

April 28, 2008

India

India Electrical Equipment

Bharat Electronics (BAJE.NS - INR 1207.15) 1-Overweight

Change of Price Target

We reduce target price maintain 1 OW

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Investment Conclusion

- The company has reported its full year FY08 results. Full year net profit has come in at INR 7669 mn against our expectation of INR 8148 mn. Revenue growth was slower than expected. We reduce our target price to factor in slightly lower defence expenditure going forward. Maintain 1 OW

Summary

- The company's top line came in at INR 40696 mn, implying a YoY growth of 4.5%. Net profit was INR 7669 mn, a YoY growth of 8%
- Operating margins for the year was 23.9% against our expectation of 24.0%
- We have reduced our revenue assumptions going for FY09 and FY10 to factor in a lower defence expenditure going forward
- We reduce our 12 month target price to INR 2006 and maintain 1 OW

FY Mar	2007A	2008E		2009E		2010E	
		Actual	Old	New	Old	New	Old
Currency INR							
Revenue (m)	38924.0	45361.0	40696.0	53039.0	48200.0	60943.0	55195.0
Net Profit (m)	7185.0	8148.0	7669.0	9713.0	9230.0	11156.0	10404.0
EPS	89.8	101.9	96.0	121.4	115.4	139.4	130.0
EPS Growth (%)	24.2	13.4	6.5	19.2	20.6	14.9	12.7
DPS	20.9	23.4	23.4	27.9	27.9	32.1	32.1
P/E	13.4	11.8	12.6	9.9	10.5	8.7	9.3
EV/EBITDA	11.2	N/A	5.8	N/A	4.5	N/A	3.6
Divided Yeld (%)	1.7	1.9	1.9	2.3	2.3	2.7	2.7

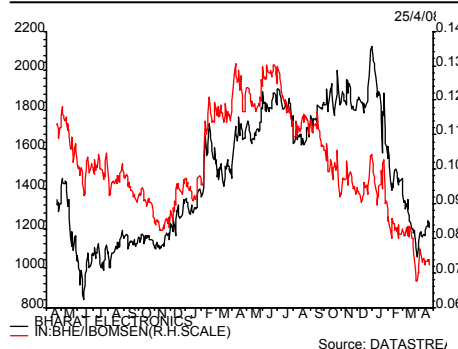
Market Data

Market Cap	96572
Market cap (US\$ mn)	2404
Shares Outstanding (mn)	80.0
6-mo daily T/O (US\$ mn)	1
Free Float (%)	24.00
Foreign Shareholding (%)	N/A

Financial Summary

3-Yr EPS Growth(%)	16.0
PEG (3-Yr CAGR)	0.7
ROE (%)	31.0
Debt To Capital (%)	0.0
Dividend payout(%)	23.0

Stock Overview



Reuters BAJE.NS
Bloomberg BHE IN
ADR

Performance	1M	3M	12M
Absolute %	1.1	-35.9	-27.2
Rel. Market %	-4.1	-29.1	-41.3
Rel. Sector %	-	-	-

52 Week Range 2122.70 - 1057.00

Stock Rating

New: 1-Overweight
Old: 1-Overweight

Target Price

New: INR 2006.00
Old: INR 2136.00

Sector View: 1-Positive

The company has reported its detailed results for FY08. Net profit came in at INR 7669 mn. Adjusting for exceptional items, the net profit was INR 7438 mn. Operating margin for the year was 23.9% a decline of 40 bps YoY. For Q4FY08, operating margin was 30.5% and revenue growth was 32.3% on a YoY basis.

Figure 1: Result summary

	Q4FY08A	Q3FY08(A)	Q4FY07	QoQ Change	YoY change
Net Sales	22937.4	6622.3	17341.7	246.4%	32.3%
Other Income	522.0	647.0	574.3		
Total Income	23459.4	7269.3	17916.0		
Expenditure	15951.8	5353.7	12493.5		
Core EBITDA	6985.6	1268.6	4848.2	450.7%	44.1%
Operating Profit	7507.6	1915.6	5422.5		
Interest	0.7	0.3	0.4		

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Profit Before Depreciation and Tax	7506.9	1915.3	5422.1		
Depreciation	269.0	234.0	252.1		
Profit before Tax	7237.9	1681.3	5170.0		
Tax	2401.0	551.6	1598.8		
Net Profit	4836.9	1129.7	3571.2	328.2%	35.4%
Equity Capital		800.0	800.0		-100.0%
Basic And Diluted EPS after Extraordinary item	60.5	14.1	44.6	328.2%	35.4%
Operating margin	30.5%	19.2%	28.0%		

Source: BSE, Lehman Brothers estimates

We reduce our EPS and revenue estimates

We have reduced our revenue and EPS estimates going forward. The Company's revenues are driven by capital defence expenditure, and the defence expenditure provisioned for FY09 is slightly lower than what we had expected. As a result we have reduced our EPS estimate for FY09 from INR 121.4 to INR 115.4 and for FY10 from INR 139 to INR 130.

Figure 2: Change in estimates

	FY08		FY09		FY10	
	Old	New	Old	New	Old	New
Defence expenditure (INR bn)	965	925	1,090	1,060	1,253	1,212
Capital defence expenditure (INR bn)	415	375	491	480	565	545
Revenues (INR mn)	45,361	40,696	53,039	48,200	60,943	55,195
Operating margin (%)	24.0	23.9	24.2	23.3	23.6	22.9
EPS	101.9	96.1	121.4	115.4	139.0	130.0

Source: Lehman Brothers research

We reduce price target, maintain 1 OW

We have reduced our 12-month DCF-based target price to INR 2006 from INR 2136 to factor in a lower defence expenditure going forward. We maintain our 1-Overweight rating on the stock. Our key assumptions for DCF are a 13% cost of equity and 4% terminal growth rate.

