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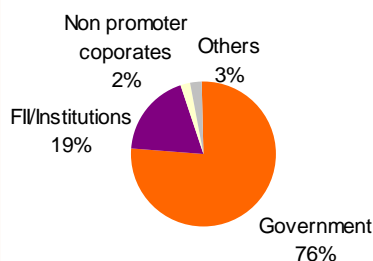
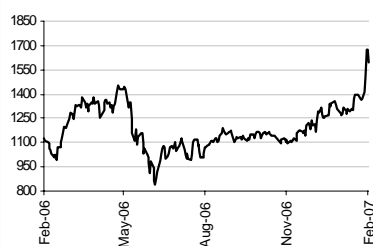
Take Five

Scrip	Reco Date	Reco Price	CMP	Target
♦ Bharat Bijlee	29-Nov-04	192	1,417	1,730
♦ BEL	25-Sep-06	1,108	1,599	1,715
♦ Ceat	28-Nov-06	122	148	190
♦ F-M Goetze	18-Jan-07	385	345	559
♦ NDTV	10-Feb-05	181	310	348

Bharat Electronics

Apple Green
Stock Update
Price target revised to Rs1,715
Buy; CMP: Rs1,600
Company details

Price target:	Rs1,715
Market cap:	Rs12,800 cr
52 week high/low:	Rs1,748/815
NSE volume: (No of shares)	1.3 lakh
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	27.9	49.9	68.4	51.3
Relative to Sensex	21.0	34.5	23.8	2.7

Bharat Electronics Ltd (BEL) is making the most out of the Aero India 2007 (aerospace show and defence exhibition) held at Bangalore. It is effectively utilising the platform to forge alliances, tie-ups and agreements with the leading manufacturers and contractors of defence equipment and systems globally. In the past couple of days, it has signed two important memoranda of understanding (MOUs). The first one is with Northrop Grumman, one of the largest global defence, electronic system and solutions and technology companies. The second one is with Elbit Systems Electro Optics (Elbit Systems) of Israel that specialises in state-of-the-art surveillance and security equipment and systems.

Northrop, a \$30-billion global giant

As per the understanding with Northrop Grumman, the two companies would produce and market defence equipment and systems to the Indian armed forces. In addition, BEL would provide contract manufacturing services for Northrop Grumman's international clients. The alliance would benefit BEL in a number of ways, such as it would allow it access to the world's best and leading technology, result in better utilisation of its huge installed manufacturing capacities and improve its prospect of partnering with the other global players to meet their offset obligations under the defence procurement policy.

Elbit Systems, another tie-up to boost the product portfolio

The proposed joint venture with Elbit Systems would also enable the company to enhance its product portfolio and gain access to state-of-the-art technology for products like thermal imaging cameras and forward looking infrareds. Elbit Systems has already taken forward the relationship with an initial order of \$0.5 million for a gun display unit and other accessories.

More aces up its sleeves

In addition to the two MOUs that have already been signed, the company has indicated that it is in negotiations with the other leading global defence equipment vendors like Lockheed Martin Aeronautics to explore the feasibility of working together.

Key financials

Particulars	FY2005	FY2006E	FY2007E	FY2008E
Net sales (Rs cr)	3185.4	3502.0	4149.3	4741.4
Net profit (Rs cr)	446.3	583.0	672.6	759.6
No of shares (crore)	8.0	8.0	8.0	8.0
EPS (Rs)	55.8	72.9	84.1	95.0
% y-o-y change	-	30.7	15.4	12.9
Adj PER* (x)	25.7	18.8	15.7	12.8
Price/BV (x)	8.0	6.3	4.7	3.7
EV/EBIDTA (x)	17.9	12.9	10.6	8.7
Dividend yield (%)	0.7	0.7	0.8	0.8
RoCE (%)	42.6	41.7	36.7	32.7
RoNW (%)	29.5	29.7	25.6	22.5

* After adjusted for the estimated free cash on the books.

The recent developments are likely to result in windfall gains for BEL over the long term. However, it is difficult to quantify the same at present due to the limited information available to us.

In the short term, the healthy order book position of around Rs7,300 crore as in December 2006 provides strong revenue growth visibility over the next couple of years.

Valuation

At the current market price the stock trades at 15.7x FY2007 and 12.8x FY2008 estimated earnings (after adjusting for the estimated free cash on the books). We re-iterate our Buy call on the stock with a revised target price of Rs1,715 (14x FY2008 estimated earnings plus estimated free cash of Rs385 per share).

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

Evergreen

HDFC Bank
 Infosys Technologies
 Reliance Industries
 Tata Consultancy Services

Apple Green

Aditya Birla Nuvo
 ACC
 Apollo Tyres
 Bajaj Auto
 Balrampur Chini Mills
 Bank of Baroda
 Bank of India
 Bharat Bijlee
 Bharat Electronics
 Bharat Heavy Electricals
 Bharti Airtel
 Canara Bank
 Corporation Bank
 Crompton Greaves
 Elder Pharmaceuticals
 Grasim Industries
 Hindustan Lever
 Hyderabad Industries
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 ITC
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 Marico
 Maruti Udyog
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 Tata Tea
 Unichem Laboratories
 Wipro

Cannonball

Allahabad Bank
 Andhra Bank
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 Shree Cement
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Emerging Star

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 Aban Offshore
 Alphageo India
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 Federal-Mogul Goetze (India)
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 Marksans Pharma
 Navneet Publications (India)
 New Delhi Television
 Nucleus Software Exports
 Orchid Chemicals & Pharmaceuticals
 ORG Informatics
 Tata Elxsi
 Television Eighteen India
 Thermax
 UTI Bank

Ugly Duckling

Ahmednagar Forgings
 Ashok Leyland
 BASF India
 Ceat
 Deepak Fertilisers & Petrochemicals Corporation
 Fem Care Pharma
 Genus Overseas Electronics
 HCL Technologies
 ICI India
 India Cements
 Indo Tech Transformers
 Jaiprakash Associates
 JM Financial
 KEI Industries
 NIIT Technologies
 Punjab National Bank
 Ratnamani Metals and Tubes
 Sanghvi Movers
 Saregama India
 Selan Exploration Technology
 South East Asia Marine Engineering & Construction
 Subros
 Sun Pharmaceutical Industries
 Surya Pharmaceuticals
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 Union Bank of India
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Vulture's Pick

Esab India
 Orient Paper and Industries
 WS Industries India

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