

# BAJAJ ELECTRICALS

Engineered to grow



## Focusing on engineering and projects segment to boost growth

Bajaj Electricals' (BEL) engineering and projects (E&P) segment has recorded a 52.8% CAGR over FY05-09, fastest growth amongst all its segments. The company is focusing on the E&P segment for growth during the next few years; its order backlog at end December 2010 stands at INR 8.35 bn. With a strong order backlog, we expect BEL to continue on the high growth trajectory with a revenue CAGR of 31% over FY09-12E.

## Dominant player in domestic small appliances space

BEL, the largest small appliances company in India, is a leader in the small domestic appliances market. By virtue of tie ups with global majors like Morphy Richards (UK) and Nardi (Italy), the company competes with premium players like Philips and Kenstar and has been able to create a niche in the premium segment. Its products like mixers, irons, OTG, water heaters, and room coolers are leading products in their respective products range.

## Strong nationwide distribution network gives edge over competition

Around 1,000 distributors, more than 5,000 authorised dealers, and over 300,000 retail outlets, spread widely to include tier II and III cities and towns, give BEL a reach that is far wider than any of its competitors. The company has efficiently managed the vast distribution network in terms of the logistics and supply chain.

## Flexibility due to outsourced business model

BEL outsources most of its manufacturing. It has long-term relations with its vendors, dating back several decades, and has exclusive arrangements with 70% vendors. With such a set up in place, the company is able to focus on its core competencies, i.e., marketing and distribution.

## Outlook and valuations: Positive; initiating coverage with 'BUY'

With a strong positive outlook in all segments that BEL is present in, the company is poised to record strong growth going forward. At current estimates, the stock trades at a P/E of 8.7x its FY12 earnings. We have valued BEL based on DCF, to arrive at a fair value of INR 240, implying an upside of 32%. We initiate coverage on the stock with 'BUY/Sector Outperformer' recommendation/rating.

### Financials

Year to March	FY08	FY09	FY10E	FY11E
Revenue (INR mn)	13,745	17,705	21,998	27,134
Revenue growth (%)	27.4	28.8	24.2	23.3
EBITDA (INR mn)	1,432	1,781	2,313	2,897
Shares outstanding (mn)	86	86	97	97
EPS (INR)	8.5	10.1	13.0	16.5
EPS growth (%)	89.0	19.8	28.1	27.2
P/E (x)	21.5	18.0	14.0	11.0
EV/EBITDA (x)	12.3	9.6	7.8	6.3
ROAE (%)	50.2	41.7	33.6	28.3
ROACE (%)	37.1	41.2	40.1	38.1

February 17, 2010

Reuters : BJEL.BO

Bloomberg : BJE IN

### EDELWEISS 4D RATINGS

Absolute Rating	BUY
Rating Relative to Sector	Outperformer
Risk Rating Relative to Sector	Medium
Sector Relative to Market	Overweight

Note:

Please refer last page of the report for rating explanation

### MARKET DATA

CMP	:	INR 182
52-week range (INR)	:	187 / 27
Share in issue (mn)	:	96.7
M cap (INR bn/USD mn)	:	3.5 / 75.1
Avg. Daily Vol. BSE ('000)	:	114.2

### SHARE HOLDING PATTERN (%)

Promoters*	:	65.7
MFs, FIs & Banks	:	18.1
FIIIs	:	2.2
Others	:	14.1
* Promoters pledged shares (% of share in issue)	:	1.3

### PRICE PERFORMANCE (%)

	Stock	Nifty	EW Engi & Cap Index
1 month	6.3	(6.4)	(0.7)
3 months	15.7	(2.9)	8.3
12 months	411.0	77.4	97.0

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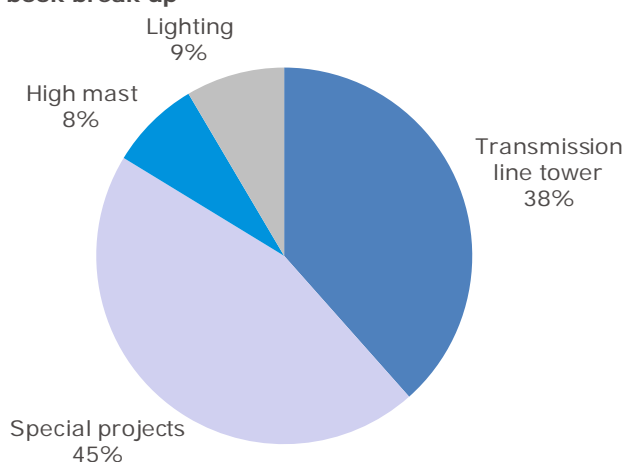
## Investment Rationale

### ■ Focusing on E&P segment to boost growth

E&P segment clocked 52.8% annualised growth between FY05 and FY09

From being a pure lights company to diversifying into engineering and projects (E&P), BEL has come a long way. The E&P segment recorded a 52.8% CAGR over FY05-09, the fastest growth amongst all the company's segments and is its primary focus for growth during the next few years. The segment's order backlog at end December 2010 stands at INR 8.35 bn (i.e., 1.5x FY09 earnings from the division). Special projects and transmission towers comprised 45.3% and 38.4% of the order backlog, respectively, with the balance split between the high mast and lighting projects. With a strong order backlog, we expect BEL to continue on the high growth trajectory, with revenue CAGR of 31% during FY09-12E.

**Chart 1: Order book break up**



High margins special projects dominates order book

Source: Company, Edelweiss research

Huge spending in T&D augurs well for the company

Strong growth in the E&P segment is likely to be driven by huge spending (INR ~300 bn over FY10-12E and INR 6,401 bn over the Twelfth Plan) expected in the power transmission and distribution (T&D) space during the current Five Year Plan. Capacity addition in the later half of the Eleventh Five Year Plan (planned addition of 78 GW), followed by significant capacity addition (planned addition of 100 GW) during the Twelfth Plan, are likely to spur spending in generation and T&D (GTD). Though competition is expected to increase in EPC for the transmission tower market, we believe the market size will be large enough to accommodate new players like BEL. Accordingly, we expect the company to make significant inroads into this growing business segment.

