BEML

Q2FY10 Earnings Review

Recommendation	**:**	**Out performer**
CMP	:	Rs 936
Target	**:**	**Rs 1,198**
Upside Potential	:	28.0%

Sector	**:**	**Capital Goods**
Sensex	:	15,896
Bloomberg code	:	BEML IN
Reuters Code	:	BEML.BO

AT A GLANCE

Issued Equity Capital (Cr. Shrs)	:	4.2
Mkt. Cap (Rs. in Crs)	:	3,846
Major Shareholders		
Promoters (%)	:	54%
Free Float (%)	:	46%
Avg. Daily Vol. ('000)	:	42.3

Background: BEML is a Mini-Ratna (Category 1) Company under the Ministry of Defence and is engaged in design, manufacturing, sales and after-sales-service of a wide range of construction and mining equipment, defence products and rail and metro coaches. In addition, the company also provides engineering solutions in certain specialized areas such as automotive and aeronautics. The newly formed trading division of the company deals in third party products catering to the requirements of its domestic and overseas customers. The company has four manufacturing facilities in Bangalore, Mysore and Kolar Gold Fields, in Karnataka and Palakkad in Kerala.

ANALYST

Kumar Rahul Chauhan +91 44 2530 7364

kumarrc@dbschola.murugappa.com

Subdued revenue growth on account of product mix

BEML posted degrowth of 21.3% YoY in net sales to Rs483 crore on standalone basis during Q2FY10. The management attributed lower sales was on the account of product mix as lower units of high value product was sold during the quarter. However, net sales grew by 3.8% on QoQ basis and 5.2% YoY during 1HFY10.

Higher employee costs and interest outgo led to lower margins

EBITDA margins tumbled 490bps YoY to 4.6% on the back of higher employee cost (up 7.4% YoY) and lower revenue growth. Led by higher interest outgo (up 163% YoY and 55.4% QoQ) net profit fell 75.5% YoY to Rs13.6 cr for the Q2FY10 compared with Rs55.5 cr for the same period last year. The higher interest outgo was on account of higher short term borrowing for working capital requirements. To reduce short term borrowing management conveyed company has been working on reducing the collection cycle by implementing strict company's credit and collection procedures, which could reduce interest outgo going forward.

Order book – Strong momentum

BEML's order book position as on Sept30, 2009 stood at Rs5,838 cr including recently received large order of Rs161 cr for a walking dragline from one of the largest coal companies, northern coalfields. The order backlog is ~1.9x its FY09 revenue. As on Sept30, 2009 the order book for the railway division was ~Rs3,800 cr, mining and equipment industry at ~Rs1,600 cr and for the defence division was ~Rs438 cr. Management indicated, during Q2FY10, the growth in order books for defence division have been battered by delay in placing orders from defence ministry, however maintained optimistic view on the order book growth in the forthcoming quarters.

FY Mar (Rs Crore)	Turnover	EBITDA	Net Profit	EPS (Rs)	BVPS (Rs)	PE (X)	EV/EBIDTA (X)	D/E	ROE (%)	ROCE (%)
2009	2797	345	269	64.6	458.5	14.5	11.9	0.2	14.8	9.2
2010E	3217	442	305	72.9	514.9	12.8	9.8	0.2	15.0	9.8
2011E	3860	544	361	86.4	581.7	10.8	7.5	0.2	15.7	11.0

Source: DCSEC Research

Forecast changes

Despite of muted performance during Q2FY09, management maintained the guidelines of 18-20% revenue growth in mining and construction division and revenue from railway and metro division is expected to be doubled at ~Rs1000 crore (up more than 100% YoY) during FY10. However, in the wake of subdued performance during 1HFY09 (net sales up 5.2% YoY and PAT down 50.4% YoY), we are revising our topline revenue growth downward to 15% in FY10 (earlier estimates 20%) and maintaining growth of 20% in FY11. The higher revenue growth estimates in FY11 is on the back of investment in setting up aero space manufacturing division for manufacture and supply of ground handling equipment for aerospace application and revenues from this division would starts accumulate in the topline from 2010-11.

Valuation

At the CMP of Rs936, the stock is currently quoting at P/E of 12.8x and 10.8x its FY10 and FY11 earnings respectively and EV/EBITDA of 9.8x and 7.5x of its FY10 and FY11 estimates respectively. We reiterate our **Outperformer** rating on BEML with a reduced target price of **Rs1,198**, a potential upside of 28.0% from current levels. We value the stock at Rs1,198 based on 9.5x FY11E EV/EBITDA (a discount of 26.4% to its average 1-Year forward EV/EBITDA of 12.9x over the last 5 years).

Result Summary & Comments Q2FY10 (Standalone)

	Q2FY10	Q2FY09	% Var (Y-oY)	Q1FY10	% Var (Q-oQ)	Comments
Net Sales	**483.4**	**613.9**	**(21.3)**	**465.5**	**3.8**	**Sales degrowth on YoY basis was on account of product mix.**
Stock Adjustments	(139.6)	(68.8)		(86.2)		
Raw material	381.4	419.0	(9.0)	330.2	15.5	
Employee cost	138.7	129.2	7.4	136.1	1.9	
Other expenses	80.7	76.3	5.8	73.7	9.5	
Total expenditure	461	556	(17.0)	453.9	1.6	
EBITDA	**22.2**	**58.3**	**(61.9)**	**11.6**	**91.2**	
OPM (%)	**4.6**	**9.5**		**2.5**		**OPM tumbled on the back of higher employee costs and lower revenue growth.**
Depreciation	8.6	7.0	24.0	6.7	29.9	
EBIT	13.6	51.3	(73.6)	5.0	173.4	
Interest	15.1	5.7	163.0	9.7	55.4	
Other income	21.7	21.6	0.3	13.2	64.2	
PBT	20.2	67.2	(70.0)	8.5	138.4	
Tax	6.6	11.7	(43.8)	3.2	107.9	
PAT	13.6	55.5	(75.5)	5.3	156.6	
Extraordinary Items						
Reported PAT	**13.6**	**55.5**	**(75.5)**	**5.3**	**156.6**	**Higher interest outgo impacted PAT growth on YoY basis.**
NPM (%)	**2.8**	**9.0**		**1.14**		
Equity capital (FV:INR 10)	41.6	41.6		41.6		
No of shares (cr)	4.2	4.2		4.2		
Diluted EPS (INR)	**3.3**	**13.3**		**1.3**		

