

BUY

TP: INR 240.00

▲ 19.5%

Bajaj Electricals

BJE IN

E&P overhang to subside; upgrade to BUY

Our meeting with the BJE management revealed that the number of active sites for the E&P business has come down to 6 (versus 24 in April'11) and the management expects to close all the troubled sites by FY13. Robust growth in the Consumer/Lighting businesses and price hikes in July'12 are expected to aid BJE's margin profile in the short to medium term. We upgrade the stock to BUY and roll over to a September'13 TP of Rs 240 (from Rs 185), based on a target P/E multiple of 12x.

- ➔ **Overhang on E&P business to subside; improvement in order book:** BJE's current order book has strengthened to Rs 6bn (1x FY13E sales; order backlog at Q1FY13-end stood at Rs 4.5bn, down 38% YoY), and the company is L1 for additional orders worth Rs 4bn. The number of active sites for the E&P business has come down to 6 (vs. 17 in Q1FY13). The management expects to discontinue unprofitable projects in this business during FY13 and achieve higher efficiency at project sites through better on-site monitoring. Further, the management indicated that competition in the transmission line tower business has also stabilised.
- ➔ **Price hikes to support margins in Consumer Durables:** BJE took its latest round of price hikes in July'12 (4-8%) across consumer durable product lines. These are expected to support operating margins for the segment.
- ➔ **Positioned to benefit from incremental INR appreciation:** BJE imports ~13% of total purchases: ~10% of procured Fans, 15% of appliances and 40% of the Morphy Richards portfolio. Incremental rupee appreciation against the dollar would thus be beneficial for margins.
- ➔ **Upgrade to BUY:** The stock is trading at 14.4x/10.9x FY13E/FY14E earnings. With an improving risk profile for E&P (fewer troubled sites, increasing order book) and a stronger margin outlook for the company, we upgrade the stock to BUY.

Financial Highlights

| Y/E 31 Mar | FY11A | FY12A | FY13E | FY14E | FY15E |
|-------------------------------|--------|--------|--------|--------|--------|
| Revenue (INR mln) | 27,408 | 30,990 | 32,397 | 39,233 | 45,151 |
| EBITDA (INR mln) | 2,580 | 2,371 | 2,728 | 3,385 | 3,973 |
| Adjusted net profit (INR mln) | 1,488 | 1,179 | 1,389 | 1,830 | 2,203 |
| Adjusted EPS (INR) | 15.0 | 11.8 | 13.9 | 18.4 | 22.1 |
| Adjusted EPS growth (%) | 21.2 | (18.7) | 17.8 | 31.8 | 20.3 |
| DPS (INR) | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| ROIC (%) | 27.8 | 21.1 | 21.0 | 23.7 | 25.1 |
| Adjusted ROAE (%) | 26.9 | 18.0 | 18.5 | 20.8 | 21.0 |
| Adjusted P/E (x) | 16.1 | 16.6 | 14.4 | 10.9 | 9.1 |
| EV/EBITDA (x) | 9.1 | 8.6 | 7.6 | 6.0 | 4.9 |
| P/BV (x) | 3.8 | 2.8 | 2.5 | 2.1 | 1.8 |

Source: Company, Bloomberg, RCML Research

8 October 2012



REPORT AUTHORS

Misal Singh

+91 22 6766 3466

misal.singh@religare.com

Abhishek Raj

+91 22 6766 3485

abhishek.raj@religare.com

PRICE CLOSE (05 Oct 12)

INR 200.85

MARKET CAP

INR 20,013 mln

USD 386 mln

SHARES O/S

99.6 mln

FREE FLOAT

35.0%

3M AVG DAILY VOLUME./VALUE

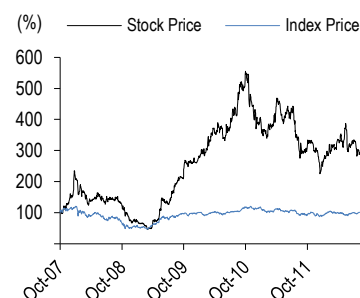
0.1 mln/ USD 0.3 mln

52 WK HIGH

INR 232.40

52 WK LOW

INR 135.00





Introduction of new Consumer products to expand portfolio

BJE plans to introduce a new range of microwaves and water heaters under the Morphy Richards brand to expand its product portfolio. Since this is a premium brand, the new launches are expected to be margin accretive for the segment.

