



Bharat Earth Movers

FPO Fact Sheet

Issue details

Issue opens:	June 27, 2007
Issue closes:	July 03, 2007
Issue size:	49 lakh equity shares
Reservation for employees:	4.9 lakh shares
Fresh issue to public:	44.1 lakh shares
Face value:	Rs10 each
Break-up of fresh issue to public	
- QIB's portion:	22.05 lakh shares
- Retail portion:	15.43 lakh shares
- Non-institutional portion:	6.61 lakh shares
Price band:	Rs1,020 to Rs1,090

Objects of the issue

The fresh issue of 49 lakh equity shares is aimed at raising Rs499.8 to Rs534.1 crore (depending on the price band of Rs1,020-1,090 per share) to fund the expansion plan of the metro coach manufacturing facility and to set up a research and development (R&D) centre for metro coaches. The proceeds would also be used to meet the capital expenditure, upgrade the current facilities, finance a voluntary retirement scheme (VRS) for the employees and set up a 5-megawatt (MW) windmill for captive consumption.

Particulars	Amount (Rs crore)
Expansion of metro coach manufacturing facility	214.51
Capital expenditure including upgradation of the current facilities	90.0
VRS for employees	90.0
Setting up a 5MW windmill for captive consumption	27.0
Setting up an R&D centre of excellence for metro coaches	9.0
Issue expenses	
General corporate purpose	
Total	Rs499.8-Rs534.1

After the issue the total number of shares of the company will increase from 36.74 crore to 4.16 crore, bringing down the promoters' stake to 54.03% of the diluted equity.

Shareholding pattern

	Pre-issue		Post-issue	
	Percentage (%)	No of shares	Percentage (%)	No of shares
Government of India	61.23	22,500,000	54.03	22,500,000
Public holding	38.75	14,244,500	45.97	19,144,500
Total	100	36,744,500	100	41,644,500

Company background

Bharat Earth Movers Ltd (BEML) is one of the major manufacturers of mining and construction equipment in India. BEML is a multi-product company with businesses in the following areas:

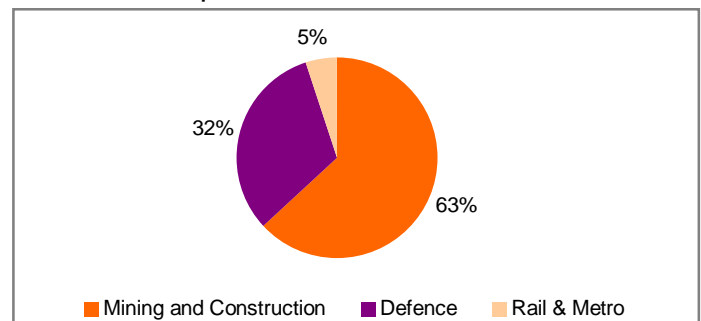
- ♦ mining and construction equipment;
- ♦ defence equipment; and
- ♦ rail and metro products.

These businesses of the company cater to some of the critical sectors of the nation such as defence, mining, steel and roads.

The company has recently forayed into two new businesses including technology, wherein it provides engineering design software solutions, and trading, wherein it markets non-company products and components.

BEML has been given a status of Mini-Ratna (Category I) company under the defence ministry. The company is ISO 9001-2000 certified with manufacturing facilities in Bangalore, Mysore and Kolar gold fields, all in the state of Karnataka, India.

Revenue break-up



Mining and construction equipment business

BEML has been in the mining and construction business since 40 years, manufacturing a wide variety of earth moving equipment catering to the core sectors such as mining, irrigation, steel, power and infrastructure development. The company manufactures earthmoving equipment like bulldozers, dump trucks, hydraulic excavators, wheel loaders, wheel dozers, tyre handlers, pipe layers, rope shovels, walking draglines, motor graders, scrapers, water sprinklers, aircraft towing tractors and backhoe loaders. In February 2007 there were confirmed orders of Rs824.64 crore.

Defence equipment business

For over four decades the company has been India's major defence equipment manufacturer. The current business share from this segment is 32%. The company has been able to supply to the defence department some path-breaking products and has been awarded large defence orders in the past fiscal too. The company's defence equipment product portfolio includes high mobility trucks, crash fire tenders, heavy duty carriers for artillery equipment, combat vehicles, dozers, grades, aircraft towing tractors, milrail coaches and wagons. The company's order book for the defence business stood at Rs236 crore as on February 2007.

Railways and metro business

Operating for over four decades in the railway business the company is a major supplier to Indian Railways and the metro services in India. The company is witnessing a robust growth in this business segment. The major products manufactured under this segment include metro trains, integrated rail coaches, electric multiple units and overhead equipment intersection cars. The major customers include the Indian Railways, DMRC and the defence ministry. In FY2006 the rail business contributed 5% to the total revenues.

Technology business

BEML has set up a technology division to provide e-engineering solutions to clients across the globe by utilising its domain knowledge in engineering design and system engineering gained over four decades of R&D and experience.

Trading division

The trading division was launched with a view to maximising business through the sale of non-core components and engineering spares, leveraging BEML's expertise in the heavy engineering industry. The division markets non-company products, parts, aggregates and commodities for domestic and international markets.

Key positives

Strong position in mining and construction equipment

The company is one of the leading manufacturers of mining and construction equipment with significant domestic market share. It has a wide variety of products for open cast mining, underground mining and construction all of which are core sectors of the economy. Mining and construction also form a major part of the business for BEML, contributing 63% to the total sales revenue.

