

Bajaj Electricals

Performance Highlights

Y/E March (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)
Net Sales	690	588	17.3	592	16.4
EBITDA	71	45	59.0	61	16.5
EBITDA margin (%)	10.3	7.6		10.3	
PAT	40.5	23.4	73.1	34.1	18.7

Source: Company, Angel Research

For 3QFY2011, Bajaj Electricals (BEL) posted top-line growth of 16.4% at ₹690cr (₹592cr), which was above our estimate of ₹666cr. OPM at 10.3% (10.3%) came below our estimate of 11.8%. Net profit increased by 18.7% yoy to ₹40.5cr (₹34.1cr) and came in below our estimate, owing to suppressed OPM and higher interest costs. During the quarter, interest cost rose to ₹9.3cr. For FY2011 and FY2012, on account higher sales, we have revised upwards our top-line estimates from ₹2,686cr and ₹3,241cr to ₹2,733cr to ₹3,285cr and margin estimates lower from 10.2% and 10.6% to 10.0% and 10.4%, respectively. We also roll over to FY2013 numbers. **We recommend an Accumulate on the stock.**

Top-line remains robust on impressive consumer durables performance: Sales for the quarter were again driven by a strong 33.9% yoy growth in the Consumer Durables business. Lighting division also performed well with 17.1% yoy growth, while the E&P business sales came in flat. OPM was below expectations at 10.3%, as the E&P division recorded a 249bp yoy decline in margins to 9.4% (11.9%), although it was a remarkable improvement from 3.1% that it posted in 2QFY2011. Going ahead, margins are expected to hover at these levels.

Outlook and Valuation: We remain positive on the company primarily owing to the strong growth in the consumer durables business. We expect sales to post a CAGR of 20.9% over FY2010-13 to ₹3,935cr. However, we have revised downwards our OPM estimates for FY2011 and FY2012 to 10.0% and 10.4% respectively, while we estimate OPM of 10.4% for FY2013. We expect PAT to register CAGR of 27.0% to ₹245cr over FY2010-13. At current levels, the stock is trading at 10.8x FY2012E and 8.9x FY2013E EPS. We recommend an Accumulate on the stock, with a Target Price of ₹248.

Key Financials

Y/E March (₹ cr)	FY2010	FY2011E	FY2012E	FY2013E
Net Sales	2,227	2,733	3,285	3,935
% chg	26.1	22.7	20.2	19.8
Net Profit	112	157	201	245
% chg	22.4	40.9	28.2	21.8
EBITDA (%)	10.5	10.0	10.4	10.4
EPS (₹)	11.7	15.7	20.1	24.5
P/E (x)	18.6	13.8	10.8	8.9
P/BV (x)	4.3	3.5	2.8	2.2
RoE (%)	31.7	28.5	29.3	28.4
RoCE (%)	40.4	36.2	37.5	37.8
EV/Sales (x)	1.0	0.8	0.7	0.5
EV/EBITDA (x)	9.5	8.0	6.3	5.2

Source: Company, Angel Research

ACCUMULATE

CMP	₹217
Target Price	₹248

Investment Period	12 Months
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Stock Info	
Sector	Cons Durables
Market Cap (₹cr)	2,148
Beta	0.9
52 Week High / Low	347/168
Avg. Daily Volume	106574
Face Value (₹)	2
BSE Sensex	18,396
Nifty	5,512
Reuters Code	BJEL.BO
Bloomberg Code	BJE@IN

Shareholding Pattern (%)	
Promoters	64.9
MF / Banks / Indian Fls	14.0
FII / NRIs / OCBs	8.9
Indian Public / Others	12.3

Abs. (%)	3m	1yr	3yr
Sensex	(7.7)	12.8	1.3
Bajaj Electricals	(22.3)	24.5	125.8

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Exhibit 1: 3QFY2011 performance

