

BSE Code: 500031

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Reuters Code: BJEL.NS

Bloomberg Code: BJE:IN

Incorporated in 1938, Bajaj Electricals Ltd (BJE), part of Bajaj Group, is engaged in the business of Consumer Products (Appliances, Fans, Consumer Lighting), Exports, and EPC (Illumination, Transmission Towers, Power Distribution and Luminaires). Others segment include die casting, wind energy & solar energy. It is a dominant player in the consumer durables and lighting segment space.

🔗 **Strong distribution network:** BJE is a dominant player in the consumer durables and lighting space with a strong network of 1000 distributor, 4000 authorised dealers, 400,000 retail outlets and 282 customer care centres spread across India, enhancing penetration, brand recognition and after-market service of its products. The company has further strengthened its distribution network by rolling out RRE (Range, Reach Expansion) Programme across the country. We believe the roll out of RREP in new geographies across the country and the Retailer Bonding Programme will help the company expand its topline.

🔗 **New launches to drive growth:** BJE has launched several new products across categories through continuous innovation and investment in R&D. The company has set up its new R&D Centre in Navi Mumbai which houses all aspects of research, design, development and testing capabilities under one roof. In the Fans segment, the company has introduced 5 star rated model, Kassels Star (50-54 watts), which significantly reduces electricity consumption. It has also come out with a wide range of premium designer fans with cartoon characters for kids. It has also launched an Internet of Things (IoT) enabled air cooler with features that can automatically adjust the fan and its cooling speed based on temperature and humidity and is targeted towards homes and commercial spaces. Besides, the company is gearing up for the summer season with new product launches.

🔗 **Strong order book in EPC segment bolsters revenue outlook:** BJE's EPC division which contributes ~30% to overall sales operates in three sub-verticals: power transmission, distribution and illumination. The order book position of the EPC division remains strong with orders worth Rs.3,072 crore (1.4x TTM sales) as on 31st December 2017, consisting of Rs. 796 crore for Transmission Line Towers, Rs. 2,135 crore for Power Distribution and Rs. 142 crore for Illumination Projects. Moreover, the company has recently bagged orders worth Rs 2,389 crore from Purvanchal Vidyut Vitran Nigam Ltd (PuWNL) for rural electrification projects in Uttar Pradesh. Given the government's thrust on infrastructure development, recovery in private capex, company's presence in strategically important energy efficiency market segments, timely execution of fixed price contracts with healthy margins and efficient supply chain management, we expect the EPC division to be on a strong footing. Hence, we expect the revenue from this segment to increase at a CAGR of 9% over FY17-20E.

**Outlook and Valuation:**

We believe BJE's strong brand equity, revamp of supply chain and wide distribution network particularly in rural markets would help support growth going ahead. The company's focus on new launches particularly in the premium category will help drive market share gains and bode positively for margins. Also, increasing consumer preference for brand/quality products has led to a structural shift from the unorganized sector to the organized segment. The stock currently trades at ~50x/33x/25x FY18E/19E/20E EPS. We value the stock at 29x FY20E earnings arriving at a target price (TP) of Rs. 710.

**Market Data**

<b>Rating</b>	<b>BUY</b>
<b>CMP (Rs.)</b>	618
<b>Target (Rs.)</b>	710
<b>Potential Upside</b>	15%
<b>Duration</b>	Long Term
Face Value (Rs.)	2
52 week H/L (Rs.)	663/294
Decline from 52WH (%)	7%
Rise from 52WL (%)	110%
Beta	1.0
Mkt. Cap (Rs.Cr)	6,256

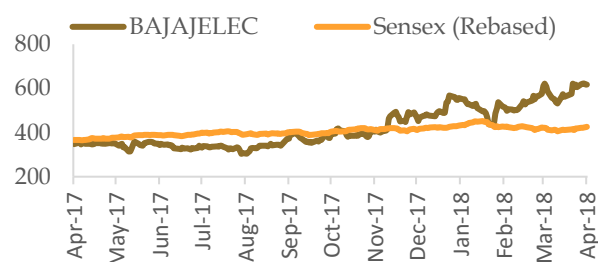
**Fiscal Year Ended**

Y/E	FY17	FY18E	FY19E	FY20E
Revenue (Rs.Cr)	4,262	4,503	5,167	6,055
Adj. profit (Rs.Cr)	108	125	188	248
Adj. EPS (Rs.)	10.6	12.4	18.5	24.5
P/E (x)	58.1	49.9	33.3	25.2
P/BV (x)	7.2	6.5	5.5	4.6
ROE (%)	13.2	13.6	17.9	20.0

