MORNING FARSIGHT

Wednesday, July 11, 2018

HARITA SEATING	CMP:RS 670	TRGT:RS 750	TIME HORIZON: 1 YEAR

Bajaj Electricals, operating through 2 divisions viz, Consumer Products (Fans, Lighting. Luminaires. Cooking Hack, Steam Irons, Pressure Cookers, Room heater, Room Cooler, Mixer Grinder, Hand Blenders, Coffee makers, Juicers, Gas Stoves etc) and Engineering & Projects (Power T&D),is looking a good buy, post recent correction, with robust Q4 earnings, increasing execution of higher margin projects, record order book of Rs. 8,934 crores and absence of any loss making orders. Bajaj Electricals reported 40% QoQ and 27% YoY growth in Revenue in Q4FY18 at Rs. 1,606 cr, which resulted in whopping 92% QoQ and 74% YoY EBITDA growth at Rs. 135 cr, with EBITDA margin of 8.4% (+255 bps YoY, 226 bps QoQ). However, PAT was marred by one-time write off of investment (of Rs. 89 cr) in the CFL business. Going ahead, company's Consumer Products segment is expected to pick up further pace with robust demand environment and company undertaking network expansion. By end of Q3FY18, the company has already covered 130,000 retail outlets across India barring south and North Eastern states. Coverage would increase to 160 ,000 retail outlets by end of September 2018. We believe Bajaj being a strong brand in the economic CD products segment would be a direct beneficiary of the government's push to 'double farm income' by FY22. For FY19, the company is aiming to clock revenue of Rs. 2,500 cr under CD category with EBIT margin of 6-7%, against Rs. 2,228 cr revenue and EBIT margin of 4.8% seen in FY18,which is extremely positive. Company is having order of Rs. 8,934 cr for EPC Division, which is 3.6x of FY18 revenue from this division. Company will also benefit from the government's thrust to improve power infrastructure in India. The company is aimingto record EPC revenue between -Rs. 3,500 and Rs. 4,000 crore in FY19 with EBIT margin of -8-9%,against RS. 2.487 cr and EBIT margin of 7.8% in FY19. If we assign M Cap/Sales of 2x to its Consumer Products Business (in line with industry standards), its M Cap comes at Rs. 5,000 crores. Thus, Company's EPC division, having annual EBIT of Rs. 280 crores is then available at M Cap/EBIT of just 2.3x and M Cap /Sales of just 0.20x, which is extremely attractive and has ample room for appreciation. Hence, we find current M Cap of Rs. 5,650 cr quite low. Good Q1 FY19 earnings should drive next leg of upside in stock price. Share ruling at Rs. 553 can move to Rs. 650 in 1 year.