



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

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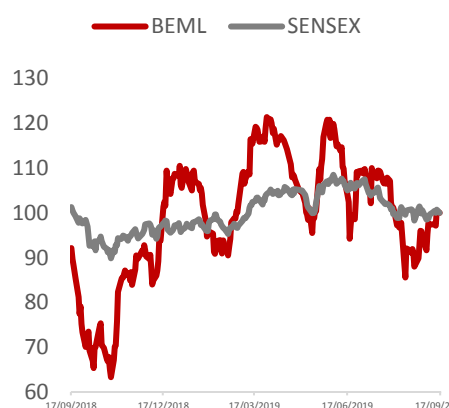
BUY

Current Price	814
Target Price	1034
Upside/Downside	27%
52 Week Range	471/662

Key Share Data

Market Cap (Rs.bn)	34.11
Market Cap (US\$ mn)	483.75
No of o/s shares (mn)	331
Face Value	1
Monthly Avg. vol (BSE+NSE) Nos'000	1730
BSE Code	500048
NSE Code	BEML
Bloomberg	BEML IN

Price performance



% Shareholding	Jun-19	Mar-19
Promoters	54.03	54.03
DII	4.02	3.71
FII	20.34	20.31
Others	21.61	21.95
Total	100	100

Key Financials

Year	Op Income	% Growth	EBIDTA	OPM%	PAT	% Growth	EPS	PE (x)	ROE%	ROCE%
FY17	24,942	9.4%	1,465	5.9%	848	148.0%	20.3	10.0	4%	6%
FY18	32,391	29.9%	2,527	7.8%	1,297	53.0%	31.0	6.5	6%	10%
FY19	34,743	7.3%	2,375	6.8%	632	-51.2%	15.1	53.8	3%	9%
FY20E	41,821	20.4%	2,706	6.5%	1,254	98.3%	30.0	27.1	6%	10%
FY21E	51,349	22.8%	3,818	7.4%	1,889	50.6%	45.2	18.0	8%	14%

Healthy order book and inflows to grow sales: Order book at the end of June 2019 is Rs89.1bn (2.7x FY19 sales). In the current Financial year till August 2019, company has bagged orders worth Rs15bn, of which Rail & metro is Rs8.45bn, Defence is Rs1.6bn and mining & construction is Rs4.95bn. The Management is confident of maintaining order inflow momentum expects Rs11bn orders from defense, Rs12bn from railways & Metro (DMRC-80 cars and MMRCL-72cars) and Rs12.5bn from earth moving equipment including spares segment during the year. The Executable orders during the year are expected at Rs42bn therefore year end order book is expected at Rs100bn.

Rail & Metro - Major growth driver: BEML has market share of 48% in Metro coaches with total capacity of 365cars p.a. BEML executing largest order of 504 coaches to MMRCL and has supplied indigenous unmanned Metro car prototype 75days before schedule. The Order book for rail & Metro stands at Rs51bn.

Orders bagged by BEML from MMRCL are at lower price than previous orders as standardization leading to reduction in overall cost. Also designing expenses are already incurred which gives BEML competitive advantage to bid at lower price. In order to be competitive, BEML is increasing its vendor base to optimize sourcing channels thereby reducing cost. Hence, bidding at lower price is unlikely to impact margin going ahead.

Defence - Growth to pick-up: Defence ARV (Armored Recovery Vehicle) order worth Rs11000mn got delayed due to delay in resolution on exchange rate fluctuation and taxes. However, the company will start executing an order of 104ARVs as the resolution has come in BEML's favor. Additionally BEML expects an order of 400 ARVs from Ministry of Defence.

BEML has also received **Sarvatra** (A bridging system) order worth Rs5bn and execution would commence shortly. Further, BEML is setting up defence corridor in South India and UP in order to introduce new products in bridging system, designing, aerospace, trainer aircraft etc.

Spare parts contribution to improve: Management expects revenue from spares to increase from current 2.5% of revenue to double digit in medium term. This is positive for BEML as Spares is high margin segment which will help margin improvement in the long run. Management is also focused on improving contribution on overhauling which also has better margin.

Earth moving equipment: Management expects orders of Rs12.5bn during the year for this segment. It also includes orders for spares. Management expects revenue for the segment to remain stable at Rs10-11bn.



