

High inflation impacts demand in Q2...

About the stock: Bajaj Electricals' business portfolio spans across consumer products (CP) and EPC (illumination, power transmission and power distribution).

- CP (appliances, fans, lighting) contributes ~78% to topline. Its premium brands include Morphy Richards and Nirlep. The company has over 2.3 lakh retail touch points across India
- The company has been reducing exposure to the EPC business with maximum focus on executing high margin business

Q2FY23 Results: Lower rural demand amid high inflation and inventory de-stocking restricted revenue growth.

- Revenues were down 6% YoY to ₹ 1226 crore, dragged by lower revenues from both consumer product (CP) and E&P revenues. CP (including lightings) revenue declined 3% YoY to ~ ₹ 1156 crore dragged by lower rural demand and de-stocking of fans
- EBITDA margin was up 56 bps YoY (172 bps QoQ) to 7.8%, supported by improved profitability of its E&P business. However, the CP segment was hit by high RM costs and low operating leverage
- PAT was flat at ₹ 62 crore on a YoY basis supported by improved EBITDA margin and lower interest outgo

What should investors do? Bajaj Electricals' share price has grown to 3x over the past five years (from ~₹ 397 in November 2017 to ~₹ 1162 in November 2022).

- We revise our rating on the stock from BUY to **HOLD**

Target Price and Valuation: We value Bajaj Electrical (BEL) at ₹ 1275 using SOTP i.e. 40x and 6x PE for CP and EPC, respectively, on FY24E EPS each.

Key triggers for future price performance:

- Corporate restructuring (demerger of project business) will help BEL to focus on growing its core consumer product business
- Continuous focus on driving growth through CP categories (revenue contribution increased from 42% in FY19 to 78% in FY22). Rural electrification, urbanisation and housing for all (~11.2 million new houses under PMAY) are key catalysts for CP revenue growth, going forward
- Focus to increase CP margins by 1% every year

Alternate Stock Idea: We also like Polycab in the same space.

- Polycab is a leader in the wire & cable industry with organised market share of ~24%. Robust b/s with average RoE, RoCE of 18%, 22%, respectively
- BUY with a target price of ₹ 3300



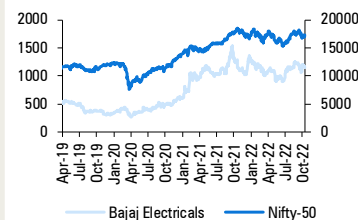
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	13,345.6
Total Debt (FY22) (₹ Crore)	44.9
Cash & Inv (FY22) (₹ Crore)	142.6
EV (₹ Crore)	13,247.9
52 week H/L	1380 / 858
Equity capital (₹ Crore)	22.7
Face value (₹)	2.0

Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	63.1	63.1	63.0	63.0	62.9
FII	12.9	11.8	10.6	10.5	10.8
DII	11.1	11.6	12.1	12.4	12.3
Others	13.0	13.5	14.4	14.1	14.0

Price Chart



Recent event & key risks

- **Key Risk:** (i) Lower growth in the CP segment (ii) Lower EBITDA margin amid adverse product mix and higher ad expenses

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 Year CAGR (FY22-24E)
Net Sales	6679.4	4987.2	4584.6	4813.0	2.5%	5395.0	6563.1	17%
EBITDA	340.1	208.3	303.2	250.2	1%	403.9	561.0	50%
EBITDA Margin (%)	5.1	4.2	6.6	5.2		7.5	8.5	
PAT	153.6	-10.3	189.0	124.4	4%	266.9	417.8	83%
EPS (₹)	15.0	-0.9	16.5	10.8		23.2	36.4	
P/E(x)	77.5	NM	70.4	107.3		50.0	31.9	
Price/Book value (x)	11.3	9.8	8.4	7.7		7.8	6.5	
Mcap/sales (x)	2.0	2.7	2.9	2.8		2.5	2.0	
RoE (%)	14.5	(0.8)	10.7	7.8		15.7	20.2	
RoCE (%)	13.3	7.9	15.1	13.5		22.1	27.3	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Lower demand hits consumer product segment

