

BEML Ltd

Bloomberg Code: BEML IS

India Research - Stock Broking

BUY

Massive Growth Opportunity on Capex Cycle Revival

We expect the revenue to grow at a CAGR of 22% during FY15-FY17E and EBITDA to increase at a CAGR of 128% during FY15-FY17E. Accordingly, we also expect RoCE to expand to 13% and 15% during FY16E and FY17E from 4% in FY15 on the back of higher execution of orders in hand.

Cash conversion cycle to improve: We expect the cash conversion cycle to revive and a strong growth from FY17E on a sustainable basis on the back of strong execution of the orders.

Visibility on order book growth: BEML started FY16 with order book size of Rs.56860 mn. Management expects the net sales will ramp up to the tune of Rs.41750 mn during FY16E. We do believe that with the recent advancements for mining sector and Metro railway projects could improve the order book size massively during FY17E.

Turnaround for BEML on the back of revival in capex cycle of mining, defence, rail and metro: BEML serves India's core sectors like mining, construction, defence, rail and metro. The proposal of metro rail projects in Tier-II cities, hi-speed trains, expected revival in mining and construction sector augur well for the company.

Robust R&D may aid to bag orders: BEML has well established R&D base with technology absorption and design capability to meet the technological demands through in-house R&D and strategic technical tie-ups with global players.

Valuation and Outlook

We expect revival in capex cycle in defence, mining and metro rail segments augurs well in the long term for BEML. At CMP Rs.1520, the stock is trading at 2.4x FY17E P/BV. We recommend a 'BUY' for a price target of Rs. 1905, representing 3x FY17E P/BV an upside of 25%.

Key Risk

- Delay in capex plan of PSU companies and Government will adversely affect order book which could hit the revenue and margins.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	28012	29037	28021	33353	41741
EBITDA	(486)	1147	694	2425	3592
EBITDA Margin (%)	(1.7)	4.0	2.5	7.3	8.6
Adj. Net Profit	(834)	193	60	1152	1590
EPS (Rs.)	(20.0)	1.5	1.4	27.7	38.2
RoE (%)	(3.9)	0.9	0.3	5.3	6.4
P/BV	0.3	0.6	2.2	2.7	2.4

Source: Company, Karvy Research, * Represents multiples for FY13, FY14 & FY15 are based on historic market price

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Recommendation (Rs.)

CMP (as on Jul 31, 2015)	1520
Target Price	1905
Upside (%)	25

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	63712 / 993
52-wk High/Low (Rs.)	1612 / 515
3M Avg. daily volume (mn)	0.3
Beta (x)	1.3
Sensex/Nifty	28115 / 8533
O/S Shares(mn)	41.6
Face Value (Rs.)	10.0

Shareholding Pattern (%)

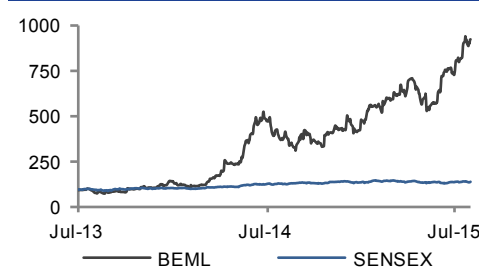
Promoters	54.0
FII's	5.8
DII's	19.7
Others	20.5

Stock Performance (%)

	1M	3M	6M	12M
Absolute	25	55	68	141
Relative to Sensex	24	49	74	122

Source: Bloomberg

Relative Performance*



Source: Bloomberg; *Index 100

Analyst Contact

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Company Financial Snapshot (Y/E Mar)
Profit & Loss (Rs. Mn)

	FY15	FY16E	FY17E
Net sales	28021	33353	41741
Optg. Exp (Adj for OI)	27327	30928	38149
EBITDA	694	2425	3592
Depreciation	530	570	614
Interest	707	1106	1345
Other Income	597	970	740
PBT	55	1719	2373
Tax	(5)	567	783
Adj. PAT	60	1152	1590

Profit & Loss Ratios

EBITDA margin (%)	2.5	7.3	8.6
Net margin (%)	0.2	3.5	3.8
P/E (x)	NM	54.0	39.1
EV/EBITDA (x)	69.3	26.5	17.8
Dividend Yield (%)	0.1	0.1	0.1

Source: Company, Karvy Research, NM: Not meaningful

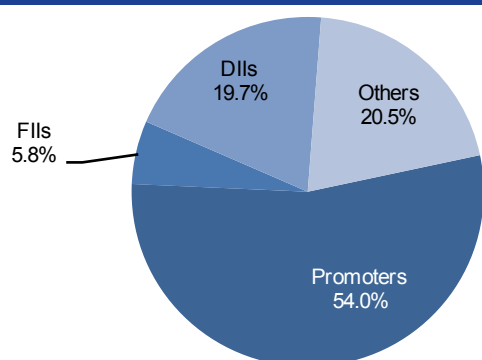
Balance sheet (Rs. Mn)

