Bharat Electronics (Rs 1,584)

Maintain Outperformer

Large Cap | **Market cap (US$ mn): 2,630**

Institutional ownership

FY05	FY08	FY11
17	18	20

10 Year Stock Return (x)	47.0
10 Year CAGR (%)	47.3

Weight	: In BSE 200	0.141	
	In BSE 500	0.127	
Target price	:	Rs 1,904	
Upside	:	20%	

Bloomberg Code	BHE IN
Reuters Code	BEL.BO
Shares O/S (mn)	80
Free float (%)	18.2

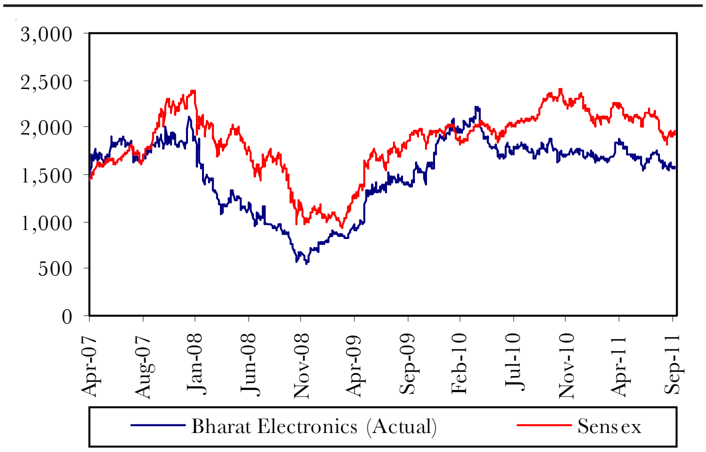
Shareholding pattern over years

(%)	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Promoter ownership	76	76	76	76	76	76	76
Institutional ownership	17	19	19	18	20	20	20

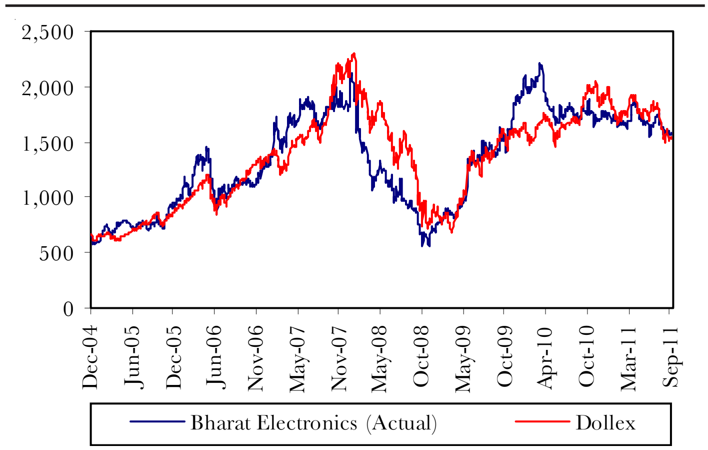
Key variables

(Rs mn)	FY05	FY06	FY07	FY08	FY09	FY10	FY11	CAGR (%) (FY05-11)	FY12E	FY13E	CAGR (%) (FY11-13E)
Net sales	31,886	35,062	38,969	40,653	45,868	51,901	54,755	9.4	60,930	69,460	12.6
EBITDA	7,120	8,735	9,603	10,377	10,291	8,866	9,375	4.7	9,625	11,111	8.9
PAT	4,463	5,830	7,189	8,273	7,448	7,211	8,415	11.1	9,518	10,379	11.1
Cash profit	5,178	6,627	8,035	9,200	8,504	8,370	9,635	10.9	10,803	11,817	10.7
EPS (Rs)	59.6	73.2	89.8	100.7	93.1	90.1	105.2	9.9	119.0	129.7	11.1
RoCE (%)	49.5	47.6	44.7	39.2	31.4	25.6	24.4	–	24.7	23.7	–
RoNW (%)	33.7	32.3	31.0	27.7	21.2	17.7	18.0	–	17.8	17.0	–
Net debt/Equity (x)	(81.8)	(89.3)	(80.3)	(75.8)	(69.4)	(82.3)	(130.3)	–	(105.9)	(94.0)	–
Book value (Rs)	198.5	254.8	323.6	403.9	475.6	543.0	625.1	21.1	714.8	809.4	13.8

5 years' price chart (Relative to Sensex performance)



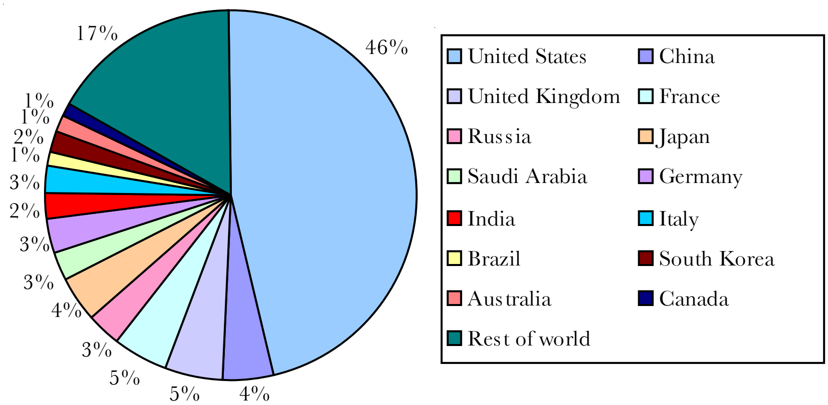
5 years' price chart (Relative to Dollex performance)



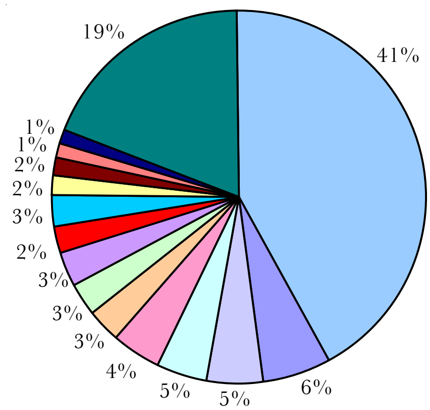
Source: Company, B&K Research

BRICs – Capturing market share from US

Global defence pie (2006)



Global defence pie (2008)



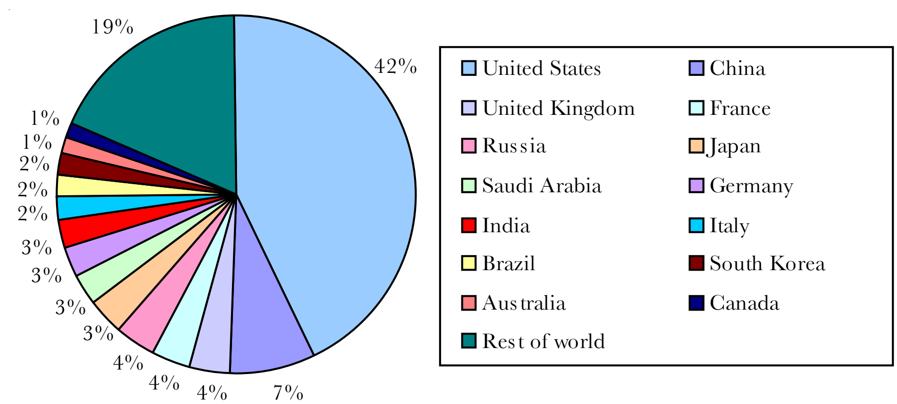
Source: Industry, B&K Research

Global defence spending growth

CAGR CY06-10	(%)
United States	7.2
China	24.5
United Kingdom	0.2
France	2.8
Russia	14.0
Japan	5.7
Saudi Arabia	11.7
Germany	5.1
India	14.7
Italy	5.5
Brazil	25.7
South Korea	6.0
Australia	14.8
Canada	14.0
Rest of World	11.8
World	9.2

Source: Industry, B&K Research

Global defence pie (2010)



Source: Industry, B&K Research

Global military expenditure in 2010 reached US$ 1,630 bn, representing

2.6% of global gross domestic product (GDP), with a CAGR of 9.2% during CY06-10. US constitute 42% of the global spending followed by China at 7% and UK, France, Russia and Japan. India's share in the global defence pie has increased from 2% in CY06 to 3% in CY10 with a CAGR of 14.7% CY06-10 ranked eighth in terms of world defense expenditure for CY10. In percentage of GDP terms, defence expenditure of US stood at 4.8% of GDP, 2.1% in China and India spent 2.7% of GDP in 2010 and maintains the same range during CY06-10.

The BRIC nations (Brazil, Russia, India and China), on virtue of the strong economic growth have become prominent players in the global military market. BRIC's have increased military spending rapidly in recent years and are engaging in military modernisation programmes as highlighted by the table beside. Australia and Canada also witnessed heightened activity in terms of defence expenditure during the reference period of our analysis (CY06-10).

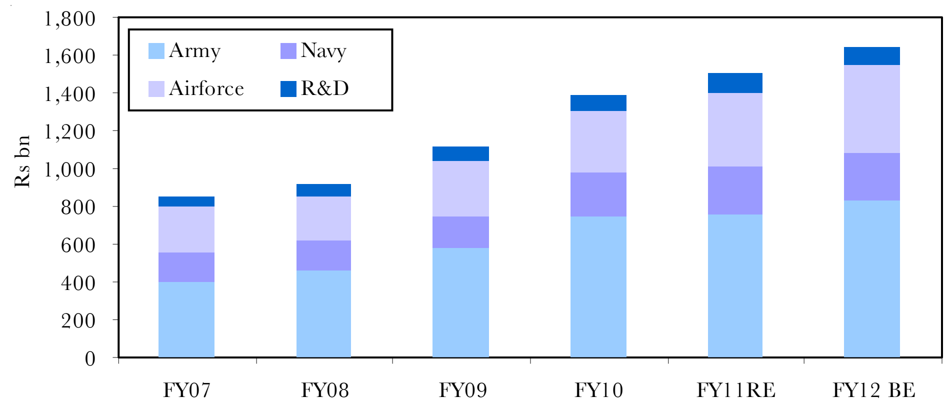
Segmental National Defence expenditure

Segmental defence growth

CAGR (%)	FY07-11RE
Army	17.6
Navy	11.6
Air force	12.8
R&D	17.9
Total	**15.4**

Source: MOD, B&K Research

Defence expenditure (rev+capex)



Source: MOD, B&K Research

Segmental defence market share

Avg. (%)	FY07-11RE
Army	50
Navy	17
Air force	26
R&D	7

Source: MOD, B&K Research

Large part of the defence expenditure continues to get allocated to army at 50% of the pie followed by Air force (26%) and Navy (17%), respectively. R&D spending has picked up pace with a CAGR of 17.9% FY07-11RE which reflects a long-standing desire to improve the performance of the sclerotic Indian arms industry, with R&D efforts accompanied by attempts to reform the industry by allowing more private involvement and to obtain foreign technology through offset arrangements. The major portion of the Indian defence capex has been used to modernise the Indian armed forces, whose equipment was previously dominated by soviet-era technology. The capital budget is planned to increase by a CAGR of 10% up to FY16E. Given the increased focus on modernisation and surveillance, we expect the share of army and air force to grow at a marginally higher pace, to ~80% of the total defence spending.

