

## RESULT UPDATE

### LARGE CAP

#### Share Data

|                                  |        |
|----------------------------------|--------|
| Reuters code                     | BEL.BO |
| Bloomberg code                   | BHE IN |
| Market cap. (US\$ mn)            | 2,431  |
| 6M avg. daily turnover (US\$ mn) | 2.7    |
| Issued shares (mn)               | 80     |
| Target price (Rs)                | 1,506  |

| Performance (%) | 1M  | 3M  | 12M |
|-----------------|-----|-----|-----|
| Absolute        | (7) | (2) | 152 |
| Relative        | 0   | (5) | 43  |

#### Valuation ratios

| Yr to 31 Mar       | FY10E | FY11E |
|--------------------|-------|-------|
| EPS (Rs)           | 113.0 | 125.5 |
| +/- (%)            | 21.6  | 11.0  |
| PER (x)            | 12.6  | 11.4  |
| PBV (x)            | 2.5   | 2.1   |
| Dividend/Yield (%) | 1.4   | 1.4   |
| EV/Sales (x)       | 1.7   | 1.5   |
| EV/EBITDA (x)      | 6.7   | 6.0   |

#### Major shareholders (%)

|                 |    |
|-----------------|----|
| Promoters       | 76 |
| FII's           | 6  |
| MF's            | 6  |
| BFSI's          | 8  |
| Public & Others | 4  |

#### Financial highlights

| (Rs mn)           | 2QFY09 | 2QFY10 | YoY (%) | 1HFY09 | 1HFY10 | YoY (%) | FY09   | FY10E  | YoY (%) | FY11E  | YoY (%) |
|-------------------|--------|--------|---------|--------|--------|---------|--------|--------|---------|--------|---------|
| Net Revenues      | 7,807  | 12,991 | 66.4    | 11,646 | 22,001 | 88.9    | 45,868 | 51,336 | 11.9    | 57,496 | 12.0    |
| Op Profit         | 1,626  | 3,201  | 96.9    | 1,300  | 4,021  | 209.3   | 9,859  | 12,374 | 25.5    | 13,873 | 12.1    |
| Margin (%)        | 20.8   | 24.6   | -       | 11.2   | 18.3   | -       | 21.5   | 24.1   | -       | 24.1   | -       |
| Other Income      | 532    | 539    | (1.3)   | 1,144  | 1,072  | (6.3)   | 2,264  | 2,525  | 11.5    | 2,778  | 10.0    |
| Depreciation      | 256    | 283    | 10.8    | 496    | 564    | 13.5    | 1,056  | 1,354  | 28.2    | 1,618  | 19.5    |
| Interest          | 71     | 1      | (99.2)  | 71     | 1      | (98.0)  | 108    | 50     | (53.6)  | 50     | 0.0     |
| Profit before tax | 1,832  | 3,456  | 88.7    | 1,877  | 4,528  | 141.2   | 10,959 | 13,495 | 23.1    | 14,983 | 11.0    |
| Tax               | 594    | 1,082  | 82.1    | 615    | 1,428  | 132.3   | 3,511  | 4,453  | 26.8    | 4,944  | 11.0    |
| PAT               | 1,237  | 2,373  | 91.8    | 1,263  | 3,101  | 145.6   | 7,448  | 9,042  | 21.4    | 10,038 | 11.0    |
| EPS (Rs)          | 15.5   | 29.7   | 91.8    | 15.8   | 38.8   | 145.6   | 93.1   | 113.0  | 21.4    | 125.5  | 11.0    |

## Bharat Electronics

Maintain Outperformer

Price: Rs 1,428

BSE Index: 15,896

30 October 2009

### 2QFY10 Result – Surprising 1H, but 2H will even out

#### Highlights

- Results were above expectation. Progress on few defence projects was better than expected resulting in a robust revenue growth. Revenue grew by 66% to Rs 12,991 mn in 1QFY10 and by 89% for 1HFY10 to Rs 22,001 mn.
- The operating margins were healthy at 24.6%, up by 380 bps YoY. As a major portion of wage increment has been already provided, we do not expect margins to slide from these levels in 2HFY10.
- The order book stood at ~Rs 122 bn as the company received orders worth ~Rs 34 bn in 1HFY10. We expect further order worth Rs 30-40 bn in 2HFY10. The net profit growth was impressive at 92% to Rs 2,374 mn, mainly due to better operating performance.

