

## Operational excellence continues...

Bharat Electronics reported yet another stellar quarter, continuing its legacy of guiding lower and delivering higher. For the quarter, the company reported revenues of ₹ 3885 crore, up 7.7% YoY. EBITDA grew 16.7% YoY. EBITDA margins came in strong at 23.9% vs. 22.1% YoY due to gross margin expansion of 630 bps YoY. **Higher gross margins were on account of execution of higher proportion of indigenous orders in the quarter.** Employee & other expenses also grew sharply at 15.7%, 27.6% YoY, respectively. PAT grew 19.7% YoY to ₹ 668.6 crore as other income jumped 3.6x YoY.

### Strong order inflows and exports, stellar execution

For FY19, BEL witnessed strong execution and order inflows. Revenues for FY19 increased 17.1% YoY while order inflows have been highest ever at ₹ 23,430 crore (Q1FY19: ₹ 3583 crore, Q2FY19: ₹ 10755 crore, Q3FY19: ₹ 2164 crore and Q4FY19: ₹ 6929 crore). EBITDA for FY19 increases ~43% YoY implying strong operational efficiencies of the company. Q4FY19 witnessed continued order booking in projects like Integrated Air Command and Control System (IACCS), weapon locating radar, electronic warfare systems and communication equipment, etc. Export revenues for FY19 came in at \$21.6 million. To increase contribution from this segment, BEL has already set up an office in Vietnam and is planning offices in Sri Lanka, Myanmar, etc. The export order book as on Q4FY19 was at \$116.62 million.

### Efficient WC management, steady capex, higher tax rate in FY20-21E

The management's persistent focus on receivables in FY19 has led to efficient working capital management, averting any debt on the books of BEL. Strong execution in FY20E-21E coupled with steady capex of ₹ 600-650 crore in the next two to three years is likely to keep liquidity position tight for BEL. The tax rate for BEL may also go up as benefits of spend on indigenous R&D are likely to go down from 150% to 0% in coming years. Accordingly, we estimate higher tax outgo in FY19E-21E.

### Valuation & Outlook

With a healthy order backlog of ₹ 51,798 crore, we expect execution momentum to continue in FY20E-21E. Going ahead, BEL is likely to derive higher revenues from non-defence segment like homeland security, cyber security and smart cities. Order book from this segment is roughly at ~₹ 1500 crore. These newer areas have potential to contribute ~20% to topline albeit with lower margins over the next three to five years. Accordingly, we remain positive on the company and expect it to report revenue, EBITDA and PAT CAGR of 15.2%, 6.6%, 2.9%, respectively, in FY20E-21E. We value the company at 16x P/E on FY21E earnings to arrive at a target price of ₹ 135 per share. We maintain our **BUY** recommendation on the stock.



#### Particulars

Particular	Amount
Market Capitalization	₹ 27290 Crore
Total Debt (FY19)	₹ 30.6 Crore
Cash and Investments (FY19)	₹ 828.8 crore
EV (FY19)	₹ 26492 Crore
52 week H/L (₹) (BSE)	124 / 72
Equity capital	₹ 243.7 Crore
Face value	₹ 1

#### Key Highlights

- Life-time high order book and strong execution to lead to accelerated topline trajectory in FY20-21E
- New opportunities like homeland security, cyber security and smart cities to open new revenue stream
- Maintain BUY recommendation with a revised target price of ₹ 135

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#### Key Financial Summary

(₹ crore)	FY17	FY18	FY19	FY20E	FY21E	FY19-21E
Revenues	8,612	10,322	12,085	14,038	16,038	15.2
EBITDA	1,762	2,000	2,862	2,933	3,251	6.6
Net Profit	1,548	1,399	1,927	1,909	2,042.4	2.9
EPS (₹)	6.9	5.7	7.9	7.8	8.4	
P/E (x)	16.2	19.5	14.2	14.3	13.4	
Price / Book (x)	3.3	3.5	3.0	2.7	2.5	
EV/EBITDA (x)	13.4	13.3	9.3	8.8	7.8	
RoCE (%)	27.1	25.0	30.0	27.6	27.4	
RoE (%)	20.6	18.0	21.4	19.1	18.6	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance Analysis**