**Table 1: GTD spending expected**

	(INR bn)	
	XI Plan	XII Plan
Generation	4,109	4,951
Transmission	1,400	2,400
Distribution	2,870	4,001
Others	1,937	-
<b>Total</b>	<b>10,316</b>	<b>11,352</b>

Source: PFC

**Table 2: Power transmission spending across various components (INR bn)**

	FY08	FY09	FY10E	FY11E	FY12E
<b>Transmission lines</b>					
Transmission lines towers	34.1	51.9	60.0	52.0	47.3
Conductors	43.8	66.7	77.1	66.9	60.8
Others	19.5	29.7	34.3	29.7	27.0
<b>Substations</b>					
Transformers	29.2	44.5	51.4	44.6	40.6
Others	68.2	103.8	119.9	104.0	94.6
<b>Total</b>	<b>194.8</b>	<b>296.6</b>	<b>342.7</b>	<b>297.2</b>	<b>270.3</b>

Source: CEA, Edelweiss research

BEL's special projects division includes jobs such as lighting of sports stadiums, airport lighting, power plant lighting, among others, where the company commands a significant market share. It has bagged several contracts for the 2010 Commonwealth Games slated to be held in Delhi. It has a sizable market share in terms of power plant lighting. Development of 25 non-metro airports could be another catalyst for the E&P segment; the E&P business is likely to help BEL improve its blended EBITDA margin from 10.1% in FY09 to 10.9% by FY12E.

#### ■ Dominant player in small appliances

BEL, the largest small appliances company in India, has market share of over 15-30% in various appliances categories. It is also the fastest growing appliances company in the country. It is the leader in small domestic appliances (including irons, water heaters, toasters, sandwich makers, mixers, hair dryers, among others). Its market share in products such as irons, OTG, mixers is ~20%, ~30%, and 20%, respectively, making it the leader. Further, it is the No. 2 player with market share of ~20% in water heaters. By virtue of its tie ups with global majors like *Morphy Richards* (one of the largest appliances company in the UK) and *Nardi* (an Italian household appliances company) for gas appliances and cooking range, BEL, competes with premium players like Philips and Kenstar. Further, it has launched its own brand *Platini* in the premium segment, strengthening its position in a category where it has been able to create a niche.

The fact that India is a domestically driven consumption economy augurs well for the appliances business. Increase in income levels and, thus, improvement in the standard of living are likely to drive demand for premium products in the appliances business. Introduction of new models in mixers, water heaters, irons, and coolers is likely to lead to improvement in demand. Further, with reduction in prices, the company expects shift in sales from the unorganised to the organised segment through improved presence in organised retail spaces like malls etc.

Appliances division is the second largest for BEL, following E&P. The company sold nearly 4.2 mn units last year and is targeting at least 25% growth in the current fiscal. One of the fastest growing segments within the company, the appliances business has posted strong revenue growth of 34.6% CAGR over FY05-09. We, however, expect revenue growth in this segment to moderate to ~20% during FY10-12E.

In the fans segment, BEL is amongst the top 3 brands in the country besides being No. 1 in eight states. It is the one of the leading players in the premium fans segment. The market size of fans is estimated at INR 19 bn with ~11.6 mn units a year. BEL has overall market share of 16%. Crompton is the market leader with market share of ~24%. BEL is banking on the revival of the construction and housing market. Tax reform is likely to help improve the share of the organised market for fans.

Market leader in irons, OTGs, mixers, and No. 2 in water heaters

Amongst top 3 brands in fans and No. 1 in eight states

### Access to tier II and III cities and small towns

Pan-India presence with strong distribution network and supply chain

**Fig. 1: Nationwide distribution network**



Long-term relations with vendors and exclusive tie ups with 70% of them

#### ■ Flexibility due to outsourced business model

BEL outsources most of its manufacturing. It has long-term relations with vendors, dating back several decades and shares exclusive arrangements with 70% of them. It maintains consistency in standards of products and services across various areas of business operations through quality assurance management systems and procedures; all facilities are certified with ISO 9001 and ISO 14001. Towards this end, BEL has established a product development and quality assurance centre at Mumbai for small appliances where its products are inspected, tested, and certified for quality.

Focusing on core competencies—marketing and distribution

With such a set up in place, BEL is able to focus on its core competencies, i.e., marketing and distribution. It is also able to use assets in a better way and, hence, record higher asset turnover. The company is focused on research and development (R&D) instead of manufacturing; it has established R&D facilities for testing and quality checking in Mumbai approved by the Government of India (GoI). It has an in-house fan designing and development centre at Pune and also in-house capabilities of design and development of lighting, civil, and structural engineering and electrical systems.

#### ■ Growth over return ratios

Margins profile to improve to ~11% level

With BEL looking at moving into the E&P business in a big way, we expect its margin profile to change as the revenue proportion of E&P is likely to increase to 36% by FY12E from 27% in FY05. At the same time, the lower margin lighting business' revenue contribution is expected to decline to 25% by FY12E from 46% in FY05. While the company's margin profile has certainly improved over the past few years from 6–7% to about 10% currently, we expect with focus on the E&P business, BEL is likely to improve the same further to 11%. Going forward, the company expects margin of 12-13% in the E&P business; however, with lower margins of about 8–9% in the lighting and luminaries business, we expect the company's blended margin to stabilise around 11% by FY12E.

Within E&P itself, having recorded strong CAGR of 56% over FY05-09, we expect the special project division to continue to maintain its high growth albeit, lowered at ~30% CAGR during FY09-12E. The transmission tower business is expected to clock the fastest growth at CAGR of ~33% between FY09-12E after growing moderately between FY05-09 at CAGR of ~15%.

