

May 24, 2024

## Management Meet Update

☒ Change in Estimates | ☒ Target | ☒ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
<b>Rating</b>	<b>HOLD</b>		<b>ACCUMULATE</b>	
<b>Target Price</b>	<b>4,520</b>		<b>4,004</b>	
Sales (Rs. m)	48,247	57,196	48,245	57,200
% Chng.	-	-	-	-
EBITDA (Rs. m)	6,007	7,893	6,007	7,894
% Chng.	-	-	-	-
EPS (Rs.)	95.2	129.1	95.2	129.2
% Chng.	-	-	-	-

### Key Financials - Consolidated

Y/e Mar	FY23	FY24	FY25E	FY26E
Sales (Rs. m)	38,989	40,543	48,247	57,196
EBITDA (Rs. m)	3,644	4,422	6,007	7,893
Margin (%)	9.3	10.9	12.5	13.8
PAT (Rs. m)	1,579	2,818	3,966	5,378
EPS (Rs.)	37.9	67.7	95.2	129.1
Gr. (%)	22.6	78.4	40.7	35.6
DPS (Rs.)	10.0	20.5	15.0	20.0
Yield (%)	0.2	0.5	0.3	0.4
RoE (%)	6.6	11.1	14.1	16.8
RoCE (%)	8.7	11.2	13.6	15.7
EV/Sales (x)	4.9	4.7	4.0	3.4
EV/EBITDA (x)	52.9	43.0	32.4	24.6
PE (x)	120.0	67.2	47.8	35.2
P/BV (x)	7.8	7.1	6.4	5.5

### Key Data

### BEML.BO | BEML IN

52-W High / Low	Rs.4,771 / Rs.-
Sensex / Nifty	75,418 / 22,968
Market Cap	Rs.189bn/ \$ 2,275m
Shares Outstanding	42m
3M Avg. Daily Value	Rs.2009.91m

### Shareholding Pattern (%)

Promoter's	54.03
Foreign	9.12
Domestic Institution	18.97
Public & Others	17.88
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	29.3	89.7	220.5
Relative	26.4	66.1	163.4

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## BEML (BEML IN)

**Rating: HOLD | CMP: Rs4,549 | TP: Rs4,520**

## Structural reorganization to streamline growth

### Quick Pointers:

- Guidance for FY25 closing order book between Rs200-300bn.
- ~Rs4.8bn capex planned in FY25 to ramp up capabilities in Defence, Rail & Metro, and Engines.

**We recently interacted with the management of BEML. The company has been reorganized into 11 strategic business units (SBUs; 4 – Mining & Construction, 4 – Defence, 3 – Rail & Metro) and 2 micro-SBUs in order to streamline decision-making and accelerate execution and R&D. While the SBUs stabilize, the goal for the next 2 years is to ramp up the Defence and Rail & Metro order books. The company is also looking to augment its manufacturing capabilities and human resource capital in Defence, Rail & Metro, and Engines to capitalize on the strong prospects in these areas. Further, it plans to enhance the indigenization level of its vendor base, particularly in Defence, in order to minimize the impact of supply chain challenges on execution. Management reiterated guidance of 18-20% revenue CAGR for the next few years, which in turn should drive healthy profitability growth.**

**We believe BEML is in a sweet spot to capture long-term growth on the back of 1) strong railway & defense capex in India, 2) healthy order prospects in the modernization of defense vehicles (HMTVs, ARVs, etc.), 3) large tender pipeline for metro & Vande Bharat rolling stock, and 4) ramp-up in margins on account of execution scale-up. The stock is currently trading at a P/E of 47.8x/35.2x FY25/26E. We revise the TP to Rs4,520 (Rs4,004 earlier), valuing the stock at a P/E of 35x FY26E (31x FY26E earlier) factoring in improving technological capabilities and the new streamlined organizational structure. We are long-term positive on the stock; however, we downgrade the rating to 'Hold' from 'Accumulate' given the recent sharp rally in stock price.**

