

RESULT UPDATE

LARGE CAP

Share Data

Reuters code	BEL.BO
Bloomberg code	BHE IN
Market cap. (US\$ mn)	3,361
6M avg. daily turnover (US\$ mn)	2.7
Issued shares (mn)	80
Target price (Rs)	2,127

Performance (%)	1M	3M	12M
Absolute	3	39	141
Relative	10	37	36

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	114.0	132.9
+/- (%)	22.6	16.6
PER (x)	17.0	14.6
PBV (x)	3.5	2.9
Dividend/Yield (%)	1.2	1.4
EV/Sales (x)	2.4	2.0
EV/EBITDA (x)	9.8	8.4

Major shareholders (%)

Promoters	76
FII's	6
MF's	6
BFST's	8
Public & Others	4

Financial highlights

(Rs mn)	3QFY09	3QFY10	YoY (%)	9MFY09	9MFY10	YoY (%)	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Revenues	6,709	11,796	75.8	18,355	33,796	84.1	45,868	52,224	13.9	62,668	20.0
Op Profit	1,606	2,477	54.2	2,906	6,498	123.6	9,859	11,750	19.2	14,363	22.2
Margin (%)	23.9	21.0	-	15.8	19.2	-	21.5	22.5	-	22.9	-
Other Income	456	1,051	(56.6)	1,601	2,123	32.6	2,264	3,010	33.0	2,800	(7.0)
Depreciation	270	283	5.1	766	847	10.6	1,056	1,135	7.5	1,282	13.0
Interest	-	-	(1.3)	71	2	(97.5)	108	10	(90.7)	10	-
Profit before tax	1,792	3,245	81.0	3,670	7,773	111.8	10,959	13,616	24.2	15,871	16.6
Tax	565	1,006	78.1	1,179	2,434	106.4	3,511	4,493	28.0	5,238	16.6
PAT	1,228	2,239	82.4	2,490	5,339	114.4	7,448	9,122	22.5	10,634	16.6
EPS (Rs)	15.3	28.0	82.4	31.1	66.7	114.4	93.1	114.0	22.5	132.9	16.6

Bharat Electronics

Maintain Outperformer

Price: Rs 1,942

BSE Index: 16,358

30 January 2010

3QFY10 Result – Battling ahead

Highlights

- A healthy order execution during the quarter led to a revenue growth of 76% YoY to Rs 11,796 mn. Defence continues to for a major (~85%) portion of net sales. Although the company has received some orders on offset front, a major chunk of these orders are yet to be placed.
- The operating margins stood at 21%, down by 290 bps YoY. The employee costs were higher by 20% YoY due to implementation of pay revision for executives and provision for wage revision for non-executives. Thus, we are lowering our annual operating margin estimates by 170 bps to factor in effect of the same.
- The order book stood at ~Rs 117 bn at the end of 3QFY10 as compared to Rs 104 bn at the beginning of FY10. Order book growth was lower than expected as certain orders that were likely to be finalised during the quarter have been delayed.
- Other income reported a sharp increase of 130% YoY during the quarter, as the company received LD waiver on certain orders and gain on account of forex fluctuation. As a result, net profit reported healthy growth of 82% YoY to Rs 2,239 mn.

Outlook

Bharat Electronics Ltd. (BEL) reported healthy growth in 9MFY10, as there were no delays on defence projects and the company was successfully able to clear its high inventory position. The company remains confident of achieving a target revenue of Rs 100 bn by FY13, implying a 24% CAGR in sales over FY10-13E. Although the civilian segment currently contributes a lower portion of sales, we expect this segment to report a multifold growth in the coming years, post completion of some key orders in homeland security and nuclear power instrumentation space. At the current market price of Rs 1,942, the stock trades at 17x FY10E EPS of Rs 114 and 14.6x FY11E EPS of Rs 132.9. We continue to maintain an Outperformer rating on the stock, with a revised target price of Rs 2,127.

