

July 30, 2019

Q1FY20 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY20E	FY21E	FY20E	FY21E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	120		120	
Sales (Rs. m)	137,738	153,018	137,738	153,018
% Chng.	-	-	-	-
EBITDA (Rs. m)	29,286	31,499	29,286	31,499
% Chng.	-	-	-	-
EPS (Rs.)	7.7	8.3	7.7	8.3
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	103,223	120,846	137,738	153,018
EBITDA (Rs. m)	19,997	28,621	29,286	31,499
Margin (%)	19.4	23.7	21.3	20.6
PAT (Rs. m)	13,993	19,273	18,797	20,205
EPS (Rs.)	5.7	7.9	7.7	8.3
Gr. (%)	(17.1)	37.7	(2.5)	7.5
DPS (Rs.)	2.3	3.4	3.3	3.6
Yield (%)	2.3	3.5	3.4	3.6
RoE (%)	18.3	23.4	20.6	20.0
RoCE (%)	22.8	30.8	28.2	27.4
EV/Sales (x)	2.3	1.9	1.6	1.5
EV/EBITDA (x)	11.6	7.9	7.7	7.1
PE (x)	17.1	12.4	12.8	11.9
P/BV (x)	3.1	2.8	2.5	2.3

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.124 / Rs.73
Sensex / Nifty	37,397 / 11,085
Market Cap	Rs.240bn / \$ 3,483m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.2437.19m

Shareholding Pattern (%)

Promoter's	58.83
Foreign	8.91
Domestic Institution	21.85
Public & Others	10.41
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(12.5)	17.1	(8.7)
Relative	(7.9)	11.5	(8.5)

Ashwani Sharma

ashwanisharma@plindia.com | 91-22-66322247

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

FY20 started on weak note

Bharat Electronics Ltd.'s (BEL's) 1QFY20 performance was below our expectations. Revenue was flat on YoY basis which we believe could be due to weak execution on account of general elections during the quarter. EBITDA margin at 16.6% was way below guidance of 19-20% for the full year, impacted due to weak execution and higher employee cost. Hence, PAT for the quarter was up 14% YoY at Rs2 bn (PLe Rs3 bn). Order inflow during the quarter was down 45% YoY at Rs~20 bn (FY20 guidance Rs70 bn). Major orders expected during FY20 are Akash Missile System (7 Sqdn) (Rs50 bn), Coastal Surveillance System (Rs15 bn) and Samyukta Upgrade (Rs5 bn). We have broadly maintained the numbers as we expect execution to pick up in subsequent quarters of the current financial year. The stock is currently trading at 12.7x/11.8x FY20/21E. We maintain Accumulate on the stock with TP of Rs120.

1QFY20 performance below expectations: Revenue was flat at Rs21bn (Ple Rs 24.5bn). EBITDA margin expanded by 180bps YoY to 16.6% in 1QFY20 compared to 15% in 1QFY19 mainly due to low raw material cost. Other income was up 186% YoY at Rs 254mn and interest cost was down by 19% at Rs3 mn. Tax rate for the quarter came at 29.5% compared to 28% in 1QFY19. Hence PAT for the quarter came to Rs2.04bn (PLe Rs3.4 bn).

Order backlog up 24%, providing strong revenue visibility: BEL reported order inflow of Rs19.8bn, down 45% YoY mainly in communication equipment, AMC for radars and export order for equipment. The current order backlog of Rs518 bn provides strong revenue visibility for next few years. The management has guided for revenue growth guidance of 13-15% for FY20E and similar level for FY21E as well. Export turnover during the quarter stood at 162.24 US\$M.

Major supplies during 1QFY20: Upgrade of communication equipment, integrated air command and control system, naval equipment's, smart city business and radar were major supplies. However, company expects few orders due to state elections ahead.

Exhibit 1: Q1FY20 Result Overview (Rs mn)

