

EQUITY RESEARCH

Consumer Durables

CMP: Rs.916.00
(As on 25-01-2010)

25-01-2010

INDIA

Market Cap
Rs.15975.04mn

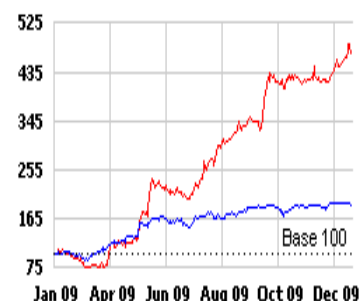
BUY

Target Price: Rs.1053.00



Bajaj Electricals Ltd

- Bajaj Electricals Ltd is part of the US \$ 3 billion BAJAJ Group is one of the oldest business groups in India and The Bajaj Group has a diversified business line, having interests in a range of businesses which amongst others, include manufacturing automobiles, life and general insurance products, financial services and many more.
- Bajaj Electricals has raised Rs 1.61 billion by issuing shares to qualified institutional buyers.
- Bajaj Electricals Ltd businesses can be broadly categorized in five major strategic business units namely, appliances, fans, lighting, luminaires and engineering & projects.
- Net sales and PAT of the company are expected to grow at a CAGR of 22% and 26% over 2008 to 2011E respectively.



Bajaj Electricals

BSE SENSEX

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Key Financials	FY08	FY09	FY10E	FY11E	Key Data	
Net Sales					Face Value	Rs.10.00
(Rs.mn)	13744.8	17705.4	21506.0	24731.8	Shares	17.44
EBIDTA					Outstanding	(Millions)
(Rs.mn)	1482.3	1855.4	2361.2	2682.1	Exchange	BSE
Margin %	11	10	11	11	52 wk. High/Low(Rs.)	934.95/135.00
Net Profit					2 wk avg. volume	8965
(Rs.mn)	731.0	891.3	1272.4	1471.3	BSE Code	500031
Margin %	5	5	6	6		



Firstcall Research

(KPO Division Of Firstobject Technologies Ltd.)

Peer Group comparison

Name of the Company	52week High/Low(Rs)	C.M.P(Rs)	EPS(Rs)	P/E(x)
Baja Electricals Ltd	934.95/135.00	916.00	51.55	17.77
Whirlpool of India	159.80/22.00	146.80	7.51	19.55
VIP Industries	222.70/31.25	196.25	9.11	21.54
Bharat Electronics Ltd	2170.00/760.00	1953.00	124.03	15.75

Company Updates

🚩 Q3 FY10 Results Update

Bajaj Electricals Ltd, the flagship company of the \$3 billion BAJAJ Group, has disclosed its Standalone results for the quarter ended December 31, 2009. The company has posted a net profit of Rs.340.9 million for the quarter ended December 31, 2009 as compared to Rs.194.9 million for the quarter ended December 31, 2008, up 75.4%. Net sales are surged by 39.3% from Rs.5921.3 million from Rs.4249.3 million for the same quarter last year. Total Income for the quarter stood at Rs.5932.7 million as compared to Rs.4255.7 million in the same quarter last year, indicating a growth of 39.4%. For the quarter EPS of the company is stood at Rs.19.55 with a growth rate of 73.9%

Quarterly Results - Standalone (Rs in mn)			
As At	Dec-09	Dec-08	%change
Net sales	5921.3	4249.3	39.3
Net profit	340.9	194.9	75.4
Basic EPS	19.55	11.24	73.9

🚩 Issue of QIB

Bajaj Electricals has raised Rs 1.61 billion by issuing shares to qualified institutional buyers (QIB). The issue committee had approved the allotment of 204.8 million shares, at Rs 785 a share to qualified institutional buyers (QIB)s, aggregating to nearly Rs 1.61 billion.

🚩 Stock Splits

Bajaj Electricals Ltd has been fixed for subdivision of existing Equity Shares of the Company from each 1 (one) Equity Share of Rs. 10/- (Rupees Ten) each into 5 (five) Equity Shares of Rs. 2/- (Rupee Two) each.

Dividend Declared

Bajaj Electricals Ltd has declared a dividend of 100% amounting to Rs.10.00 per share of Rs.10/- each.