Income Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	40,653	45,868	52,224	62,668
Growth (%)	4.3	12.8	13.9	20.0
Operating expenses	(30,557)	(36,009)	(40,473)	(48,305)
Operating profit	10,096	9,859	11,750	14,363
Other operating income	281	433	996	584
EBITDA	10,377	10,291	12,746	14,948
Growth (%)	8.1	(0.8)	23.9	17.3
Depreciation	(926)	(1,056)	(1,135)	(1,282)
Other income	2,057	1,831	2,014	2,215
EBIT	11,508	11,066	13,626	15,881
Interest paid	(2)	(108)	(10)	(10)
Pre-tax profit	11,505	10,959	13,616	15,871
(before non-recurring)				
Non-recurring items	213	0	0	0
Pre-tax profit	11,719	10,959	13,616	15,871
(after non-recurring)				
Tax (current + deferred)	(3,446)	(3,511)	(4,493)	(5,238)
Net profit (before Minority Interest, Pref. Dividend etc.)	8,273	7,448	9,122	10,634
Prior period adjustments	(6)	(10)	0	0
Reported PAT	8,267	7,438	9,122	10,634
Adjusted net profit	8,054	7,438	9,122	10,634
Growth (%)	12.2	(7.6)	22.6	16.6

Balance Sheet

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable sec.	24,535	26,419	30,068	33,465
Other current assets	38,928	51,938	47,970	57,364
Investments	120	120	120	120
Net fixed assets	4,472	5,142	6,340	8,558
Other non-current assets	1,424	1,466	1,600	1,800
Total assets	69,479	85,085	86,097	101,306
Current liabilities	37,134	47,002	41,017	48,082
Total debt	14	12	20	20
Total liabilities	37,148	47,014	41,037	48,102
Share capital	800	800	800	800
Reserves & surplus	31,531	37,272	44,260	52,404
Shareholders' funds	32,331	38,072	45,060	53,204
Total equity & liabilities	69,479	85,085	86,097	101,306
Capital employed	32,345	38,083	45,080	53,224

Cash Flow Statement

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	11,719	10,959	13,616	15,871
Depreciation	926	1,056	1,135	1,282
Change in working capital	(2,504)	(2,955)	(3,411)	(2,759)
Total tax paid	(3,430)	(3,553)	(4,178)	(5,363)
Cash flow from oper. (a)	6,711	5,507	7,162	9,031
Capital expenditure	(1,060)	(1,621)	(2,333)	(3,500)
Change in investments	3	0	0	0
Others	(135)	(104)	0	(0)
Cash flow from inv. (b)	(1,193)	(1,725)	(2,333)	(3,500)
Free cash flow (a+b)	5,519	3,782	4,829	5,531
Debt raised/(repaid)	(3)	(2)	8	0
Dividend (incl. tax)	(1,872)	(1,937)	(1,189)	(2,134)
Others	74	42	0	0
Cash flow from fin. (c)	(1,801)	(1,897)	(1,181)	(2,134)
Net change in cash (a+b+c)	3,717	1,884	3,648	3,397

Key Ratios

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	100.7	93.0	114.0	132.9
Growth	12.2	(7.6)	22.6	16.6
Book NAV/share (Rs)	403.9	475.6	563.0	664.8
Dividend/share (Rs)	20.7	18.7	22.8	26.6
Dividend payout ratio	24.1	23.5	23.4	23.4
Tax	29.4	32.0	33.0	33.0
EBITDA margin	25.4	22.2	24.0	23.6
EBIT margin	28.1	23.9	25.6	25.1
RoCE	39.2	31.4	32.8	32.3
Net debt/Equity	(75.8)	(69.4)	(66.7)	(62.9)

Valuations

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	19.3	20.9	17.0	14.6
PCE	17.3	18.3	15.1	13.0
Price/Book	4.8	4.1	3.5	2.9
Yield (%)	1.1	1.0	1.2	1.4
EV/Net sales	3.1	2.7	2.4	2.0
EV/EBITDA	12.1	12.2	9.8	8.4

Du Pont Analysis – ROE

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	19.8	16.2	17.5	17.0
Asset turnover	0.6	0.6	0.6	0.7
Leverage factor	2.2	2.2	2.1	1.9
Return on equity (%)	27.7	21.1	21.9	21.6

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 3. **UNDERPERFORMER:** 0 to -25%
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