

Muted Q1 - Short term blip; long term positive

Bharat Electronics reported a mixed performance during the quarter. During Q1FY20, the company reported revenues of ₹ 2102 crore, almost flat growth YoY. EBITDA grew 12.1% YoY. EBITDA margins came in healthy at 16.6% vs. 14.8% YoY due to gross margin expansion of 240 bps YoY and contraction of other operational expenses by 18.3% YoY partly offset by 10.9% YoY increase in employee expense. Overall, PAT grew 13.9% YoY to ₹ 204.7 crore, supported by other income jump of 2.8x YoY.

Robust order book, traction in execution to drive performance

BEL has bagged significant orders in FY19 such as the long range surface to air missile systems, smart city business, home land security system, etc. The company continues to witness strong execution and order inflows. Q1FY20 saw inflows of ₹ 1,985 crore. BEL witnessed continued booking during the quarter in projects like upgrade of communication equipment, Integrated Air Command and Control System (IACCS), naval equipment, Smart City business, radars and real time information system. On the exports front, the company has set up an office in Vietnam and is planning offices in Sri Lanka, Myanmar, etc. At present, the export order book as on Q1FY20 is at \$162.24 million. Going ahead, traction in execution and a favourable product mix is expected to help BEL maintain robust EBITDA margins at 20% levels.

WC efficiency, 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 the company. Strong execution in FY19-21E coupled with steady capex of ₹ 600-650 crore in the next two to three years is likely to keep a tight leash on liquidity position 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 FY19-21E.

Valuation & Outlook

We continue to derive comfort from a healthy order book backlog of ₹ 51,715 crore providing future revenue visibility. Going ahead, BEL seems likely to derive higher revenues from non-defence segment like homeland security, cyber security and smart cities. The order book from this segment is roughly at ~₹ 1500 crore. These newer areas have the potential to contribute ~20% to the topline albeit with lower margins over the next three to five years. Overall, we remain positive on the company and expect it to report topline, EBITDA and PAT CAGR of 14.7%, 5.4%, 1.8%, respectively, over FY19-21E. 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** rating on the stock.



Particulars

Particular	Amount
Market Capitalization	₹ 24366 Crore
Total Debt (FY19)	₹ 30.6 Crore
Cash and Inv (FY19)	₹ 828.8 crore
EV (FY19)	₹ 23568 Crore
52 week H/L (₹) (BSE)	124 / 72
Equity capital	₹ 243.7 Crore
Face value	₹ 1

Key Highlights

- Healthy order book and traction in execution likely to translate into accelerated top line growth in FY19-21E
- 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	CAGR (FY19-21E)
Revenues	8,612	10,322	12,085	13,487	15,901	14.7
EBITDA	1,762	2,000	2,862	2,763	3,180	5.4
EBITDA margin (%)	20.5	19.4	23.7	20.5	20.0	
Net Profit	1,548	1,399	1,927	1,800	1,996.2	1.8
EPS (₹)	6.9	5.7	7.9	7.4	8.2	
P/E (x)	14.4	17.4	12.6	13.5	12.2	
EV/EBITDA (x)	11.7	11.8	8.2	8.3	7.1	
RoCE (%)	27.1	25.0	30.0	26.2	27.0	
RoE (%)	20.6	18.0	21.4	18.1	18.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Operating Income	2,102	2,386	2,102.1	0.0	3,885	-45.9	Revenue growth flat YoY
Other income	25	15	8.9	186.5	129	-80.2	
Total Revenue	2,127	2,401	2,110.9	0.8	4,013.4	-47.0	
Raw materials costs	1,056	1,260	1,107.2	-4.6	1,966	-46.3	
Employees Expenses	524	525	472.8	10.9	442	18.6	
Other Expenses	173	243	211.5	-18.3	548	-68.5	
Total Expenditure	1,753	2,028	1,791.5	-2.1	2,956	-40.7	
EBITDA	348.1	358.2	310.5	12.1	929.0	-62.5	
EBITDA margins (%)	16.6	15.0	14.8	179 bps	23.9	-735 bps	Margins remain robust
Interest	0.3	0.0	0.3		11.9		
Depreciation	82.8	75.0	68.9	20.2	93.3	-11.2	
Tax	85.7	89.5	70.5	21.5	284.0	-69.8	
Other Income	25.4	15.0	8.9	186.5	128.8	-80.2	
PAT	204.7	208.8	179.8	13.9	668.6	-69.4	

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	14,038	13,487	-3.9	16,038.3	15,901	-0.9
EBITDA	2,000	2,862	2,933	2,763	-5.8	3,251.4	3,180	-2.2
EBITDA Margin (%)	19.4	23.7	20.9	20.5	-41 bps	20.3	20.0	-27 bps
PAT	1,399	1,927	1,909	1,800	-5.7	2,042.4	1,996	-2.3
EPS (₹)	5.7	7.9	7.8	7.4	-5.7	8.4	8.2	-2.3

Source: Company, ICICI Direct Research

Key takeaways – Q1FY20

Strong order book: The order book at the end of Q1FY20 was at ₹ 51,715 crore. Orders received in Q1FY20 were at ~₹ 1985 crore.

