

**June 28, 2007**

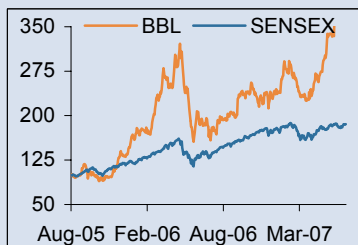
**Stock Details**

Recommendation	BUY
CMP	Rs2,227
Target Price	Rs2,668
Upside	19.8%
Sensex	14,431
52 Wk H/L	Rs2,296/998
Avg. Vol. (6m)	10,801
Market Cap	Rs12.6bn
Face Value	Rs10
Bloomberg Code	BIJL IN
Reuters Code	BBJL.BO

**Share Holding Pattern**

<b>March'07</b>	<b>(%)</b>
Promoters	35.4
Non-Promoter Corporate	7.7
Institutions	26.2
Foreign	2.8
Public & Others	27.9

**Share Price Chart**



**Analyst**

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We attended the annual general meeting of Bharat Bijlee Ltd on 26<sup>th</sup> June 2007. The key highlights are as follows:

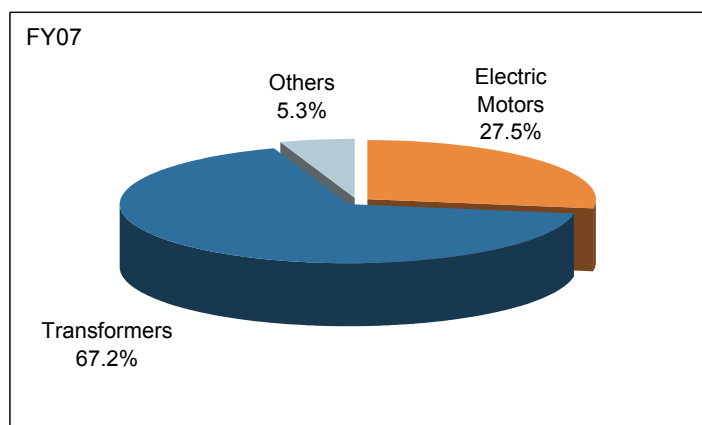
- ✓ During FY07 the company's topline grew by 56.2% to Rs4.7bn against Rs3bn in FY06. This was on account of higher capacity in the motor and transformer divisions. It expanded its motors capacity by 33.3% during the year to 1mn HP from 750,000HP during FY06.
- ✓ During the year it registered a 58.2% and 27.5% jump in production of transformers and electric motors to 6,359MVA and 895,000HP respectively.

**Production and sale statistics**

	Unit	FY05	FY06	FY07
<b>Production</b>		<b>(12)</b>	<b>(12)</b>	<b>(12)</b>
Electric Motors	HP	638,000	702,000	895,000
y-o-y growth (%)		44.0	10.0	27.5
Transformers	MVA	2,912	4,019	6,359
y-o-y growth (%)		13.5	38.0	58.2
<b>Sales</b>				
Electric Motors	HP	621,000	677,000	883,000
y-o-y growth (%)		38.9	9.0	30.4
Transformers	MVA	2,919	3,922	6,383
y-o-y growth (%)		15.7	34.4	62.7
<b>Net sales</b>	Rs mn	2,458	3,008	4,669
y-o-y growth (%)		20.3	22.3	56.2

Source: Company

**FY07 Revenue contribution**



Source: Company, India Infoline Research

- ✓ During the year BBL witnessed an improvement in average realization for its transformers division by 19.7% to Rs495,229 per MVA from Rs413,710 per MVA during FY06. This was due to a robust demand supply scenario coupled with higher quotations at the time of bidding. The company is gradually moving towards higher range of transformers, i.e. 100MVA range, which would further impact realizations.

**Average realizations**

(Rs)	FY05	FY06	FY07
Electric Motors	1,395	1,484	1,464
y-o-y growth (%)	18.8	6.4	(1.3)
Transformers	321,182	413,710	495,229
y-o-y growth (%)	7.3	28.8	19.7

Source: Company, India Infoline Research

- ✓ The company caters to both the state electricity boards (SEBs) and the industrial segments for sale of its transformers. It is covered by price variation clause for all sale made to SEB's, thereby insulating its margins. However, now the company is moving towards higher range of transformers, which should enable it to improve its margins going forward.

