



Bharat Electronics

Apple Green

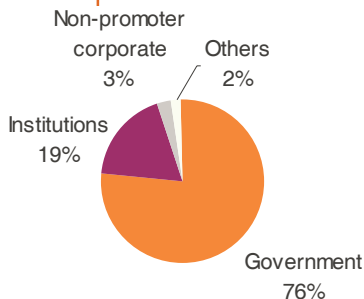
Rs570-crore capex plan for modernisation

Buy; CMP: Rs889

Company details

Price target:	Rs1,610
Market cap:	Rs7,112 cr
52 week high/low:	Rs2170/826
NSE volume: (No of shares)	65,996
BSE code:	500049
NSE code:	BEL
Sharekhan code:	BEL
Free float: (No of shares)	1.9 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-1.7	-10.5	-14.9	-50.5
Relative to Sensex	11.2	-6.9	2.5	-34.3

Key points

- ◆ Bharat Electronics Ltd (BEL) has announced a capital expenditure plan of Rs570 crore to modernise its manufacturing plants in the next two years. This capital expenditure will be over and above the expenditure incurred during the course of the year for new projects. The company would spend around Rs260 crore in the current financial year and Rs360 crore in FY2010 to modernise the offset business.
- ◆ The company's order book stands healthy at Rs9,450 crore. The management is confident of getting more orders during the course of the year.
- ◆ Every year BEL signs a memorandum of understanding with the defence ministry stating its revenue target for the year. The revenue target for FY2009 has been pegged at Rs4,800 crore. However, in FY2008 the company had for the first time fallen short of achieving its annual revenue target. In quarterly terms, the performance of the company is typically very volatile depending on the execution of the orders in a particular quarter.
- ◆ For Q2FY2009, we expect the company to record sales of Rs864 crore, that is a year-on-year growth of 21.9%. The profit margins are expected to decline due to an increase in the staff cost following the implementation of the recommendations of the Sixth Pay Commission. The profit after tax is expected to grow by 7.9% to Rs132.6 crore. Traditionally, the first half of a financial year tends to be weak for BEL with most of the growth being back-ended.
- ◆ At the current market price of Rs889, the stock trades at 8.1x FY2009E and 7.1x FY2010E earnings estimates respectively. We maintain our Buy recommendation on the stock with a price target of Rs1,610.

Valuation table

Particulars	FY2006	FY2007	FY2008	FY2009E	FY2010E
Net sales (Rs cr)	3502.0	3894.3	4060.3	4801.5	5624.0
Net profit (Rs cr)	583.0	713.9	826.74	879.5	1009.2
No of shares (crs)	8.0	8.0	8.0	8.0	8.0
EPS (Rs)	72.9	89.2	103.3	109.9	126.2
% yoy change	30.7	22.4	15.8	6.4	14.8
P/E	12.2	10.0	8.6	8.1	7.0
Adj. PER (x)*	9.1	5.5	4.7	1.9	1.9
Price/BV (x)	3.5	2.6	2.2	1.7	1.4
EV/EBIDTA(x)	6.2	4.2	3.7	1.5	1.4
Dividend yield (%)	1.3	2.0	2.3	2.5	2.5
RoCE (%)	41.7	38.5	32.6	30.9	29.1
RoNW (%)	29.7	27.3	23.1	21.5	20.1

*Adjusting for cash on books on per share basis

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

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