National defence capex leads order book/sales of BEL

Order book details (Rs mn)	FY07	FY08	FY09	FY10	FY11	FY12E
Opening order backlog	78,472	91,300	95,860	103,860	113,500	236,000
Growth (%)	*28.5*	*16.3*	*5.0*	*8.3*	*9.3*	*107.9*
Gross sales	39,571	41,076	46,273	52,294	55,335	61,422
Book to bill	1.98	2.22	2.07	1.99	2.05	3.84
National defence capex	338,280	374,620	410,000	478,240	608,000	692,000
Growth (%)	*4.6*	*10.7*	*9.4*	*16.6*	*27.1*	*13.8*
Sales as % of def capex lag (-1)	*12.2*	*12.1*	*12.4*	*12.8*	*11.6*	*10.1*
Sales as % of def capex	*11.7*	*11.0*	*11.3*	*10.9*	*9.1*	*8.9*
OB as % of def capex	*23.2*	*24.4*	*23.4*	*21.7*	*18.7*	*34.1*
OB as % of def capex lag (-1)	*24.3*	*27.0*	*25.6*	*25.3*	*23.7*	*38.8*

Source: Company, B&K Research

Lag series ratio shows higher consistency versus normal series, this underpins national defence capex as the lead indicator of the revenue of BEL

The order backlog witnessed a healthy growth of 24.6% CAGR FY07-11, propelled by the sharp increase in intake during FY11 at Rs 177 bn implying a ~ 2x YoY intake growth. The robust order book improves the topline visibility at ~4x TTM sales capped by the stretched execution period of the current backlog.

Opening order book growth trend

CAGR (%)	FY07-11	FY07-12E
Order book	9.7	24.6
Defence capex	15.8	15.4
Gross sales	8.7	9.2

Source: Company, B&K Research

Segmental defence market share

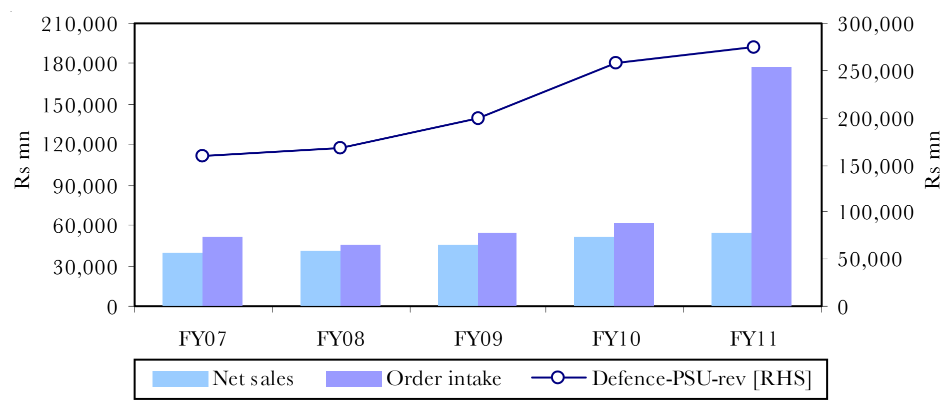
Avg. (%)	FY07-11RE
Army	50
Navy	17
Air force	26
R&D	7

Source: MOD, B&K Research

Both the sales and order book depicts a relatively stable trend when compared with defence capex with a one year lag versus the prevalent defence capex.

This trend draws attention towards the fact that the budget estimate of defence capex (estimated one year in advance) has a higher influence in order booking and execution of BEL in comparison to the existing defence capex spending. However, the lumpy order booking in FY11 paints a distorted figure for the FY12E values. The book to bill ratio for FY12E is expected to move up due to the longer execution period for the order backlog.

Revenue growth supported by favourable macros



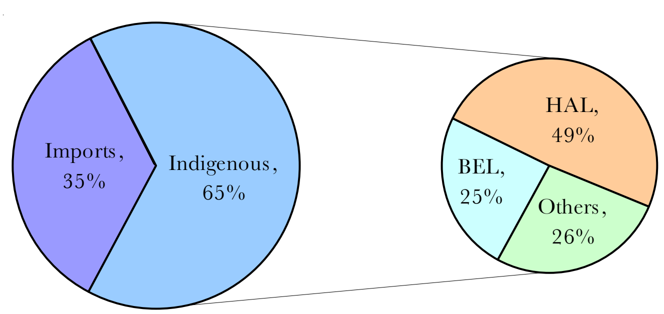
Source: MOD, Company, B&K Research

Revenue grew by a CAGR of 8.9% for FY07-11, at Rs 55 bn on the back of favourable macro environment in terms of defence capex spending [CAGR 15.8% FY07-11]. During the same period, the defence PSU universe grew at a CAGR of 14.7% at Rs 274 bn [FY11 BE] mirroring the defence capex growth.

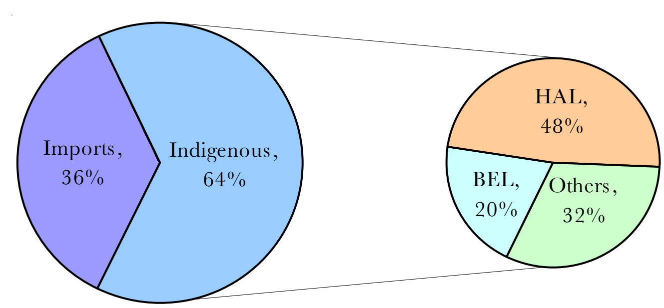
The surge in order intake in FY11 lends good visibility to the growth prospects. BEL has set itself an MOU target of Rs 62 bn of gross revenues for FY12E.

Domestic companies were able to protect their market share against international competition. Amongst the domestic companies, BEL was able to maintain its market share at ~20% dominated by HAL having close to 50% of the domestic pie, however, the market share is subject to annual variations over a broad range due to execution of certain project specific orders. We believe the domination of HAL to continue with the MMRCA and other IAF projects in the anvil, however, we expect BEL to maintain its market share due to the higher offset clause and trickle down ordering from these projects.

FY07 – market share



FY11BE – market share



Source: MOD, Company, B&K Research

Increased focus towards self reliance coupled with impetus on offsets to augur well for indigenisation

Domestic defence market segmentation

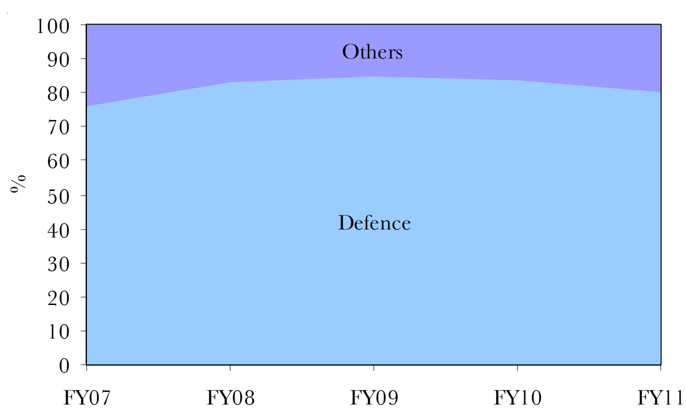
(%)	FY07	FY08	FY09	FY10	FY11BE
Indian defence market mix					
Indigenous#	65	63	66	72	64
Imports	35	37	34	28	36
Defence PSU market share					
HAL	49	52	52	44	48
BEL	25	24	23	20	20
Others	26	24	25	36	32

#Indigenous includes foreign ToT and licenced production which may not be technically accounted as imports.

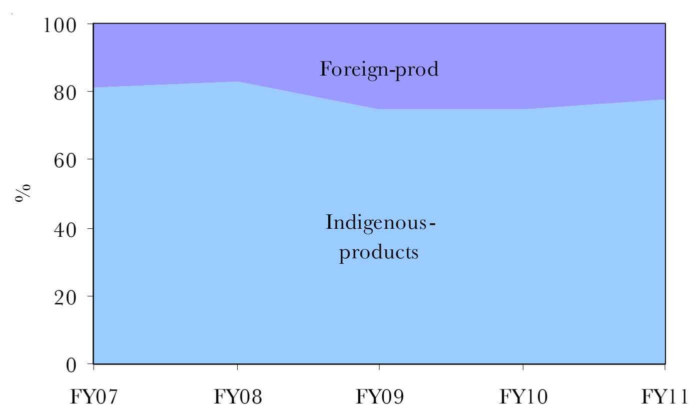
Defence business remains the bread winner

Defence electronics at ~80% of the revenue remains the mainstay of BEL and is expected to dominate going forward. There has been a marginal decline in the indigenous products in the revenue mix to meet the high technology requirement of the defence services. The incremental spending in R&D is expected to improve indigenisation, given the constraints in terms of technological gap it will be a long rope for Indian companies to be on par with the global counterparts.

Revenue exposure



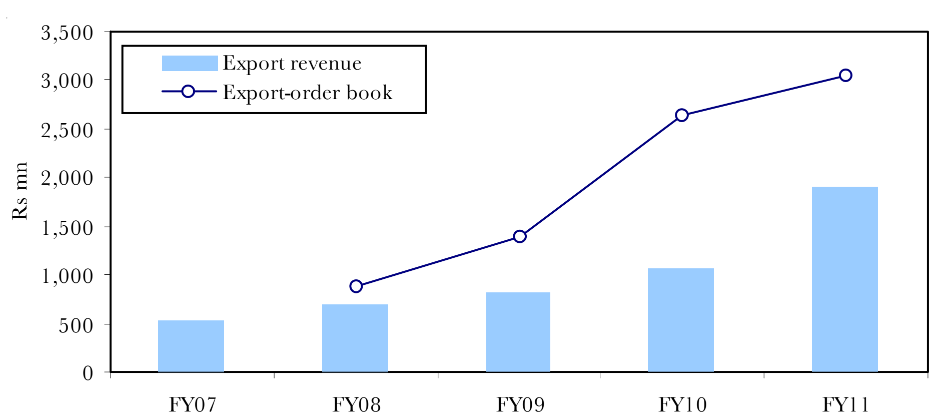
Revenue mix



Source: Company, B&K Research

Export business is a direct off shoot of the change in defence procurement procedure. Most of the MNC defence companies route the offset related work through defence PSUs like BEL.
With increased focus on offsets the export revenues of BEL is expected to grow further

Buoyant export growth on the back of offset business

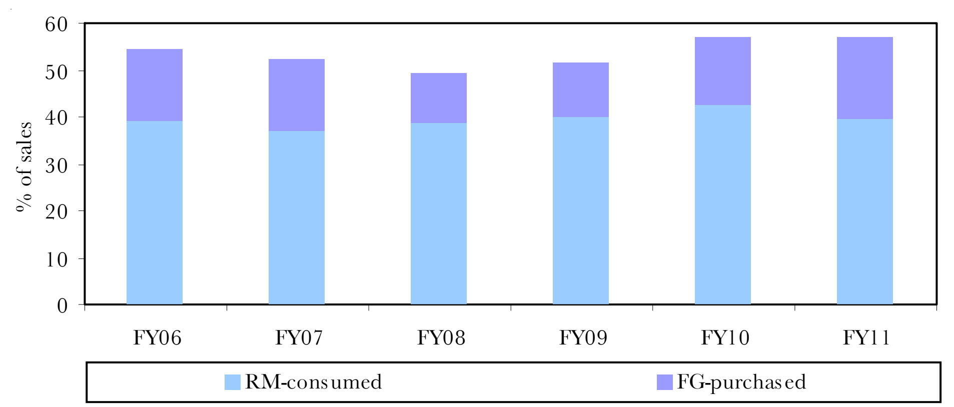


Source: Company, B&K Research

Export revenues clocked a healthy CAGR of 38.3% FY07-12E at Rs 1,909 mn, with a marginal contribution of 3.5% of revenues in FY11 from 1.3% of revenues in FY07. The increasing impetus towards offset by the ministry of defence has been largely responsible for this growth as major portion of the export segment is due to offsets. With the increased focused towards offsets and indigenisation the share of exports is expected to grow.