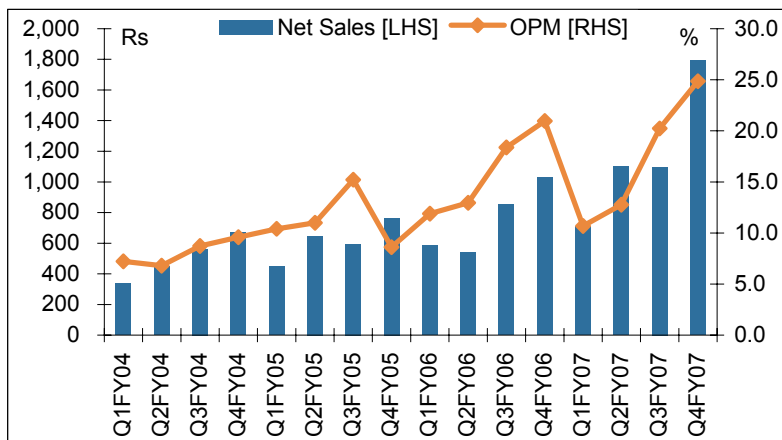
**Product range**

Products	Range
Distribution transformer	500KVA - 5000KVA/33KV
Power transformer	Upto 160MVA, upto 220KV
Generator transformer	
Motor starting transformers	
Dry type transformers	
Thyristor duty transformers	
Locomotive transformers	

Source: Company

- ✓ For the period April – May 2007 it registered revenues of about Rs760mn, up by nearly 40% against the corresponding period last year. During Q1FY07 it registered revenues of Rs710mn.

**Quarterly trend**



Source: Company, India Infoline Research

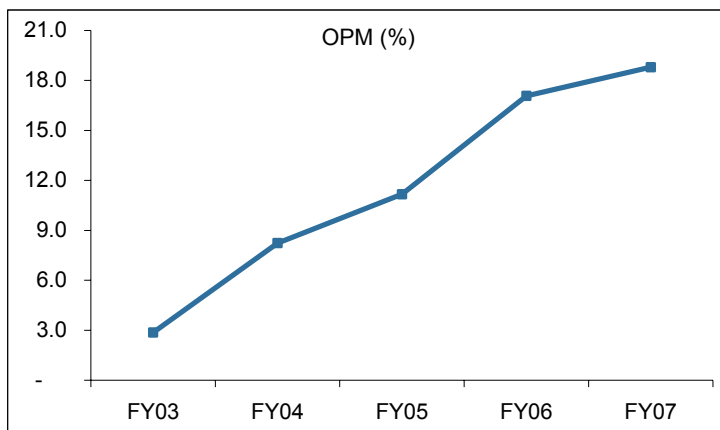
- ✓ The order book of the company stands at Rs2.5bn as of date with orders worth Rs940mn yet to be awarded.
- ✓ During the year its operating margin expanded to 18.8% from 17.1% in FY06. This was primarily due to improvement in average realization coupled with higher volumes. Although copper prices soared during the year, most of it was passed since it is covered under price variation clause. BBL undertook the transformer division expansion at its existing facility thereby witnessing a decline in manufacturing and other expenses. Since the company continued with the same workforce, it witnessed a decline in employee cost too during the period.

#### Cost analysis

Component ratios (as % of net sales)	FY05	FY06	FY07
Raw material	62.4	60.5	61.6
Packaging material	4.7	4.9	4.4
Sub contracting charges	1.2	1.1	1.0
Staff cost	9.2	8.4	7.3
Mfg. & Other expenditure	10.7	7.4	6.4
Power and fuel	0.6	0.6	0.6
Total operating expenses	88.8	82.9	81.2

Source: Company, India Infoline Research

#### Operating margin: steadily improving



Source: Company, India Infoline Research

- ✓ The company completed its motors expansion during the year and has now ventured into the higher frame motors. It upgraded to 200KW and 400KW segments from 100KW earlier. These motors are used in material handling, mining, large machine manufacturers, refineries, sinter plants and rolling mills industries. Since these are custom made products, the company will have the comfort of charging higher margins for the same.