QIP helped deleverage balance sheet

The company recently raised funds through a QIP issue primarily to deleverage its balance sheet. This in turn has increased the capital on the balance sheet affecting the return ratios. We expect BEL to record a dip in ROCE from 41.7% in FY09 to ~30% during FY12E. However, we believe that the dip in the return ratio would be reversed over the next few years given that the company is currently in the investment phase for its E&P business. Further, the E&P business (being working capital intensive) is likely to increase the working capital requirement for the company, thereby putting pressure on the ROACE.

## Valuation

32% upside from current level

We arrive at a one year forward DCF value of INR 240 for the stock, implying an upside of 32% from current levels. Our implied FY11E and FY12E target P/E for the stock is 14.5x and 11.5x, respectively. Historically, the stock has traded up to a one year forward P/E band of 14x. While there is a certain case for upsides to the multiples given the improvement in growth, margin profile of the business, we believe even if the above multiples sustain, the stock provides an upside of 32% from current levels. We initiate coverage on the stock with **'BUY/Sector Outperformer'** recommendation/rating.

**Table 3: DCF assumption**

Stock Beta (x)	1.1
Risk free rate (%)	7.0
Risk premium (%)	6.0
WACC (%)	10.1
Firm value (INR mn)	23,924
Net debt (INR mn)	723
Equity value (INR mn)	23,201
Shares O/S (Nos mn)	97
Value per share (INR )	240

Source: Edelweiss research

**Table 4: Sensitivity analysis for DCF**

		Terminal growth rate (%)				
		4.0	4.5	5.0	5.5	6.0
WACC (%)	9.0	236	259	288	325	374
	9.5	220	239	262	291	329
	10.1	205	221	240	263	292
	10.5	195	209	225	245	269
	11.0	185	197	211	228	247

Source: Edelweiss research

## Key Risks

The market in which BEL primarily operates consists of large unorganised players with a number of small and medium sized players. Over dependence on vendors or vendor buy out by competition is a key risk. Further, intense competition in the consumer durable segment can squeeze margins.

Increase in prices of key raw materials such as steel and zinc can hamper margins of the E&P division. Greater contribution of E&P business is likely to increase the debt levels in the form of higher working capital that this business demands. Excess competition can put pressure on margin. This could go against the company's forecasts of margin improvement.

## Company Description

Incorporated as Radio Lamp Works in July 1938, the company changed its name to Bajaj Electricals in October 1960. The 71-year old Bajaj Group company operates through five strategic business units—home appliances, fans, lighting, luminaries, and engineering & projects.

The company has two manufacturing facilities, one at Chakan for fans, and another at Ranjangaon for galvanised material. The company sources the manufacture of CFL bulbs through its associate company where BEL has acquired equity interest. It outsources all other home appliances products like steam irons and toasters through its dedicated manufacturers located across the country.

The company also has an export presence through its group company Bajaj International. In September 1999 it established and commissioned a 2.8 MW wind energy unit at Satara in Maharashtra. The company has tied up with numerous foreign entities across business units.

### ■ Business description

#### Dominant player in small appliances

BEL, the largest small appliances company in India, is the leader in small domestic appliances. By virtue of its tie ups with global majors like Morphy Richards and Nardi, BEL competes with premium players like Philips and Kenstar. Further, it has launched its own brand *Platini* in the premium segment, strengthening its position in a category where it has been able to create a niche.

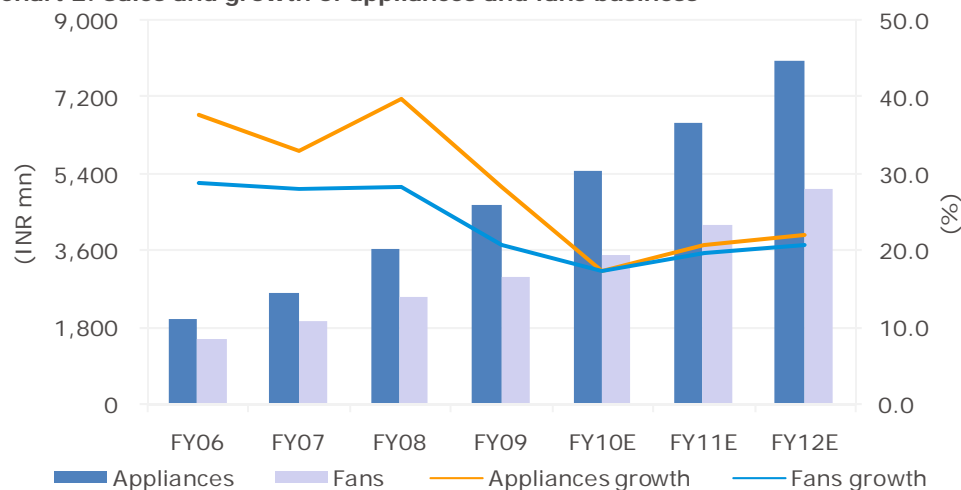
Global tie ups help BEL compete with the likes of Philips and Kenstar

**Table 5: Competitors in the appliance business**

Philips	Merloni	Crompton Greaves
Kenstar	Spherehot	Black & Decker
Usha	Tefal	Sumeet
Maharaja	Braun	National

Source: Company, Edelweiss research

**Chart 2: Sales and growth of appliances and fans business**



Source: Company, Edelweiss research



Tie up with Disney for use of its characters on fans was well received in the market

#### ■ Fans segment

BEL supplies fans to both domestic as well as industrial users and has a variety of offerings—ceiling, table, pedestal, wall mounted, and exhaust fans, amongst others. The company has fans in three segments—economy, mid range, and premium. It has a market share of 15% in fans and has a tie up with China-based Midea Fans, the world's largest fan company. BEL manufactures fans at its Chakan unit, besides procuring fans and related components from its vendors from Hyderabad, Himachal Pradesh, and Uttarakhand, including imports from China. Its tie up with Disney to launch kids' fans with Disney characters was well received in the market.

