

Pipeline robust; execution remains key

13 December 2024

BEML (BEML IN) is set to benefit from robust order pipeline in the sunrise sectors of Rail & Metro (R&M, INR 1tn) and Defence (INR 500bn) in the next 3-4 years. This with better-than-expected growth in the Mining space (led by supply of high-end mining equipment to war-ridden zones) should aid growth. Room for margin improvement also exists given reduction in manpower expenses and better product mix. Expect FY25-26 to be soft for the R&M space due to gestation period (for orders) but FY27 may be a bumper year for the segment. We raise TP to INR 4,190 (from INR 3,770), led by 35x December FY26E P/E given robust order pipeline which may ensure a steady stream of revenue. We upgrade BEML to **Reduce** from Sell given strong order visibility and room for margin improvement.

R&M pipeline of INR 1tn in the next 2-3 years: The R&M segment is set to witness a massive order pipeline of INR 1tn in the next 2-3 years. This would be led by two large-ticket orders – Aluminium push-pull 100 trainsets (worth INR 250-300bn) and an air conditioned electric multiple unit (AC EMU) order by Mumbai Rail Vikas Corporation (MRVC) worth INR 400bn. These orders were expected in FY26. BEML expects to have a pie of these two orders. Other prospective tenders include additional orders for Vande Bharat sleeper trains after completion of a prior order (10 trains in FY26-27), an order for Linke-Hofmann-Busch (LHB) coaches, and an order for a bullet train (after the submission of the developmental prototype) in December 2026. On the metro front, orders for Mumbai line 4,5,6 (474 cars), Bengaluru metro phase 3A (400 cars), Chennai metro phase 3 (96 cars), Patna metro (102 cars), Maharashtra metro for Pune, Nagpur and Thane (582 cars), and the Bhubaneswar metro are in the pipeline. As per BEML, FY25-26 could be softer for R&M due to the completion of the Mumbai metro order and execution of Bengaluru and Chennai metros commencing in FY26-27. But FY27 may see a strong surge in R&M led by robust orderbook and focused execution.

Defence – Opportunity worth INR 400-500bn, expect 40% sales CAGR: The Defence segment is expected to post a CAGR of 40% in the next four years, per BEML, led by robust orderbook and an opportunity pipeline of INR 400-500bn in the next five years. Key orders include the overhauling of the 350 T-72 tank fleet of the army in phases (20-40 tanks every year), orders for future infantry combat vehicles (FICV) and armored vehicles, and for the new 1500HP engine used in main battle tanks. BEML is also focusing on aerospace, naval and maritime orders.

Upgrade to Reduce; TP raised to INR 4,190: We raise FY25E EPS by 1% led by margin improvement due to better mix, but lower FY26E EPS by 10% given the delay in execution of rail orders to FY27E. We raise TP to INR 4,190 from INR 3,770 on 35x (from 32x) December FY26E P/E due to robust order pipeline in both Defence and Rail, which may ensure a steady stream of revenue in the next 3-4 years. We upgrade BEML to **Reduce** from Sell due to strong order visibility and room for margin improvement. Expect an earnings CAGR of 24% in FY24-27E with average ROE/ROCE of 14% each in FY25-27E.

Key Financials

YE March	FY23	FY24	FY25E	FY26E	FY27E
Revenue (INR mn)	38,990	40,543	43,159	48,717	58,892
YoY (%)	(10.1)	4.0	6.5	12.9	20.9
EBITDA (INR mn)	3,644	4,422	4,984	5,867	7,489
EBITDA margin (%)	9.3	10.9	11.5	12.0	12.7
Adj PAT (INR mn)	1,579	2,818	3,247	4,055	5,310
YoY (%)	22.9	78.5	15.2	24.9	30.9
Fully DEPS (INR)	37.8	67.5	77.7	97.1	127.1
RoE (%)	6.7	11.1	11.8	13.7	16.3
RoCE (%)	6.5	11.7	12.6	13.3	15.7
P/E (x)	33.3	47.2	56.7	45.4	34.7
EV/EBITDA (x)	15.3	30.2	37.6	31.8	24.8

