

**Bajaj Electricals Ltd.**  
**Q3FY11 Results Update**

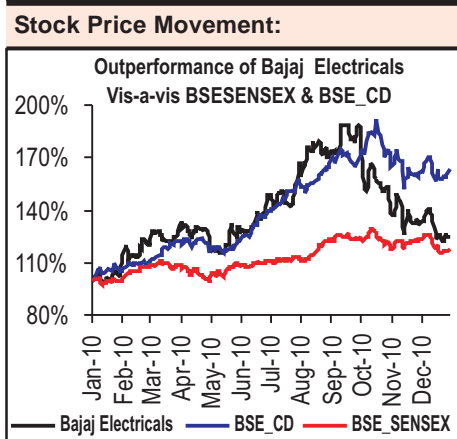
January 31, 2011

Key Stock Data	
Sector	House-hold Appliances
CMP	₹218.75
52-wk High / Low	₹257.50 / 140.10
Market Cap	₹21.62bn (\$4.75mn)
Avg 6m daily vol.	18094338
BSE Sensex	18684.43
Reco:	Buy
Target Price:	₹282

Stock Codes	
Bloomberg Code	BJE IN
Reuters Code	BJEL.BO
BSE Code	500031
NSE Code	BAJAJELEC
Face Value	₹2per share

Shareholding Pattern (31st Dec, 2010)	
Promoter	64.8%
FII	8.9%
DII	11.8%
Others	14.5%

Price Performance (%)			
1 Mth	3 Mths	6 Mths	1 Yr
-5.4%	-23.6%	-13.8%	26.11



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**Bajaj Electrical Ltd Q3FY11 performance is line with our estimates**

Standalone profit after tax grew by 18.6% to ₹40.46cr against ₹34.11cr on y-o-y basis. Standalone Net Sales rose by 18.7% to ₹689.19cr in Q3FY11 as against ₹580.38cr on y-o-y basis. However, on nine month basis, the turnover registered a growth of 22% to ₹1760cr from ₹1443.18cr on y-o-y basis.

**Robust growth in Consumer Durable Segment**

Consumer Durable business has registered a growth of 33.9% on y-o-y basis to ₹331.9cr as against ₹247.8cr with margin of 13% an improvement of 60bps. Going forward, we believe consumer segment to register a CAGR of 25% with a margin of 12-12.5% in FY10-12.

Factors for topline growth and margin expansions are:

- **Competitive positioning:** Huge demand and sales of brown goods such as fans, electric iron, water heater, mixer grinder with better margin on account of BEL's competitive positioning in this segment where the company is having a better market share. The company was able to increase prices of some of its appliances by 5-6% in this quarter on account of its pricing power.
- **Advertising Campaign:** BEL's recent thrust on advertising campaign of every mother ROCKSTAR is growing popular.
- **Strong Distribution Network & after Sales Service:** BEL has a pan India presence with strong distribution network. The company has 19 branch offices, a chain of 600 distributors, 5000 authorized dealers, over 300,000 retail outlets and over 240 service franchises spread across the country. BEL consumer product comes with 2 year warranty and considerable improvement in after sales service by attending at the doorstep of customers.
- **Rural Centric Products:** Bajaj fans are sold in almost 50,000 outlets across the country of which around 18% are in rural areas and small towns having less than 50,000 people. BEL has recently launched pressure cooker, gas stove in States of Bihar, West Bengal, Orissa, Pune, Raipur which has demonstrated a strong growth of ~30%. The company achieve 15-20% of its revenues from rural and semi urban areas.
- **Innovation:** BEL has aspiration to introduce new products & new model with customer focused and value for money approach in the market. Recently introduced product such as Pressure Cooker, Auto Lift irons, Gas stove are doing well. BEL Morphy Richard is performing with expected revenue of ~₹110cr in FY11 as against ₹75cr in FY10.