Y/E March (₹ cr)	3QFY11	2QFY11	% chg (qoq)	3QFY10	% chg (yoy)	9MFY2011	9MFY2010	% chg
Net Sales	689.5	587.8	17.3	592.1	16.4	1,761.2	1,469.7	19.8
Consumption of RM	515.9	444.4	16.1	418.8	23.2	1,330.2	1,044.6	27.3
(% of Sales)	74.8	75.6		70.7		75.5	71.1	
Staff Costs	28.7	37.5	(23.7)	24.9	14.9	90.0	75.5	19.3
(% of Sales)	4.2	6.4		4.2		5.1	5.1	
Other Expenses	74.1	61.3	20.8	87.6	(15.4)	184.7	198.4	(6.9)
(% of Sales)	10.7	10.4		14.8		10.5	13.5	
Total Expenditure	618.6	543.2	13.9	531.3	16.4	1,604.9	1,318.5	21.7
Operating Profit	70.9	44.6	59.0	60.8	16.5	156.2	151.2	3.4
OPM (%)	10.3	7.6		10.3		8.9	10.3	
Interest	9.3	7.6	21.7	8.9	3.6	22.6	26.0	(13.3)
Depreciation	2.7	2.3	13.7	2.4	12.2	7.4	6.9	6.2
Other Income	0.7	1.5	(53.6)	1.1	(38.6)	3.5	2.0	72.5
PBT (excl. Extr. Items)	59.7	36.1	65.1	50.6	17.8	129.8	120.2	7.9
Extr. Income/(Expense)	-	-		-		-	-	
PBT (incl. Extr. Items)	59.7	36.1	65.1	50.6	17.8	129.8	120.2	7.9
(% of Sales)	8.7	6.1		8.6		7.4	8.2	
Provision for Taxation	19.2	12.8	50.5	16.6	16.0	43.4	40.5	7.1
(% of PBT)	32.2	35.3		32.7		33.5	33.7	
Reported PAT	40.5	23.4	73.1	34.1	18.7	86.4	79.7	8.4
Prior Period Items	(0.1)	0.1		1.0		0.0	0.0	
PATM (%)	5.9	4.0		5.8		4.9	5.4	
Equity shares (cr)	9.9	9.8		9.8		9.8	9.9	
EPS (₹)	4.1	2.4	71.9	3.5	17.1	8.9	8.1	9.8
Adjusted PAT	40.6	23.2	74.7	33.1	22.7	86.3	79.6	8.4

Source: Company, Angel Research

Segment-wise performance

The lighting segment reported a growth of 17.1% yoy to ₹168cr (₹144cr). EBIT margins for the quarter improved by 32bp to 4.4% (4.0%).

The consumer durables segment continued to perform well recording 33.9% yoy growth in top-line to ₹332cr (₹248cr). The segment is witnessing robust demand in both the appliances as well as fans business units (BUs). The company continues to focus on network expansion, marketing and product innovation to drive its growth in this segment. The segment reported strong EBIT margins at 13.0% (12.4%), increasing by 58bp.

The E&P division, though, reported flat sales of ₹189cr (₹189cr). Margins for this segment fell 249bps to 9.4% (11.9%). Going ahead, this division is expected to perform better, as orders for its Transmission Line Towers (TLT) business start coming in.

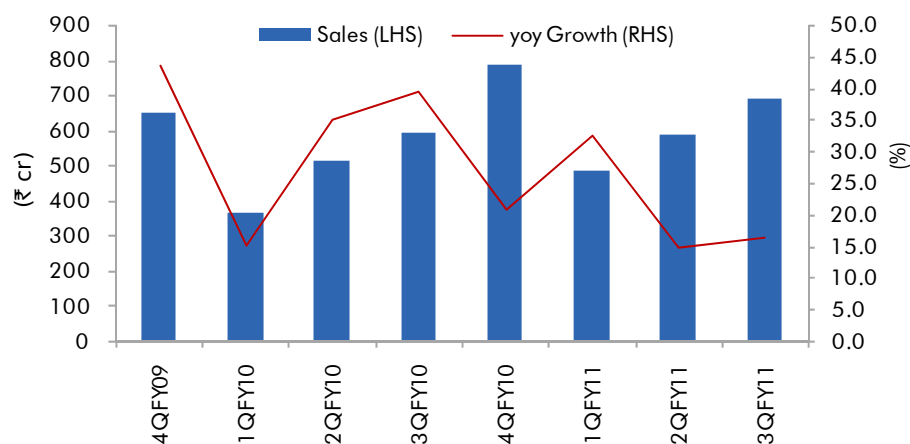
Exhibit 2: Segment-wise performance

Y/E Mar (₹ cr)	3QFY11	2QFY11	3QFY10	% chg (qoq)	% chg (yoy)
Total Revenue					
A) Lighting	168.5	151.4	143.9	11.3	17.1
B) Cons Durables	331.9	279.8	247.8	18.6	33.9
C) E&P	188.8	156.0	188.7	21.0	0.0
D) Others	0.3	0.6	0.3	(47.5)	14.3
Total	689.5	587.8	580.7	17.3	18.7
Less: Inter-Segment	-	-	-		
Net Sales	689.5	587.8	580.7	17.3	18.7
EBIT Margin (%)					
A) Lighting	4.4	4.5	4.0	(9bp)	32bp
B) Cons Durables	13.0	11.3	12.4	163bp	58bp
C) E&P	9.4	3.1	11.9	637bp	(249bp)
D) Others	40.6	59.0	25.0	(1839bp)	1563bp