	FY15	FY16E	FY17E
Total Assets	45984	51070	59626
Net Fixed assets	6739	5962	6346
Current assets	35908	41520	49619
Other assets	3337	3588	3661
Total Liabilities	45984	51070	59626
Networth	20767	22982	26429
Debt	4139	4409	4504
Current Liabilities	16262	18276	22120
Other Liabilities	4813	5401	6571
Minority Interest	2	2	2

Balance Sheet Ratios

RoE (%)	0.3	5.3	6.4
RoCE (%)	3.7	12.9	15.0
Net Debt/Equity	0.2	0.2	0.2
Equity/Total Assets	0.5	0.5	0.4
P/BV (x)	2.2	2.7	2.4

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


Source: Company, Karvy Research

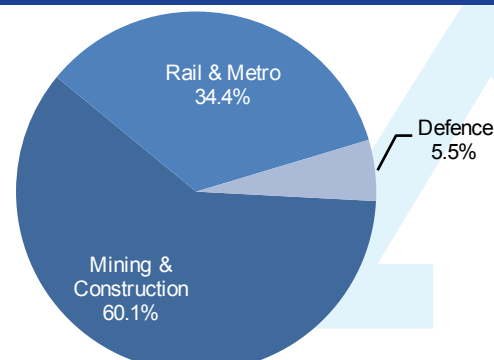
Company Background

BEML is a Miniratna PSU company headquartered in Bengaluru (Karnataka), operates under control of Ministry of Defence. It's business verticals are-Mining & construction, defence and Rail & Metro. It serves India's core sectors like Defence, Rail, Power, Mining and Infrastructure. BEML manufactures and supplies Defence Ground Support Equipment such as Tatra based High Mobility Trucks, Recovery Vehicles, Bridge Systems, Vehicles for Missile Projects, Tank Transportation Trailers, Mine Ploughs, Crash Fire Tenders, Snow Cutters, Aircraft Towing tractors and Aircraft Weapon Loading Trolley. Under Mining and Construction business, it manufactures and supplies Bull Dozers, Excavators, Dumpers, Shovels, Loaders and Motor Graders. For Rail and Metro business, it manufactures and supplies Rail Coaches, Metro Cars, AC EMUs, Overhead Equipment Cars, Steel and Aluminium Wagons. BEML has also trading division for dealing in non-company products and international business division for export activities.

Cash Flow (Rs. Mn)

	FY15E	FY16E	FY17E
PBT	55	1719	2373
Depreciation	530	570	614
Interest (net)	707	1106	1345
Tax	(348)	(299)	(307)
Changes in WC	5288	(3206)	(3285)
Others	(347)	184	109
CF from Operations	5885	74	850
Capex	(1607)	0	(454)
Investment	0	0	0
Others	597	970	740
CF from Investing	(1010)	970	286
Change in Equity	0	0	0
Debt	(3474)	(80)	(471)
Dividends	(122)	(122)	(122)
CF from Financing	(3596)	(202)	(593)
Change in Cash	1278	842	542

Source: Company, Karvy Research

Exhibit 3: Revenue Segmentation – FY15 (in %age)


Source: Company, Karvy Research

Top line might see a bumper growth at 22% CAGR over FY15-17E: We expect the top line to grow at a 22% CAGR and EBITDA to register a bumper growth at 128% CAGR during FY15 –FY17E. We expect faster execution of the orders as compared to the preceding years. We expect the EBITDA and profit margins to expand during FY16E and FY17E. The sign of revival is shown during the last quarter of FY15, top line registering a growth of 64% on y-o-y basis and 122% on q-o-q basis.

We expect revival in capex cycle from Public Sector Undertaking (PSU) mining companies, expansion and development of metro rails across Tier-I, Tier-II and Tier-III cities which likely to raise the demand of heavy machineries and railway coaches respectively. Likewise, BEML is to be benefited from the defence sector owing to high budgetary allocation and preference to 'Buy (Indian)' and 'Buy and Make (Indian)' over 'Buy (Global)'.