Y/e March	Q1FY20	Q1FY19	YoY gr. (%)	Q4FY19	FY20E	FY19	YoY gr. (%)
Net Revenue	21,015	21,021	(0.0)	38,846	137,738	120,846	14.0
EBITDA	3,481	3,105	12.1	9,290	29,286	28,621	2.3
EBITDA Margin (%)	16.6	14.8		23.9	21.3	23.7	
Other Income	254	89	186.5	1,288	1,831	1,695	8.0
Depreciation	828	689	20.2	933	3,428	3,162	8.4
Interest	3	3		119	128	122	
Exceptional items	0	0		0	0	0	
Profit before Tax	2,904	2,502	16.1	9,526	27,562	27,032	2.0
Tax	857	705	21.5	2,840	8,765	7,759	13.0
Reported PAT	2,047	1,797	13.9	6,686	18,797	19,273	(2.5)
Adjusted PAT	2,047	1,797	13.9	6,686	18,797	19,273	(2.5)
Net Margin (%)	9.74	8.55		17.21	13.65	15.95	
Adjusted EPS	0.8	0.7		2.7	7.7	7.9	(2.5)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	103,223	120,846	137,738	153,018
YoY gr. (%)	19.9	17.1	14.0	11.1
Cost of Goods Sold	55,188	59,477	73,001	83,395
Gross Profit	48,036	61,369	64,737	69,623
Margin (%)	46.5	50.8	47.0	45.5
Employee Cost	17,723	18,791	21,676	23,588
Other Expenses	10,315	13,957	13,774	14,537
EBITDA	19,997	28,621	29,286	31,499
YoY gr. (%)	13.5	43.1	2.3	7.6
Margin (%)	19.4	23.7	21.3	20.6
Depreciation and Amortization	2,510	3,162	3,428	3,716
EBIT	17,487	25,459	25,859	27,783
Margin (%)	16.9	21.1	18.8	18.2
Net Interest	13	122	128	135
Other Income	2,004	1,695	1,831	1,978
Profit Before Tax	19,478	27,032	27,562	29,625
Margin (%)	18.9	22.4	20.0	19.4
Total Tax	5,486	7,759	8,765	9,421
Effective tax rate (%)	28.2	28.7	31.8	31.8
Profit after tax	13,993	19,273	18,797	20,205
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,993	19,273	18,797	20,205
YoY gr. (%)	(9.6)	37.7	(2.5)	7.5
Margin (%)	13.6	15.9	13.6	13.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,993	19,273	18,797	20,205
YoY gr. (%)	(9.6)	37.7	(2.5)	7.5
Margin (%)	13.6	15.9	13.6	13.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,993	19,273	18,797	20,205
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	5.7	7.9	7.7	8.3

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	22,157	28,159	34,160	40,162
Tangibles	22,157	28,159	34,160	40,162
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,113	9,275	12,703	16,419
Tangibles	6,113	9,275	12,703	16,419
Intangibles	-	-	-	-
Net fixed assets	16,044	20,598	21,457	23,743
Tangibles	16,044	20,598	21,457	23,743
Intangibles	-	-	-	-
Capital Work In Progress	8,345	7,229	7,456	7,692
Goodwill	-	-	-	-
Non-Current Investments	9,033	9,484	9,958	10,456
Net Deferred tax assets	4,312	4,527	4,754	4,991
Other Non-Current Assets	2,159	2,202	2,246	2,291
Current Assets				
Investments	-	-	-	-
Inventories	47,755	51,318	62,265	67,077
Trade receivables	57,046	63,474	68,573	76,180
Cash & Bank Balance	7,387	13,068	13,161	16,761
Other Current Assets	17,806	20,846	23,760	26,396
Total Assets	184,900	210,324	233,664	257,843
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	75,174	84,475	93,548	103,299
Total Network	77,610	86,912	95,984	105,736
Non-Current Liabilities				
Long Term borrowings	333	350	367	386
Provisions	8,225	8,389	8,557	8,728
Other non current liabilities	104	104	104	104
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	98,286	114,223	128,302	142,536
Total Equity & Liabilities	184,900	210,324	233,664	257,843

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	19,478	27,032	27,562	29,625
Add. Depreciation	2,510	3,162	3,428	3,716
Add. Interest	-	-	-	-
Less Financial Other Income	2,004	1,695	1,831	1,978
Add. Other	(1,991)	(1,573)	(1,703)	(1,843)
Op. profit before WC changes	19,997	28,621	29,286	31,499
Net Changes-WC	(12,410)	2,946	(4,832)	(758)
Direct tax	(4,474)	(7,975)	(8,991)	(9,659)
Net cash from Op. activities	3,113	23,592	15,464	21,082
Capital expenditures	(7,794)	(6,601)	(4,514)	(6,237)
Interest / Dividend Income	-	-	-	-
Others	(13,700)	(1,195)	(981)	(635)
Net Cash from Invst. activities	(21,494)	(7,795)	(5,494)	(6,872)
Issue of share cap. / premium	203	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,415)	(6,704)	(9,971)	(9,725)
Interest paid	-	-	-	-
Others	(5,089)	(3,429)	78	(904)
Net cash from Fin. activities	(12,300)	(10,133)	(9,893)	(10,629)
Net change in cash	(30,681)	5,664	76	3,581
Free Cash Flow	(4,681)	16,991	10,950	14,845

