BEEML LTD

Retail Idea | Defense, Rail , Mining & Construction

DALAL & BROACHA

Equity Research Desk

Pioneering Indigenous Solutions for Defence and Rail Transportation

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Introduction

Incorporated in 1964, BEML is a Mini Ratna 'Category 1' company under the Ministry of Defence. It serves core sectors of the economy – Defence & Aerospace, Coal, Mining, Steel, Cement, Power, Irrigation, Construction, Infrastructure, Railways and Metro Transportation. The company's operations are divided into 3 major segments – Mining & Construction, Defence & Aersopace, and Rail & Metro.

One Year Performance

Rating	TP (Rs)	Up/Dn (%)
BUY ON DIPS	**4,050**	**5**
Market data		
Current price	**Rs**	**3,830**
Market Cap (Rs.Bn)	(Rs Bn)	160
Face Value	Rs	10
52 Weeks High/Low	Rs	5,489/1,905
Average Daily Volume	('000)	208
BSE Code		500048
Bloomberg		BEML.IN

% Shareholding	**Jun-24**	**Mar-24**
Promoters	54.03	54.03
Public	45.97	45.97
Total	**100**	**100**

Source: Bloomberg

Drivers for BEML Ltd

Riding high on metro & railways projects

BEML is a leading manufacturer of Metro coaches in India. The company has near-term order prospects of Rs100bn+ for metro cars including the Bangalore, Mumbai, Hyderabad, Chennai and Patna projects. Further, growth avenues are opening in export markets such as Latin America and Middle East. BEML signed an MoU with Delhi Metro Rail Corporation to supply rolling stock for Bahrain Metro Rail Project Phase-1. Out of the Rs2.65trn railway capex budget in FY25, maximum allocation has been given to rolling stock at Rs531bn. The government's target of 800 Vande Bharat trains by 2030 has led to a healthy opportunity pipeline over the next few years to manufacture rolling stock. This is a strong opportunity for BEML, with the company having enhanced its value proposition in mainline rail coaches by bagging an order for 10 Vande Bharat sleeper trainsets.

Rs6.75bn Vande Bharat sleeper trainset order provides an entry point - In May-23, BEML was awarded a contract worth Rs6.75bn from Indian Railways' Integral Coach Factory (ICF) to produce India's first 10 Vande Bharat sleeper trainsets. BEML launched the prototype in Oct-23, and now is all set to deliver first trainset. With a pipeline of ~400 Vande Bharat train tenders to be awarded over the next 3-4 years, we believe successful execution of this order can put BEML in a strong position to win new contracts.

The management sees an opportunity size of close to approximately Rs. 580bn in the next 2 years and about Rs.2000bn in the next 7 years.

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Capital budget allocation for defence vehicles is on the rise

As part of its modernization plans, Ministry of Defence (MoD) has been increasing allocation towards procurement of Heavy & Medium Vehicles for the armed forces,

BEML is a leading supplier of High Mobility Vehicles (HMV) and Armoured Recovery Vehicles (ARV), which play a key role in strengthening India's border forces by transporting equipment & missiles and repairing battle tanks. The company has order prospects of ~Rs400bn over the next 4-5 years including ~Rs160bn for supplying new HMVs & ARVs and overhauling the existing fleet.

Revenue scale-up and falling manpower to drive strong margin expansion

BEML's revenue is expected to scale up at a 18-20% CAGR over FY25-27E owing to 1) strong tailwinds in Defence and Rail & Metro verticals, 2) healthy order book execution, and 3) substantial planned capex of ~Rs8bn over the next 2 years to enhance production. With ~25% of the company's workforce expected to retire in the next two years, employee costs as a % of sales will likely drop to 18%.

Q1FY25 Result Update

Healthy expansion in gross margin, but other expenses jump:

Consolidated revenue rose 9.9% YoY to Rs6.3bn. Gross margin expanded by 298bps YoY to 50.9%. EBITDA loss came in at Rs501mn vs loss of Rs505mn in Q1FY24. The EBITDA margin improved by 85bps YoY to -7.9% vs -8.8% in Q1FY24 as the gross margin expansion and employee cost leverage was offset by a jump in other expenses (+35.1% YoY to Rs1.6bn). Loss before tax stood at Rs754mn vs loss of Rs750mn in Q1FY24. Net loss came in at Rs705mn vs loss of Rs750mn in Q1FY24 aided by deferred taxes.

Key Risks

1) Significant debt required to fund capex and growing working capital.

2) Strong competition in Rail & Metro space, especially from technologically superior foreign OEMs such as Alstom may impact BEML's market share**.**

3) Push back of tenders especially in Railways**.** No certainty of orders from the government unlike some other DPSUs; most tenders must be won on competitive basis. If BEML does not meaningfully convert order prospects into confirmed contracts, it will harm the company's business outlook.

Valuation & Outlook

BEML is well positioned to capitalize on the growing business opportunities arising out of robust capex being incurred by the government on defence, railways, and infrastructure. These three sectors were given the top 3 allocations in the highest ever capital outlay of Rs11.1trn announced in the FY25 budget. Thus, sectoral tailwinds are strong for BEML.

BEML is in a sweet spot to capitalize on "Make-in India" and the country's flourishing metro, railway & defence capex story led by 1) defence order pipeline of ~Rs500bn, 2) healthy order book (~Rs120bn) with ~Rs8bn capex planned to ramp up execution.

We estimate Revenue/PAT CAGR of 18%/24% over FY25-27E, with significant margin expansion of 200bps owing to revenue scale-up and falling manpower.

The stock is currently trading at a P/E of 43x/34x on FY25/26E earnings. We initiate coverage with a 'BUY on DIPS' rating at a TP of Rs 4,050 valuing it at a P/E of 36x FY26E.

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