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# Informed Investor

*A retail investor's take on the Indian stock markets*

## Clouds on the Horizon

*Despite signs of green shoots sprouting all over, the markets seem to be getting worried. The long uninterrupted bull-run spanning nine weeks is giving way to fatigue.*

*The last trading session saw the Sensex retreat despite industrial production figures inching upward and inflationary pressures remaining under control.*

*Suddenly, the forthcoming budget smacks of an element of uncertainty. Rising oil prices are threatening to spoil the party for the public-sector refiners.*

*At the macro level, several European economies already slipping into deflation is becoming a cause for concern.*

*So is a rude surprise round to corner to singe the sprouting hopes of investors?*

## Back Page Investment Idea

*Bajaj Electricals*

## Will Politicians Spoil the Party?

Trust the Indian politicians to play spoilsport! Barely a month after the Manmohan Singh government took office and promised liberalization, disinvestment and other goodies, components in the ruling UPA are threatening to slow it down.

First it was the DMK that demanded that the government go slow on disinvestment. Kanimozhi, the party's newly minted MP and daughter of supremo Karunanidhi who sang the virtues of a mixed economy with the public sector at its commanding heights.

Immediately leaks from the ruling establishment indicated that public sector undertakings in Tamil Nadu will not be on the disinvestment list. A suitably mollified DMK has fallen silent, at least for the time being.

With oil prices breaching the \$71 per barrel mark, it is now clear that oil price deregulation will not happen for the next several years. Elections are due in Maharashtra later this year and Mamata Banerjee's Trinamool Congress fancies a regime change in West Bengal in two years so fuel prices will have to be kept low so as not to upset the political applecart.

The past week also saw the parliamentary standing committee on commerce recommending a complete ban on Foreign Direct Investment in retail. It went further and asked for a reversal of existing practices and ban big Indian companies from trading in food and groceries.

It came as no surprise that the parliamentary standing committee that made the recommendation to curb modern retail comprised of members cutting across party lines. Politicians as a class tend to oppose change especially of something that has served them so well in the past.

Public sector bankers are joining in the clamour to preserve the status quo. The opposition to consolidation of nationalized banks by employees' unions is an old story and nothing that cannot bend to a display of political will.

But even heads of some banks have joined in the chorus on the grounds that financial inclusion is a more urgent priority while consolidation can be postponed by another two years.

Obviously a lot of people are afraid of losing their

comfortable perches if the government aggressive begins to cut the flab.

Thus the euphoria of the government freed of the baggage of the Left parties is fast giving way to the realization that other outfits are moving into the vacuum.

The government's wiggle room will also be limited by the growing budget deficit caused by the development schemes undertaken over the past few years. The investing community may be forced to temper its hopes for largesse from the government.

Much will depend on how the government is able to manage conflicting interests and not disappoint anyone too much.

Over the short-term all eyes will be on the budget. But the markets will need a lot more tailwind to keep the momentum going. ■





**BSE:** 500031  
**NSE:** BAJAJELEC  
**CMP (BSE):** Rs 412.30

P/E (TTM): 8  
ROCE: 39  
ROE: 54  
Dividend Yield: 1.9  
52Wk H/L(Rs) 480/135  
Debt/Equity: 2  
3 Yr CAGR Sales (%): 28  
3 Yr CAGR Profit (%): 73

**Regd. Office:**  
45/47, Veer Nariman  
Road, Fort  
Mumbai - 400023  
Phone - 22043841,  
22045046  
Fax - 22851279

**Website**  
[www.bajajelectricals.com](http://www.bajajelectricals.com)

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## Time to Turn on the Lights

One of the oldest names in the lighting and fixtures business, Bajaj Electricals has gradually scaled up to take on commercial projects and emerge as a major infrastructure provider in the country.

The company has steadily grown its sales with profits growing proportionately even as it expands into newer niches in the white goods market as well.

Bajaj Electricals has divided itself into five business units - home appliances, fans, lighting, engineering and projects, and luminaries.

Despite the slowdown in the economy, the company managed a good showing during the last quarter of 2009 across all its five units.

However, the E&P division which was lagging through most of the year showed a surge in productivity in the last quarter with sales ballooning 101.2 per cent to Rs 452.2 cr during the quarter.

Consequently, the company's net sales during the quarter jumped 43.5 per cent to Rs 648.7 cr. For the whole of FY2009 top-line grew by a healthy 28.8 per cent to Rs 1,770.1cr from Rs 1,374.5 cr in the year before.

The management has conservatively projected net sales to touch Rs 2000 cr in the current financial year with PAT estimated at Rs 100 cr as against Rs 89.3 cr in FY2009.

The company has unveiled a major greenfield expansion plan to hike capacity in Compact Fluorescent Lamps (CFL) at an investment of Rs 30 cr. The new facility will have a capacity of 30 million

pieces of CFL annually. The company had only last year acquired the Nashik-based Starlite Industries with a capacity of 10 million CFLs per year.

Management has also indicated that it would be looking at acquiring smaller players in the country to consolidate its hold in the industry.

Bajaj Electricals has already emerged as a market leader in small appliances like irons, mixer-grinders and coolers

### Investor Analysis

with a share of around 20 per cent. Company has indicated that it would be undertaking a marketing initiative to deepen its market share in the fans market as well.

#### Investment Rationale

With the company's E&P division showing signs of growing at a faster rate, the street expects it to be demerged into a separate company. Though the management has denied any such moves, the recent upswing in its share price seems to have discounted such a move.

That the company is getting aggressive in this space seems evident in its tie-ups with the big names in the global market.

Bajaj Electricals has so far entered into agreements with international infrastructure players like Delta Controls to provide heating, ventilating, and air cooling solutions (HVAC) where Voltas and Blue Star currently hold sway. The company has also tied up with BACnet for

building automation systems and Securiton AG of Switzerland for fire alarm systems, smoke detection systems, access control systems, as well as security and surveillance equipment.

Bajaj Electricals has been through a high growth trajectory by beefing up its strong distribution network and focusing on high-margin premium products. This decade has seen the company unveil a number of initiatives to grow its business via organic and inorganic routes.

Looking ahead, the company is expected to leverage its strong marketing and distribution network comprising 19 branch offices, 600 distributors, 3000 authorised dealers, over 120,000 retail outlets, and 200 plus service franchises spread across the country.

#### Downside Risks

The company has indicated that rising raw material costs particularly copper and oil could impact its bottom line in the coming quarters.

Cost increases caused by rising raw material prices may not be passed entirely to consumers though it held on to margins in the past by judicious use of capital, the company has warned.

The company's foray into the infrastructure space could also be affected if the government goes slow on these projects or if interest rates firm up due to rising inflation.

***Bajaj Electricals has run up quite a bit over the past few weeks. One would add it on declines. ■***

