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Incorporated in 1938, Bajaj Electricals Ltd (BEL) commenced its operations as Radio Lamp Works and changed its name to the present one in 1960. The company operates through its four segments, namely, Lighting, Consumer Durables, Engineering & Projects (E&P), and Others. BEL has a diversified business model which caters to the direct consumers, industry and infrastructure. With its 19 branch offices, a chain of 600 distributors, 3,000 authorised dealers, over 1,20,000 retail outlets and over 200 service franchises spread across the country, BEL caters to different consumer markets and has been able to expand its business by foraying into newer product categories.

## Investor's Rationale

**PAT to grow by ~30% YoY in FY16E:** Despite of posting mixed bag of numbers in FY'14, the management is hopeful of achieving ~14% growth in revenue in FY15E on the back of ~25% expected growth in E&P division along with ~10% expected growth in both lighting and consumer durables segments.

**Our take:** We believe that a sharp recovery in margins in E&P and sustained margins in consumer durables and lighting business would help drive net profit. We believe the company will turn losses into profit in FY15E and will further grow by ~30% in FY16E.

**Selective order intake & timely execution in E&P segment to be a game changer:** E&P, which contributes ~35% to the total revenue, has a current order book of ₹20 bn. Despite strong inflows historically, the segment has been posting losses since the last 3-4 years mainly due to poor margins, coupled with delay in project completion leading to cost overruns. However, BEL has now become very selective in order intake by focusing more on profitability rather than revenue growth and has its mechanism in-place to ascertain timely execution of projects. Hence, going forward, we expect the segment to rebound its EBIT profitability gradually.

**Increased ad spends and leveraging on strong brands to lead growth:** BEL elaborated its ad spends to ₹630 mn in FY14 and is expected to spend ₹600 mn in FY15, thereby increasing its visibility substantially and creating consumer pull. Moreover, BEL has known brands in its basket like Morphy Richards, Disano, Trilux to name a few, which would lead the growth for the company.

**Increase in penetration to drive demand; market leadership to sustain:** Despite of facing stiff competition from other well established brands like Prestige, Hawkins, Havells, Philips, Kenstar, Usha, Maharaja, Kenwood etc, the company's appliances segment has grown at a CAGR of 19% over FY12-14. Given the launch of new products, distribution expansion and increase in penetration levels (average penetration levels ~30% for Appliances); we expect the appliances segment to continue its growth trajectory in FY15-FY16.

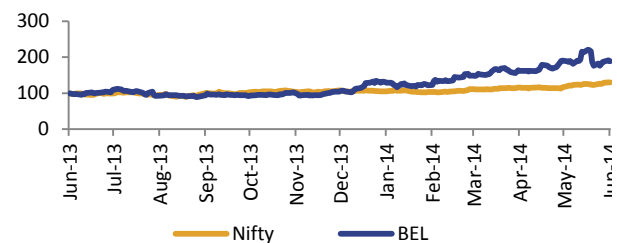
## Market Data

Rating	<b>BUY</b>
CMP (₹)	332.6
Target (₹)	<b>382</b>
Potential Upside	~15%
Duration	Long Term
Face Value (₹)	2.0
52 week H/L (₹)	382.9/150.0
Adj. all time High (₹)	877.0
Decline from 52WH (%)	13.1
Rise from 52WL (%)	121.7
Beta	0.7
Mkt. Cap (₹bn)	33.2
Enterprise Value (₹bn)	340.2

## Fiscal Year Ended

Y/E	FY13A	FY14A	FY15E	FY16E
Revenue (₹bn)	33.9	40.3	46.9	54.2
EBITDA (₹bn)	1.1	0.8	3.4	4.2
Net Profit (₹bn)	0.3	(0.1)	1.8	2.3
Adj EPS (₹)	2.6	(0.5)	17.5	22.8
P/E (x)	127.1	(626.1)	19.0	14.6
P/BV (x)	0.5	0.5	0.4	0.3
EV/EBITDA (x)	29.9	41.6	10.1	7.9
ROCE (%)	14.4	8.3	31.9	34
ROE (%)	3.6	(0.7)	20.5	21.6

## One year Price Chart



Shareholding Pattern	Mar'14	Dec'13	Diff.
Promoters	66.1	66.2	(0.1)
FII	14.7	15.4	(0.7)
DII	3.8	2.9	0.9
Others	15.4	15.5	(0.1)

BEL has a diversified business model which caters to the direct consumers, industry and infrastructure.