Increase in finished goods purchased indicates higher system related order execution

Change in business mix led to RM cost escalation



Source: Company, B&K Research

Employee growth

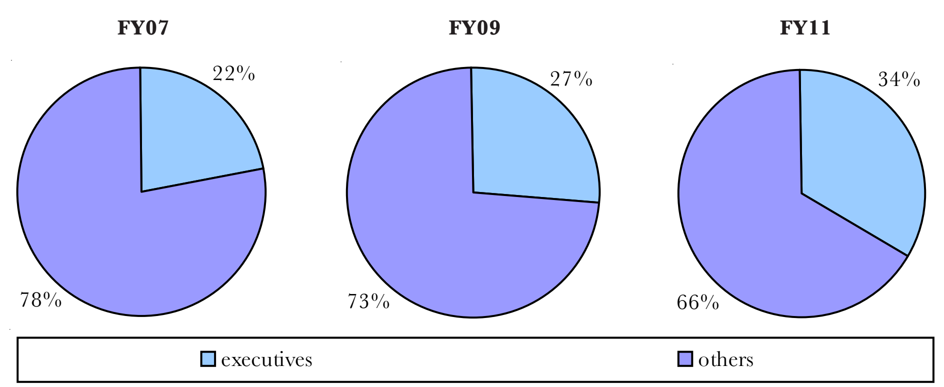
	CAGR FY07-11 (%)
Employees	(2.5)
Executive	8.2
Others	(6.3)
Employee expense	19.0

Source: Company, B&K Research

The proportion of raw material consumed has increased from 52.5% in FY07 to 56.8% in FY11 largely due to the change in business mix towards system integration versus equipment supply. The change has been more pronounced for the finished goods purchased which has moved up to 17.4% in FY11 from 15.4% in FY07. Going forward, with the execution more systems integration projects the RM proportion is expected to increase further.

Higher proportion of executive underscores the focus towards R&D

Induction of more executives to improve efficiencies

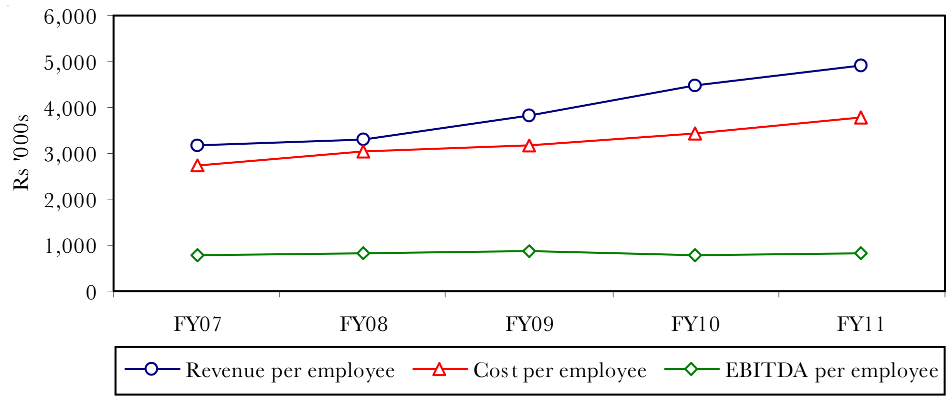


Source: Company, B&K Research

While the total number of employees witnessed a degrowth of (2.5%) CAGR FY07-11. At 11,545, the company recruited more number of executives comprising engineers and scientist while reducing the non-executive strength. At the end of FY11, the total executives were at 3,773 with a CAGR of 8.2% (FY07-11) and others at 7,407 implying a degrowth of (6.3%) CAGR FY07-11.

R&D investment trickle down is expected to push up the operational efficiency by way of indigenisation

Operating efficiency contingent upon indigenisation/revenue mix

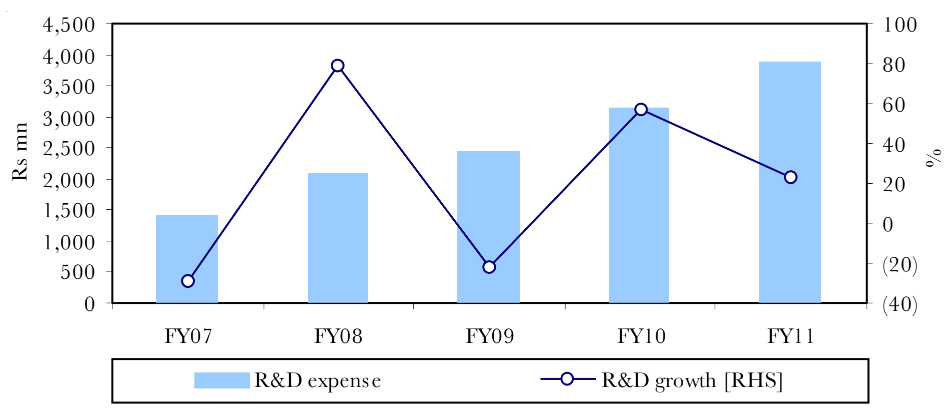


Source: Company, B&K Research

From the above figure, we can infer that the induction of more executives and thereby focusing on R&D has paid dividends in terms of increasing efficiency in terms of revenue per employee, however, the increase in cost per employee and change in business mix came in the way to convert it into higher EBITDA per employee. **During FY11, the employee cost stood at Rs 10,096 mn, clocking 19% CAGR FY07-11 majorly due to the sixth pay commission coupled with induction of high cost executives.** However, we believe with the ramping up of R&D the efficiencies shall improve further and impact positively on the operational performance of BEL.

The modernisation of the defence communication system and impetus towards self reliance in defence through indigenous R&D is expected to plough in more investments to research activities of BEL. These new products from R&D shall bring new business to the company coupled with expertise

Increased R&D allocation eyeing on indigenisation



Source: Company, B&K Research

Robust growth witnessed in R&D expenditure, 29% CAGR FY07-11 at Rs 3,882 mn resulting in 7% of revenue versus 3.6% in FY07. The spending was evenly spread between capital account at Rs 379 mn, 25% CAGR FY07-11, while the revenue expenditure clocked a CAGR of 29% FY07-11 at Rs 3,503 mn. The ramping up of the R&D team coupled with enabling policy impetus points towards increased focus towards R&D thereby increasing the share of indigenous components which shall augur well for the long-term performance of BEL.

R&D initiatives

R&D engineers of BEL have completed development of products like AKASH Weapon System, Doppler Weather Radar, New Generation HUMSA Sonar, Aslesha & Bharani Radars, Upgraded Weapon Locating Radar etc by working closely with DRDO/ISRO adapting technologies absorbed.

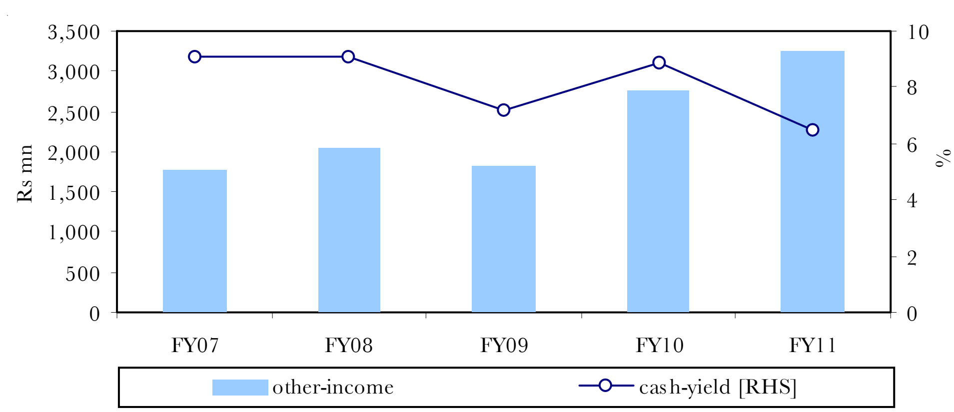
A number of joint development programmes with DRDO labs also have been initiated. Software Defined Radio, a futuristic communication equipment, Radio Relays for Military backbone networks, Military Wimax, Battle field Surveillance System, Combat Management System for different class of ships, Medium power Radar, Surface Surveillance Radar, and Tablet PCs are some of the important projects whose development will be completed in the next one to two years.

Details of major R&D products introduced

Product details	Product brief	Technology partner
Akash weapon system	This is a surface-to-air medium range air defence missile system which provides air defence against multifarious air threats to mobile, semi-mobile and static vulnerable forces and areas. The system is capable of simultaneous engagement of many targets with multiplemissiles.	Developed with technology transfer from DRDO
New Generation Advanced Hull Mounted Sonar	advanced version of the existing HUMSA sonar for fitmentin naval ships. The system is capable of detecting, localising,classifying and tracking under water targets in both active andpassive modes. The system is capable of automatic tracking of multiple targets simultaneously and provides long range detection of threats.	Developed with technology transfer from DRDO
ATM based Integrated Shipboard Data Network	multi-services shipboard network designed to cover all voicetraffic, real time video and traditional data communicationsonto a single broadband infrastructure. The system integratesall weapons, sensors and communication services on boardthe naval ship onto the single broadband network andprovides integrated and simultaneous transmission of voice,video and data.	Self developed
Semi Ruggedised Automatic Exchange MK-II :	Semi-ruggedised Automatic Exchange is an AutomaticTelephone Exchange designed to meet communicationrequirements of an Army unit or formation.	Self developed
Combat Management System	Automatic handling of tactical data from ship's various sensors including helicopters/aircrafts in the fleet through data link to collate, process, integrate and present a comprehensive tacticalpicture of the area of operation to provide the decisionsupport to the Command.	Self developed

Majority of the other income is from the interest received on the cash balance

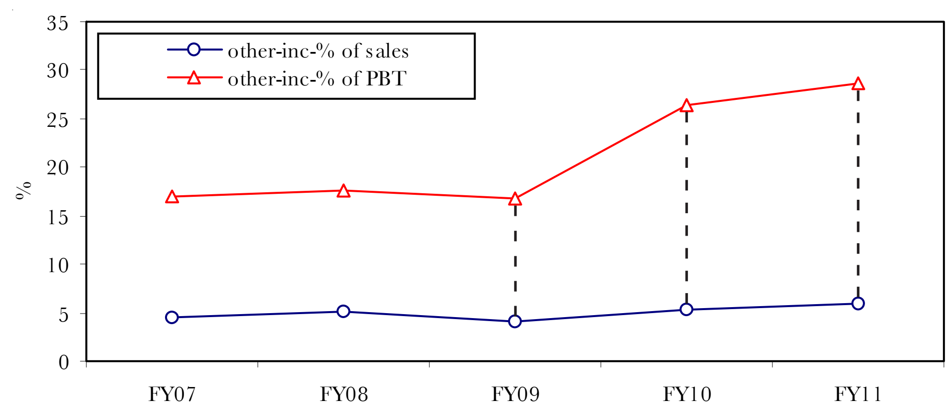
Other income growth supported by robust cash balance