Analyst Certification:

We, Satish Kumar and Abhinav Sharma, hereby certify (1) that the views expressed in this research Company Note accurately reflect our personal views about any or all of the subject securities or issuers referred to in this Company Note and (2) no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this Company Note.

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Company Description:

Bharat electronics is the leading defence communication equipment supplier in India

Important Disclosures:

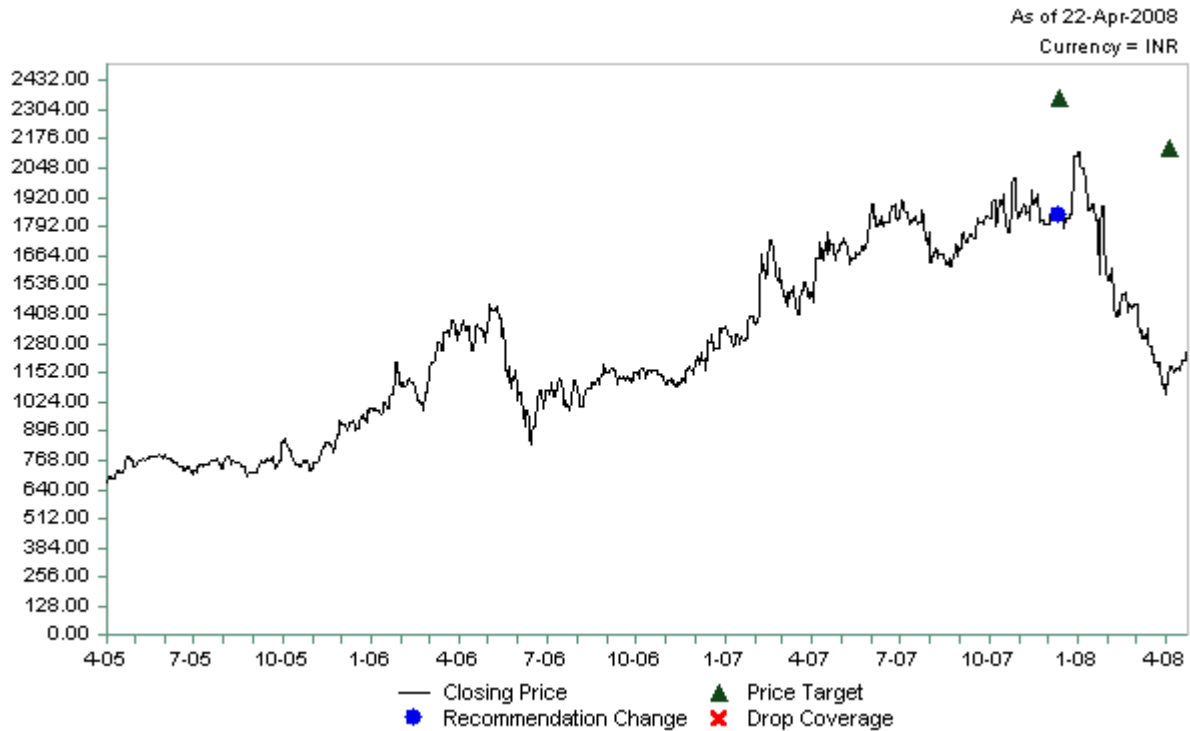
Bharat Electronics (BAJE.NS)

INR 1207.15 (24-Apr-2008)

1-Overweight / 1-Positive

Rating and Price Target Chart:

BHARAT ELECTRONICS



Currency=INR

Date	Closing Price	Rating	Price Target
04-Apr-08	1177.85		2136.00
12-Dec-07	1839.40		2357.00

Date	Closing Price	Rating	Price Target
12-Dec-07	1839.40	1 -Overweight	

FOR EXPLANATIONS OF RATINGS REFER TO THE STOCK RATING KEYS LOCATED ON THE PAGE FOLLOWING THE LAST PRICE CHART.

Lehman Brothers Inc. and/or an affiliate trade regularly in the shares of Bharat Electronics.

Valuation Methodology: We have valued the company on a DCF . Our key assumptions are a terminal growth rate of 4% and cost of equity of 13%.

Risks Which May Impede the Achievement of the Price Target: 1) Any significant decline in India's defence expenditure will impact the revenue of the company

2) An increase in competition can impact the operating margins on the downside

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Company Name	Ticker	Price (24-Apr-2008)	Stock / Sector Rating
Bharat Electronics	BAJE.NS	INR 1207.15	1-Overweight / 1-Positive

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1-Overweight - The stock is expected to outperform the unweighted expected total return of the relevant country index over a 12-month investment horizon.

2-Equal weight - The stock is expected to perform in line with the unweighted expected total return of the relevant country index over a 12- month investment horizon.

3-Underweight - The stock is expected to underperform the unweighted expected total return of the relevant country index over a 12-month investment horizon.

RS-Rating Suspended - The rating and target price have been suspended temporarily to comply with applicable regulations and/or firm policies in certain circumstances including when Lehman Brothers is acting in an advisory capacity in a merger or strategic transaction involving the company.

Sector View

1-Positive - sector coverage universe fundamentals/valuations are improving.

2-Neutral - sector coverage universe fundamentals/valuations are steady, neither improving nor deteriorating.

3-Negative - sector coverage universe fundamentals/valuations are deteriorating.

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