**Shareholding Pattern**

	Jun-17	Sep-17	Dec-17
Promoters	63.3	63.2	63.0
FII's	9.3	9.8	9.7
MFs/Insti	5.2	4.8	4.9
Public	15.3	15.1	15.1
Others	6.9	7.1	7.3

**One year price chart**

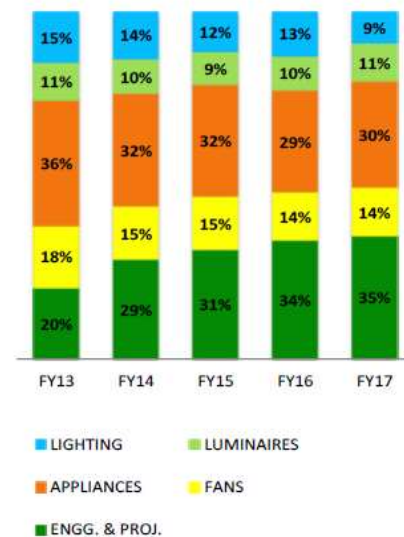
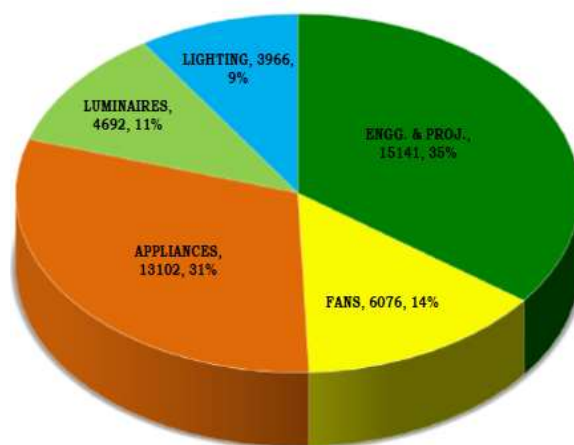


### Bajaj Electricals Ltd: Business overview

Incorporated in 1938, Bajaj Electricals Ltd (BJE), part of Bajaj Group, is engaged in the business of Consumer Products (Appliances, Fans, Consumer Lighting), Exports, and EPC (Illumination, Transmission Towers, Power Distribution and Luminaires). Others segment include die casting, wind energy & solar energy. It is a dominant player in the consumer durables and lighting segment space with a strong network of distributors, authorised dealers, retail outlets and customer care centres in India. It holds leadership position in many kitchen and domestic appliances segment. It also enjoys presence in the high-end range of appliances with brands like Platini and Morphy Richards in India. Further, to increase its footprint, it has entered into strategic alliances with international companies to cater to the untapped premium market for consumer appliances and to exploit opportunities in the lighting industry. It also has a strong foothold in power transmission and distribution business.

### Bajaj Electricals revenue mix

**SBU revenue mix (FY 17)**  
(Rs in Million)



**Consumer facing Businesses**

**56%**

**Industry & Infrastructure facing Businesses**

**44%**

Source: Company, In-house research

## Investment Rationale

### Extensive distribution network

BJE is a dominant player in the consumer durables and lighting segment with a strong network of 1000 distributor, 4000 authorised dealers, 400,000 retail outlets and 282 customer care centres spread across India, enhancing the penetration, brand recognition and after-market service of its products. The company in FY17 merged its four-erstwhile consumer facing business divisions viz Kitchen appliances, domestic appliances, fans and lighting into one. The company further strengthened its distribution network by rolling out RRE (Range, Reach Expansion) Programme across the country. The RREP strategy envisaged integration of multi-electrical product dealers, eliminating wholesalers, and setting up of centralised warehouses. This programme also helped in expanding distribution reach by adding more consumer touch-points.