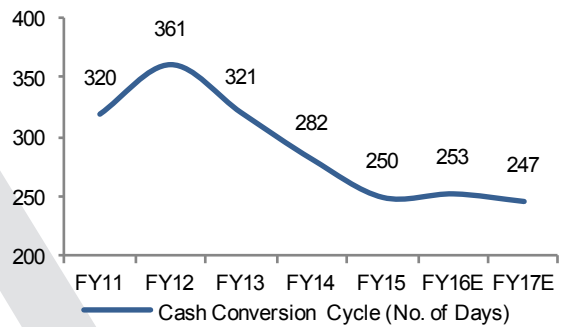
Strong distribution network: BEML has robust network of sales offices in the country. It helps the buyers to access its wide range of products at ease. It has full fledged service centres and spare parts depots, which offer rehabilitation services and maintenance.

BEML's nation-wide after-sales service network includes 4 zonal offices, 10 regional offices, 16 district offices, 15 dealers and the number is growing to cover countrywide for the smaller / construction equipment sector, exclusively 5 service centers and 11 activity centres.

It makes ease for the procurers in terms of after-sales services with a lesser turnaround time. This facility could help out to hold the existing customers as well as gain new customers.

Cash conversion cycle to improve on the back of revival in the order book and business cycles

Exhibit 4: Cash Conversion Cycle (No. of Days)

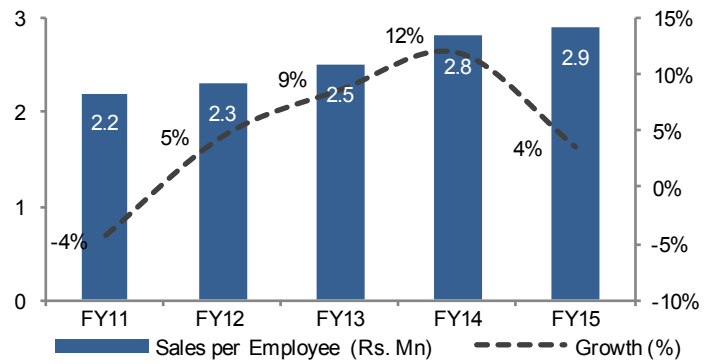


BEML is well placed to grab the opportunities across all its three business segments. Revivable of capex cycle among the PSUs and defence sector could give a healthy shape to its order book. Average cash conversion cycle is 307 days in the last 5 years and we expect that it will come down by more than 50 days indicating cash would be available for working capital requirement as well as for investments.

Source: Company, Karvy Research

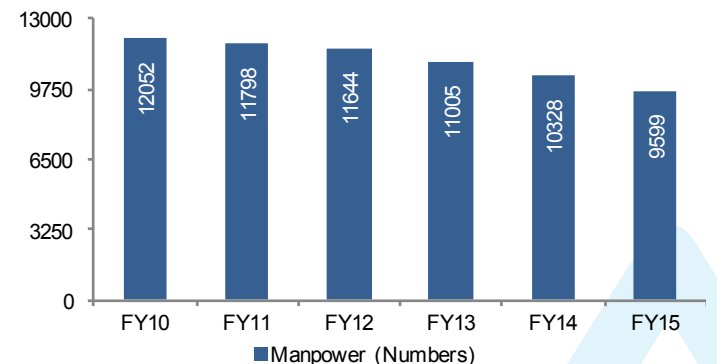
Improve Man Power Efficiency: Historically, the company has maintained a flattish revenue growth on a consistently declining human capital pointing towards a improved man power utilization. We expect a strong revenue growth at CAGR of 22% during FY15 to FY17E and such rationalized human capital base could be maintained which could also be a tool for margin booster.

Exhibit 5: Sales contribution per employee



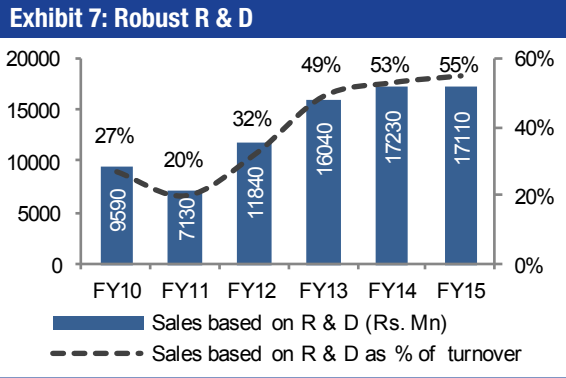
Source: Company, Karvy Research

Exhibit 6: Number of Employees



Source: Company, Karvy Research

Robust R&D may aid to bag orders

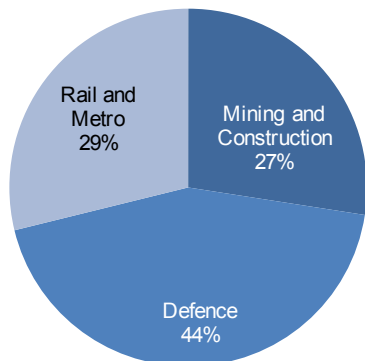


BEML has well established R&D base with technology absorption and design capability to meet the technological demands through in-house R&D and strategic technical tie-ups with global players.

