

## **Bharat Earth Movers Limited**

**Rs70**

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We visited Bharat Earth Movers Limited (BEML) to know more about the company's future growth plans. Key takeaways from our meeting with the company's management are as follows:

### **Railway Division: A laggard**

BEML's railway division is a laggard and has been the key reason for the company's poor performance. Further, BEML has not received any order from the railways for quite some time now. During FY03, the railway products division reported a loss of Rs568.7mn. We believe turnaround in this division would be critical for the company's future growth.

### **Order of railway coaches for Delhi Metro Rail**

BEML has received an order to supply railway coaches to the Delhi Metro Rail Corporation. This order has been bagged from the Korean major Rotem, which is the main contractor. BEML expects to supply these coaches by August '03, the total order size being worth Rs300-350mn. The company has also signed an MoU with Konkan Railway for the supply of "Sky Buses". However, this project would take some time.

### **Nodal agency appointed by Defence Ministry**

The Ministry of Defence (MoD) has set up a nodal procurement agency to speeden up the procurement process and coordination activities. BEML would play a significant role in the purchase of equipment related to its activities. This could be a major trigger for the stock. However, no time frame can be ascertained as to when actual revenues would start flowing in.

### **Competition in earth moving equipment**

Earth moving equipment accounts for 62% of BEML's revenues. However, the company faces fierce competition from a host of international players. Coal India is one of BEML's largest customers. BEML's receivables are at a high 147 days which is mainly due to the huge outstanding from Coal India.

### **Significant reduction in employee cost**

Over the years, BEML has reduced its workforce from 17,165 (1992-93) to 13,000 (FY02). The wage settlement bill is due in 2006. An increase in employee costs would happen only thereafter. Hence, employee cost is expected to remain stable till such time.

### **Operating profit declines significantly in FY03**

Despite a 17.7% growth in turnover in FY03, BEML's operating profit has slid by 82%. This is attributed to the loss-making railway division and dismal margins clocked by the earth moving division. However, BEML witnessed a surge in net profit by 250% to Rs187.6mn for FY03 on the back of lower interest cost which stood reduced from Rs222.6mn in FY02 to Rs31.9mn in FY03. Redemption of debentures, fixed deposit and decline in working capital loans mainly resulted in interest cost falling.

### **Guidance of 8-10% growth**

The management has issued guidance of an 8-10% revenue growth in the next two years. We believe that there would not be a significant increase in the operating levels, as the railway division continues to be a key concern area.

### Valuation

For FY03, BEML has reported an EPS of Rs5.11, which is basically due to savings in interest cost. At the current price (Rs70), the stock is trading at 13.1x FY03 earnings.

	Rs Million		
	FY01	FY02	FY03
Gross Sales	13474.0	14241.5	16759.2
Expense	13029.9	13835.5	16689.7
EBITDA	444.1	406.0	69.5
EBITDA (%)	3.3	2.9	0.4
Other Income	252.5	168.1	471.8
Depreciation	234.0	221.4	196.8
PBIT	462.6	352.7	344.5
Interest	359.4	222.6	31.9
PBT	103.2	130.1	312.6
Tax	46.5	76.6	125.0
PAT	56.7	53.5	187.6
Equity	368.7	368.7	368.7
EPS (Rs)	1.5	1.5	5.1

### Stock Ratings Absolute Returns

Buy:	> 25%
Out Performer:	16 - 25%
Market Performer:	0 - 15%
Under Performer:	< 0%

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