#### Industrial capex announced, proposed and under implementation

Sectors (Rs bn)	Announcement	Proposed	Under Implementation	Total
Oil & gas	472	529	749	1,751
Metals	3,020	836	544	4,400
Cement	120	38	36	194
Others	1,290	698	544	2,532
Overall (all sectors)	4,902	2,101	1,873	8,876

Source: Industry

- ✓ During the year BBL is further expanding its transformer capacity to 11,000MVA from 8,000MVA in FY07. This expansion will be funded completely out of internal accruals. This coupled with improving realizations and expanded motors capacity should enable BBL to register a topline CAGR of 30.5% over FY07-09E. These factors should also lead to improving operating margin to 19.2% for FY08E and FY09E.
- ✓ During the meeting the management denied any intention of either diversifying into manufacturing of other electrical products or acquisition in the existing field.
- ✓ We believe that the company is well placed to take advantage of the oncoming demand for transformers and motors. We expect the company's topline and bottomline to witness a CAGR of 30.5% and 34.3% respectively. BBL's strong investment book with per share value of Rs208 (taken at 50% haircut) provides the investors a cushion. At the current price the stock trades at 14.3x and 11.4x (after adjusting for cash and cash equivalents) its FY08E and FY09E earnings of Rs140.5 and Rs175.7. We recommend a BUY with a one year price target of Rs2,668, an upside of 19.8%.

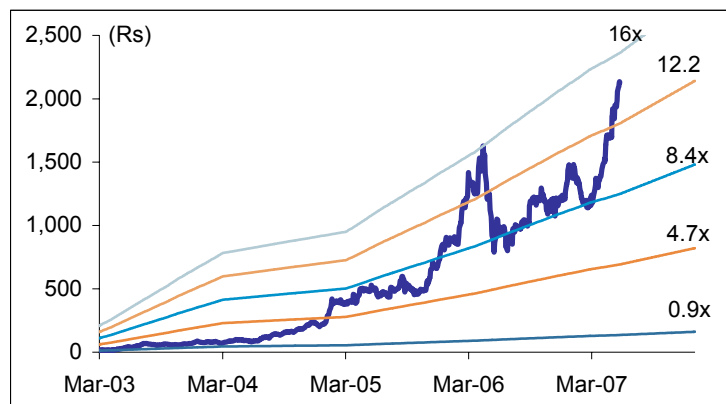
### Investment portfolio

Investments	No of shares	Mkt Value*
Siemens India Ltd	1,412,580	1,960
HDFC Ltd	102,980	192
ICICI Bank Ltd	15,821	15
HOEC Ltd	200,000	23
HDFC Bank Ltd	500	1
Bank of India	5,400	1
6.75% US64 Bonds	24,398	2
<b>Total</b>		<b>2,195</b>
Unquoted		
Saraswat Co-op Bank Ltd	1,000	0
North Kanara GSB Co-op Bank Ltd	10,000	0
NHB Capital Gain Bonds	15,500	155
Total unquoted		155
Total investments		2,350
50% market value of invest portfolio		1,175
Equity capital		57
<b>Investment value per share</b>		<b>208</b>

Source: Company, India Infoline Research

\*Based on prices as on 26<sup>th</sup> June 2007

### P/E Band



Source: India Infoline Research

**Projected Income Statement**

Period to	FY04	FY05	FY06	FY07	FY08P	FY09P
(Rs mn)	(12)	(12)	(12)	(12)	(12)	(12)
Net Sales	2,043	2,458	3,008	4,699	6,389	8,007
Operating expenses	(1,875)	(2,184)	(2,494)	(3,815)	(5,160)	(6,468)
Operating profit	168	275	514	883	1,229	1,539
Other income	12	44	37	45	45	45
PBIDT	180	319	551	929	1,274	1,584
Interest	(41)	(38)	(47)	(53)	(43)	(51)
Depreciation	(13)	(17)	(20)	(29)	(42)	(46)
Profit before tax (PBT)	126	264	484	846	1,189	1,487
Tax	(37)	(78)	(166)	(281)	(395)	(494)
Profit after tax (PAT)	89	186	318	565	794	993
Extraordinary / prior period items	(16)	92	19	(14)	-	-
Adjusted profit after tax (APAT)	73	278	337	551	794	993

