

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	BBJL.BO
Bloomberg code	BIJL.IN
Market cap. (US\$ mn)	122
6M avg. daily turnover (US\$ mn)	0.6
Issued shares (mn)	6
Target price (Rs)	1,134

Performance (%)	1M	3M	12M
Absolute	3	21	44
Relative	3	11	(25)

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	89.1	113.4
+/- (%)	5.2	27.3
PER (x)	11.3	8.9
PBV (x)	2.4	2.0
Dividend/Yield (%)	2.2	2.2
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	6.7	5.2

#### Major shareholders (%)

Promoters	36
FII's	1
MF's	5
BFSI's	17
Public & Others	41

#### Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenue	1,509	1,703	12.8	2,565	2,834	10.5	5,447	6,134	12.6	7,420	21.0
EBITDA	213	212	(0.5)	345	294	(14.7)	832	868	4.4	1,097	26.4
EBITDA Margin (%)	14.1	12.4	-	13.4	10.4	-	15.3	14.1	-	14.8	-
Other Income	4	10	153.8	8	18	115.9	18	38	106.5	42	10.5
Depreciation	13	21	61.7	25	40	61.7	71	89	25.0	106	19.5
Interest	10	15	46.1	15	25	68.7	45	55	21.5	63	14.7
PBT	194	186	(4.0)	313	247	(21.3)	734	763	3.9	970	27.2
Tax	69	61	(10.6)	112	81	(27.7)	256	259	1.4	330	27.1
Adjusted PAT	125	124	(0.3)	201	166	(17.7)	479	503	5.2	641	27.3
Net margin (%)	8.3	7.3	-	7.9	5.9	-	8.8	8.2	-	8.6	-
EPS (Rs)	22.1	22.0	(0.3)	35.6	29.3	(17.7)	84.7	89.1	5.2	113.4	27.3

## Bharat Bijlee

Maintain Outperformer

Price: Rs 1,010

BSE Index: 16,741

27 October 2009

### 2QFY10 Result – Profitability picks on higher volumes

#### Highlights – Results better than expectations

- Backed by strong volumes from transformer business (75% of business) and moderate growth in motors business, revenue growth was better than expectations at 13% YoY, offsetting the pressures of drop in transformer realisations.
- EBITDA margins, though decreased 165 bps YoY, at 12.4%, have improved 475 bps QoQ. Raw materials to sales increased 680 bps YoY to 72.8% and employee cost declined 4% YoY and remained flat QoQ. During the quarter, the company completed the renovation works of their corporate office. Thus with moderation in margins and higher depreciation on the expanded capacity and ERP implementation, profits were flat YoY.

#### Outlook

**Greater growth in transformer segment against 1HFY09 helped Bharat Bijlee post moderate revenue growth in 1HFY10, making up for the poor volume offtake in the LT industrial motors and pumps business. Poor transformer realisations, due to fall in input costs and competitive pressures, on the recent orders especially in the 220 kV segment (main segment for Bharat Bijlee), will continue to impact the operating profitability for the next few quarters.**

**In 1HFY10, the company has built up good volumes for the transformer business, reflected in the order book of ~Rs 4.5 bn (25% YoY increase). Volumes in the motors business is also expected to pick-up in 2HFY10. Thus, we believe greater volume offtake will help Bharat Bijlee cap the likely decline in margins.**

**We have revised our earnings estimate downwards by 6% for FY09 and 3% for FY10, owing to lower operating profitability. At 11x FY10E and 9x FY11E revised earnings, we maintain Outperformer rating on the stock.**