Source: Company, Karvy Research

Expansion of order book: BEML started FY16 with order book size of Rs.56860 mn. We expect the order book size could increase to Rs.80514 mn during FY15 to FY17E, at CAGR of 19%. Government’s thrust of investment in defence, mining and metro would emerge new business opportunities for BEML.

Exhibit 8: Segmental Order Book as on 1-04-2015



Source: Company, Karvy Research

Exhibit 9: Order Book as on last day of respective FY



Source: Company, Karvy Research

a) **Defence:** During the 12th five year plan, India is expected to spend around Rs.5500 bn to buy defence equipment and weapons. For FY16E, budget envisages investment on vehicles to the tune of over Rs.190 bn. In Union budget 2015-16, Rs.2400bn has been allocated for the defence sector. “Make in India” theme focuses on indigenous production for defence equipments. Henceforth, domestic procurement of defence is expected to increase in the coming years. BEML, being a PSU, has every chance to bag more orders in the defence sector. We see an opportunity for BEML to pick up business in the areas related to its product portfolio.



- b) **Rail and Metro:** During the 12th five year plan, for developing an efficient public and freight transport system an outlay of Rs.5190bn has been planned. Out of this, Rs.600 bn for metro cars rolling stock envisaged over next 10 years from various metro projects in Tier-II and Tier-III cities. Opportunities are also expected to emerge from Diesel Electric Multiple Unit (DEMU), Mainline Electric Multiple Unit (MEMU) and AC Electric Multiple Unit (EMU) trains. Sub-urban trains expected to graduate to stainless steel EMUs. Indian coach manufacturing is expected to graduate to medium/high speed coaches in the days to come.



- c) **Mining Equipment:** BEML is the largest manufacturer of mining equipment in India. Minerals like manganese, lead, copper and alumina are expected to witness double digit growth in the years ahead. There is significant scope for new mining capacities in iron ore, bauxite and coal. BEML gets maximum orders from coal India. Coal production staged to increase from 0.5bn tons to 1 bn tons in the next five years and we expect that there will be high equipment purchasing activity.

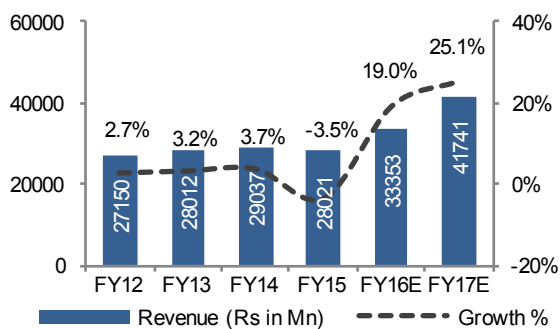


Exhibit 10: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15	FY16E	FY17E	Comments
Consolidated					
Revenue	29037	28021	33353	41741	<ul style="list-style-type: none"> Capex cycle in mining especially in coal is expected to revive. Production of Coal India is expected to be doubled from 0.5 bn tons to 1 bn tons in the next few years. Coal India would be requiring more machineries to match the production targets. BEML, being a PSU with low cost products, better servicing and training facilities will position the company ahead of competition from private players or from imports. Opportunities from various metro projects in Tier-II and Tier-III cities. BEML, being a PSU, has every chance to bag more orders in the defence sector. We see an opportunity for BEML to pick up business in the areas related to its product portfolio.
Revenue Growth (%)	3.7	(3.5)	19.0	25.1	We expect bumper top line growth in the near future.
EBITDA	1147	694	2425	3592	Cost of production would go on the same proportion of revenue. It is assumed that closing WIP and finished goods to be at higher side. We have assumed consistent order book to sales ratio.
EBITDA Margins (%)	4.0	2.5	7.3	8.6	Margins to improve substantially on the back of high revenue growth.
Combined Normalized PAT	193	60	1152	1590	Net profit and EPS set to witness abundantly higher numbers. Net profit margins are going to expand substantially.
Fully Diluted EPS (Rs.)	1.5	1.4	27.7	38.2	
Fully Diluted EPS Growth (%)	-	(1.9)	18.2	38.1	
Capex (ex. Acquisition) - cash capex *	(526)	(1607)	0	(454)	We have assumed no major capex in the foreseeable future.