New product launches under premium Morphy Richards brand to be margin accretive

Growth in Fans business moderates marginally

The management has indicated that growth expectations in the Fans business have moderated to ~12% levels versus the 13% achieved in Q1FY13 and the previous growth guidance of 20% for FY13. Table and pedestal fans are largely imported from China, while most of the ceiling fans are procured domestically from dedicated vendors situated in Hyderabad, Himachal and the company's own factory in Chakan.

Steady growth in Lighting and Luminaires to continue

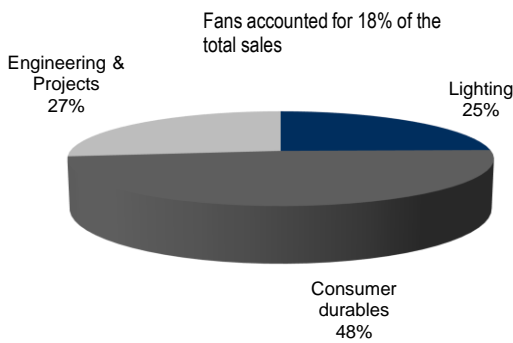
BJE has a market share of 8%/17% in Lighting/Luminaires. Most of the products are procured locally (except some Luminaires) and hence margins in the business are immune to currency fluctuations.

Our FY13 estimates fall short of management's guidance

The management has reiterated a revenue target of Rs 37bn for FY13, which implies growth of ~20% YoY. We estimate revenue of Rs 32.4bn for FY13 due to more conservative expectations from the E&P and Consumer Durables segments.

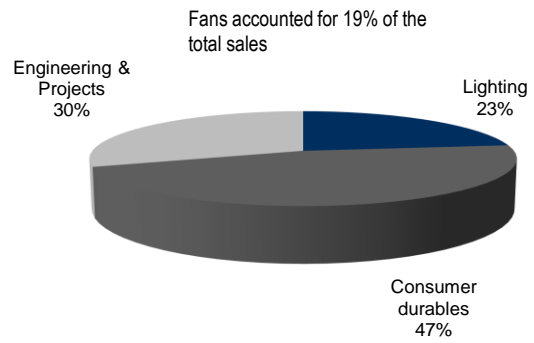
Management has guided for FY13 revenue of Rs 37bn; our est.: Rs 32bn