The company recorded 19% growth in the sale of fans last year to 3.2 mn units. It posted robust revenue CAGR of 26.4% in fans during FY05-09.

Stake in Starlite to help BEL gain foothold in the fast growing CFL market

#### ■ Lights and luminaries segment

In the lights business, BEL markets a wide range of general lighting service (GLS) lamps, fluorescent tube lights (FTL), compact fluorescent lamps (CFL), and light emitting diodes (LED) torches. The company manufactures lamps at Hind Lamps, its associate company's facility in Uttar Pradesh. As a part of a strategic move, BEL (in February 2007) acquired 32% stake in Nashik (Maharashtra) based Starlite Lighting, a CFL manufacturer, given that CFL is where growth potential remains large with the market growing at ~35% annually.

The market size of lighting is expected to be at INR 30 bn with CFL bulbs' market size at INR 10 bn. CFL bulbs' penetration is likely to surge on the back of low prices along with the benefit of reduced energy consumption. Awareness about environmental and climate changes is also likely catalyst for greater penetration. With government's "Power for all" by 2012 mission, demand from rural areas is likely to rise.

The lighting business is a small part of the company with revenue contribution of about 12%. The segment has recorded a modest CAGR of ~19% over FY05-09. We expect the division to continue its growth momentum and clock annualised growth of ~19% between FY09 and FY12E.

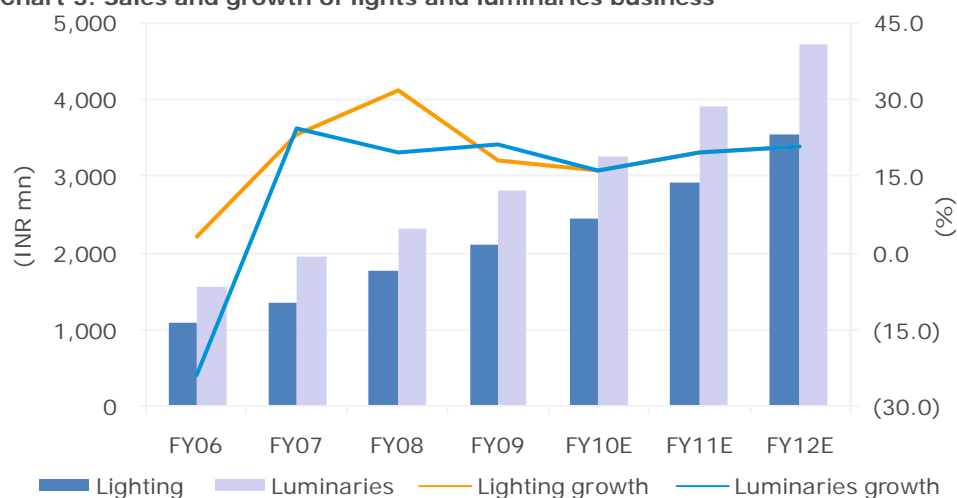
In the luminaries' space, BEL covers a wide application to include commercial, industrial, flood lighting, street lighting, and post-top lighting luminaries. The company is a leading player in street lights, flood lights, and industrial applications. Its products are primarily sourced from dedicated vendors at Daman, Himachal Pradesh, and include Chinese imports.

With a market size of about INR 15 bn, BEL is a leading player in the luminaries segment behind Philips, the market leader. Philips' market share is ~23% and BEL's other main competitors include Crompton and Wipro. The company has entered into tie ups with Germany-based Trilus for technical lighting, a Canadian company Delta Control for building management systems and HVAC products, and with Securiton of Switzerland for fire alarms and security systems.

Rapid urbanisation and road development by government to boost luminaries business

The segment has posted a CAGR of 8.1% over FY05-09 and we expect it to post a stronger CAGR of ~19% between FY09 and FY12E. Rapid urbanisation with emerging segments like retail formats, malls, showrooms, IT parks, tourism, services' together with increased spending on infrastructure by both the government and private bodies is likely to drive demand for luminaries. Being one of the leading players in luminaries, BEL is likely to benefit from increase in road development, which will promote street lighting, besides development of sports facilities post the 2010 Common Wealth Games.

Chart 3: Sales and growth of lights and luminaries business



Source: Company, Edelweiss research

#### ■ Engineering and projects division

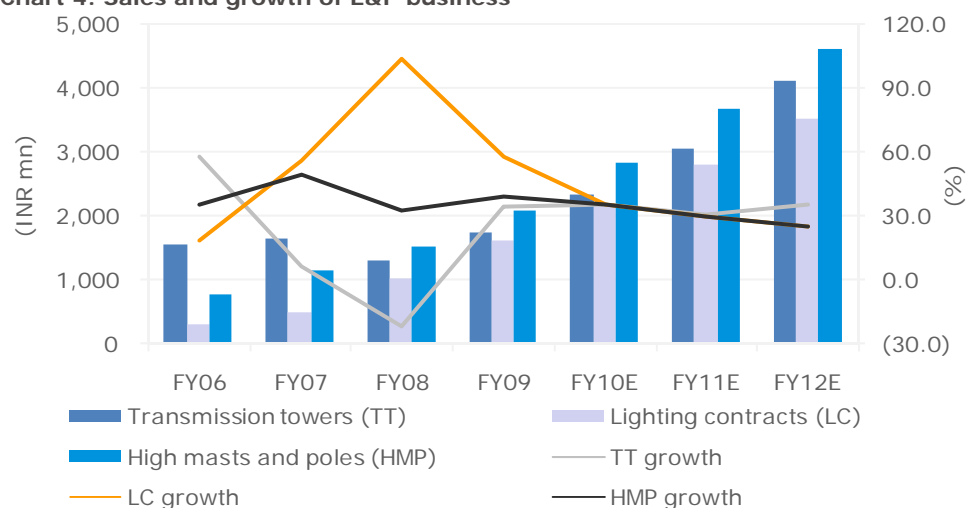
Own manufacturing facility for galvanised products a big positive

BEL does galvanizing, fabrication, and manufacturing of high masts and lattice towers at its own Ranjangaon unit. The unit has the capacity to manufacture 4,000 high mast shafts and 56,000 swaged/octagonal poles per annum. Its lattice mast / transmission line towers capacity is at 24,000 MT per annum.

