

January 25, 2011

Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 1,088	Rs 1,350
EPS change FY11E/12E (%)	NA
Target Price change (%)	NA
Nifty	19,151
Sensex	5,743

Price Performance

(%)	1M	3M	6M	12M
Absolute	5	(14)	(20)	(10)
Rel. to Nifty	10	(9)	(24)	(21)

Source: Bloomberg

Relative Price Chart



Source: Bloomberg

Stock Details

Sector	Transformer
Bloomberg	BIJL@IN
Equity Capital (Rs mn)	57
Face Value(Rs)	10
No of shares o/s (mn)	6
52 Week H/L	1,316/736
Market Cap (Rs bn/USD mn)	5/110
Daily Avg Volume (No of sh)	6110
Daily Avg Turnover (US\$mn)	0.1

Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	35.7	35.7	35.7
FII/NRI	1.7	1.8	1.9
Institutions	25.1	24.7	22.5
Private Corp	5.4	5.6	6.0
Public	32.0	32.1	33.9

Source: Capitaline

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- **PAT grows by 92% yoy to Rs142mn (our expectations - Rs137mn) - driven by 28% revenue growth (mainly volume growth) and increase in EBITDA margins to 11.8% (+320bps)**
- **9mFY11 EPS stands at Rs62.2/Share (up 47% yoy), maintain earnings of Rs96.1 and Rs116.4 in FY11E and FY12E with upward bias going into Q4FY11E**
- **Valuations (3x FY12E EBITDA and 5.8x FY12E earnings) not pricing in value of inv. in Siemens (at 40% discount to CMP of Siemens, the value is Rs265/Share or 28% of BBL's CMP);**
- **Top pick in transformers pack; Reiterate Buy**

PAT growth of 92% driven by volume growth in both the businesses

Bharat Bijlee reported 28% yoy growth in revenues to Rs2.1bn, in line with estimates. The EBITDA margins improved (due to low base) to 11.8% (our estimate - 12.2%) from 8.6% in Q3FY10 (+320bps yoy). The improvement is driven by (1) better transformers margins on low base and increased volumes and (2) ~ 20% volume growth in motors business driven by improvement in industrial capex. As a result of 320bps improvement in EBITDA margins, EBITDA and PAT grew by 76% and 92% yoy to Rs244mn and Rs142mn, in line.

Maintain earnings with upward bias going into Q4FY11E

For 9mFY11, BBL has reported earnings of Rs62.2/Share (up 47% yoy). The Q4FY11E implied number stands at Rs33.9/share (growth of 14% yoy). This is 36% of overall FY11E earnings. Given the company's history of almost 40%+ earnings in Q4, we maintain our FY11E and FY12E earnings with positive bias going into Q4FY11E. Though we are factoring in only 40bps improvement in EBITDA margins in FY12E, we continue to believe there is a higher scope of operational leverage coming into play and improve the margins.

Price not factoring in improving performance & Siemens inv. value; Reiterate Buy

BBL has a long-term investment in Siemens (2.8mn shares) and HDFC (0.10mn shares). After according 40% (earlier 50%) discount to CMP of the above securities, per share investment value for BBL works out to Rs265/Share. To value BBL, we have removed the above value (Rs265/Share) from the CMP of Rs943/Share. The stock is trading (ex-investment value) at "Bargain Hunt" valuations of 5.8x FY12E earnings, 3.0x FY12E EBITDA and 1.3x FY12E Book Value. On the back of (1) earnings CAGR of 26% in FY10-12E, (2) cheap valuations, (3) qtr by qtr improving numbers and (4) performance track record, we reiterate our 'Buy' ratings. Bharat Bijlee remains our top pick in the transformers pack. Maintain our target price of Rs1350/Share (at 5x FY12E EBITDA).