Source: Company, Angel Research

Sales growth at 16.4%

BEL has been consistently performing well on the sales front over the past few quarters. In comparison however, growth in 3QFY2011 was subdued mainly because of flat sales in the E&P division. Going ahead however, we expect sales of this segment to pick up.

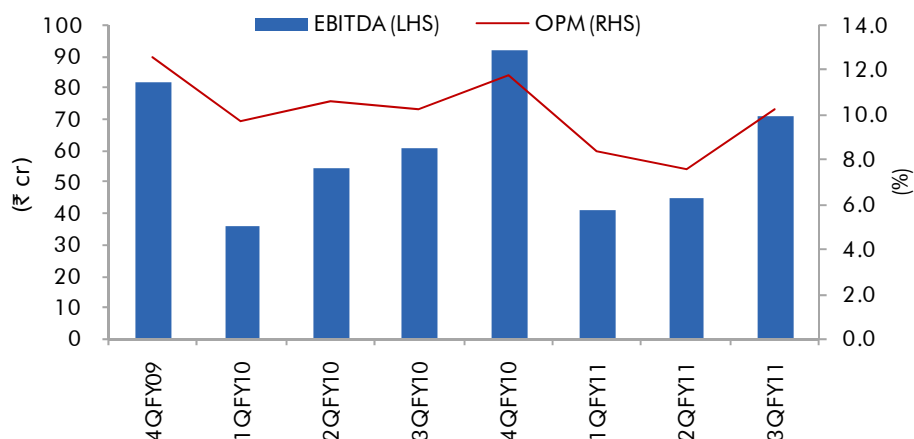
Exhibit 3: Sales trend


Source: Company, Angel Research

OPM improves from lows of 2QFY2011

OPM during 3QFY2011 improved sequentially to 10.3% as compared to 7.6% in 2QFY2011. However, OPM was flat on yoy basis. The main driver for OPM improvement was the margins of the E&P division, which increased from 3.1% in the last quarter to 9.4% in 3QFY2011.

Exhibit 4: OPM trend

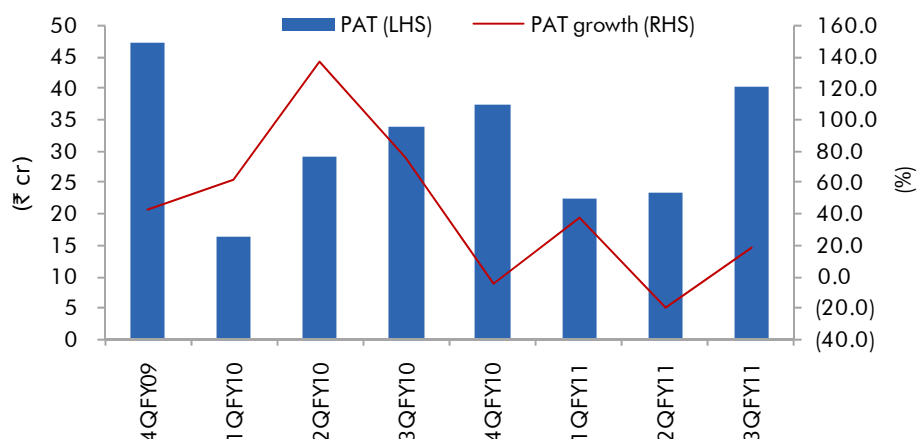


Source: Company, Angel Research

PAT growth remains at a healthy 18.7%

PAT grew by 18.7% yoy to ₹40.5cr. Sequentially, PAT grew by a remarkable 73.1% mainly on account of the 270bp improvement in OPM.