- Consolidated revenue declined ~6% YoY to ₹ 1226 crore, dragged by lower revenues from both consumer product (CP) and engineering & project (EP) segments
- CP segment revenue declined ~3% YoY to ₹ 1156 crore, largely hit by lower volume offtake in rural regions amid high inflation. Excluding lighting, CP segment volume declined ~3% YoY. The fan segment was hit by de-stocking of old inventories amid BEE transition norms. Lighting, fan and Morphy Richards revenues declined ~4%, 7% and 26%, respectively, YoY
- E&P segment revenue declined 40% YoY to ₹ 66 crore due to lower order backlog and focus on execution of quality orders
- EBITDA margin increased 56 bps YoY to 7.8%, supported by improved profitability of its E&P business
- E&P business turned into profit and reported an EBIT of ₹ 6 crore in Q2FY23 due to focus on execution of quality orders and various cost optimisation measures. However, CP segment EBIT margin declined 300 bps YoY to 7%, mainly due to high raw material costs and low operating leverage from this segment
- PAT came in at ₹ 62 crore, flat on a YoY basis supported by improved EBITDA margin and lower interest outgo

Q2FY23 Earnings Conference Call highlights:

- **Demand Outlook:**
 - The company has maintained its high teens growth guidance for the CP segment for the medium to long term. Market share gains in existing product segments, launch of new products into both lighting segments and kitchen appliances segments will be key drivers for long term growth
 - BEL is looking into product development and product portfolio expansion for Morphy Richards and expects to see growth in this segment from Q4FY24 onwards
 - The company has added 33 new distributors, ~1000 retail outlets and ~100 modern trade stores in Q2FY23
 - BEL has created lighting as a separate business unit to increase focus on new product launches (into premium segments) and market share gains
 - It has a healthy order book of ₹ 1350 crore for E&P segment. The company expects steady growth in the segment, going forward
- **Margins:**
 - The company expects improvement in CP EBIT margin in FY23 supported by easing raw material costs and other cost optimisation measures
 - BEL reiterated EBITDA margin expansion by 1% annually in its CP segments
- **Others:**
 - The company has gained market share in the lighting, fans and kitchen appliances segments in Q2
 - Advertisement and promotional expenses to increase from current 2.3% to ~4% of sales in the coming period
 - New BEE norms to lead to increase fan realisation by ~8-10%
 - The company expects Sebi and NCLT approval by March 2023 for the demerger of its E&P business

Exhibit 1: Peer Comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Havells	75,281	10428	13889	16233	18585	15	13	10	13	1040	1195	1105	1694	25	24	23	34	20	20	19	29	72	63	68	44
Crompton Greaves	22,439	4804	5394	7269	8232	15	14	13	13	617	578	559	697	34	16	17	20	32	24	22	23	36	39	40	32
Bajaj Electrical	13,346	4585	4813	5395	6563	7	5	7	9	189	124	267	418	15	14	22	27	11	8	16	20	70	107	50	32
Polycab	40,125	8792	12204	14054	15759	13	10	12	12	886	917	1141	1298	21	20	25	24	18	16	18	18	45	44	35	31
Symphony	5,925	900	1039	1283	1559	15	15	18	20	107	121	183	243	15	16	24	29	15	14	24	27	55	49	32	24
V guard	11,221	2721	3498	4186	4604	11	10	8	10	202	228	229	306	24	21	23	28	17	16	18	21	56	49	49	37
Voltas	27,649	7556	7934	9424	10984	8	9	7	9	529	506	534	762	15	14	16	20	11	9	11	14	52	55	52	36

Source: Company, ICICI Direct Research

We believe Bajaj Electrical’s Q2FY23 CP segment (including lighting) was adversely impacted by lower rural demand and inventory de-stocking of fans. We believe the fan segment will report a demand revival from Q4FY24 onwards led by fresh inventory build-up at the dealer level. On the lighting segment, the company has gained market share in the last three years through new product launches and expansion of dealer networks. Going forward, the management has reiterated its double digit revenue growth in the CP segment through market share gains supported by launch of new products (in the lighting and appliances categories) and expansion in new geographies. The CP segment exit EBIT margin at 7% in Q2FY23 is still lower than the company’s long term EBIT margin guidance of 10-11%. We believe this is largely due to an adverse product mix (lower growth in the Morphy Richards products, slow ramp up of premium fans & lighting segments). Its E&P segment is likely to grow at a CAGR of 33% on a favourable base and higher government capex and margin improvement through execution of high margin orders. CP segment revenue, PAT are likely to grow at a CAGR of 15%, ~60%, respectively, over FY22-24E. We model BEL’s consolidated revenue, PAT CAGR of 17%, 83%, respectively, over FY22-24E. While we maintain our positive stance on the stock, we believe at the CMP the stock is discounting all its near term positives. Hence, we change our rating from BUY to HOLD. We value the company at ₹ 1275/share, 40x PE of CP (30% discount to Havells) and 6x PE of E&P, respectively, on FY24E EPS.

