

October 28, 2010

<b>Reco</b>	<b>Previous Reco</b>
Buy	Accumulate
<b>CMP</b>	<b>Target Price</b>
Rs 1,088	Rs 1,350

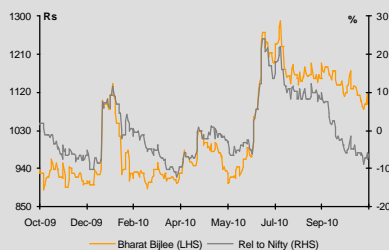
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	6,013
Sensex	20,005

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(4)	(7)	10	14
Rel. to Nifty	(4)	(16)	(5)	(8)

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Transformer
Bloomberg	BIJL@IN
Equity Capital (Rs mn)	57
Face Value(Rs)	10
No of shares o/s (mn)	6
52 Week H/L	1,316/850
Market Cap (Rs bn/USD mn)	6/135
Daily Avg Volume (No of sh)	11504
Daily Avg Turnover (US\$mn)	0.3

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	35.7	35.7	35.7
FII/NRI	1.8	1.9	1.6
Institutions	24.7	22.5	21.7
Private Corp	5.6	6.0	6.5
Public	32.1	33.9	34.5

Source: Capitaline

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- **PAT grow by 22% yoy and 160% qoq to Rs151mn (our expectations – Rs129mn) - driven by increase in EBITDA margins to 13.8%**
- **Higher EBITDA margins driven by both transformers (better margins on low base) and motors (volumes growth of 20% drive operational leverage)**
- **Revenue growth at 8%, below expectations of 13% growth**
- **Maintain earnings; Valuations (EV) cheap on absolute basis at 3.9x FY12E EBITDA as well as relative basis at 20% discount to peers; Top pick in transformers pack; Upgrade to Buy**

### Improvement accelerates led by EBITDA margins

Bharat Bijlee reported 8% yoy growth in revenues to Rs1.8bn, slightly below estimates of Rs1.9bn. The EBITDA margin improved to 13.8% (our estimate - 12.2%) from 12.4% in Q2FY10 (+140bps yoy). The improvement is driven by (1) better transformers margins on low base and (2) ~ 20% volume growth in motors business driven by improvement in industrial capex. The volumes in transformers business remained largely flat. The realizations improved by ~ 3% in both the businesses which is also visible from the fact that raw material cost to sales dropped from 72.2% in Q2FY10 to 69.3% in Q2FY11. As a result of 140bps improvement in EBITDA margins, EBITDA and PAT grew by 21% and 22% yoy to Rs255mn and Rs151mn (our expectations Rs235mn and Rs129mn respectively).

### Maintain earnings

For H1FY11, BBL has reported earnings of Rs37.1/Share (up 27% yoy). We see improvement in numbers to continue through FY11E due to - (1) higher commodity prices yoy driving absolute EBITDA in the transformer business, (2) pick up in the motors business & (3) overall low base in FY10 (EBITDA margins of 10.7%). We expect Q3FY11 to look much better led by very low margins in Q3FY10 (8.6%). We believe the execution and deliveries is likely to pick up in Q3FY11 which will drive operational leverage and further improve the margins. We maintain earnings estimate of Rs96.1/116.4 for FY11E/12E.

### Upgrade to Buy on valuations; Target Rs1350

BBL has a long-term investment in Siemens (2.8mn shares) and HDFC (0.10mn shares). After according 50% discount to current market price of the above securities, per share investment value for BBL works out to Rs245/Share. To value BBL, we have removed the above value (Rs245/Share) from the CMP of Rs1087/Share. The stock is trading (ex investment value) at attractive valuations of 7.2x FY12E earnings, 3.8x FY12E EBITDA and 1.6x FY12E Book Value. The valuations are also cheap on relative basis at 20% discount to peers. On the back of (1) low base driving earnings CAGR of 26% in FY10-12E, (2) cheap valuations and (3) performance track record, we upgrade the stock to 'Buy' ratings. Bharat Bijlee is our top pick in the transformers pack. We have valued BBL at Rs1350/Share, based on average EV/EBITDA (5.1x) of the industry.