Source: Company, Karvy Research

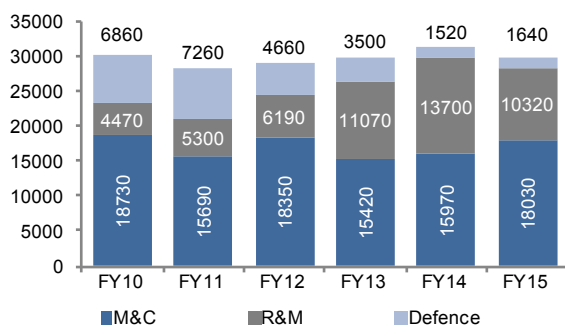
Exhibit 11: Revenue and Growth



Source: Company, Karvy Research

We expect operating revenue to grow at a CAGR of 22% during FY15-17E while registering a growth of 19% and 25% in FY16E and FY17E, respectively. It has shown signs of revival in the top line during the last quarter of FY15.

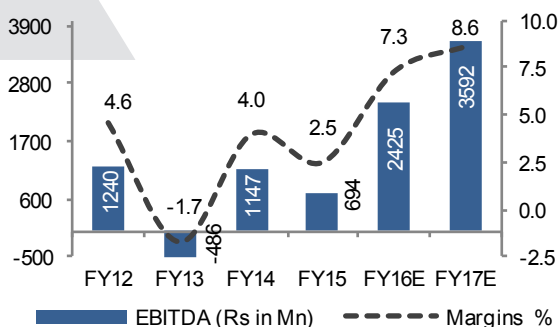
Exhibit 12: Segmental Revenue (Rs. Mn)



Source: Company, Karvy Research

Majority of the revenue is coming from Mining & Construction (M&C) sector, Rail & Metro (R&M) business. Domestic procurement of Defence is expected to increase in the coming years. BEML, being a PSU, has every chance to bag more orders in the defence sector. We see an opportunity for BEML to pick up business in the area related to its product portfolio.

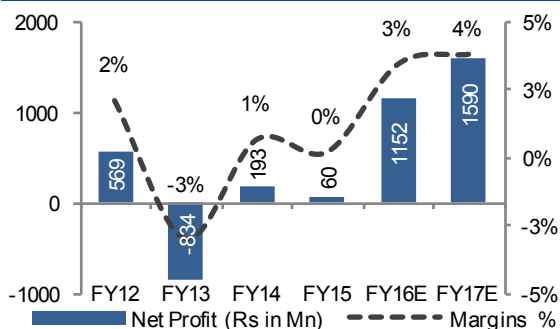
Exhibit 13: EBITDA and Margins



Source: Company, Karvy Research

We expect EBITDA to grow at a CAGR of 128% on the back of revival and strong execution of the order book and margins would see an substantial expansion. However, we expect a revival in capex in all the three core sectors of the Indian economy i.e. Mining and Construction, Defence and Rail especially in metro railways. We anticipate cash flow from operations to improve on the back of strong execution of the order book.

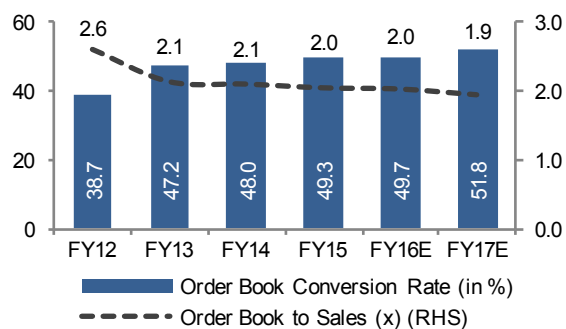
Exhibit 14: Net Profit and Margins



Source: Company, Karvy Research

We expect net profit to register a bumper growth on the back of high revenue growth. The closing stocks will be at higher side during FY16E and FY17E assuming higher Work-in-Progress (WIP). We expect the net profits for FY16E to be at 18x of FY15, for FY17E to register a growth of 38% over FY16E. The net profit margins could expand substantially.

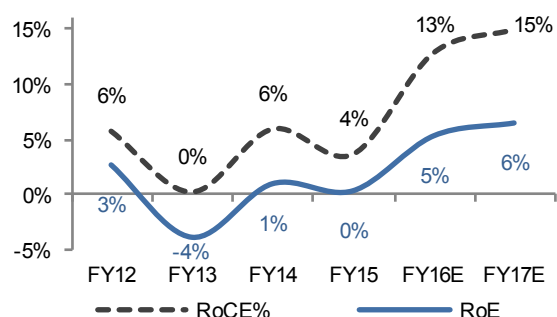
Exhibit 15: Order Book to Sales



Source: Company, Karvy Research

BEML has maintained a consistent “order book to sales” ratio. We have assumed that it could able to maintain the same in the next couple of years and expect that the conversion rate could be marginally at higher side during the FY16E and FY17E.