Fig 1 - Revenue mix, Consolidated FY12



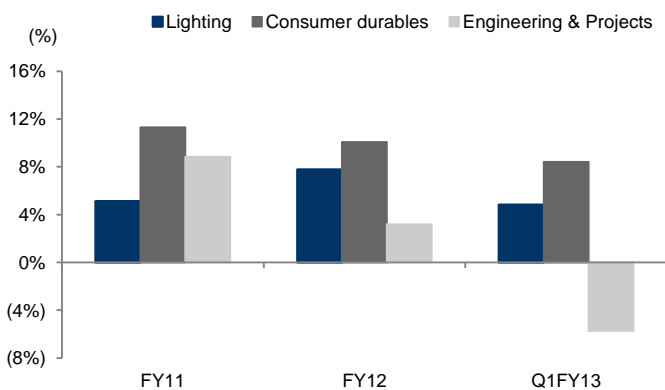
Source: Company, RCML Research

Fig 2 - Revenue mix, Consolidated FY11



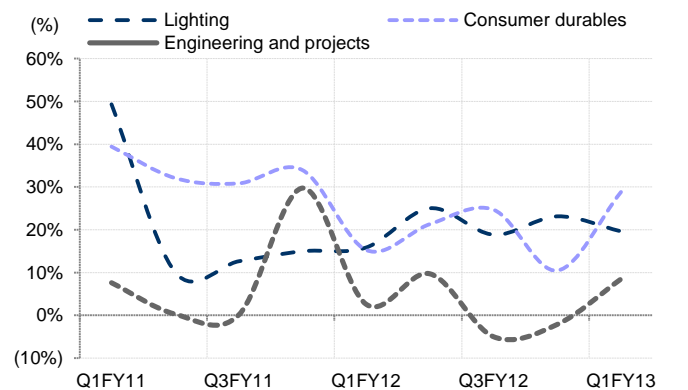
Source: Company, RCML Research

Fig 3 - Segmental EBIT margin profile



Source: Company, RCML Research

Fig 4 - Segmental sales growth YoY



Source: Company, RCML Research

BUY

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Bajaj Electricals

BJE IN

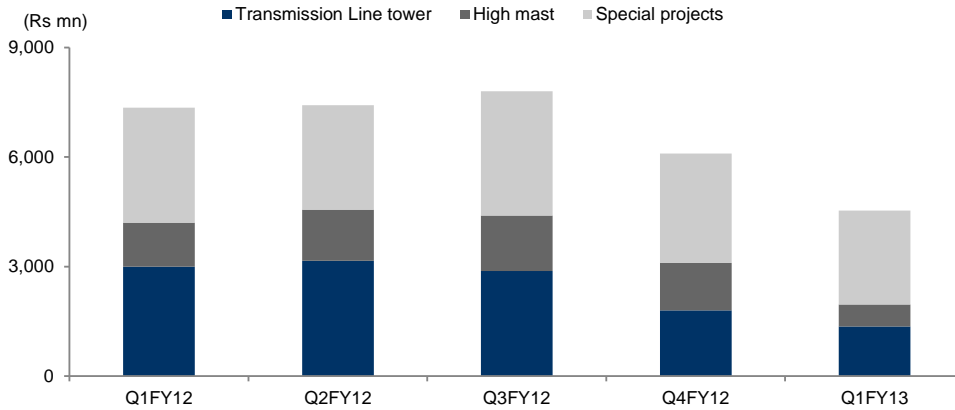


Company Update

INDIA
INDUSTRIALS

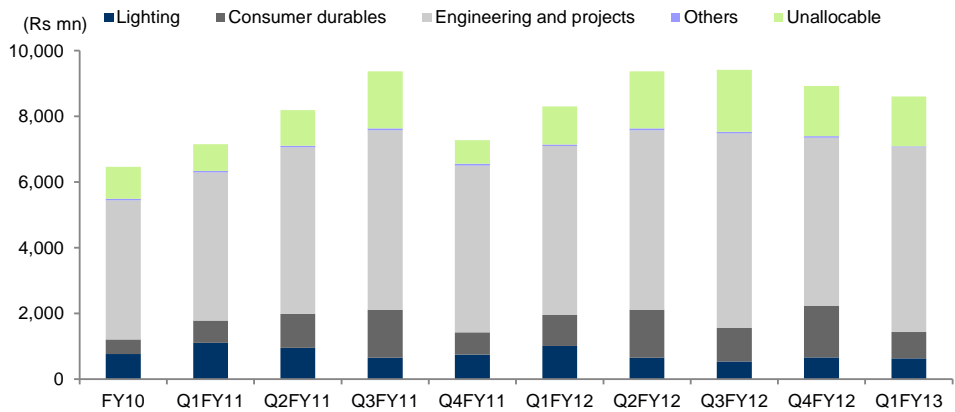
Fig 5 - Segmental order book

BJE's current order book stands at Rs 6bn; further the company is L1 in PGCIL orders worth Rs 4bn



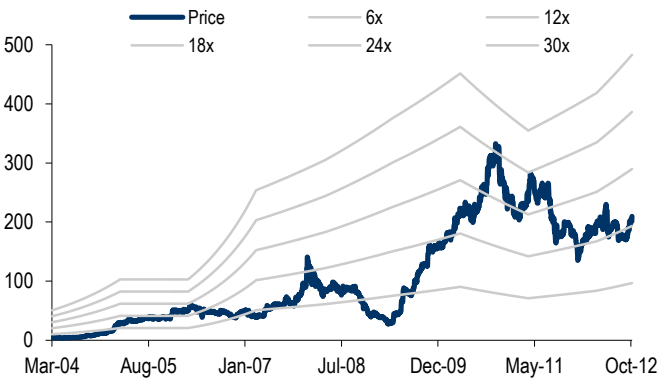
Source: Company, RCML Research

Fig 6 - Segmental capital employed



Source: Company, RCML Research

Fig 7 - 1 year forward PE band chart



Source: Bloomberg, RCML Research

Fig 8 - 1 year PE deviation chart



Source: Bloomberg, RCML Research

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BJE IN



Company Update

INDIA

INDUSTRIALS

Per Share Data

| Y/E 31 Mar (INR) | FY11A | FY12A | FY13E | FY14E | FY15E |
|------------------|-------|-------|-------|-------|-------|
| Reported EPS | 14.5 | 11.8 | 13.9 | 18.4 | 22.1 |
| Adjusted EPS | 15.0 | 11.8 | 13.9 | 18.4 | 22.1 |
| DPS | 2.8 | 2.8 | 2.8 | 2.8 | 2.8 |
| BVPS | 61.8 | 70.2 | 80.8 | 95.8 | 114.5 |

