

Bharat Electronics

Relative to sector: **Outperformer**

Analyst: **Bhavin Vithlani**

Email: bhavin@enam.com

Tel: 9122 6754 7634

Associate: **Shreya Doshi**

Email: shreya@enam.com

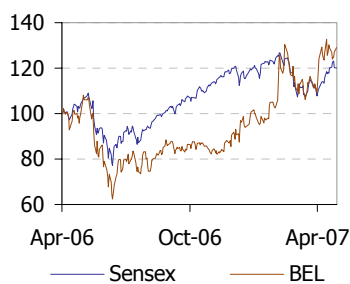
Tel: 9122 6754 7646

Associate: **Akshen Thakkar**

Email: akshen.thakkar@enam.com

Tel: 9122 6754 7507

Relative Performance



Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 80mn
Market cap	: Rs 137bn
52 week high/low	: Rs 1,795 / Rs 815
Avg. daily vol. (6mth)	: 209,200 shares
Bloomberg code	: BHE IN
Reuters code	: BAJE.BO

Shareholding (%) Mar-07 QoQ chg

Promoters	: 75.9	0.0
FII's	: 10.3	(1.3)
MFs / UTI	: 6.9	1.5
Banks / FIs	: 2.1	(0.1)
Others	: 4.9	(0.2)

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBIDTA (x)	DPS (Rs)
2006	34,532	5,840	-	73.0	23	18.1	32.4	48.3	9.9	14.6
2007	38,941	7,148	-	89.3	22	16.8	30.9	46.1	9.2	17.9
2008E	45,224	8,366	101.5	104.6	17	16.4	28.6	42.7	8.8	20.6
2009E	55,494	10,554	110.7	131.9	26	13.0	28.7	42.9	6.2	26.0

Source: *Consensus broker estimates, Company, ENAM estimates

ORDER INTAKE SURPRISES

Bharat Electronics Ltd.'s (BEL) FY07 results were largely inline with our expectations. BEL reported revenues of Rs 39bn (up 12% YoY), EBIDTA of Rs 10.5bn (up 19% YoY) and net profit of Rs 7.1bn (up 22% YoY). We were positively surprised by the significant rise in order intake at Rs 64bn (up 58% YoY) taking the order book to a robust Rs 91bn (up 38% YoY).

Key takeaways:

- Execution of the Rs 5bn MTNL order and supply of upgraded EVM's drove healthy growth in civilian business (up 95%). However, defense business was flat at Rs 30bn, resulting in a defense: civilian business mix of 76:24.
- Increased contribution of indigenously manufactured products (up at 81% vs 73%) resulted in a ~130bps improvement in OPM despite the ~15% upward revision in wages done in Q4FY07.
- Exports at Rs 510mn (Rs 611mn) were below the targeted Rs 1.1bn. However, based on recent MoUs, BEL has now set an export target of USD100mn in the next three years.
- BEL is aiming 20-30% share of the USD10bn defense offset opportunity. During the year, BEL has signed MoUs with aerospace majors Lockheed Martin and Boeing and global defense majors viz. EADS and Northrop Grumman.

Outlook robust; FY09E EPS of Rs.132

BEL has guided for revenues of Rs 45bn in FY08, which given the strong order book, seem achievable. Further, it has reiterated its guidance for USD2bn (Rs 90bn) revenues by FY12. Through its **R&D initiatives**, BEL has introduced several **new products with a total market potential of Rs 39bn over the next 3-5 years**. We remain positive on BEL's prospects and maintain our FY08E estimates. At CMP (Rs 1,717), the stock trades at EV/ EBIDTA of 6.2x FY09E. Maintain sector **Outperformer**.

Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-07	Mar-06	% Chg	Dec-06	% Chg	Mar-08E	Mar-07	% Chg
Net Sales	17,341	15,757	10.1	8,638	100.8	45,224	38,941	16.1
EBIDTA	4,848	4,173	16.2	1,976	145.3	12,343	10,514	17.4
Other income	574	353	62.8	407	41.0	1,188	1,111	6.9
PBIDT	5,422	4,526	19.8	2,384	127.5	13,531	11,625	16.4
Depreciation	252	228	10.5	205	23.2	928	863	7.5
Interest	0	250	(99.8)	2	(73.3)	369	336	10.0
PBT	5,169	4,048	27.7	2,177	137.4	12,234	10,426	17.3
Tax	1,599	1,239	29.0	696	129.8	3,868	3,278	18.0
PAT	3,571	2,809	27.1	1,482	141.0	8,366	7,148	17.0
No. of shares (mn)	80	80	-	80	-	80	80	-
EBIDTA margin (%)	28.0	26.5	-	22.9	-	27.3	27.0	-
PBIDT margin (%)	31.3	28.7	-	27.6	-	29.9	29.9	-
EPS - annualized (Rs.)	178.5	140.4	27.1	74.1	141.0	104.6	89.3	17.0

Source: Company, ENAM Research

Defence: New businesses with good potential for the next 5 years

Product/Project	Business Potential	Comment
Integrated Air Command & Control System (IACCS)	Rs 3bn over the next 3 years.	Developed for the IAF, is a fully automated system with multi-sensor tracking and data fusion for generation of real time air situation picture to be used for air surveillance and various tactical actions.
Weapon Locating Radar (WLR)	Rs 14 bn over the next 4 to 5 years.	WLR, jointly developed and manufactured with LRDE, is undergoing user trials and is likely to be inducted into the Armed Forces during 2008-09.
Shakti	Rs 12 bn	Shakti is a major subsystem of Tactical Command Control & Communication Intelligence (Tac CM) systems being fielded by the Indian Army. Shakti consists of rugged computers interconnected over RF communication networks to automate functions of Indian artillery.
Schilka Weapon System	Rs 5 bn over the next 4 years	The Russian origin self-propelled air defense weapon system is being upgraded with modern radar, computer systems, electronics and fuel-efficient prime movers. It is expected to be inducted into service during 2008-2009 and will have a life of over 15 years.
81mm Mortar Simulator	Rs 0.6 bn.	This in-house developed software is to be used for training of soldiers on mortar firing procedures.
STARS V MK-U	Rs 5bn	It is a frequency hopping, software configurable ECCM radio (5 W and 25 W) in the VHF band. It has in-built data communication features and GPS
Total	Rs 39.6 bn	Potential business from R&D initiatives over the next 3-5 years.

Source: Company, ENAM Research

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