The company operates through three segments namely, Consumer durables, Engineering & Projects and Lightings.

Of all the business units, the consumer durable segment is the biggest contributor to the revenues and profits, followed by the E&P and lighting segments.

## Bajaj Electricals- a well-established brand in the kitchen & domestic appliances

BEL is a 68 year old diversified company with its operations in Lighting, Luminaires, Appliances, Fans and Engineering & Projects. The company has two manufacturing facilities, one at Chakan for fans, and another at Ranjangaon for galvanised material. BEL has 19 branch offices, a chain of 600 distributors, 3000 authorised dealers, over 1,20,000 retail outlets and over 200 service franchises spread across the country.

### Diversified Business Model

BEL has a diversified business model which caters to the direct consumers, industry and infrastructure. Thus, with good presence in different consumer markets, BEL is able to generate a stable flow of revenues and expand its business by foraying into new product categories. The company operates through three major segments namely, Consumer durables, E&P and Lightings.

**Consumer durables:** Of all the business units, the consumer durable segment is the biggest contributor to the revenues and profits, followed by the E&P and lighting segments. The consumer durable segment contributed around 42% of the total revenue during Q4FY14.

**E&P:** During Q4FY14, it contributes nearly 35% to the total revenue. E&P business can be broadly categorized into three divisions, namely:

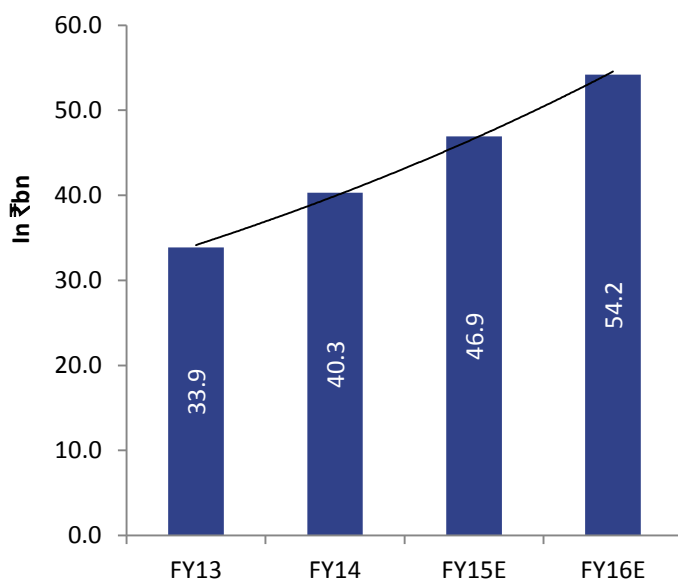
**Special projects:** It undertakes turnkey lighting assignments, fibre optic lighting, factory lighting, airport lighting, sports lighting and rural electrification projects, among others.

**High masts and street lighting:** It undertakes design, supply, erection and commissioning of high masts, signages and poles.

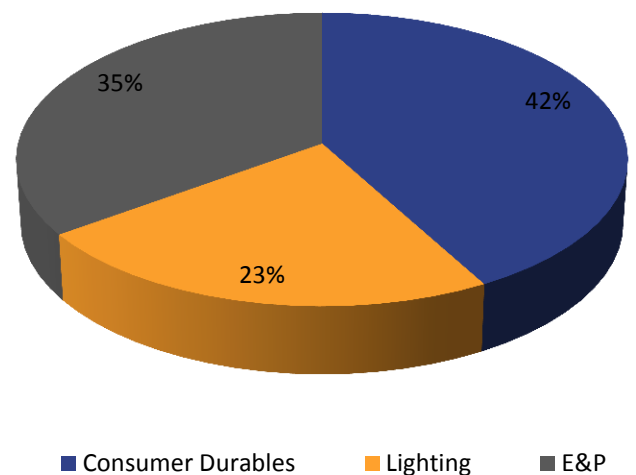
**Transmission Line tower:** It undertakes design, supply, erection and commissioning of transmission lines, telecommunication towers and monopoles, and other related products and services.

