

RESULT UPDATE

MID CAP

Share Data

Reuters code	BEML.BO
Bloomberg code	BEML IN
Market cap. (US\$ mn)	827
6M avg. daily turnover (US\$ mn)	3.9
Issued shares (mn)	42
Target price (Rs)	1,000

Performance (%) 1M 3M 12M

Absolute	(13)	(12)	114
Relative	(7)	(15)	22

Valuation Ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	59.6	70.6
+/- (%)	(8.4)	18.3
PER (x)	15.6	13.2
PBV (x)	1.8	1.7
Dividend/Yield (%)	1.1	1.1
EV/Sales (x)	1.2	1.0
EV/EBITDA (x)	10.0	7.9

Major shareholders (%)

Promoters	54
FII's	15
MF's	14
BFSI's	7
Public & Others	10

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY(%)	FY08	FY09	YoY(%)	FY10E	YoY(%)	FY11E	YoY(%)
Net Revenues	6,139	4,834	(21.3)	9,018	9,488	5.2	25,404	27,972	10.1	34,117	22.0	42,886	25.7
EBITDA	583	222	(61.9)	305	338	10.8	2,968	3,552	19.7	4,175	17.5	5,280	26.5
EBITDA Margin (%)	9.5	4.6	-	3.4	3.6	-	11.7	12.7	-	12.2	-	12.3	-
Other Income	216	217	0.3	427	349	(18.4)	872	1,020	17.0	579	(43.2)	653	12.8
Depreciation	70	86	24.0	118	153	29.7	177	276	55.8	269	(2.6)	338	26.0
Interest	57	151	163.0	115	248	115.6	(231)	(393)	70.3	(641)	63.1	(1,046)	63.2
Profit before Tax & EoI	672	202	-	500	286	(42.7)	3,431	3,903	13.8	3,844	(1.5)	4,549	18.3
Tax	117	66	(43.8)	119	97	(18.1)	1,231	1,177	(4.4)	1,353	15.0	1,601	18.3
Adjusted PAT	555	136	-	381	189	(50.4)	2,201	2,727	23.9	2,491	(8.6)	2,948	18.3
Reported PAT	555	136	-	381	189	(50.4)	2,201	2,727	23.9	2,491	(8.6)	2,948	18.3

BEML

Upgrade to Outperformer

Price: Rs 937

BSE Index: 15,896

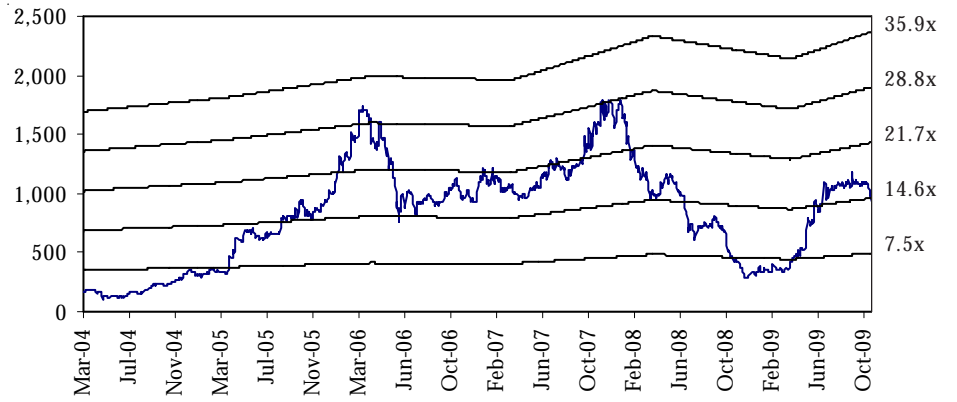
30 October 2009

2QFY10 Result – Strong order backlog

Sales for 2QFY10 dropped by 21.3% to Rs 4,834 mn and for 1HFY10 it is up 5%. The operating margins for the quarter dropped by 490 bps as employee (up 787 bps) and other operating expenses (up 470 bps) moved up significantly even as raw material cost declined by 700 bps YoY. The increase in employee expense was attributed to pay revision. The other operating expenses moved 16% sequentially in comparison to 4% increment in sales. The interest expenditure has almost tripled YoY. The current order backlog stands at Rs 58.4 bn. BEML is setting up a manufacturing facility in Mysore for aerospace products which will be operational from 2010-11. It is also setting up a 6 MW wind based power plant with an investment of Rs 380 mn.

