

# Bharat Electronics

Apple Green

## Stock Update

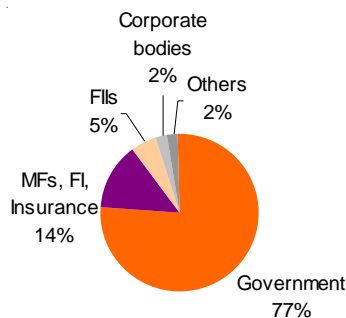
Price target revised to Rs1,976

Hold; CMP: Rs1,743

### Company details

Price target:	Rs1,976
Market cap:	Rs13,944 cr
52 week high/low:	Rs2252/1390
NSE volume: (No of shares)	60,116
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	6.3	2.9	-18.1	25.3
Relative to Sensex	-4.2	-9.9	-28.1	4.3

### Robust order book provides revenue visibility

Bharat Electronics Ltd (BEL)'s order book stood higher at Rs12,700 crore as on August 1, 2010 as compared to Rs11,350 crore as on March 31, 2010. The current level of order book is 2.5x the company's FY2010 revenues and provides strong revenue visibility at least for the next two years. The company has targeted an order backlog of Rs15,000 crore (up 32% year on year [YoY]) by the end of FY2011, which implies a total order intake of Rs9,433 crore in FY2011.

### Order intake position

Particulars	Amount (Rs crore)
Order book expected as on March 31, 2011	15,000
Order book as on March 31, 2010	11,350
Gross sales expected in FY2011	5,783
Order intake expected in FY2011	9,433

### Revenue guidance of Rs5,620 crore in FY2011—seems achievable on strong order book position

The company has set a revenue target of Rs5,620 crore according to the memorandum of understanding that it has signed with the defence ministry and is confident of achieving the same on the back of its strong order book position.

### BEL sets revenue target of Rs10,000 crore in FY2013—seems optimistic and challenging

BEL has set a revenue target of Rs10,000 crore in FY2013 (compounded annual growth rate [CAGR] of 24% over FY2010-13E), which seems optimistic and challenging in our view, given the fact that the company's revenue has grown at a CAGR of only 10% over FY2007-10.

### Margin pressure from competition—key risks

With the opening up of the defence sector, the participation of the private players has increased in the sector, thereby putting pressure on the margins. The company's

### Valuation table

Particulars	FY2008	FY2009	FY2010	FY2011E	FY2012E
Net sales (Rs cr)	4060.3	4583.6	5180.4	5733.8	6772.6
Net profit (Rs cr)	805.5	823.2	752.4	843.4	1032.4
No. of shares (cr)	8.0	8.0	8.0	8.0	8.0
EPS (Rs)	100.7	102.9	94.1	105.4	129.1
YoY change (%)	12.2	2.2	-8.6	12.1	22.4
P/E (x)	16.9	18.7	19.3	16.5	13.5
Adj. PER (x)	13.9	15.2	14.4	12.7	9.2
Price/BV (x)	4.3	3.7	3.2	2.6	2.1
EV/EBIDTA(x)	11.4	10.7	12.7	10.0	7.0
Dividend yield (%)	1.2	1.1	1.1	1.3	1.3
RoCE (%)	35.6	30.8	24.8	22.7	22.6
RoNW (%)	26.2	20.0	16.9	15.9	15.8

management also expects its margins to come under pressure.

### Q2FY2011 preview

We expect the company's net sales to increase by 10.5% YoY to Rs1,435.5 crore in Q2FY2011 on the back of an improvement in order execution. Our Q2FY2011 net sales estimate is 25% of our FY2011 net sales estimate of Rs5,733.8 crore.

We expect the company's margins to decline by around 160 basis points YoY due to a higher raw material cost and pressure due to higher competition. The benefit of higher revenue is likely to get offset due to the margin pressure and hence we expect the company's adjusted net profit to increase by 1.8% YoY to Rs241.7 crore in Q2FY2011.

### Valuation and view

We have fine-tuned our earnings estimates to factor in the FY2010 annual report numbers. Consequently, our revised earnings per share (EPS) estimates stand at Rs105.4 and Rs129.1 for FY2011 and FY2012 respectively.

Though the strong order book position provides growth visibility and the company's performance is likely to improve in the coming quarters, the margin pressure and growing competition from the private players are causes for concern. Hence, we maintain our Hold recommendation on the stock with a revised price target of Rs1,976. At the current market price, the stock trades at 13.5x FY2012 earnings estimate. However, BEL is a cash-rich company and adjusting for the cash on its books, its stock's valuations are more reasonable at 9.2x FY2012E earnings.

### Q2FY2011 estimate

Rs (crore)

Company	Net sales		Operating profit		Adjusted PAT	
	Q2FY2011E	% chg	Q2FY2011E	% chg	Q2FY2011E	% chg
BEL	1435.5	10.5	330.2	3.2	241.7	1.8

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

## Evergreen

Housing Development Finance Corporation  
HDFC Bank  
Infosys Technologies  
Larsen & Toubro  
Reliance Industries  
Tata Consultancy Services

## Apple Green

Aditya Birla Nuvo  
Apollo Tyres  
Bajaj Auto  
Bajaj Finserv  
Bajaj Holdings & Investment  
Bank of Baroda  
Bank of India  
Bharat Electronics  
Bharat Heavy Electricals  
Bharti Airtel  
Corporation Bank  
Crompton Greaves  
Glenmark Pharmaceuticals  
Godrej Consumer Products  
Grasim Industries  
HCL Technologies  
Hindustan Unilever  
ICICI Bank  
Indian Hotels Company  
ITC  
Mahindra & Mahindra  
Marico  
Maruti Suzuki India  
Lupin  
Piramal Healthcare (Nicholas Piramal India)  
Punj Lloyd  
Sintex Industries  
State Bank of India  
Tata Global Beverages (Tata Tea)  
Wipro

## Cannonball

Allahabad Bank  
Andhra Bank  
IDBI Bank  
Madras Cements  
Phillips Carbon Black  
Shree Cement

## Emerging Star

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Allied Digital Services  
Axis Bank (UTI Bank)  
Cadila Healthcare  
Emco  
Greaves Cotton  
IL&FS Transportation Networks  
IRB Infrastructure Developers  
Max India  
Opto Circuits India  
Patels Airtemp India  
Thermax  
Zydus Wellness

## Ugly Duckling

Ashok Leyland  
BASF India  
Deepak Fertilisers & Petrochemicals Corporation  
Federal Bank  
Gayatri Projects  
Genus Power Infrastructures  
India Cements  
Ipca Laboratories  
ISMT  
Jaiprakash Associates  
JB Chemicals & Pharmaceuticals  
Orbit Corporation  
Pratibha Industries  
Provogue India  
Punjab National Bank  
Ratnamani Metals and Tubes  
Selan Exploration Technology  
Shiv-Vani Oil & Gas Exploration Services  
Subros  
Sun Pharmaceutical Industries  
Sunil Hitech Engineers  
Torrent Pharmaceuticals  
UltraTech Cement  
Union Bank of India  
United Phosphorus  
V-Guard Industries  
Zensar Technologies

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Orient Paper and Industries  
Tata Chemicals  
Unity Infraprojects

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