Company Profile

Bajaj Electricals Ltd is currently engaged in the businesses of marketing and distribution of appliances, fans, lighting products, luminaires and undertakes projects for stadium lighting, road lighting, transmission towers, high masts and rural electrification, among other projects. Company businesses can be broadly categorized in five major strategic business units namely, appliances, fans, lighting, luminaires and engineering and projects. Bajaj Electricals has 19 branch offices, a chain of over 1000 distributors, more than 3000 dealers, and above 240 customer care centres spread across the country.

Business Area

- a) Appliances
- b) Fans
- c) Lighting
- d) Luminaires
- e) Engineering & Projects

Group Companies

Bachhhraj & Company Pvt. Ltd
Bachhhraj Factories Pvt. Ltd
Bajaj Allianz General Insurance Company Ltd
Bajaj Allianz Life Insurance Company Ltd
Bajaj Auto Finance Ltd
Bajaj Auto Ltd
Bajaj Holdings & Investment Ltd
Bajaj Finserv Ltd
Bajaj International Pvt. Ltd
Bajaj Sevashram Pvt. Ltd
Bajaj Ventures Ltd
Hercules Hoists Ltd
Hind Musafir Agency Pvt. Ltd
Jeevan Ltd
Mukand Engineers Ltd

Mukand International Ltd
The Hindustan Housing Co Ltd.
Baroda Industries Pvt. Ltd
Hind Lamps Ltd
Jamnalal Sons Pvt. Ltd
Maharashtra scooters Ltd
Mukand Global Finance Ltd
Mukand Ltd

Financials Results

12 Month Ended Profit & Loss Accounts (standalone):

Value(Rs.in.mn)	FY08	FY09	FY10E	FY11E
Description	12m	12m	12m	12m
Net Sales	13744.80	17705.40	21506.00	24731.89
Other Income	50.10	57.00	32.54	35.79
Total Income	13794.90	17762.40	21538.54	24767.69
Expenditure	-12312.60	-15907.00	-19177.26	-22085.58
Operating Profit	1482.30	1855.40	2361.28	2682.11
Interest	-293.40	-369.70	-353.97	-382.29
Gross profit	1188.90	1485.70	2007.31	2299.82
Deprecation	-74.50	-85.50	-94.32	-103.75
Profit Before Tax	1114.40	1400.20	1912.99	2196.06
Tax	-383.10	-506.70	-639.93	-724.70
Profit After Tax	731.30	893.50	1273.06	1471.36
Extraordinary Items	-0.30	-2.20	-0.60	0.00
Net Profit	731.00	891.30	1272.46	1471.36
Equity capital	172.90	172.90	174.40	174.40
Reserves	1531.80	2152.70	3425.76	4897.12
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	42.28	51.55	72.96	84.37