Exhibit 2: Variance Analysis

	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	Comments
Revenue	1,225.5	1,347.4	1,302.0	-5.9	1,229.1	-0.3	Sharp fall in E&P revenues drag overall topline in Q2
Other Income	18.0	17.9	21.2	-15.1	8.3	116.8	
Raw Material Exp	825.6	909.5	885.5	-6.8	837.3	-1.4	Gross margins up 65 bps YoY, supported by improved sales mix and easing commodity prices
Employee Exp	106.2	110.5	104.2	1.9	102.3	3.9	
Admin & Other exp	162.7	173.8	151.8	7.2	163.6	-0.6	
Erection & Subcont Exp	12.4	13.1	32.2	-61.4	15.2	-18.1	
EBITDA	95.6	101.5	94.4	1.3	74.8	27.9	
EBITDA Margin (%)	7.8	7.5	7.2	56 bps	6.1	172 bps	Improved profitability of the E&P and lighting business helped partially offset the lower margins of consumer products on a YoY basis
Depreciation	19.4	19.8	16.8	15.2	18.6	4.3	
Interest	10.0	6.2	19.5	-48.9	7.8	27.4	
Exceptional items	0.0	0.0	0.0		0.0		
PBT	84.3	93.4	79.3	6.4	56.7	48.7	
Total Tax	22.3	25.2	16.7	33.5	15.5	43.7	
PAT	62.00	68.2	62.6	-0.9	41.2	50.5	Lower interest outgo and improved EBITDA margin offsets lower revenue growth resulting in flattish PAT on a YoY basis
Key Metrics							
Consumer Product & Lighting	1158.6	1113.4	1191.5	-2.8	1129.2	2.6	Lower consumer demand amid high inflation and destocking of fans led to fall in consumer products volume by ~3% YoY. Lighting revenue declined ~4% YoY to ₹ 276 crore due to muted offtake of consumer lighting and restructuring of distribution networks
Engineering & Project	66.9	234.0	111	-39.4	99.9	-33.0	Lower E&P revenue is attributable to lower order book

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,586.6	5395.0	(3.4)	6537.0	6563.1	0.4	We slightly tweak our revenue estimate downward for FY23E factoring in Q2FY23 performance. We model CP segment revenue CAGR of 14% over FY22-24E considering new product launches and market share gains in key product categories
EBITDA	382.2	403.9	5.7	563.3	561.0	(0.4)	
EBITDA Margin %	6.8	7.5	69bps	8.6	8.5	-5bps	We revise our margin estimate upward for FY23E factoring in better-than-expected margins in Q2FY23 and easing raw material costs
PAT	254.2	266.9	5.0	399.0	417.8	4.7	
EPS (₹)	22.1	23.2	5.0	34.8	36.4	4.7	