The E&P segment is divided into three verticals:

1. **Transmission towers:** which includes design, supply, erection, and commissioning of transmission lines, telecommunication towers, and monopoles, and other related products and services.
2. **Lighting contracts (special projects):** where BEL undertakes turnkey lighting assignments, fibre optic lighting, factory lighting, airport lighting, sports lighting, and rural electrification projects, etc.
3. **High masts and poles:** BEL undertakes design, supply, erection, and commissioning of high masts, signages and poles, etc.

Chart 4: Sales and growth of E&amp;P business



Source: Company, Edelweiss research

Strongest growth expected in the E&P segment between FY09 and FY12E

PGCIL's target to increase transmission capacity will boost BEL's tower business

#### ■ Transmission towers

The company initially started with supply of galvanized towers to EPC players. Subsequently, it decided to enter turnkey EPC contracts for transmissions towers. The transmission space is promising with Power Grid Corporation of India (PGCIL) planning to spend close of INR ~300 bn over FY10-12E on increasing India's transmission capacity during the current five year plan from 20,750 MW to 37,700 MW. Going forward, this segment is expected to record highest growth among all the company's verticals of 33.3% CAGR between FY09 and FY12E. This segment is expected to contribute 33.6% of the E&P revenue and 12.2% of the company's total revenue in FY12E.

#### ■ Lighting contracts

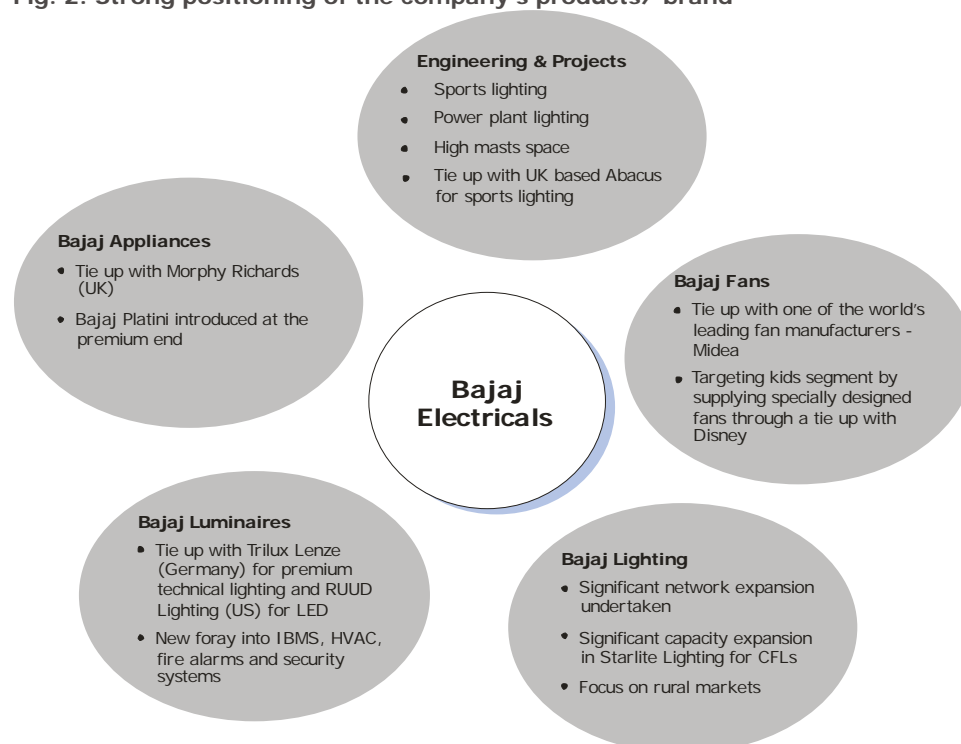
BEL was initially supplying lights and luminaries to various contractors for stadiums, sports complexes, etc. Subsequently, it moved into complete turnkey contracts for lightings. The company is actively undertaking lighting contracts for various power plants in the country. It also undertakes lighting projects for airports, seaports besides rural electrification projects. BEL recently completed lighting of the prestigious Bandra-Worli sea link. Amongst the three verticals, revenue from the lighting contracts' vertical recorded fastest growth, where revenue increased six fold between FY05 and FY09; this is expected to moderate to about ~30% CAGR over FY09-12E.

#### ■ High masts and poles

High mast poles are more apt in densely populated urban locations

While the company started this business in early 1900s using bought outs, it started manufacturing high masts only in 2001. BEL sees tremendous prospects in high masts poles as land acquisition issues are likely to be grave going forward. Such poles are installed on a relatively smaller foundation hence are more apt in densely populated urban locations. The company could look at increasing the galvanizing capacity for mono poles as transmission line towers that are currently in use in India are no longer popular in developed nations. Mono poles use fewer parts in contrast to 400-600 parts in normal transmission towers.

**Fig. 2: Strong positioning of the company's products/ brand**



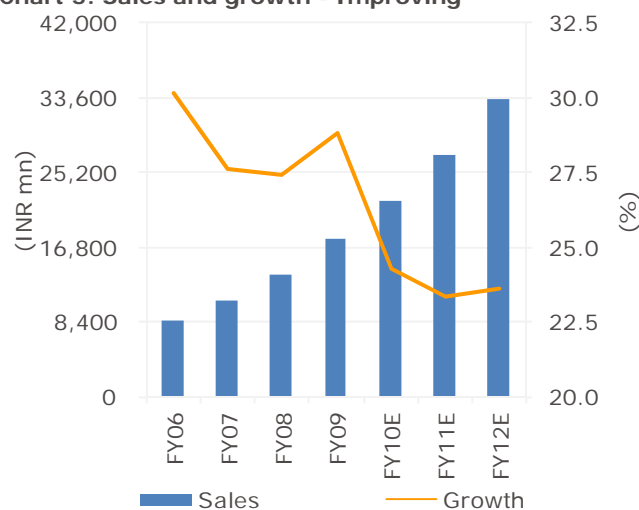
Source: Company, Edelweiss research

Overall, the company has recorded a strong annualised growth of 27.8% between FY05 and FY09. During this period, in terms of percentage growth, the E&P division posted a CAGR of ~53%. This was primarily on the back of lower base effect as this was relatively a new line of business. The appliances business was the major mover in terms of growth, contributing about 40% of revenue during the period and annualised growth of 31.1% between FY05 and FY09.

