

Bajaj Electricals Ltd

Project business profitability hit

Bajaj Electricals' (BJE) Q2FY11E results were significantly below expectations as lower margins in the engineering and projects (E&P) segment hit profitability, even as revenues were in line with estimates. PAT for Q2FY11 was at Rs 233.8mn down 19.9% Y-o-Y in the quarter. We believe margin profile for the E&P segment is likely to recover in the subsequent quarters as the projects associated with cost over-runs have been executed. However we believe upsides to FY12E estimates are unlikely as margin pressures increase in certain key segments of the E&P business. Further given the low entry barriers in the consumer product business positive margin surprises are unlikely over the long term even as growth remains robust. We roll over to September 2011 and increase our target price to Rs 275 (from Rs 250 earlier), implying a target PE of 12.5x. Maintain Hold.

E&P margins decline-the main highlight: Even as revenue growth (at 16.2% Y-o-Y for the quarter) was impressive, led by the consumer product segment, the highlight of the results was clearly the low margins in the E&P segment. Operating margins (EBIT margins) for the E&P segment was at 3.1% for the quarter. According to the management the same can be explained by a) cost over runs associated with the projects related to the recently concluded Commonwealth games, b) project mix- rural electrification projects formed ~32% of the revenues in Q2FY11 compared to ~6% in Q1FY11, c) margin pressure due to commodity price increase

Order backlog steady: The order backlog for the E&P segment was at Rs 11.5 bn at the end of Q2FY11. Special projects and rural electrification formed 32% of the order backlog, while transmission line projects and high mast projects contributed 58% and 10% respectively.

Margins in lighting segment to improve in H2FY11: According to the management the margins in the lighting segment (4.5%, down 280 bps Y-o-Y) were impacted by higher commodity prices. However the company expects the margins in this segment to improve in H2FY11.

Valuation: While we like the consumer products business of the company, we believe the E&P business while being more scalable is likely to impact cash flows (due to higher working capital requirements) and increase the risk profile of the company. We believe given the change in the business model, the current level of RoCE's are not sustainable over the long term. Maintain Hold.

Financial highlights

(Rs mn)	FY10	FY11E	FY12E	FY13E
Revenue	22,286	27,381	33,552	38,978
Growth (%)	25.9	22.9	22.5	16.2
Adj net income	1,147	1,535	1,899	2,389
Growth (%)	30.9	33.8	23.7	25.8
FDEPS (Rs)	11.8	15.7	19.5	24.5
Growth (%)	16.0	33.8	23.7	25.8

Profitability and return ratios

(%)	FY10	FY11E	FY12E	FY13E
EBITDA margin	10.2	10.0	10.0	10.6
EBIT margin	9.8	9.6	9.7	10.3
Adj PAT margin	5.1	5.6	5.7	6.1
ROE	31.0	27.8	27.7	28.1
ROIC	39.6	37.6	39.8	41.4
ROCE	42.1	39.7	41.7	43.0

What's New? Target Rating Estimates

CMP	TARGET	RATING	RISK
Rs 287	Rs 275	HOLD	MEDIUM

BSE	NSE	BLOOMBERG
500031	BAJAJELEC	BJE IN

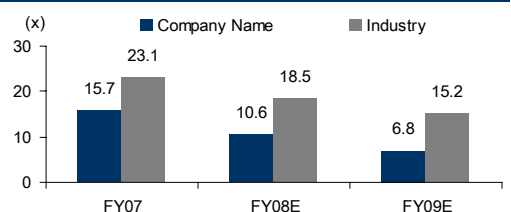
Company data

Market cap (Rs mn / US\$ mn)	28,158/648
Outstanding equity shares (mn)	98
Free float (%)	35.3
Dividend yield (%)	0.7
52-week high/low (Rs)	347 / 145
2-month average daily volume	241,435

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bajaj Elec.	287	(5.7)	12.0	22.1
BSE CG	15,929	0.1	6.7	12.8
Sensex	20,005	(0.6)	10.7	13.1

P/E comparison



Valuation matrix

(x)	FY10	FY11E	FY12E	FY13E
P/E @ CMP	24.4	18.2	14.7	11.7
P/E @ Target	23.4	17.5	14.1	11.2
EV/EBITDA @ CMP	13.1	10.9	8.8	7.2

In the interest of timeliness this report has not been edited.





Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	5,878	6,048	(2.8)
EBITDA	446	544	(18.1)
Adj net income	232	315	(26.3)
FDEPS (Rs)	2.4	3.2	(26.6)

Source: Company, RCML Research

Fig 2 - Quarterly performance

(Rs mn)	Q2FY11	Q2FY10	% Chg YoY	Q1FY11	% Chg QoQ	Q2FY11E	Variance (%)
Net sales	5,878	5,057	16.2	4,839	21.5	6,048	(2.8)
Less: Direct Cost	4,444	3,654	21.6	3,699	20.1		
Staff Cost	375	306	22.7	239	57.3		
Other Expenses	613	552	11.0	493	24.4		
Expenditure	5,432	4,512	20.4	4,431	22.6		
Operating profit	446	546	(18.3)	408	9.2	544	(18.1)
Other income	15	8	98.7	12	21.8		
Interest	76	85	(10.6)	57	33.7		
Depreciation	23	24	(1.3)	24	(0.4)	24	
Extra ordinary	-	-		-			
PBT	361.3	444.4	(18.7)	340	6.3	476	
Tax	128	153	(16.4)	115	11.0	161	
Reported PAT	233.8	292	(19.9)	225	3.9	315	(25.9)
Prior period adj.	1	-					
PAT (Excl extraordinary)	232.4	291.8	(20.4)	225	3.2	315	(26.3)
EBITDA margin (%)	7.6%	10.8%	-321 bps	8.4%	-85 bps	9.0%	-142 bps
EPS (Rs)	2.36	3.37	-30.0	2.29	2.9	3.21	-26.6

Source: Company, RCML Research



Fig 3 - Segmental performance

Year to March	Q2FY11	Q2FY10	Q1FY11	FY10
Revenues (Rs mn)				
Lighting	1,514	1,375.2	1,100	5,359
Consumer durables	2,798	2,118.4	2,630	9,545
Galvanised structures	1,560	1,556.4	1,107	7,368
Others	6	7.4	2	15
EBIT (Rs mn)				
Lighting	68	100.8	22	321
Consumer durables	317	249.8	251	1,210
Galvanised structures	48	174.4	114	782
Others	4	6.6	(0)	7
Revenue Mix (%)				
Lighting	25.8	27.2	22.7	24.0
Consumer durables	47.6	41.9	54.3	42.8
Galvanised structures	26.5	30.8	22.9	33.1
Others	0.1	0.1	0.0	0.1
Revenue Growth (Y-o-Y %)				
Lighting	10.1	13.2	49.3	9.7
Consumer durables	32.1	25.7	39.4	25.9
Galvanised structures	0.3	75.8	7.6	41.0
Others	(17.6)	(1.3)	(14.3)	(10.9)
EBIT margin (%)				
Lighting	4.5	7.3	2.0	6.0
Consumer durables	11.3	11.8	9.5	12.7
Galvanised structures	3.1	11.2	10.2	10.6
Others	59.0	89.2	(5.6)	44.2
EBIT mix (%)				
Lighting	15.5	19.0	5.7	13.8
Consumer durables	72.7	47.0	65.0	52.2
Galvanised structures	11.0	32.8	29.4	33.7
Others	0.8	1.2	(0.0)	0.3

Source: Company, RCML Research



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Revenues	22,286	27,381	33,552	38,978
Growth (%)	25.9	22.9	22.5	16.2
EBITDA	2,278	2,726	3,369	4,149
Growth (%)	27.9	19.7	23.6	23.1
Depreciation & amortisation	92	103	115	126
EBIT	2,186	2,623	3,254	4,023
Growth (%)	29.0	20.0	24.1	23.6
Interest	314	318	392	407
Other income	29	57	59	59
EBT	1,901	2,362	2,922	3,675
Income taxes	754	827	1,023	1,286
Effective tax rate (%)	39.6	35.0	35.0	35.0
Extraordinary items	24	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	1,123	1,535	1,899	2,389
Adjustments	(24)	-	-	-
Adjusted net income	1,147	1,535	1,899	2,389
Growth (%)	30.9	33.8	23.7	25.8
Shares outstanding (mn)	97.5	97.5	97.5	97.5
FDEPS (Rs) (adj)	11.8	15.7	19.5	24.5
Growth (%)	16.0	33.8	23.7	25.8
DPS (Rs)	2.4	3.1	3.9	4.9

Cash flow statement

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Net income + Depreciation	1,239	1,639	2,014	2,515
Non-cash adjustments	(37)	-	-	-
Changes in working capital	(1,666)	(1,372)	(1,048)	(790)
Cash flow from operations	(464)	267	966	1,725
Capital expenditure	(138)	(200)	(200)	(200)
Change in investments	(50)	-	-	-
Other investing cash flow	-	-	-	-
Cash flow from investing	(188)	(200)	(200)	(200)
Issue of equity	22	-	-	-
Issue/repay debt	(620)	(144)	(108)	(81)
Dividends paid	(273)	(359)	(444)	(559)
Other financing cash flow	1,597	(0)	(0)	(0)
Change in cash & cash eq	74	(436)	214	885
Closing cash & cash eq	612	176	390	1,276