Source: Company, B&K Research

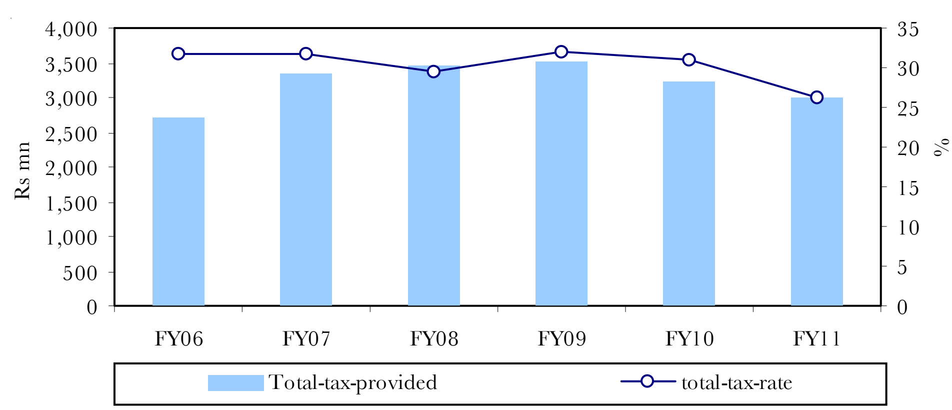
Other income growth by 16.4% CAGR FY07-11, supported by 26.7% CAGR FY07-11 of the average cash book. The cash yield witnessed a dip in FY11 majorly due to the year ended surge in cash from the advances on order intake. With stretched execution of the order book and robust cash balance, the cash yield is expected to move northwards. The impact of other income on the earnings have increased with the other income as a percentage of PBT moving up to 29% of PBT in FY11 versus 17% of revenues in FY07. The increasing prominence of other income on earnings holds credence as it has taken place in a scenario with lower cash yield and no major change as a percentage of revenue.

Impact of other income



Source: Company, B&K Research

Investment in R&D pulls down the tax rate



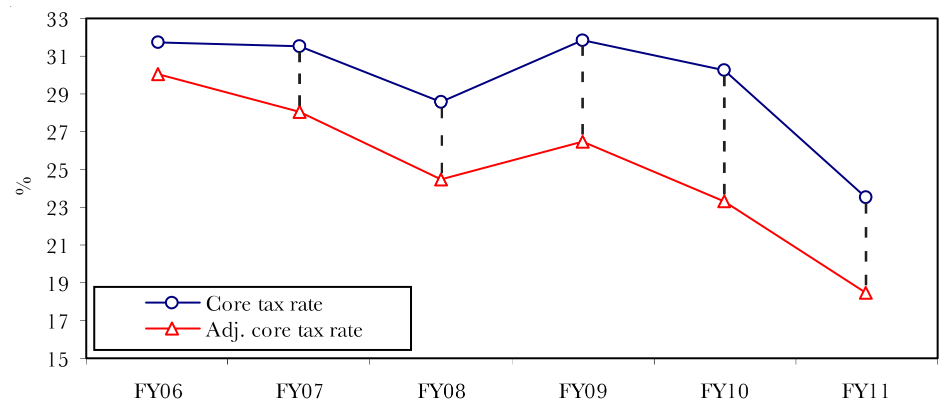
Source: Company, B&K Research

The total tax provided as % of PBT have come down to 26% from 32%, when we adjust the tax for other income for which the company has to pay the full tax of 33.15% and observe we witness significant compression of 800 bps at 24% for FY11 versus 32% in FY11 in core tax rate as shown by the table below.

Further adjusting for the deferred tax the adjusted core tax rate is compressed by 900 bps to 19% in FY11 versus 28% in FY07. Going forward, with increasing impetus on R&D we believe further reduction in core tax rate.

Growth in R&D at 29% CAGR FY07-11 has been largely responsible for the reduction in core tax rate. With increased deployment of cash towards R&D the core tax rate shall move southwards

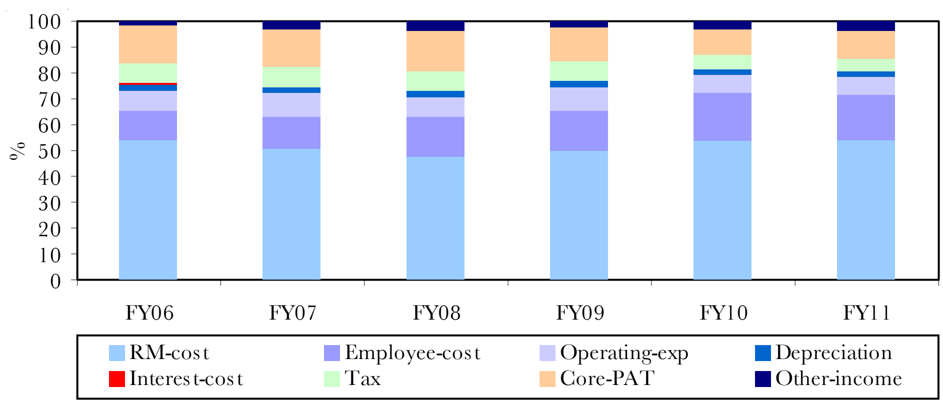
Impact of R&D expense growth more pronounced in adjusted core tax rate



Source: Company, B&K Research

Diminishing proportion of core PAT resulting from sliding operating margins

For every one rupee of revenue earned…

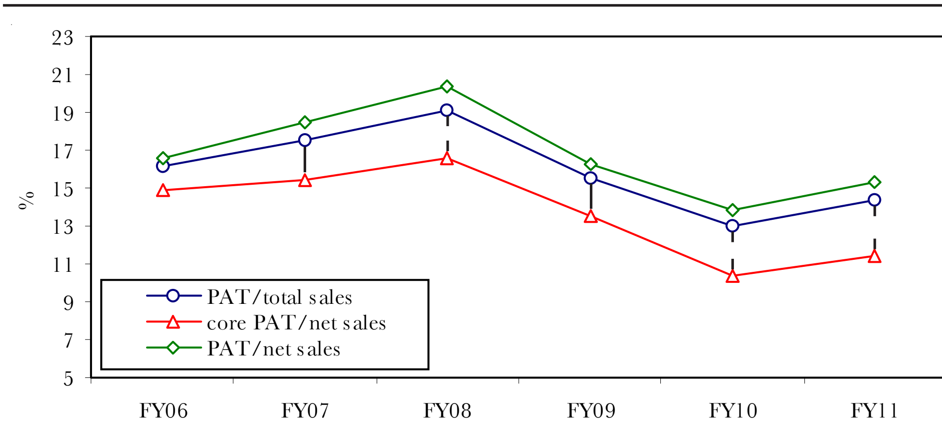


Source: Company, B&K Research

From the above chart we can observe how the margin compression is impacting the net profit margin which has moved southwards by 300 bps to 15.4% in FY11 from 18.4% in FY07. Adjusting for the impact of other income, we witness a margin compression of 400 bps in core PAT/net sales at 11.4 % in FY11 versus 15.4% in FY07. Further, adjusting the net profit margin to consider the total sales (including other income) net profit margin stood at 14.4% in FY11 versus 17.6% in FY07 implying a margin compression of 320 bps.

Increasing divergence of core PAT margin versus net PAT margins due to higher influence of other income on the earnings

Increasing impact of other income in the net profit margin



Source: Company, B&K Research

The widening spread of core PAT margin versus the net PAT margin indicates the impact of other income on the profitability of BEL.

The weightage of cash in the balance sheet has increased from 30% to 50% on the back of corresponding trend in advances

Balance sheet – Common size analysis

(%)	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Total shareholders' funds	**36.6**	**39.2**	**44.1**	**46.5**	**44.7**	**46.6**	**38.0**
Paid up capital	1.8	1.5	1.4	1.2	0.9	0.9	0.6
Reserves & Surplus	34.8	37.7	42.7	45.4	43.8	45.8	37.4
Total debt	**0.4**	**0.2**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Current liabilities	**62.5**	**60.0**	**55.2**	**53.4**	**55.2**	**53.4**	**62.0**
Payables	7.8	9.7	10.5	13.9	11.2	6.4	6.9
Advance from customers	37.5	32.4	36.3	31.1	35.5	37.6	48.9
Other current liabilities	1.0	1.2	1.4	2.3	3.4	3.5	1.9
Other provisions	16.1	16.7	7.1	6.1	5.2	5.8	4.4
Other non-current liabilities	0.6	0.7	0.7	0.0	0.0	0.0	0.0
Total liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Fixed assets (net block)	8.4	7.5	7.1	6.4	6.0	5.6	4.1
Gross block	26.0	23.8	22.5	20.6	18.6	18.3	13.6
Less: Depreciation	(18.6)	(16.7)	(16.0)	(14.6)	(13.1)	(13.0)	(9.9)
Add: Capital WIP	1.1	0.4	0.6	0.5	0.5	0.3	0.4
Investments	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Other non-current assets	3.3	3.1	3.2	2.1	1.7	1.7	1.4
Current assets	**88.0**	**89.1**	**89.4**	**91.3**	**92.1**	**92.6**	**94.4**
Cash & bank	30.3	35.2	35.4	35.3	31.1	38.4	49.5
Debtors	16.1	19.5	28.8	29.6	26.8	23.3	22.0
Inventory	24.5	19.9	21.2	19.5	28.4	26.3	18.7
Loans & advances	17.1	14.5	4.0	6.9	5.8	4.6	4.2
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

From the table above we can observe the increasing prominence of current assets and liabilities in the balance sheet resulting from the warchest of cash balance. The above analysis throws to light the fact that prudent working capital management has been the hallmark of BEL business resulting in a cash balance of ~50% of the balance sheet in FY11 versus ~35% in FY07.

Diminishing weightage of fixed assets points towards decelaration in capex growth and increasing prominence of working capital on the business

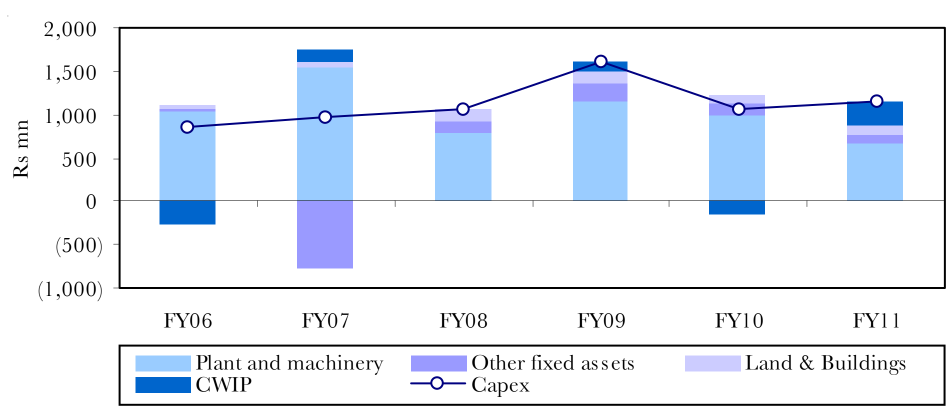
Adjusted common size

(%)	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Net current assets	68.0	72.8	76.4	81.4	82.3	84.1	85.3
Fixed assets (net block)	22.5	18.8	15.9	13.8	13.5	12.0	10.8
Investments	0.8	0.6	0.5	0.4	0.3	0.3	0.2
Other non-current assets	8.7	7.8	7.2	4.4	3.8	3.6	3.6
Total assets	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Total shareholders' funds	97.5	97.9	98.4	100.0	100.0	100.0	100.0
Total debt	0.9	0.4	0.1	0.0	0.0	0.0	0.0
Other non-current liabilities	1.6	1.7	1.5	0.0	0.0	0.0	0.0
Total liabilities	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

In the above table we have adjusted for the current liabilities to account for majorly the cash from advances. The table again underscores the increasing weightage of net current assets in the balance sheet. The zero debt status ensures that the shareholders continue to remain the major beneficiary of the profits.

