



Date	Report / Update	Report Price (₹)	Buy Range (₹)	Target Price (₹)
11-Sep-23	Quick Insight	2,640.00	2620 – 2650	3120 – 3150

BEML LTD.
Q2FY24 Result Highlights

- BEML generated strong 14%/59% YoY/QoQ revenue growth in the quarter to ₹9.2bn on the back of strong order execution.
- The improved output coupled with easing material costs lead to a 5% YoY increase in Gross Profits, with margins jumping 200bps.
- Strategy to increase employee productivity while keeping overall costs stagnant continues to work in the company's favour as YTD EBITDA margins jump into the black.
- Large orderbook of ₹130bn and the strong order pipeline will keep the wheels churning at BEML for the foreseeable future.

Investment Rationale
1. Strong performance in Q2FY24 on the back of greater order execution

BEML continued to display strong business growth in the quarter with the topline growing a strong 59% QoQ / 14% YoY to ₹9.2bn on the back of greater efficiency and order execution witnessed in the quarter. This strong order execution shows significant traction being made as the company moves towards greater execution across all of its key segments – Rail & Metro, Defence & Aviation and Mining & Construction. The company expects this greater level of execution efficiency to continue as part of the employee churn now focuses on employing modern-technologically adept executives. For FY24E, BEML is poised to generate a 20% YoY topline growth further cementing the positivity of its strategy of employing highly skilled executives to improve productivity. With the company aiming for a strong ~80% topline growth to ₹70+bn by FY26E, these measures are not just tactical, but in fact a part of the long-term strategic growth that BEML has penned for itself.

2. Double Bonanza on margins

The first half of this financial year witnessed a softening in key raw material prices, which partially flowed through to BEML in Q2FY24. The long gestation period of BEML's products unfortunately requires orders to be placed well in advance limiting the positive impact of the drop in feeder prices. On a percentage of revenue basis - Net Material costs dropped 200bps YoY while Gross Profit for the first half of FY24 witnessed a 5% YoY growth. The company expects Q3FY24 to witness the full impact of the price drop, which when coupled with strong topline growth will ensure a double bonanza on margins.

3. Defence and Aerospace

BEML continues to follow the age old adage – “quality over quantity” as it continues to replace employee-heavy processes with tech-enabled processes combined with fewer but highly tech-adept employees. This strategy continues to play in favour of the company as it is able to improve its efficiency while keeping costs and expenses at bay. In spite of an intentional reduction in team strength to just under ~5,200 employees (as of FY23) from 10,000+ employees over a decade ago – BEML has witnessed its Revenue per employee grow 1.7x to ₹75 lakh in these last 10 years. With greater technological adoption and the government's Make in India initiative, we expect employee churn to remain stable while employee productivity will continue to witness a significant uptrend.

Important Data

Nifty	19,628
Sensex	65,520

Key Stock Data

CMP	₹2,253.8
Market Cap (bn)	₹93.9
52W High/Low	₹2721/1128
Shares o/s (crs)	41.64
Daily Vol. (3M NSE Avg.)	65,105
BSE Code	500048
NSE Code	BEML
Bloomberg Code	BEML:IN

Shareholding Pattern (%) – Sep'23

Promoter	54.0
DIs	6.8
FIs	19.0
Public	20.2

Financials

Particulars	₹ Cr		
	FY21	FY22	FY23
Revenue	3,557	4,337	3,899
EBITDA	138	310	364
Margin	4%	7%	9%
PAT	69	129	158
EPS	16.5	30.8	37.8
DPS	6	10	10
RoE	3%	5%	7%
RoCE	4%	8%	12%
P/E	137	73	60
P/B	4	4	4
EV/EBITDA	73	33	27

Particulars	₹ Cr		
	FY24E	FY25E	FY26E
Revenue	4,774	6,003	7,238
EBITDA	644	1,003	1,398
Margin	13%	17%	19%
PAT	412	629	902
EPS	98.6	150.5	216.0
DPS	N/A	N/A	N/A
RoE	16%	20%	25%
RoCE	20%	26%	32%
P/E	23	15	10
P/B	4	3	2
EV/EBITDA	15	9	7

Source: Company, Way2Wealth

Relative Performance

Return (%)	1 Yr	3Yr	5 Yr
BEML	50.4	270.1	221.8
Nifty 50	6.7	52.5	84.7
Sensex	5.9	49.1	84.8

4. Robust order book and a strong order pipeline

BEML's order book remains quite robust at ₹130bn, which includes 55% worth of Rail & Metro orders, 35% worth of Defence/Aerospace orders and 10% worth of Mining orders. ₹57bn worth of orders were confirmed and awarded during this fiscal. Key orders confirmed during Q2FY24 include the ₹32bn rolling stock order for 318 coaches from Bengaluru Metro for its Phase 2, Phase 2A and Phase 2B corridors, a ~₹1.6bn export order for bulldozers from KAMSS Ltd, Russia and a ₹1bn order for supply of Command Post Vehicles to the Indian Army.

