

Investment Focus

Bajaj Electricals : Buy

Investors with a medium to long term perspective can consider investing in the stock of Bajaj Electricals, a diversified player with presence in the consumer durables, industrial lighting and power transmission business.

A higher growth trajectory for the consumer durables business and good prospects for the projects and power transmission division may warrant a re-rating of the stock's valuations.

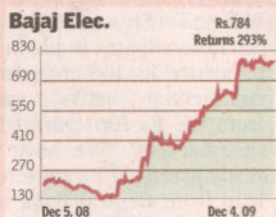
At Rs 784, the stock of Bajaj Electricals is trading at 12 times its estimated 2009-10 earnings.

Bajaj Electricals has an established brand name in a range of lower ticket consumer appliances such as fans, electric heaters, stoves and iron boxes.

The durables business has seen an annualised growth of 30 per cent over the last five years. The company has been launching new models and expanding dealer network, with a focus on institutional and rural sales (currently present in 25,000 outlets).

The company's Engineering and Projects (E&P)

division, now 30 per cent of sales, is seeing robust growth (five year sales CAGR at 31 per cent). As of end-October 2009, the E&P division's order book stood at Rs 850 crore (1.6 times last year's sales for this division).



REVENUE GENERATOR

This segment may emerge a major revenue generator with opportunities in rural electrification and infrastructure projects increasing.

Bajaj Electricals designs and constructs power transmission towers, telecom towers and high masts and poles. It has recently bagged orders for generation, transmission and distribution of power for the Commonwealth Games 2010 and from several State electricity companies. Revenue visibility, therefore, appears quite high.

Even in 2008-09 when most corporates had trouble with top-line growth, Bajaj Electricals reported a 29 per cent sales growth with margins, both at the operating (10 per cent) and the net level (5 per cent) held steady.

The half-year ended September-09 too has seen strong growth with revenues rising 26 per cent and operating profit margins up by 2 percentage points. The company's debt-to-equity stands at 0.9 with a comfortable interest coverage ratio of 5 times.

Bajaj Electricals proposes to raise Rs 175 crore through a QIP (Qualified Institutional Placement) offer for capital requirements.

The earnings dilution following the institutional placement of shares will not be significant considering the rate at which the company's profits are growing (five-year CAGR of profits is 60 per cent).

Volumes in the stock may improve once the stock split (1:5) takes effect.

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