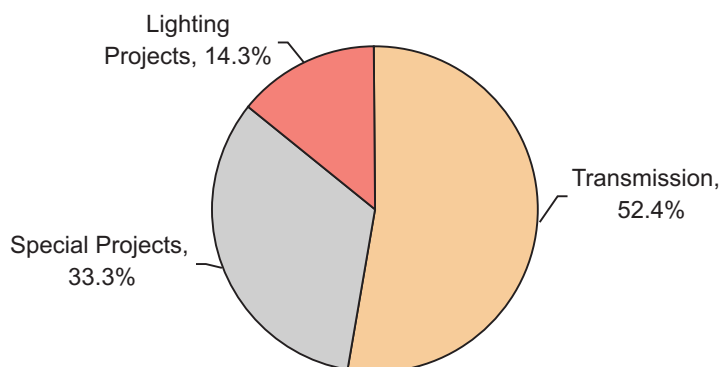
**Flat growth in Engineering Segment with better future outlook:**

Engineering business has registered a flat growth on y-o-y basis to ₹188.78cr as against ₹188.69cr on account of slowdown in construction activities and lag effect. The Segment has witnessed an EBIT de-growth of 250bps on account of increased commodity prices of copper, aluminium, cement etc, fluctuating IIP numbers, particularly in the capital goods sector, low credit off-take, increase in interest rates. The management is cautiously optimistic in this segment.

**Strong Order Book:** BEL has an order book worth of ₹1050cr with project gestation period of 18-20 months. At present company is executing 66 projects out of which 18 projects are on the verge of completion in next quarter. BEL has been awarded 12 orders worth ₹75cr in current quarter. In next five year plan PGCIL is expected to award ₹1200bn worth of order, and BEL is expected to extract 5% of total value, which is significant.

Chart 1

#### Order Book as on Dec10



(Source: Company, Keynote Capitals Institutional Research)

During Q4FY11 BEL is expected to receive 45% of FY11 revenue with stable margin of 9%. We anticipate current slowdown in Engineering segment. However, the companies market leadership in specialty project, street lighting project and increased focus on transmission projects we expect 20% CAGR during FY10-12 with a margin between 9-9.5%.

#### Improved performance by Lighting BU

BEL lighting BU grew by 17% on y-o-y basis to ₹168cr from ₹144cr during Q3FY11 with an improvement in margin of around 40bps.

**Focusing on Lighting & Luminaries:** BEL has a strong position in ₹60bn lighting & luminaries market with a market share of 15%. BEL lantern torches has grown exponentially in rural market. In lighting & luminaries market, BEL comfortably positioned at second spot with aggressive marketing & distribution network at pan India level. The BU's dealer-customer relationship management program "JOSH" is being carried forward to ensure a strong and healthy relationship with its top channel partners. BEL provides LED lights in streetlight projects along with solar application to companies operating in this space. BEL also started building management system business in 2008 and becoming HVAC player by introducing products like fire alarm access and security controls. Market size of Compact Fluorescent Lights (CFL) is estimated at around ₹1, 500Cr. BEL is expected to do electrification of 1,000 villages under RGGVY during couple of years. Going forward, we expect lighting BU to register a CAGR of 20% during FY10-12 with a margin expansion of 5%.

#### Business Strategy

BEL is leveraging on its brand '**Bajaj**' for marketing of its products at pan India level. BEL has focused more on product design through its R&D, quality assurance, supply chain management & network. The other drivers for growth are product reliability, quality process, product development etc.

#### Concerns

Any negative growth in IIP numbers will curtail company's domestic growth rate in Engineering segment and Consumer durable segments. Any hike in input materials, viz., copper, steel,

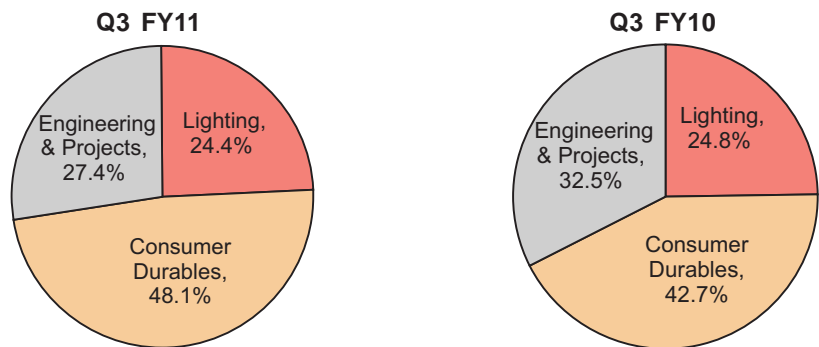
aluminum will put pressure on the margins. We expect intense competition in BEL's business segments from incumbents and unorganized players.

