



# Between the Lines

Daily Corporate News Analysis

Dec. 14th, 2006

**Bharat Earth Movers Ltd. (BEML)**

**Update : Q2 FY07 Results**

## Key Data

CMP	Rs 951
Date	14 <sup>th</sup> December 2006
Sector	Capital Goods
Face Value	Rs. 10
BSE Code	500048
52 Week H/L	Rs.1785 / 723
Market Cap	Rs. 3494 Cr.

## Investment Rationale

**Organisational Restructuring:** BEML has undergone organizational restructuring to get in tune with current business demands and better operational effectiveness. The company consolidated its operations under three major business groups – Mining and Constructions / Defense / Rail and Metro. Focus on exports prompted company to spin off export division as separate Strategic Business Unit. Two business initiatives are taken by company by setting up new divisions – Technology Division for E-Engineering solutions and Trading Division for trading in non company products.

**Strong Order Book:** The unexecuted order book stand at Rs. 2216 crore (excl. the Delhi Metro Rail Corp. order of ~Rs. 1500 crore) ensure revenue visibility.

**Robust business outlook:** The investment in power sector would augur well for mining industry and in turn for BEML as demand for mining and heavy engineering equipments estimated to grow at CAGR of 12% in next 4 years. BEML is the only manufacturer of Metro Rail Coaches in India and estimating big spurt owing to expansion of Metro Rail Network in Indian Metro cities. The company has set an ambitious revenue target of Rs. 5000 crore by FY2013.

**De-risking business model by reducing dependence on domestic market:** BEML is actively focusing on spreading its wings beyond India. The company is exporting to around 32 countries and recently opened offices at overseas locations viz. Shanghai, Singapore, Surinam. BEML has entered in JV with Brazilian company to set manufacturing plant in Brazil with investment of Rs. 100 crore and estimated revenue of Rs. 500 crore in next three years.



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**Capital Expenditure:** Responding to market dynamics, BEML has committed approximately Rs. 250 crore towards modernization of all manufacturing units and expansion of rail unit for manufacture of rail coaches and wagons. Hence, we opine that long term investors should buy the stock.

### Key Developments:

#### Joint Venture with Brazilian company

BEML has entered into a 60:40 joint venture agreement with Compagnie Comercio E Construcoes (CCC) Brazil, to cater to the Brazil and Latin American markets. BEML would be investing Rs. 100 crore for its 60% stake. The JV will have a capacity of producing 500 rail wagons and 200 units construction equipments p.a. with a potential turnover of Rs. 500 crore in about 3 years.

### Financial Performance:

#### Net sales grew by 71% to Rs 607.59 crore in Q2 FY 07

BEML witnessed strong quarterly performance in terms of top line growth due to overall growth in the mining sector and increased spending in defense sector and robust order backlog. The company also witnessed decline in excise duty as percentage of gross sales to 5.65% as against 7.59% in Q2 FY 06. The total income for the quarter ended on Sept. 06 grew to Rs. 618.78 crore, a whopping 65% jump in spite of 48% fall in other income. For H1 FY 07, net sales were up by 29% to Rs. 731.34 crore and total income rose by 27% to Rs. 758.27 crore.

### Valuations:

At current market price of Rs 951, BEML is quoting at a PER of 18.06x. On EV/Sales and on EV/ EBITDA basis it is quoting at 1.36x and 9.97x of its TTM earnings respectively.



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Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.  
1102, Stock Exchange Tower, Dalal Street, Mumbai 400  
001. Phone : 91-22-56338050 Fax : 5633 8060

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