#### Outlook

**Concerns on execution delays have evaporated as revenue grew at a rapid pace in 1HFY10. Traditionally, the company booked most (~55%) of its sales in the last quarter, but it has already achieved 40-45% of its annual turnover target in 1HFY10 as delivery of certain goods was re-scheduled at an earlier date. However, the sales would be more uniform in the current year and appear to be lower on a YoY basis in 2HFY10.**

**Offset orders present a huge opportunity and Bharat Electronics is well placed to capture opportunities on that front, but we do not foresee any major orders to start flowing before 2HFY11. At the current market price of Rs 1,428, the stock trades at 12.6x FY10E EPS of Rs 113 and 11.4x FY11E EPS of Rs 125.5. We continue to maintain an Outperformer rating on the stock.**

## Income Statement

| Yr end 31 Mar (Rs mn)                                       | FY08          | FY09          | FY10E         | FY11E         |
|---|---------------|---------------|---------------|---------------|
| <b>Net sales</b>  | <b>40,653</b> | <b>45,868</b> | <b>51,336</b> | <b>57,496</b> |
| Growth (%)  | 4.3           | 12.8          | 11.9          | 12.0          |
| Operating expenses  | (30,557)      | (36,009)      | (38,962)      | (43,623)      |
| Operating profit  | 10,096        | 9,859         | 12,374        | 13,873        |
| Other operating income                                      | 281           | 433           | 717           | 789           |
| <b>EBITDA</b>   | <b>10,377</b> | <b>10,291</b> | <b>13,091</b> | <b>14,662</b> |
| Growth (%)  | 8.1           | (0.8)         | 27.2          | 12.0          |
| Depreciation  | (926)         | (1,056)       | (1,354)       | (1,618)       |
| Other income  | 2,057         | 1,831         | 1,808         | 1,989         |
| <b>EBIT</b>   | <b>11,508</b> | <b>11,066</b> | <b>13,545</b> | <b>15,033</b> |
| Interest paid   | (2)           | (108)         | (50)          | (50)          |
| Pre-tax profit  | 11,505        | 10,959        | 13,495        | 14,983        |
| (before non-recurring)                                      |               |               |               |               |
| Non-recurring items   | 213           | 0             | 0             | 0             |
| Pre-tax profit  | 11,719        | 10,959        | 13,495        | 14,983        |
| (after non-recurring)                                       |               |               |               |               |
| Tax (current + deferred)                                    | (3,446)       | (3,511)       | (4,453)       | (4,944)       |
| Net profit (before Minority Interest, Pref. Dividend, etc.) | 8,273         | 7,448         | 9,042         | 10,038        |
| Prior period adjustments                                    | (6)           | (10)          | 0             | 0             |
| Reported PAT  | 8,267         | 7,438         | 9,042         | 10,038        |
| <b>Adjusted net profit</b>                                  | <b>8,054</b>  | <b>7,438</b>  | <b>9,042</b>  | <b>10,038</b> |
| Growth (%)  | 12.2          | (7.6)         | 21.6          | 11.0          |

## Balance Sheet

| Yr end 31 Mar (Rs mn)                 | FY08          | FY09          | FY10E         | FY11E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Cash & Marketable securities          | 24,535        | 26,419        | 27,914        | 32,298        |
| Other current assets                  | 38,928        | 51,938        | 49,256        | 56,207        |
| Investments                           | 120           | 120           | 120           | 120           |
| Net fixed assets                      | 4,472         | 5,142         | 6,921         | 9,304         |
| Other non-current assets              | 1,424         | 1,466         | 1,600         | 1,800         |
| <b>Total assets</b>                   | <b>69,479</b> | <b>85,085</b> | <b>85,811</b> | <b>99,728</b> |
| Current liabilities                   | 37,134        | 47,002        | 40,550        | 46,300        |
| Total debt                            | 14            | 12            | 20            | 20            |
| <b>Total liabilities</b>              | <b>37,148</b> | <b>47,014</b> | <b>40,570</b> | <b>46,320</b> |
| Share capital                         | 800           | 800           | 800           | 800           |
| Reserves & surplus                    | 31,531        | 37,272        | 44,441        | 52,608        |
| <b>Shareholders' funds</b>            | <b>32,331</b> | <b>38,072</b> | <b>45,241</b> | <b>53,408</b> |
| <b>Total equity &amp; liabilities</b> | <b>69,479</b> | <b>85,085</b> | <b>85,811</b> | <b>99,728</b> |
| <b>Capital employed</b>               | <b>32,345</b> | <b>38,083</b> | <b>45,261</b> | <b>53,428</b> |

