

RESULT UPDATE

MID CAP

Share Data

Reuters code	BEML.BO
Bloomberg code	BEML IN
Market cap. (US\$ mn)	561
6M avg. daily turnover (US\$ mn)	1.9
Issued shares (mn)	42
Target price (Rs)	650

Performance (%)	1M	3M	12M
Absolute	(10)	(6)	(38)
Relative	(8)	(6)	(44)

Valuation ratios

Yr to 31 Mar	FY12E	FY13E
EPS (Rs)	51.3	71.9
+/- (%)	44.6	40.3
PER (x)	11.8	8.4
PBV (x)	1.1	1.0
Dividend/Yield (%)	1.7	1.7
EV/Sales (x)	0.9	0.8
EV/EBITDA (x)	11.9	8.5

Major shareholders (%)

Promoters	54
FII's	13
MF's	9
BFSI's	14
Public & Others	10

Financial highlights

(Rs mn)	4QFY10	4QFY11	YoY (%)	FY10	YoY (%)	FY11	YoY (%)	FY12E	YoY (%)	FY13E	YoY (%)
Net revenues	11,940	9,361	(21.6)	28,385	1.5	26,304	(7.3)	33,336	26.7	40,518	21.5
EBITDA	1,519	(375)	(124.7)	2,769	(20.8)	644	(76.7)	2,541	294.5	3,745	47.4
EBITDA margin (%)	12.7	(4.0)	—	9.8	—	2.4	—	7.6	—	9.2	21.3
Other income	883	1,516	71.6	1,280	25.4	2,145	67.6	1,367	(36.3)	1,393	1.9
Depreciation	91	96	5.5	327	18.7	344	5.1	411	19.4	492	19.7
Interest	109	176	61.0	493	46.0	593	20.4	641	8.0	641	—
Profit before Tax & EoI	2,202	869	—	3,228	(17.3)	1,852	(42.6)	2,855	54.2	4,006	40.3
Tax	629	128	(79.6)	979	(18.0)	371	(62.1)	714	92.3	1,001	40.3
Adjusted PAT	1,573	703	(55.3)	2,249	(17.0)	1,481	(34.2)	2,142	44.6	3,004	40.3
EoI	—	(38)	—	—	—	—	—	—	—	—	—
Reported PAT	1,573	741	(52.9)	2,249	(17.0)	1,481	(34.2)	2,142	44.6	3,004	40.3

BEML

Maintain Outperformer

Price: Rs 604

BSE Index: 18,494

03 June 2011

4QFY11 Result – Margins impacted by wage settlement

Net sales for the quarter dropped by 21.6% and for FY11, by 7%. Operating margins have been impacted by the wage settlement concluded in the previous quarter with retrospective effect from 2007. Other income for FY11 is up 68% and the effective tax rate reduced from 30% in FY10 to 20% in FY11. Tax expense is recognised considering 200% weighted deduction in R&D expenditure during the reported period, consequent to recognition of R&D facilities by DSIR during the second quarter. The order backlog which as of April 2010 was Rs 52.06 bn, at present stands at ~Rs 50 bn.

Cost structure

(Rs mn)	FY10	FY11	YoY (%)	4QFY10	4QFY11	YoY (%)
Sales	28,382	26,304	(7.3)	11,940	9,361	(21.6)
Material cost	16,499	15,108	(8.4)	7,669	5,790	(24.5)
Employee expense	5,551	6,832	23.1	1,474	2,669	81.1
Other expenditure	3,700	3,802	2.8	1,278	1,277	(0.1)

BEML has concluded a wage settlement with its employees. The settlement will be in force for 10 years with retrospective effect from 2007. The settlement is likely to incur expenditure of Rs 600 mn annually. As part of the settlement, the threshold limit for Standard Man Hour (SMH) has been increased from 100-130 which is expected to generate 0.285 mn additional SMH or Rs 1.08 bn in incremental turnover.

In the minutes of meeting for the FY10 AGM, held on 13 August 2010, the company clarified in explanation for loss of Chennai metro order to Alstom, that had it bid at the rate quoted by Alstom, it would have led to a third consecutive loss making metro order, indicating that the Bangalore and Delhi metro orders on its books are loss making. This will obviously impact the operating margins adversely for BEML. Further, the company also clarifies that the Metro business's turning profitable is dependent on BEML achieving 50-55% indigenisation and reaching a utilisation rate of 25 cars per month.

The company will also invest Rs 3.16 bn for aerospace components plant (in SEZ near BIAL, to be operational by 2012-13) and Rs 1 bn for 18 MW wind power plant in Gadag (Karnataka). The facility will manufacture helicopter gears, jigs for aircraft structures; have a aerospace components machining facility and fabrication of structural sub-assemblies for Su-30 aircraft and ground support equipment. The company envisions a turnover of Rs 10 bn from this venture by 2016-17. The company has also signed an agreement with a European company to foray into dredging equipment.

