

**FPO NOTE**
**BHARAT EARTH MOVERS LIMITED (BEML)**  
**PRICE BAND: Rs 1020-1090**
**June 28, 2007**  
**SUBSCRIBE**
**Issue Details**

<b>Issue size to Public</b>	49 lakh shares
<b>Face Value</b>	10
<b>Bid opens</b>	June 27
<b>Bid closes</b>	July 03
<b>Issue band</b>	1020-1090
<b>Issue Type</b>	100% Book building
<b>Lead Managers</b>	ICICI Securities
<b>Registrar</b>	Karvy Computer share Private Ltd.

Source: RHP

**Shareholding Pattern Post-IPO (%)**

<b>Promoters</b>	<b>54</b>
<b>Public &amp; Others</b>	<b>46</b>

Source: RHP

**The growth of core infrastructure industries will continue to boost coal demand**

**BEML to foray into contract mining**

**Background and Business**

Bharat Earth Movers Limited (BEML) is the second largest manufacturer of earth moving equipment in Asia. BEML has three divisions: Defence, Mining equipment and Railways that have applications in diverse sectors of the economy such as coal, mining, steel, cement, power, irrigation, construction, road building and railways. It has expanded its product range to cover hydraulics, heavy-duty diesel engines, welding robots and undertaking of heavy fabrication jobs.

BEML, a public sector undertaking, commands a majority share in the domestic earthmover industry. Earthmoving equipment & Defense Products account for more than 90% of its revenue.

**Object of the Issue**

Particulars	Rs Cr
Expansion of Metro Coach Mfg. facility at Bangalore	214.5
Up gradation of current facilities (Replacement, Reconditioning & up gradation)	90.0
VRS for employees	90.0
Setting up of 5MW Wind mill for captive consumption	27.0
R&D centre for Excellence for Metro coaches	9.0
Issue Expenses	(.)
General Corporate Purpose	(.)

**Investment Positives**
**Huge investment opportunities in mining and construction equipment**

There is huge opportunity in coal industry as the demand for coal is likely to rise to 600+ mn tonnes over the next five years. Coal India is currently planning to increase production capacity to approx. 600 mn tonnes over the next five years. This includes 50 mn tonnes by way of contract mining to private parties.

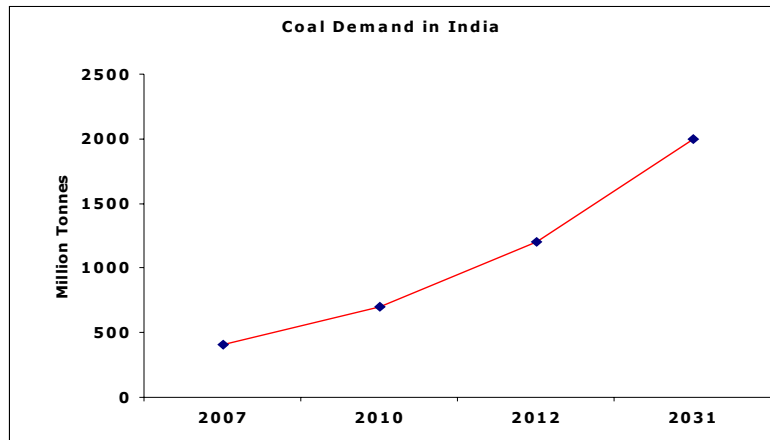
**India's current 17 mn tonnes a year domestic coal production from captive blocks will rise to over 100 million tonnes over the next five years**

**Currently India's Construction and Mining Industry is at around Rs 8,560 Cr and is expected to reach Rs 17,000 Cr by 2010E**

**BEML is the second largest manufacturer of earth moving equipment in Asia and commands 70% market share in the domestic industry**

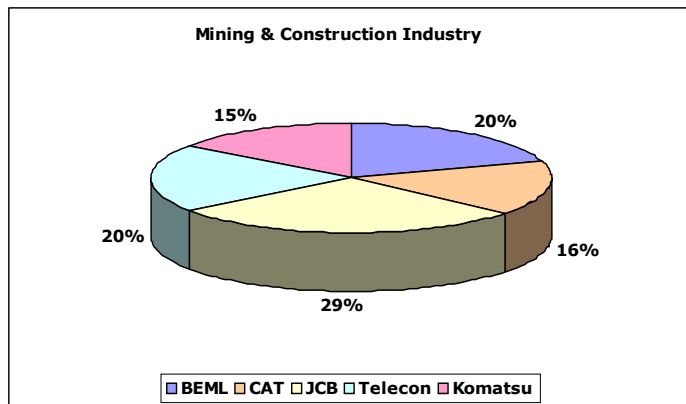
**BEML commands 20% market share in Mining & Construction Industry**

Given that investments are coming up in steel, and there is an increase in demand of limestone on account of escalating cement capabilities, production capacity is likely to reach 220 mn tonnes of iron ore and 215 mn tonnes of limestone by 2010. According to industry estimates, total investment in mining will be worth approx. Rs 14,500 Cr in next 5 years. Ministry has decided to allocate 148 coal blocks for leasing, out of which 65% have already been allocated.



(Source: Industry)

BEML is India's leading manufacturer of construction equipment, with a product range encompassing backhoe loader, excavators, articulated haulers, motor graders and compact equipment. BEML will be one of the leading beneficiaries of this growth with a market share of 20%.