### New launches to drive growth

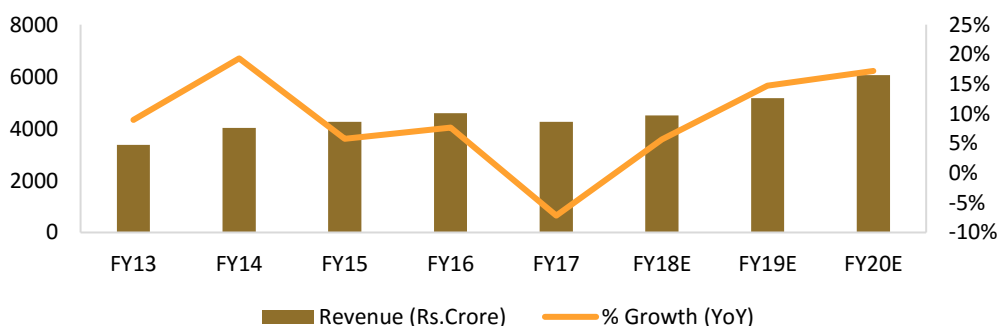
BJE has launched several new products across categories through continuous innovation and investment in R&D. The company has set up its new R&D Centre in Navi Mumbai which houses all aspects of research, design, development and testing capabilities under one roof. In the Fans segment, the company has introduced 5 star rated model, Kassels Star (50-54 watts), which significantly reduces electricity consumption. It has also come out with a wide range of premium designer fans with cartoon characters for kids. It has also launched an Internet of Things (IoT) enabled air cooler with features that can automatically adjust the fan and its cooling speed based on temperature and humidity and is targeted towards homes and commercial spaces. The company believes there is huge demand potential for IoT enabled air coolers going ahead from both the residential and commercial spaces. Besides, the company is gearing up for the summer season with new product launches. Moreover, with renewal of trademark user license agreement with Morphy Richards, the company will offer its full range of consumer appliances in India.

## Financials

### Strong growth in Consumer products and EPC segment to drive revenue growth

Bajaj Electricals has witnessed 7% revenue CAGR over FY12-17 led by 19% revenue CAGR in the Engineering & Procurement segment while Consumer Durables segment witnessed flat growth during the same period. The growth in consumer durables segment was marred by aggressive competition in the consumer durables sector, sluggish market conditions, implementation of TOC and pricing pressure. Engineering & Projects business posted improved show driven by pick up in order inflow, focus on improving project execution capabilities and efficient supply chain management. Going ahead, we factor strong consolidated revenue CAGR of 12% over FY17-20E driven by 14% CAGR in consumer products segment and 9% CAGR in EPC segment. The growth will be mainly driven by new products launches across various business units in the consumer product segment coupled with the company's initiatives to strengthen its distribution network through the roll out of RRE programme in new geographies across the country. Further, robust project execution capabilities, recovery in the private capex cycle coupled with higher infrastructure spends will drive strong growth in the EPC division and contribute to the topline growth.

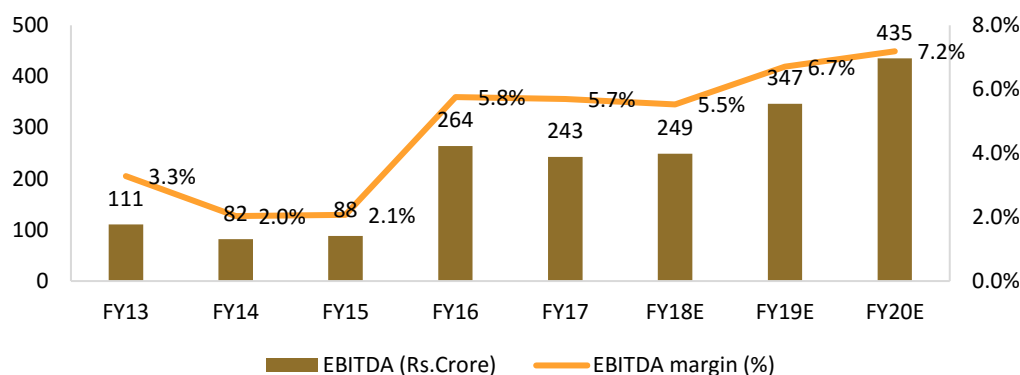
Revenue to grow at 12% CAGR over FY17-20E