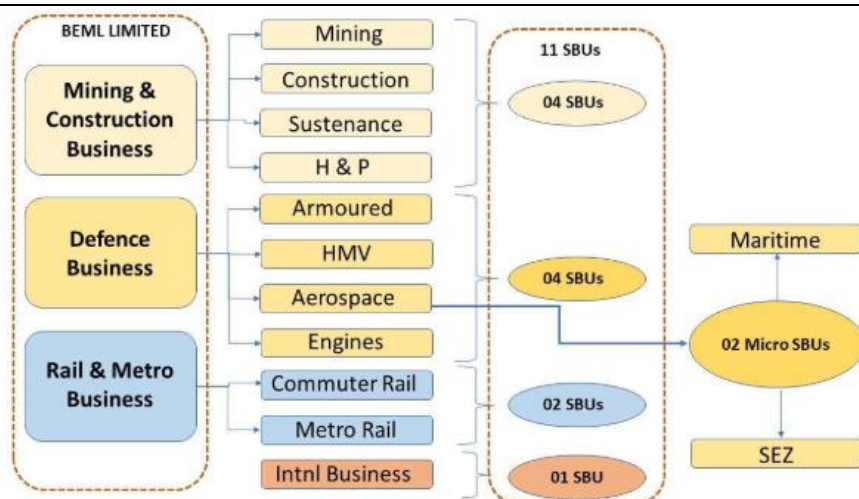
## Key takeaways from BEML Roadshow

### Company reorganized into 11 SBUs and 2 micro-SBUs

- Mining & Construction has been reorganized into 1) Mining, 2) Construction, 3) Sustenance (Spares & Services), and 4) Hydraulic & Power (H&P).
- Defence business has been reorganized into – 1) Armoured, 2) High Mobility Vehicles (HMTVs), 3) Aerospace, and 4) Engines.
- Rail & Metro has been reorganized into – 1) Commuter Rail and 2) Metro Rail.
- Another SBU is dedicated to International Business, while the two micro-SBUs are 1) Maritime (focused on Navy, Coast Guard, and commercial maritime) and 2) Special Economic Zone (SEZ) in Bengaluru.
- Each SBU head will be like a CEO empowered with faster decision making ability and better control over operations.

- Management is aiming to stabilize the SBUs, which could take 8-9 months, while handholding the micro-SBUs to bring them up to the level of the SBUs.
- Long-term target is to generate ~Rs10bn average turnover in each SBU and ~Rs5bn in each micro-SBU, translating to potential of ~Rs120bn total revenue.

**Exhibit 1: BEML's new organizational structure from April 1, 2024**



Source: Company, PL

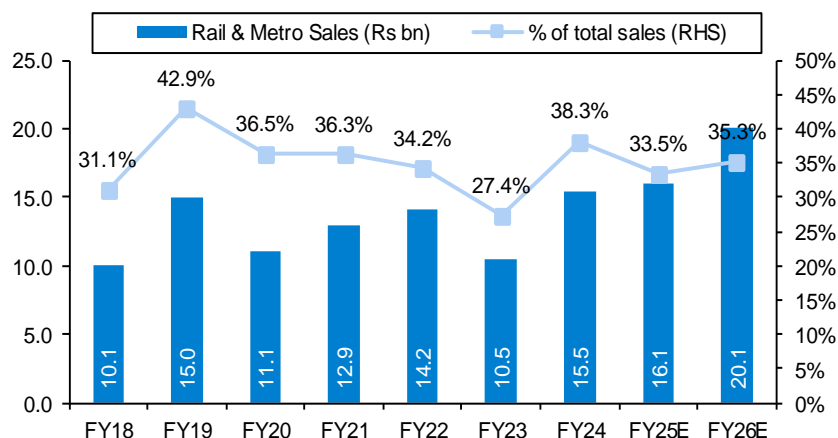
### Metro: Aiming to capture ~50% of Rs150bn tender pipeline in FY25

