



ENAM Securities
India Research

Rs 2,102

Target Price: Rs 1,785

Potential Upside: -15%

Sector avg. upside: 0% to 10%
(mkt cap wtd)

Bharat Electronics

Relative to sector: **Underperformer**

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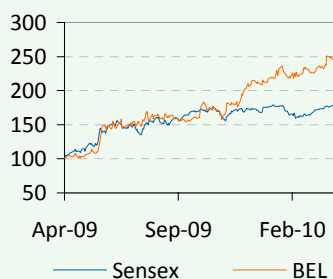
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Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 80 mn
Market cap	: Rs 168 bn
52 week high/low	: Rs 2,252 / Rs 830
Avg. daily vol. (6mth)	: 85,100 shares
Bloomberg code	: BHE IB
Reuters code	: BAJE.BO

Shareholding (%) Dec-09 QoQ chg

Promoters	: 75.9	0.0
FIIs	: 5.8	0.2
MFs / UTI	: 6.0	(0.2)
Banks / FIs	: 8.1	(0.1)
Others	: 4.3	0.1

Financial summary (Standalone)

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)
2009	44,814	8,264	-	103.3	4	-	23.6	33.8	-	18.7
2010E	51,774	7,397	117.3	92.5	(10)	22.7	18.2	26.8	13.6	18.5
2011E	57,585	8,376	132.0	104.7	13	20.1	17.9	26.5	11.5	20.9
2012E	65,419	9,532	149.5	119.2	14	17.6	17.8	26.3	9.7	23.8

Source: *Consensus broker estimates, Company, ENAM estimates

MARGINS DISAPPOINT, ORDER PIPELINE ROBUST

Bharat Electronics' (BEL) FY10 provisional results were significantly below our estimates due to lower-than-expected OPM (20% vs 23% expected). We understand from the mgmt that lower OPM was due to (a) **higher-than-budgeted wage hike provision** (~ Rs 2bn) and (b) **execution of low margin order in Q4**. BEL reported gross sales of Rs 52.4 bn (up 13% YoY) and PBT of Rs 10.9 bn (down 1% YoY).

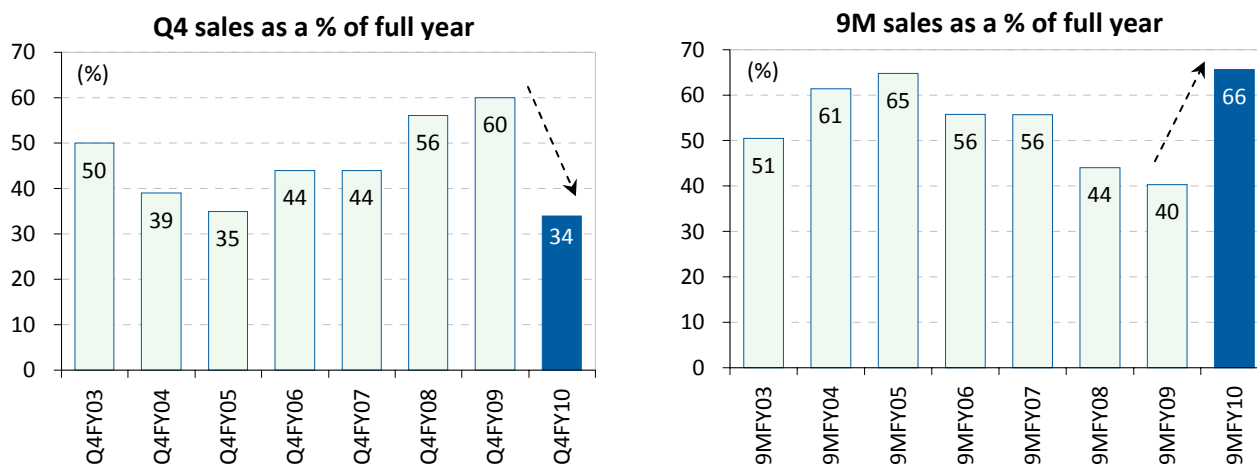
FY10 result and management call highlights

- **Revenue:** After three consecutive years of missing MoU target for "excellent" rating, BEL exceeded its FY10 MoU target of Rs 52 bn. During the year, the mgmt was successful in even-ing out revenue booking (H1: H2 at 42:58 vs 30:70 in previous three yrs).
- **Higher employee costs impact profitability:** BEL's wage costs grew by ~ 32% to Rs 10 bn (vs ~ Rs 8 bn expected) on account of revised wage hike provisioning (now for 10 yrs vs 5 yrs earlier). The wage negotiations are expected to be concluded soon, post which BEL doesn't expect major increase in wage costs.
- **Order Backlog** stood at ~ Rs 114 bn (up 9% YoY) & intake was ~ Rs 62 bn (up 16% YoY). **The mgmt highlighted that couple of large orders totaling Rs 70 bn (~62% of backlog) have slipped over to FY11.** Further, there are recent media reports suggesting that BEL **could win a large Rs 100 bn** order for tactical communications system on negotiated basis.

Earnings estimates cut, Sector Underperformer

While the FY11 MoU sales target are yet to be announced, mgmt indicated that the sales growth could be 10-12% (we have assumed 11%). To factor in lower-than-expected margins and slippage in order flow, we have downgraded our FY11 and FY12 earnings estimate by 14% and 11% respectively. However, we shall await the management's comments post final results to review our estimates. Sector **Underperformer** rating with a price target of Rs 1,785.

Sales down on YoY basis in Q4 due to mgmt's initiative to even out revenue



Source: Company, ENAM Research

FY10 Provisional result highlights

Rs bn	FY09	FY10 Prov	% gwth	FY10 Est	Variation (%)
Sales	46.2	52.4	13	52.2	0
PBT	11.0	10.9	(1)	13.0	(16)
Order Backlog	103.9	113.5	9	123.7	(8)

Source: Company, ENAM Research

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