Financial Snapshot

Rs Mn									
YE-	Net	EBITDA		EPS	EPS	RoE	EV/		
Mar	Sales	(Core)	(%)	APAT	(Rs)	% chg	(%)	P/E	P/BV
FY09	5,447	817	15.0	478	84.6	(33.7)	26.0	8.0	4.6
FY10	6,555	700	10.7	412	72.9	(13.8)	19.4	9.3	4.9
FY11E	7,739	963	12.4	543	96.1	31.8	22.6	7.1	3.7
FY12E	9,014	1,153	12.8	658	116.4	21.1	23.8	5.8	3.0

Quarterly Results

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	9mFY10	9mFY11	YoY (%)
Revenue	1,616	2,106	1,058	1,846	2,072	28.2	12.3	4,449	4,976	11.8
Expenditure	-1,477	-1,838	-945	-1,590	-1,828	23.8	14.9	-4,017	-4,363	8.6
<i>as % of sales</i>	<i>-91.4%</i>	<i>-87.3%</i>	<i>-89.3%</i>	<i>-86.2%</i>	<i>-88.2%</i>			<i>-90.3%</i>	<i>-87.7%</i>	
Consumption of RM	-1,224	-1,537	-697	-1,280	-1,504	22.9	17.5	-3,287	-3,481	5.9
<i>as % of sales</i>	<i>-75.7%</i>	<i>-73.0%</i>	<i>-65.9%</i>	<i>-69.3%</i>	<i>-72.6%</i>			<i>-73.9%</i>	<i>-70.0%</i>	
Power and Fuel	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Other Mfg Expenses	0	0	0	0	0			0	0	
<i>as % of sales</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>	<i>0</i>			<i>0</i>	<i>0</i>	
Employee Cost	-137	-143	-149	-145	-145	5.8	-0.3	-401	-438	9.4
<i>as % of sales</i>	<i>-8.5%</i>	<i>-6.8%</i>	<i>-14.1%</i>	<i>-7.9%</i>	<i>-7.0%</i>			<i>-9.0%</i>	<i>-8.8%</i>	
Other expenditure	-117	-158	-99	-166	-179	53.6	8.1	-330	-443	34.5
<i>as % of sales</i>	<i>-7.2%</i>	<i>-7.5%</i>	<i>-9.3%</i>	<i>-9.0%</i>	<i>-8.6%</i>			<i>-7.4%</i>	<i>-8.9%</i>	
EBITDA	139	267	113	255	244	76.0	-4.2	432	613	41.8
Depreciation	-22	-22	-21	-23	-22	3.2	-1.3	-62	-66	6.6
EBIT	117	245	93	232	222	22.1	-4.5	370	547	47.7
Other Income	0	0	0	0	0			0	0	-
Interest	-5	6	-5	-8	-10	90.2	15.5	-12	-23	88.5
PBT	112	251	88	224	212	89.5	-5.3	358	524	46.3
Total Tax	-38	-79	-29	-73	-70	85.3	-3.2	-119	-172	44.9
Adjusted PAT	74	173	59	151	142	91.6	-6.3	239	352	46.9
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	74	173	59	151	142	91.6	-6.3	239	352	46.9
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	-
PAT after MI	74	173	59	151	142	91.6	-6.3	239	352	46.9
Reported EPS	13.1	30.5	10.4	26.8	25.1	91.6	-6.3	42.4	62.2	46.9

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	8.6	12.7	10.7	13.8	11.8	320	-203	9.7	12.3	260
EBIT	7.2	11.7	8.8	12.6	10.7	346	-188	8.3	11.0	267
EBT	6.9	11.9	8.3	12.1	10.2	331	-190	8.1	10.5	248
PAT	4.6	8.2	5.5	8.2	6.8	226	-136	5.4	7.1	169
Effective Tax rate	33.9	31.3	33.3	32.5	33.2	-75	72	33.2	32.9	-31

Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	5,447	6,555	7,739	9,014
Growth (%)	-3.1	20.3	18.1	16.5
Expenditure	4,630	5,855	6,776	7,861
Raw Materials	3,664	4,824	5,440	6,337
Construction Exp	391	391	617	718
Employee Cost	514	543	605	673
Other Exp	61	97	114	133
EBITDA	817	700	963	1,153
Growth (%)	-28.4	-14.4	37.7	19.7
EBITDA margin (%)	15.0	10.7	12.4	12.8
Depreciation	71	84	103	117
EBIT	746	616	861	1,037
EBIT margin (%)	13.7	9.4	11.1	11.5
Other Income	30	54	47	45
Interest expenses	45	61	85	85
PBT	731	609	822	996
Tax	253	197	280	339
Effective tax rate (%)	34.6	32.4	34.0	34.0
Adjusted PAT	478	412	543	658
(Profit)/loss from JV's/Ass/MI	0	0	0	0
Adjusted PAT after MI	478	412	543	658
Growth (%)	-33.7	-13.8	31.8	21.1
Net Margin (%)	8.8	6.3	7.0	7.3
E/O items	0	0	0	0
Reported PAT	478	412	543	658
Growth (%)	-34.1	-13.8	31.8	21.1