Major orders acquired in Q1FY20

- Communication equipment
- AMC for radars
- Export order for equipment

The export order book as on July 1, 2019 was at US\$162.24 million. Export turnover for Q1FY20 was US\$3.11 million.

Major supplies during Q1FY20

- Upgrade of communication system
- Integrated air command and control system
- Naval equipment
- Smart City business
- Radars
- Real time information system

Major orders expected in FY20

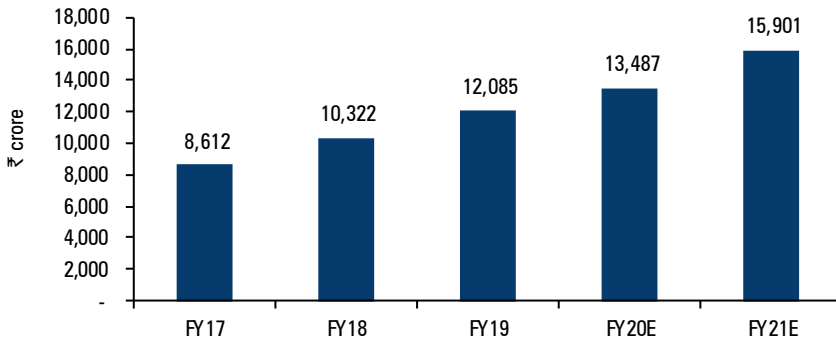
- Akash missile system (seven squadron) (~₹ 5000 crore)

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

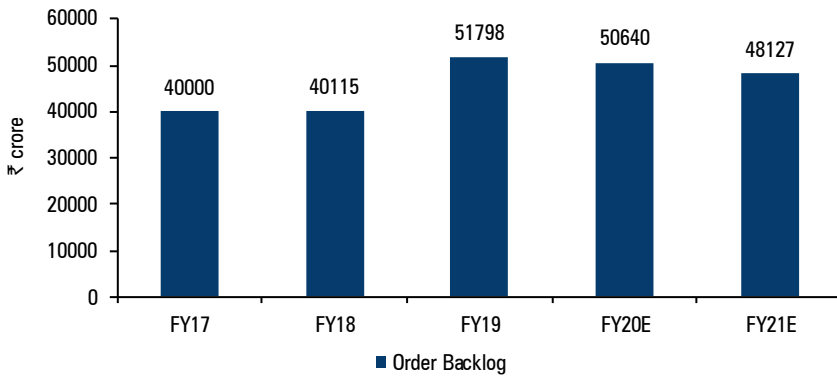
Financial story in charts

Exhibit 3: Revenue trend



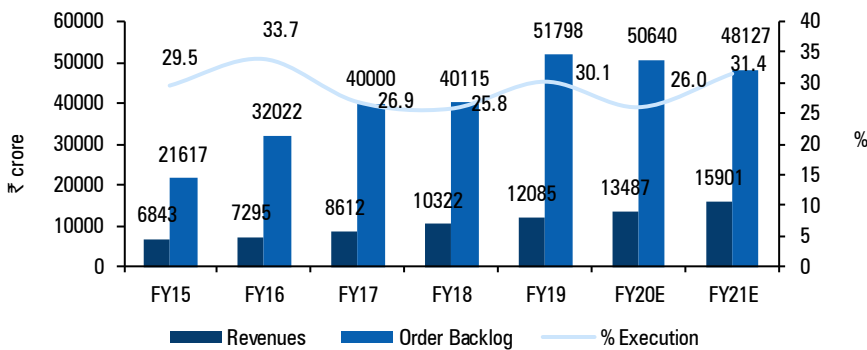
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