**Lighting:** BEL is one of oldest lighting companies in India. It markets various products ranging from General Lighting Services (GLS) lamps, Fluorescent tube lamps (FTLs), Compact fluorescent lamps (CFLs), and Light-Emitting Diodes (LED) torches. It contributes nearly 23% to the total revenue during Q4FY14.

### Consistent growth in revenue



### Revenue contribution by major segments (as in Q4FY14)



During Q4FY14, revenue grew by 15.4% YoY to ₹12.7 bn, driven by 58.9% YoY increase in income from E&P business segment.

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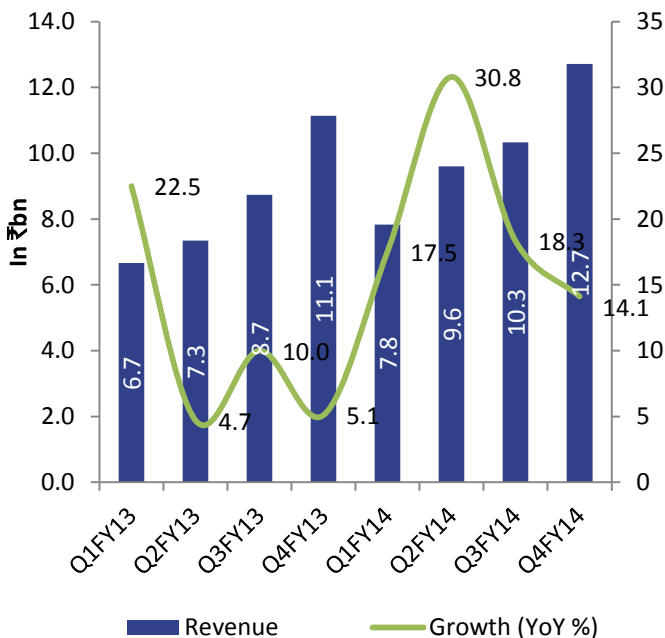
### Dismal growth in lighting and consumer durable business hit Q4FY14 numbers

BEL showcased a 15.4% YoY increase in net sales at ₹12.7 bn in Q4FY14, as against ₹11.1 bn in Q4FY13, owing largely to a 58.9% YoY growth in revenue from its E&P business segment (contributed ~34.6% to total revenue in Q4FY14) at ₹4.4 bn. However, poor demand environment impacted growth in Lighting (up by 4.5% YoY) and Consumer Durables businesses (down by 1.2% YoY). Lighting and Consumer Durables business contributed ~23.4% and ~41.9% to the total revenue, respectively. The growth in E&P business was largely driven by aggressive execution of new high margin orders. Also, the company completed all old low margin orders in Q4FY14. The current order book stands at ~₹20 bn.

