

Bharat Earth Movers (BEML)

Performance Highlights

Quarterly highlights - Standalone

Y/E March (₹ cr)	2QFY16	1QFY16	2QFY15	% chg (yoy)	% chg (qoq)
Net sales	621	590	451	37.7	5.2
EBITDA	(13)	(57)	(31)	nmf	nmf
Reported PAT	(30)	(75)	(55)	nmf	nmf

Source: Company, Angel Research; Note: nmf- Not meaningful

BEML reported standalone sales of ₹621cr for 2QFY2016, up 37.7% yoy (ahead of our expectation of ₹599cr). At the EBITDA level, the company reported losses of ₹13cr, in-line with our expectation. The impact of losses at EBITDA level was seen at the PAT level too, as the company reported a net loss of ₹30cr, against our loss expectation of ₹12cr. Notably, the quantum of loss has narrowed down on a yoy basis.

BEML's order book as of 2QFY2016 stands at ~₹6,376cr, which gives revenue visibility for over the next few quarters.

Valuation: During the quarter, BEML impressed us by reporting strong execution, mainly seen across the Construction & Mining Equipments segment. Also, BEML has reported a ₹1,771cr of order inflows, across all the 3 business segments. Reported order inflows, emerging bid pipeline, indicate us that BEML should end FY2016E with strong order inflows of ₹2,900cr. A strong awarding environment should lead to improvement in the execution. Accordingly, we expect BEML to report a 19.4% top-line CAGR during FY2015-17E. At the back-drop of improved execution and better absorption of fixed costs, we expect BEML to report a strong 529.2% PAT CAGR during FY2015-17E.

On the whole, we are optimistic that the company would report strong earnings going forward, given the improving award activity environment across all 3 business segments, BEML has a strong market positioning. **We continue to maintain our NEUTRAL rating on the stock.**

Key financials (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	2,809	2,912	2,809	3,404	4,006
% chg	3.0	3.7	(3.5)	21.2	17.7
Net Profit	(80)	5	7	151	268
% chg	NA	NA	44.8	2128.7	77.7
EBITDA (%)	(1.6)	3.9	2.5	6.8	8.9
EPS (₹)	(19.2)	1.1	1.6	36.2	64.3
P/E (x)	nmf	nmf	nmf	30.2	17.0
P/BV (x)	2.2	2.2	2.2	2.1	1.9
RoE (%)	(4.3)	0.4	0.3	7.0	11.6
RoCE (%)	(2.8)	1.8	0.6	6.2	10.1
EV/Sales (x)	2.1	1.9	1.8	1.4	1.2
EV/EBITDA (x)	nmf	48.1	71.5	21.0	12.9

Source: Company, Angel Research; Note: nmf- Not Meaningful; CMP as of November 13, 2015

NEUTRAL

CMP	₹1,093
Target Price	-

Investment Period	-
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Stock Info	
Sector	Capital Goods
Market Cap (₹ cr)	4,553
Net debt (₹ cr)	448
Beta	1.1
52 Week High / Low	1,609/640
Avg. Daily Volume	27,674
Face Value (₹)	10
BSE Sensex	25,611
Nifty	7,762
Reuters Code	BEML.BO
Bloomberg Code	BEML@IN

Shareholding Pattern (%)	
Promoters	54.0
MF / Banks / Indian Fls	17.8
FII / NRIs / OCBs	7.4
Indian Public / Others	20.8

Abs. (%)	3m	1yr	3yr
Sensex	(1.0)	(8.7)	38.6
BEML	(7.3)	50.2	292.7

3-Year Daily Price Chart



Source: Company, Angel Research

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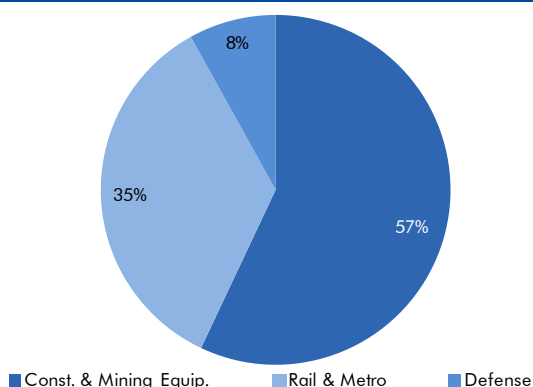
Exhibit 1: Quarterly Performance (Standalone)