- FY25 pipeline** includes 1) Mumbai Metro lines 4, 5, 6 (474 cars), 2) Chennai Metro (210 + 96 cars), 3) Bengaluru Metro variation order (80 cars), and 4) Kolkata East-West Metro additional order (8 rakes – 48 cars).
  - Total pipeline is 800-900 cars (excluding Delhi Metro expansion), of which BEML will look to secure ~50%.
  - Execution of these projects will begin after developing the first prototype, ~24 months post contract signing.
  - Bengaluru variation order and Kolkata East-West tenders were pushed back from last year. All ordering is expected to be finalized this year.
- BEML has begun execution of the 318-car Bengaluru Metro order, and will complete execution of Mumbai lines 2 & 7 and Kolkata Metro orders this year.
- It has previously supplied 14 rakes to the Kolkata East-West Metro project, and will be supplying 3 more by Jun-24. Total requirement is 25 rakes. Procurement cycle is 10-12 months, so execution cannot begin in FY25 even if the order comes in by Sep-25.
- The company's ideal metro car manufacturing capacity is theoretically 1 per day, but practically it is ~277 per annum. It will be adding additional capacity of 100-120 cars per annum.
- Metro rolling stock capacity in India is 700-800 cars, with BEML & Alstom as the primary players. Titagarh is yet to finish setting up its facility this year.
- BEML aims to increase its market share in metro cars from 40-45% to ~60%.

### Railways: ~Rs440bn opportunity pipeline in FY25

- **FY25 pipeline** includes 1) Rs360bn tender for 100 aluminum push-pull trains, 2) Rs20bn for track machines, and 3) repeat order for Vande Bharat sleeper trains worth up to Rs1.3bn.
- The aluminum push-pull train tender was pushed back from last year and is expected to be relaunched after elections. Order may be finalized in Dec-24 or Jan-25. BEML will pursue this opportunity as part of a JV. Gestation period to build the prototype is ~24 months after receiving the order.
- Track machine tender was also pushed back from last year to Jul-Sep.
- **10 Vande Bharat sleeper trainset order can be completed by Dec-24**
  - Outer body shells are ready; free issue items from ICF have begun to flow in this month. BEML is pushing to deliver the first prototype in Jun-24.
  - If trials are successful, BEML will start delivering the balance 9 trains from Sep-24 at the rate of 2-3 per month and complete the order by Dec-24.
- **Government has plans for 800 Vande Bharat trains by 2030**
  - In the Vande Bharat tender for 200 trainsets, Transmashholding quoted Rs~1.18bn per train, BHEL quoted ~Rs1.39bn, and BEML quoted ~Rs1.45bn – this gives a sense of cost of production per train.
  - BEML will buyout some components like propulsion systems, which it does not manufacture. It will look to procure propulsion systems from India, rather than importing. Further, it is undertaking more in-house work compared to its peers.
- **BEML has capacity for ~200 broad gauge coaches** per annum in Bengaluru
  - Rail grading machine facility in KGF can also be used for coach manufacturing, while Palakkad facility can be used to manufacture car body shells to be sent to Bengaluru for final assembly.
  - Setting up a hybrid facility for both standard and broad gauge coaches.

