

Background & Business

Bajaj Electricals Ltd, is a consumer electrical equipment manufacturing company. It is a part of the prestigious Bajaj group of companies. It was incorporated on July 14,1938 by the name of Radio Lamp Networks Ltd. It has well diversified interests in lighting, luminaries, appliances, fans, LPG based Generators, engineering and projects. Its main domains are lighting, consumer durables, engineering and projects. It has 19 branch offices pan-India, with a chain of about 1000 distributors, 4000 authorized dealers, over 400,000 retail outlets and over 282 customer care centers.

Investment Thesis

The financial metrics of BEL may remain under pressure for the near term given the GST-related issues and market share loss caused by implementation of RREP model. In our Q2FY18 result update for BEL released earlier this week, we had valued the company at an average target price of Rs. 515 for the near-term (15-18M), which implied an upside of 24% from the price of Rs. 414 (Share price as on 20th Nov, 2017). Since the release of the result update, shares have already achieved ~65-70% of the targeted upside for 15-18M period. Given all this, we feel that the valuation of BEL does not justify its near-term earnings visibility. At this price, risk /reward matrix does not seem favourable.

Outlook

BEL is a dominant player and a strong brand in the small consumer appliances & lighting segments with an extensive distribution network across India. The company commands a 15-20% market share across key categories in consumer durables (fans, heaters, mixers). In the past few years, performance of the company has been sub-optimal. Profitability was badly impacted due to lower margins in consumer durables, abnormal increase in site expenses on account of cleaning up operation and various other factors including challenging business environment. The financial metrics of BEL may remain under pressure for the near term given the GST-related issues and market share loss caused by implementation of RREP model. Given all this, we feel that the valuation of BEL does not justify its near-term earnings visibility. At this price, risk /reward matrix does not seem favorable.

From : 21-04-2017
To : 24-09-2017
Performance : 35%
Recommendation : CLOSED