Source: ICICI Direct Research

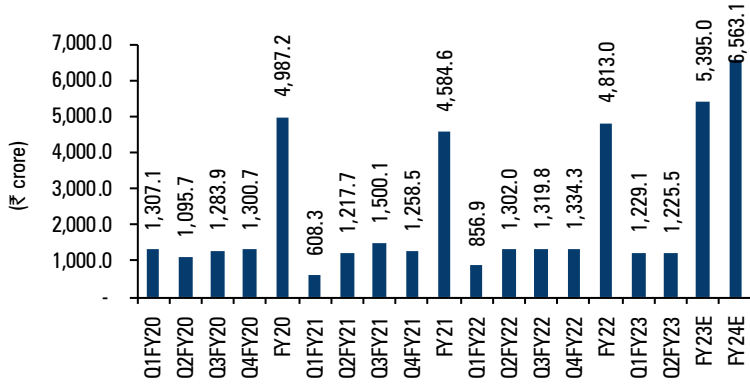
Exhibit 4: Assumptions

	Current				Earlier			Comments
	FY20	FY21	FY22	FY23 E	FY24 E	FY23E	FY24E	
Consumer Projects & lightings (%)	12.7	7.1	13.7	30.4	10.3	16.9	13.9	Market share gains, launch of new products and government thrust on various housing schemes likely to drive demand for consumer product, going forward. We model segment revenue CAGR of 14% in FY22-24E
Engineering & Project (%)	(51.9)	(32.9)	(17.9)	(54.0)	137.8	8.4	10.6	Favourable base and execution of key projects from FY24 onwards to drive segment revenue growth over FY23E-24E

Source: ICICI Direct Research

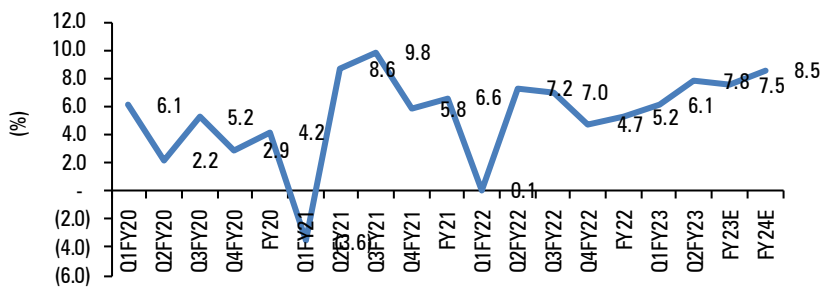
Financial story in charts

Exhibit 5: Market share gains, CD business to drive overall revenue, going ahead



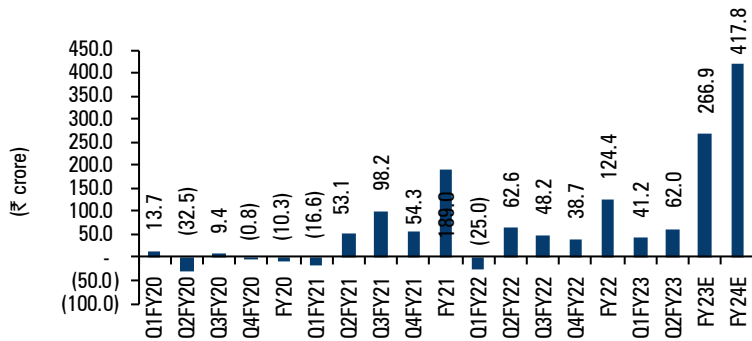
Source: Company, ICICI Direct Research

Exhibit 6: Improved sales mix, easing raw material price to drive margin



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth to be largely driven by CD business



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Net Sales	4584.6	4813.0	5395.0	6563.1
Growth (%)		5.0	12.1	21.7
Raw Material Expenses	350.2	598.2	431.6	484.7
(Increase)/Decrease in stocks	-270.7	17.1	0.0	0.0
Purchase of traded goods	2916.1	2676.1	3222.3	3921.8
Employee Expenses	394.5	401.4	422.8	458.4
Erection & subcontracting exp	243.7	134.0	77.6	239.3
Other expenses	545.9	606.0	685.3	729.8
Total Operating Expenditure	4281.4	4562.9	4991.1	6002.2
EBITDA	303.2	250.2	403.9	561.0
Growth (%)		-17.5	61.5	38.9
Other Income	69.2	68.3	69.4	106.7
Interest	76.4	69.7	36.4	20.9
PBDT	295.9	248.8	436.9	646.7
Depreciation	75.2	69.2	74.5	78.8
PBT before Exceptional Items	220.8	179.5	362.4	568.0
Less: Exceptional Items	-25.5	13.2	0.0	0.0
PBT	246.3	166.3	362.4	568.0
Total Tax	57.3	41.9	95.6	150.2
PAT	189.0	124.4	266.9	417.8