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	701	555	775	951
Depreciation	71	84	103	117
Interest Provided	45	61	85	85
Other Non-Cash items	0	0	0	0
Chg in working cap	754	-550	-412	-419
Tax paid	-1,217	440	-114	-160
Operating Cashflow	354	590	438	574
Capital expenditure	-239	-80	-300	-150
Free Cash Flow	115	510	138	424
Other income	30	54	47	45
Investments	0	0	0	0
Investing Cashflow	-209	-26	-253	-105
Equity Capital Raised	0	0	0	0
Loans Taken / (Repaid)	-64	160	0	0
Interest Paid	-45	-61	-85	-85
Dividend paid (incl tax)	-142	-141	-186	-226
Income from investments	-5	-24	-32	-38
Others	6	0	0	0
Financing Cashflow	-250	-66	-303	-349
Net chg in cash	-105	498	-119	120
Opening cash position	277	173	670	552
Closing cash position	172	670	552	672

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	57	57	57	57
Reserves & surplus	1,938	2,185	2,510	2,904
Net worth	1,995	2,241	2,566	2,960
Minority Interest	0	0	0	0
Secured Loans	116	276	276	276
Unsecured Loans	0	0	0	0
Loan Funds	116	276	276	276
Net deferred tax liability	39	39	39	39
Total Liabilities	2,151	2,557	2,882	3,276
Gross Block	994	1,092	1,385	1,528
Less: Depreciation	319	403	505	622
Net block	675	689	880	906
Capital work in progress	51	33	40	47
Investment	0	0	0	0
Current Assets	2,844	4,259	4,789	5,607
Inventories	890	1,001	1,181	1,376
Sundry debtors	1,569	1,809	2,135	2,487
Cash & bank balance	173	670	552	672
Loans & advances	212	780	920	1,072
Other current assets	0	0	0	0
Current lia & Prov	1,419	2,424	2,827	3,284
Current liabilities	1,137	1,505	1,742	2,021
Provisions	282	919	1,085	1,264
Net current assets	1,425	1,835	1,963	2,323
Misc. exp & Def. Assets	0	0	0	0
Total Assets	2,151	2,557	2,882	3,276

Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	15.0	10.7	12.4	12.8
Net Margin	8.8	6.3	7.0	7.3
ROCE	36.7	26.2	31.6	33.7
ROE	26.0	19.4	22.6	23.8
RoIC	43.3	32.6	41.5	42.8
Per Share Data (Rs)				
EPS	84.6	72.9	96.1	116.4
CEPS	97.1	87.7	114.2	137.1
BVPS	353.1	396.7	454.2	523.9
DPS	25.1	25.0	33.0	39.9
Valuations (x)				
PER	8.0	9.3	7.1	5.8
P/CEPS	7.0	7.7	5.9	4.9
P/BV	1.9	1.7	1.5	1.3
EV / Sales	0.7	0.5	0.5	0.4
EV / EBITDA	4.6	4.9	3.7	3.0
Dividend Yield (%)	3.7	3.7	4.9	5.9
Gearing Ratio (x)				
Net Debt/ Equity	0.0	-0.2	-0.1	-0.1
Net Debt/EBIDTA	-0.1	-0.6	-0.3	-0.3
Working Cap Cycle (days)	84	65	67	67

Recommendation History: Bharat Bijlee – BIJL IN

Date	Reports	Reco	CMP	Target
28/10/2010	Bharat Bijlee Q2FY11 Result Update	Buy	1,088	1,350
23/07/2010	Bharat Bijlee Q1FY11 Result Update	Accumulate	1,260	1,350
14/05/2010	Bharat Bijlee Q4FY10 Result Update	Buy	988	1,200
28/01/2010	Bharat Bijlee Q3FY10 Result Update	Accumulate	940	1,063

Recent Research Reports

Date	Reports	Reco	CMP	Target
13/01/2011	Sintex Industries Q3FY11 Result Update	Accumulate	169	215
11/11/2010	GIPCL Q2FY11 Result Update	Accumulate	118	135
01/11/2010	Voltamp Q2FY11 Result Update	Hold	862	840
27/10/2010	NTPC Q2FY11 Result Update	Hold	198	190

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