Major deployment towards plant & machinery signals healthy utilisation of capex

Major deployment of the capex towards plant & machinery

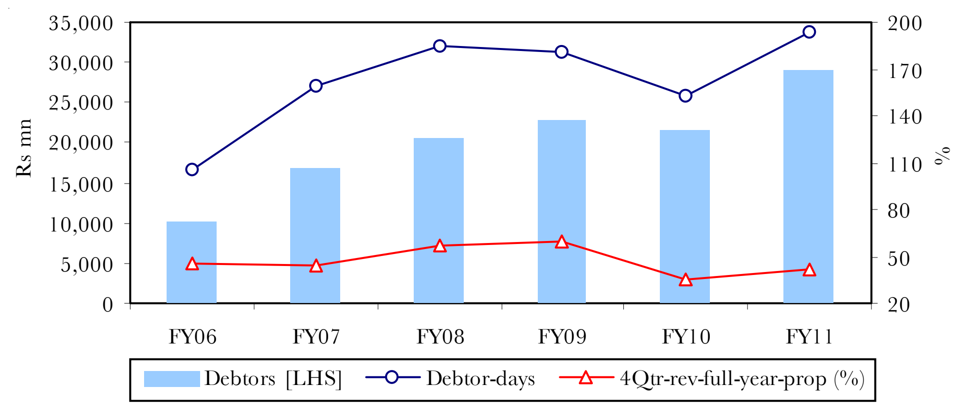


Source: Company, B&K Research

The above table is an analysis of the flow of capex towards various segments of the gross block. From the above table we can infer that the major portion of the capex spending has been towards accretion of plant & machinery. However, the reduction in capex towards FY11 can be explained due to the deceleration of the capacity utilisation growth with increased outsourcing of equipments coupled with extended execution timelines of the order book.

~80% of revenues from defence is largely responsible for the back-ended revenue booking

Debtor days tracks the back ended revenue booking

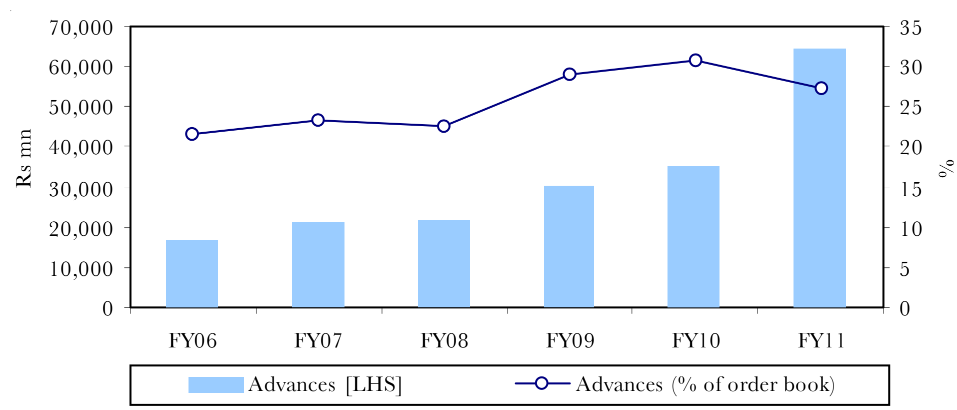


Source: Company, B&K Research

We can infer that the debtor days are high due to the back-ended revenue booking of BEL as most of the defence related orders get executed at the year end. Further, we notice that the debtor days mirror the fourth quarter revenue proportion as a percentage of full year sales.

Maintenance of advance ratio in spite of spike up in order book underpins the dominance of BEL in the defence electronics space

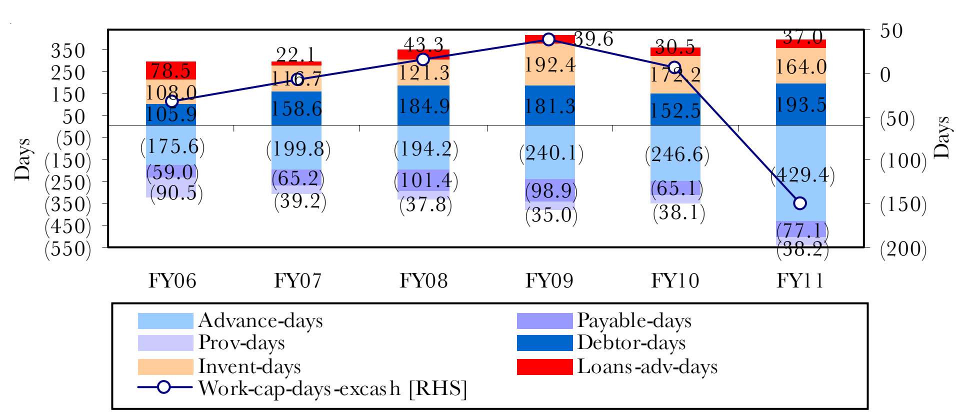
Advances move in tandem with the order backlog



Source: Company, B&K Research

Advances which forms the major part of the cash book is directly proportional to the order backlog. The increase in advance proportion hence FY08 from ~22% of order book may be due to the back-ended booking of orders during the fourth quarter.

Surge in advances resulting in negative working capital



Source: Company, B&K Research

Negative working capital led by advances on orders has been the hallmark of BEL resulting in positive cash from operations and free cash flows

Cash analysis

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11
Cash (A)	18,316	20,817	24,535	26,419	35,784	65,194
Advances from customers (B)	16,868	21,336	21,631	30,175	35,059	64,411
Difference (A-B)	1,448	(518)	2,903	(3,755)	725	783

Analysing the above chart in context with the table we can infer that the major boost of working capital is due to the advances from customers which is again supported by order book growth and execution.

Cash from operations grows in tandem with advances while the non-cash current assets are largely covered by PBT

Cash flow analysis

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11
Pre-tax profit	8,553	10,532	11,719	10,959	10,452	11,411
Depreciation (incl. impairment)	600	693	781	952	998	931
Chg in debtors	(3,186)	(6,757)	(3,655)	(2,193)	1,098	(7,349)
Chg in inventory	278	(2,092)	(1,052)	(10,663)	(308)	(121)
Chg in loans & advances	(123)	5,180	(2,460)	(153)	643	(1,220)
Chg in current liabilities	2,418	5,757	4,636	9,675	1,708	31,664
Chg in provisions	507	834	28	380	973	102
Total tax paid	(3,102)	(3,721)	(3,400)	(3,699)	(3,529)	(3,383)
Cash from operations (a)	**5,945**	**10,426**	**6,596**	**5,257**	**12,035**	**32,037**
Capex	(848)	(973)	(1,060)	(1,621)	(1,070)	(1,144)
Chg in inv	–	–	3	–	–	–
Cash from inv (b)	**(848)**	**(973)**	**(1,057)**	**(1,621)**	**(1,070)**	**(1,144)**
Free cash flow (a+b)	**5,097**	**9,453**	**5,539**	**3,635**	**10,966**	**30,893**

The ~3x jump in cash from operations (CFO) in FY11 is majorly due to the surge in advances which is expected to normalise going forward as it is a function of the order intake. Maintaining positive CFO throughout FY06-11 period merits attention towards the prudent working capital management by the company. With no major capex or fund raising the increment CFO percolated towards free cash flow for BEL.

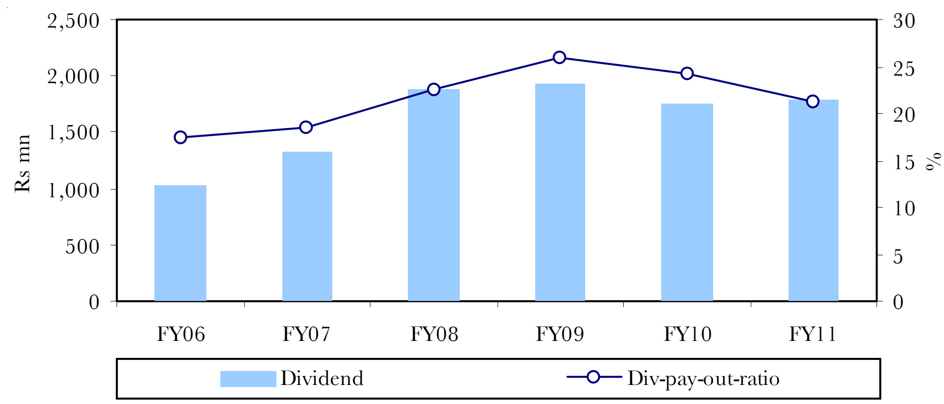
Positive free cash flow to equity and consistent dividend paying track record points towards stability in the business of BEL

Free cash flow to equity

(Rs mn)	FY06	FY07	FY08	FY09	FY10	FY11
EBIT x (1-t) [A]	5,925	7,059	7,710	7,414	7,007	7,649
Depreciation [B]	797	846	926	1,056	1,159	1,220
Capex [C]	848	973	1,060	1,621	1,070	1,144
Change in WC [D]	4,088	4,920	6,229	5,027	5,207	6,111
FCFE [A+B-C-D]	1,787	2,013	1,347	1,822	1,889	1,615

BEL has maintained positive free cash flow to equity throughout, which merits mention as in the above analysis we have included the cash under current assets unlike the free cash flow in table no.

Consistent dividend paying track record



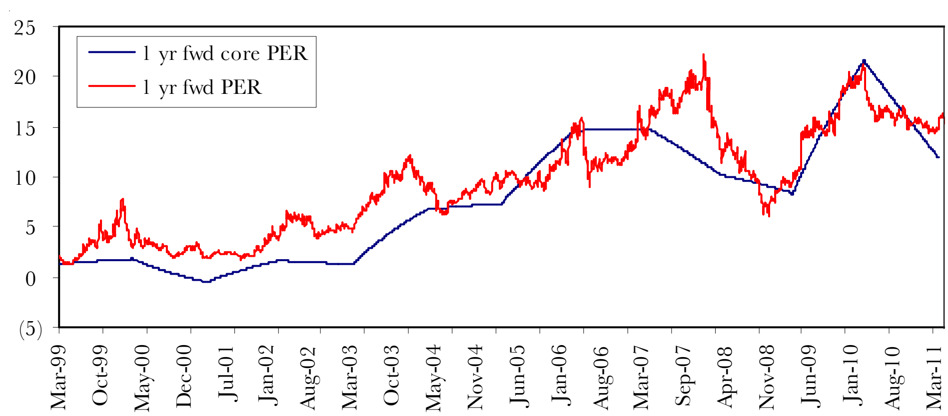
Source: Company, B&K Research

BEL has maintained a consistent dividend pay out ratio at ~22% (average) ranging between 20-26% from FY07-11. This coupled with positive cash flow generation indicates towards a stable business model followed by the company in terms of cash generation.