Note: Pricing as on 13 December 2024; Source: Company, Elara Securities Estimate

Rating: **Reduce**

Target Price: **INR 4,190**

Downside: **5%**

CMP: **INR 4,409**

As on 13 December 2024

Key data

Bloomberg	BEMLIN
Reuters Code	BEMLNS
Shares outstanding (mn)	42
Market cap (INR bn/USD mn)	184/2165
Enterprise Value (INR bn/USD mn)	189/2232
Avg daily volume 3M (INR mn/USD mn)	1703/20
52 week high/low	5489/2481
Free float (%)	46

Note: as on 13 December 2024; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q3	Q4	Q1	Q2
	FY24	FY24	FY25	FY25
Promoter	54.0	54.0	54.0	54.0
% Pledged	0.0	0.0	0.0	0.0
FII	9.1	9.9	6.8	5.7
DII	19.1	17.8	20.2	18.6
Others	17.8	18.3	19.0	21.7

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	(2.3)	5.9	18.4
BEML	12.3	9.4	72.4
NSE Mid-cap	(1.7)	7.9	31.2
NSE Small-cap	(0.5)	8.4	32.4

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Financials (YE March)

Income Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	38,990	40,543	43,159	48,717	58,892
EBITDA	3,644	4,422	4,984	5,867	7,489
Margin (%)	9.3	10.9	11.5	12.0	12.7
Add:- Non operating Income	236	422	486	573	659
Depreciation	641	638	715	826	876
EBIT	3,240	4,206	4,755	5,614	7,273
Less:- Interest Expenses	463	390	472	264	267
PBT	2,777	3,816	4,283	5,350	7,006
Less :- Taxes	1,198	999	1,037	1,295	1,695
PAT	1,579	2,818	3,247	4,055	5,310
Adjusted PAT	1,579	2,818	3,247	4,055	5,310
Balance Sheet (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Share Capital	418	418	418	418	418
Reserves	23,793	26,262	27,992	30,379	33,870
Net Worth	24,211	26,680	28,410	30,797	34,288
Loans	3,708	606	3,608	3,608	3,608
Net Deferred Tax Liability	(1,083)	(1,135)	(1,135)	(1,135)	(1,135)
Capital Employed	26,837	26,151	30,884	33,271	36,761
Gross Block	10,364	10,785	14,152	17,802	20,452
Less:- Accumulated Depreciation	4,885	5,504	6,219	7,044	7,920
Add:- Capital work in progress	227	367	150	150	150
Net Fixed Assets	5,707	5,648	8,083	10,908	12,682
Net Working Capital	20,736	20,414	22,341	21,256	22,158
Cash & Bank Balance	393	89	459	1,107	1,921
Application of Funds	26,837	26,151	30,884	33,271	36,761
Cash Flow Statement (INR mn)	FY23	FY24	FY25E	FY26E	FY27E
Cash Profit adjusted for non-cash items	3,620	5,204	5,470	6,440	8,149
Add/Less : Working Capital Changes	2,919	(25)	(1,932)	1,084	(902)
Operating Cash Flow before Tax	6,539	5,179	3,538	7,525	7,247
Tax	(905)	(602)	(1,037)	(1,295)	(1,695)
Operating Cash Flow	5,634	4,577	2,501	6,230	5,551
Less:- Capex	73	(1,000)	(3,150)	(3,650)	(2,650)
Free Cash Flow	5,707	3,577	(649)	2,580	2,901
Investing Cash Flow	(274)	323	-	-	-
CF from Fin. Activity	(3,348)	(1,298)	1,014	(1,933)	(2,087)
Net Change in Cash	2,085	2,602	366	647	814
Ratio Analysis	FY23	FY24	FY25E	FY26E	FY27E
Income Statement Ratios (%)					
Revenue growth	(10.1)	4.0	6.5	12.9	20.9
EBITDA growth	18.0	21.3	12.7	17.7	27.7
PAT growth	22.9	78.5	15.2	24.9	30.9
EBITDA margin	9.3	10.9	11.5	12.0	12.7
Net margin	4.0	7.0	7.5	8.3	9.0
Per Share data (INR/Share)					
Diluted EPS	37.8	67.5	77.7	97.1	127.1
DPS	10.0	20.5	20.0	22.0	24.0
Book value per share	579.6	638.7	680.1	737.3	820.8
Payout (incl. Div. Tax) (%)	26.5	30.4	25.7	22.7	18.9
Dividend yield (%)	0.8	0.6	0.5	0.5	0.5
Valuation (x)					
P/E	33.3	47.2	56.7	45.4	34.7
EV/EBITDA	15.3	30.2	37.6	31.8	24.8
EV/Sales	1.4	3.3	4.3	3.8	3.2
Price/Book value	2.2	5.0	6.5	6.0	5.4
Return and Liquidity Ratios					
Net debt/Equity (x)	0.1	0.0	0.1	0.1	0.0
ROE (%)	6.7	11.1	11.8	13.7	16.3
ROCE (%)	6.5	11.7	12.6	13.3	15.7