Particulars (₹ cr)	2QFY16	1QFY16	% chg (qoq)	2QFY15	% chg (yoy)	1HFY16	1HFY15	% chg
Net Sales	621	590	5.2	451	37.7	1,211	953	27.1
Total Expenditure	635	648	(2.0)	482	31.6	1,282	1,051	22.0
Cost of materials consumed	337	373	(9.6)	215	56.7	710	530	33.9
Purchases of stock-in-trade	0	0	nmf	0	nmf	0	0	nmf
Employee benefits Expense	193	196	(1.7)	187	3.0	389	378	2.9
Other Expenses	105	79	33.1	80	30.9	184	144	28.1
EBITDA	(13)	(57)	nmf	(31)	nmf	(71)	(98)	nmf
EBITDA %	(2.2)	(9.7)		(6.9)		(5.8)	(10.3)	
Depreciation	13	13	(2.3)	13	(5.2)	25	26	(1.2)
EBIT	(26)	(70)	nmf	(44)	nmf	(96)	(124)	nmf
Interest and Financial Charges	12	12	(1.5)	18	(37.0)	23	40	(41.5)
Other Income	7	7	2.5	8	(2.9)	14	13	9.5
PBT before Exceptional Items	(30)	(75)	nmf	(55)	nmf	(105)	(151)	nmf
Exceptional Items	0	0		0		0	0	
PBT after Exceptional Items	(30)	(75)	nmf	(55)	nmf	(105)	(151)	nmf
Tax	0	0	nmf	0	nmf	0	0	nmf
% of PBT	0.0	0.0		0.0		0.0	0.0	
PAT	(30)	(75)	nmf	(55)	nmf	(105.1)	(150.7)	nmf
PAT %	(4.9)	(12.7)		(12.2)		(8.7)	(15.8)	
Dil. EPS (after extra-ord. Items)	(7.24)	(17.98)	nmf	(13.24)	nmf	(25.22)	(36.18)	nmf

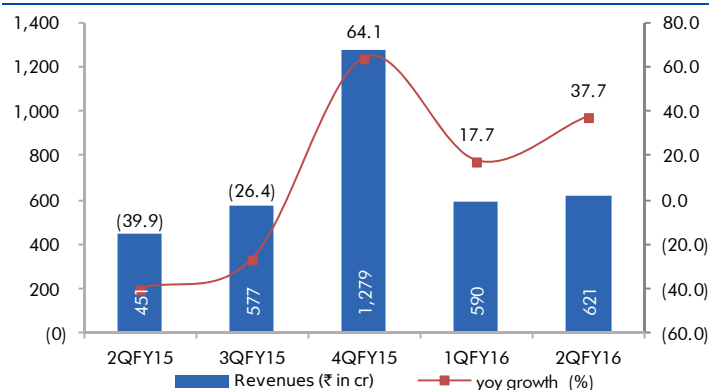
Source: Company, Angel Research; Note: nmf- Not meaningful

Revenues increase 37.7% yoy

BEML reported sales of ₹621cr in 2QFY2016, ahead of our expectation of ₹599cr. The Reported top-line numbers reflect 37.7% yoy growth. Construction & Mining Equipments segment accounted for a major 57% of the quarter's revenues at ₹316cr.

Exhibit 2: Segment-wise 2QFY2016 Revenue split


Source: Company, Angel Research

Exhibit 3: Quarterly revenue trend


Source: Company, Angel Research

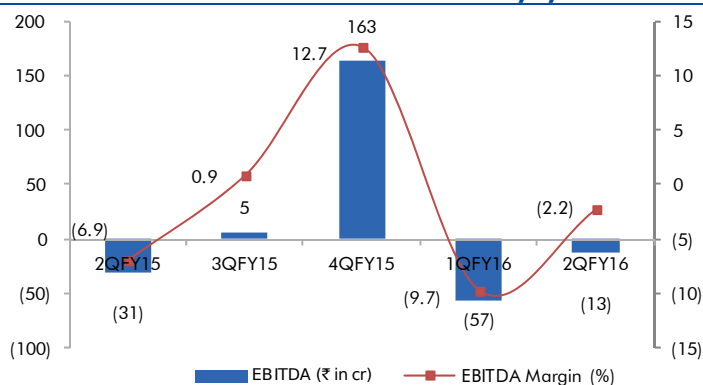
Reports EBITDA level losses on a yoy basis

BEML reported an EBITDA level loss of ₹13cr in 2QFY2016, which is almost in-line with our EBITDA level loss expectations. The positive emerging has been due to narrowing down of EBITDA level loss on a yoy basis. EBITDA losses narrowed

down from a year ago level of ₹31cr. A lower increase in employee and other expenses which grew 3.0% and 30.9% yoy respectively (compared to revenue growth on yoy basis), led to narrowing down of the EBITDA level loss for BEML.