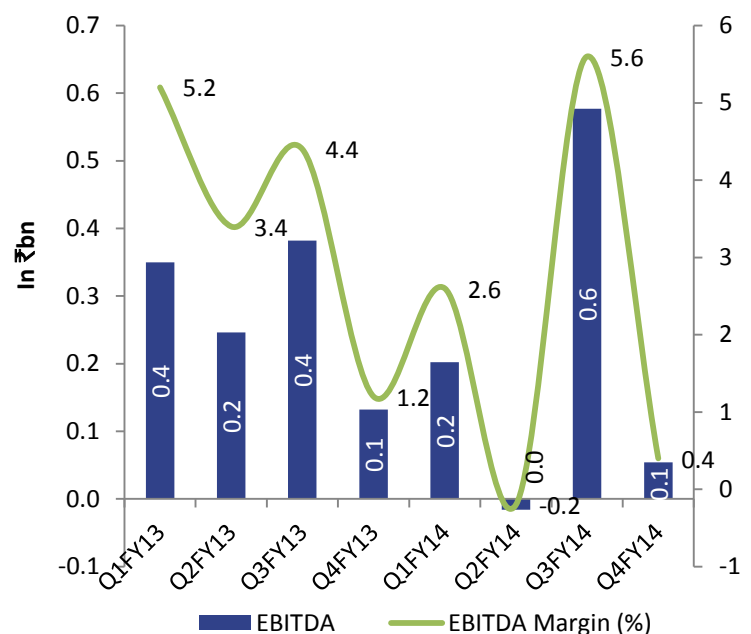
The EBITDA margin of the company declined to 0.4% in Q4FY14 (as against 1.2% in Q4FY13), despite a substantial reduction in losses in E&P segment as lighting & consumer durable divisions posted dismal operating margins. The Lighting and consumer durables business registered a 3.0% and 3.5% rise in margins in Q4FY14 against 7.9% and 8% in Q4FY13, respectively. Further, the company reported a net loss of ₹0.1 bn in Q4FY14 dragged by a massive rise in interest cost by 40.1% at ₹0.2 bn during the quarter.

With the E&P division showing good growth and a strong order book going forward, BEL hopes to get a turnaround in FY15. Also, the management's expectations for ~25% and ~10% increase in revenue from E&P and from each of the lighting and consumer durables business makes the stock attractive.

**Revenue growth trend**



**Margin Trend**



With most legacy contracts for E&P division concluded in FY14, coupled with strict timeliness in execution of new projects, E&P is set to turn profitable from Q1FY15.

### Expects strong improvement in profitability in FY15

The company's management has guided for a 15% YoY growth in Lighting and Consumer Durable divisions and 25% growth in E&P business for FY15. With most legacy contracts for E&P division concluded in FY14, coupled with strict timeliness in the execution of new projects, E&P is set to turn profitable from Q1FY15. The management is confident on improving E&P

As per the management guidance, the contribution of the E&P division to the revenues will grow by 20% to 30% by the end of FY15.

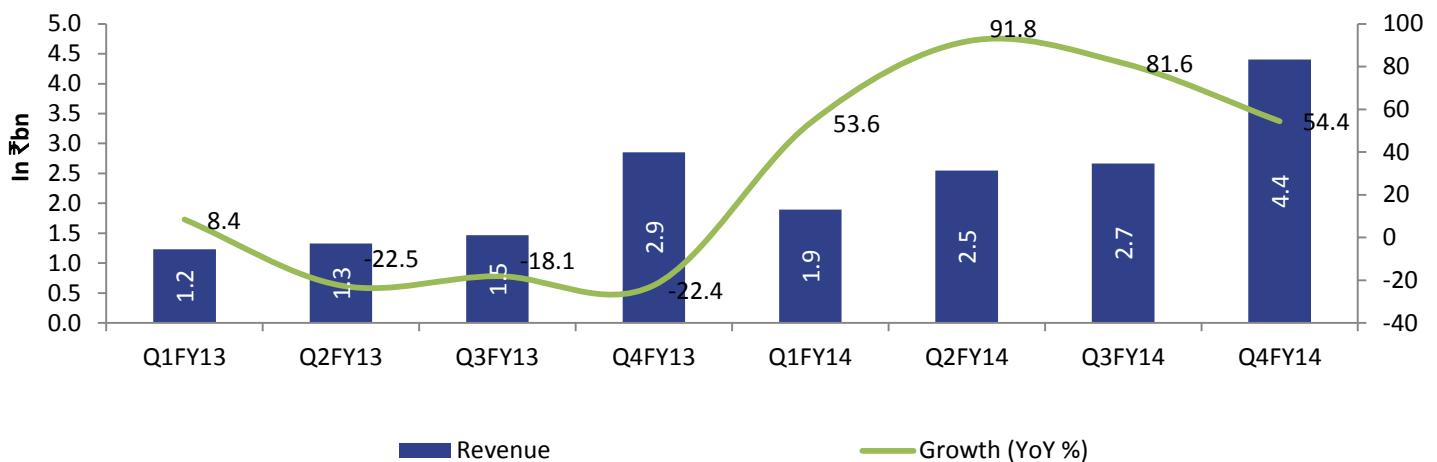
The current order book of the E&P division stands at ₹22 bn.

division's RoCE to 20%, thus improving the overall RoCE profile. We believe the worst of the decline in margins in consumer facing businesses is behind and with favorable exchange rate environment and recovery in demand, margins will bounce back.