**Outlook & Valuation**

AT CMP ₹218.75 stock trades at 14.1x FY11E EPS and 10.4 FY12E EPS, and EV/EBITDA of 8.75 xs and 6.70 xs for FY11E and FY12E respectively. We have a positive outlook on the company based on its strength towards aggressive marketing & distribution network, Brand Equity and innovation of new products and maintain buy at a target price of ₹282 based on FY12 earnings.

Chart 2

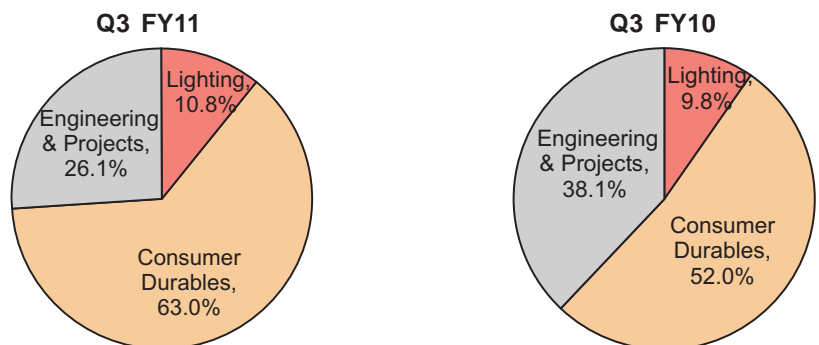
**Revenue Mix**



(Source: Keynote Capitals Institutional Research)

Chart 3

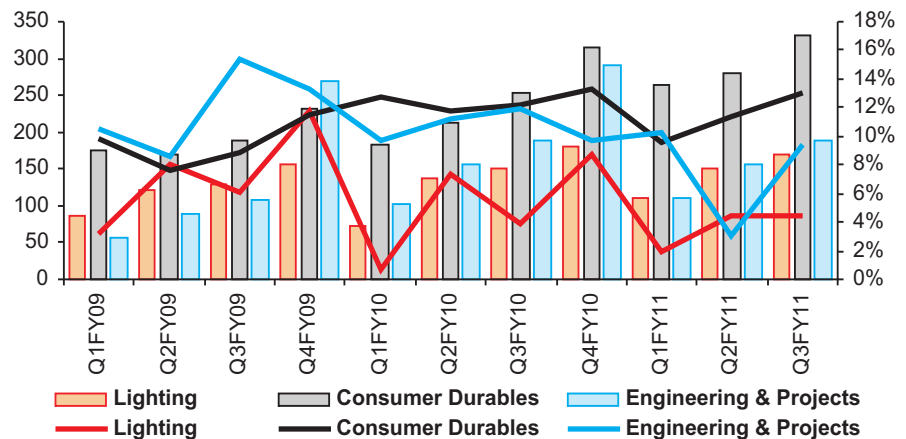
**EBIT Mix**



(Source: Keynote Capitals Institutional Research)

Chart 4

**Revenue (₹Cr) & EBIT Margin**



(Source: Keynote Capitals Institutional Research)

## Highlights of Q3FY11

(₹Cr)