**Projected Balance Sheet**

Period to	FY04	FY05	FY06	FY07	FY08P	FY09P
(Rs mn)	(12)	(12)	(12)	(12)	(12)	(12)
<b>Sources</b>						
Share Capital	57	57	57	57	57	57
Reserves	247	467	716	1,102	1,719	2,518
Net Worth	303	523	773	1,158	1,775	2,575
Loan Funds	241	350	425	260	321	384
Def Tax liability	10	(1)	8	5	15	15
<b>Total</b>	<b>555</b>	<b>872</b>	<b>1,206</b>	<b>1,423</b>	<b>2,111</b>	<b>2,973</b>
<b>Uses</b>						
Gross Block	397	417	508	561	811	886
Accd Depreciation	(194)	(204)	(214)	(222)	(250)	(281)
Net Block	203	214	294	338	561	605
Capital WIP	1	12	2	0	5	0
Total Fixed Assets	203	225	296	338	566	605
Investments	28	28	183	187	183	183
Total Current Assets	1,251	1,520	1,805	2,873	3,527	4,563
Total Current Liabilities	(975)	(935)	(1,092)	(1,977)	(2,165)	(2,378)
Net Working Capital	276	585	713	897	1,362	2,185
Intangible Assets	1	3	-	-	-	-
Miscellaneous expenditure	46	30	14	-	-	-
<b>Total</b>	<b>555</b>	<b>872</b>	<b>1,206</b>	<b>1,423</b>	<b>2,111</b>	<b>2,973</b>

**Key Ratios**

Period to	FY04	FY05	FY06	FY07	FY08P	FY09P
	(12)	(12)	(12)	(12)	(12)	(12)
<b>Per share ratios (Rs)</b>						
EPS	13.0	49.1	59.6	97.5	140.5	175.7
Div per share	4.0	9.0	13.5	25.0	27.5	30.0
Book value per share	53.7	92.6	136.8	205.0	314.1	455.6
<b>Valuation ratios (x)</b>						
P/E	175.1	46.3	38.2	23.3	16.2	12.9
P/E Post adj. of investments	158.1	41.3	34.5	21.0	14.6	11.7
P/BV	42.4	24.6	16.6	11.1	7.2	5.0
EV/sales	6.4	5.3	4.0	2.5	1.9	1.6
EV/ PBIT	78.0	43.0	22.7	13.2	9.7	8.6
EV/EBIDTA	72.2	40.7	21.9	12.7	9.4	8.3
<b>Profitability ratios (%)</b>						
OPM	8.2	11.2	17.1	18.8	19.2	19.2
PAT	4.4	7.6	10.6	12.0	12.4	12.4
APAT	3.6	11.3	11.2	11.7	12.4	12.4
ROCE	33.1	36.5	46.0	65.5	60.8	53.6
RONW	24.2	53.1	43.6	47.5	44.7	38.6
<b>Liquidity ratios</b>						
Current ratio	1.3	1.6	1.7	1.5	1.6	1.9
Debtors days	119.6	101.0	118.5	110.7	109.2	109.2
Inventory days	76.0	52.2	52.2	49.7	49.7	49.7
Creditors days	85.4	40.5	39.8	41.3	42.3	42.3
<b>Leverage ratios</b>						
Debt / Total equity	0.8	0.7	0.5	0.2	0.2	0.1
<b>Component ratios (as % of net sales)</b>						
Raw material	56.8	62.4	60.5	61.6	61.5	61.4
Packaging material	5.3	4.7	4.9	4.4	4.4	4.5
Sub contracting charges	2.8	1.2	1.1	1.0	1.0	1.0
Staff cost	13.6	9.2	8.4	7.3	7.0	7.0
Mfg. & Other expenditure	12.6	10.7	7.4	6.4	6.3	6.3
Power and fuel	0.6	0.6	0.6	0.6	0.6	0.6
Total operating expenses	91.8	88.8	82.9	81.2	80.8	80.8

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