We expect revenue CAGR of 13% in FY24-27E

We expect EBITDA margin to expand 180bps in FY24-27E

Note: Pricing as on 13 December 2024; Source: Company, Elara Securities Estimate

M&C – Robust potential in rebuilding activities in conflict zones: As per BEML, a low 5-6% growth was expected for the M&C segment, but this has changed in the past few months. This is because there has been an increase in regional conflicts and conflict-ridden countries. As a result, rebuilding activities may be needed in such zones. BEML seeks to supply its high-end mining equipment such as bulldozers, dump trucks and motor graders. This will also help scale up exports, which are currently at 2-3%, towards management’s target of 10%.

Capex plan of INR 10-15bn in the next two years: BEML is set to incur a capex of INR 10-15bn in the next two-three years. This would be utilized for various purposes such as increasing coach manufacturing capacity from 300 to 450 units and for new tenders once these have been won. BEML has already infused capex in its Palakkad facility for high mobility vehicles, in KGF for armored vehicles and in Mysore for power packs. It is also adding a new plant for rail cars, which will be inaugurated by December 2025.

Vision 2030 – Revenue to touch INR 100bn and EBITDA margin 18%: BEML aims to achieve a revenue of INR 100bn with EBITDA margin at 18% by 2030. The Defence segment is likely to contribute 30-35%, and Rail & Metro 30-40%, with the balance coming from Mining & Construction. The company seeks to improve its margins by executing orders related to commuter railways (Vande Bharat sleeper, aluminium push pull train, MRVC EMU etc.) that yields double-digit margin compared with metros with single-digit margin. Additionally, the supply of premium high-end mining equipment, higher contribution from defence which has better margins, and operating leverage benefit may help BEML achieve its margin target. The company also seeks to reduce its manpower cost from the current 20% of sales to 16-17% of sales in the next 2-3 years.

Exhibit 1: Valuation summary

(INR)	
EPS – FY25E	77.7
EPS – FY26E	97.1
Five-year average P/E (x)	43.2
Target multiple (x)	35
Dec-26E EPS	119.6
Target price	4,190