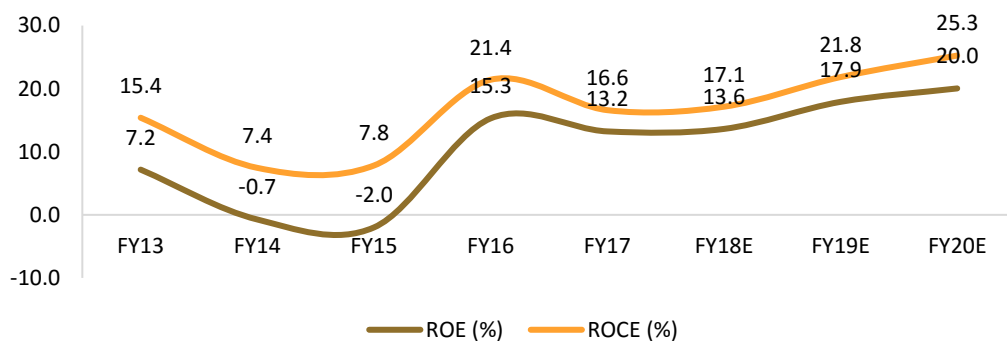
### EBITDA margin to improve going ahead

The operating performance of BJE remained under pressure over FY13-15 due to sluggish sales in consumer durables and weak execution in EPC segment. However, the performance staged a strong rebound in FY16. EBIT margin in the EPC segment turned positive in FY16 from -18% in FY13 to 6.1%/7.1% in FY16/FY17 backed by improvement in project execution capabilities and selective bidding for high margin orders. Further, consumer durables segment also witnessed improvement in operating performance in FY17 with emphasis on cost control measures, favorable product mix, revamp of distribution strategy across the country and focus on secondary sales. As a result, the EBITDA margin expanded from 3.3% in FY13 to 5.7% in FY17, up by 240bps. Going ahead, we expect EBITDA margin to improve further to 7.2% in FY20E backed by volume growth in the consumer products segment driven by new launches and timely execution of fixed price contracts with healthy margins.

#### EBITDA to grow at 21% CAGR over FY17-20E



#### Return ratios trend



### Outlook and Valuation

We believe BJE's strong brand equity, revamp of supply chain and wide distribution network particularly in rural markets would help support growth going ahead. The company's focus on new launches particularly in the premium category will help drive market share gains and bode positively for margins. Also, increasing consumer preference for brand/quality products has led to a structural shift from the unorganized sector to the organized segment. Notably, strong order book in the EPC segment improves the revenue visibility going ahead. We estimate consolidated revenue/PAT to grow at a CAGR of 12%/32% over FY17-20E. The stock currently trades at ~50x/33x/25x FY18E/19E/20E EPS. We value the stock at 29x FY20E earnings arriving at a target price (TP) of Rs. 710.

### Key Risks

- Increasing competition
- Execution risks in projects business
- Exchange rate fluctuation

**Profit & Loss Account (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
<b>Total operating Income</b>	<b>4,262</b>	<b>4,503</b>	<b>5,167</b>	<b>6,055</b>
Raw Material cost	3,051	3,231	3,647	4,245
Employee cost	329	347	399	467
Other operating expenses	639	675	775	908
<b>EBITDA</b>	<b>243</b>	<b>249</b>	<b>347</b>	<b>435</b>
Depreciation	30	34	38	43
<b>EBIT</b>	<b>213</b>	<b>215</b>	<b>308</b>	<b>392</b>
Interest cost	80	60	59	53
Other Income	36	41	44	48
<b>Profit before tax</b>	<b>168</b>	<b>196</b>	<b>293</b>	<b>387</b>
Tax	60	70	105	139
<b>Profit after tax</b>	<b>108</b>	<b>125</b>	<b>188</b>	<b>248</b>
Minority Interests	-	-	-	-
P/L from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>108</b>	<b>125</b>	<b>188</b>	<b>248</b>
E/o income / (Expense)	-	-	-	-
<b>Reported PAT</b>	<b>108</b>	<b>125</b>	<b>188</b>	<b>248</b>