## Cash Flow Statement

| Yr end 31 Mar (Rs mn)             | FY08           | FY09           | FY10E          | FY11E          |
|-----------------------------------|----------------|----------------|----------------|----------------|
| Pre-tax profit                    | 11,719         | 10,959         | 13,495         | 14,983         |
| Depreciation                      | 926            | 1,056          | 1,354          | 1,618          |
| Change in working capital         | (2,504)        | (2,955)        | (4,899)        | (1,250)        |
| Total tax paid                    | (3,430)        | (3,553)        | (4,142)        | (5,095)        |
| <b>Cash flow from oper. (a)</b>   | <b>6,711</b>   | <b>5,507</b>   | <b>5,808</b>   | <b>10,255</b>  |
| Capital expenditure               | (1,060)        | (1,621)        | (3,133)        | (4,000)        |
| Change in investments             | 3              | 0              | 0              | 0              |
| Others                            | (135)          | (104)          | 0              | 0              |
| <b>Cash flow from inv. (b)</b>    | <b>(1,193)</b> | <b>(1,725)</b> | <b>(3,133)</b> | <b>(4,000)</b> |
| <b>Free cash flow (a+b)</b>       | <b>5,519</b>   | <b>3,782</b>   | <b>2,675</b>   | <b>6,255</b>   |
| Debt raised/(repaid)              | (3)            | (2)            | 8              | 0              |
| Dividend (incl. tax)              | (1,872)        | (1,937)        | (1,189)        | (1,872)        |
| Others                            | 74             | 42             | 0              | 0              |
| <b>Cash flow from fin. (c)</b>    | <b>(1,801)</b> | <b>(1,897)</b> | <b>(1,181)</b> | <b>(1,872)</b> |
| <b>Net change in cash (a+b+c)</b> | <b>3,717</b>   | <b>1,884</b>   | <b>1,495</b>   | <b>4,383</b>   |

## Key Ratios

| Yr end 31 Mar (%)     | FY08   | FY09   | FY10E  | FY11E  |
|-----------------------|--------|--------|--------|--------|
| Adjusted EPS (Rs)     | 100.7  | 93.0   | 113.0  | 125.5  |
| Growth                | 12.2   | (7.6)  | 21.6   | 11.0   |
| Book NAV/share (Rs)   | 403.9  | 475.6  | 565.3  | 667.3  |
| Dividend/share (Rs)   | 20.7   | 18.7   | 20.0   | 20.0   |
| Dividend payout ratio | 24.1   | 23.5   | 20.7   | 18.6   |
| Tax                   | 29.4   | 32.0   | 33.0   | 33.0   |
| EBITDA margin         | 25.4   | 22.2   | 25.1   | 25.2   |
| EBIT margin           | 28.1   | 23.9   | 26.0   | 25.8   |
| RoCE                  | 39.2   | 31.4   | 32.5   | 30.5   |
| Net debt/Equity       | (75.8) | (69.4) | (61.7) | (60.4) |

## Valuations

| Yr end 31 Mar (x) | FY08 | FY09 | FY10E | FY11E |
|-------------------|------|------|-------|-------|
| PER               | 14.2 | 15.4 | 12.6  | 11.4  |
| PCE               | 12.7 | 13.4 | 11.0  | 9.8   |
| Price/Book        | 3.5  | 3.0  | 2.5   | 2.1   |
| Yield (%)         | 1.4  | 1.3  | 1.4   | 1.4   |
| EV/Net sales      | 2.2  | 1.9  | 1.7   | 1.5   |
| EV/EBITDA         | 8.5  | 8.5  | 6.7   | 6.0   |

## Du Pont Analysis – ROE

| Yr end 31 Mar (x)    | FY08 | FY09 | FY10E | FY11E |
|----------------------|------|------|-------|-------|
| Net margin (%)       | 19.8 | 16.2 | 17.6  | 17.5  |
| Asset turnover       | 0.6  | 0.6  | 0.6   | 0.6   |
| Leverage factor      | 2.2  | 2.2  | 2.1   | 1.9   |
| Return on equity (%) | 27.7 | 21.1 | 21.7  | 20.4  |

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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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