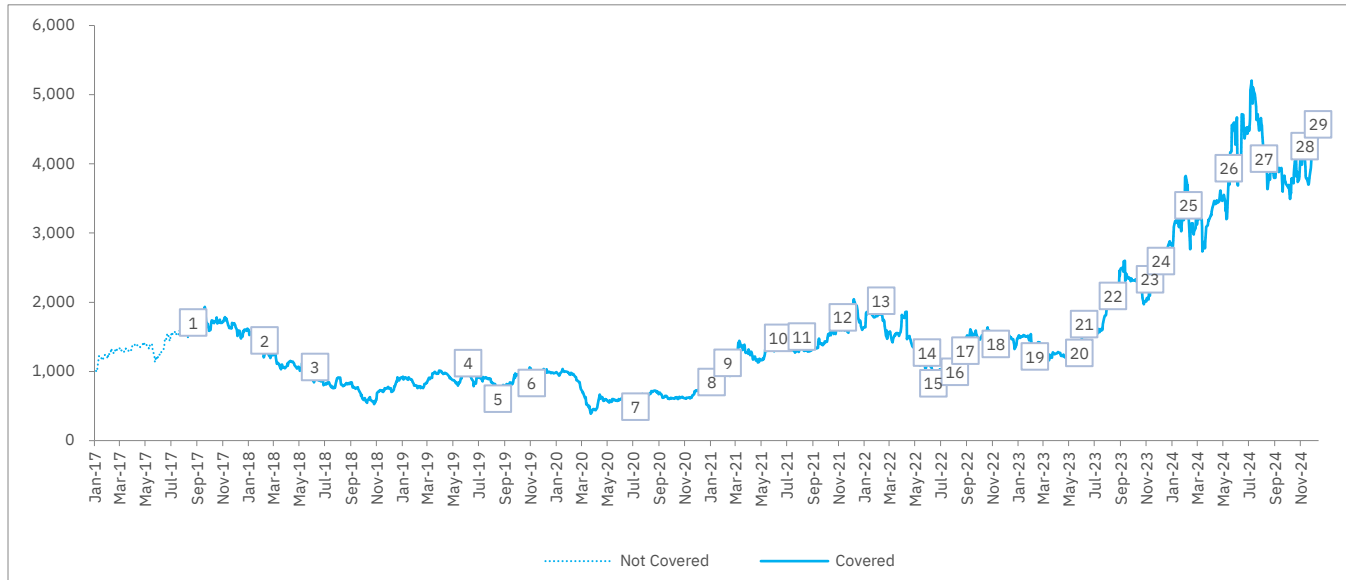
Source: Elara Securities Estimate

Exhibit 2: Change in estimates

(INR mn)	Earlier			Revised			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	47,013	58,969	66,879	43,159	48,717	58,892	(8.2)	(17.4)	(11.9)
EBITDA	4,933	6,450	7,462	4,984	5,867	7,489	1.0	(9.0)	0.4
EBITDA margin (%)	10.5	10.9	11.2	11.5	12.0	12.7	105.5	110.5	156.1
PAT	3,216	4,512	5,324	3,247	4,055	5,310	0.9	(10.1)	(0.3)
EPS (INR)	77.0	108.0	127.5	77.7	97.1	127.1	0.9	(10.1)	(0.3)
TP (INR)			3,770			4,190			11.1
Rating			Sell			Reduce			

Source: Elara Securities Estimate

Coverage History



	Date	Rating	Target Price	Closing Price
19	10-Feb-2023	Accumulate	INR 1,520	INR 1,379
20	26-May-2023	Buy	INR 1,700	INR 1,425
21	7-Jun-2023	Accumulate	INR 1,700	INR 1,522
22	14-Aug-2023	Reduce	INR 1,830	INR 1,933
23	10-Nov-2023	Reduce	INR 2,010	INR 2,171
24	6-Dec-2023	Reduce	INR 2,350	INR 2,435
25	9-Feb-2024	Sell	INR 2,560	INR 3,247
26	15-May-2024	Sell	INR 3,240	INR 3,778
27	6-Aug-2024	Sell	INR 3,600	INR 3,914
28	11-Nov-2024	Sell	INR 3,770	INR 4,092
29	13-Dec-2024	Reduce	INR 4,190	INR 4,409

Guide to Research Rating

BUY	Absolute Return >+20%
ACCUMULATE	Absolute Return +5% to +20%
REDUCE	Absolute Return -5% to +5%
SELL	Absolute Return < -5%

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