### Revival of E&P segment: a major catalyst to drive the bottom-line

BEL's E&P division, which had been dragging the profits in the past due to prolonged inactivity in the infrastructure space, reported a sharp drop in losses from ₹0.51 bn in Q4FY13 to ₹0.20 bn in Q4FY14. During the quarter, a focused exercise was undertaken to complete and hand over several large project sites, which were lingering beyond the scheduled completion period for various reasons including site clearances and right of way (ROW) issues. Albeit, this led to incurring extra cost but the same has resulted in the unlocking of the held-up payments, retention amounts and re-deployment of trained & experienced manpower on new remunerative projects. As per the management guidance, the contribution of the E&P division to the revenues will grow by 20% to 30% by the end of FY15. The division is reaping benefits of shutting down of old plants and will turn profitable by Q2FY15, on the back of a surge in its order book from rural electrification and transmission line towers. It gained an order worth ₹2.67 bn in Q4FY14. The order book of the segment currently stands at ₹22 bn.

### E&P segment continues to post strong growth



The company plans to increase the number of 'Bajaj World' stores to over 250 by FY16.

### Looking to aggressively ramp-up 'Bajaj World' stores

To further strengthen its strong brand, BEL has taken an initiative to directly reach the consumer by opening up its retail chain 'Bajaj World' based on pure franchisee model for Appliances and Lighting Products. As at 31<sup>st</sup> March, 2014, BEL had 40 'Bajaj World' stores across major cities in India. It plans to increase the number of stores to over 250 by FY16. BEL also plans to go international through franchise agreements. It has recently opened one store in Nepal and plans to open 'Bajaj World' stores in Ghana, Nigeria, Sri Lanka and South Africa to further strengthen position in international markets.

### Huge mass market product portfolio; market leader in Small Appliances

BEL has a huge product portfolio in the Appliances and Lighting segments, spanning over 2,000 stocks keeping units (SKUs). The combined market size for BEL's Consumer-facing

segments is pegged at over ₹178bn, with BEL's revenues and market share standing at ₹26bn and 15.2%, respectively. We believe BEL's strategy of having a presence across products gives it a great degree of clout amongst consumers as well as the distribution channel, which has helped it to grow and sustain its market leadership.

### Bajaj Electricals product portfolio

Segment	Sub-segment	Market-size (₹bn)	Organised (%)	Market Share (%)	Description	Competition
Lighting	Lighting	50	65%	8%	GLS lamps, fluorescent tube lights, compact fluorescent lamps, domestic luminaries, ballasts & starters, LED torches	Philips, Crompton, Surya, Havells, etc.
	Luminaries	25	65%	5%	Industrial, commercial, decorative, street light, floodlight, LED, lighting electronics, lighting control, HID Lamps: Mercury & sodium vapor lamps, halogen lamps, metal halide & fluorescent lamps	Phillips, Crompton, Wipro, Thorn
Consumer Durables	Fans	35	65%	17%	Ceiling, table, pedestal & wall mounted fans, personal fans, Bajaj-Disney children's fans, Industrial exhaust fans, commercial air industrial fans, circulators, cooler kits and pumps	Crompton, Usha, Orient, Khaitan, Polar, Havells
	Appliances	68	70%	20%	Mixers grinders, juicers, food processors, water heaters, air coolers, iron, ovens toasters grillers (OTG), room heaters, toasters & S/W makers, hand blenders, water filters microwave ovens gas stove purifiers & filters, ovens, stoves, electric kettles, coffee/tea makers	Philips, Kenstar, Usha, Maharaja, Preeti, Prestige, Kenwood

