

RESULTS REVIEW

Share Data

Market Cap	Rs. 146.5 bn
Price	Rs. 1,830.85
BSE Sensex	19,162.57
Reuters	BAJE.BO
Bloomberg	BHE IN
Avg. Volume (52 Week)	28,506.41
52-Week High/Low	Rs. 2,180 / 1,213.2
Shares Outstanding	80 mn

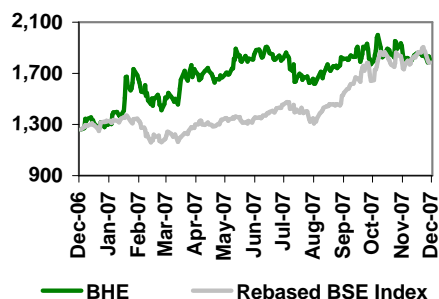
Valuation Ratios (Consolidated)

Year to 31 March	2008E	2009E
EPS (Rs.)	106.8	124.0
+/- (%)	16.8%	16.2%
PER (x)	17.1x	14.8x
EV/ Sales (x)	3.1x	2.8x
EV/ EBITDA (x)	12.8x	10.9x

Shareholding Pattern (%)

Promoters	76
FII's	9
Institutions	10
Public & Others	5

Relative Performance



Bharat Electronics Limited

Buy

Expect an improvement in performance

Bharat Electronics Limited (BEL) reported un-impressive results for Q2'08, which were slightly lower than our estimates. Net sales declined 13.9% yoy to Rs. 7.1 bn. EBITDA declined 17.8% yoy to Rs. 1.5 bn and margin went down by 103 bps owing to a steep rise in the staff cost. Despite lower EBITDA, net profit margin declined just by 69 bps and in absolute terms by 17.2% yoy to Rs. 1.2 bn on the back of higher other income.

BEL continues to focus on building its R&D capabilities by tying up with various foreign as well as Indian partners for technological collaboration. The Company's strength lies in building in-house products with least production cycle and providing them at competitive prices. We remain optimistic about the Company's future earning potential considering its massive order book, and the long-term benefits available from the offset clause. We expect an improvement in the Company's performance in H2'08, which has traditionally been its stronger half.

Currently, BEL is trading at a P/E of 17.1x FY08E and 14.8x FY09E earnings which is at a substantial discount to its peers. We maintain our Buy rating with a target price of Rs. 2,108.

Result Highlights

During the quarter ended Sep'07, the net sales of the Company decreased by 13.9% yoy to Rs. 7.1 bn which was slightly below our expectations considering the past trend of revenue booking in the first half of the year.

Key Figures (Standalone)

Quarterly data	Q2'07	Q1'08	Q2'08	YoY%	QoQ%	H1'07	H2'08	YoY%
(Figures in Rs. mn, except per share data)								
Net Sales	8,231	4,044	7,089	(13.9%)	75.3%	12,964	11,133	(14.1%)
EBITDA	1,865	(46)	1,534	(17.8%)	NM	2,587	1,487	(42.5%)
Net Profit	1,483	263	1,228	(17.2%)	367.1%	2,086	1,491	(28.5%)

Margins(%)

EBITDA	22.7%	(1.1%)	21.6%			20.0%	13.4%
NPM	18.0%	6.5%	17.3%			16.1%	13.4%

Per Share Data (Rs.)

Adjusted EPS	18.5	3.3	15.4	(17.2%)	366.6%	26.1	18.6	(28.5%)
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Higher staff cost pull down operating margins

EBITDA declined by 17.8% yoy to Rs. 1.5 bn, and margin went down by 103 bps on account of a substantial increase in the staff cost by 388 bps and higher other expenditure. However, the increase in operating cost was controlled by 501 bps decline in material and erection services cost. The lower raw material cost indicates the greater role of indigenously developed products in the total sales volume. The Company plans to invest 8-10% of the turnover on R&D in the coming years, thus reducing the raw material cost and increasing the revenue mix of the indigenously developed products.

Export contribution likely to increase to 10% of revenues by FY12

In absolute terms, net profit fell by 17.2% yoy to Rs. 1.2 bn. Moreover, net profit margin went down 69 bps which can be attributed to higher depreciation (71 bps). However, the increase in other income by 83 bps contained the net profit decline.

As on Sep 1, 2007, the Company's order book stood at Rs. 91 bn which seems to get translated into revenues within the next 2 years. Out of this order book, the export orders amounts to USD 12.3 mn. The Company targets to increase the export contribution to 10% of the total turnover by FY12 from the present 2%, on the backdrop of benefits available from the offset clause.

Key Events

- BEL has set an export target of USD 22 mn for FY08 from the present USD 11.6 mn (up 90% yoy). To achieve this, the Company is pursuing orders from Sri Lanka, Ghana, Suriname, Honduras, and Malaysia.
- On Sep 20, 07, BEL has approved the final dividend of 140% i.e. Rs. 14 per share for the year FY07.

Outlook

*Indigenous products and
defence offset clause to drive
business further*

BEL continues to focus on building its R&D capabilities by tying up with various foreign as well as Indian partners for technological collaboration. The Company's strength lies in building in-house products with least production cycle and providing them at competitive prices. Moreover, BEL is also in the process of diversifying into Civilian products. It is looking forward to tap opportunities in security and homeland security, e-governance, telecommunications, nuclear instrumentation, solar and other energy business. Additionally, the new mandatory offset clause of Indian Defence Procurement Procedure-2006 policy will also help the Company to flourish and achieve its objective to reach a revenue figure of USD 2 bn by FY11-12.

BEL is trading at a PE of 17.1x FY08E and 14.8x FY09E earnings which is at a substantial discount to its peers. Hence, we maintain our Buy rating with a target price of Rs. 2,108.

Key risks to our rating are attrition of trained and skilled manpower and increased competition from the private sector for defence contracts.

Key Figures (Consolidated)

Year to March	FY05	FY06	FY07	FY08E	FY09E	CAGR (%)
(Figures in Rs mn, except per share data)						(FY07-09E)
Net Sales	33,401	36,552	40,485	46,680	53,215	14.6%
EBITDA	6,943	8,717	9,687	11,466	13,444	17.8%
Net Profit	4,740	5,995	7,313	8,540	9,921	16.5%
Margins(%)						
EBITDA	20.8%	23.8%	23.9%	24.6%	25.3%	
NPM	14.2%	16.4%	18.1%	18.3%	18.6%	
Per Share Data (Rs.)						
EPS	59.2	74.9	91.4	106.8	124.0	16.5%
PER (x)	11.2x	17.6x	20.0x	17.1x	14.8x	

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