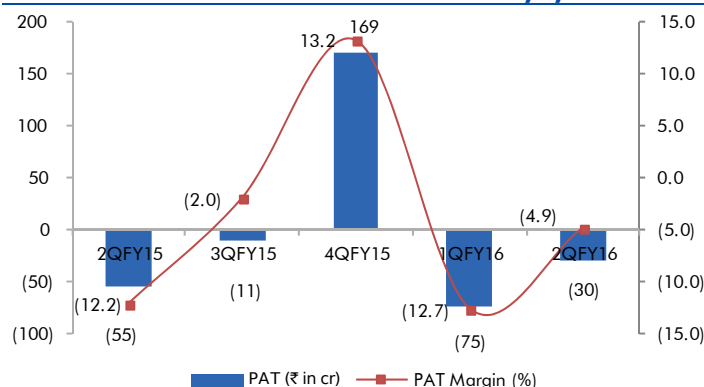
In our view, higher revenue booking seen across the high margin Construction & Mining Equipment segment led to narrow down of the EBITDA level loss on a yoy basis.

Exhibit 4: EBITDA loss narrows down on yoy basis



Source: Company, Angel Research

Exhibit 5: PAT loss too narrows down on yoy basis



Source: Company, Angel Research

PAT level losses also narrow down on yoy basis

In-line with EBITDA level losses, BEML reported a PAT level loss of ₹30cr for the quarter, again below our loss expectation of ₹12cr. Notably, the quantum of loss has narrowed down on a yoy basis from ₹55cr in 2QFY2015. Narrow down of EBITDA losses coupled with 37% decline in yoy interest expenses to ₹12cr (indicating benefits of lower interest rate cycle) led to a narrow down of the PAT level loss.

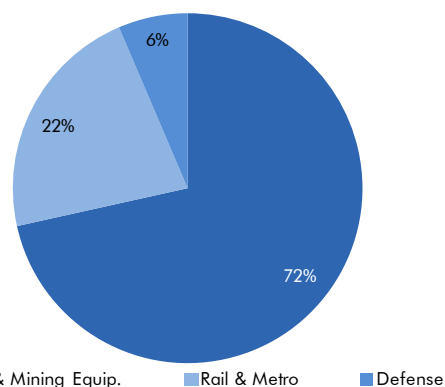
Reports ₹410cr of Order Inflows for 2QFY2016

BEML in 2QFY2016 reported ₹410cr of order inflows, mainly led by Construction & Mining Equipments segment (again within the segment, order wins were mainly from the domestic market). This segment accounted for 72% of the 2QFY2016 order inflows.

To-date, the Construction & Mining Equipments segment has reported ₹720cr of order inflows during 1HFY2016E, mainly from Coal India (CIL). At the backdrop of CIL's capex outlook, we expect BEML to benefit from an uptick in the awarding activity.

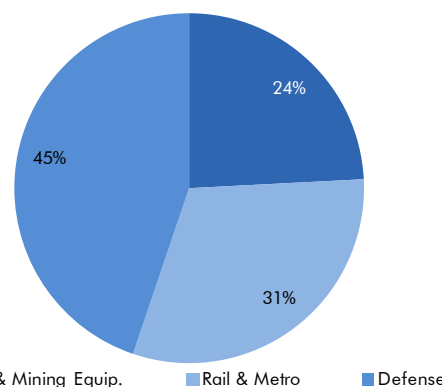
In 1HFY2016, on a whole, the company has reported ₹1,771cr of order inflows, across all the 3 business segments (vs our FY2016E expectation of ₹2,900cr).

Exhibit 6: Order Inflows driven by Const. & Mining seg.



Source: Company, Angel Research

Exhibit 7: Order Book gives better revenue visibility



Source: Company, Angel Research

Post the recent order wins, the order book as of 2QFY2016-end stood at ₹6,376cr. Order book / last twelve month (LTM) sales ratio at 2QFY2016-end stood at 2.1x. The current order book gives revenue visibility for the next few quarters.