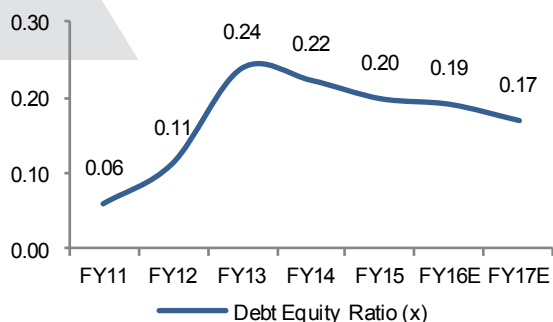
Exhibit 16: RoE (%) vs RoCE (%)



Source: Company, Karvy Research

The company’s RoE and RoCE had seen a sharp fall in FY13. RoE and RoCE have recovered marginally during FY14 and FY15. We expect there could be a substantial expansion during the next couple of years on the back of better profit margins.

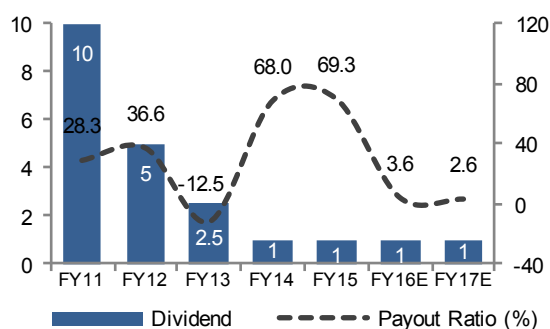
Exhibit 17: Debt Equity Ratio



Source: Company, Karvy Research

BEML has business model which requires huge capital. Even though the company requires huge capital outlay, it does not have high debt and being managed from its internal accruals.

Exhibit 18: Dividend Payout



Source: Company, Karvy Research

The company has a good dividend track record and has consistently declared dividends for the last 5 years.

Exhibit 19: Company Snapshot (Ratings)

	Low				High
	1	2	3	4	5
Quality of Earnings				✓	
Domestic Sales				✓	
Exports		✓			
Net Debt/Equity			✓		
Working Capital Requirement			✓		
Quality of Management					✓
Depth of Management					✓
Promoter					✓
Corporate Governance					✓

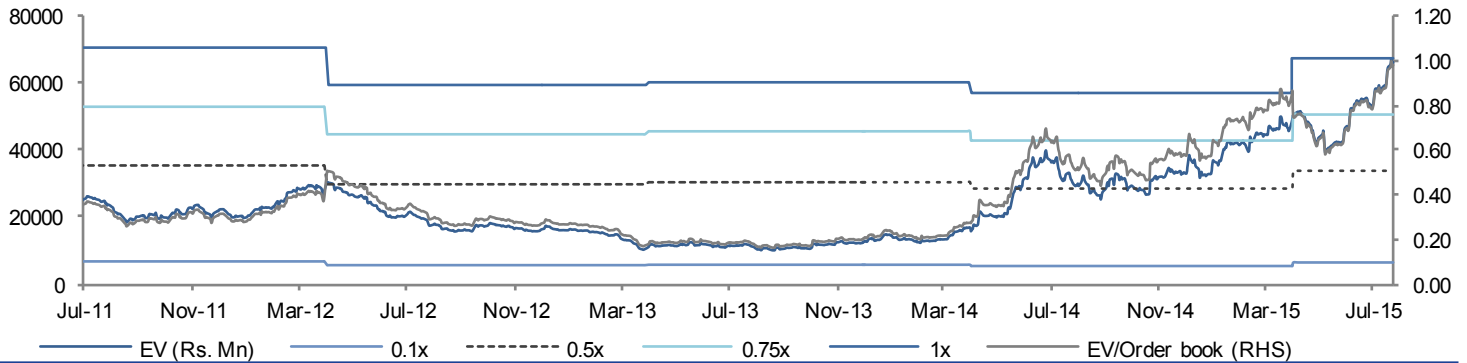
Source: Company, Karvy Research

- For BEML, majority of the revenue is from mining, rail and metro railway segments.
- Exports are less than 10% of total sales revenue. It is expanding its foot print in other countries. Its products are exported to more than 56 countries. BEML has opened local companies at Indonesia, Brazil, Malaysia & China. The company has nine manufacturing units located at Bangalore, Kolar Gold Fields (KGF), Mysore, Palakkad and has a Subsidiary - Vignyan Industries Ltd, in Chikmagalur District.
- BEML is not highly leveraged. It does not have high debt and being managed from its internal accruals.
- It is assumed that BEML will manage maximum of its fund requirement from the internal accruals.