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Operating Income	3,885	3,843	3,608.5	7.7	2,716	43.0	Higher revenue growth in Q4FY19 due to higher order booking
Other income	129	11	27.9	361.6	18	630.9	
Total Revenue	4,013	3,854	3,636.4	10.4	2,734.1	46.8	
Raw materials costs	1,966	2,344	2,001.0	-1.8	1,255	56.6	
Employees Expenses	442	496	381.9	15.7	495	-10.7	
Other Expenses	548	441	429.4	27.6	198	176.5	
Total Expenditure	2,956	3,281	2,812.3	5.1	1,948	51.7	
EBITDA	929.0	562.2	796.2	16.7	768.1	20.9	
EBITDA margins (%)	23.9	14.6	22.1	185 bps	28.3	-436 bps	Higher margins on account of better product-mix
Interest	11.9	0.9	1.0		0.0		
Depreciation	93.3	68.5	76.6	21.8	79.7	17.0	
Tax	284.0	161.9	187.8	51.2	198.4	43.1	
Other Income	128.8	11.3	27.9	361.6	17.6	630.9	
PAT	668.6	342.1	558.7	19.7	507.6	31.7	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY18	FY19	FY20E			FY21E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	10,322	12,085	14,309	14,038	-1.9	16,187.1	16,038	-0.9
EBITDA	2,000	2,862	2,812	2,933	4.3	3,133.5	3,251	3.8
EBITDA Margin (%)	19.4	23.7	19.6	20.9	130 bps	19.4	20.3	87 bps
PAT	1,399	1,927	1,783	1,909	7.1	1,946.2	2,042	4.9
EPS (₹)	5.7	7.9	7.3	7.8	7.3	8.0	8.4	4.8

Source: Company, ICICI Direct Research

## Key takeaways – Q4FY19 and FY19

**Strong order book:** The order book at the end of Q4FY19 was at ₹ 51,789 crore. Orders received in Q4FY19 were at ~₹ 6929 crore.

### Major orders acquired in FY19

- Long range surface to air missile systems
- Smart city business
- Homeland security system
- AMC for radars
- Naval equipment
- Setting up of weapon repair facility at naval shipyard
- Upgradation of fire control systems

The export order book as on April 1, 2019 was at US\$116.6 million. Export turnover for FY19 was US\$21.6 million.

### Major supplies during FY19

- Integrated air command and control system
- Electronic voting machine & VVPAT
- Weapon locating radar
- Land based Electronic warfare systems
- Tropo upgrade
- Shilka upgrade
- Upgrade of communication system

### Major orders expected in FY20

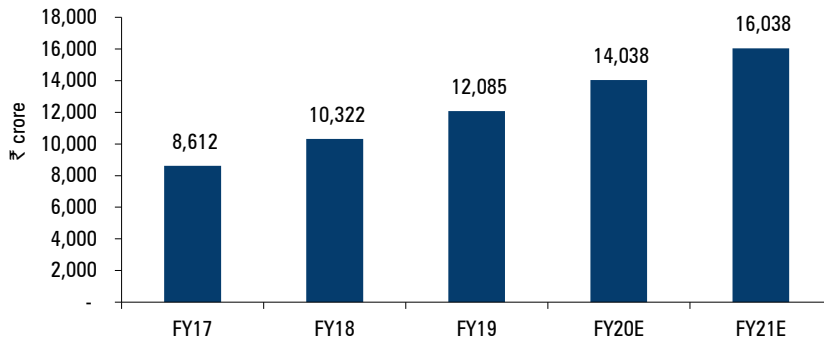
- Akash missile system (seven squadron) (~₹ 5000 crore)
- Coastal surveillance system (~₹ 1900 crore)
- Samyukta Upgrade (~₹ 900 crore)

New addressable opportunities, which BEL plans to capitalise on:

- **Homeland security solutions:** BEL is planning to address the border management solution requirements as part of the homeland security business. It is already providing security solutions for parliament, critical ONGC instalments, border perimeter solutions, etc
- **Smart Cities:** In this segment, BEL will provide smart lighting, smart signalling, integrated electrical control systems for large cities. It is already implementing solutions for large cities like Agra, Belgaum (Karnataka), etc
- **Solar:** BEL is setting up utility scale solar power plants for captive consumption in the estates of ordnance factories at 17 locations across eight states for total capacity of 150 MW. The commissioning of the first solar power plant of 15 MW capacity is expected to happen soon at ordnance factory, Medak. In the near future, this sector is expected to contribute significantly to BEL's business
- **Space:** BEL is exploring a collaboration with Indian Space Research Organisation (Isro) leveraging their technological capabilities in design and development of various products/systems for possible use in defence applications