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	189.0	124.4	266.9	417.8
Depreciation	75.2	69.2	74.5	78.8
CF before working capital changes	340.6	263.4	377.7	517.5
Net Increase in Current Assets	312.2	695.5	-194.3	-624.5
Net Increase in Current Liabilities	19.1	-146.4	259.7	521.2
Net CF from operating act	671.8	812.5	443.1	414.2
(Purchase)/Sale of Fixed Assets	-144.4	-154.2	-70.0	-70.0
Long term loans and advances	12.5	-60.8	-33.3	-66.9
Others	-10.7	-216.5	-55.0	-55.0
Net CF from Investing act	-142.7	-431.4	-158.3	-191.9
Inc / (Dec) in Loan Funds	-536.7	-259.4	-10.0	-10.0
Total Outflow on account of div	-40.9	-41.0	-54.7	-54.7
Net CF from financing act	-572.2	-300.1	-340.9	-85.6
Net Cash flow	-43.1	80.9	-56.1	136.8
Cash & Cash Equi at the beg.	104.7	61.6	142.6	86.5
Cash	61.6	142.6	86.5	223.3

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Equity Capital	22.9	23.0	23.0	23.0
Reserve and Surplus	1555.2	1708.6	1681.0	2044.1
Total Shareholders funds	1578.1	1731.6	1704.0	2067.1
Total Debt	304.3	44.9	34.9	24.9
Liability	1973.7	1844.0	1806.4	2159.5
Asset				
Total Gross Block	948.7	1084.1	1154.1	1224.1
Less Total Accumulated Dep	435.7	504.9	579.3	658.1
Net Block	513.1	579.2	574.7	566.0
Total CWIP	9.4	28.2	28.2	28.2
Total Fixed Assets	522.4	607.4	602.9	594.2
Other Investments	0.0	4.9	59.9	114.9
Inventory	986.4	997.9	1108.6	1348.6
Debtors	1916.9	1360.6	1404.2	1708.2
Other Current Assets	409.6	331.1	371.2	451.5
Cash	61.6	142.6	86.5	223.3
Total Current Assets	3447.0	2832.4	2970.7	3731.9
Creditors	960.2	1235.5	1384.9	1684.7
Provisions	111.3	101.6	113.9	138.6
Total Current Liabilities	2294.0	2147.6	2407.3	2928.5
Net Current Assets	1153.0	684.8	563.4	803.4
Deferred Tax Assets	52.5	81.4	81.4	81.4
Other non current assets	0.0	0.0	0.0	0.0
Other non current assets	214.7	275.5	308.8	375.6
Total Assets	1973.7	1844.0	1806.4	2159.5

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	16.5	10.8	23.2	36.4
Cash EPS	23.1	16.9	29.7	43.2
BV	137.8	150.8	148.4	180.0
DPS	3.6	3.6	4.8	4.8
Operating Ratios				
EBITDA Margin	6.6	5.2	7.5	8.5
PAT Margin	3.7	2.8	4.9	6.4
Return Ratios				
RoE	10.7	7.8	15.7	20.2
RoCE	15.1	13.5	22.1	27.3
RoIC	8.1	9.3	16.3	20.4
Valuation Ratios				
EV / EBITDA	44.8	53.0	32.9	23.4
P/E	NM	107.3	50.0	31.9
EV / Net Sales	3.0	2.8	2.5	2.0
Market Cap / Sales	2.9	2.8	2.5	2.0
Price to Book Value	8.4	7.7	7.8	6.5
Turnover Ratios				
Asset turnover	2.3	2.6	3.0	3.0
Debtor Days	152.6	103.2	95.0	95.0
Creditor Days	76.4	93.7	93.7	93.7
Solvency Ratios				
Debt / Equity	0.2	0.0	0.0	0.0
Current Ratio	3.2	2.0	1.9	1.9
Quick Ratio	2.2	1.3	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct universe (Consumer Discretionary)