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Improving working capital cycle: The Inventory days have gone down from 335days in FY18 to 202 days in FY19. BEML awaited Rs7bn are from Ministry of Defence (MOD) out of which Rs3bn have been encashed and rest is likely to accrue soon. The management also highlighted that, excluding MOD dues, debtor days stand at 114. Their Rail and Metro segment, has receivable days of less than 100days. Therefore, as metro contribution is likely to increase overall working capital cycle is likely to improve. We expect overall working capital days to improve from 229 days in FY19 to 175 days in FY21E.

Disinvestment- Government's focus: There is lot of interest on disinvestment from Government and transaction adviser, legal adviser and asset value have been appointed. Government also intends to monetise land which is not required for operations over next 3-5years.

Valuation & Outlook: BEML's revenue from competitive bidding increased from 83% to 90% over a period. Number of employees have gone down from 8221 to 7185 over FY18-19. As a result revenue per employee has increased from Rs34lacs to Rs48lacs per employee over FY17-19. Management is confident of improving this number further.

Driven by metro orders, defence execution and spares revenue is likely to increase at a CAGR of 22% over FY19-21E. We expect margin to be maintained at 6-7% as BEML bags major order through competitive bidding. However, as there is not major capex in the near future and working capital is likely to improve we expect interest and depreciation cost to reduce. This is likely to improve PBT margin from 3.73% in FY19 to 5.6% in FY21E. We expect BEML to post EPS of Rs 30 and Rs45 over FY20E and FY21E respectively. The Improved profitability is likely to improve return ratios improving ROCE from 9% to 14% over FY19-21E. At CMP stock trades at 27x FY20E and 18x FY21 earnings. We value BEML at 22x FY21e arriving at target price of **Rs1034**.