Revision of Estimates

Considering better than expected revenues reported for 1HFY2016, we are revising our FY2016E Revenue, EBITDA and PAT estimates.

Exhibit 8: Revised Earnings Estimates

	FY2016E			FY2017E		
	Old	New	Chg. (%)	Old	New	Chg. (%)
Net Sales	3,277	3,404	3.9%	4,006	4,006	0.0%
EBITDA	196	233	18.9%	357	357	0.0%
EBITDA %	6.0	6.8		8.9	8.9	
PAT	122	151	23.8%	268	268	0.0%
PAT %	3.7	4.4		6.7	6.7	

Source: Company, Angel Research

Valuation

During the quarter, BEML impressed us by reporting strong execution across the Construction & Mining Equipment segment.

Positive emerging from the 1HFY2016 performance is that BEML has won orders to the tune of ₹720cr from the Construction & Mining Equipment segment alone. BEML has emerged as L1 for over ₹600cr of order from the Kolkata Metro, which in our view should be slow-moving in nature. On a whole, we expect BEML to see increased traction from the awarding activity across all the 3 business segments.

We are optimistic that the company would report strong earnings going forward. Our view stems on the back of BEML's strong market positioning across business segments and improving award activity environment across segments. At the backdrop of increased order book, we expect BEML to report better execution trends, which should further lead to turn-around in profits, going forward. **We continue to maintain our NEUTRAL rating on the stock.**

Investment arguments

Order book set to expand...

As of 2QFY2016-end, BEML is sitting on an order book of ₹6,376cr, which gives revenue visibility for over the next few quarters. Further, if we look into order book details, a major chunk of it is from the Defense segment (45% of total order book), followed by Rail & Metro segment (31% of total order book), and Mining segment (24% of total order book).

The government's increased thrust towards Mining, Defense and Metro amongst other verticals, when coupled with BEML's strong market positioning across the segments, strengthens our view that BEML should report 25% CAGR in its order inflow during FY2015-17E (expect BEML to report ₹6,100cr of order wins during FY2016-17E).

Expect strong 19% top-line CAGR during FY2015-17E...

At the backdrop of strong revival in the order inflow environment (across all the three business segments), we expect BEML to ramp-up its execution, going forward. We expect BEML to report strong growth across two of its business segments, ie Rail & Metro and Defense, which have been under pressure in the last 2-3 years. The government's thrust towards Metro development and expansion across 15+ cities will create huge demand for Rolling stock, which in turn should benefit BEML the most, with it being one of the low cost Metro coach manufacturers. We expect the Rail & Metro segment of the company to report 18% top-line CAGR during FY2015-17E to ₹1,371cr. Further, with the removal of ban on Tatra trucks, growth prospects for BEML's Defense segment look strong. We expect the Defense segment to report 105% top-line CAGR during FY2015-17E to ₹678cr. Our view of strong growth in the Defense segment is owing to (1) higher budgetary allocation made towards the Defense sector and (2) considering that BEML is the single supplier of Tatra trucks to Indian defense. Also, their MCE segment is expected to report a 9% top-line CAGR during FY2015-17E to ₹1,919cr. Growth across the MCE division would be driven by strong new equipment demand and replacement demand emanating from CIL, SAIL and NMDC's capex cycle (as all of them are pursuing strong capex).

Strong execution to fuel the much required turnaround...

Higher fixed cost base across business segments and almost stagnated revenue base has put BEML in a tough spot. BEML reported negative EBITDA margin in FY2013 (-1.6%), 1HFY2015 (-10.3%) and 1HFY2016 (-5.9%); margins for 1HFY2015 are the worst in the company's recent history. But on the back of stronger execution, 2HFY2015 witnessed a turn-around. With losses on a yoy basis narrowing down in 1HFY2016, we expect strong EBITDA numbers for 2HFY2016E.

Further, if we look into segment-wise details, the Defense segment reported margins in red during FY2015 (reflecting weak execution). Also, Mining Equipment and Rail & Metro segments witnessed margin contraction on account of a higher fixed cost base.