Cross Cycle Valuations

We assume robust order book during FY16E and FY17E. On the back of order inflows, from various mining companies especially, Coal India, various metro projects from Tier-II and Tier-III cities, Railway coaches and defence sectors. Historically, the stock was trading within 0.16x and 1x EV/Order Book band. At CMP Rs. 1520, the stock is trading at 0.80x FY17E EV/Order Book. We recommend a **“BUY”** for a price target of Rs.1905 representing 1x FY17E EV/Order Book.

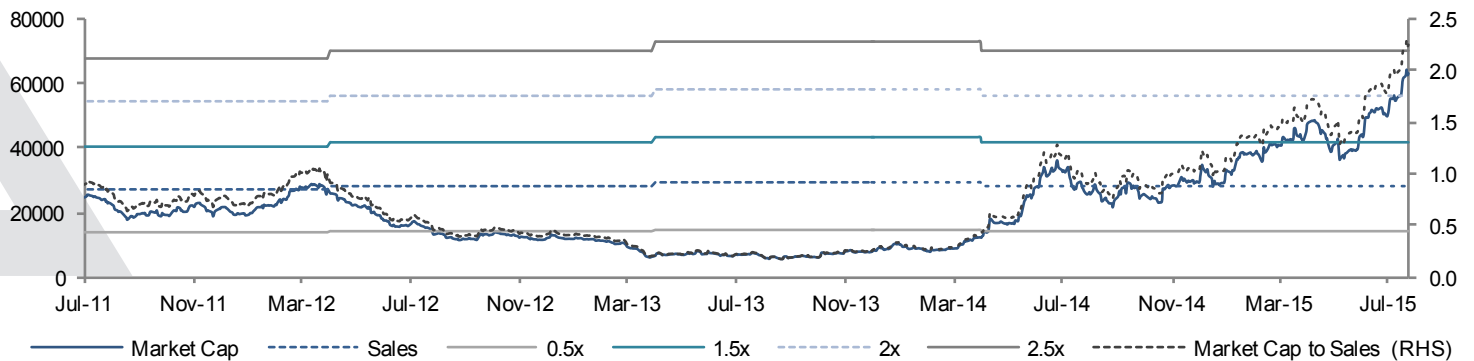
Exhibit 20: EV/Order Book Band



Source: Company, Karvy Research

Based on the improving sales figure, on the back of effective execution of the order book and assuming that sales to order book ratio to be consistent, FY17E could register a huge growth on its sales. Historically, on an average, the stock was trading between 0.18x-2.3x of market cap/sales. We recommend a **“BUY”** for a price target of Rs.1905 representing 1.9x Market Cap to FY17E sales.

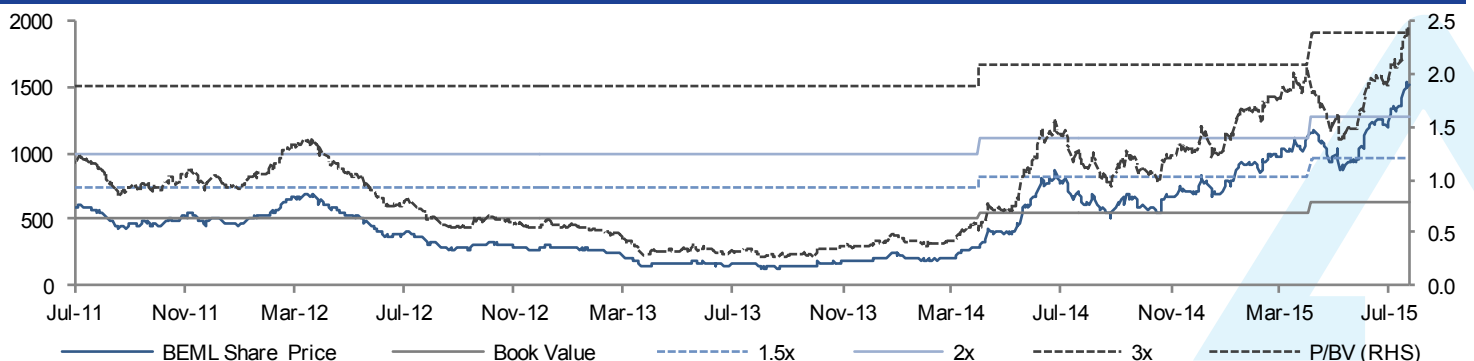
Exhibit 21: Market Cap / Sales Ratio Band



Source: Company, Karvy Research, Note : Market Cap & Sales in Rs.Mn.