E&P to be a major driver with revenue contribution increasing to 36% by FY12E

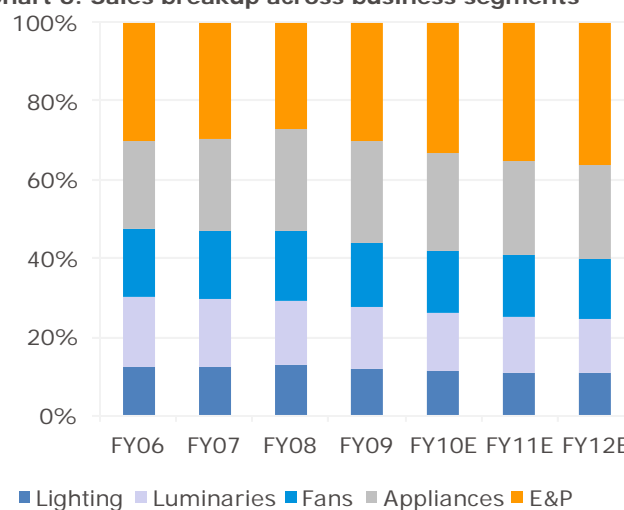
We expect BEL to post ~23% annualised growth during FY09-12E. Going forward, we believe the E&P division could be the major growth driver with its revenue contribution increasing from 30% to 36% during FY09-12E.

**Chart 5: Sales and growth - Improving**



Source: Company, Edelweiss research

**Chart 6: Sales breakup across business segments**



Source: Company, Edelweiss research

BEL likely to look for growth through the inorganic route

#### ■ Future strategy: Diversification

BEL is on a high growth trajectory, given its dominant position in most of the product segments, strong distribution network, and focus on high-margin premium products. It aims to achieve this target through organic as well as inorganic routes. We have, however, not assumed any upsides from possible acquisitions in our estimates. Some of the key opportunities for BEL are likely to arise from the retail boom, growing consumerism, and infrastructure development in India through various initiatives, including the rural electrification programme. As per media reports, BEL plans to enter into the renewable energy space by setting up a manufacturing facility for solar cells. It could also be bidding for distribution franchisee licences as the company intends to become a 'full-fledged utility company' and is likely to decide on the same in the next few months. Flush with cash from its recently concluded QIP issue, the company could look at the inorganic route for growth.

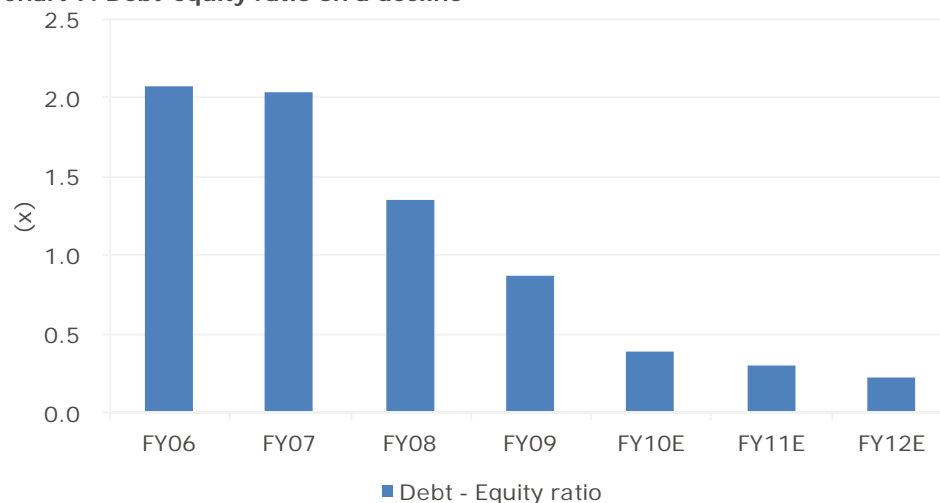
## Financial Outlook

Leverage brought under control post QIP issue in December 2009

### ■ Taming leverage

BEL, which was highly leveraged during FY05-07, has successfully managed to reduce the debt-equity ratio to the current 0.6x (end FY10E) following the QIP issue in December 2009. Post the issue, the company's debt is likely to dip as it could repay some of the outstanding debt. This is beneficial as the company intends to increase its focus on the high working capital intensive E&P business. With lower leverage levels, BEL's borrowing cost is likely to be under control.