Valuation Ratios

| Y/E 31 Mar (x) | FY11A | FY12A | FY13E | FY14E | FY15E |
|----------------|-------|-------|-------|-------|-------|
| EV/Sales | 0.9 | 0.7 | 0.6 | 0.5 | 0.4 |
| EV/EBITDA | 9.1 | 8.6 | 7.6 | 6.0 | 4.9 |
| Adjusted P/E | 16.1 | 16.6 | 14.4 | 10.9 | 9.1 |
| P/BV | 3.8 | 2.8 | 2.5 | 2.1 | 1.8 |

Financial Ratios

| Y/E 31 Mar | FY11A | FY12A | FY13E | FY14E | FY15E |
|---|-------|--------|-------|-------|-------|
| Profitability & Return Ratios (%) | | | | | |
| EBITDA margin | 9.4 | 7.7 | 8.4 | 8.6 | 8.8 |
| EBIT margin | 9.0 | 7.2 | 8.0 | 8.3 | 8.5 |
| Adjusted profit margin | 5.4 | 3.8 | 4.3 | 4.7 | 4.9 |
| Adjusted ROAE | 26.9 | 18.0 | 18.5 | 20.8 | 21.0 |
| ROCE | 24.0 | 18.7 | 18.4 | 20.2 | 20.6 |
| YoY Growth (%) | | | | | |
| Revenue | 23.0 | 13.1 | 4.5 | 21.1 | 15.1 |
| EBITDA | 6.3 | (8.1) | 15.1 | 24.1 | 17.4 |
| Adjusted EPS | 21.2 | (18.7) | 17.8 | 31.8 | 20.3 |
| Invested capital | 16.1 | 23.8 | 9.9 | 11.6 | 11.3 |
| Working Capital & Liquidity Ratios | | | | | |
| Receivables (days) | 111 | 108 | 109 | 103 | 104 |
| Inventory (days) | 44 | 50 | 54 | 50 | 52 |
| Payables (days) | 117 | 125 | 123 | 113 | 113 |
| Current ratio (x) | 1.3 | 1.3 | 1.4 | 1.5 | 1.6 |
| Quick ratio (x) | 1.0 | 1.0 | 1.1 | 1.1 | 1.2 |
| Turnover & Leverage Ratios (x) | | | | | |
| Gross asset turnover | 13.7 | 12.3 | 11.7 | 13.5 | 14.8 |
| Total asset turnover | 1.8 | 1.7 | 1.6 | 1.7 | 1.7 |
| Net interest coverage ratio | 8.5 | 3.6 | 3.9 | 4.7 | 5.1 |
| Adjusted debt/equity | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |

DuPont Analysis

| Y/E 31 Mar (%) | FY11A | FY12A | FY13E | FY14E | FY15E |
|---------------------------------|-------|-------|-------|-------|-------|
| Tax burden (Net income/PBT) | 66.5 | 67.0 | 67.0 | 67.0 | 67.0 |
| Interest burden (PBT/EBIT) | 90.6 | 78.3 | 80.0 | 84.3 | 86.0 |
| EBIT margin (EBIT/Revenue) | 9.0 | 7.2 | 8.0 | 8.3 | 8.5 |
| Asset turnover (Revenue/Avg TA) | 176.8 | 166.9 | 160.4 | 173.9 | 174.0 |
| Leverage (Avg TA/Avg equities) | 280.5 | 283.2 | 268.4 | 256.4 | 247.7 |
| Adjusted ROAE | 26.9 | 18.0 | 18.5 | 20.8 | 21.0 |