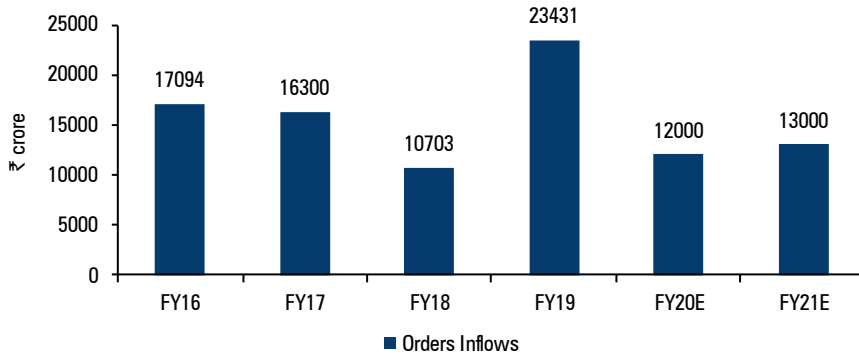
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



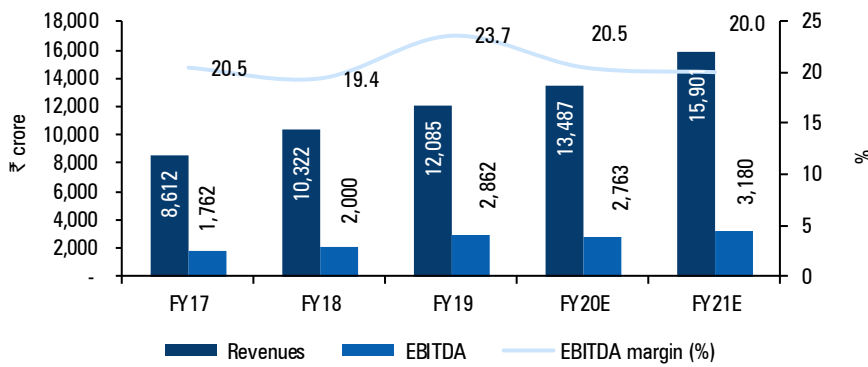
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



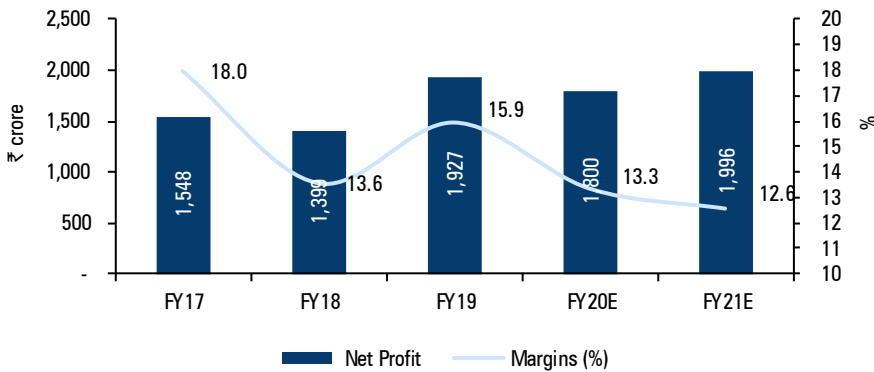
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



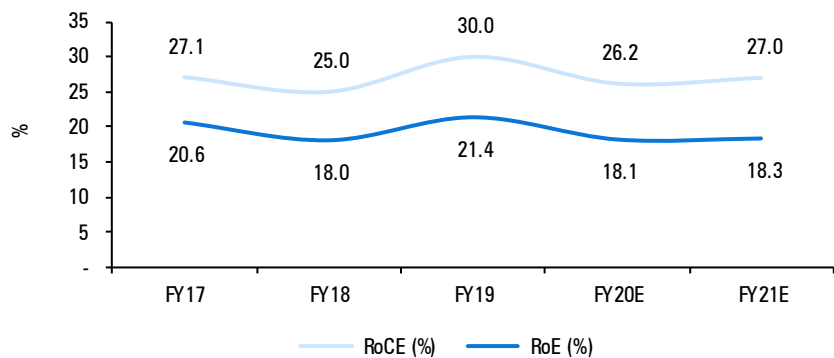
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



