

28 January 2011

Buy

Target price
Rs2105.00

Price
Rs1716.70

Equity | India | Aerospace & Defence

Flashnote

Researched by

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Bharat Electronics

Strong jump in order book

Our discussion with the management post Q3 results indicates that order book is up 29% sequentially to Rs164bn. Management also indicated they are on track to beat FY11 MoU guidance. BEL remains the best play on the India defence capex. We maintain our Buy rating.

Not much to make out of Q3; FY numbers are Q4 heavy

- BEL reported Q3 results, which saw revenues up 11% at Rs13.7bn. Operating profits were down 28% on account of increase in employee cost and a sharp increase in purchase of traded goods(due to the order execution mix during the quarter). PAT was down 24%yoy at Rs1.7bn.
- However, historically, 4Q has been the strongest quarter for the company. We expect FY11 will be similar to past years, where on average 51% of revenues and 59% of PAT flow through in the fourth quarter.

Order book up 29%qoq; On track to meet FY11 MoU guidance

- Our discussion with the management post results indicated that the current order book stands at Rs164bn, which is a sequential growth of 29% as compared to Rs127bn at the end of the September quarter
- The company won the Akash order of Rs36bn during the quarter. The company is looking at a order pipeline of Rs40bn in the current quarter
- Based on our discussion with management, we believe BEL is on track to meet its FY11 revenue MoU target of Rs57bn. The company is also targeting a PBT margin of 19-20% for FY11.

Best play on India defence capex; Maintain Buy

- We forecast revenue of Rs71.3bn for FY13, implying an 11% CAGR and in line with the company's growth rate of the past decade. We expect employee costs to moderate and because the bulk of its wage revision has already been completed leading to a profit CAGR of 20% over FY10-13.
- We believe BEL offers the best play the Indian defence capex story and maintain our Buy rating. Stock trades at 14x FY12F.

Bharat Electronics Q3 results

Rsm	3Q11	3Q10	yoy	9M11	9M10	yoy
Net sales	13,730	11,796	16.4%	32751	33984	-3.6%
Operating Profit	2,228	2,477	-10.1%	4,220	6,686	-36.9%
EBIT	2,393	3,245	-26.3%	4,981	7,775	-35.9%
PBT	2,392	3,245	-26.3%	4,979	7,773	-35.9%
Reported PAT	1,706	2,239	-23.8%	3,561	5,339	-33.3%
RM as a % of net sales	59.2%	52.8%	634bp	57.6%	57.5%	9bp
Staff costs as a % of net sales	17.9%	18.2%	-22bp	23.0%	17.0%	606bp
Other expenses as a % of net sales	6.7%	8.0%	-134bp	6.5%	5.9%	64bp
OPM	16.2%	21.0%	-477bp	12.9%	19.7%	-679bp
tax rate (%)	28.7%	31.0%	-232bp	28.5%	31.3%	-282bp

Source: Company data

Important disclosures can be found in the Disclosures Appendix.

Income statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Revenue	45836	51804	58048	64304	71341
Cost of sales	-23909	-29964	-33203	-36460	-40094
Operating costs	-11269	-13629	-14918	-15626	-16337
EBITDA	10658	8211	9926	12218	14910
DDA & Impairment (ex gw)	-1055	-1159	-1237	-1372	-1533
EBITA	9602	7052	8690	10846	13377
Goodwill (amort/impaird)	n/a	n/a	n/a	n/a	n/a
EBIT	9602	7052	8690	10846	13377
Net interest	-154.9	-54.3	-30.0	-31.5	-33.1
Associates (pre-tax)	n/a	n/a	n/a	n/a	n/a
Forex gain / (loss)	n/a	n/a	n/a	n/a	n/a
Exceptionals (pre-tax)	-784.7	352.8	0.00	0.00	0.00
Other pre-tax items	2296	3098	3531	4026	4348
Reported PTP	10959	10448	12191	14840	17692
Taxation	-3511	-3242	-3840	-4675	-5308
Minority interests	n/a	n/a	n/a	n/a	n/a
Exceptionals (post-tax)	n/a	n/a	n/a	n/a	n/a
Other post-tax items	9.84	2.13	0.00	0.00	0.00
Reported net profit	7458	7209	8351	10166	12385
Normalised Items Excl. GW	-784.7	352.8	0.00	0.00	0.00
Normalised net profit	8242	6856	8351	10166	12385

Source: Company data, RBS forecasts

year to Mar

Balance sheet

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
Cash & market secs (1)	26419	35784	41664	48668	57573
Other current assets	52819	50504	56591	62690	69550
Tangible fixed assets	5142	5214	5509	6043	6329
Intang assets (incl gw)	n/a	n/a	n/a	n/a	n/a
Oth non-curr assets	2024	1687	1687	1687	1687
Total assets	86404	93189	105451	119088	135140
Short term debt (2)	n/a	n/a	n/a	n/a	n/a
Trade & oth current liab	42602	44310	49651	55002	61021
Long term debt (3)	12.1	7.26	7.26	7.26	7.26
Oth non-current liab	5718	5415	6067	6721	7457
Total liabilities	48332	49732	55725	61730	68485
Total equity (incl min)	38071	43457	49726	57357	66655
Total liab & sh equity	86404	93189	105451	119088	135140
Net debt	-26407	-35777	-41657	-48661	-57565

Source: Company data, RBS forecasts

year ended Mar

Cash flow statement

Rsm	FY09A	FY10A	FY11F	FY12F	FY13F
EBITDA	10658	8211	9926	12218	14910
Change in working capital	-3485	4023	-746.5	-748.0	-841.4
Net interest (pd) / rec	-154.9	-54.3	-30.0	-31.5	-33.1
Taxes paid	-3511	-3242	-3840	-4675	-5308
Other oper cash items	1741	3426	4184	4680	5084
Cash flow from ops (1)	5247	12364	9494	11443	13812
Capex (2)	-1602	-1070	-1532	-1905	-1820
Disposals/(acquisitions)	0.00	0.00	0.00	0.00	0.00
Other investing cash flow	-0.01	0.00	0.00	0.00	0.00
Cash flow from invest (3)	-1602	-1070	-1532	-1905	-1820
Incr / (decr) in equity	0.00	0.00	0.00	0.00	0.00
Incr / (decr) in debt	-1.69	-4.85	0.00	0.00	0.00
Ordinary dividend paid	-1750	-1793	-2082	-2534	-3087
Preferred dividends (4)	0.00	0.00	0.00	0.00	0.00
Other financing cash flow	-9.30	-131.3	0.00	0.00	0.00
Cash flow from fin (5)	-1761	-1929	-2082	-2534	-3087
Forex & disc ops (6)	n/a	n/a	n/a	n/a	n/a
Inc/(decr) cash (1+3+5+6)	1884	9365	5880	7004	8905
Equity FCF (1+2+4)	3646	11294	7962	9538	11992

Lines in bold can be derived from the immediately preceding lines.
Source: Company data, RBS forecasts

year to Mar

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