Income Statement

| Y/E 31 Mar (INR mln) | FY11A | FY12A | FY13E | FY14E | FY15E |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Total revenue | 27,408 | 30,990 | 32,397 | 39,233 | 45,151 |
| EBITDA | 2,580 | 2,371 | 2,728 | 3,385 | 3,973 |
| EBIT | 2,472 | 2,246 | 2,590 | 3,241 | 3,821 |
| Net interest income/(expenses) | (291) | (631) | (668) | (691) | (744) |
| Other income/(expenses) | 57 | 144 | 151 | 183 | 210 |
| Exceptional items | 0 | 0 | 0 | 0 | 0 |
| EBT | 2,239 | 1,759 | 2,073 | 2,732 | 3,288 |
| Income taxes | (751) | (581) | (684) | (902) | (1,085) |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Min. int./Inc. from associates | 0 | 0 | 0 | 0 | 0 |
| Reported net profit | 1,488 | 1,179 | 1,389 | 1,830 | 2,203 |
| Adjustments | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 1,488 | 1,179 | 1,389 | 1,830 | 2,203 |

Balance Sheet

| Y/E 31 Mar (INR mln) | FY11A | FY12A | FY13E | FY14E | FY15E |
|---------------------------------------|---------------|---------------|---------------|---------------|---------------|
| Accounts payables | 9,693 | 9,848 | 10,153 | 11,951 | 13,501 |
| Other current liabilities | 0 | 0 | 0 | 0 | 0 |
| Provisions | 731 | 797 | 797 | 797 | 797 |
| Debt funds | 1,122 | 1,872 | 1,912 | 1,952 | 1,992 |
| Other liabilities | (20) | (19) | (19) | (19) | (19) |
| Equity capital | 198 | 199 | 199 | 199 | 199 |
| Reserves & surplus | 5,913 | 6,799 | 7,852 | 9,346 | 11,212 |
| Shareholders' fund | 6,111 | 6,999 | 8,051 | 9,545 | 11,412 |
| Total liabilities and equities | 17,637 | 19,496 | 20,894 | 24,226 | 27,682 |
| Cash and cash eq. | 486 | 536 | 849 | 1,381 | 2,193 |
| Accounts receivables | 9,112 | 9,218 | 10,169 | 11,993 | 13,802 |
| Inventories | 2,946 | 3,552 | 3,683 | 4,450 | 5,111 |
| Other current assets | 679 | 924 | 966 | 1,170 | 1,346 |
| Investments | 366 | 441 | 441 | 441 | 441 |
| Net fixed assets | 1,533 | 1,840 | 1,802 | 1,808 | 1,806 |
| CWIP | 0 | 30 | 30 | 30 | 30 |
| Intangible assets | 0 | 0 | 0 | 0 | 0 |
| Deferred tax assets, net | 0 | 0 | 0 | 0 | 0 |
| Other assets | 2,516 | 2,955 | 2,955 | 2,955 | 2,955 |
| Total assets | 17,637 | 19,496 | 20,894 | 24,226 | 27,682 |

Cash Flow Statement

| Y/E 31 Mar (INR mln) | FY11A | FY12A | FY13E | FY14E | FY15E |
|------------------------------------|----------------|--------------|--------------|--------------|--------------|
| Net income + Depreciation | 1,596 | 1,304 | 1,527 | 1,975 | 2,354 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Non-cash adjustments | 0 | 0 | 0 | 0 | 0 |
| Changes in working capital | 2,149 | (737) | (573) | (498) | (439) |
| Other operating cash flows | (6) | 0 | 0 | 0 | 0 |
| Cash flow from operations | 3,739 | 567 | 954 | 1,477 | 1,915 |
| Capital expenditures | (601) | (449) | (100) | (150) | (150) |
| Change in investments | (0) | (75) | 0 | 0 | 0 |
| Other investing cash flows | (2,516) | (439) | 0 | 0 | 0 |
| Cash flow from investing | (3,117) | (962) | (100) | (150) | (150) |
| Equities issued | 0 | 0 | 0 | 0 | 0 |
| Debt raised/repaid | (397) | 750 | 40 | 40 | 40 |
| Interest expenses | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | (322) | (324) | (336) | (336) | (336) |
| Other financing cash flows | (30) | 20 | 0 | 0 | 0 |
| Cash flow from financing | (748) | 446 | (296) | (296) | (296) |
| Changes in cash and cash eq | (127) | 51 | 313 | 532 | 812 |
| Closing cash and cash eq | 486 | 536 | 849 | 1,381 | 2,193 |

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

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