Source: Company Data, PL Research

Key Financial Metrics

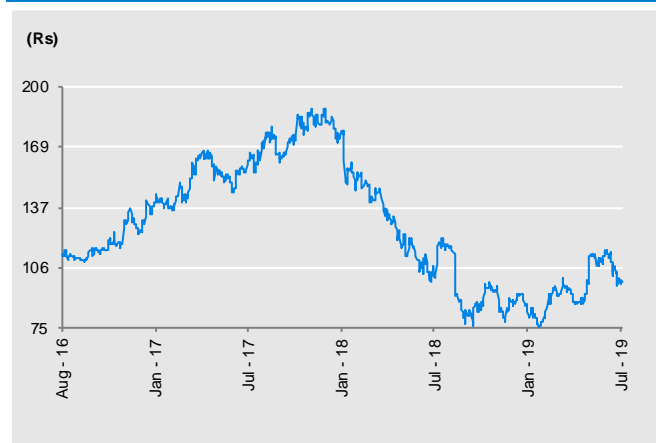
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	5.7	7.9	7.7	8.3
CEPS	6.8	9.2	9.1	9.8
BVPS	31.9	35.7	39.4	43.4
FCF	(1.9)	7.0	4.5	6.1
DPS	2.3	3.4	3.3	3.6
Return Ratio(%)				
RoCE	22.8	30.8	28.2	27.4
ROIC	18.2	26.1	22.4	22.4
RoE	18.3	23.4	20.6	20.0
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	17.1	12.4	12.8	11.9
P/B	3.1	2.8	2.5	2.3
P/CEPS	14.5	10.7	10.8	10.0
EV/EBITDA	11.6	7.9	7.7	7.1
EV/Sales	2.3	1.9	1.6	1.5
Dividend Yield (%)	2.3	3.5	3.4	3.6

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY19	Q3FY19	Q4FY19	Q1FY20
Net Revenue	33,814	27,165	38,846	21,015
YoY gr. (%)	36.6	8.1	7.7	-
Raw Material Expenses	16,196	12,552	19,657	10,565
Gross Profit	17,618	14,613	19,190	10,451
Margin (%)	52.1	53.8	49.4	49.7
EBITDA	8,544	7,681	9,290	3,481
YoY gr. (%)	43.6	72.5	16.7	12.1
Margin (%)	25.3	28.3	23.9	16.6
Depreciation / Depletion	743	797	933	828
EBIT	7,801	6,884	8,358	2,653
Margin (%)	23.1	25.3	21.5	12.6
Net Interest	-	-	119	3
Other Income	143	176	1,288	254
Profit before Tax	7,944	7,060	9,526	2,904
Margin (%)	23.5	26.0	24.5	13.8
Total Tax	2,230	1,984	2,840	857
Effective tax rate (%)	28.1	28.1	29.8	29.5
Profit after Tax	5,713	5,076	6,686	2,047
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	5,713	5,076	6,686	2,047
YoY gr. (%)	38.5	67.6	19.7	13.9
Margin (%)	16.9	18.7	17.2	9.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,713	5,076	6,686	2,047
YoY gr. (%)	38.5	67.6	19.7	13.9
Margin (%)	16.9	18.7	17.2	9.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,713	5,076	6,686	2,047
Avg. Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	2.3	2.1	2.7	0.8

Source: Company Data, PL Research

Price Chart

Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	4-Jul-19	Accumulate	120	114
2	31-May-19	Accumulate	120	113
3	5-Apr-19	BUY	112	97
4	5-Oct-18	BUY	112	82
5	1-Aug-18	BUY	150	116

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Reduce	1,296	1,394
2	Apar Industries	Accumulate	795	588
3	Bharat Electronics	Accumulate	120	114
4	BHEL	Hold	77	73
5	Cummins India	BUY	841	760
6	Engineers India	BUY	139	120
7	GE T&D India	Hold	179	175
8	Kalpataru Power Transmission	BUY	565	532
9	KEC International	BUY	352	333
10	Larsen & Toubro	BUY	1,710	1,400
11	Power Grid Corporation of India	BUY	234	210
12	Siemens	Accumulate	1,263	1,358
13	Thermax	Accumulate	1,147	1,058
14	Triveni Turbine	Accumulate	124	105
15	Voltamp Transformers	BUY	1,505	1,160

PL's Recommendation Nomenclature (Absolute Performance)

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

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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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