### Financial Snapshot

								Rs Mn			
YE-	Net	EBITDA		EPS	EPS	RoE	EV/				
Mar	Sales	(Core)	(%)	(Rs)	% chg	(%)	P/E	EBITDA	P/BV		
FY09	5,447	817	15.0	478	84.6	(33.7)	26.0	10.0	5.8	2.4	
FY10	6,555	700	10.7	412	72.9	(13.8)	19.4	11.6	6.2	2.1	
FY11E	7,739	963	12.4	543	96.1	31.8	22.6	8.8	4.7	1.9	
FY12E	9,014	1,153	12.8	658	116.4	21.1	23.8	7.2	3.8	1.6	

## Quarterly Results

Rs mn	Q2FY10	Q3FY10	Q4FY10	Q1FY11	Q2FY11	YoY (%)	QoQ (%)	YTD'10	YTD'11	YoY (%)
<b>Revenue</b>	<b>1,702</b>	<b>1,616</b>	<b>2,106</b>	<b>1,058</b>	<b>1,846</b>	8.4	74.4	<b>2,834</b>	<b>2,904</b>	2.5
<b>Expenditure</b>	<b>-1,491</b>	<b>-1,477</b>	<b>-1,838</b>	<b>-945</b>	<b>-1,590</b>	6.7	68.4	<b>-2,540</b>	<b>-2,535</b>	-0.2
as % of sales	-87.6%	-91.4%	-87.3%	-89.3%	-86.2%			-89.6%	-87.3%	
Consumption of RM	-1,229	-1,224	-1,537	-697	-1,280	<b>4.1</b>	<b>83.6</b>	-2,063	-1,977	-4.2
as % of sales	-72.2%	-75.7%	-73.0%	-65.9%	-69.3%			-72.8%	-68.1%	
Power and Fuel	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Other Mfg Exenses	0	0	0	0	0			0	0	
as % of sales	0	0	0	0	0			0	0	
Employee Cost	-132	-137	-143	-149	-145	<b>9.8</b>	<b>-2.6</b>	-264	-294	11.3
as % of sales	-7.8%	-8.5%	-6.8%	-14.1%	-7.9%			-9.3%	-10.1%	
Other expenditure	-130	-117	-158	-99	-166	<b>27.5</b>	<b>67.6</b>	-213	-264	24.1
as % of sales	-7.6%	-7.2%	-7.5%	-9.3%	-9.0%			-7.5%	-9.1%	
<b>EBITDA</b>	<b>211</b>	<b>139</b>	<b>267</b>	<b>113</b>	<b>255</b>	20.9	125.0	<b>293</b>	<b>369</b>	25.6
Depreciation	-21	-22	-22	-21	-23	<b>9.7</b>	<b>9.1</b>	-40	-44	8.5
<b>EBIT</b>	<b>190</b>	<b>117</b>	<b>245</b>	<b>93</b>	<b>232</b>	<b>22.1</b>	<b>151.0</b>	<b>253</b>	<b>325</b>	28.3
Other Income	0	0	0	0	0			0	0	
Interest	-5	-5	6	-5	-8	<b>68.0</b>	<b>71.4</b>	-7	-13	87.3
<b>PBT</b>	<b>185</b>	<b>112</b>	<b>251</b>	<b>88</b>	<b>224</b>	<b>20.9</b>	<b>155.4</b>	<b>246</b>	<b>312</b>	26.6
Total Tax	-61	-37	-79	-29	-73	<b>18.4</b>	<b>149.0</b>	-81	-102	26.0
<b>Adjusted PAT</b>	<b>124</b>	<b>75</b>	<b>173</b>	<b>59</b>	<b>151</b>	22.1	158.6	<b>165</b>	<b>210</b>	26.9
<b>Extra ordinary items</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>			0	0	
<b>Reported PAT</b>	<b>124</b>	<b>75</b>	<b>173</b>	<b>59</b>	<b>151</b>	<b>22.1</b>	<b>158.6</b>	<b>165</b>	<b>210</b>	26.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
<b>PAT after MI</b>	<b>124</b>	<b>75</b>	<b>173</b>	<b>59</b>	<b>151</b>	22.1	158.6	<b>165</b>	<b>210</b>	26.9
<b>Reported EPS</b>	<b>21.9</b>	<b>13.3</b>	<b>30.5</b>	<b>10.4</b>	<b>26.8</b>	<b>22.1</b>	<b>158.6</b>	29.3	37.1	26.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	12.4	8.6	12.7	10.7	13.8	143	310	10.4	12.7	-234
EBIT	11.2	7.2	11.7	8.8	12.6	141	384	8.9	11.2	-225
EBT	10.9	6.9	11.9	8.3	12.1	125	385	8.7	10.7	-205
PAT	7.3	4.6	8.2	5.5	8.2	92	267	5.8	7.2	-139
Effective Tax rate	33.1	33.0	31.3	33.3	32.5	-68	-84	32.9	32.7	17

## Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>5,447</b>	<b>6,555</b>	<b>7,739</b>	<b>9,014</b>
Growth (%)	-3.1	20.3	18.1	16.5
<b>Expenditure</b>	<b>4,630</b>	<b>5,855</b>	<b>6,776</b>	<b>7,861</b>
Raw Materials	3,664	4,824	5,440	6,337
Construction Exp	391	391	617	718
Employee Cost	514	543	605	673
Other Exp	61	97	114	133
<b>EBITDA</b>	<b>817</b>	<b>700</b>	<b>963</b>	<b>1,153</b>
Growth (%)	-28.4	-14.4	37.7	19.7
<b>EBITDA margin (%)</b>	<b>15.0</b>	<b>10.7</b>	<b>12.4</b>	<b>12.8</b>
Depreciation	71	84	103	117
<b>EBIT</b>	<b>746</b>	<b>616</b>	<b>861</b>	<b>1,037</b>
<b>EBIT margin (%)</b>	<b>13.7</b>	<b>9.4</b>	<b>11.1</b>	<b>11.5</b>
Other Income	30	54	47	45
Interest expenses	45	61	85	85
<b>PBT</b>	<b>731</b>	<b>609</b>	<b>822</b>	<b>996</b>
Tax	253	197	280	339
Effective tax rate (%)	34.6	32.4	34.0	34.0
<b>Adjusted PAT</b>	<b>478</b>	<b>412</b>	<b>543</b>	<b>658</b>
(Profit)/loss from JV's/Ass/MI	0	0	0	0
<b>Adjusted PAT after MI</b>	<b>478</b>	<b>412</b>	<b>543</b>	<b>658</b>
Growth (%)	-33.7	-13.8	31.8	21.1
<b>Net Margin (%)</b>	<b>8.8</b>	<b>6.3</b>	<b>7.0</b>	<b>7.3</b>
E/O items	0	0	0	0
<b>Reported PAT</b>	<b>478</b>	<b>412</b>	<b>543</b>	<b>658</b>
Growth (%)	-34.1	-13.8	31.8	21.1