Opportunity in defence business

The focus on acquisition of capital goods by the defence ministry is on the rise. The Union Budget 2007-08 proposed to increase the defence budget for the fiscal by 11.6% to Rs96,000 crore. Out of the total budget for FY2008, Rs41,000 crore has been allocated for capital expenditure, that is an increase of 19% over the previous fiscal's actual expenditure of Rs34,500 crore. Since BEML is one of the major suppliers to the defence ministry, this offers a huge business opportunity for the company.

Investment in global alliances and operations

The company has tie-ups with international players for manufacturing heavy engineering products like walking draglines, rope shovels, dumpers and metro coaches. Recently the company has also forayed into the Brazilian market. BEML has signed a memorandum of understanding for a joint venture (JV) company with Companhia Comercio E Cintrucoes. The JV is a 60:40 set-up with BEML holding the majority stake. The new company would be focusing on manufacturing rail wagons and bogies, mining and construction equipment and spares. This facility would be catering to the growing Brazilian and South American markets.

Key concerns

Contribution of rail business

Although the company has been into manufacturing of rail coaches for a long time now, yet the contribution of the railway business to the total revenue has been low (only 3% for the nine months ended December 2006). The operating profit margin for this segment has been negative for the past five years due to limited discretion in the fixation of selling price and higher cost of raw materials.

Negative cash flow from operation

The company had negative cash flow of Rs130.15 crore from operation for the nine-month period ending December 2006. It had a negative cash flow of Rs140.62 crore in FY2005 as well.

Increased competition

With the change in government policies the company has started facing competition in various business segments. For instance, the opening up of supplies to the defence department for the public and private players has made BEML compete with the likes of Larsen and Tubro, and Mahindra and Mahindra. With liberalised policies and increased imports BEML is facing fierce competition in earthmoving and railway product businesses from various domestic and international players like Hitachi, Komatsu, Alstom, Seimens and many more.

This could have an adverse effect on the market share of the company and its price margins, which might go down due to competition.

Control by Government of India

After the follow-on public offer (FPO) the Government of India would be holding 54.03% of the paid-up capital. The defence ministry will continue to control the company, thereby giving it less freedom to take decisions. The board of directors would also have to seek approval of the government for all proposals.

Financials & valuation

BEML's sales and profits have grown at compounded annual growth rates of 18% and 8% respectively over FY2005-07. In FY2007, the sales grew by 17.7% from Rs2,059.54 crore to Rs2,423.87 crore. The operating profit grew by 9.2% to Rs335.17 crore in FY2007 from Rs306.8 crore in FY2006. The operating profit margin improved marginally by 20 basis points. The net profit increased by 9.6% to Rs204.9 crore in FY2007 from Rs186.9 crore in FY2006.

The company is offering its share in a price band of Rs1,020-1,090. At the upper band of the issue price, the stock is offered at 22x its FY2007 earnings, based on the post-FPO diluted equity capital. Considering the growth prospects fuelled by the current order book and the expansion of the metro rail in various cities, the valuation looks reasonable.

Given the fact that various Indian cities are planning to build metro rail and BEML would spend around Rs215 crore out of the proceeds of this issue for the expansion of metro coach manufacturing facility, the huge orders expected from this segment could act as a trigger for the stock.

Peer group comparison

(Rs cr)

Particulars	TIL	Action Construction Equipments	BEML @ Rs1,020	BEML @ Rs1,070
Net sales	568.7	245.2	2423.9	2423.9
EBIDTA	45.7	26.0	279.9	279.9
EBIDTA (%)	8.0	10.6	11.6	11.6
PAT	28.6	19.9	204.9	204.9
NPM (%)	5.0	8.1	8.5	8.5
CMP (Rs)	226.0	272.0	1020.0	1070.0
EPS (Rs)	18.7	12.6	55.8	55.8
PER (x)	12.1	21.6	18.3	19.2

Financials

Profit and loss account

Rs (cr)

Particulars	FY2004	FY2005	FY2006	FY2007
Revenues	1765.8	1732.8	2059.5	2423.9
Other Income	43.1	58.8	71.2	55.4
Expenditure	1738.9	1494.0	1823.9	2144.1
PBIDT	70.0	297.6	306.8	335.2
Interest	1.5	1.8	7.3	5.6
Depreciation	18.3	23.0	14.1	13.5
PBT	50.2	272.8	285.4	316.0
Tax	26.0	97.5	98.5	111.1
PAT	24.2	175.3	186.9	204.9

Balance sheet

Rs (cr)

Particulars	FY2004	FY2005	FY2006	M9FY07
Equity capital	36.9	36.9	36.9	36.9
Reserves	564.4	697.8	842.8	954.3
Misc expenditure	32.4	40.3	25.8	22.3
Net worth	568.9	694.4	853.9	968.8
Debt	48.9	78.2	26.0	107.4
Capital employed	617.7	772.6	879.9	1076.2
Fixed assets	133.9	116.5	125.2	128.0
CWIP	1.8	6.3	8.8	28.4
Investments	2.8	2.7	2.5	2.5
Net current assets	479.3	647.2	743.3	917.3
Capital deployed	617.7	772.6	879.8	1076.2

The author doesn't hold any investment in any of the companies mentioned in the article.

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