### Entry into premium lighting business to aid margins

Lighting contributes nearly 18% to BEL's Consumer-facing business revenues. BEL has an 8% market share in the ₹50 bn organized Lighting market in India. Some portion of lamps is manufactured by Hind Lamps Limited (32% owned by BEL), from its manufacturing facilities located at Shikohabad and Kosi in Uttar Pradesh. A majority of CFL lamps are manufactured by Starlite Lighting Limited (50% owned by BEL), from its manufacturing facility at Nashik, Maharashtra. The Lighting unit markets a wide range of Light Sources and domestic Luminaires. The range includes General Lighting Service (GLS), Fluorescent Tube Lights (FTLs), Compact Fluorescent Lamps (CFLs), Special Purpose Lamps and Luminaires. BEL has witnessed a shift in favor of power saving, and high margin CFL lamps over the last few years, with contribution rising from 7% in FY05 to nearly 50% currently. We expect this proportion to improve further from current levels, supporting margin growth (CFL segment is high margin high volume business). Additionally, BEL has forayed into the premium lighting segment in a big way with new range of home decorative lighting and portable LED glow lanterns, which should aid in further margin accretion.

### Plan to double turnover from exports in FY15

Over the past two years, BEL has been trying to set things straight for its export division but it has been unable to reap any major benefits from the same. During FY14, the revenues from the exports stood at only ~ 1% (₹0.45 bn) of the total revenues from the consumer durables vertical. The company intends to double its revenue from exports in FY15 by scaling up its presence in regions where it already exists and entering new markets. At present, it has strong presence in the Middle East and Africa and is banking on expanding

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*BEL has planned to launch rural-specific brands to tap price sensitive segments under the overall Bajaj umbrella.*

*BEL's lighting solutions are available in over 400,000 retail stores while fans and appliances are available at over 86,000 and 45,000 retail stores across India.*

its reach into another 25-30 markets via an expansion in South America and South East Asia. It is focusing on moving away from the mind-set of differentiated quality products (appliances) for export and domestic markets as cutting edge technology is the only way for products to remain strong. On the back of this strategy, we expect BEL to increase exports contribution to the top-line to ~2% by FY15.

### **Thrust on rural penetration to increase market share**

Rural markets which are mostly dominated by the unorganized sector have strong growth potential as the development remains strong and with growing disposable incomes, rural India is poised to witness growth in electrical appliances. BEL is planning to capitalize on its growth in the rural markets through its 'Bajaj World' outlets. The company plans to open around 60 outlets by FY15. It also planned to launch rural-specific brands to tap price sensitive segments under the overall Bajaj umbrella. Products under this economy brand will have different finish, designs and will be priced much lower than existing products of Bajaj Electricals. With this development, we expect the company will register a decent growth in the customer base and significant improvement in the top-line.

### **Robust distribution network, new initiatives to ensure better reach**

BEL, with 2200+ distributors and 4100+ dealers, has a pan-India presence through a strong network. Further, BEL's lighting solutions are available in over 400,000 retail stores while fans and appliances are available at over 86,000 and 45,000 retail stores across India.

Moving ahead, the company is undertaking a number of initiatives to improve the retail reach further from current levels. For instance, BEL is appointing Direct Sales Officers under distributors which the company calls 'Long armed salesmen'. They will be responsible for managing each distribution region allotted to them by personally visiting all stores (irrespective of whether they stock BEL products or not) on a weekly basis. BEL is focusing on driving secondary sales rather than primary sales. Further, inventory will be replenished on auto basis to make sure that inventory at the distributor level is minimal (targeting 15 days of inventory as against 45 days currently), ensuring higher capital churn for distributors, reflected in 3x Return on Investment (ROI) for them. By undertaking such initiatives, BEL ensures a better reach to its customers which will have a significant impact on its profitability.