### Exhibit 2: Rail & Metro business saw robust 47.3% sales growth in FY24

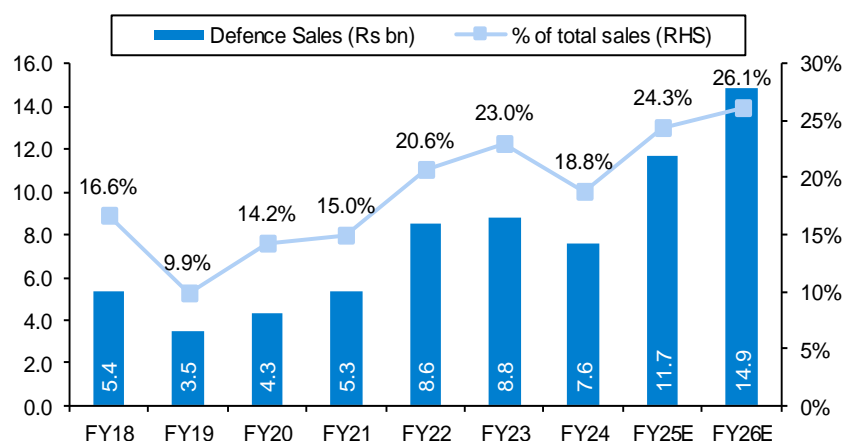


Source: Company, PL

### Defence: Engines and Aerospace offer additional growth avenues

- In Mar-24, BEML successfully test fired India's first indigenously made 1500HP engine for Main Battle Tanks at its Mysore Complex. It will supply this to Combat Vehicles Research & Development Establishment (CVRDE) in Chennai as part of a developmental order.
- Aerospace is another huge opportunity, potentially worth Rs80-90bn over the next 2-3 years, with the company getting into mainstream projects such as Light Utility Helicopters, missile projects, etc. as opposed to being involved only in structures previously.
- FY25 defense opportunity pipeline is worth ~Rs60bn, of which the company expects to secure ~50%.
- Supply chain challenges, specifically in terms of sub-par quality of materials, impacted defense order execution in FY24, leading to lower revenue.
- BEML is looking to increase indigenization levels and minimize supply chain issues by handholding its vendor base.
  - HMV indigenization has increased to 90%+.
  - The company provided handholding to ~40 supply chain partners across India during the development of the 1,500HP engine. This will pay dividends when the company rolls out additional engine programs.
- BEML is the only license holder for all four types of HMVs in a Pinaka regiment. Management believes that the company's HMVs are superior vs peers.

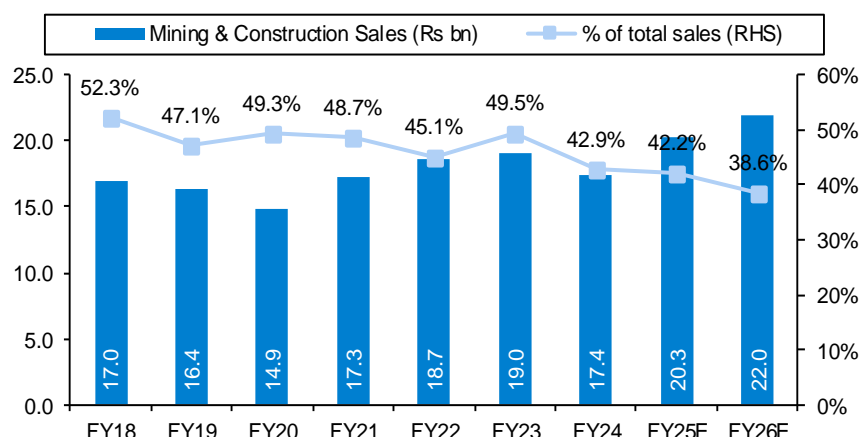
**Exhibit 3: FY24 Defence revenue was impacted by supply chain issues**



Source: Company, PL

### Mining & Construction: Traction in Construction business

- FY25 opportunity size is ~Rs30bn, including ~Rs10bn in Construction, which previously contributed only ~0.5% to the top line.
- Export market opportunity is also huge for Mining & Construction.
- In FY24, BEML commenced supply of India's first indigenously designed & developed BRS21 rope shovel from the KGF Complex.

**Exhibit 4: Share of Mining & Construction in total revenue to fall**


Source: Company, PL

### Enhancing capabilities with considerable capex outlay

- BEML is looking to expand manufacturing capabilities in Rail & Metro, Defence and Engines by spending ~Rs4.8bn towards capex in FY25.
- ~30% of the capex will be spent on Rail & Metro to augment rolling stock production capacity.
- Defence capex will be focused on gearing up the company for ARV, HMTV, T-72 overhauling, etc., orders.
- Engine capacity will also be ramped up given there are 5 concurrent programs underway and ~30 people have been added to the R&D team. The aim is to keep core manufacturing in-house, such as for the five critical engine components.

### R&D activity restructured into three levels

- Level 1 – R&D at each individual SBU
- Level 2 – Corporate technology planning and strategic alliance management – centralized focus on acquiring technology
- Level 3 – New innovation & incubation center
  - So far, BEML has been mainly focused on mechanical works, rather than on electronics & communication.
  - Focus of this center will be on futuristic technologies such as AI, which can be applied on platforms such as electronics for Army's Future Ready Combat Vehicles, signaling & passenger screening doors in metro rolling stock, etc.
  - The center employs ~40 engineers. It is in the process of inducting another ~30 from IIT, NIT, etc., and will be recruiting more in the future.
- R&D expenses increased to Rs870mn in FY24 (vs Rs750mn in FY23). Sales from R&D developed products rose to 87% of total sales (vs 76% in FY23).