We value the company on the basis of revival in capex cycle, in particular order inflow from mining sector for heavy earth moving vehicles especially from Coal India, technological up-gradation of railway coaches, hi-speed railway coaches, metro cars etc. and some order inflows from defence sector. Currently, BEML was trading at 2.4x of FY17E BV. The stock has traded between 0.3x to 2.4x one year forward BV. We have assigned a 3x FY17E BV of Rs.635 per share for a target of Rs.1905 representing an upside potential of 25%.

Exhibit 22: P/BV Band



Source: Company, Karvy Research

Financials

Exhibit 23: Income Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Revenues	28012	29037	28021	33353	41741
Growth (%)	3.2	3.7	(3.5)	19.0	25.1
Operating Expenses	28499	27890	27327	30928	38149
EBITDA	(486)	1147	694	2425	3592
Growth (%)	0.0	0.0	0.0	249.5	48.1
Depreciation & Amortization	510	543	530	570	614
Other Income	1043	637	597	970	740
EBIT	47	1241	761	2825	3718
Interest Expenses	1415	1107	707	1106	1345
PBT	(1368)	134	54	1719	2373
Tax	(420)	(93)	(5)	567	783
Adjusted PAT	(834)	193	60	1152	1590
EPS	(20.0)	1.5	1.4	27.7	38.2

Source: Company, Karvy Research

Exhibit 24: Balance Sheet

YE Mar (Rs. Mn)	FY13	FY14	FY15	FY16E	FY17E
Cash & Cash Equivalents	785	175	1456	2298	2840
Sundry Debtors	8615	9774	9917	10561	11871
Inventory	24681	21608	19287	23162	28987
Loans & Advances	6580	5204	3896	5483	5596
Investments	1	-	-	-	-
Gross Block	11635	11798	13727	13727	14727
Net Block	5692	5508	6739	5962	6346
CWIP	1132	1353	-	-	-
Miscellaneous	4734	4076	4689	3604	3987
Total Assets	52220	47697	45984	51070	59626
Current Liabilities & Provisions	20887	17081	16262	18276	22120
Debt	4981	4652	4139	4409	4504
Other Liabilities	5552	5153	4813	5401	6571
Total Liabilities	31420	26885	25215	28086	33195
Shareholders Equity	418	418	418	418	418
Reserves & Surplus	20380	20393	20350	22564	26012
Networth	20798	20810	20767	22981	26429
Minority Interest	2	2	2	2	2
Total Networth & Liabilities	52220	47697	45984	51069	59626

Source: Company, Karvy Research

Exhibit 25: Cash Flow Statement

YE Mar (Rs. Mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	(1253)	100	55	1719	2373
Depreciation	510	543	530	570	614
Interest	1415	1107	707	1106	1345
Tax Paid	(315)	(264)	(348)	(299)	(307)
Inc/dec in Net WC	(2699)	2793	5288	(3206)	(3285)
Other Income	(407)	(206)	(206)	(206)	(206)
Other non cash items	1387	(137)	(141)	390	315
Cash flow from operating activities	(1362)	3936	5885	74	850
Inc/dec in capital expenditure	(1696)	(526)	(1607)	0	(454)
Others	379	247	597	970	740
Cash flow from investing activities	(1317)	(279)	(1010)	970	286
Inc/dec in borrowings	3006	(3050)	(2767)	1026	874
Dividend paid	(242)	(122)	(122)	(122)	(122)
Interest paid	(1243)	(1093)	(707)	(1106)	(1345)
Cash flow from financing activities	1521	(4265)	(3596)	(202)	(593)
Net change in cash	(1158)	(608)	1278	842	542

Source: Company, Karvy Research

Exhibit 26: Key Ratios

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EBITDA Margin (%)	(1.7)	4.0	2.5	7.3	8.6
EBIT Margin (%)	0.2	4.3	2.7	8.5	8.9
Net Profit Margin (%)	(3.0)	0.7	0.2	3.5	3.8
Net Debt/Equity	0.2	0.2	0.2	0.2	0.2
RoE (%)	(3.9)	0.9	0.3	5.3	6.4
RoCE (%)	0.2	6.0	3.7	12.9	15.0

Source: Company, Karvy Research

Exhibit 27: Valuation Parameters

YE Mar	FY13	FY14	FY15	FY16E	FY17E
EPS (Rs.)	(20.0)	1.5	1.4	27.7	38.2
BV (Rs.)	500.0	500.2	499.2	552.4	635.3
PE (x)	NM	NM	NM	54.0	39.1
P/BV (x)	0.3	0.6	2.2	2.7	2.4
EV/EBITDA (x)	NM	14.5	69.3	26.5	17.8
EV/Sales (x)	0.4	0.6	1.7	1.9	1.5

Source: Company, Karvy Research; *Represents multiples for FY13, FY14 & FY15 are based on historic market price, NM: Not meaningful

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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