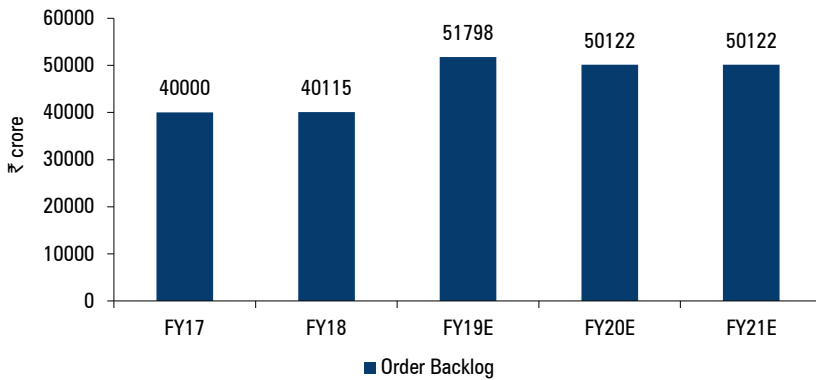
### Financial story in charts

Exhibit 3: Revenue trend



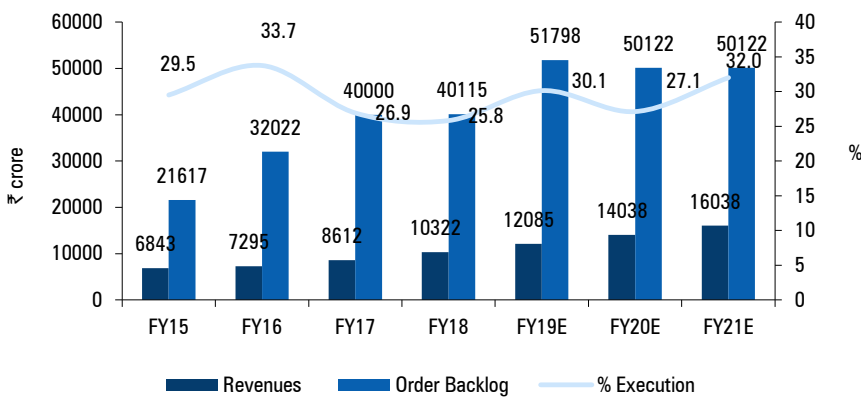
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



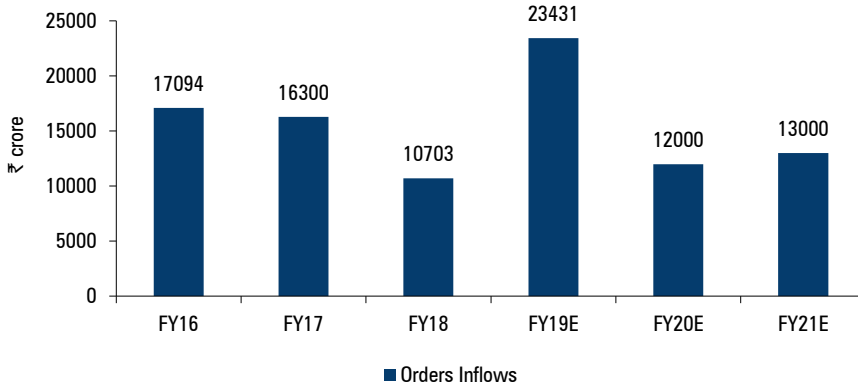
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



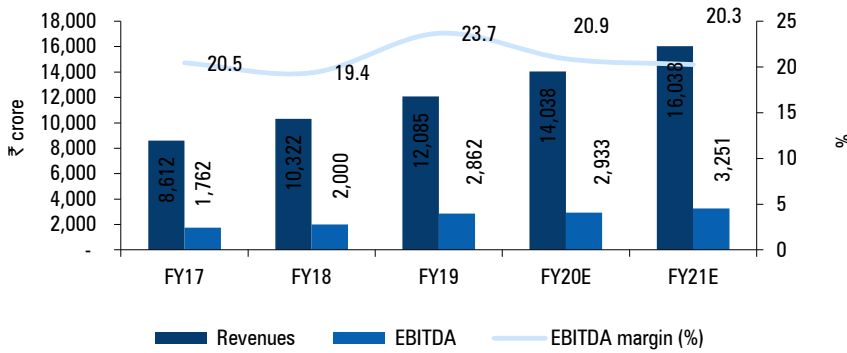
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



