	751	1,251
Inventories	6,908	9,710	9,759	9,756	7,566	9,384	10,789	12,406
Debtors	20,490	15,115	11,366	11,113	11,632	12,271	14,108	16,224
Cash & Equivalents	1,047	616	1,419	3,702	2,747	2,603	2,542	3,311
Other Current Assets	4,437	4,058	3,564	13,840	3,876	4,384	5,023	5,757
Total Current Assets	**32,882**	**29,499**	**26,108**	**38,819**	**26,121**	**29,143**	**33,212**	**38,949**
Creditors	9,003	9,441	12,240	6,091	5,590	7,218	8,299	9,543
Other Current Liabilities & Provns	11,301	10,877	8,822	23,330	15,986	16,720	18,228	19,950
Total Current Liabilities	**20,304**	**20,319**	**21,062**	**29,421**	**21,576**	**23,938**	**26,526**	**29,493**
Net Current Assets	**12,578**	**9,181**	**5,046**	**9,398**	**4,546**	**5,204**	**6,686**	**9,456**
TOTAL APPLICATION OF FUNDS	**24,829**	**21,657**	**18,139**	**20,506**	**16,703**	**18,578**	**21,380**	**25,241**

Source: Company, HSIE Research | EPC business demerged from FY23

Standalone Cash Flow

Year End (March) - INR mn	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	224	2,294	1,918	3,033	1,690	2,678	4,055	5,766
Non-operating & EO Items	(357)	(417)	(165)	(163)	(532)	(191)	(178)	(169)
Interest Expenses	1,692	756	687	436	635	635	641	653
Depreciation	680	693	630	738	1,096	1,279	1,310	1,441
Working Capital Change	4,486	3,270	6,819	609	705	(628)	(1,322)	(1,527)
Tax Paid	(451)	(116)	(445)	(228)	(25)	(670)	(1,014)	(1,441)
OPERATING CASH FLOW (a)	**6,274**	**6,479**	**9,445**	**4,425**	**3,568**	**3,104**	**3,493**	**4,721**
Capex	(284)	(98)	(434)	(715)	(1,307)	(1,784)	(1,800)	(1,800)
Free Cash Flow (FCF)	*5,990*	*6,381*	*9,011*	*3,710*	*2,261*	*1,320*	*1,693*	*2,921*
Investments	(4)	(222)	(334)	(203)	(1,303)	(200)	(250)	(1,000)
Non-operating Income	49	85	115	54	508	181	176	188
Others	(223)	(870)	(216)	(16)	-	-	-	-
INVESTING CASH FLOW (b)	**(462)**	**(1,105)**	**(870)**	**(880)**	**(2,102)**	**(1,803)**	**(1,874)**	**(2,612)**
Debt Issuance/(Repaid)	(6,311)	(5,216)	(6,425)	(447)	(2)	-	-	-
Interest Expenses	(1,646)	(941)	(1,208)	(414)	(469)	(635)	(641)	(653)
FCFE	***1,326***	***2,107***	***3,793***	***3,677***	***2,727***	***1,954***	***2,334***	***3,574***
Share Capital Issuance	3,482	105	143	90	51	-	-	-
Dividend	(432)	-	-	(345)	(460)	(346)	(507)	(760)
Others	-	-	(233)	(270)	(447)	(465)	(531)	(427)
FINANCING CASH FLOW (c)	**(4,908)**	**(6,052)**	**(7,723)**	**(1,387)**	**(1,326)**	**(1,445)**	**(1,679)**	**(1,840)**
NET CASH FLOW (a+b+c)	**904**	**(678)**	**852**	**2,158**	**139**	**(144)**	**(60)**	**269**
EO Items, Others	-	118	(132)	-	-	-	-	-
Closing Cash & Equivalents	1,016	456	1,183	3,415	1,140	996	936	1,205