**Chart 7: Debt-equity ratio on a decline**



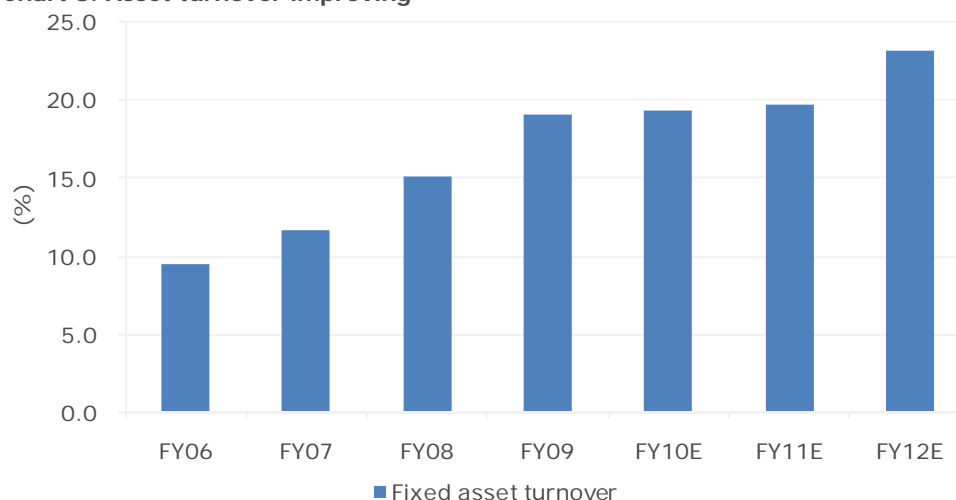
Source: Company, Edelweiss research

Outsourcing model for most products helps record higher asset turnover

### ■ Asset turnover to remain high

With BEL continuing with the outsourcing model for most of its products, the company is likely to record high asset turnover. BEL has been able to leverage on its long established relationships with vendors (70% vendors are exclusive) to keep its focus on marketing and distribution through its vast network of the distribution channel which the company is further strengthening.

**Chart 8: Asset turnover improving**



Source: Company, Edelweiss research

## Financial Statements

### Income statement

(INR mn)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Income from operations	13,745	17,705	21,998	27,134	33,548
Total operating expenses	12,313	15,924	19,685	24,237	29,886
Materials costs	10,081	13,149	16,100	20,004	24,787
Employee cost	636	771	1,023	1,221	1,476
Other manufacturing exps	1,595	2,004	2,563	3,012	3,623
EBITDA	1,432	1,781	2,313	2,897	3,662
Depreciation and amortisation	75	85	103	123	135
EBIT	1,358	1,695	2,210	2,774	3,527
Interest	293	370	336	376	469
Total other income	50	57	57	57	59
Profit before tax	1,114	1,383	1,930	2,455	3,117
Provision for tax	383	507	676	859	1,091
Core profit	731	876	1,255	1,596	2,026
Profit after tax	731	891	1,255	1,596	2,027
Shares outstanding (mn)	86	86	97	97	97
EPS (INR) basic	8.5	10.1	13.0	16.5	21.0
Diluted shares (mn)	86	86	97	97	97
EPS (INR) diluted	8.5	10.1	13.0	16.5	21.0
Dividend per share (INR)	1.6	2.0	2.6	3.3	4.2
Dividend payout (%)	22.1	22.7	23.4	23.4	23.4

### Common size metrics- as % of net revenues

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating expenses	89.6	89.9	89.5	89.3	89.1
Material cost	73.3	74.3	73.2	73.7	73.9
Depreciation and amortisation	0.5	0.5	0.5	0.5	0.4
Interest expenditure	2.1	2.1	1.5	1.4	1.4
EBITDA margins	10.4	10.1	10.5	10.7	10.9
Net profit margins	5.3	4.9	5.7	5.9	6.0

### Growth metrics (%)

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Revenues	27.4	28.8	24.2	23.3	23.6
EBITDA growth	65.7	24.4	29.9	25.3	26.4
PBT	84.6	24.1	39.6	27.2	27.0
Core net profit	89.0	19.8	43.2	27.2	27.0
EPS	89.0	19.8	28.1	27.2	27.0

**Balance sheet****(INR mn)**

As on 31st March	FY08	FY09	FY10E	FY11E	FY12E
Equity capital	173	173	193	193	193
Reserves & surplus	1,575	2,277	4,819	6,042	7,594
Shareholders funds	1,748	2,450	5,013	6,235	7,787
Secured loans	1,559	1,480	1,401	1,342	1,298
Unsecured loans	808	658	587	534	493
Borrowings	2,367	2,139	1,988	1,876	1,791
Deferred tax (Net)	41	31	31	31	31
<b>Sources of funds</b>	<b>4,156</b>	<b>4,620</b>	<b>7,033</b>	<b>8,142</b>	<b>9,610</b>
Gross block	1,440	1,545	2,045	2,245	2,445
Depreciation	524	599	702	825	960
Net block	916	946	1,343	1,419	1,485
Capital work In progress	3	25	25	25	25
Investments	223	316	316	316	316
Inventories	1,622	1,777	2,536	3,230	4,087
Sundry debtors	4,253	5,592	6,905	8,660	10,729
Cash and bank balances	320	538	1,309	837	1,039
Loans and advances	890	1,130	1,222	1,320	1,442
Total current assets	7,085	9,037	11,973	14,046	17,297
Sundry creditors and others	3,645	5,191	5,696	6,486	8,016
Provisions	426	513	927	1,178	1,496
Total current liabilities & provisions	4,071	5,703	6,623	7,664	9,512
Net current assets	3,014	3,334	5,349	6,382	7,785
<b>Uses of funds</b>	<b>4,156</b>	<b>4,620</b>	<b>7,033</b>	<b>8,142</b>	<b>9,610</b>
Book value per share (INR)	20	28	52	64	81

**Free cash flow**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Net profit	731	891	1,255	1,596	2,027
Depreciation	75	85	103	123	135
Deferred tax	(31)	(10)	-	-	-
Gross cash flow	774	967	1,358	1,719	2,161
Less: Changes in working capital	513	102	1,244	1,506	1,201
Operating cash flow	262	865	114	213	961
Less: Capex	155	123	500	200	200
<b>Free cash flow</b>	<b>107</b>	<b>742</b>	<b>(387)</b>	<b>13</b>	<b>761</b>

**Cash flow metrics**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Operating cash flow	262	865	114	213	961
Financing cash flow	(80)	(431)	1,158	(486)	(559)
Investing cash flow	(155)	(216)	(500)	(200)	(200)
Net cash flow	26	219	771	(473)	202
Capex	(74)	(126)	(500)	(200)	(200)
Dividend paid	(162)	(202)	(294)	(373)	(474)
Share issuance/(Buyback)	86	-	20	-	-