In FY10, BEML's sales from the mining segment are expected to grow by 18-20%, rail and metro sales are expected to double whereas defense sales are likely to stagnate. By July 2010, BEML expects to increase indigenisation of metro rolling stock to 45-50% from the present 20% levels. Breakeven in metro segment is expected only by 2011. Spares business in metro is expected at 10% of initial order annually, over the subsequent 20 years and the same for mining equipment would be 20% annually over the next 10 years. Spares business is expected to exceed Rs 10 bn three years from now and defense to exceed Rs 15 bn over the next five years. Rolling stock opportunity based on the MRTS plan is expected at Rs 600 bn over the next decade. BEML is targeting 25% of this. BEML plans to invest Rs 2.6 bn for its new facility at Palakkad and Rs 1 bn for upgradation of existing facilities. It also plans further capex of Rs 3 bn over the subsequent two years. We have revised our earnings upward by 9% for FY10 to Rs 59.6 and for FY11 by 8% to Rs 70.6. At the current market price of Rs 937, the stock is trading at 16x FY10E and 13x FY11E. We upgrade the stock to Outperformer rating with a target price of Rs 1,000 based on 14x FY11E earnings.

PER Band



Source: B&K Research

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	25,404	27,972	34,117	42,886
<i>Growth (%)</i>	4.8	10.1	22.0	25.7
Operating expenses	(22,437)	(24,420)	(29,942)	(37,606)
Operating profit	2,968	3,552	4,175	5,280
EBITDA	2,968	3,552	4,175	5,280
<i>Growth (%)</i>	6.0	19.7	17.5	26.5
Depreciation	(177)	(276)	(269)	(338)
Other income	872	1,020	579	653
EBIT	3,662	4,297	4,485	5,595
Interest paid	(231)	(393)	(641)	(1,046)
Pre-tax profit (before non-recurring)	3,431	3,903	3,844	4,549
Pre-tax profit (after non-recurring)	3,431	3,903	3,844	4,549
Tax (current + deferred)	(1,231)	(1,177)	(1,353)	(1,601)
Net profit (before Minority Interest, Pref. Dividend, etc.)	2,201	2,727	2,491	2,948
Prior period adjustments	82	(8)	-	-
Reported PAT	2,283	2,718	2,491	2,948
Adjusted net profit	2,283	2,718	2,491	2,948
<i>Growth (%)</i>	11.4	19.1	(8.4)	18.3

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & marketable securities	5,211	2,635	5,473	6,880
Other current assets	26,037	35,997	36,464	44,101
Investments	79	54	54	54
Net fixed assets	2,352	2,835	4,382	6,087
Other non-current assets	28	-	-	-
Total assets	33,708	41,521	46,373	57,123
Current liabilities	13,722	16,709	19,294	23,817
Total debt	3,033	5,691	5,964	9,733
Other non-current liabilities	-	5	-	-
Total liabilities	16,754	22,405	25,258	33,549
Share capital	418	418	418	418
Reserves & surplus	16,680	18,783	20,785	23,244
Less: Misc. expenditure	(146)	(87)	(87)	(87)
Shareholders' funds	16,952	19,113	21,115	23,574
Minorities interests	2	4	-	-
Total equity & liabilities	33,708	41,521	46,373	57,123
Capital employed	19,985	24,812	27,078	33,307