### **Key Concerns**

- **Currency fluctuation:** BEL's import content constitutes ~15% of its revenues. Therefore, the company is exposed to the risk of currency fluctuations which could impact its profitability. However, the company has undertaken some foreign exchange forward contracts to hedge the risks against the currency fluctuations for the imports.
- **Slippages in E&P business:** Contrary to our expectations, if the E&P business does not recover, the stock price may be adversely impacted.
- **Highly competitive industry:** Though BEL is a strong brand in the Consumer Durables segment, with a 75-year history; the industry has faced regular competition from the unorganized sector due to low entry barriers.
- **Slowdown in the economy may hamper growth prospects:** Any slowdown in GDP growth may impact the Consumer Durables segment, adversely affecting BEL's prospects.

**Balance Sheet**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
Share Capital	0.2	0.2	0.2	0.2
Reserves&Surplus	7.1	6.9	8.3	10.3
Total long term debt	0.3	1.3	1.2	1.0
Long term provision	0.3	0.3	0.3	0.4
Current liabilities	13.7	18.2	20.6	22.0
<b>Total Equity&amp;Liabilities</b>	<b>21.6</b>	<b>26.9</b>	<b>30.6</b>	<b>33.9</b>
Fixed Assets	3.0	3.3	3.8	4.0
Investments	0.3	0.7	0.7	0.7
Deferred tax assets (net)	0.1	0.3	0.3	0.3
Other non-current assets	2.6	3.8	4.2	4.2
Current assets	15.6	18.8	21.6	24.7
<b>Total Assets</b>	<b>21.6</b>	<b>26.9</b>	<b>30.6</b>	<b>33.9</b>

**Key Ratios**

Y/E	FY13A	FY14A	FY15E	FY16E
EBITDA Margin (%)	3.3	2.0	7.1	7.8
EBIT Margin (%)	3.3	1.8	6.8	7.5
NPM (%)	1.5	(0.1)	3.7	4.2
ROCE (%)	14.4	8.3	31.9	34.0
ROE (%)	3.6	(0.7)	20.5	21.6
EPS (₹)	2.6	(0.5)	17.5	22.8
P/E (x)	127.1	(626.1)	19.0	14.6
BVPS (₹)	711.7	709.8	855.2	1,053.1
P/BVPS (x)	0.5	0.5	0.4	0.3
EV/Operating Income (x)	25.9	35.0	9.6	7.7
EV/EBITDA (x)	29.9	41.6	10.1	7.9

**Profit & Loss Account**

Y/E (₹bn)	FY13A	FY14A	FY15E	FY16E
<b>Total Income</b>	<b>33.9</b>	<b>40.3</b>	<b>46.9</b>	<b>54.2</b>
Operating Expense	32.8	39.5	43.6	49.9
<b>EBITDA</b>	<b>1.1</b>	<b>0.8</b>	<b>3.4</b>	<b>4.2</b>
Depreciation	0.1	0.2	0.3	0.3
<b>EBIT</b>	<b>1.1</b>	<b>0.7</b>	<b>3.2</b>	<b>4.1</b>
Interest	0.7	0.8	0.7	0.6
Other income	0.2	0.2	0.2	0.2
<b>PBT</b>	<b>0.4</b>	<b>(0.1)</b>	<b>2.5</b>	<b>3.4</b>
Exceptional Items	0.2	-	-	-
PBT (after exceptional items)	0.7	(0.1)	2.5	3.4
Tax	0.2	0.0	0.8	1.2
<b>PAT</b>	<b>0.5</b>	<b>(0.1)</b>	<b>1.8</b>	<b>2.3</b>
<b>Adj PAT</b>	<b>0.3</b>	<b>(0.1)</b>	<b>1.8</b>	<b>2.3</b>

**Valuation and view**

We believe BEL is well poised to take advantage of the improving economic scenario. The company has been able to rope in profits from the E&P division which it is targeting going ahead as well. The company continues to do well in its other segments too by expanding its distributor network to increase its market share. In line with this, in recent quarters, BEL has delivered a strong performance. Healthy order book growth and robust export targets will boost the bottom-line in the coming years.

At a current market price (CMP) of ₹332.6, the stock trades at 10.1x FY15E and 7.9x FY16E, EV/EBITDA. We recommend 'BUY' with a target price of ₹382, which implies potential upside of ~15% to the CMP from long term (1 year) perspective.



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