

Current Reco	: BUY
Previous Reco	: BUY
CMP	: INR250
Target Price	: INR340
Potential Return	: 36%

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**Market data**

Sector	:	Electricals
Market Cap (INRm)	:	24,795
Market Cap (USDm)	:	553
O/S Shares	:	99
Free Float (m)	:	33
52-wk HI/LO (INR)	:	347/188
Avg Daily Vol	:	101,141
Bloomberg	:	BJE IN
Reuters	:	BJEL.BO

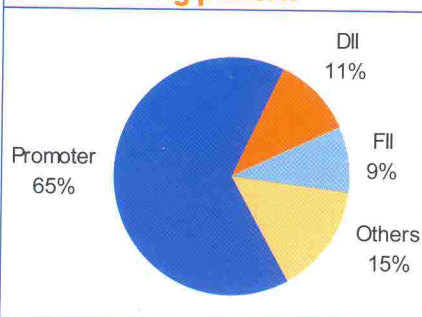
Source: Bloomberg

**Returns (%)**

	<b>1 m</b>	<b>3 m</b>	<b>6 m</b>	<b>12 m</b>
Absolute	(2)	8	(2)	22
Relative	(1)	9	7	13

Source: Bloomberg

**Shareholding pattern**



Source: BSE

**Price performance vs Nifty**



Source: Bloomberg

**4QFY11 RESULTS UPDATE**

# Bajaj Electricals Limited

## Steroidal growth

**What we liked**

Bajaj Electricals Limited (BEL) registered a creditable growth of 22% in revenues to INR27.4bn in FY11. This was on back of higher sales and improved revenue booking across all its verticals viz. Lighting (+18%), Consumer durables (+34%) and Engineering & Projects (+13%). Growth was most impressive in the fans business, a part of the consumer durables vertical, which rose 35% over FY10.

What impressed us was the company's improving Working Capital Cycle as build up of consumer durables inventory in the system was accompanied by a commensurate increase in terms of credit from suppliers which help BEL to improve its working capital cycle by at 42 days in FY11 (v/s 44 days in FY10). Additionally, the successful conclusion of several long tailed projects in the EP division enabled the company to marginally improve its operating cash flows and retire some debt.

The company currently enjoys a robust order book of INR7.5bn, with INR3.4bn of orders in the Transmission and Lighting Towers (TLT) space, INR3bn in special projects and INR1bn in the High Masts and signages segments.

**What we didn't like**

BEL registered a decline in margins by 140bps to 9.4% in FY11 as it opted for higher market share in the face of rising commodity prices. Additionally, its decision to incentivise its channel partners also took a toll on its operating metrics.

It also registered an increase of 26% in employee cost to 1.2bn which resulted in the decline in margins.

**Valuation and outlook**

At the CMP of INR250, BEL trades at a P/E and EV/EBIDTA of 14.9x and 8.3x, discounting its FY12e numbers. We maintain our BUY recommendation on the company with a target price of INR340, which represents an upside of 36%.

**Quarterly financials**

INRm	4 QFY11	4 QFY10	% Chg	3 QFY11	% Chg
Revenue	9,796	7,842	24.9	6,895	42.1
Expense	8,779	6,927	26.7	6,186	41.9
EBITDA	1,017	916	11.1	709	43.5
Other income	23	16	0.0	7	225.7
Depreciation	34	23	49.6	27	28.2
PBT	941	854	10.2	597	57.7
Tax	305	348	(12.4)	192	59.0
Reported PAT	636	506	25.7	405	57.1
Adjusted PAT	575	374	53.6	406	41.7

Source: Company, Antique

### Looking ahead...

In FY11, BEL heavily incentivised its channel partners and simultaneously raised the pay scales for its employees. We expect this to reflect in increasing velocity of sales over the coming quarters.

Through FY11, BEL has tried judiciously to balance out raw material cost inflation with regular price hikes, especially in its consumer durables business. In its fans business, the company effected price hikes in Jan'11 and Mar'11, while in the consumer durables business, prices were raised in Oct'10 and Jan'11. We expect the company to maintain this trend over the next 4 quarters.

BEL is also actively trying to improve its working capital cycle. It is looking to widen the scope of its existing channel financing facility. We expect this to play out over the next 6 months and will closely monitor developments on this front.

The company announced the successful conclusion of work at 21 sites of the 61 sites which were operational, in FY11. It has indicated that further 19 sites scheduled for completion in FY12. This augurs well for cash flows as margins in projects and quantum of payments improve towards the completion stage.

The management has also indicated that it would not be chasing growth in the TLT segment, on account of increasing competition and commoditisation of the product. Rather, it has indicated that it would captively consume its output of this business through its Special Projects business, in an effort to improve margins.

### Valuation and outlook

BEL's FY11 performance was marginally above our expectations by ~8%, as it achieved revenue growth without any significant margin erosion. Going forward, we believe that the company will be able to improve its operational profitability to ~10% as it widens its product profile and improves channel penetration. This is a significant achievement, considering the existing revenue base and stiff competition profile. We have revised upwards our revenue and profit estimates for BEL and accordingly, reiterate a BUY recommendation on the stock, with a higher target price of INR340 (v/s 321 previously), which represents an upside of 36% from current levels.