**Income Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>5,624</b>	<b>5,447</b>	<b>6,134</b>	<b>7,420</b>
<i>Growth (%)</i>	<i>19.7</i>	<i>(3.1)</i>	<i>12.6</i>	<i>21.0</i>
Operating expenses	(4,475)	(4,615)	(5,267)	(6,323)
Operating profit	1,149	832	868	1,097
<b>EBITDA</b>	<b>1,149</b>	<b>832</b>	<b>868</b>	<b>1,097</b>
<i>Growth (%)</i>	<i>30.0</i>	<i>(27.6)</i>	<i>4.4</i>	<i>26.4</i>
Depreciation	(39)	(71)	(89)	(106)
Other income	34	18	38	42
<b>EBIT</b>	<b>1,143</b>	<b>779</b>	<b>817</b>	<b>1,033</b>
Interest paid	(26)	(45)	(55)	(63)
Pre-tax profit	1,117	734	763	970
(before non-recurring items)				
Pre-tax profit	1,117	734	763	970
(after non-recurring items)				
Tax (current + deferred)	(384)	(256)	(259)	(330)
<b>Net profit</b>	<b>733</b>	<b>479</b>	<b>503</b>	<b>641</b>
Adjusted net profit	733	479	503	641
<i>Growth (%)</i>	<i>29.7</i>	<i>(34.7)</i>	<i>5.2</i>	<i>27.3</i>
Prior period adjustments	(8)	(3)	0	0
<b>Net income</b>	<b>725</b>	<b>475</b>	<b>503</b>	<b>641</b>

**Balance Sheet**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Current assets	3,607	2,769	4,054	5,004
Investments	203	75	75	75
Net fixed assets	558	726	780	806
<b>Total assets</b>	<b>4,368</b>	<b>3,570</b>	<b>4,909</b>	<b>5,885</b>
Current liabilities	2,490	1,419	2,341	2,783
Total debt	180	116	216	260
Other non-current liabilities	12	39	0	0
<b>Total liabilities</b>	<b>2,682</b>	<b>1,575</b>	<b>2,557</b>	<b>3,043</b>
Share capital	57	57	57	57
Reserves & surplus	1,629	1,939	2,295	2,785
<b>Shareholders' funds</b>	<b>1,685</b>	<b>1,995</b>	<b>2,351</b>	<b>2,841</b>
<b>Total equity &amp; liabilities</b>	<b>4,368</b>	<b>3,570</b>	<b>4,909</b>	<b>5,885</b>
<b>Total capital employed</b>	<b>1,878</b>	<b>2,151</b>	<b>2,568</b>	<b>3,101</b>

**Cash Flow Statement**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,117	734	763	970
Depreciation	31	65	89	106
Chg in working capital	(666)	749	(684)	(498)
Total tax paid	8	(1,154)	64	(231)
<b>Cash flow from oper. (a)</b>	<b>490</b>	<b>394</b>	<b>232</b>	<b>347</b>
Capital expenditure	(251)	(233)	(142)	(132)
Chg in investments	(16)	127	0	0
<b>Cash flow from inv. (b)</b>	<b>(266)</b>	<b>(106)</b>	<b>(142)</b>	<b>(132)</b>
<b>Free cash flow (a+b)</b>	<b>224</b>	<b>289</b>	<b>89</b>	<b>215</b>
Debt raised/(repaid)	(79)	(64)	100	44
Dividend (incl. tax)	(165)	(198)	(165)	(147)
Other financing activities	(8)	(3)	0	0
<b>Cash flow from fin. (c)</b>	<b>(252)</b>	<b>(265)</b>	<b>(65)</b>	<b>(104)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(28)</b>	<b>23</b>	<b>24</b>	<b>112</b>

**Key Ratios**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	129.7	84.7	89.1	113.4
EPS growth	29.7	(34.7)	5.2	27.3
EBITDA margin	20.4	15.3	14.1	14.8
EBIT margin	20.3	14.3	13.3	13.9
RoCE	69.3	38.7	34.6	36.4
Net debt/Equity	6.3	1.0	4.0	1.0

**Valuations**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	7.8	11.9	11.3	8.9
PCE	7.4	10.4	9.6	7.6
Price/Book	3.4	2.9	2.4	2.0
Yield (%)	3.0	2.5	2.2	2.2
EV/Net sales	1.0	1.1	0.9	0.8
EV/EBITDA	5.1	6.9	6.7	5.2

**Du Pont Analysis – ROE**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	13.0	8.8	8.2	8.6
Asset turnover	1.4	1.4	1.4	1.4
Leverage factor	2.7	2.2	2.0	2.1
Return on equity (%)	51.6	26.0	23.2	24.7

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**Analyst Declaration:** I, Renu Baid, 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.

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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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