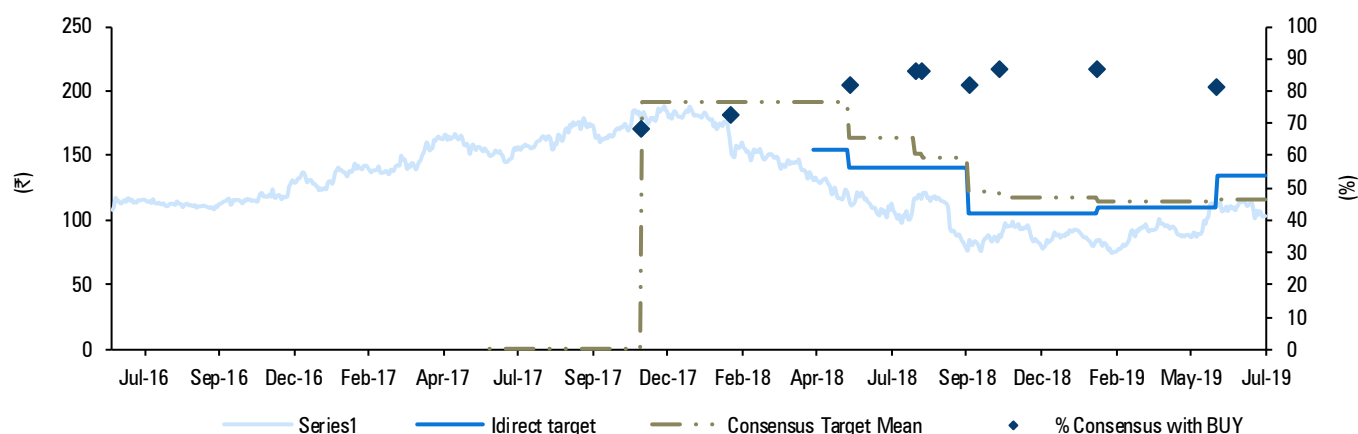
Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus



Source: Reuters, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Name	Filing Date	O/S	Position	Change
1	Government of India	30-06-2019	58.83%	1,433.33M	+0.00M
2	Reliance Nippon Life Asset Management Ltd	04-12-2018	6.20%	151.14M	+101.80M
3	Life Insurance Corporation of India	30-06-2019	3.28%	79.93M	-0.07M
4	Goldman Sachs Asset Management (India)	30-06-2019	2.77%	67.45M	-37.72M
5	Aditya Birla Sun Life AMC Limited	30-06-2019	2.75%	67.03M	-2.29M
6	HDFC Asset Management Co., Ltd.	30-06-2019	2.46%	59.91M	0
7	Kotak Mahindra Asset Management Company	30-06-2019	2.19%	53.25M	+7.92M
8	ICICI Prudential Asset Management Co. Ltd.	30-06-2019	1.78%	43.26M	+0.59M
9	L&T Investment Management Limited	30-06-2019	1.27%	31.04M	+2.99M
10	Mirae Asset Global Investments (India)	31-05-2019	1.15%	28.02M	+2.85M

Source: Reuters, ICICI Direct Research

Exhibit 12: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Kotak Mahindra Asset Management Company Ltd.	+12.93M	+7.92M	Goldman Sachs Asset Management (India)	-61.55M	-37.72M
Norges Bank Investment Management (NBIM)	+7.41M	+5.86M	SBI Funds Management Pvt. Ltd.	-8.94M	-5.48M
L&T Investment Management Limited	+4.88M	+2.99M	Aditya Birla Sun Life AMC Limited	-3.74M	-2.29M
Mirae Asset Global Investments (India) Pvt. Ltd.	+4.57M	+2.85M	PGGM Vermogensbeheer B.V.	-1.90M	-1.50M
Wellington International Management Company Pte.	+3.49M	+2.18M	CPP Investment Board	-1.93M	-1.43M

Source: Reuters, ICICI Direct Research

Exhibit 13: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	66.0	66.1	61.9	58.8	58.8
FII	6.0	4.9	7.1	7.5	8.9
DII	18.3	19.2	20.8	22.9	21.9
Others	9.7	9.8	10.3	10.8	10.4

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	13,158	15,513
Other operating income	316	295	329	388
Revenue	10,322	12,085	13,487	15,901
% Growth		17.1	11.6	17.9
Other income	200.4	169.5	165.0	155.0
Total Revenue	10,523	12,271	13,487	15,901
% Growth		16.6	9.9	17.9
Total Raw Material Costs	5,515	5,948	7,105	8,532
Employee Expenses	1,772	1,879	2,000	2,249
other expenses	1,035	1,396	1,618	1,939
Total Operating Expenditure	8,323	9,223	10,723	12,721
Operating Profit (EBITDA)	2,000	2,862	2,763	3,180
% Growth		43.1	(3.5)	15.1
Interest	1	12	15	18
PBDT	2,199	3,019	2,913	3,317
Depreciation	251	316	324	382
PBT before Exceptional Items	1,948	2,703	2,589	2,936
Total Tax	549	776	790	939
PAT before MI	1,399	1,927	1,800	1,996
Minority Interest	-	-	-	-
PAT	1,399	1,927	1,800	1,996
% Growth		37.7	(6.6)	10.9
EPS	5.7	7.9	7.4	8.2