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	3,431	3,903	3,844	4,549
Depreciation	177	276	269	338
Change in working capital	(7,310)	(7,443)	1,452	(3,363)
Total tax paid	(1,046)	(945)	(523)	(1,353)
Cash flow from oper. (a)	(4,748)	(4,208)	5,042	171
Capital expenditure	(802)	(765)	(1,815)	(2,045)
Change in investments	(54)	25	-	-
Others	37	65	-	-
Cash flow from inv. (b)	(819)	(675)	(1,815)	(2,045)
Free cash flow (a+b)	(5,567)	(4,883)	3,227	(1,874)
Equity raised/(repaid)	5,136	(7)	-	-
Debt raised/(repaid)	2,777	2,658	273	3,769
Dividend (incl. tax)	(344)	(317)	(658)	(489)
Others	(270)	(27)	(3)	-
Cash flow from fin. (c)	7,299	2,308	(388)	3,280
Net change in cash (a+b+c)	1,732	(2,576)	2,839	1,406

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	54.6	65.1	59.6	70.6
Growth	(1.6)	19.1	(8.4)	18.3
Book NAV/share (Rs)	405.8	457.6	505.5	564.3
Dividend/share (Rs)	6.5	12.0	10.0	10.0
Dividend payout ratio	13.9	21.6	19.6	16.6
Tax	35.9	30.1	35.2	35.2
EBITDA margin	11.7	12.7	12.2	12.3
EBIT margin	14.4	15.4	13.1	13.0
RoCE	24.1	19.2	17.3	18.5
Net debt/Equity	(12.8)	16.0	2.3	12.1

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	17.1	14.3	15.6	13.2
PCE	15.8	13.0	14.1	11.9
Price/Book	2.3	2.0	1.8	1.7
Yield (%)	0.7	1.3	1.1	1.1
EV/Net sales	1.6	1.5	1.2	1.0
EV/EBITDA	14.1	11.8	10.0	7.9

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	9.0	9.7	7.3	6.9
Asset turnover	0.9	0.7	0.8	0.8
Leverage factor	2.1	2.1	2.2	2.3
Return on equity (%)	16.8	15.1	12.4	13.2

Gagan Thareja
gagan.thareja@bksec.com
+91-22-4031 7289

Analyst Declaration: I, Gagan Thareja, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

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)
-

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system, or transmitted, in any form or by any means, electronic, mechanical, print, publishing, photocopying, recording or otherwise without the permission of Batlivala & Karani Securities India Pvt. Ltd. Any unauthorized act in relation to all or any part of the material in this publication may call for appropriate statutory proceedings.

The information contained herein is confidential and is intended solely for the addressee(s). Any unauthorized access, use, reproduction, disclosure or dissemination is prohibited. This information does not constitute or form part of and should not be construed as, any offer for sale or subscription of or any invitation to offer to buy or subscribe for any securities. The information and opinions on which this communication is based have been compiled or arrived at from sources believed to be reliable and in good faith, but no representation or warranty, express or implied, is made as to their accuracy, correctness and are subject to change without notice. Batlivala & Karani Securities India P Ltd and/ or its clients may have positions in or options on the securities mentioned in this report or any related investments, may effect transactions or may buy, sell or offer to buy or sell such securities or any related investments. Recipient/s should consider this report only for secondary market investments and as only a single factor in making their investment decision. The information enclosed in the report has not been vetted by the compliance department due to the time sensitivity of the information/document. Some investments discussed in this report have a high level of volatility. High volatility investments may experience sudden and large falls in their value causing losses when the investment is realized. Those losses may equal your original investment. Some investments may not be readily realizable and it may be difficult to sell or realize those investments, similarly it may prove difficult for you to obtain reliable information about the value, risks to which such an investment is exposed. Neither B&K Securities nor any of its affiliates shall assume any legal liability or responsibility for any incorrect, misleading or altered information contained herein.

B & K SECURITIES INDIA PRIVATE LTD.

Equity Research Division: City Ice Bldg, 298, Ground/1st Floor, Perin Nariman Street, Behind RBI, Fort, Mumbai - 400 001, India. Tel.: 91-22-4031 7000, Fax: 91-22-2263 5020/30.
Registered Office: Room No. 3/4, 7 Lyons Range, Kolkata - 700 001. Tel.: 91-33-2243 7902.

B&K Research is also available on Bloomberg <BNKI>, Thomson First Call & Investext.