The pipeline includes ₹30-40bn worth of Rail & Metro Orders, ₹16-17bn worth of Mining & Construction orders and ₹5-5.5bn worth of Defence & Aerospace orders. Since Mining orders tend to have a low turnaround time, these orders are usually placed in the latter half of the fiscal and delivered by the year end. Hence, we expect this segment to witness strong uptake in the coming quarters.

Currently in dialogue with various African and CIS countries, BEML expects export orders to jump by 50% YoY in this fiscal. An additional ₹5bn worth of export orders for Mining products are expected to come in during this year. BEML is likely to grow its order book to ₹170bn by end of this fiscal year – largely on the back of its high-value Rail & Metro segment.

In order to ensure a smooth execution of these orders, BEML has budgeted a ₹3.5bn capacity expansion plan for its Rail & Metro business in Bengaluru. However, this remains subject to the quantum of new orders received. The current facilities are sufficient to execute the orders in the current book.

VIEW

BEML witnessed stellar topline growth in the quarter, in line with the company's guidance to achieve a 20% YoY growth for FY24. Softening of material prices and improving employee productivity helped YTD EBITDA jump into the black and makes a strong case for BEML achieving double digit EBITDA margins for FY24. It's unlikely that the ₹3.5bn cap-ex initiative will put any significant strain on the company's financials and remain confident that the additional capacity will only augment BEML's capabilities. Given the strong revenue growth, management of costs and strong balance sheet, **we continue to maintain our BUY recommendation on the stock trading at P/E 15x FY25E EPS Rs 150.5.**

Q2FY24 FINANCIALS

Particulars	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	1HFY24	1HFY23	YoY (%)
Revenue	916.8	804.9	13.9	576.9	58.9	1,493.7	1,474.0	1.3
Cost of Matl	472.7	587.6	-19.6	274.0	72.5	746.7	981.8	-23.9
Inventory Changes	22.3	-160.2	113.9	26.2	-14.9	48.5	-172.7	128.1
Employee Exps	205.6	210.8	-2.5	209.1	-1.7	414.7	423.4	-2.1
Other Exps	154.7	124.8	24.0	118.1	31.0	272.8	255.3	6.9
EBITDA	61.5	41.9	46.9	-50.5	221.9	11.0	-13.7	180.8
EBITDA Margin (%)	6.7	5.2	151	-8.7	1,545	0.7	-0.9	167
Other Income	7.5	1.3	498.4	1.5	412.3	8.9	1.8	399.4
Finance Cost	10.8	10.8	-0.2	10.0	7.2	20.8	22.0	-5.5
Depreciation	15.7	16.0	-1.7	15.6	0.7	31.4	32.1	-2.3
PBT	42.5	16.4	159.9	-74.6	156.9	-32.1	-66.0	-51.3
Tax	-9.6	-	NM	-	-	-9.6	-	NM
Net Profit	52.1	16.4	218.7	-74.6	169.8	-22.5	-66.0	-51.3
EPS (₹)	12.5	3.9	218.7	-17.9	169.8	-5.4	-15.8	-51.3

As % to Sales	Q2FY24	Q2FY23	YoY (bps)	Q1FY24	QoQ (bps)	1HFY24	1HFY23	YoY (bps)
Raw Matl Cost	54.0	53.1	90	52.0	196	53.2	54.9	-165
Gross Margin	46.0	46.9	-90	48.0	-196	46.8	45.1	165
Employee Exps	22.4	26.2	-377	36.2	-1,382	27.8	28.7	-96
Other Exps	16.9	15.5	137	20.5	-360	18.3	17.3	94

Source: Company, Way2Wealth Research

FINANCIALS & VALUATIONS

Particulars	FY21	FY22	FY23	FY24E	FY25E
Revenue	3,557	4,337	3,899	4,774	6,003
Material Cost	2,038	2,419	2,137	2,700	3,400
Employees exp	852	861	840	850	920
Other exp (Net)	529	747	558	580	680
EBITDA	138	310	364	644	1,003
Margin	4%	7%	9%	13%	17%
Depreciation	71	66	64	70	150
Other Income	60	6	24	20	35
Finance Cost	39	49	46	45	50
EBT	87	200	278	549	838
PAT	69	129	158	412	629
Margin	2%	3%	4%	9%	10%
EPS	16.5	30.8	37.8	98.6	150.5
Net Worth	2,214	2,357	2,421	2,624	3,139
Borrowings	642	823	370	300	280
Capital Employed	2,856	3,180	2,791	2,924	3,419
RoE	3%	5%	7%	16%	20%
RoCE	4%	8%	12%	20%	26%
Cash / Bank Balance	5	34	39	63	76
P/E	137	73	60	23	15
P/B	4	4	4	4	3
P/S	3	2	2	2	2
EV/EBITDA	73	33	27	15	9

Source: Company, Way2Wealth

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Name of the Security	BEML LTD (BEML)
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
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