**Balance Sheet (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Paid up capital	20	20	20	20
Reserves and Surplus	851	948	1,108	1,327
<b>Net worth</b>	<b>871</b>	<b>968</b>	<b>1,128</b>	<b>1,348</b>
Minority interest	-	-	-	-
Total Debt	546	596	536	476
Other non-current liabilities	88	88	88	88
<b>Total Liabilities</b>	<b>1,505</b>	<b>1,652</b>	<b>1,752</b>	<b>1,912</b>
Total fixed assets	310	316	326	331
Capital WIP	8	8	8	8
Goodwill	-	-	-	-
Investments	80	80	80	80
Net Current assets	557	698	788	942
Deferred Tax assets (Net)	56	56	56	56
Other non-current assets	494	494	494	494
<b>Total Assets</b>	<b>1,505</b>	<b>1,652</b>	<b>1,752</b>	<b>1,912</b>

**Cash Flow Statement (Consolidated)**

Y/E (Rs. Cr)	FY17	FY18E	FY19E	FY20E
Pre tax profit	168	196	293	387
Depreciation	30	34	38	43
Chg in Working Capital	226	25	(71)	(117)
Others	56	19	15	5
Tax paid	(44)	(70)	(105)	(139)
<b>Cash flow from operating activities</b>	<b>437</b>	<b>204</b>	<b>170</b>	<b>179</b>
Capital expenditure	(55)	(41)	(48)	(48)
Chg in investments	(33)	-	-	-
Other investing cashflow	(3)	41	44	48
<b>Cash flow from investing activities</b>	<b>(90)</b>	<b>0</b>	<b>(4)</b>	<b>(0)</b>
Equity raised/(repaid)	6	-	-	-
Debt raised/(repaid)	(295)	50	(60)	(60)
Dividend paid	(0)	(28)	(28)	(28)
Other financing activities	(79)	(60)	(59)	(53)
<b>Cash flow from financing activities</b>	<b>(368)</b>	<b>(38)</b>	<b>(148)</b>	<b>(141)</b>
Net chg in cash	<b>(21)</b>	<b>166</b>	<b>19</b>	<b>37</b>

**Key Ratios (Consolidated)**

Y/E	FY17	FY18E	FY19E	FY20E
<b>Growth (%)</b>				
Net Sales	-7.1	5.6	14.8	17.2
EBITDA	-8.1	2.6	39.2	25.5
Net profit	-2.4	16.4	49.9	32.1
<b>Margin (%)</b>				
EBITDA	5.7	5.5	6.7	7.2
NPM	2.5	2.8	3.6	4.1
<b>Return Ratios (%)</b>				
RoE	13.2	13.6	17.9	20.0
RoCE	16.6	17.1	21.8	25.3
<b>Per share data (Rs.)</b>				
EPS	10.6	12.4	18.5	24.5
DPS	2.8	2.8	2.8	2.8
<b>Valuation(x)</b>				
P/E	58.1	49.9	33.3	25.2
EV/EBITDA	27.7	26.6	18.9	14.8
EV/Net Sales	1.6	1.5	1.3	1.1
P/B	7.2	6.5	5.5	4.6
<b>Turnover Ratios (x)</b>				
Net Sales/GFA	12.7	11.6	11.9	12.6
Sales/Total Assets	1.4	1.4	1.5	1.6

#### Rating Criteria

Large Cap.	Return	Mid/Small Cap.	Return
<b>Buy</b>	More than equal to 10%	<b>Buy</b>	More than equal to 15%
<b>Hold</b>	Upside or downside is less than 10%	<b>Accumulate*</b>	Upside between 10% & 15%
<b>Reduce</b>	Less than equal to -10%	<b>Hold</b>	Between 0% & 10%
		<b>Reduce/sell</b>	Less than 0%

\* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

\* Bajaj Electricals Limited is a small-cap company.

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