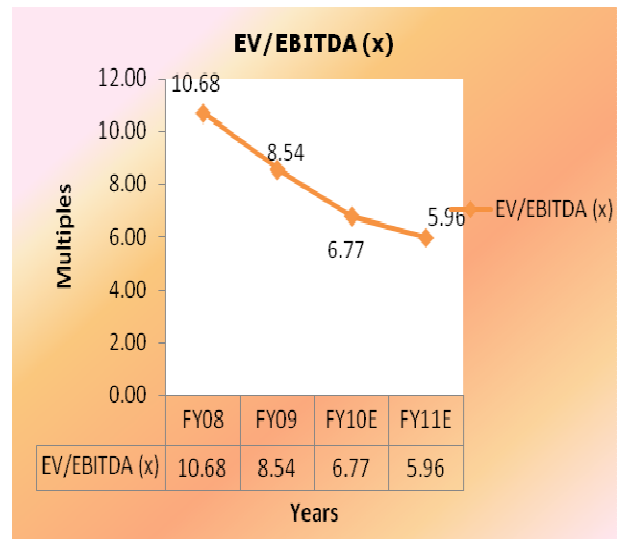
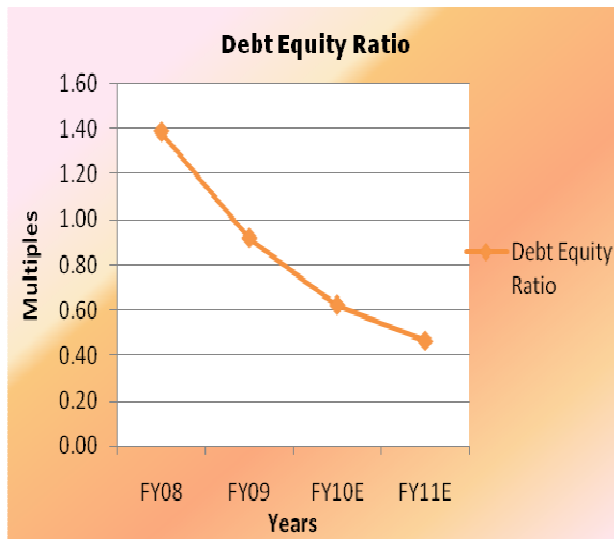
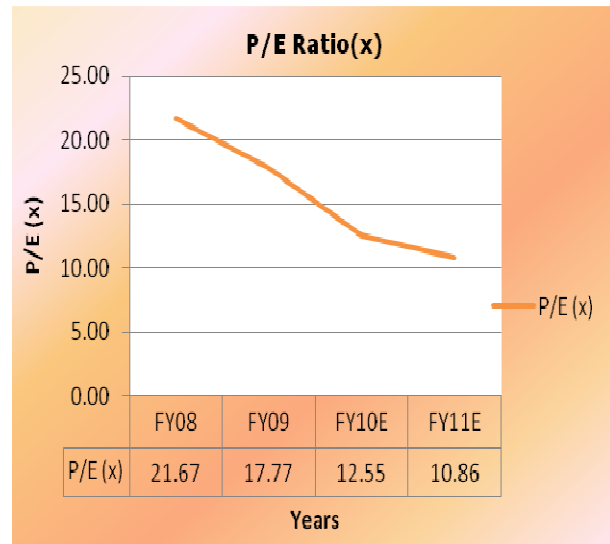
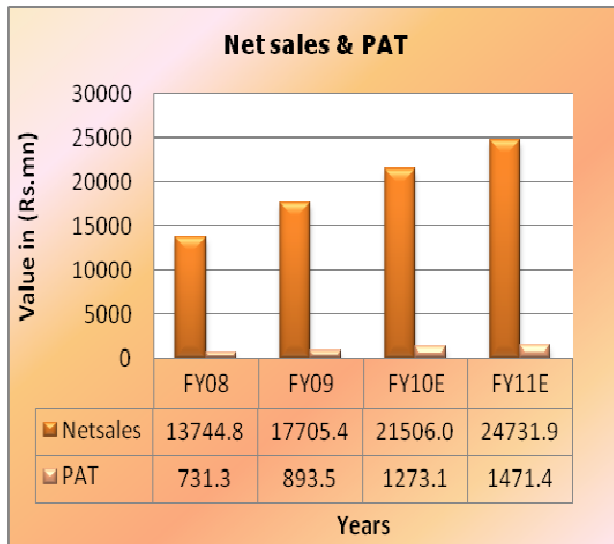
Quarterly Ended Profit & Loss Account (standalone):

Value(Rs.in.mn)	30-Jun-09	30-Sep-09	31-Dec-09	31-Mar-10E
Description	3m	3m	3m	3m
Net sales	3653.80	5121.40	5921.30	6809.50
Other income	1.90	6.70	11.40	12.54
Total Income	3655.70	5128.10	5932.70	6822.04
Expenditure	-3296.90	-4574.90	-5313.10	-5992.36
Operating profit	358.80	553.20	619.60	829.68
Interest	-85.60	-85.10	-89.40	-93.87
Gross profit	273.20	468.10	530.20	735.81
Deprecation	-21.80	-23.70	-23.70	-25.12
Profit Before Tax	251.40	444.40	506.50	710.69
Tax	-87.30	-152.60	-165.50	-234.53
Profit After Tax	164.10	291.80	341.00	476.16
Extraordinary Items	-0.50	0.00	-0.10	0.00
Net Profit	163.60	291.80	340.90	476.16
Equity capital	172.90	174.40	174.40	174.40
Face value (Rs.)	10.00	10.00	10.00	10.00
EPS	9.46	16.73	19.55	27.30

Key Ratios:

Particulars	FY08	FY09	FY10E	FY11E
No. of Shares(In Million)	17.29	17.29	17.44	17.44
EBITDA Margin (%)	11%	10%	11%	11%
PBT Margin (%)	8%	8%	9%	9%
Net Profit Margin (%)	5%	5%	6%	6%
P/E Ratio (x)	21.67	17.77	12.55	10.86
ROE (%)	43%	38%	35%	29%
ROCE (%)	38%	43%	42%	37%
Debt Equity Ratio	1.39	0.92	0.62	0.46
EV/EBITDA (x)	10.68	8.54	6.77	5.96
Book Value (Rs.)	98.59	134.51	206.43	290.8
P/BV	9.29	6.81	4.44	3.15