Exhibit 5: PAT growth trend



Source: Company, Angel Research

Management con-call - Key takeaways

- The E&P business order book currently stands at ₹1,050cr. Of this, the lighting projects business is ₹121cr, rural electrification ₹320cr, high mast and street light ₹120cr and the transmission line towers ~₹515cr.
- The company is focusing on product innovations and network rollout to maintain high growth trajectory in the consumer durables business.
- Recently, BEL received 12 orders worth ₹75cr in packages and is well placed in tenders worth ₹350cr. The company is expecting substantial order inflow in February or March 2011.
- Tax rate for the quarter was relatively low as some earlier income tax related matters were settled in the company’s favour. Going ahead, the company is expected to remain in the highest income tax bracket.

- Over the last nine months, the company hiked prices by ~5.0% across its product portfolio.
- The response to Bajaj pressure cookers has been good in the eastern part of the country and the company plans to launch the product across the rest of the country as well.

Investment Arguments

Leveraging on strong brands and substantial market share: BEL has strong brand positioning and well-spread distribution network. As per the company's internal estimates, it is the fastest growing player in the Domestic Appliances market, which is growing at 20% pa. In the Small Appliances market, BEL enjoys a market share of over 15-30% across products.

Focus on high-margin E&P Division: Post a shift in Revenue mix, BEL has been focusing on the high-Margin E&P Division. The E&P Division enjoys high Margins of 12-13% compared to overall margins of 8%. In FY2005, E&P contributed 14.8% (₹99.5cr) of BEL's Gross Sales, which grew to 33.6% (₹756cr) in FY2010. We expect EBDITA Margins to sustain at current levels with a positive bias.

Future growth drivers - Rural markets, acquisitions, newer verticals: BEL plans to capitalize on the growth in the rural markets. BEL has also identified 7-8 potential acquisition candidates across businesses. Management expects about 15% of Sales in future to come from acquired businesses. The company also plans to foray into newer verticals like water management, which is an underpenetrated and rapidly growing market.

Outlook and Valuation

We maintain our positive stance on the company given the strong growth in the consumer durables segment and the improving prospects of the E&P division. We are rolling over to FY2013 numbers. We expect sales to post a CAGR of 20.9% over FY2010-13 to ₹3,935cr. However, we have revised downwards our OPM estimates for FY2011 and FY2012 to 10.0% and 10.4% respectively, while we estimate OPM of 10.4% for FY2013. We expect PAT to register CAGR of 27.0% to ₹245cr over FY2010-13. **At current levels, the stock is trading at 10.8x FY2012E and 8.9x FY2013E EPS. We recommend an Accumulate on the stock, with a Target Price of ₹248.**

Exhibit 6: 3QFY2011 results: Actual v/s Estimated

	Actual	Estimated	Difference (%)
Sales (₹ cr)	689.5	666.1	3.5
EBITDA (₹ cr)	70.9	78.3	(9.5)
OPM (%)	10.3	11.8	(152)bps
PAT (₹ cr)	40.5	49.3	(17.9)

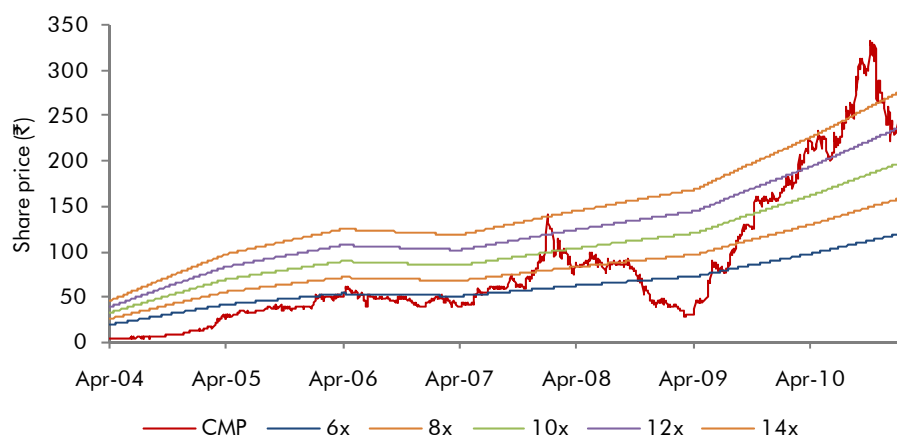
Source: Company, Angel Research

Exhibit 7: Change in estimates

(₹ cr)	Old		New		% chg	
	FY2011	FY2012	FY2011	FY2012	FY2011	FY2012
Sales	2,686	3,241	2,733	3,285	1.8	1.4
EBITDA	273	342	272	340	(0.2)	(0.6)
EBITDA margin (%)	10.2	10.6	10.0	10.4		
PAT	162	207	157	201	(3.0)	(2.7)
FDEPS (₹)	16.2	20.7	15.7	20.1	(3.0)	(2.7)