Particulars	Q3 FY11	Q3 FY10	Q2 FY11	Y-o-Y	Q-o-Q	Nine months ended			FY10	FY11E	Y-o-Y
						Q3 FY11	Q3 FY10	Y-o-Y			
Net Sales	689.19	580.38	587.17	18.7%	17.4%	1760.05	1443.18	21.96%	2227.2	2718.37	22.06%
Other Income	0.32	0.28	0.61	14.6%	-47.1%	1.11	1.23	-9.7%	1.47	2.72	84.92%
<b>Total Income</b>	<b>689.51</b>	<b>580.66</b>	<b>587.78</b>	<b>18.7%</b>	<b>17.3%</b>	<b>1761.16</b>	<b>1444.41</b>	<b>21.9%</b>	<b>2228.63</b>	<b>2721.09</b>	<b>22.10%</b>
Raw Material Consumed	515.91	418.35	444.37	23.3%	16.1%	1330.21	1044.27	27.4%	1652.4	2044.16	23.7%
Employee Expenses	28.65	24.93	37.53	14.9%	-23.7%	90.04	75.44	19.3%	97.15	118.52	22.0%
Other Expenses	74.08	76.60	61.31	-3.3%	20.8%	184.67	173.58	6.4%	235.71	288	22.2%
<b>Total Expenditure</b>	<b>618.64</b>	<b>519.88</b>	<b>543.21</b>	<b>19.0%</b>	<b>13.9%</b>	<b>1604.92</b>	<b>1293.29</b>	<b>24.1%</b>	<b>1985.22</b>	<b>2450.83</b>	<b>23.5%</b>
<b>EBIDTA</b>	<b>70.87</b>	<b>60.78</b>	<b>44.57</b>	<b>16.6%</b>	<b>59.0%</b>	<b>156.25</b>	<b>151.11</b>	<b>3.4%</b>	<b>243.41</b>	<b>270.26</b>	<b>11.0%</b>
Other Income	0.70	1.14	1.51	-38.6%	-53.6%	3.45	2.00	72.5%	2.86	2.72	-4.9%
Depreciation	2.66	2.37	2.34	12.2%	13.7%	7.35	6.92	6.2%	9.20	11.70	27.1%
<b>EBIT</b>	<b>68.91</b>	<b>59.55</b>	<b>43.74</b>	<b>15.7%</b>	<b>57.6%</b>	<b>152.34</b>	<b>146.19</b>	<b>4.2%</b>	<b>237.07</b>	<b>261.28</b>	<b>10.2%</b>
Interest	9.26	8.89	7.61	4.2%	21.7%	22.56	25.96	-13.1%	31.45	27.00	-14.1%
Provision written off									5.6	6.80	
<b>PBT</b>	<b>59.65</b>	<b>50.66</b>	<b>36.13</b>	<b>17.8%</b>	<b>65.1%</b>	<b>129.78</b>	<b>120.23</b>	<b>7.9%</b>	<b>200.02</b>	<b>227.48</b>	<b>13.7%</b>
Tax	19.19	16.55	13.00	16.0%	47.6%	43.43	40.54	7.1%	75.35	75.07	-0.4%
<b>Reported Profit After Tax</b>	<b>40.46</b>	<b>34.11</b>	<b>23.13</b>	<b>18.6%</b>	<b>74.9%</b>	<b>86.35</b>	<b>79.69</b>	<b>8.4%</b>	<b>124.67</b>	<b>152.41</b>	<b>22.3%</b>
<b>EPS (Adj)(Unit Curr.)</b>	<b>4.12</b>	<b>3.48</b>	<b>2.36</b>	<b>18.6%</b>	<b>74.9%</b>	<b>8.80</b>	<b>8.12</b>	<b>8.4%</b>	<b>12.71</b>	<b>15.54</b>	<b>22.3%</b>
<b>EBDITA Margin</b>	<b>10.3%</b>	<b>10.5%</b>	<b>7.6%</b>	<b>-1.8%</b>	<b>35.5%</b>	<b>8.9%</b>	<b>10.5%</b>	<b>-15.2%</b>	<b>10.9%</b>	<b>9.9%</b>	<b>-9.0%</b>
<b>EBIT Margin</b>	<b>10.0%</b>	<b>10.3%</b>	<b>7.4%</b>	<b>-2.5%</b>	<b>34.2%</b>	<b>8.7%</b>	<b>10.1%</b>	<b>-14.6%</b>	<b>10.6%</b>	<b>9.6%</b>	<b>-9.7%</b>
<b>PAT Margin</b>	<b>5.9%</b>	<b>5.9%</b>	<b>3.9%</b>	<b>-0.1%</b>	<b>49.0%</b>	<b>4.9%</b>	<b>5.5%</b>	<b>-11.2%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>0.2%</b>

## Segmental Performance

(₹Cr)