BEML has recently commissioned the first phase of its Palakkad facility (investment of Rs 2.6 bn) and will shift its entire range of defense equipment there. It also plans to acquire another 600 acre of land for the second phase at Palakkad. This entire capex of Rs 6.8 bn will span two-three years and will be part debt funded. BEML is also in the process of finalising a technology tie-up for entry in the dredging equipment manufacturing business.

Outlook

BEML recently got an order for metro coaches (broad gauge intermediate cars) from DMRC worth Rs 9.25 bn (136 coaches) to be supplied over the coming two years. BEML anticipates repeat order for the same from DMRC and also orders from BMRC of similar kind. In addition, DMRC is expected to announce fresh orders for 600 cars. BEML is also L1 for Kolkata metro. Metro car orders for Hyderabad and Jaipur Metro are also in the pipeline. The company is likely to take its turnover for rail and metro to Rs 12.5-15 bn in FY12. Although metro orders add significantly to the top-line, they have thus far not significantly impacted profits. Indigenisation levels have reached 50% and are expected to increase to 60% in a year's time. The company has in the past indicated 50% indigenous content as the threshold for turning metro projects profitable.

In the defense segment, orders in pipeline include 4,000-5,000 heavy mobility vehicles for the army and overhaul orders for Russian make BMP2 infantry fighting vehicles, for which BEML has been nominated. BEML could also possibly get orders through offset for field guns. Offset related prospects will be further boosted with the commissioning of the new aerospace facility in FY13.

In the mining equipment segment, Coal India has budgeted capital investment of Rs 45 bn for FY12 (80% for equipment procurement) as compared to Rs 25 bn last year. This could significantly prop up orders for BEML. Also, the MAMC facility is likely to be commissioned in FY12, adding further to this segment's sales. BEML is in process of expanding doubling capacity for dump trucks.

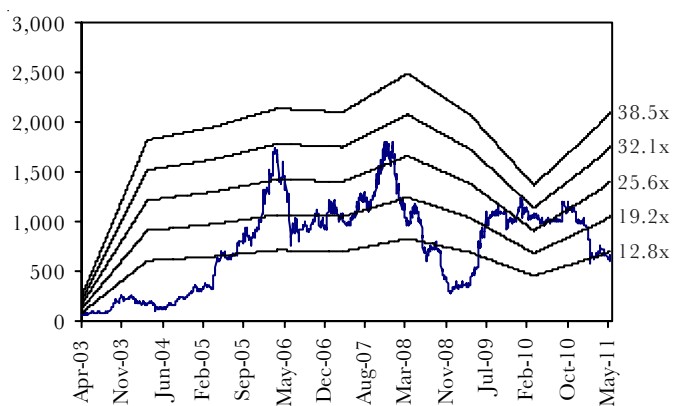
BEML anticipates order intake of ~Rs 60 bn as a result of the opportunities in metro rail, defense off-set and CIL capex. With higher indigenisation and utilisation in metro, this segment might turn profitable in FY12.

Valuation

We have reduced FY12 earnings by 15% to factor the impact wage settlement. At the current market price of Rs 604, the stock is trading at 12x FY12E and 8x FY13E earnings.

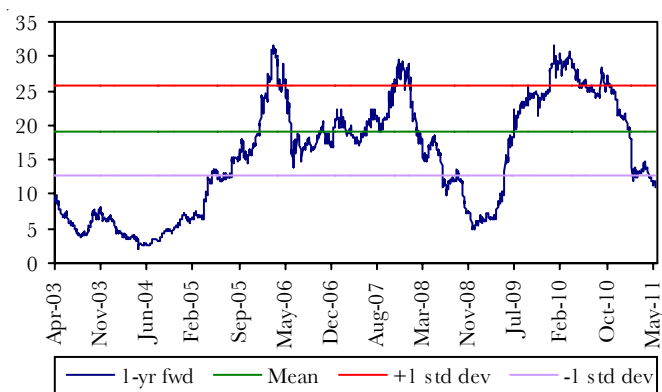
We retain our Outperformer rating with a target price of Rs 650.

PER Band



Source: B&K Research

One-year forward PER



Income Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Net sales	28,385	26,304	33,336	40,518
Growth (%)	1.5	(7.3)	26.7	21.5
Operating expenses	(25,616)	(25,660)	(30,795)	(36,772)
Operating profit	2,769	644	2,541	3,745
EBITDA	2,769	644	2,541	3,745
Growth (%)	(20.8)	(76.7)	294.5	47.4
Depreciation	(327)	(344)	(411)	(492)
Other income	1,280	2,145	1,367	1,393
EBIT	3,721	2,445	3,496	4,647
Interest paid	(493)	(593)	(641)	(641)
Pre-tax profit	3,228	1,852	2,855	4,006
(before non-recurring)				
Pre-tax profit	3,228	1,852	2,855	4,006
(after non-recurring)				
Tax (current + deferred)	(979)	(371)	(714)	(1,001)
Net profit (before Minority Interest, Pref. Dividend, etc.)	2,249	1,481	2,142	3,004
Prior period adjustments	(1)	0	0	0
Minority interests	(1)	0	0	0
Reported PAT	2,247	1,481	2,142	3,004
Adjusted net profit	2,247	1,481	2,142	3,004
Growth (%)	(16.8)	(34.1)	44.6	40.3