Source: Company, DCSEC Research

DBS Cholamandalam Securites Limited
Member: BSE, NSE, MSE
Regd. Office: Dare House, 2 (Old # 234) N.S.C. Bose Road, Chennai – 600 001.
Website : www.choladbsdirect.com
E-mail id - customercare@dbschola.murugappa.com
To open Trading Account ***SMS CDWM TA*** to 55050

LOCATION	***BEM***	***PHONE NUMBERS***	***E-MAIL ID***
AHMEDABAD	Mr.Mehul M Min	079 - 64500318/19	mehulmm@dbschola.murugappa.com
BANGALORE	Mr. Sajesh M	080- 41503340/41	sajeshm@dbschola.murugappa.com
	Mr. Krishna Kumar R M		krishnakumarrm@dbschola.murugappa.com
CHANDIGARH	Mr. Vishal Arora	0172 - 26248051	vishalarora@dbschola.murugappa.com
CHENNAI	Mr. Baskaran S	044 - 26198919/16	baskarans@dbschola.murugappa.com
	Mr. M Sundaresan	044- 25307306	sundaresanm@dbschola.murugappa.com
COCHIN	Mr. Preethi Damiyan	0484- 3073859	preethid@dbschola.murugappa.com
COIMBATORE	Mr. Mohan V N	0422- 4292041	mohanvn@dbschola.murugappa.com
DELHI	Mr. Kunal kaushish	011- 66134224/25	kunalkaushish@dbshcola.murugappa.com
HYDERABAD	Mr. Anupum Periwal	040- 64550572/77	anupamp@dbschola.murugappa.com
	Mr. Srinivasa Reddy D V	040- 23316567/68	srinivasardv@dbschola.murugappa.com
JAMSHEDPUR	Mr. Amit Kumar Mahto	0657 - 2320098/177	amitkumarm@dbschola.murugappa.com
KOLKATA	Mr. Kumar Gaurav	033- 44103638/3639	kumargaurav@dbschola.murugappa.com
	Mr.Subhrodeep Chatterjee		subhrodeepc@dbschola.murugappa.com
MUMBAI	Mr. Navneet Kedia	022- 66156591	navneetk@dbschola.murugappa.com
	Ms Shweta Shantaram Padhey	022- 66574000	shwetasp@dbschola.murugappa.com
	Ms. Sheetal Bheda	022 -22153610	sheetalbheda@dbschola.murugappa.com
PATNA	Mr.Sanjay Kumar	0612 - 2500008	sanjaykumarr@dbschola.murugappa.com
PUNE	Mr. Sujit Arvind Gaidhani	020 - 30264811/12	sujitag@dbschola.murugappa.com
RANCHI	Mr. Sanjiv Kumar	0651 - 6453496	sanjivkumar@dbschola.murugappa.com
	REGIONAL EQUITY MANAGER		
CHENNAI	Mr. Lakshmanan T S P	9840019701	lakshmanantsp@dbschola.murugappa.com
EAST & WEST	Mr. Ananthanarayan	9930103070	ananthanarayanj@dbschola.murugapa.com
NORTH	Mr. Ajay Kumar Minocha	9838074353	ajaykm@dbschola.murugappa.com
SOUTH	Mr. Shankar P V	9840494132	shankarpv@dbschola.murugappa.com
	RESEARCH		
Mr. Sandip Raichura	Head of Equities	044-25307216	raichuraS@dbschola.murugappa.com
Mr. Radhakrishnan.R	Manager Research / Technicals	044-25307353	radhakrishnanR@dbschola.murugappa.com
Mr. Alagappan A	Financial Services	044-25307363	alagappana@choladbs.murugappa.com
Mr. Balajee Tirupati	Infrastructure	044-25307364	balajeet@dbschola.murugappa.com
Mr. Kumar Rahul Chauhan	Sugar, Capital Goods	044-25307364	kumarrc@dbschola.murugappa.com
Mr. Rohith Thomas Mathew	Metals, Mining, Cement	044-25307363	rohithtm@dbschola.murugappa.com
Mr. Ramasubramaniam P	Telecom, Capital Goods	044-25307360	ramasubramanianp@dbschola.murugappa.com
Ms. Sheetal Aggarwal	Information Technology	044-25307365	sheetala@dbschola.murugappa.com
Mr. Sathyajith N	Mutal Fund Analyst	044-25307225	sathyajithn@dbschola.murugappa.com
	COMPLIANCE		
Mr Guruswamy Raj	Manager-Compliance		guruswamyrg@dbschola.murugappa.com

STOCK RATING: Outperformer: > 20% upside over the next 12 months; Marketperformer: trade within a +/-20% range over the next 12 months; Underperformer: > 20% downside over the next 12 months.