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	9,672	10,667
Total Shareholders funds	7,761	9,019	9,916	10,911
Other Non Current Liabilities	8.8	4.8	4.8	4.8
Total Debt	36	31	31	31
Total Liabilities	7,838	9,116	10,013	11,008
Gross Block	2,220	2,697	3,448	4,118
Acc: Depreciation	613	613	936	1,318
Net Block	1,607	2,084	2,512	2,800
Capital WIP	835	721	620	600
Total Fixed Assets	2,442	2,806	3,132	3,400
Non Current Assets	1,662	1,814	1,814	1,814
Inventory	4,776	4,455	4,988	5,881
Debtors	5,705	5,600	7,205	8,713
Loans and Advances	27	1,370	1,370	1,370
Other Current Assets	1,531	1,830	971	1,145
Cash	731	829	1,436	1,855
Total Current Assets	14,419	15,844	17,731	20,725
Current Liabilities	2,248	2,474	2,761	3,255
Provisions	1,260	1,380	1,540	1,815
Total Current Liabilities	10,685	11,348	12,664	14,931
Net Current Assets	3,734	4,496	5,067	5,793
Total Assets	7,838	9,116	10,013	11,008

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	1,399	1,927	1,800	1,996
Depreciation	251	316	324	382
Interest	1	12	15	18
Cash Flow before WC changes	1,652	2,256	2,138	2,396
Changes in inventory	129	321	(533)	(893)
Changes in debtors	(1,350)	105	(1,605)	(1,508)
Changes in loans & Advances	53	(1,343)	-	-
Changes in other current asset	(923)	(299)	859	(174)
Net Increase in Current Assets	(3,640)	(1,327)	(1,280)	(2,575)
Changes in creditors	901	226	287	494
Changes in provisions	(40)	119	160	276
Net Inc in Current Liabilities	1,078	663	1,316	2,267
Net CF from Operating activitie	(911)	1,592	2,175	2,088
Changes in deferred tax assets	101	(40)	-	-
(Purchase)/Sale of Fixed Asset	(782)	(680)	(650)	(650)
Net CF from Investing activitie:	(1,010)	(807)	(650)	(650)
Dividend and Dividend Tax	(587)	(997)	(867)	(961)
Net CF from Financing Activitie	(1,138)	(686)	(918)	(1,019)
Net Cash flow	(3,059)	98	608	419
Opening Cash/Cash Equivalent	3,790	731	829	1,436
Closing Cash/ Cash Equivalent	731	829	1,436	1,855

*calculated, Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
EPS	5.7	7.9	7.4	8.2
Cash per Share	3.0	3.4	5.9	7.6
BV	31.9	37.0	40.7	44.8
Dividend per share	2.0	3.4	3.0	3.3
Dividend payout ratio	0.3	0.4	0.4	0.4
EBITDA Margin	19.4	23.7	20.5	20.0
PAT Margin	14.0	16.3	13.7	12.9
RoE	18.0	21.4	18.1	18.3
RoCE	25.0	30.0	26.2	27.0
RoC	24.7	31.0	28.7	30.8
EV / EBITDA	11.8	8.2	8.3	7.1
P/E	17.4	12.6	13.5	12.2
EV / Net Sales	2.3	2.0	1.7	1.4
Sales / Equity	1.3	1.3	1.4	1.5
Market Cap / Sales	2.4	2.0	1.8	1.5
Price to Book Value	3.1	2.7	2.5	2.2
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	5.2	5.3
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		EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	
L&T (LARTOU)	1377	1,675	Buy	191038	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6	
Bhel (BHEL)	59	75	Hold	20405	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)	1708	2,050	Buy	16109	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)	1091	1,170	Buy	13000	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)	310	315	Hold	7957	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)	488	570	Buy	7493	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2	
Greaves Cotton (GREAVE)	134	150	Hold	3272	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1	
Elgi Equipment (ELGEQU)	250	350	Buy	3961	6.1	6.5	8.6	45.5	42.9	32.5	14.3	13.8	18.0	14.1	13.4	15.8	
Bharat Electronics (BHAELE)	100	135	Buy	24366	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3	
Engineers India (ENGIND)	99	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)	290	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)	366	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)	1835	1,565	Reduce	8253	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4	
Timken India (TIMIND)	678	830	Buy	4691	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3	
NRB Bearing (NRBBEA)	100	185	Hold	1648	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3	
Grindwell Norton (GRINOR)	549	635	Buy	5857	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5	

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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