Led by revival across business segments (as highlighted above), we expect BEML to report a strong 19.4% top-line CAGR during FY2015-17E to ₹4,006cr. BEML at FY2015-end had 10,328 employees. Considering revenue growth potential during FY2016-17E, when coupled with (1) ~800 employees retiring during the same period, (2) control over admin. and marketing expenses, (3) cost control initiatives at the shop floor level, and (4) next pay commission hike coming in to effect from Jan-2018 only, we are of the view that BEML would be well positioned to absorb fixed costs, which in turn should translate into margin expansion. We expect BEML to extend its FY2015 EBITDA level turnaround to FY2016 (at 6.8%) and further expand margins during FY2017E (to 8.9%).

With EBITDA level turnaround already seen, we expect the entire benefits to flow down to PAT level. This, when coupled with ease in working capital cycle and lower interest rate cycle, should help BEML report PAT level margin expansion. On the whole, we expect PAT margins to improve from 0.2% in FY2015 to 6.7% in FY2017 (reflecting sharp PAT growth from ₹7cr in FY2015 to ₹268cr in FY2017E).

Working Capital cycle to ease going forward...

BEML is well geared to capitalize on the emerging opportunities across its business segments. Slowdown in the capex cycle across business segments had taken a toll on the company's growth prospects. Anticipation of sharp demand from MCE segment led BEML build higher inventories, which contributed majorly to the stretch in the Net Working Capital (NWC) cycle.

However, with early indications of capex cycle revival across Mining sector, mainly led by Coal India, we are optimistic that BEML should be able to further lower its NWC days (from 282 days in FY2012 to 126 days in FY2017E).

Ease in the NWC cycle of BEML, in our view would lead to decline in the overall debt levels of the company. As a result, the debt of BEML would decline from ₹592cr (as of FY2015-end) to ₹317cr by FY2017E. Simultaneously, the Net D/E ratio would decline from 0.2x as of FY2015-end to 0.0x by FY2017-end.

Risks & Concerns

- Delays in MCE and Metro capex cycle recovery from here-on could be a big risk to our estimates.
- Significant loss of market share vs. our assumption of slight loss of market share across the MCE segment could be a risk to our assumptions.
- Any sharp appreciation in the Rupee (INR) could make MCE segment imports competitive, which again could be a risk to our market share assumptions and be a threat to our earnings growth estimates.

Company background

BEML is a Mini-Ratna Category-1 public sector undertaking (PSU) under the control of Ministry of Defence (MoD), operating in three distinct business segments namely, Mining & Construction Equipment, Defence, and Rail & Metro.

Having commenced operations in 1964, with the transfer of Railway Coach Manufacturing facilities from Hindustan Aeronautics Ltd, BEML has over the years diversified into manufacturing various types of mining and construction equipments, Metro coaches and specialised defence vehicles/ products.

Profit and Loss Statement (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Net Sales	2,809	2,912	2,809	3,404	4,006
% Chg	3.0	3.7	(3.5)	21.2	17.7
Total Expenditure	2,854	2,798	2,739	3,172	3,649
Cost of Raw Materials Con.	1,645	1,711	1,583	1,918	2,311
Purchase of Stock-in-trade	9	3	0	1	0
Employee benefits Expense	739	717	769	787	805
Other Expenses	460	367	387	465	532
EBITDA	(45)	113	70	233	357
% Chg	(136.4)	(352.6)	(38.2)	233.0	53.5
EBITDA %	(1.6)	3.9	2.5	6.8	8.9
Depreciation	50	54	52	55	59
EBIT	(95)	60	18	178	298
% Chg	(220.0)	(162.7)	(70.2)	902.2	67.6
Interest & Financial Charges	141	110	71	51	34
Other Income	104	63	60	66	79
PBT	(132)	13	7	193	343
Exceptional Items	10	16	0	0	0
Prior Period Adjustments	0	(19)	0	0	0
Tax	(42)	4	0	42	75
% of PBT	<i>nmf</i>	35.2	2.2	22.0	22.0
PAT	(80)	5	7	151	268
% Chg	NA	NA	44.8	2128.7	77.7
PAT %	(2.8)	0.2	0.2	4.4	6.7
Basic EPS	(19.2)	1.1	1.6	36.2	64.3
Diluted EPS	(19.2)	1.1	1.6	36.2	64.3
% Chg	NA	NA	44.8	2128.7	77.7