Balance Sheet

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Cash and marketable sec.	5,672	3,895	4,295	788
Other current assets	34,908	33,082	38,934	47,310
Investments	57	57	57	57
Net fixed assets	3,181	5,557	6,192	7,746
Other non-current assets	338	0	0	0
Total assets	44,156	42,592	49,477	55,900
Current liabilities	14,564	12,096	17,328	21,156
Total debt	9,159	9,159	9,159	9,159
Other non-current liabilities	15	0	0	0
Total liabilities	23,738	21,254	26,487	30,315
Share capital	418	418	418	418
Reserves & surplus	20,015	21,007	22,660	25,176
Less: Misc. expenditure	(15)	(87)	(87)	(8)
Shareholders' funds	20,419	21,338	22,990	25,585
Total equity & liab.	44,156	42,592	49,477	55,900
Capital employed	29,595	30,496	32,149	34,744

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY10	FY11	FY12E	FY13E
Pre-tax profit	3,228	1,852	2,855	4,006
Depreciation	327	344	411	492
Change in working capital	(509)	(874)	(962)	(4,835)
Total tax paid	(1,761)	260	(371)	(714)
Cash flow from oper. (a)	1,285	1,582	1,933	(1,052)
Capital expenditure	(658)	(2,721)	(1,045)	(2,046)
Change in investments	(3)	0	0	0
Others	59	(73)	0	79
Cash flow from inv. (b)	(602)	(2,794)	(1,045)	(1,967)
Free cash flow (a+b)	683	(1,212)	888	(3,018)
Debt raised/(repaid)	3,468	0	0	0
Dividend (incl. tax)	(587)	(561)	(489)	(489)
Others	(526)	(4)	0	0
Cash flow from fin (c)	2,354	(565)	(489)	(489)
Net chg in cash (a+b+c)	3,037	(1,777)	400	(3,507)

Key Ratios

Yr end 31 Mar (%)	FY10	FY11	FY12E	FY13E
Adjusted EPS (Rs)	53.8	35.4	51.3	71.9
Growth	(16.8)	(34.1)	44.6	40.3
Book NAV/share (Rs)	488.8	510.8	550.4	612.5
Dividend/share (Rs)	10.0	10.0	10.0	10.0
Dividend payout ratio	21.8	33.0	22.8	16.3
Tax	30.3	20.0	25.0	25.0
EBITDA margin	9.8	2.4	7.6	9.2
EBIT margin	13.1	9.3	10.5	11.5
RoCE	13.7	8.1	11.2	13.9
Net debt/Equity	17.1	24.7	21.2	32.7

Valuations

Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
PER	11.2	17.0	11.8	8.4
PCE	9.8	13.8	9.9	7.2
Price/Book	1.2	1.2	1.1	1.0
Yield (%)	1.7	1.7	1.7	1.7
EV/Net sales	1.0	1.1	0.9	0.8
EV/EBITDA	10.3	45.8	11.9	8.5

Du Pont Analysis – ROE

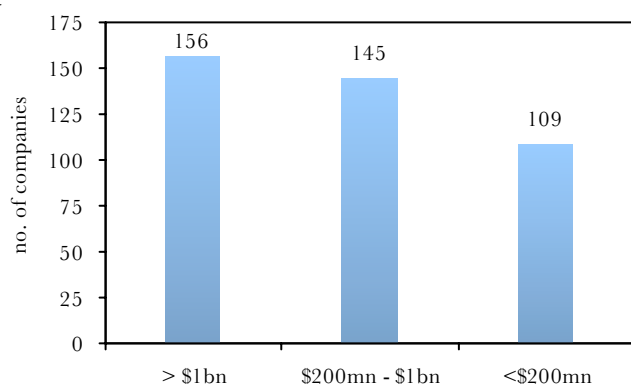
Yr end 31 Mar (x)	FY10	FY11	FY12E	FY13E
Net margin (%)	7.9	5.6	6.4	7.4
Asset turnover	0.7	0.6	0.7	0.8
Leverage factor	2.2	2.1	2.1	2.2
Return on equity (%)	11.4	7.1	9.7	12.4

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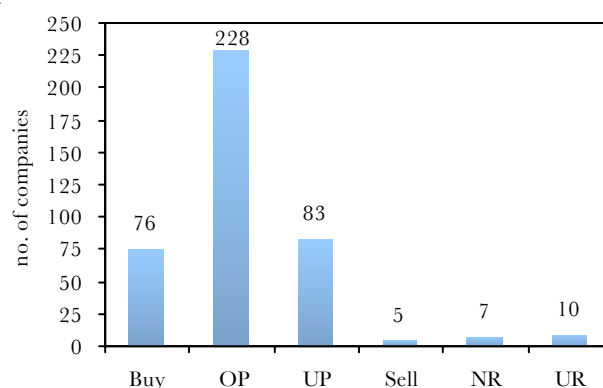
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

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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