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BEML Ltd Financial data													
P&L (Rs mn)	FY16	FY17	FY18	FY19	FY20E	FY21E	Cash Flow St. (Rs. mn)	FY16	FY17	FY18	FY19	FY20E	FY21E
Net Sales	29,746.0	24,942.2	32,390.8	34,742.5	41,820.5	51,348.5	Net Profit	643.9	847.8	1,296.7	632.5	1,254.2	1,889.3
Cost of sales	28,324.9	23,476.9	29,863.4	32,367.1	39,114.8	47,530.8	Add: Dep. & Amort.	565.7	628.0	653.9	707.2	571.7	715.1
Operating Profit	1,421.2	1,465.3	2,527.3	2,375.4	2,705.7	3,817.8	Minority Interest	(1.5)	(0.2)	(0.1)	(0.1)	(0.1)	(0.1)
Depreciation	565.7	628.0	653.9	707.2	571.7	715.1	Cash profits	1,208.1	1,475.6	1,950.6	1,339.6	1,825.9	2,604.3
PBIT	855.5	837.3	1,873.4	1,668.2	2,134.0	3,102.7	(Inc)/Dec in						
Other income	423.1	625.9	250.4	231.1	229.9	238.2	Sundry debtors	(2,154.7)	(2,238.7)	(2,112.2)	283.0	(3,911.3)	(3,864.8)
Interest	492.6	480.4	483.2	593.9	434.3	434.3	Inventories	2,263.6	(2,770.8)	1,722.1	976.9	5,739.5	(2,262.2)
Profit before tax	785.9	982.8	1,640.6	1,305.4	1,929.6	2,906.6	Loans/advances	3,812.5	1.6	0.3	0.1	-	-
Exceptional and Extra Ordinary Items	-	-	-	-	-	-	Current Liab and Provisions	(2,172.6)	3,744.5	(563.8)	3,546.5	1,035.7	5,585.3
share of profit/loss in JV	-	-	-	-	-	-	Other Assets	(295.5)	78.3	910.0	477.3	(240.5)	(264.5)
PBT (Post Extra Ordinary)	785.9	982.8	1,640.6	1,305.4	1,929.6	2,906.6	Other Non Current Assets	(2,247.4)	1,177.7	(179.1)	656.1	-	-
Provision for tax	142.0	135.0	343.9	672.9	675.4	1,017.3	Contract Assets	-	-	-	(4,891.6)	(995.7)	(2,060.6)
Reported PAT	643.9	847.8	1,296.7	632.5	1,254.2	1,889.3	Change in working capital	(794.1)	(7.5)	(222.7)	1,048.3	1,627.7	(2,866.8)
MI	1.5	0.2	0.1	0.1	0.1	0.1	CF from Oper. activities	414.0	1,468.1	1,727.9	2,387.9	3,453.6	(262.5)
Adjusted PAT	642.4	847.6	1,296.7	632.4	1,254.2	1,889.2	CF from Inv. activities	(464.2)	(722.4)	(924.2)	(1,194.7)	(358.6)	(500.0)
							CF from Fin. activities	(736.8)	(1,254.7)	(933.4)	(910.5)	(501.6)	(566.9)
							Cash generated/(utilised)	(787.0)	(509.1)	(129.6)	282.7	2,593.5	(1,329.3)
							Cash at start of the year	1,455.5	664.2	145.4	27.8	314.4	2,907.9
							Cash at end of the year	668.5	155.1	15.8	310.5	2,907.8	1,578.5
Balance Sheet	FY16	FY17	FY18	FY19	FY20E	FY21E	Ratios	FY16	FY17	FY18	FY19	FY20E	FY21E
Equity capital	417.7	417.7	417.7	417.7	417.7	417.7	OPM	4.8	5.9	7.8	6.8	6.5	7.4
Reserves	20,876.5	21,406.1	21,593.4	21,456.0	22,208.5	23,531.0	NPM	2.1	3.3	4.0	1.8	3.0	3.7
Net worth	21,294.3	21,823.8	22,011.1	21,873.7	22,626.2	23,948.7	Tax rate	18.1	13.7	21.0	51.5	35.0	35.0
Minority Interest	1.9	2.1	2.2	2.0	2.2	2.2	Growth Ratios (%)						
Non Current Liabilities	8,863.1	8,278.0	8,046.0	8,125.6	8,946.7	9,003.3	Net Sales	(0.6)	(16.1)	29.9	7.3	20.4	22.8
Current Liabilities	13,559.0	16,952.0	16,796.1	20,122.6	20,337.2	25,865.9	Operating Profit	(45.2)	3.1	72.5	(6.0)	13.9	41.1
CAPITAL EMPLOYED	43,718.3	47,055.8	46,855.4	50,123.9	51,912.3	58,820.0	PBIT	(58.5)	(2.1)	123.8	(11.0)	27.9	45.4
Non Current Assets	9,940.8	8,867.5	9,304.9	8,375.6	8,162.5	7,947.4	PAT	883.8	31.9	53.0	(51.2)	98.3	50.6
Fixed Assets	6,611.9	6,627.9	6,626.7	6,563.3	6,350.2	6,135.1	Per Share (Rs.)						
Non Current Investments	0.0	0.0	0.0	0.0	0.0	0.0	Net Earnings (EPS)	15.4	20.3	31.04	15.1	30.0	45.2
Long Term Loans and Advances	255.3	183.7	89.7	6.0	6.0	6.0	Cash Earnings (CPS)	1.8	5.3	15.4	(1.8)	16.3	28.1
Other Non Current Assets	2,038.7	942.5	1,203.7	627.5	627.5	627.5	Dividend	1.0	4.0	7.9	12.5	12.0	13.6
Goodwill	-	-	-	-	-	-	Book Value	509.8	522.4	526.9	523.7	541.7	573.3
Deferred Tax Assets	1,035.0	1,113.4	1,384.9	1,178.8	1,178.8	1,178.8	Free Cash Flow	(1.2)	17.9	19.2	28.6	74.1	(18.3)
Current Assets	33,777.5	38,188.4	37,550.5	41,748.3	43,749.8	50,872.6	Valuation Ratios						
Current investments	-	-	-	756.9	756.9	756.9	P/E(x)	53	40	26	54	27	18
Inventories	17,023.4	19,794.2	18,072.1	17,095.2	11,355.7	13,617.9	P/B(x)	1.6	1.6	1.5	1.6	1.5	1.4
Trade Receivables	12,071.7	14,310.4	16,422.6	16,139.6	20,050.9	23,915.8	EV/EBIDTA(x)	27.1	26.0	15.2	15.9	13.0	9.5
Cash and Bank Balances	664.2	145.4	27.8	314.4	2,907.9	1,578.6	Div. Yield(%)	0.1	0.5	1.0	1.5	1.5	1.7
Short Term Loans and Advances	216.4	133.6	147.0	146.1	146.1	146.1	FCF Yield(%)	(0.1)	2.2	2.4	3.5	9.1	(2.2)
Other Current Assets	3,801.8	3,804.7	2,881.0	2,404.5	2,645.0	2,909.4	Return Ratios (%)						
Contract Assets	-	-	-	4,891.6	5,887.3	7,947.9	ROE	3%	4%	6%	3%	6%	8%
CAPITAL DEPLOYED	43,718.3	47,055.8	46,855.4	50,123.9	51,912.3	58,820.0	ROCE	5%	6%	10%	9%	10%	14%



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