



(Investment Idea

Bharat Electronics Ltd. (BEL)

Bharat Electronics Ltd. (BEL), a mini-ratna and largest defense equipment manufacturer in India has posted excellent numbers for Quarter ended December, 2006 (Q3 FY 2007).

Net sales surged by 28.8% to Rs. 863.79 crore (Rs. 670.86 crore). OPM% improved to 22.9% (21.6%) despite a 6% rise in raw material cost as % of sale. PBT zoomed by 48.2% to Rs. 271.74 crore (Rs. 146.95 crore) further aided by doubling of other income to Rs. 40.72 crore (Rs. 21.72 crore). Lower average tax rate saw PAT soar by 52.7% to Rs. 148.18 crore (Rs. 97.01 crore).

BEL has a very healthy order book (over 2 times FY 2006 sales) at Rs. 7,330 crore (Rs. 6,600 crore as on March 2006) (inclusive of both civilian and defense) executable over a period of next 2-3 years depending on customer requirements.

BEL is actively looking at aviation sector to benefit from the offset agreement entered into by government of India, offering potential of US \$16-20 billion to Indian companies. It already interacts with Boeing, Raytheon and Lockheed-Martin, giving it strong footing to be one of principal beneficiaries of offset agreements.

It is also de-risking its portfolio (presently ~80% of total revenues comes from defense sector) by increasing focusing on exports and civilian electronics (like direct to home set top boxes, smart and citizen cards electronic voting machines, broadcasting equipment, non-defense telecommunication systems) by leveraging its strengths. This will also help company to better withstand competition from private players with the opening of hitherto restricted defense sector.

At CMP of Rs. 1395/-, share (Rs. 10/- paid up) is trading at 16.37 times FY 2007 expected EPS of Rs. 85/- and 13.64 times FY 2008 expected EPS of Rs. 102/-. In view of excellent business prospects, we recommend to "BUY" the share at CMP.

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January 29, 2007