Valuation

Core – Earnings analysis

The stock price is factoring in a decline in core earnings for FY12E, which going forward shall witness a re-rating due to the increased pace of order execution coupled with prudent working capital management



Source: Company, B&K Research

In order to get more clarity regarding the valuation, to account for the huge cash book we embarked on a study to analyse the core forward price-earnings multiple of BEL. In the above analysis, we calculate the core earnings after accounting for the affects of other income arising out of the cash book over the earnings. The share price used in the fwd core PER analysis is also adjusted for the cash component.

The major take away from the above analysis is that the stock has been de-rated in terms of core earnings due to the expected slippage in core PAT growth in FY12E. However, we believe that the core earnings multiple would witness a re-rating post the execution of the current order backlog. The cash position is contingent to the winning of new orders as major portion is constituted by the advances from customers.

Core EPS analysis

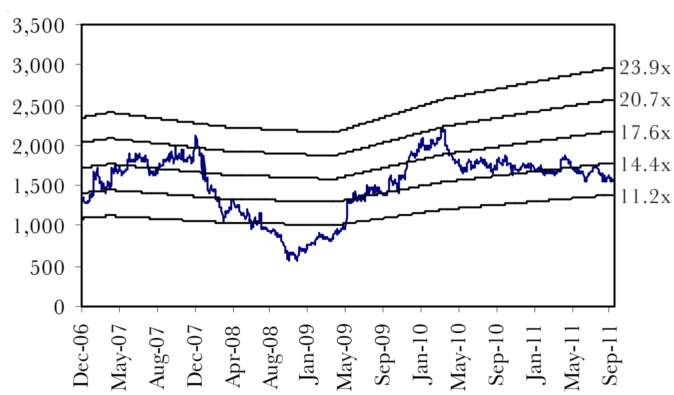
(Rs mn)	FY05	FY06	FY07	FY08	FY09	FY10	FY11
PAT	4,463	5,830	7,189	8,273	7,448	7,211	8,415
Core PAT	4,098	5,239	5,995	6,752	6,221	5,367	6,230
EPS (Rs)	55.8	72.9	89.9	103.4	93.1	90.1	105.2
Core EPS (Rs)	51.2	65.5	74.9	84.4	77.8	67.1	77.9
Cash x 0.84	11,552	13,220	16,436	19,048	21,401	26,125	42,409
Cash per share (Rs)	144	165	205	238	268	327	530

Core EPS growth is proportional to the order execution pace and business mix

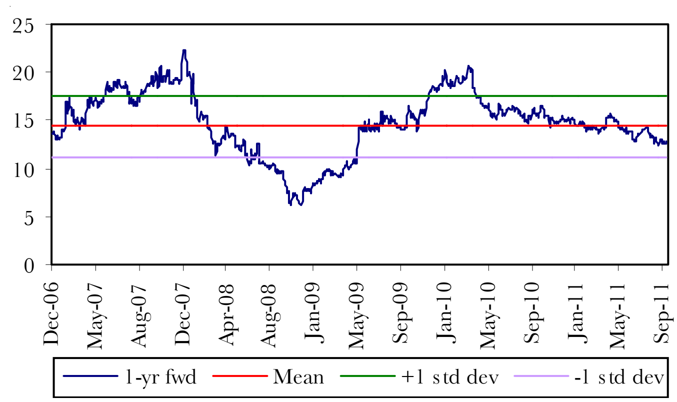
Keeping the one-year forward core PER chart adjacent to the one-year forward PER chart, we observe increasing divergence within the charts in the current scenario. We attribute this to the concerns regarding the peaking out of operating margins coupled with potential intake of higher systems related orders. We conjecture, and as exemplified in the past, the positive cash from operations arising out of advances shall continue to support the working capital cycle to acceptable limits, this shall help the company to arrest the margin slide to a large extent. The above hypothesis, if played out, shall result in earnings accretion due to the extra work executed by BEL in addition to the equipment business, as the company shall not be constrained in terms of working capital as experienced by peer turnkey project companies.

The major risk to the above thesis shall be influx of competition which we believe is remote given the track record of the ministry of defence to favour DPSU. However, vis-à-vis domestic competition, BEL is expected to keep its place due to its experience in handling mission critical projects alongside DRDO, ISRO and other domestic defence establishments.

PER band



One year forward PER



Source: B&K Research

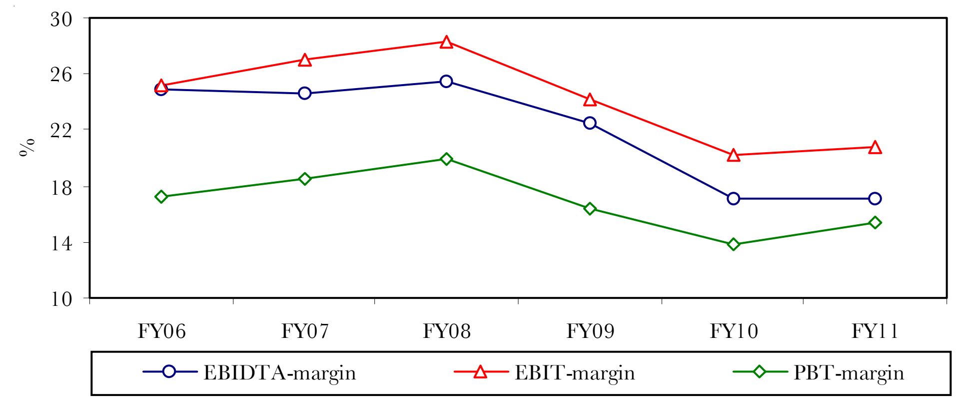
Outlook

Taking cognizance of the reduction in tax rate we marginally upward revise our EPS estimates for FY12E and FY13E by 3.5% and 2.3% to Rs 119 and Rs 130, respectively. We factor in a revenue CAGR of 12% FY11-13E and an earnings CAGR of 10% FY11 -13E. Order book/ TTM sales of ~4x lends good growth visibility and increased treasury income to offset the impact of earnings due to margin compression. The stock provides limited downside at the current level.

At the current market price, the stock trades at 13x FY12E earnings and 12x FY13E earnings, we maintain Outperformer with a target price of Rs 1,904 (16x FY12E earnings).

The decline in PBT margins have been limited due to the relatively smoother gradient in EBIT margin decline supported by better other income growth

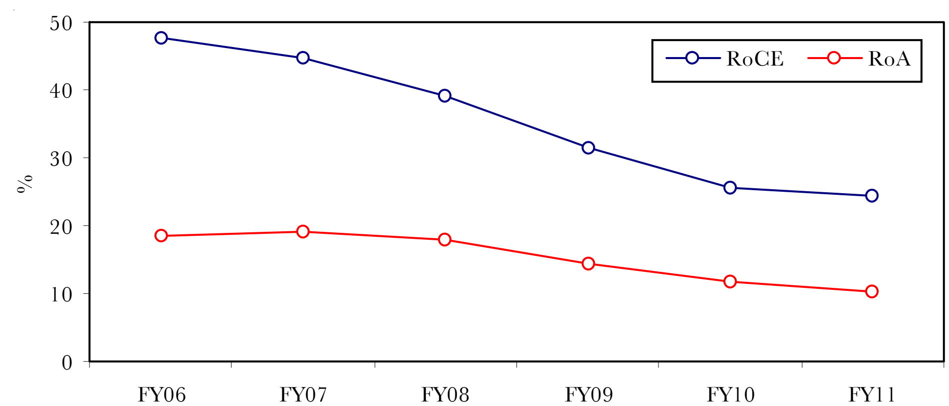
Profitability



Source: Company, B&K Research

Diminishing return ratio mirroring the decline in profitability. RoA decline capped by deceleration of capex growth

Return ratios



Source: Company, B&K Research

Dupont analysis

	FY06	FY07	FY08	FY09	FY10	FY11
Operating margin (%) = EBIT/Sales	25.2	27.0	28.3	24.1	20.1	20.8
Asset turnover (x) = Sales/Assets	0.7	0.7	0.6	0.6	0.6	0.5
Return on assets (%) = EBIT/Assets	**18.5**	**19.0**	**17.9**	**14.3**	**11.7**	**10.2**
Interest burden (x) = 1-(1/interest cover)	1.0	1.0	1.0	1.0	1.0	1.0
Pre tax profit/Assets (%)	**18.0**	**19.0**	**17.9**	**14.2**	**11.7**	**10.1**
Tax burden (%) = 1- tax rate	68.2	68.3	70.6	68.0	69.0	73.7
After tax profit/Assets (%)	**12.2**	**13.0**	**12.7**	**9.6**	**8.1**	**7.5**
Gearing (x) = assets/equity	2.6	2.4	2.2	2.2	2.2	2.4
Return on equity (%)	**32.2**	**31.0**	**27.9**	**21.2**	**17.7**	**18.0**

From the above table we can infer that the major culprit for the decline in return ratio is the sliding profitability. We should bear in mind that 4QFY11 witnessed a major jolt in terms of increase in assets from the advance payments which should smoothen out going forward.

Business overview of BEL

- Defense contribution continues at 80% of sales, indigenous products contributed 78% of which 57% in house development and 21% from other agencies, foreign products contributed the rest 22%.
- Major projects executed include – Akash Weapon System, Humsa NG, Integrated Fire Detection and Suppression System for Tanks and armored Vehicles, and Coastal Security System for the Indian Coast Guards.

Details of projects executed in FY11

Particulars	Highlights
Artillery Combat Command Control System	Automates artillery functions with the use of latest technologies, developed by BEL with indigenous technology and security solution from DRDO.
Surveillance Radar Element	S band Air Traffic Control Radar suited for Terminal Control applications with a range of 130 km. Fully solid state modular transmitter with integrated IFF.
3-D Central Acquisition Radar (Rohini)	3- D surveillance radar in S band, integrated IFF (Identify Friend or Foe) with co-mounted antenna and has been developed jointly with LRDE for the Indian Air Force.
Combat Net Radio	Developed with indigenous technology by DRDO and engineeredby BEL.
Battle Field Surveillance Radar	Ground surveillance and acquisition radar capable of automatically detecting and displaying diverse moving targets.
Air Defence Control & Reporting System	Is a Command & Control System for integration of various Radars and other Army Systems for Air Defence. developed by DRDO and engineered by BEL with indigenous technology.
Advanced Naval Gun Fire Control System (LYNX U-1)	Installed onboard IN ships for short/medium range Gun Fire Control using high accuracy tracking radar and electro optic tracking system, developed by BEL.
Doppler Weather Radar	S-band Radar, meant for long-range weather surveillance (up to 500 km). It can forecast storms, cyclones and other severe weather conditions, developed as a national initiative involving IMD, ISRO and BEL.