### Other key highlights

- Rs70bn revenue target for FY26 has been pushed back by a year as BEML could not end FY24 with the initially targeted order book of ~Rs170bn due to deferment of various Rail & Metro orders.
- Employee costs as a % of revenue will be maintained at ~18% for the next 2-3 years as the company ramps up manpower; ~15% is an unlikely target.
- FY24 export sales (incl. deemed exports) came in at Rs10.7bn (vs Rs8.3bn in FY23). The company is targeting physical exports to reach ~10% of revenue, led by some big ticket international projects in Defence and Rail & Metro.
- Debtors increased on balance sheet as most deliveries took place in Mar-24.
- Seasonality in business should reduce as business mix shifts away from Mining & Construction (which mainly comes in H2) towards Rail & Metro and Defence. Ideally, ~15% of business should take place in Q1, ~30% in Q2, and ~55% in H2. This would improve cash flows.

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Net Revenues</b>	<b>38,989</b>	<b>40,543</b>	<b>48,247</b>	<b>57,196</b>
YoY gr. (%)	(10.1)	4.0	19.0	18.5
Cost of Goods Sold	21,365	20,951	25,571	30,142
Gross Profit	17,624	19,593	22,676	27,054
Margin (%)	45.2	48.3	47.0	47.3
Employee Cost	8,398	8,222	9,070	10,467
Other Expenses	5,582	6,948	7,599	8,694
<b>EBITDA</b>	<b>3,644</b>	<b>4,422</b>	<b>6,007</b>	<b>7,893</b>
YoY gr. (%)	17.6	21.3	35.8	31.4
Margin (%)	9.3	10.9	12.5	13.8
Depreciation and Amortization	641	638	733	805
<b>EBIT</b>	<b>3,004</b>	<b>3,784</b>	<b>5,274</b>	<b>7,088</b>
Margin (%)	7.7	9.3	10.9	12.4
Net Interest	462	390	407	413
Other Income	236	422	435	515
<b>Profit Before Tax</b>	<b>2,777</b>	<b>3,816</b>	<b>5,302</b>	<b>7,190</b>
Margin (%)	7.1	9.4	11.0	12.6
Total Tax	1,198	999	1,336	1,812
Effective tax rate (%)	43.1	26.2	25.2	25.2
<b>Profit after tax</b>	<b>1,579</b>	<b>2,818</b>	<b>3,966</b>	<b>5,378</b>
Minority interest	0	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>1,579</b>	<b>2,818</b>	<b>3,966</b>	<b>5,378</b>
YoY gr. (%)	22.6	78.4	40.7	35.6
Margin (%)	4.0	6.9	8.1	9.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>1,579</b>	<b>2,818</b>	<b>3,966</b>	<b>5,378</b>
YoY gr. (%)	22.6	78.4	40.7	35.6
Margin (%)	4.1	7.0	8.2	9.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	1,579	2,818	3,966	5,378
<b>Equity Shares O/s (m)</b>	<b>42</b>	<b>42</b>	<b>42</b>	<b>42</b>
<b>EPS (Rs)</b>	<b>37.9</b>	<b>67.7</b>	<b>95.2</b>	<b>129.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>9,938</b>	<b>10,804</b>	<b>12,724</b>	<b>13,627</b>
Tangibles	8,996	9,680	11,540	12,413
Intangibles	941	1,124	1,184	1,214
<b>Acc: Dep / Amortization</b>	<b>4,885</b>	<b>5,523</b>	<b>6,256</b>	<b>7,061</b>
Tangibles	4,198	4,746	5,377	6,077
Intangibles	687	777	879	984
<b>Net fixed assets</b>	<b>5,053</b>	<b>5,281</b>	<b>6,468</b>	<b>6,566</b>