Charts:



Valuation:

- ✚ At the current market price of Rs.916.00, the stock is trading at 12.55 x FY10E and 10.86 x FY11E respectively.
- ✚ Price to Book Value of the stock is expected to be at 4.44 x and 3.15 x respectively for FY10E and FY11E.
- ✚ Earning per share (EPS) of the company for the earnings for FY10E and FY11E is seen at Rs.72.96 and Rs.84.37 respectively.
- ✚ Net Sales and PAT of the company is expected to grow at a CAGR of 22% and 26% over 2008 to 2011E respectively.
- ✚ On the basis of EV/EBITDA, the stock trades at 6.77 x for FY10E and 5.96 x for FY11E.
- ✚ Bajaj Electricals has raised Rs 1.61 billion by issuing shares to qualified institutional buyers (QIP).
- ✚ We expect that the company will keep its growth story in the coming quarters also. We recommend 'Buy' in this particular scrip with a target price of Rs.1053.00 for Medium to Long term investment.

Industry Overview

Consumer durables are the products whose life expectancy is at least 3 years. These products are hard goods that cannot be used up at once.

The consumer durables sector can be segmented into consumer electronics, such as, VCD/DVD, home theatre, music players, color televisions (CTVs), etc. and white goods, such as, dish washers, air conditioners, water heaters, washing machines, refrigerators, etc.

With the increase in income levels, easy availability of finance, increase in consumer awareness, and introduction of new models, the demand for consumer durables has increased significantly. Products like washing machines, air conditioners, microwave ovens, color televisions (CTVs) are no longer considered luxury items. However, there are still very few players in categories like vacuum cleaners, and dishwashers.

Consumer durables sector is characterized by the emergence of MNCs, exchange offers, discounts, and intense competition. The market share of MNCs in consumer durables sector is 65%. MNC's major

target is the growing middle class of India. MNCs offer superior technology to the consumers, whereas the Indian companies compete on the basis of firm grasp of the local market, their well-acknowledged brands, and hold over wide distribution network. However, the penetration level of the consumer durables is still low in India. An important factor behind low penetration is poor government spending on infrastructure. For example, the government spending is very less on electrification programs in rural areas. This factor discourages the consumer durables companies to market their products in rural areas.

Sector outlook

There has been strong competition between the major MNCs like Samsung, LG, and Sony. LG Electronics India Ltd. has announced its extension plan in 2006. The company is going to invest \$250 million in India by 2011 and is planning to establish a manufacturing facility in Pune. TCL Corporation is also planning to establish a \$22 million manufacturing facility in India.

The Indian companies like Videocon Industries and Onida are also planning to expand. Videocon has acquired Electrolux brand in India. Also, with the acquisition of Thomson Displays by Videocon in Poland, China, and Mexico, the company is marking its international presence.

According to isuppli Corporation (Applied Market Intelligence), country's fiscal policy has encouraged Indian consumer electronic industry. The reduction on import duty in the year 2005-06 has benefited many companies, such as Samsung, LG, and Sony. These companies import their premium end products from manufacturing facilities that are located outside India.

Indian consumers are now replacing their existing appliances with frost-free refrigerators, split air conditioners, fully automatic washing machines, and color televisions (CTVs), which are boosting the sales in these categories.

Some companies like Samsung Electronics Co. Ltd. and LG Electronics India Ltd. are now focusing on rural areas also. These companies are introducing gift schemes and providing easy finance to capture the consumer base in rural areas.

Growth rates

The sectors that are projected to achieve 'excellent' growth rates of more than 20 per cent in terms of quantity produced are: air-conditioners (25 per cent), split air-conditioners (60 per cent), frost-free refrigerators (54 per cent), washing machines (20 per cent), fully automatic washing machines (35

per cent), microwave ovens (35 per cent), high-end flat panel TV (100 per cent), LCD TV (110 per cent), plasma TV (100 per cent) VCD/MP3 (20 per cent), DVDs (25 per cent), DVDs-organized (25 per cent).

There is a need to remove some anomalies affecting the growth of the industry, the survey pointed out.

Consumer electronic manufacturers were of the opinion that in the era of digital convergence, differential taxation policies for IT and consumer electronics products create distortions and anomalous situations.

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