Particulars	Q3 FY11	Q3 FY10	Q2 FY11	Y-o-Y	Q-o-Q	Nine months ended			FY10	FY11E	Y-o-Y
						Q3 FY11	Q3 FY10	Y-o-Y			
Lighting	168.48	143.87	151.36	17.1%	11.3%	429.82	353.50	22%	535.87	642.54	19.9%
Consumer Durables	331.93	247.82	279.77	33.9%	18.6%	874.67	642.44	36%	954.45	1193.06	25.0%
Engineering & Projects	188.78	188.69	156.04	0.0%	21.0%	455.56	447.24	2%	736.84	880	19.4%
Others	0.32	0.28	0.61	14.3%	-47.5%	1.11	1.23	-10%	1.47	2.72	84.9%
<b>Revenue from Operations</b>	<b>689.51</b>	<b>580.66</b>	<b>587.78</b>	<b>18.7%</b>	<b>-1.2%</b>	<b>1761.16</b>	<b>1444.41</b>	<b>22%</b>	<b>2228.63</b>	<b>2718.37</b>	<b>22.0%</b>
P/L Before Interest and Tax	68.39	59.14	43.65	-26.2%	35.5%	150.65	145.85	3%	231.92	254.5	9.7%
Lighting	7.36	5.82	6.75	26.5%	9.0%	16.30	16.36	0%	32.08	32.13	0.1%
Consumer Durables	43.07	30.73	31.74	40.2%	35.7%	99.89	78.91	27%	120.97	143.17	18.3%
Engineering & Projects	17.83	22.52	4.8	-20.8%	271.5%	33.98	49.97	-32%	78.22	79.20	1.3%
Others	0.13	0.07	0.36	85.7%	-63.9%	0.48	0.61	-21%	0.65	0	
Less : Interest	9.26	8.89	7.61	4.2%	21.7%	22.56	25.96	-13%	31.45	27	-14.1%
Other Un-allocable Expenditure	-0.52	-0.4	0	30.0%		-1.7	-0.3	397%	-0.15	0	
<b>Net Profit/Loss Before Tax</b>	<b>59.65</b>	<b>50.65</b>	<b>36.04</b>	<b>17.8%</b>	<b>65.5%</b>	<b>129.78</b>	<b>120.23</b>	<b>8%</b>	<b>200.62</b>	<b>227.5</b>	<b>13.4%</b>
<b>EBIT Margins</b>											
Lighting	4.4%	4.0%	4.5%	8.0%	-2.0%	3.8%	4.6%	-18%	6.0%	5.0%	-16.5%
Consumer Durables	13.0%	12.4%	11.3%	4.6%	14.4%	11.4%	12.3%	-7%	12.7%	12.0%	-5.3%
Engineering & Projects	9.4%	11.9%	3.1%	-20.9%	207.0%	7.5%	11.2%	-33%	10.6%	9.0%	-15.2%

## Financial Performance

(₹Cr)

Particulars	FY08	FY09	FY10	FY11E	FY12E
Net Sales	1374.48	1765.71	2227.16	2718.37	3322.30
<b>% Growth</b>	<b>27%</b>	<b>28%</b>	<b>26%</b>	<b>22%</b>	<b>22%</b>
EBIDTA	145.27	179.62	237.86	263.46	343.63
<b>EBIDTA Margin</b>	<b>10.6%</b>	<b>10.2%</b>	<b>10.7%</b>	<b>9.7%</b>	<b>10.3%</b>
Reported Profit After Tax	73.10	89.13	124.72	152.41	206.37
<b>PAT Margin</b>	<b>5.3%</b>	<b>5.0%</b>	<b>5.6%</b>	<b>5.6%</b>	<b>6.2%</b>
<b>Calculated EPS (Unit Curr.)</b>	<b>7.45</b>	<b>9.09</b>	<b>12.71</b>	<b>15.54</b>	<b>21.04</b>
Equity	9.81	9.81	9.81	9.81	9.81
Book Value	17.68	24.98	50.39	62.16	78.10
EV/EBDITA	16.22	12.87	9.42	8.77	6.71
P/BV	12.40	8.78	4.35	3.53	2.81

