MORNING FARSIGHT

Thursday, June 07, 2018

BAJAJ ELECTRICALS   CMP:RS 536   TRGT:RS 575   TIME HORIZON: 3 MTHS

Bajaj Electricals, operating through 2 divisions viz, Consumer Products (Fans, Lighting, Luminaires, Cooking Hack, Steam Irons, Pressure Cookers, Room heater, Room Cooler, Mixer Grinder, Hand Blenders, Coffee makers, Juicers, Gas Stoves etc) and Engineering & Projects (Power T&D), seen to have bottomed out and can be bought now, due to good Q4 earnings, increasing execution of higher margin projects, record order book of Rs. 8,934 crores and absence of any loss making orders. Bajaj Electricals reported 40% QoQ and 27% YoY growth in Revenue in Q4FY18 at Rs. 1,606 cr, which resulted in 92% QoQ and 74% YoY EBITDA growth at Rs. 135 cr, with EBITDA margin of 8.4% (+255 bps YoY, 226 bps QoQ). However, PAT was marred by one-time write off of investment (— of Rs. 89 cr) in the CFL business. Going ahead, company's Consumer Products segment is expected to pick up further pace with robust demand environment and company undertaking network expansion. By end of Q3FY18, the company has already covered —130,000 retail outlets across India, barring South and North Eastern states. Coverage would increase to —160,000 retail outlets by end of September 2018. We believe Bajaj being a strong brand in the economic CD products segment, would be a direct beneficiary of the governments push to 'double farm income' by FY22. For FY19, company is aiming to clock revenue of Rs. 2,500 cr under CD category with EBIT margin of —6-7%, against Rs. 2,228 cr revenue and EBIT margin of 4.8% seen in FY17, which is positive guidance. Also, outlook for EPC Division is seen positive, with no more pending loss making projects, with strong order inflow of high margin projects. Company is currently having order of Rs. 8,934 cr for EPC Division, which is 3.6x of FY18 revenue from this division. Company will also benefit from the govemment's thrust to improve power infrastructure in India. The company is aiming to record EPC revenue between —Rs. 3,500 to Rs. 4,000 crore in FY19, with EBIT margin of —8-9%,against Rs. 2,487 cr and EBIT margin of 7.8% in FY18. On an estimated EPS of Rs. 21 for FY19, stock is trading at PE of 25.5x. Also, we assign M Cap/Sales of 2x to its Consumer Products Business (in line with industry standards), the EV comes at Rs. 5,000 cr. Company's EPC division, having annual EBIT of Rs. 280 cr (FY19e on lower end of guidance), is then available at an EV/EBITDA of just 4x, while it should command 7-8x in line with industry peers. Hence, we find current M Cap of Rs. 5,450 cr quite low. Share ruling at Rs.536 can move to Rs. 575 in the next 3 months, while LT view can also be taken.