(Source: Industry)

**India needs 1,500 metro rail coaches over the next three years, which translates into an opportunity of about Rs 9,000 Cr**

**Indian government has approved Rs 37,900 Cr of investment in Mass Rapid Transport System (MRTS)**

**Defense business contributed nearly 30-35% of revenue**

**BEML performance to boost on back of growing demand in mineral rich countries like Brazil**

BEML has tied up with the two Indian tyres manufacturing companies and signed MoU to invest in setting up production facilities to manufacture OTR tyres to meet its requirements.

### **Railways: The Next Big Thing**

The railway minister has proposed the largest ever annual capex of Rs 31,000 Cr for FY08 dedicated to modernization, development & investment in new lines. BEML is one of the major players in the manufacturing of wagons, coaches & metro rail. BEML will also gain from the indigenization of locomotives and coaches it supplies to metro. Spurred by the success of Phase I of Delhi Metro, it is now undertaking phase II and III comprising 200 km over the next five years.

Opportunities for BEML in Railways:

- BEML to benefit from additional demand of 11,000 wagons & 838 news coaches.
- Rs 700 Cr allocated to Metro Rail
- Rs 5,000 Cr allocated for Mumbai Local Train
- Indian Railways to focus on High speed train technology

With the emphasis on introduction of Mass Rapid Transport System (MRTS) by GOI in cities like Mumbai, Bangalore, Hyderabad, Chennai, Ahmedabad, and subsequently in other cities whose population is more than 30 lakhs, BEML would benefit significantly from these metro projects.

### **Defence Business**

Defense continues to be an area of growth for BEML. It supplied Tata 8x8, 4x4, vehicles and its variants such as CFTs (crash fire tenders), recovery vehicles, Missile launcher platform and other defense support equipment.

BEML manufactures Bhim tanks for the Indian army. Defense sector contributes 35% revenue to the Company. Increase of Rs 96,000 Cr in budget allocation this year, which is an increase of 11.6% YoY, would benefit its defense division.

### **Consolidating Presence in the International Markets**

With presence in 40 countries, BEML has recently started offering engineering design and software solutions, and has also entered the Lubricant oil and engineering components businesses. The company has strong presence in regions like Latin America, North America, West Africa, and it has recently formed a JV with Companhia Comercio E Construcces (CCC) for manufacturing and supplying rail wagons, bogies, mining & construction equipment & spares.

**BEML- Play on higher capex  
in railways, mining &  
defence sector**

### **Investment Concerns**

- Change in Government policy may hamper the revenue flow.
- Rising raw material prices (like Steel etc.) is a concern.
- Govt of India accounts for 40% of its sales. Delay in payment & schedule of implementation may hurt the company's financials.
- Possible rise in staff cost due to Sixth Pay Commission.

### **Valuation**

BEML is one of the major players in capital goods sector with major market shares in defense, mining & construction. Increase in infrastructure spending by GOI, increasing demand of coal, and higher capex proposed by railways minister will be the key drivers for BEML. We expect BEML to grow by 18-20% CAGR for next 2 years.

At upper price band of Rs 1,090, the issue is priced at 22.2x and on the lower band of Rs 1,020 it is trading at 20.8x its trailing FY07 earnings of Rs 49.2 on post-FPO equity base. Considering the huge capex in next 3-4 years in railways, mining & defence sector, we recommend subscribe to the issue.

## FINANCIAL SNAPSHOT

### Quarterly Highlights

Rs Cr	Q4FY07	Q4FY06	YoY (%)	Q3FY07	QoQ (%)
Net Sales	938.0	805.0	16.5	545.0	72.1
Total Expenditure	807.0	699.0		475.0	
Operating Profit	132.0	105.0	25.7	69.0	91.3
Depreciation	4.0	4.0		3.0	
PBIT	128.0	101.0	26.7	67.0	91.0
Interest	3.0	2.0		0.0	
PBT	125.0	99.0		66.0	
Other Income	20.0	32.0		14.0	
PBT + OI	146.0	131.0		81.0	
Tax	52.0	45.0		28.0	
RPAT	94.0	86.0	9.3	53.0	77.4
Equity	41.6	41.6		41.6	
EPS (Ann)	90.3	82.6		50.9	
<b>Margins (%)</b>					
OPM	14.0	13.1		12.7	
NPM	10.0	10.7		9.7	

### Annual Performance

Rs Cr	FY05	FY06	FY07	YoY (%)
Net Sales	1733.0	2060.0	2424.0	17.7
Total Expenditure	1494.0	1824.0	2144.0	
Operating Profit	239.0	236.0	280.0	18.6
Depreciation	23.0	14.0	14.0	
PBIT	216.0	222.0	266.0	19.8
Interest	2.0	7.0	6.0	
PBT	214.0	215.0	260.0	
Other Income	59.0	71.0	55.0	
PBT + OI	273.0	286.0	315.0	
Tax	98.0	98.0	111.0	
RPAT	175.0	188.0	204.0	8.5
Equity	41.6	41.6	41.6	
EPS	42.0	45.1	49.0	
<b>Margins (%)</b>				
OPM	13.8	11.4	11.5	
NPM	10.1	9.1	8.5	

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