

Bajaj Electricals

Impressive quarter

Sales above expectations: Bajaj Electricals (BEL) has reported a sales growth of 35% YoY to Rs 5.1bn for Q2FY10, which is 22% ahead of our estimates. The lighting segment contributed Rs 1.4bn (27% of sales) and grew at 149%, while consumer durables accounted for Rs 2.16bn (42% of sales), up 28%. The engineering and projects division recorded revenues of Rs 1.6bn (30% of sales), increasing at 75.8%. We expect a topline of Rs 21.6bn for FY10 and Rs 26.2bn for FY11.

Margins and PAT surprise positively: The company's blended EBITDA margin stood at 10.7% against 7.9% last year. This was 120bps ahead of our estimate on account of lower raw material cost (stemming from low-cost inventory) and the retention of excise duty benefits (duty cut from 12% to 8% not passed on to consumers). We are factoring in a margin of 10.1% for FY10 and 10.4% for FY11 on account of a higher contribution expected from the E&P division. Driven by the strong operating performance, BEL registered a 140% YoY growth in net profit for the quarter to Rs 292mn, against our estimate of Rs 190mn.

Robust order book: The company's current order book stands at ~Rs 8.5bn, of which the tower business accounts for Rs 4bn, high masts and poles Rs 1.1bn and special projects Rs 3.5bn. BEL expects to ramp up its E&P order book to Rs 15bn by December '09. The company is the lowest bidder (L1) for a Rs 2.1bn rural electrification project. In addition, it has placed bids for contracts worth Rs 9bn to be awarded by Power Grid in the T&D business.

BEL also expects additional orders worth Rs 600mn for the upcoming Commonwealth Games in New Delhi as most of the construction activity is targeted to conclude by March '10, in preparation for commencement of the games in October. The company has indicated that it might look at expanding capacity depending upon order inflows.

Upgrading target price – Buy: The stock is currently trading at 11.7x on FY10E and 9x on FY11E. Given the strong earnings growth during the quarter and improving macro environment, we upgrade our target multiple for the stock from 8x to 10x on FY11E EPS of Rs 83.3. Our target price thus rises from Rs 667 to Rs 883; we reiterate our Buy rating on BEL.

What's New?	Target	Rating	Estimates
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CMP	TARGET	RATING	RISK
Rs 751	Rs 883	BUY	MEDIUM

BSE	NSE	BLOOMBERG
500031	BAJAJELEC	BJE IN

Company data

Market cap (Rs mn / US\$ mn)	12,982/276
Outstanding equity shares (mn)	17
Free float (%)	17.4
Dividend yield (%)	1.3
52-week high/low (Rs)	840 / 133
2-month average daily volume	24,839

Stock performance

Returns (%)	CMP	1-mth	3-mth	6-mth
Bajaj Electricals	751	19.9	49.7	237.2
Sensex	15,912	(7.1)	0.5	31.1

Valuation matrix

(x)	FY08	FY09	FY10E	FY11E
P/E @ CMP	17.8	14.6	11.7	9.0
P/E @ Target	15.8	12.9	10.4	8.0
EV/EBITDA @ CMP	10.2	8.1	6.7	5.3

Financial highlights

(Rs mn)	FY08	FY09	FY10E	FY11E
Revenue	13,745	17,705	21,600	26,219
Growth (%)	27.4	28.8	22.0	21.4
Adj net income	731	891	1,110	1,440
Growth (%)	86.9	21.9	24.6	29.7
FDEPS (Rs)	42.3	51.6	64.2	83.3
Growth (%)	86.9	21.9	24.6	29.7

Profitability and return ratios

(%)	FY08	FY09	FY10E	FY11E
EBITDA margin	10.4	10.2	10.1	10.4
EBIT margin	9.9	9.7	9.7	10.1
Adj PAT margin	5.3	5.0	5.1	5.5
ROE	50.4	42.9	38.6	36.7
ROIC	23.4	24.9	28.0	31.3
ROCE	24.0	25.9	26.9	27.4



Result highlights

Fig 1 - Actual vs estimated performance

(Rs mn)	Actual	Estimate	% Variance
Revenue	5,121.4	4,212.0	21.6
EBITDA	546.5	400.1	36.6
Adj net income	291.8	189.9	53.7
FDEPS (Rs)	16.9	11.0	53.7