**Ratios**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
ROAE (%)	50.2	41.7	33.6	28.4	28.9
ROACE (%)	37.1	41.2	40.1	38.1	41.2
Inventory (days)	51	47	49	53	54
Debtors (days)	104	101	104	105	105
Payable (days)	120	123	123	111	107
Cash conversion cycle	35	26	29	46	53
Current ratio	1.7	1.6	1.8	1.8	1.8
Debt/EBITDA	1.7	1.2	0.9	0.6	0.5
Interest cover (x)	4.6	4.6	6.6	7.4	7.5
Fixed assets turnover (x)	15.1	19.0	19.2	19.6	23.1
Total asset turnover(x)	3.5	4.0	3.8	3.6	3.8
Equity turnover(x)	9.4	8.4	5.9	4.8	4.8
Debt/Equity (x)	1.4	0.9	0.4	0.3	0.2
Adjusted debt/Equity	1.4	0.9	0.4	0.3	0.2

**Du pont analysis**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
NP margin (%)	5.3	4.9	5.7	5.9	6.0
Total assets turnover	3.5	4.0	3.8	3.6	3.8
Leverage multiplier	2.7	2.1	1.6	1.3	1.3
ROAE (%)	50.2	41.7	33.6	28.4	28.9

**Valuation parameters**

Year to March	FY08	FY09	FY10E	FY11E	FY12E
Diluted EPS (INR)	8.5	10.1	13.0	16.5	21.0
Y-o-Y growth (%)	89.0	19.8	28.1	27.2	27.0
CEPS (INR)	9.7	11.2	14.0	17.8	22.4
Diluted P/E (x)	21.5	18.0	14.0	11.0	8.7
Price/BV(x)	9.0	6.4	3.5	2.8	2.3
EV/Sales (x)	1.3	1.0	0.8	0.7	0.5
EV/EBITDA (x)	12.3	9.6	7.8	6.3	4.9
EV/EBITDA (x) +1 yr forward	9.9	7.4	6.2	5.0	4.9
Dividend yield (%)	0.9	1.1	1.4	1.8	2.3



Company	Absolute reco	Relative reco	Relative risk	Company	Absolute reco	Relative reco	Relative risk
Thermax	Buy	SO	L	Jyoti Structures	Hold	SP	M
Voltas	Hold	SU	L	Voltamp Transformers	Hold	SP	M
AIA Engineering	Buy	SO	M	Texmaco	Buy	SP	H
Crompton Greaves	Buy	SO	L	Siemens	Hold	SU	L
Sanghvi Movers	Buy	SO	H	Bharat Heavy Electricals	Buy	SO	L
Suzlon Energy	Hold	SO	H	ABB India	Hold	SU	L
Techno Electric & Engg.	Buy	SO	M	KEC International	Buy	SO	M
Larsen & Toubro	Hold	SP	L	Kalpataru Power Transmission	Hold	SP	M
Cummins India	Buy	SO	L	Punj Lloyd	Hold	SU	M
BGR Energy	Buy	SO	M	Bajaj Electricals	Buy	SO	M

## ABSOLUTE RATING

Ratings	Expected absolute returns over 12 months
Buy	More than 15%
Hold	Between 15% and - 5%
Reduce	Less than -5%

## RELATIVE RETURNS RATING

Ratings	Criteria
Sector Outperformer (SO)	Stock return > 1.25 x Sector return
Sector Performer (SP)	Stock return > 0.75 x Sector return
	Stock return < 1.25 x Sector return
Sector Underperformer (SU)	Stock return < 0.75 x Sector return

Sector return is market cap weighted average return for the coverage universe within the sector

## RELATIVE RISK RATING

Ratings	Criteria
Low (L)	Bottom 1/3rd percentile in the sector
Medium (M)	Middle 1/3rd percentile in the sector
High (H)	Top 1/3rd percentile in the sector

Risk ratings are based on Edelweiss risk model

## SECTOR RATING

Ratings	Criteria
Overweight (OW)	Sector return > 1.25 x Nifty return
Equalweight (EW)	Sector return > 0.75 x Nifty return
	Sector return < 1.25 x Nifty return
Underweight (UW)	Sector return < 0.75 x Nifty return

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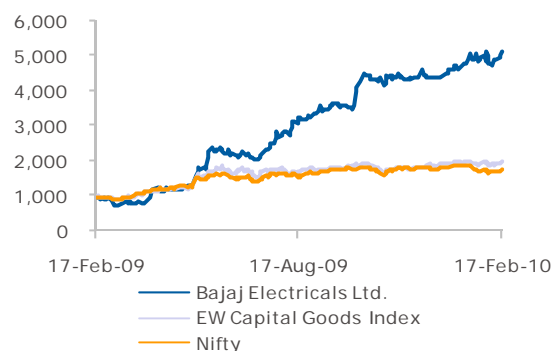
### Coverage group(s) of stocks by primary analyst(s): Engineering and Capital Goods

ABB, BGR Energy, BHEL, Crompton Greaves, Cummins India, Jyoti Structures, Kalpataru Power Transmission, KEC International, L & T, Punj Lloyd, Siemens, Techno Electric, Thermax, Voltamp Transformers and Voltas.

#### Bajaj Electricals



#### EW Indices



#### Distribution of Ratings / Market Cap

##### Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	95	54	11	162

\* 2 stocks under review

	> 50bn	Between 10bn and 50 bn	< 10bn
Market Cap (INR)	104	46	12

#### Recent Research

Date	Company	Title	Price (INR)	Recos
05-Feb-10	<b>AIA Engineering</b>	Improving tractions; Result Update	329	Buy
03-Feb-10	<b>BGR Energy</b>	Execution continues to hold the key; Result Update	502	Buy
02-Feb-10	<b>Thermax</b>	Future's bright; Result Update	633	Buy

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