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	<b>701</b>	<b>555</b>	<b>775</b>	<b>951</b>
Depreciation	71	84	103	117
Interest Provided	45	61	85	85
Other Non-Cash items	0	0	0	0
Chg in working cap	754	-550	-412	-419
Tax paid	-1,217	440	-114	-160
<b>Operating Cashflow</b>	<b>354</b>	<b>590</b>	<b>438</b>	<b>574</b>
Capital expenditure	-239	-80	-300	-150
<b>Free Cash Flow</b>	<b>115</b>	<b>510</b>	<b>138</b>	<b>424</b>
Other income	30	54	47	45
Investments	0	0	0	0
<b>Investing Cashflow</b>	<b>-209</b>	<b>-26</b>	<b>-253</b>	<b>-105</b>
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-64	160	0	0
Interest Paid	-45	-61	-85	-85
Dividend paid (incl tax)	-142	-141	-186	-226
Income from investments	-5	-24	-32	-38
Others	6	0	0	0
<b>Financing Cashflow</b>	<b>-250</b>	<b>-66</b>	<b>-303</b>	<b>-349</b>
<b>Net chg in cash</b>	<b>-105</b>	<b>498</b>	<b>-119</b>	<b>120</b>
Opening cash position	277	173	670	552
<b>Closing cash position</b>	<b>172</b>	<b>670</b>	<b>552</b>	<b>672</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	57	57	57	57
Reserves & surplus	1,938	2,185	2,510	2,904
<b>Net worth</b>	<b>1,995</b>	<b>2,241</b>	<b>2,566</b>	<b>2,960</b>
<b>Minority Interest</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
Secured Loans	116	276	276	276
Unsecured Loans	0	0	0	0
<b>Loan Funds</b>	<b>116</b>	<b>276</b>	<b>276</b>	<b>276</b>
Net deferred tax liability	39	39	39	39
<b>Total Liabilities</b>	<b>2,151</b>	<b>2,557</b>	<b>2,882</b>	<b>3,276</b>
Gross Block	994	1,092	1,385	1,528
Less: Depreciation	319	403	505	622
<b>Net block</b>	<b>675</b>	<b>689</b>	<b>880</b>	<b>906</b>
Capital work in progress	51	33	40	47
<b>Investment</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Current Assets</b>	<b>2,844</b>	<b>4,259</b>	<b>4,789</b>	<b>5,607</b>
Inventories	890	1,001	1,181	1,376
Sundry debtors	1,569	1,809	2,135	2,487
Cash & bank balance	173	670	552	672
Loans & advances	212	780	920	1,072
Other current assets	0	0	0	0
<b>Current lia &amp; Prov</b>	<b>1,419</b>	<b>2,424</b>	<b>2,827</b>	<b>3,284</b>
Current liabilities	1,137	1,505	1,742	2,021
Provisions	282	919	1,085	1,264
<b>Net current assets</b>	<b>1,425</b>	<b>1,835</b>	<b>1,963</b>	<b>2,323</b>
Misc. exp & Def. Assets	0	0	0	0
<b>Total Assets</b>	<b>2,151</b>	<b>2,557</b>	<b>2,882</b>	<b>3,276</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	15.0	10.7	12.4	12.8
Net Margin	8.8	6.3	7.0	7.3
ROCE	36.7	26.2	31.6	33.7
ROE	26.0	19.4	22.6	23.8
RoIC	43.3	32.6	41.5	42.8
<b>Per Share Data (Rs)</b>				
EPS	84.6	72.9	96.1	116.4
CEPS	97.1	87.7	114.2	137.1
BVPS	353.1	396.7	454.2	523.9
DPS	25.1	25.0	33.0	39.9
<b>Valuations (x)</b>				
PER	10.0	11.6	8.8	7.2
P/CEPS	8.7	9.6	7.4	6.1
P/BV	2.4	2.1	1.9	1.6
EV / Sales	0.9	0.7	0.6	0.5
EV / EBITDA	5.8	6.2	4.7	3.8
Dividend Yield (%)	3.0	3.0	3.9	4.7
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	0.0	-0.2	-0.1	-0.1
Net Debt/EBIDTA	-0.1	-0.6	-0.3	-0.3
Working Cap Cycle (days)	84	65	67	67

**Recommendation History: Bharat Bijlee – BIJL IN**

Date	Reports	Reco	CMP	Target
23/07/2010	<a href="#">Bharat Bijlee Q1FY11 Result Update</a>	Accumulate	1,260	1,350
14/05/2010	<a href="#">Bharat Bijlee Q4FY10 Result Update</a>	Buy	988	1,200
28/01/2010	<a href="#">Bharat Bijlee Q3FY10 Result Update</a>	Accumulate	940	1,063
28/10/2009	<a href="#">Bharat Bijlee Q2FY10 Result Update</a>	Hold	955	1,008

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
27/10/2010	<a href="#">NTPC Q2FY11 Result Update</a>	Hold	198	190
26/10/2010	<a href="#">Emco Q2FY11 Result Update</a>	Reduce	64	60
20/10/2010	<a href="#">TRIL Q2FY11 Result Update</a>	Accumulate	380	448
12/10/2010	<a href="#">Sintex Industries Q2FY11 Result Update</a>	Hold	430	325

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