Source: RHH

Fig 2 - Quarterly performance

(Rs mn)	Q2FY10	Q2FY09	% Chg YoY	Q1FY10	% Chg QoQ
Revenue	5,121.4	3,793.2	35.0	3,653.8	40.2
Expenditure	4,574.9	3,492.5	31.0	3,296.9	38.8
Operating profit	546.5	300.7	81.7	356.9	53.1
Other income	6.7	8.2	(18.3)	1.9	252.6
Interest	85.1	98.1	(13.3)	85.6	(0.6)
Depreciation	23.7	19.9	19.1	21.8	8.7
PBT	444.4	190.9	132.8	251.4	76.8
Tax	152.6	68.0	124.4	87.3	74.8
PAT	291.8	122.0	139.2	164.1	77.8
EBITDA margin (%)	10.7	7.9	280bps	9.8	90bps
FDEPS (Rs)	16.9	7.1	139.2	9.5	78.4

Source: Company, RHH

Results surprise on all fronts

45 days of low-cost inventory and duty cut boosted operating profits

PAT 54% ahead of estimates driven by higher sales and margin growth



Consolidated financials

Profit and Loss statement

Y/E March (Rs mn)	FY08	FY09	FY10	FY11E
Revenues	13,745	17,705	21,600	26,219
Growth (%)	27.4	28.8	22.0	21.4
EBITDA	1,432	1,798	2,186	2,731
Growth (%)	65.7	25.6	21.5	24.9
Depreciation & amortisation	75	85	90	90
EBIT	1,358	1,713	2,096	2,641
Growth (%)	70.5	26.2	22.4	26.0
Interest	293	370	403	421
Other income	50	57	57	57
EBT	1,114	1,400	1,750	2,277
Income taxes	383	507	639	836
Effective tax rate (%)	34.4	36.2	36.5	36.7
Extraordinary items	-	-	-	-
Min into / inc from associates	-	-	-	-
Reported net income	731	893	1,110	1,440
Adjustments	-	-	-	-
Adjusted net income	731	891	1,110	1,440
Growth (%)	86.9	21.9	24.6	29.7
Shares outstanding (mn)	17.3	17.3	17.3	17.3
FDEPS (Rs) (adj)	42.3	51.6	64.2	83.3
Growth (%)	86.9	21.9	24.6	29.7
DPS (Rs)	8.0	10.0	10.0	12.0

Cash flow statement

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Net income + Depreciation	806	979	1,200	1,530
Non-cash adjustments	46	(7)	(37)	(11)
Changes in working capital	(604)	56	(316)	(766)
Cash flow from operations	248	1,028	848	753
Capital expenditure	(75)	(145)	(125)	(75)
Change in investments	26	(247)	-	-
Other investing cash flow	(169)	(28)	-	-
Cash flow from investing	(218)	(420)	(125)	(75)
Issue of equity	(0)	-	-	-
Issue/repay debt	(5)	(228)	100	100
Dividends paid	1	(161)	(202)	(202)
Other financing cash flow	-	-	-	-
Change in cash & cash eq	26	219	620	576
Closing cash & cash eq	320	539	1,159	1,735

Economic Value Added (EVA) analysis

Y/E March	FY08	FY09	FY10E	FY11E
WACC (%)	11.5	13.3	12.3	12.3
ROIC (%)	23.4	24.9	28.0	31.3
Invested capital (Rs mn)	4,213	4,563	4,950	5,712
EVA (Rs mn)	501	531	775	1,087
EVA spread (%)	11.9	11.6	15.7	19.0

Balance sheet

Y/E March (Rs mn)	FY08	FY09	FY10E	FY11E
Cash and cash eq	320	538	1,159	1,735
Accounts receivable	4,253	5,592	6,510	7,901
Inventories	1,622	1,777	2,145	2,594
Other current assets	890	1,130	1,184	1,437
Investments	223	316	316	316
Gross fixed assets	1,440	1,545	1,645	1,745
Net fixed assets	916	946	982	992
CWIP	3	25	50	25
Intangible assets	-	-	-	-
Deferred tax assets, net	(41)	(31)	(21)	(10)
Other assets	-	-	-	-
Total assets	8,186	10,292	12,323	14,990
Accounts payable	1,459	2,091	2,367	2,873
Other current liabilities	2,186	3,100	3,847	4,669
Provisions	426	513	513	553
Debt funds	2,367	2,139	2,239	2,339
Other liabilities	-	-	-	-
Equity capital	173	173	173	173
Reserves & surplus	1,575	2,277	3,186	4,383
Shareholder's funds	1,748	2,450	3,358	4,556
Total liabilities	8,186	10,292	12,323	14,990
BVPS (Rs)	110.4	150.1	202.6	271.9