Business outlook

Radar and communication systems though remain the staple business of BEL; management foresees emerging opportunities in weapon systems and next-gen warfare technologies

- Radar, communications, network centric warfare and weapon systems will drive the company's growth. Radars will continue to be the primary business segments. Another major segment will be defence communication equipments and systems. The weapon systems segment is emerging as a major area along with command and control systems.
- While pursuing our forays into new businesses like nuclear instrumentation, solar/clean energy solutions and homeland security, BEL is continuing its efforts in forging alliances in the areas of radars for civilian and select defence applications, seekers for missiles, RF and microwave components.
- In FY12E, the company will work for many strategically important projects like Akash Weapon System, Battlefield Surveillance System, Upgraded Weapon Locating Radar, next generation Electronic Warfare Systems and Coastal Surveillance System.
- BEL is working on establishing a company for the design, development and manufacture of RF and microwave components and subsystems.

New business initiatives

- As a proactive step for addressing the Offset business for defence programmes like the Medium Multi-Role Combat Aircraft (MMRCA), Very Short Range Air Defence (VSHORAD) and the Mine Counter Measures Vessel (MCMV) programme, BEL has discussed and signed MoUs with OEMs participating in these programs. From these MoUs, an offset business of ~US$ 300 mn is expected in the next five-seven years from now.
- BEL is in the process of signing a Technology Collaboration Agreement (TCA) with Optelian International Corporation for establishing a long-term partnership between the two companies for the manufacture and design of optical networking systems in India. BEL expects to address a business of about Rs 6 bn in the next five years from this initiative.
- BEL is in discussions with a reputed foreign OEM for forming an Indian Joint Venture in the area of civilian radars and select defence radars.
- The business plan for setting up a JVC with BHEL for manufacture of Solar PV wafers, cells and modules has been finalised.
- BEL is working on establishing a company for the design, development and manufacture of RF and microwave components and subsystems.

Subsidiary/Joint ventures

Company name	Holding interest	Percentage holding (%)
BEL Optronic Devices Ltd.	Subsidiary	92.8
GE BE Private Ltd.	Joint venture	26
BEL Multitone Private Ltd.	Joint venture	49

No major impact due to the performance of the subsidiaries and joint ventures as they are relatively of small scale

Currently the performance of the subsidiary and joint venture shall not have a material impact on BEL as they are of comparatively small size. However, all the companies are profit making except for BEL Multitone, which is in the shell stage with no business transactions.

BEL Optronic Devices Ltd. – BEL's located at Pune, BEL Optronic Devices Ltd. (BELOP) reported a turnover of Rs 523 mn versus Rs 587 mn in FY10. PAT grew by ~100% YoY at Rs 44 mn. BELOP manufactures mainly Image Intensifier Tubes (I.I. Tubes). These tubes are supplied to the defence customers and also used in the Night Vision Devices manufactured by BEL.

GE BE Pvt. Ltd. – The Joint Venture Company (JVC) with General Electric, USA, manufacturing CT Max and other latest version X-Ray Tubes continues to perform well. BEL supplies some parts required for the products manufactured by this JVC. GE BE Pvt. Ltd. achieved a turnover of Rs 4,424 mn versus Rs 5,093 mn in FY10. PAT stood at Rs 575 mn versus Rs 661 mn in FY10. The JVC declared 100% dividend for the year 2010-11 and accordingly BEL received Rs 26 mn as dividend.

BEL Multitone Pvt. Ltd. – Jointly promoted by BEL and Multitone Plc, UK was set up to supply, install and service Private Paging Systems and Pagers. The JVC is presently in shell stage with no business transactions being effected, and action is in progress to close down this company, as there are no business prospects for paging systems in the country.

Road ahead

- BEL is discussing with a reputed foreign OEM for forming Indian Joint Venture in the area of civilian radars and select defence radars. The proposal is in advanced stage of discussion.
- The company is also working on establishing a company for the design, development and manufacture of RF and microwave components and subsystems.

The future road map and strategy of BEL have been framed up in consultation with KPMG

Recently, BEL has started executing a large strategic weapon system contract and many such similar programmes are on the anvil. BEL has also designed a Coastal Surveillance System which is being installed along the vast coastline of India. These projects have necessitated BEL to assess and create necessary infrastructure to handle such large programmes.

In the prevailing business environment, in order to sustain and enhance the growth of the company and be in the forefront of technology, BEL considers further diversification of its business into new areas a necessity. It plans to extend the knowledge and experience gained in serving defence over several decades and by offering spin off products from technologies of defence for use in civilian business segments.

Efforts are underway on the following new segments for diversification:

- Homeland Security
- e - Governance
  - Mission Mode Projects – National ID (UID)
  - National Population Register (NPR)
- Nuclear Power Instrumentation & Control
- Energy efficiency solutions

Management bandwidth

Transparency and integrity has been the hallmark of BEL management backed up with experience and expertise

Government of India continues to be the largest share holder with 76% holding in BEL. The composition of BEL Board of Directors is in line with Clause 49 of Listing Agreements with Stock Exchanges and the guidelines on Corporate Governance issued by the Government of India. BEL Board of Directors consists of 7 Wholetime Directors (Executive Directors), including the Chairman & Managing Director, 2 Government Directors (Non-executive Directors) and 9 Non-executive Independent Directors. In addition, as per Government directives, (i) the Vice Chief of Air Staff, Indian Air Force (ii) the Chief of Material, Indian Navy and (iii) the Additional Financial Advisor & Joint Secretary from the Ministry of Defence are Permanent Special Invitees to all the Board Meetings of the company.

The company is led by experienced and efficient management, currently Ashwini Kumar Dutt is the chairman and managing director ably assisted by six executive directors, two part-time government non-executive directors and nine non-executive independent directors.

Income Statement

Yr end 31 Mar (Rs mn)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Net sales	**18,956**	**24,672**	**27,412**	**31,886**	**35,062**	**38,969**	**40,653**	**45,868**	**51,901**	**54,755**
Operating expenses	(15,726)	(20,596)	(22,377)	(25,106)	(26,513)	(29,520)	(30,557)	(36,009)	(43,951)	(45,974)
- Raw material consumed	1,760	567	185	458	(1,725)	1,201	177	12,992	562	(178)
- Purchase of finished goods	(10,557)	(14,373)	(13,751)	(17,251)	(18,215)	(21,068)	(20,189)	(30,016)	(29,832)	(31,055)
- Decrease/(Increase) in stocks	(880)	(284)	(92)	(229)	862	(601)	(88)	(6,496)	(281)	89
- Freight	(43)	(33)	(59)	(53)	(40)	–	–	–	–	–
- Power & fuel	(286)	(314)	(325)	(331)	(327)	(324)	(320)	(289)	(272)	(304)
- Employee expenses	(3,721)	(3,676)	(4,383)	(4,421)	(4,262)	(5,197)	(6,592)	(7,558)	(10,096)	(10,418)
- Selling & Distribution expenses	(228)	(278)	(304)	(364)	(376)	(438)	(544)	(552)	(542)	(680)
- Administrative expenses	(194)	(210)	(249)	(256)	(236)	(230)	(206)	(206)	(364)	(388)
- Bad debt provision/w-offs	(1)	(3)	(1)	(17)	(4)	(10)	(7)	(24)	(26)	(20)
- Other provisions	(210)	(504)	(936)	(980)	(734)	(1,093)	(875)	(979)	(1,028)	(1,290)
- Royalty	(196)	(118)	(202)	(65)	(59)	(126)	(107)	(12)	(101)	(115)
- Other operating expenses	(1,170)	(1,371)	(2,260)	(1,596)	(1,397)	(1,635)	(1,806)	(2,870)	(1,972)	(1,614)
Other operating income	–	96	196	340	186	154	281	433	916	594
EBITDA	**3,230**	**4,172**	**5,231**	**7,120**	**8,735**	**9,603**	**10,377**	**10,291**	**8,866**	**9,375**
Depreciation	491	553	623	715	797	846	926	1,056	1,159	1,220
Other income	298	442	708	850	906	1,779	2,057	1,831	2,751	3,261
EBIT	**3,037**	**4,061**	**5,316**	**7,255**	**8,844**	**10,536**	**11,508**	**11,066**	**10,458**	**11,416**
Pre-tax profit	2,834	3,942	5,266	7,164	8,576	10,528	11,505	10,959	10,452	11,411
Non-recurring income	13	(80)	(575)	(305)	(23)	4	213	–	–	–
PBT (after non-recurring)	2,847	3,862	4,690	6,860	8,553	10,532	11,719	10,959	10,452	11,411
Tax (current+deferred)	850	1,256	1,529	2,396	2,722	3,343	3,446	3,511	3,242	2,997
Net profit	**1,997**	**2,606**	**3,161**	**4,463**	**5,830**	**7,189**	**8,273**	**7,448**	**7,211**	**8,415**
Adjusted net profit	**1,984**	**2,686**	**3,736**	**4,768**	**5,853**	**7,185**	**8,060**	**7,448**	**7,211**	**8,415**
Prior period adjusted	6	(23)	–	–	–	(8)	(6)	10	(2)	201
Net income	**2,003**	**2,583**	**3,161**	**4,463**	**5,830**	**7,182**	**8,267**	**7,458**	**7,209**	**8,616**