Economic Value Added (EVA) analysis

Y/E March	FY10	FY11E	FY12E	FY13E
WACC (%)	12.4	12.4	12.4	12.4
ROIC (%)	39.6	37.6	39.8	41.4
Invested capital (Rs mn)	6,462	7,494	8,841	10,590
EVA (Rs mn)	175,578	188,737	242,653	307,163
EVA spread (%)	27.17	25.18	27.45	29.00

Balance sheet

Y/E March (Rs mn)	FY10	FY11E	FY12E	FY13E
Cash and cash eq	612	176	390	1,276
Accounts receivable	7,507	8,633	10,513	12,189
Inventories	2,094	3,271	4,141	4,811
Other current assets	1,777	1,731	1,824	1,959
Investments	366	366	366	366
Gross fixed assets	1,700	1,900	2,100	2,300
Net fixed assets	1,016	1,113	1,198	1,271
CWIP	1	1	1	1
Intangible assets	-	-	-	-
Deferred tax assets, net	5	5	5	5
Other assets	-	-	-	-
Total assets	13,378	15,295	18,438	21,877
Accounts payable	6,273	6,667	8,194	9,523
Other current liabilities				
Provisions	643	1,134	1,402	1,764
Debt funds	1,518	1,375	1,267	1,186
Other liabilities				
Equity capital	195	195	195	195
Reserves & surplus	4,749	5,925	7,379	9,209
Shareholder's funds	4,944	6,120	7,574	9,404
Total liabilities	13,378	15,295	18,438	21,877
BVPS (Rs)	50.7	62.7	77.7	96.4

Financial ratios

Y/E March	FY10	FY11E	FY12E	FY13E
Profitability & Return ratios (%)				
EBITDA margin	10.2	10.0	10.0	10.6
EBIT margin	9.8	9.6	9.7	10.3
Net profit margin	5.1	5.6	5.7	6.1
ROE	31.0	27.8	27.7	28.1
ROCE	42.1	39.7	41.7	43.0
Working Capital & Liquidity ratios				
Receivables (days)	107	108	104	106
Inventory (days)	43	48	53	55
Payables (days)	127	115	107	109
Current ratio (x)	1.6	1.7	1.7	1.7
Quick ratio (x)	1.3	1.3	1.3	1.3
Turnover & Leverage ratios (x)				
Gross asset turnover	13.7	15.2	16.8	17.7
Total asset turnover	0.6	0.6	0.5	0.6
Interest coverage ratio	7.0	8.3	8.3	9.9
Adjusted debt/equity	0.3	0.2	0.2	0.1
Valuation ratios (x)				
EV/Sales	1.3	1.1	0.9	0.8
EV/EBITDA	13.1	10.9	8.8	7.2
P/E	24.4	18.2	14.7	11.7
P/BV	5.7	4.6	3.7	3.0



Quarterly trend

Particulars	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11
Revenue (Rs mn)	5,121	5,921	7,590	4,839	5,878
YoY growth (%)	35	39	17	32	15
QoQ growth (%)	40	16	28	(36)	21
EBIT (Rs mn)	523	584	744	385	422
EBIT margin (%)	10.2	9.9	9.8	7.9	7.2
Adj net income (Rs mn)	292	341	366	225	232
YoY growth (%)	137	75	(23)	37	(20)
QoQ growth (%)	78	17	7	(38)	3

DuPont analysis

(%)	FY09	FY10	FY11E	FY12E	FY13E
Tax burden (Net income/PBT)	63.4	60.4	65.0	65.0	65.0
Interest burden (PBT/EBIT)	81.6	86.9	90.1	89.8	91.4
EBIT margin (EBIT/Revenues)	9.6	9.8	9.6	9.7	10.3
Asset turnover (Revenues/Avg TA)	403.5	402.4	392.7	411.0	401.4
Leverage (Avg TA/Avg equitiy)	209.1	149.8	126.1	119.2	114.4
Return on equity	41.7	31.0	27.8	27.7	28.1

Company profile

Bajaj Electricals (BEL) is a part of the Rs 200bn Bajaj Group, with an impressive range of consumer electrical products on offer. It has five major strategic business units comprising home appliances, fans, lighting, luminaires and engineering & projects. The company also manufactures transmission line towers, telecom & mobile telecom towers and wind energy towers.