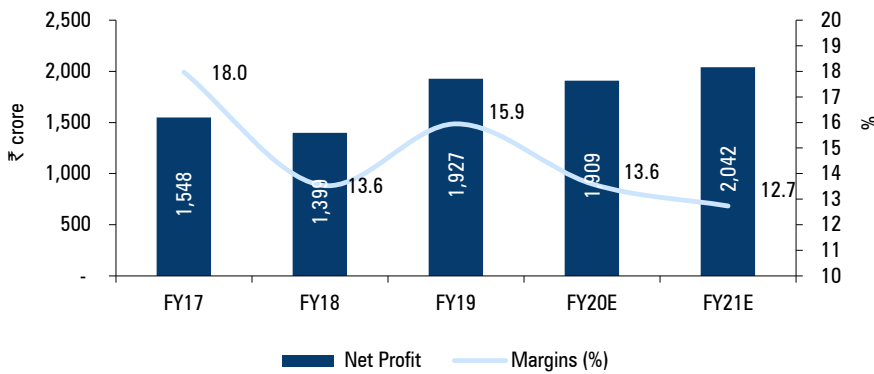
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



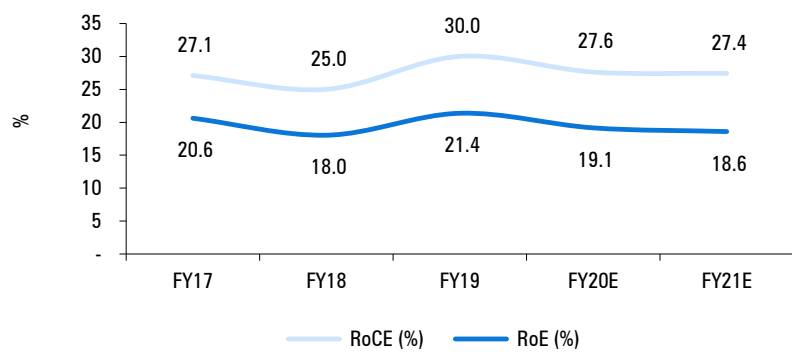
Source: Company, ICICI Direct Research

Exhibit 8: PAT and margins trend



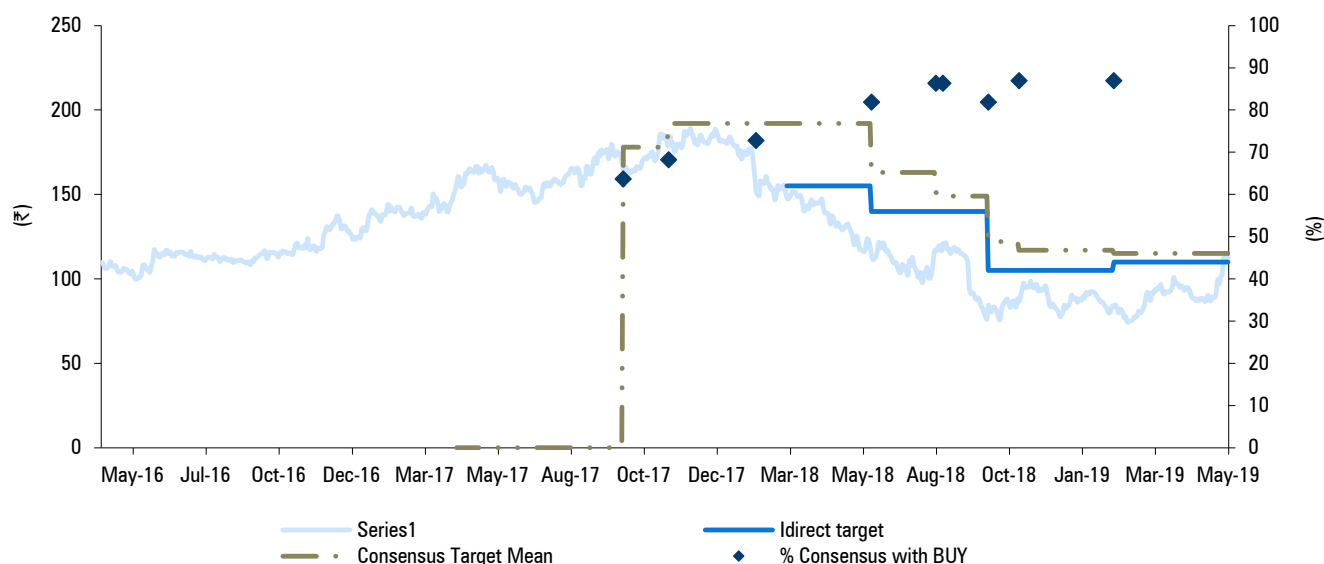
Source: Company, ICICI Direct Research

**Exhibit 9: RoE and RoCE trend**



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Filing Date	O/S	Position	Position Change
1	Government of India	31-03-2019	58.82%	1,433.32M	-46.90M
2	Reliance Nippon Life Asset Management	04-12-2018	6.20%	151.14M	+101.80M
3	Goldman Sachs Asset Management (India)	31-03-2019	4.32%	105.17M	+12.62M
4	Life Insurance Corporation of India	31-03-2019	3.28%	80.01M	0
5	HDFC Asset Management Co., Ltd.	30-04-2019	2.46%	60.01M	-20.13M
6	Aditya Birla Sun Life AMC Limited	31-12-2018	2.31%	56.40M	-4.11M
7	Kotak Mahindra Asset Management	31-12-2018	1.86%	45.33M	+17.26M
8	ICICI Prudential Asset Management	31-03-2019	1.75%	42.67M	+6.96M
9	SBI Funds Management Pvt. Ltd.	30-04-2019	1.32%	32.19M	-0.05M
10	L&T Investment Management Limited	31-12-2018	1.15%	28.06M	+3.12M

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Investor name	Buys		Investor name	Sells	
	Value	Shares		Value	Shares
Reliance Nippon Life Asset Management Limited	+128.72M	+101.80M	Government of India	63.21M	46.90M
Kotak Mahindra Asset Management Company Ltd.	+21.82M	+17.26M	HDFC Asset Management Co., Ltd.	25.19M	20.13M
Goldman Sachs Asset Management (India) Private Ltd.	+17.02M	+12.62M	Aditya Birla Sun Life AMC Limited	-5.19M	-4.11M
ICICI Prudential Asset Management Co. Ltd.	+9.39M	+6.96M	HSBC Global Asset Management (Hong Kong) Limited	-1.91M	-1.60M
Norges Bank Investment Management (NBIM)	+7.41M	+5.86M	Axis Asset Management Company Limited	-1.04M	-0.87M

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	66.7	66.0	66.1	61.9	58.8
FII	6.4	6.0	4.9	7.1	7.5
DII	17.9	18.3	19.2	20.8	22.9