Sector / Company	Rating	M Cap	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
		(₹ Cr)	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E	FY21	FY22	FY23E	FY24E
Asian Paints (ASIPAI)	Buy	2,95,947	33.4	32.2	40.8	54.2	92.3	95.9	75.6	57.0	60.0	61.0	50.3	38.7	29.6	27.1	32.5	38.7	25.0	23.0	27.3	32.1
Berger Paints (BERPAI)	Hold	57,112	7.4	8.6	9.9	12.3	79.3	68.6	59.3	47.8	47.9	43.1	37.8	31.1	24.9	23.3	27.6	31.0	21.3	21.2	25.2	27.7
Kansai Nerolac (KANNER)	Hold	23,982	9.8	6.9	10.1	12.9	45.2	64.1	44.0	34.4	28.4	36.9	26.8	21.3	17.2	12.1	17.0	19.9	13.2	9.2	13.1	15.1
Pidilite Industries (PIDIND)	Hold	1,34,770	22.2	23.8	27.8	39.9	119.7	111.7	95.4	66.5	79.9	72.8	63.7	45.4	23.8	22.2	23.9	30.0	20.2	18.8	20.2	25.0
Sheela Foam (SHEFOA)	BUY	13,878	48.7	44.5	51.8	65.9	58.4	63.9	55.0	43.2	38.4	44.7	38.2	30.3	24.3	18.0	19.6	22.6	20.1	15.6	16.4	18.8
Bajaj Electricals (BAJELE)	Hold	13,346	16.5	10.8	23.2	36.4	70.4	107.3	50.0	31.9	44.8	53.0	32.9	23.4	15.1	13.5	22.1	27.3	10.7	7.8	15.7	20.2
Crompton Greaves(CROGR)	Hold	22,439	9.8	9.2	8.9	11.1	36.4	38.8	40.2	32.2	29.7	29.3	25.9	21.5	34.4	16.2	16.6	20.5	31.9	24.0	21.7	23.4
Havells India (HAVIND)	Buy	75,281	16.7	19.1	17.6	27.1	72.1	63.0	68.1	44.4	47.3	41.6	45.4	30.9	24.9	23.7	23.0	33.8	20.1	20.0	19.4	28.7
Polycab India (POLI)	Buy	40,125	59.3	61.4	76.3	86.8	45.3	43.7	35.2	30.9	35.3	30.8	22.5	19.9	20.6	20.2	24.7	23.8	17.9	15.6	18.4	18.0
Symphony (SYMLIM)	Hold	5,925	15.3	17.3	26.1	34.8	55.4	49.0	32.4	24.3	41.3	35.7	24.9	18.7	15.2	15.9	24.5	29.0	14.9	14.4	23.6	27.4
V-Guard Ind (VGUARD)	Hold	11,221	4.7	5.3	5.3	7.1	55.6	49.1	49.3	36.9	35.1	33.0	31.8	24.0	23.9	21.2	23.4	27.8	16.7	16.2	17.7	21.2
Voltas Ltd (VOLTAS)	Hold	27,649	16.0	15.3	16.1	23.0	52.3	54.6	51.8	36.3	42.4	39.6	38.9	27.7	15.0	14.0	16.3	20.1	10.6	9.2	11.0	14.1
Amber Enterprises (AMBEN)	Hold	6,813	24.7	33.0	45.7	73.7	81.8	61.2	44.2	27.4	30.7	26.0	20.5	15.1	7.7	6.8	10.2	13.2	5.2	6.4	8.7	12.3
Dixon Technologies (DIXTEC)	Buy	26,951	27.3	32.1	57.9	85.4	166.5	141.6	78.4	53.2	94.0	71.5	44.1	32.2	23.5	17.7	27.8	31.5	21.7	19.1	31.8	34.2
Supreme Indus (SUPIND)	Buy	30,512	77.0	76.2	63.1	80.4	31.2	31.5	38.1	29.9	23.2	24.1	26.3	20.4	33.1	25.9	22.6	27.1	30.9	25.2	20.5	23.6
Astral Ltd (ASTPOL)	Hold	42,005	20.3	24.4	25.8	35.9	102.9	85.7	81.2	58.2	64.5	54.9	48.4	36.8	27.5	26.6	25.5	29.3	21.5	21.0	19.6	23.1
Time Techno (TIMTEC)	BUY	2,397	4.8	8.5	10.1	13.1	22.2	12.5	10.5	8.1	7.7	6.2	5.3	4.5	8.7	11.3	12.8	14.6	5.7	9.3	10.7	12.5
Moldtek Packaging (MOLPLA)	Hold	2,963	17.2	20.4	26.7	34.4	51.9	43.8	33.4	25.9	32.3	24.9	19.9	15.7	20.1	18.6	27.6	27.9	18.7	13.9	24.3	24.3

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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