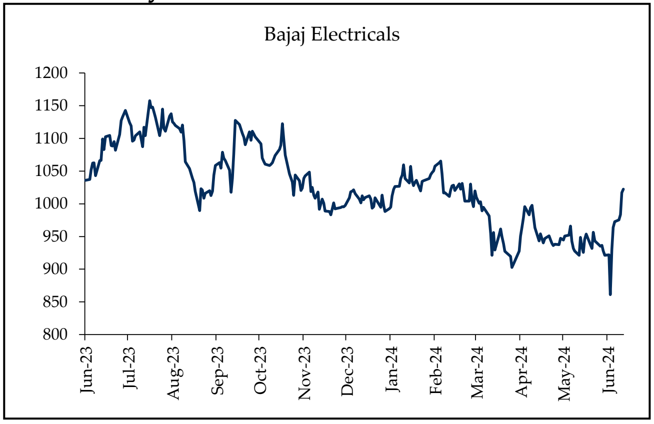
Source: Company, HSIE Research | EPC business demerged from FY23

Ratios

Year End (March)	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY (%)								
GPM	26.8	29.1	28.7	30.8	29.2	30.5	31.0	31.5
EBITDA Margin (%)	4.2	6.6	5.2	7.7	5.6	7.2	8.5	9.8
EBIT Margin	2.8	5.1	3.9	6.2	3.2	4.8	6.3	7.8
PBT Margin	0.4	5.0	4.0	6.2	3.7	5.1	6.7	8.3
APAT Margin	(0.0)	3.8	3.1	4.4	2.9	3.8	5.0	6.2
RoE	(0.0)	11.5	9.0	11.8	8.1	13.2	17.5	21.2
RoIC (or Core RoCE)	(0.0)	8.1	8.0	13.7	8.9	15.6	20.3	24.7
RoCE	7.6	13.7	13.4	18.8	14.1	21.7	27.1	31.5
EFFICIENCY								
Tax Rate (%)	100.6	25.1	21.8	28.8	21.5	25.0	25.0	25.0
Fixed Asset Turnover (x)	8.3	7.5	7.4	7.0	6.0	5.7	5.5	5.5
Inventory (days)	55	66	74	73	60	65	65	65
Debtors (days)	171	142	101	84	91	85	85	85
Other Current Assets (days)	35	34	29	65	30	30	30	30
Payables (days)	73	74	83	68	44	50	50	50
Other Current Liab & Provns (days)	90	89	75	120	126	116	110	105
Cash Conversion Cycle (days)	99	80	46	33	12	15	20	26
Net D/E (x)	0.6	0.3	(0.1)	(0.2)	(0.2)	(0.2)	(0.1)	(0.1)
Interest Coverage (x)	0.8	3.1	2.7	6.9	2.4	4.0	6.0	8.3
PER SHARE DATA (Rs)								
EPS	(0.0)	15.0	13.1	18.7	11.8	17.4	26.4	37.5
CEPS	6.0	21.1	18.5	25.1	21.3	28.5	37.8	50.0
Dividend	-	-	3.0	4.0	3.0	4.4	6.6	9.5
Book Value	121.2	140.1	151.9	165.8	125.1	139.5	161.5	192.5
VALUATION								
P/E (x)	na	69.3	79.6	55.6	88.2	59.6	39.4	27.7
P/BV (x)	8.6	7.4	6.8	6.3	8.3	7.5	6.4	5.4
EV/EBITDA (x)	61.4	41.0	47.1	30.8	45.0	30.6	22.7	16.8
EV/Revenues (x)	2.6	2.7	2.5	2.4	2.5	2.2	1.9	1.7
OCF/EV (%)	4.9	5.2	8.0	3.8	3.1	2.7	3.0	4.1
FCF/EV (%)	4.7	5.2	7.6	3.2	1.9	1.1	1.5	2.5
FCFE/Mkt Cap (%)	1.1	1.8	3.2	3.1	2.3	1.6	1.9	3.0
Dividend Yield (%)	-	-	0.3	0.4	0.3	0.4	0.6	0.9

Source: Company, HSIE Research | EPC business demerged from FY23

Price History



Rating Criteria

BUY:	>+15% return potential
ADD:	+5% to +15% return potential
REDUCE:	-10% to +5% return potential
SELL:	>10% Downside return potential

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