Others	9.0	9.7	9.8	10.3	10.8

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 14: Profit and loss statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	10,007	11,789	13,676	15,632
Other operating income	316	295	362	406
Revenue	10,322	12,085	14,038	16,038
% Growth		17.1	16.2	14.2
Other income	200.4	169.5	165.0	155.0
Total Revenue	10,523	12,271	14,038	16,038
% Growth		16.6	14.4	14.2
Total Raw Material Costs	5,515	5,948	7,385	8,598
Employee Expenses	1,772	1,879	2,079	2,267
other expenses	1,035	1,396	1,641	1,923
Total Operating Expenditure	8,323	9,223	11,105	12,787
Operating Profit (EBITDA)	2,000	2,862	2,933	3,251
% Growth		43.1	2.5	10.8
Interest	1	12	15	18
PBDT	2,199	3,019	3,083	3,388
Depreciation	251	316	337	385
PBT before Exceptional Items	1,948	2,703	2,746	3,004
Total Tax	549	776	838	961
PAT before MI	1,399	1,927	1,909	2,042
Minority Interest	-	-	-	-
PAT	1,399	1,927	1,909	2,042
% Growth		37.7	(1.0)	7.0
EPS	5.7	7.9	7.8	8.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Equity Capital	243.7	243.7	243.7	243.7
Reserve and Surplus	7,517	8,775	9,727	10,745
Total Shareholders funds	7,761	9,019	9,970	10,988
Other Non Current Liabilities	8.8	4.8	4.8	4.8
Total Debt	36	31	31	31
Total Liabilities	7,838	9,116	10,067	11,085
Gross Block	2,220	2,697	3,448	4,118
Acc: Depreciation	613	613	950	1,335
Net Block	1,607	2,084	2,499	2,784
Capital WIP	835	721	620	600
Total Fixed Assets	2,442	2,806	3,119	3,384
Non Current Assets	1,662	1,814	1,814	1,814
Inventory	4,776	4,455	5,192	5,932
Debtors	5,705	5,600	7,500	8,788
Loans and Advances	27	1,370	1,370	1,370
Other Current Assets	1,531	1,830	1,011	1,155
Cash	731	829	1,484	1,942
Total Current Assets	14,419	15,844	18,316	20,947
Current Liabilities	2,248	2,474	2,874	3,283
Provisions	1,260	1,380	1,603	1,831
Total Current Liabilities	10,685	11,348	13,182	15,060
Net Current Assets	3,734	4,496	5,134	5,887
Total Assets	7,838	9,116	10,067	11,085