Financial ratios

Y/E March	FY08	FY09	FY10E	FY11E
Profitability & Return ratios (%)				
EBITDA margin	10.4	10.2	10.1	10.4
EBIT margin	9.9	9.7	9.7	10.1
Net profit margin	5.3	5.0	5.1	5.5
ROE	50.4	42.9	38.6	36.7
ROCE	24.0	25.9	26.9	27.4
Working Capital & Liquidity ratios				
Receivables (days)	104	101	102	100
Inventory (days)	51	47	45	45
Payables (days)	49	49	51	49
Current ratio (x)	1.9	1.7	1.8	1.8
Quick ratio (x)	1.3	1.2	1.0	1.0
Turnover & Leverage ratios (x)				
Gross asset turnover	9.8	11.9	13.5	15.5
Total asset turnover	1.8	1.9	1.9	1.9
Interest coverage ratio	4.6	4.6	5.2	6.3
Adjusted debt/equity	1.4	0.9	0.7	0.5
Valuation ratios (x)				
EV/Sales	1.1	0.8	0.7	0.6
EV/EBITDA	10.2	8.1	6.7	5.3
P/E	17.8	14.6	11.7	9.0
P/BV	6.8	5.0	3.7	2.8



Quarterly trend

Particulars	Q2FY08	Q3FY09	Q4FY09	Q1FY10	Q2FY10
Revenue (Rs mn)	3,793	4,249	6,487	3,654	5,121
YoY growth (%)	24.4	16.4	43.5	15.1	35.0
QoQ growth (%)	19.4	12.0	52.7	(43.7)	40.2
EBITDA (Rs mn)	281	408	792	335	523
EBITDA margin (%)	7.4	9.6	12.2	9.2	10.2
Adj net income (Rs mn)	122	194	475	164	292
YoY growth (%)	(7)	3	43	63	139
QoQ growth (%)	22	59	144	(66)	78

DuPont analysis

(%)	FY07	FY08	FY09	FY10E	FY11E
Tax burden (Net income/PBT)	64.7	65.6	63.7	63.5	63.3
Interest burden (PBT/EBIT)	75.7	82.1	81.7	83.5	86.2
EBIT margin (EBIT/Revenues)	7.4	9.9	9.7	9.7	10.1
Asset turnover (Revenues/Avg TA)	178.1	184.4	191.6	191.0	192.0
Leverage (Avg TA/Avg equitiy)	583.6	511.2	440.2	389.3	345.1
Return on equity	37.6	50.1	42.5	38.2	36.4

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	June -09	Sep-09
Promoters	74.6	74.1	73.4
FIs	0.4	0.4	0.8
Banks & FIs	9.5	10.1	10.1
Public	15.6	15.4	15.7

Recommendation history

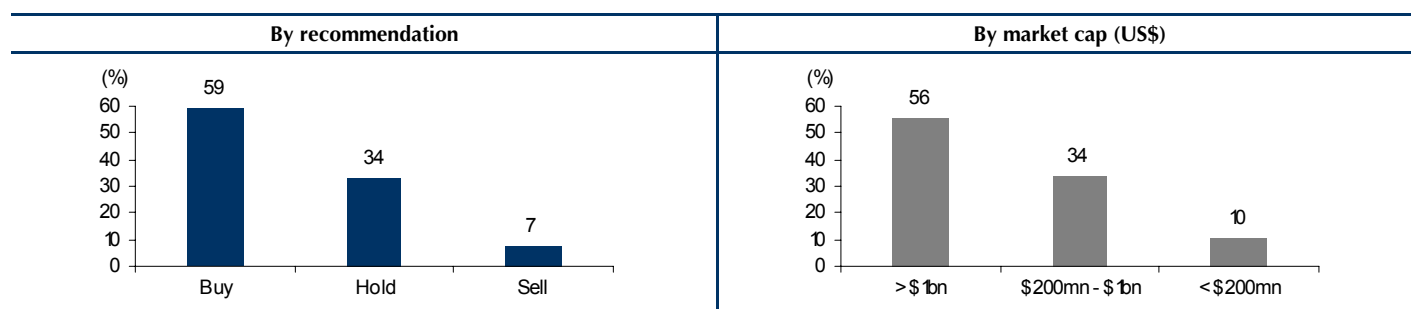
Date	Event	Reco price	Tgt price	Reco
7-Aug-09	Initiating Coverage	511	667	Buy
5-Nov-09	Results Review	751	883	Buy

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.

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