Source: Angel Research

Exhibit 8: One year forward P/E



Source: Company, Bloomberg, Angel Research

Profit and Loss Statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Gross sales	1,405	1,788	2,248	2,772	3,331	3,991
Less: Excise duty	25	23	21	39	47	56
Net Sales	1,379	1,766	2,227	2,733	3,285	3,935
Total operating inc.	1,379	1,766	2,227	2,733	3,285	3,935
% chg	27.1	28.0	26.1	22.7	20.2	19.8
Total Expenditure	1,236	1,584	1,994	2,461	2,945	3,527
Net Raw Materials	963	1,315	1,652	2,042	2,444	2,927
Other Mfg costs	88	92	113	139	167	200
Personnel	63	77	97	119	143	172
Other	122	100	131	161	191	228
EBITDA	143	182	233	272	340	407
% chg	65.8	27.0	28.0	16.9	24.9	19.8
(% of Net Sales)	10.4	10.3	10.5	10.0	10.4	10.4
Dep. & Amortisation	7	9	9	10	12	14
EBIT	136	173	224	262	328	393
% chg	71.7	27.7	29.1	17.1	25.2	19.9
(% of Net Sales)	9.8	9.8	10.0	9.6	10.0	10.0
Int. & other Charges	34	41	37	31	29	27
Other Income	9	10	8	8	8	8
(% of PBT)	8.5	7.0	4.3	3.4	2.7	2.2
Recurring PBT	111	142	195	240	307	374
% chg	84.8	27.5	37.3	22.8	28.2	21.8
PBT (reported)	111	142	195	240	307	374
Tax	38	51	75	82	106	129
(% of PBT)	34.4	35.7	38.6	34.4	34.4	34.4
PAT (reported)	73	91	120	157	201	245
Prior period items	1	0	8	-	-	-
PAT after MI (rep.)	73	91	120	157	201	245
ADJ. PAT	73	91	112	157	201	245
% chg	88.7	25.5	22.4	40.9	28.2	21.8
(% of Net Sales)	5.3	5.2	5.0	5.7	6.1	6.2
Basic EPS (₹)	8.5	10.3	12.0	16.1	20.7	24.8
Fully Diluted EPS (₹)	8.4	10.3	11.7	15.7	20.1	24.5
% chg	(5.7)	22.8	13.5	34.2	28.2	21.8

Balance Sheet

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
SOURCES OF FUNDS						
Equity Share Capital	17	17	20	20	20	20
Preference Capital	-	2.8	0.2	-	-	-
Reserves & Surplus	156	225	475	591	747	941
Shareholders Funds	173	245	494	610	766	961
Total Loans	237	214	152	192	182	172
Deferred Tax Liability (Net)	4	3	(1)	(1)	(1)	(1)
Total Liabilities	414	462	646	802	947	1,132
APPLICATION OF FUNDS						
Gross Block	144	154	170	195	219	254
Less: Acc. Depreciation	52	60	68	78	91	105
Net Block	92	95	102	117	128	149
Capital Work-in-Progress	0	2	0	2	2	3
Investments	22	32	37	37	37	37
Current Assets	708	904	1,199	1,502	1,803	2,165
Cash	32	54	61	141	152	187
Loans & Advances	89	113	178	191	246	295
Inventories	162	178	209	248	299	358
Debtors	425	559	751	921	1,106	1,325
Current liabilities	408	570	692	855	1,023	1,221
Net Current Assets	300	333	507	646	780	944
Total Assets	414	462	646	802	947	1,132