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	1,399	1,927	1,909	2,042
Depreciation	251	316	337	385
Interest	1	12	15	18
Cash Flow before WC changes	1,652	2,256	2,261	2,445
Changes in inventory	129	321	(737)	(740)
Changes in debtors	(1,350)	105	(1,900)	(1,288)
Changes in loans & Advances	53	(1,343)	-	-
Changes in other current assets	(923)	(299)	819	(144)
Net Increase in Current Assets	(3,640)	(1,327)	(1,818)	(2,172)
Changes in creditors	901	226	400	409
Changes in provisions	(40)	119	223	228
Net Inc in Current Liabilities	1,078	663	1,834	1,878
Net CF from Operating activities	(911)	1,592	2,277	2,151
Changes in deferred tax assets	101	(40)	-	-
(Purchase)/Sale of Fixed Assets	(782)	(680)	(650)	(650)
Net CF from Investing activities	(1,010)	(807)	(650)	(650)
Dividend and Dividend Tax	(587)	(997)	(919)	(984)
Net CF from Financing Activities	(1,138)	(686)	(972)	(1,042)
Net Cash flow	(3,059)	98	655	459
Opening Cash/Cash Equivalent	3,790	731	829	1,484
Closing Cash/ Cash Equivalent	731	829	1,484	1,942

\*calculated, Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
EPS	5.7	7.9	7.8	8.4
Cash per Share	3.0	3.4	6.1	8.0
BV	31.9	37.0	40.9	45.1
Dividend per share	2.0	3.4	3.1	3.4
Dividend payout ratio	0.3	0.4	0.4	0.4
EBITDA Margin	19.4	23.7	20.9	20.3
PAT Margin	14.0	16.3	14.0	13.1
RoE	18.0	21.4	19.1	18.6
RoCE	25.0	30.0	27.6	27.4
RoC	24.7	31.0	30.5	31.6
EV / EBITDA	13.3	9.3	8.8	7.8
P/E	19.5	14.2	14.3	13.4
EV / Net Sales	2.6	2.2	1.8	1.6
Sales / Equity	1.3	1.3	1.4	1.5
Market Cap / Sales	2.6	2.3	1.9	1.7
Price to Book Value	3.5	3.0	2.7	2.5
Asset turnover	1.3	1.3	1.4	1.5
Debtors Turnover Ratio	2.1	2.1	2.1	2.0
Creditors Turnover Ratio	5.7	5.1	5.3	5.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.4	3.4	3.4	3.4
Quick Ratio	2.1	2.3	2.2	2.2

Source: Company, ICICI Direct Research

**Exhibit 18: ICICI Direct Coverage Universe (Capital Goods)**

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1574	1,680	Buy	218369	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	72	75	Hold	25071	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1715	2,050	Buy	16176	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1029	1,170	Buy	12261	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	334	315	Hold	8587	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	529	550	Buy	8118	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	145	150	Hold	3541	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	112	135	Buy	27290	7.9	7.8	8.4	14.2	14.3	13.4	30.0	27.6	27.4	21.4	19.1	18.6
Engineers India (ENGIND)	125	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	320	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	375	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1930	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	717	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	177	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	600	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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