Tangibles	4,798	4,935	6,163	6,337
Intangibles	255	347	305	230
Capital Work In Progress	227	367	1,447	1,144
Goodwill	-	-	-	-
Non-Current Investments	10	10	11	13
Net Deferred tax assets	1,083	1,135	1,135	1,135
Other Non-Current Assets	1,183	1,192	724	801
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	20,614	22,559	26,437	31,184
Trade receivables	12,367	14,392	17,052	20,058
Cash & Bank Balance	393	89	126	160
Other Current Assets	2,977	2,829	2,750	3,089
<b>Total Assets</b>	<b>50,098</b>	<b>54,453</b>	<b>62,977</b>	<b>71,671</b>
<b>Equity</b>				
Equity Share Capital	418	418	418	418
Other Equity	23,797	26,262	29,270	33,919
<b>Total Network</b>	<b>24,215</b>	<b>26,680</b>	<b>29,688</b>	<b>34,337</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	98	95	2,495	1,995
Provisions	2,462	2,370	2,626	3,051
Other non current liabilities	5,453	6,434	7,237	8,579
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	3,717	614	2,614	2,614
Trade payables	6,783	7,596	9,385	11,126
Other current liabilities	7,363	10,658	8,927	9,961
<b>Total Equity &amp; Liabilities</b>	<b>50,098</b>	<b>54,454</b>	<b>62,977</b>	<b>71,671</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY23	FY24	FY25E	FY26E
PBT	2,777	3,816	5,302	7,190
Add. Depreciation	641	638	733	805
Add. Interest	462	390	407	413
Less Financial Other Income	236	422	435	515
Add. Other	(260)	359	(1)	(1)
Op. profit before WC changes	3,620	5,204	6,441	8,408
Net Changes-WC	2,885	(25)	(5,104)	(4,320)
Direct tax	(905)	(602)	(1,336)	(1,812)
<b>Net cash from Op. activities</b>	<b>5,600</b>	<b>4,577</b>	<b>1</b>	<b>2,276</b>
Capital expenditures	(225)	(1,007)	(3,000)	(600)
Interest / Dividend Income	4	25	1	1
Others	20	304	(7)	-
<b>Net Cash from Invst. activities</b>	<b>(201)</b>	<b>(677)</b>	<b>(3,005)</b>	<b>(599)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(2,793)	-	4,400	(500)
Dividend paid	(321)	(418)	(958)	(729)
Interest paid	(462)	(390)	(407)	(413)
Others	263	(490)	-	-
<b>Net cash from Fin. activities</b>	<b>(3,315)</b>	<b>(1,298)</b>	<b>3,035</b>	<b>(1,642)</b>
<b>Net change in cash</b>	<b>2,085</b>	<b>2,602</b>	<b>31</b>	<b>35</b>
Free Cash Flow	5,174	3,565	(2,999)	1,676

Source: Company Data, PL Research

**Key Financial Metrics**

Y/e Mar	FY23	FY24	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	37.9	67.7	95.2	129.1
CEPS	53.3	83.0	112.8	148.5
BVPS	581.5	640.7	712.9	824.5
FCF	124.2	85.6	(72.0)	40.2
DPS	10.0	20.5	15.0	20.0
<b>Return Ratio(%)</b>				
RoCE	8.7	11.2	13.6	15.7
ROIC	5.0	8.3	10.2	11.8
RoE	6.6	11.1	14.1	16.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	0.1	0.0	0.2	0.1
Net Working Capital (Days)	245	264	258	256
<b>Valuation(x)</b>				
PER	120.0	67.2	47.8	35.2
P/B	7.8	7.1	6.4	5.5
P/CEPS	85.3	54.8	40.3	30.6
EV/EBITDA	52.9	43.0	32.4	24.6
EV/Sales	4.9	4.7	4.0	3.4
Dividend Yield (%)	0.2	0.5	0.3	0.4