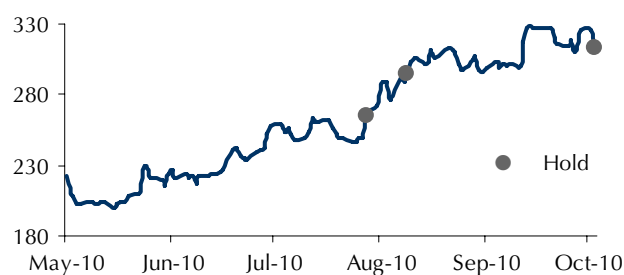
Shareholding pattern

(%)	Mar-09	Jun-09	Sep-09
Promoters	65.7	65.5	65.3
FIs	3.9	3.5	6.1
Banks & FIs	18.0	18.2	14.6
Public	15.5	15.4	25.3

Recommendation history

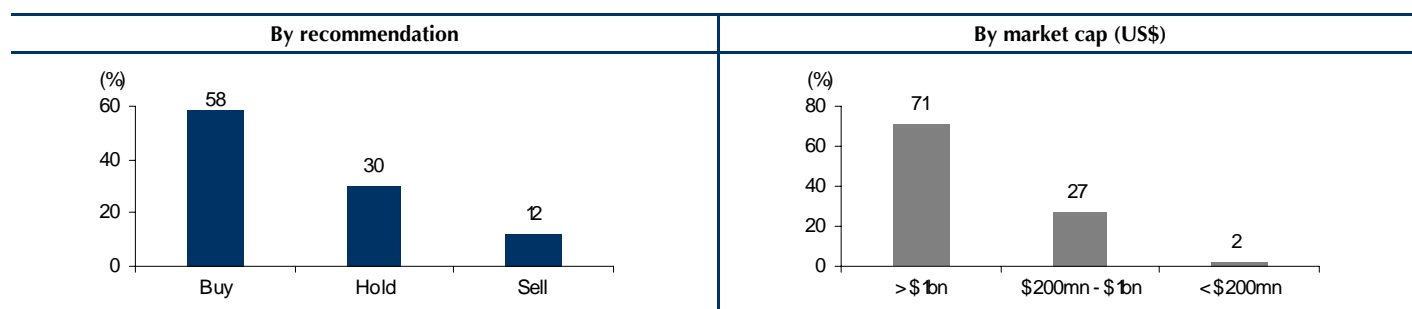
Date	Event	Reco price	Tgt price	Reco
23-Aug-10	Initiating Coverage	264	250	Hold
2-Sep-10	Company Update	293	250	Hold
27-Oct-10	Results Review	287	275	Hold

Stock performance





Coverage Profile



Recommendation interpretation

Recommendation	Expected absolute returns (%) over 12 months
Buy	More than 15%
Hold	Between 15% and -5%
Sell	Less than -5%

Recommendation structure changed with effect from March 1, 2009

Expected absolute returns are based on share price at market close unless otherwise stated. Stock recommendations are based on absolute upside (downside) and have a 12-month horizon. Our target price represents the fair value of the stock based upon the analyst's discretion. We note that future price fluctuations could lead to a temporary mismatch between upside/downside for a stock and our recommendation.

Religare Capital Markets Ltd

4th Floor, GYS Infinity, Paranjpe 'B' Scheme, Subhash Road, Vile Parle (E), Mumbai 400 057.

Disclaimer

This document is NOT addressed to or intended for distribution to retail clients (as defined by the FSA).

This document is issued by Religare Capital Markets plc ("RCM") in the UK, which is authorised and regulated by the Financial Services Authority in connection with its UK distribution. RCM is a member of the London Stock Exchange.

This material should not be construed as an offer or recommendation to buy or sell or solicitation of any offer to buy any security or other financial instrument, nor shall it, or the fact of its distribution, form the basis of, or be relied upon in connection with, any contract relating to such action or any other matter. The material in this report is based on information that we consider reliable and accurate at, and share prices are given as at close of business on, the date of this report but we do not warrant or represent (expressly or impliedly) that it is accurate, complete, not misleading or as to its fitness for the purpose intended and it should not be relied upon as such. Any opinion expressed (including estimates and forecasts) is given as of the date of this report and may be subject to change without notice.

RCM, and any of its connected or affiliated companies or their directors or employees, may have a position in any of the securities or may have provided corporate finance advice, other investment services in relation to any of the securities or related investments referred to in this document. Our asset management area, our proprietary trading desks and investing businesses may make investment decisions that are inconsistent with the recommendations or views expressed in this briefing note.

RCM accepts no liability whatsoever for any direct, indirect or consequential loss or damage of any kind arising out of the use of or reliance upon all or any of this material howsoever arising. Investors should make their own investment decisions based upon their own financial objectives and financial resources and it should be noted that investment involves risk, including the risk of capital loss.

This document is confidential and is supplied to you for information purposes only. It may not (directly or indirectly) be reproduced, further distributed to any person or published, in whole or in part, for any purpose whatsoever. Neither this document, nor any copy of it, may be taken or transmitted into the United States, Canada, Australia, Ireland, South Africa or Japan or into any jurisdiction where it would be unlawful to do so. Any failure to comply with this restriction may constitute a violation of relevant local securities laws. If you have received this document in error please telephone Nicholas Malins-Smith on +44 (0) 20 7382 4479.