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY13	FY14	FY15	FY16E	FY17E
Sources of Funds					
Equity Capital	42	42	42	42	42
Reserves Total	2,038	2,038	2,035	2,159	2,380
Networth	2,080	2,080	2,077	2,201	2,422
Total Debt	1,214	905	592	528	317
Other Long-term Liabilities	406	379	317	337	355
Long-term Provisions	149	136	164	184	199
Total Liabilities	3,850	3,500	3,150	3,250	3,293
Application of Funds					
Gross Block	1,184	1,201	1,253	1,316	1,385
Accumulated Depreciation	653	702	754	809	868
Net Block	531	499	499	507	518
Capital WIP & Intan. under Dev.	142	173	162	145	144
Investments	4	4	3	3	3
Deferred Tax Assets (net)	105	100	101	101	101
Inventories	2,456	2,152	1,921	1,995	1,959
Sundry Debtors	862	977	992	1,025	1,088
Cash and Bank Balance	77	16	144	201	270
Loans & Advances	603	532	400	413	448
Current Liabilities	1,366	1,261	1,441	1,570	1,678
Net Current Assets	2,632	2,417	2,017	2,065	2,087
Other Assets	436	308	368	429	440
Total Assets	3,850	3,500	3,150	3,250	3,293

Cash Flow Statement

Y/E March (₹ cr)	FY13	FY14	FY15P	FY16E	FY17E
Profit before tax	(122)	9	7	193	343
Depreciation	53	55	52	55	59
Other Adjustments	96	(35)	(28)	(18)	(18)
Change in Working Capital	(275)	282	434	(12)	69
Interest & Financial Charges	141	110	71	51	34
Direct taxes paid	(31)	(26)	(0)	(42)	(75)
Cash Flow from Operations	(138)	394	535	226	411
(Inc)/ Dec in Fixed Assets	(170)	(53)	(42)	(45)	(69)
(Inc)/ Dec in Invest. & Int. received	38	25	22	18	18
Cash Flow from Investing	(132)	(28)	(20)	(27)	(51)
Inc./ (Dec.) in Borrowings	303	(306)	(312)	(64)	(211)
Issue/ (Buy Back) of Equity	0	0	0	0	0
Dividend Paid (Incl. Tax)	(24)	(12)	(5)	(26)	(47)
Finance Cost	(124)	(109)	(71)	(51)	(34)
Cash Flow from Financing	155	(427)	(388)	(142)	(292)
Inc./ (Dec.) in Cash	(116)	(61)	128	57	68
Opening Cash balances	192	77	16	144	201
Closing Cash balances	77	16	144	201	270

Ratio Analysis (x)

Y/E March	FY13	FY14	FY15	FY16E	FY17E
Valuation Ratio (x)					
P/E (on FDEPS)	nmf	nmf	nmf	30.2	17.0
P/CEPS	nmf	78.2	77.3	22.2	13.9
Dividend yield (%)	0.2	0.1	0.1	0.5	0.9
EV/Sales	2.1	1.9	1.8	1.4	1.2
EV/EBITDA	nmf	48.1	71.5	21.0	12.9
EV / Total Assets	1.5	1.6	1.6	1.5	1.4
Per Share Data (₹)					
EPS (Basic)	(19.2)	1.1	1.6	36.2	64.3
EPS (fully diluted)	(19.2)	1.1	1.6	36.2	64.3
Cash EPS	(7.1)	14.0	14.1	49.3	78.4
DPS	2.5	1.0	1.0	5.4	9.6
Book Value	499.5	499.4	498.7	528.5	581.5
Returns (%)					
RoCE (Pre-tax)	(2.8)	1.8	0.6	6.2	10.1
Angel RoC (Pre-tax)	(2.9)	2.0	0.7	6.5	10.9
RoE	(4.3)	0.4	0.3	7.0	11.6
Turnover ratios (x)					
Asset Turnover (Gross Block) (x)	2.4	2.4	2.3	2.7	3.0
Inventory / Sales (days)	321	292	268	216	180
Receivables (days)	123	117	129	111	100
Payables (days)	175	166	178	170	154
NWC days	269	242	220	157	126
Leverage Ratios (x)					
D/E ratio (x)	0.5	0.4	0.2	0.1	0.0
Int. Coverage Ratio (x)	nmf	0.5	0.3	3.5	8.8

Note: nmf- Not Meaningful

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Disclosure of Interest Statement

	BEML
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15%)