Balance Sheet

Yr end 31 Mar (Rs mn)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Current assets	**25,268**	**28,606**	**36,690**	**38,221**	**46,407**	**52,578**	**63,463**	**78,357**	**86,288**	**124,384**
- Cash & bank	5,855	6,775	14,346	13,161	18,316	20,817	24,535	26,419	35,784	65,190
- Debtors	6,297	7,122	6,674	6,991	10,177	16,934	20,589	22,782	21,684	29,032
- Inventory	9,413	9,479	10,154	10,650	10,371	12,464	13,516	24,179	24,487	24,608
- Loans & advances	3,704	5,229	5,517	7,420	7,543	2,363	4,823	4,977	4,333	5,553
Non-current assets	**2,889**	**3,448**	**4,500**	**5,212**	**5,662**	**6,222**	**6,016**	**6,728**	**6,901**	**7,357**
- Investments	117	123	123	123	123	123	120	120	120	120
Fixed assets (Net block)	**2,282**	**2,670**	**3,215**	**3,665**	**3,914**	**4,193**	**4,472**	**5,142**	**5,214**	**5,427**
- Gross block	8,627	9,416	10,407	11,290	12,401	13,248	14,308	15,799	17,022	17,890
- Land + buildings	1,496	1,532	1,794	1,899	1,955	2,033	2,177	2,318	2,411	2,524
- Plant + equipment	5,507	5,955	6,449	7,155	8,199	9,736	10,518	11,681	12,667	13,335
- Other tangible fixed assets	1,624	1,930	2,164	2,236	2,247	1,478	1,613	1,800	1,944	2,031
- Less: Depreciation	(6,618)	(7,095)	(7,529)	(8,098)	(8,698)	(9,391)	(10,173)	(11,124)	(12,122)	(13,053)
- Add: Capital WIP	273	349	337	474	211	337	337	467	314	590
- Other non-current assets	491	655	1,162	1,424	1,625	1,906	1,424	1,466	1,567	1,810
- Deferred tax assets	491	655	1,162	1,424	1,625	1,906	1,424	1,466	1,567	1,810
Total assets	**28,157**	**32,053**	**41,191**	**43,433**	**52,069**	**58,800**	**69,479**	**85,085**	**93,189**	**131,741**
Current liabilities	**19,325**	**21,561**	**28,194**	**27,130**	**31,227**	**32,478**	**37,134**	**47,002**	**49,725**	**81,710**
- Creditors	16,395	17,551	23,778	19,671	21,930	27,497	31,320	39,702	41,058	73,456
- Tax payable	1,865	2,621	2,234	4,894	5,757	74	–	–	–	–
- Dividends payable	400	560	800	576	848	1,120	1,176	1,016	1,056	1,248
- Tax on dividend payable	–	72	103	81	119	190	200	173	175	202
- Other current liabilities	441	484	582	445	604	795	1,607	2,900	3,252	2,519
- Other provisions	224	273	697	1,463	1,969	2,803	2,830	3,211	4,183	4,286
Non-current liabilities	**1,061**	**626**	**579**	**407**	**439**	**410**	**14**	**12**	**7**	**4**
- Total debt	**837**	**407**	**330**	**153**	**88**	**17**	**14**	**12**	**7**	**4**
- Short term debt	5	4	7	6	15	9	–	–	–	–
- Long term debt	832	403	324	147	73	8	14	12	7	4
- Other non-current liabilities	224	219	248	254	351	392	–	–	–	–
- Deferred tax liabilities	224	219	248	254	351	392	–	–	–	–
Total liabilities	**20,386**	**22,188**	**28,772**	**27,537**	**31,667**	**32,888**	**37,148**	**47,014**	**49,732**	**81,714**
Total shareholders' funds	**7,771**	**9,866**	**12,419**	**15,896**	**20,402**	**25,912**	**32,331**	**38,071**	**43,457**	**50,027**
- Paid-up capital	800	800	800	800	800	800	800	800	800	800
- Reserves & surplus	7,385	9,417	11,686	15,133	19,625	25,121	31,531	37,271	42,657	49,227
- Retained earnings	7,269	9,242	11,499	14,940	19,416	24,844	31,229	36,936	42,343	48,944
- Revaluation reserves	20	20	20	20	20	20	20	20	20	20
- Other reserves	96	156	167	173	189	258	282	315	294	263
- Less: Miscellaneous expenditure	(415)	(351)	(67)	(37)	(22)	(10)	–	–	–	–
Shareholders' funds	7,771	9,866	12,419	15,896	20,402	25,912	32,331	38,071	43,457	50,027
Total equity & liabilities	**28,157**	**32,054**	**41,191**	**43,433**	**52,069**	**58,800**	**69,479**	**85,085**	**93,189**	**131,741**

Cash flow statement

Yr end 31 Mar (Rs mn)	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Pre-tax profit	2,847	3,862	4,690	6,860	8,553	10,532	11,719	10,959	10,452	11,411
Depreciation	421	477	434	570	600	693	781	952	998	931
Change in debtors	(298)	(825)	449	(318)	(3,186)	(6,757)	(3,655)	(2,193)	1,098	(7,349)
Change in inventory	(965)	(67)	(675)	(496)	278	(2,092)	(1,052)	(10,663)	(308)	(121)
Change in loans & advances	(1,462)	(1,526)	(288)	(1,903)	(123)	5,180	(2,460)	(153)	643	(1,220)
Change in current liabilities	2,465	1,199	6,325	(4,244)	2,418	5,757	4,636	9,675	1,708	31,664
Change in provisions	12	49	424	765	507	834	28	380	973	102
Total tax paid	(123)	(669)	(2,394)	7	(1,964)	(9,265)	(3,430)	(3,553)	(3,343)	(3,240)
Cash flow from operations (a)	**2,896**	**2,500**	**8,966**	**1,242**	**7,082**	**4,881**	**6,566**	**5,403**	**12,222**	**32,179**
Capital expenditure	(690)	(865)	(980)	(1,020)	(848)	(973)	(1,060)	(1,621)	(1,070)	(1,144)
Change in investments	410	(6)	(0)	–	0	–	3	0	–	(0)
Cash flow from investing (b)	**(279)**	**(871)**	**(980)**	**(1,020)**	**(848)**	**(973)**	**(1,057)**	**(1,621)**	**(1,070)**	**(1,144)**
Free cash flow (a+b)	**2,753**	**1,629**	**7,986**	**223**	**6,234**	**3,909**	**5,509**	**3,781**	**11,152**	**31,035**
Equity raised/(repaid) [incl. change in share premium]	(236)	64	284	30	15	13	10	–	–	–
Debt raised/(repaid)	14	(429)	(77)	(177)	(65)	(71)	(3)	(2)	(5)	(3)
Dividend (incl. tax)	(353)	(400)	(632)	(1,266)	(1,022)	(1,332)	(1,872)	(1,937)	(1,750)	(1,791)
Other financing activities	141	57	10	7	(7)	(18)	74	42	(32)	165
Cash flow from financing (c)	**(433)**	**(709)**	**(415)**	**(1,407)**	**(1,079)**	**(1,408)**	**(1,792)**	**(1,897)**	**(1,787)**	**(1,629)**
Net change in cash (a+b+c)	**2,184**	**920**	**7,571**	**(1,184)**	**5,155**	**2,501**	**3,717**	**1,884**	**9,365**	**29,406**

Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	**51,901**	**54,755**	**60,930**	**69,460**
Growth (%)	*13.2*	*5.5*	*11.3*	*14.0*
Operating expenses	(43,951)	(45,974)	(51,780)	(58,845)
Operating profit	7,949	8,781	9,150	10,616
Other operating income	916	594	475	495
EBITDA	**8,866**	**9,375**	**9,625**	**11,111**
Growth (%)	*(13.9)*	*5.7*	*2.7*	*15.4*
Depreciation	(1,159)	(1,220)	(1,285)	(1,438)
Other income	2,751	3,261	4,926	4,765
EBIT	**10,458**	**11,416**	**13,266**	**14,438**
Interest paid	(5)	(4)	(3)	(3)
Pre-tax profit (before non-recurring)	10,452	11,411	13,263	14,435
Pre-tax profit (after non-recurring)	10,452	11,411	13,263	14,435
Tax (current + deferred)	(3,242)	(2,997)	(3,746)	(4,056)
Net profit (before Minority Interest, Pref. Dividend, etc.)	7,211	8,415	9,518	10,379
Prior period adjustments	(2)	201	0	0
Reported PAT	**7,209**	**8,616**	**9,518**	**10,379**
Adjusted net profit	**7,209**	**8,616**	**9,518**	**10,379**
Growth (%)	*(3.3)*	*19.5*	*10.5*	*9.0*

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash and marketable sec.	35,784	65,190	60,571	60,899
Other current assets	50,504	59,193	66,156	75,578
Investments	120	120	120	120
Net fixed assets	5,214	5,427	5,837	6,882
Other non-current assets	1,567	1,810	1,810	1,810
Total assets	**93,189**	**131,741**	**134,494**	**145,289**
Current liabilities	49,725	81,710	77,280	80,504
Total debt	7	4	10	10
Total liabilities	**49,732**	**81,714**	**77,290**	**80,514**
Share capital	800	800	800	800
Reserves & surplus	42,657	49,227	56,404	63,975
Shareholders' funds	**43,457**	**50,027**	**57,204**	**64,775**
Total equity & liab.	**93,189**	**131,741**	**134,494**	**145,289**
Capital employed	**43,464**	**50,031**	**57,214**	**64,785**

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	10,452	11,411	13,263	14,435
Depreciation	1,159	1,220	1,285	1,438
Change in working capital	4,115	23,077	(13,182)	(6,781)
Total tax paid	(3,343)	(3,240)	(2,846)	(3,941)
Cash flow from oper. (a)	**12,384**	**32,469**	**(1,480)**	**5,151**
Capital expenditure	(1,070)	(1,144)	(1,696)	(2,483)
Others	(162)	(290)	(0)	(0)
Cash flow from inv. (b)	**(1,232)**	**(1,433)**	**(1,696)**	**(2,483)**
Free cash flow (a+b)	**11,152**	**31,035**	**(3,175)**	**2,668**
Debt raised/(repaid)	(5)	(3)	6	0
Dividend (incl. tax)	(1,750)	(1,791)	(1,450)	(2,340)
Others	(32)	165	0	0
Cash flow from fin. (c)	**(1,787)**	**(1,629)**	**(1,445)**	**(2,340)**
Net chg in cash (a+b+c)	**9,365**	**29,406**	**(4,620)**	**328**

Key Ratios

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
Adjusted EPS (Rs)	90.1	107.7	119.0	129.7
Growth	(3.3)	19.5	10.5	9.0
Book NAV/share (Rs)	543.0	625.1	714.8	809.4
Dividend/share (Rs)	19.2	21.6	25.0	30.0
Dividend payout ratio	24.9	23.3	24.6	27.1
Tax	31.0	26.3	28.2	28.1
EBITDA margin	16.8	16.9	15.7	15.9
EBIT margin	19.8	20.6	21.6	20.6
RoCE	25.6	24.4	24.7	23.7
Net debt/Equity	(82.3)	(130.3)	(105.9)	(94.0)

Valuations

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	17.6	14.7	13.3	12.2
PCE	15.1	12.9	11.7	10.7
Price/Book	2.9	2.5	2.2	2.0
Yield (%)	1.2	1.4	1.6	1.9
EV/Net sales	1.8	1.4	1.0	1.0
EV/EBITDA	10.8	8.1	6.6	5.9

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	13.9	15.7	15.6	14.9
Asset turnover	0.6	0.5	0.5	0.5
Leverage factor	2.2	2.4	2.5	2.3
Return on equity (%)	17.7	18.4	17.8	17.0

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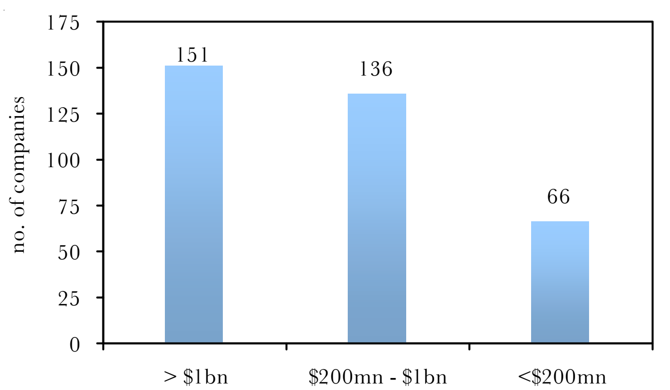
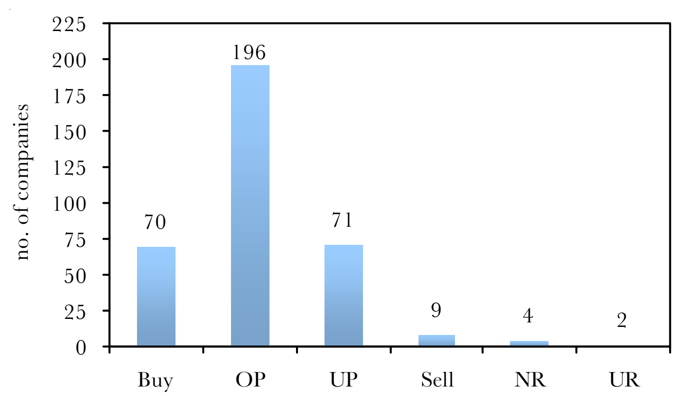
B&K Universe Profile

By Market Cap (US$ mn)



By Recommendation



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1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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