Exhibit 9: Cash flow statement

Y/E March (₹ cr)	FY08	FY09	FY10	FY11E	FY12E	FY13E
Profit before tax	111	140	201	240	307	374
Depreciation	7	9	9	10	12	14
(Inc.)/ Dec. in Work. Cap.	(195)	(13)	102	45	69	79
Less: Other income	9	10	8	8	8	8
Direct taxes paid	38	51	75	82	106	129
Cash Flow from Oper.	(124)	75	228	204	274	330
(Inc.)/ Dec. in Fixed Assets	(7)	(13)	(13)	(27)	(24)	(35)
(Inc.)/ Dec. in Investments	(0)	(9)	(5)	-	-	-
(Inc.)/ Dec. in loans and adv.	(31)	(24)	(65)	(14)	(55)	(49)
Other income	9	10	8	8	8	8
Cash Flow from Investing	(29)	(36)	(74)	(33)	(71)	(76)
Issue of Equity	9	(0)	163	-	-	-
Inc./(Dec.) in loans	(0)	(23)	(62)	40	(10)	(10)
Dividend Paid (Incl. Tax)	16	20	27	41	46	51
Others	163	26	(220)	(91)	(137)	(159)
Cash Flow from Financing	155	(17)	(146)	(92)	(193)	(219)
Inc./(Dec.) in Cash	3	22	7	80	10	35
Opening Cash balances	29	32	54	61	141	152
Closing Cash balances	32	54	61	141	152	187

Key Ratios

Y/E March	FY08	FY09	FY10	FY11E	FY12E	FY13E
Valuation Ratio (x)						
P/E (on FDEPS)	25.9	21.1	18.6	13.8	10.8	8.9
P/E (on basic, reported EPS)	25.7	21.0	18.1	13.5	10.5	8.8
P/CEPS	23.3	19.2	16.8	12.7	9.9	8.3
P/BV	10.8	7.7	4.3	3.5	2.8	2.2
Dividend yield (%)	0.7	0.9	1.1	1.7	1.8	2.0
Market cap. / Sales	1.4	1.1	1.0	0.8	0.6	0.5
EV/Sales	1.5	1.2	1.0	0.8	0.7	0.5
EV/EBITDA	14.6	11.2	9.5	8.0	6.3	5.2
EV / Total Assets	5.0	4.4	3.4	2.7	2.3	1.9
Per Share Data (₹)						
EPS (Basic)	8.5	10.3	12.0	16.1	20.7	24.8
EPS (fully diluted)	8.4	10.3	11.7	15.7	20.1	24.5
Cash EPS	23.5	19.4	16.9	12.8	10.0	8.4
DPS	8.0	10.0	2.4	3.6	4.0	4.4
Book Value	20.1	28.3	50.7	62.6	78.5	97.2
ROE Decomposition (%)						
EBIT margin	9.8	9.8	10.1	9.6	10.0	10.0
Tax retention ratio	77.7	77.3	81.3	77.7	80.6	82.3
Asset turnover (x)	3.9	4.5	4.5	4.4	4.5	4.5
ROCE (Post Tax)	29.5	33.9	36.9	32.7	36.3	37.2
Cost of Debt (Post Tax)	9.3	11.7	12.7	11.7	10.2	10.2
Leverage (x)	1.2	0.7	0.3	0.1	0.1	0.0
Operating ROE	53.5	50.4	43.0	35.1	37.7	37.4
Returns (%)						
ROCE (Pre-tax)	35.0	39.5	40.4	36.2	37.5	37.8
Angel ROIC	29.6	34.0	36.7	32.7	36.4	37.3
ROE	50.0	42.6	31.7	28.5	29.3	28.4
Turnover ratios (x)						
Asset Turnover (Gross Block)	9.8	11.8	13.7	15.0	15.9	16.6
Asset Turnover (Net Block)	15.1	19.0	22.7	25.0	26.8	28.3
Oper. Income / Invested Capital	3.6	4.0	4.0	3.8	3.8	3.8
Inventory / Sales (days)	37	35	32	31	30	30
Receivables (days)	104	102	107	112	113	113
Payables (days)	107	113	115	115	116	116
Work. Cap. cycle (ex-cash) (days)	64	57	59	64	63	64
Solvency ratios (x)						
Gross debt to equity	1.4	0.9	0.3	0.3	0.2	0.2
Net debt to equity	1.2	0.7	0.2	0.1	0.0	-
Net debt to EBITDA	1.4	0.9	0.4	0.2	0.1	-
Int. Coverage (EBIT / Interest)	4.0	4.2	6.0	8.5	11.3	14.3

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1. Analyst ownership of the stock
2. Angel and its Group companies ownership of the stock
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4. Broking relationship with company covered

Bajaj Electricals

No
No
No
No

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Ratings (Returns):

Buy (> 15%)

Reduce (-5% to 15%)

Accumulate (5% to 15%)

Sell (< -15%)

Neutral (-5 to 5%)