

RESULTS REVIEW

Share Data

Market Cap	Rs. 74.3 bn
Price	Rs. 929.35
BSE Sensex	14,296.79
Reuters	BAJE.BO
Bloomberg	BHE IN
Avg. Volume (52 Week)	22,326.5
52-Week High/Low	Rs. 2,180 / 797.80
Shares Outstanding	80 mn

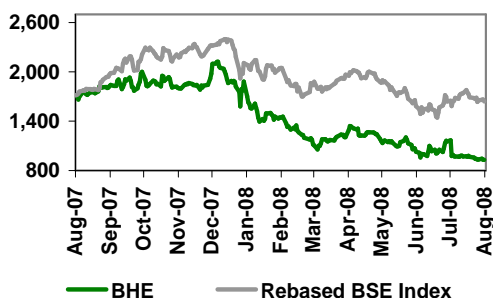
Valuation Ratios (Consolidated)

Year to 31 March	2009E	2010E
EPS (Rs.)	102.7	115.5
+/- (%)	7.9%	12.4%
PER (x)	9.0x	8.0x
EV/ Sales (x)	1.2x	1.0x
EV/ EBITDA (x)	5.0x	4.6x

Shareholding Pattern (%)

Promoters	76
FII's	9
Institutions	11
Public & Others	4

Relative Performance



Bharat Electronics Limited

Hold

Q1'09 numbers not indicative of full-year potential

Bharat Electronics Limited (BEL)'s net sales for Q1'09 declined by 5.1 % yoy to Rs. 3.8 bn. In addition, higher operating costs dented the profitability and resulted in an operating loss of Rs. 325.6 mn. However, a favourable other income enabled the Company to report a net profit of Rs. 25.2 mn.

Historically, the first half of every year has been weak for BEL, with most of the revenue booking coming in the latter half. Thus, in our view, the Q1'09 numbers do not provide sufficient indication of what lies in store for FY09. As per its memorandum of understanding with the Ministry of Defence, BEL's revenue target for FY09 stands at Rs. 48 bn. The strong order book of Rs. 94.5 bn, 2.2x FY08 revenues, provides a healthy revenue booking potential.

Consequently, we have not revised our near-term estimates of FY09 and FY10 and would review the same depending on BEL's performance in the coming quarters.

Our DCF valuation has resulted in a fair value of Rs. 1,061, which does not provide considerable upside compared to the current levels. Hence, we reiterate our Hold rating.

Key Figures (Standalone)

Quarterly data	Q1'08	Q4'08	Q1'09	YoY%	QoQ%
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(Figures in Rs. mn, except per share data)

Net Sales	4,044	22,937	3,839	(5.1%)	(83.3%)
Adj. EBITDA	(46)	6,986	(326)	nm	nm
Adj. Net Profit	263	4,904	25	(90.4%)	(99.5%)

Margins(%)

EBITDA	(1.1%)	30.5%	(8.5%)
NPM	6.5%	21.4%	0.7%

Per Share Data (Rs.)

Adj. EPS	3.3	61.3	0.3	(90.4%)	(99.5%)
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Result Highlights

For the quarter ended Q1'09, revenue declined 5.1% yoy due to the execution delays being faced by the Company. The lack of progress in the defence procurement policy resulted in the execution delays. However, we expect increased revenue booking in Q4'09 as these are mostly back-ended.

EBITDA margin fell because of high other expenses, which stood at 14.3% of sales, compared with 8.7% for the same period last year. Personnel expenses grew by 9.8% yoy, mainly due to higher provisioning for dearness allowance (DA) and wage hikes for public sector enterprise (PSE) employees as per the recommendations of the Sixth Pay Commission. However, on a yoy basis, personnel expenses increased from 35.8% of sales in Q1'08 to 41.5% of sales in Q1'09. On the other hand, raw material costs stood at 36.1% of sales, compared with 51.4% in Q1'08. We believe that a strong emphasis towards indigenisation and other cost control initiatives, such as negotiating better prices with suppliers, undertaken last year, have resulted in lower raw material costs.

Profitability impacted by the higher operating costs

Despite incurring a negative EBITDA of Rs. 325.6 mn, BEL managed to report a positive PAT due to the increase in other income.

Key Events

BEL eyes opportunity in the nuclear power sector

BEL is exploring instrumentation opportunities in the nuclear power sector as part of its diversification plans.

Company plans to manufacture polysilicon

BEL plans to enter into a 50:50 joint venture with Bharat Heavy Electricals Limited (BHEL) to set up a polycrystalline silicon (polysilicon) manufacturing unit. BEL plans an annual production of 2,500 tons of polysilicon, the key raw material used to manufacture solar panels. This capacity is equivalent to 250 MW of solar power.

Key risks

Any delay in defence spending due to political or bureaucratic delays could pose a risk to our rating.

Outlook

To meet the growing competition, BEL is looking towards adding new products to its portfolio. It has appointed consulting firm KPMG to help identify future market opportunities and to suggest a restructuring plan accordingly.

The management has given a revenue guidance of Rs. 100 bn for FY2012, implying a CAGR of 25% over FY08 gross revenues, which seems to be a challenge for the Company. However, the Company has an order book of Rs. 94.5 bn, higher than that of Rs. 91.3 bn at the beginning of FY08, indicating good revenue booking capability. The capital expenditure for FY09 is estimated at Rs. 2 bn. Also, the government has increased the defence allocation in the FY08-09 Union Budget by 10% to Rs. 105.6 bn, which augurs well for the Company.

At the current market price of Rs. 929.4, the stock trades at 9.0x FY09E and 8.0x FY2010E earnings estimates. Based on DCF, our fair value estimate is Rs. 1,061 (assuming WACC of 14.9% and a terminal growth rate of 5.5%). The resultant upside does not provide significant improvement over the current market price. Hence, we reiterate our Hold rating.

The Company is revisiting its strategy in the wake of increased competition

Sensitivity of fair value to WACC and Terminal growth

Terminal growth (in %)	WACC (in %)				
	13.90	14.40	14.90	15.40	15.90
4.50	1,119	1,062	1,010	964	922
5.00	1,152	1,090	1,035	985	941
5.50	1,188	1,121	1,061	1,008	961
6.00	1,228	1,155	1,091	1,034	983
6.50	1,274	1,194	1,124	1,063	1,008

Key Figures (Consolidated)

Year to March	FY06	FY07	FY08	FY09E	FY10E	CAGR (%)
(Figures in Rs. mn, except per share data)						(FY08-10E)
Net Sales	36,552	40,485	42,146	45,720	52,154	11.2%
EBITDA	8,717	9,687	9,916	10,630	11,709	8.7%
Net Profit	5,995	7,313	7,617	8,218	9,236	10.1%
Margins(%)						
EBITDA	23.8%	23.9%	23.5%	23.3%	22.5%	
NPM	16.4%	18.1%	18.1%	18.0%	17.7%	
Per Share Data (Rs.)						
EPS	74.9	91.4	95.2	102.7	115.5	10.1%
PER (x)	8.9x	14.5x	9.8x	9.0x	8.0x	

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