

GOLDMINE STOCKS PVT. LTD

Research Division

Member: National Stock Exchange of India Ltd,
Bombay Stock Exchange Ltd.

'Goldmine House', 4-Niranjan Nirakar Society, Nr. Shreyas Railway Crossing, Ahmedabad-380007, India.
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Contact Person: Mr. Darshit Sanghavi [B.E. (PT), PDMS (Finance)].

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Bharat Electronics Limited [29/06/2013]

BEL

Rs.Cr.

Equity	80.00
Reserves	6407.49
Acc.Dep	1374.86
Debt	5.00
FV	10.00
Exp.NP	1047.00
Cash Pr.	1187.00
EPS	130.88
CEPS	148.38
Debt:Equi	0.00
Book Value	941.81
Cash Book Value	1131.17
M.Price	1330.00
M.Cap	10640.00
P/E	10.16
Dividend Expected	24.00
Dividend Yield (%)	1.80
Total Worth	7862.35
Sales	6900.00
Future earn.5 yrs	6723.00
Total Worth	14585.35
Total Worth/Mcap	1.37
Expected ret	125%
Exp Price	1600
ROE %	16.14
ROCE %	18.28

Shareholding Pattern

Promoters	75.86
FII	3.72
Institutions	15.22
Corp.Bodies	3.38
Public	1.82

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Background: BEL is a state owned electronics company mainly into defence products and has about nine factories. It is one of the eight PSU's under Ministry of Defence, Government of India and is a Navratna. It was established in 1954 at Bangalore by Government of India for its defence requirements. Largely debt free company.

The company designs, develops and manufactures products in the fields of Electronic Voting Machines, Radars, Telecommunications, Sound and Vision Broadcasting, Opto Electronics, Information Technology, Semiconductors, Missiles, Sonars, Composite Communication System, Fire Control System, Electronic Warfare System, Simulators, Tank Electronics, Defence Communication, Solar Systems, Naval Systems, IACCS, low cost tablet PC, Biometrics Capturing for Nation Population Register, Encryptions for Ministry of Home Affairs, IFF secondary Radar.

About 73% of the sales from defence and 27% from civilian supplies.

Various other players in the defence sector are BEML, Mahindra Defence Systems, Tata Advanced Systems, Spectrum Infotech [L&T]. New players could come once the FDI cap in defence is relaxed from 26%.

Future Growth Triggers: Indian Government introduced a defence offset policy in 2011. The policy will gradually help in sourcing products or services from India. It is to be noted that for MMRCA [Medium Multi Role Combat Aircraft] projects, the offset is at 50% of the contract value, whereas it is 30% for all contracts above Rs 300 crores. The Ministry of Defence has already issued guideline document for establishing joint venture companies by Defence Public Sector Undertakings. This opens up the opportunity for Indian and Foreign companies to jointly develop products with Defence PSU's in India within the framework of guidelines.

The total defence budget of India in 12-13 was around \$38 billion. Of that around 40% is spent on various defence equipment procurement. We import around 70% of our defence equipment. So, the import is around 28% of the defence budget [40*70/100]. The annual import bill is around \$11 billion.

New product systems introduced in 11-12 include Coastal Surveillance System, Tablet PC, Integrated Submarine Warfare Complex, Advanced Torpedo Defence System, Upgraded Indigenous Forward Observer Simulator, Remotely Operated Vehicle and Thermal Imaging Camera for Flycatcher Radar. The company during 2011-12 filed applications for 12 patents in the area of ASICs, RF Circuits, Phase Shifters, Avionics, Radar Signal Processing, Adaptive Beam Forming, Automatic Target Recognition

Important projects in 12-13 were Akash Weapon System, Battlefield Surveillance System, Upgraded Weapon Locating Radar, Next Generation Electronics Warfare Systems, Software Defined Radio for Navy and Air Force, Solid State Coastal and Surface Surveillance Radars, Point to Multi point Radio Relay etc.

The company feels that segments like Radar Communications, Network Centric Warfare and Weapon Systems will drive the Company's growth.

The company will also pursue civilian businesses like Homeland Security and Telecommunication.

Sales target of around Rs 6750 crores for 13-14.

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BEL has a number of JV's or MOU's with various international players like that with Optronics, GE, Multitone etc. Some latest announcements regarding new JV's or MOU's are enlisted below. On 5th July 2012, BEL approved a JV with M/s Thales Air Systems SA, France and M/s Thales India Pvt Ltd in Radar Business Area. A memorandum of understanding was signed on December 5th 2012 between Bharat Electronics Ltd and Israel Aerospace for cooperation on future Long Range Surface to Air Missile Ship Defence Systems.

Supplied small components of Boeing, USA in 11-12. Scope may expand.

Risks: The company imports some of the critical components and hence exchange rate fluctuations could affect profitability. Since India is going through a rough phase marked by low growth, high current account deficit etc, defence budget may remain low for a year or two. That could delay the growth of the sector, which is inevitable. Though the company is an established player, new private sector players may offer tough competition.

Technical and Comments: The company is above all its recent averages except the 21 day average. Strong support exists at around 1230. If this support is broken, we could see lower levels technically. The company is expected to report an EPS of around Rs 130 and the stock is trading at a P/E of around 10 and is attractively valued. We feel that, there could be a year or couple of years of low growth of around 10. However since the stock is valued attractively, the stock may not crash even in bad times. Secondly once the bad phase is over for Indian economy, the growth rates could be stellar for the next five years. The stock could compound at an annual 15-20% for the next several years considering the hidden potential of the Indian defence industry. Investors can buy the stock in small quantities at declines with a view to accumulate more for the long term.

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