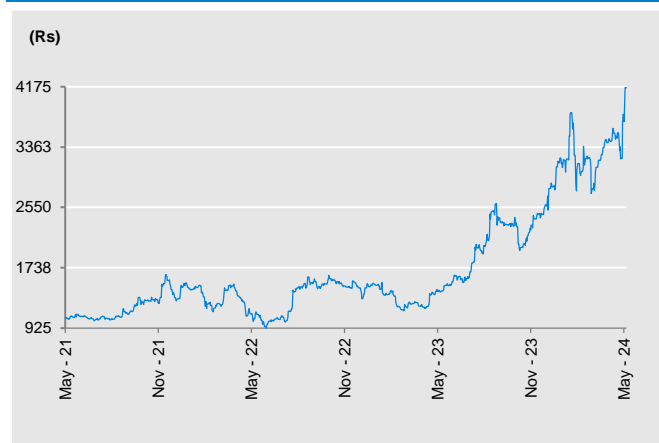
Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24
<b>Net Revenue</b>	<b>5,769</b>	<b>9,168</b>	<b>10,470</b>	<b>15,137</b>
YoY gr. (%)	(13.8)	13.9	1.0	9.1
Raw Material Expenses	3,002	4,950	5,350	7,649
Gross Profit	2,767	4,218	5,120	7,488
Margin (%)	48.0	46.0	48.9	49.5
<b>EBITDA</b>	<b>(505)</b>	<b>591</b>	<b>559</b>	<b>3,704</b>
YoY gr. (%)	(9.4)	41.3	(39.0)	29.1
Margin (%)	(8.8)	6.4	5.3	24.5
Depreciation / Depletion	157	158	158	167
<b>EBIT</b>	<b>(662)</b>	<b>433</b>	<b>401</b>	<b>3,537</b>
Margin (%)	(11.5)	4.7	3.8	23.4
Net Interest	100	108	75	107
Other Income	12	96	343	46
<b>Profit before Tax</b>	<b>(750)</b>	<b>422</b>	<b>668</b>	<b>3,476</b>
Margin (%)	(13.0)	4.6	6.4	23.0
Total Tax	-	(96)	187	908
Effective tax rate (%)	-	(22.8)	27.9	26.1
<b>Profit after Tax</b>	<b>(750)</b>	<b>518</b>	<b>482</b>	<b>2,568</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>(750)</b>	<b>518</b>	<b>482</b>	<b>2,568</b>
YoY gr. (%)	(8.9)	218.5	(27.3)	62.8
Margin (%)	(13.0)	5.6	4.6	17.0
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>(750)</b>	<b>518</b>	<b>482</b>	<b>2,568</b>
YoY gr. (%)	(8.9)	218.5	(27.3)	62.8
Margin (%)	(13.0)	5.6	4.6	17.0
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>(750)</b>	<b>518</b>	<b>482</b>	<b>2,568</b>
Avg. Shares O/s (m)	42	42	42	42
<b>EPS (Rs)</b>	<b>(18.0)</b>	<b>12.4</b>	<b>11.6</b>	<b>61.7</b>

Source: Company Data, PL Research



**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	15-May-24	Accumulate	4,004	3,803
2	12-Apr-24	BUY	3,345	3,465
3	19-Mar-24	BUY	3,345	2,875

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Accumulate	8,400	7,984
2	Apar Industries	Accumulate	8,877	8,340
3	BEML	Accumulate	4,004	3,803
4	Bharat Electronics	Hold	290	284
5	BHEL	Reduce	264	302
6	Carborundum Universal	Accumulate	1,631	1,516
7	Cummins India	Hold	2,480	3,001
8	Engineers India	Hold	257	223
9	GE T&D India	Reduce	1,100	1,430
10	Grindwell Norton	Accumulate	2,512	2,196
11	Harsha Engineers International	Hold	436	438
12	Hindustan Aeronautics	Hold	4,515	4,715
13	Kalpataru Projects International	Hold	1,211	1,188
14	KEC International	Hold	750	737
15	Larsen & Toubro	BUY	4,047	3,487
16	Praj Industries	BUY	636	520
17	Siemens	Accumulate	7,030	6,660
18	Thermax	Reduce	3,923	4,609
19	Triveni Turbine	Hold	653	631
20	Voltamp Transformers	Hold	10,018	9,985

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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