

September 17, 2019

Analyst Meet 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)	136,285	151,854	137,738	153,018
% Chng.	(1.1)	(0.8)		
EBITDA (Rs. m)	27,387	30,472	29,286	31,499
% Chng.	(6.5)	(3.3)		
EPS (Rs.)	7.2	8.0	7.7	8.3
% Chng.	(6.9)	(3.5)		

Key Financials - Standalone

Y/e Mar	FY18	FY19	FY20E	FY21E
Sales (Rs. m)	103,223	120,846	136,285	151,854
EBITDA (Rs. m)	19,997	28,621	27,387	30,472
Margin (%)	19.4	23.7	20.1	20.1
PAT (Rs. m)	13,993	19,273	17,501	19,499
EPS (Rs.)	5.7	7.9	7.2	8.0
Gr. (%)	(17.1)	37.7	(9.2)	11.4
DPS (Rs.)	2.6	2.1	3.4	3.8
Yield (%)	2.4	1.9	3.1	3.5
RoE (%)	18.3	23.0	18.6	19.1
RoCE (%)	22.8	30.3	25.5	26.3
EV/Sales (x)	2.5	2.1	1.9	1.7
EV/EBITDA (x)	12.8	8.9	9.4	8.4
PE (x)	18.8	13.7	15.1	13.5
P/BV (x)	3.4	2.9	2.7	2.5

Key Data

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52-W High / Low	Rs.118 / Rs.73
Sensex / Nifty	36,481 / 10,818
Market Cap	Rs.264bn/ \$ 3,668m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.2522.34m

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	12.6	14.0	24.3
Relative	15.3	18.8	28.0

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Execution is the Key

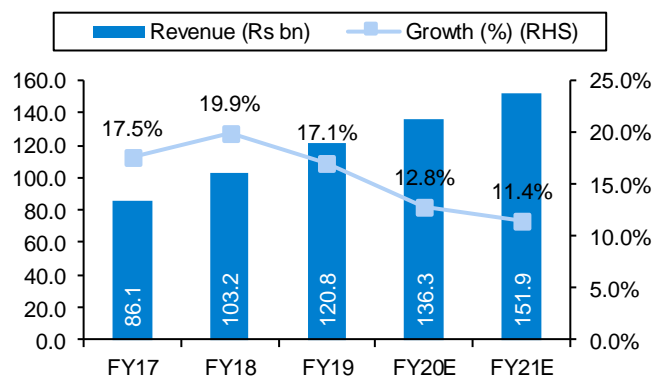
Bharat Electronics Ltd (BEL) in its FY19 annual analyst meet guided for FY20 revenue growth of 12-15% (FY19 revenue included Rs25 bn from EVM) and sustainable EBITDA margin of 19-21%. Nomination based order margins have reduced to 7.5% from 12.5% earlier, however operating efficiencies are likely to partially offset impact of this margin rationalization by MoD. Order inflow for FY20 is expected to be Rs130-150 bn, YTD order inflow of Rs90 bn. going ahead, order pipeline remains robust with visibility of Rs150-200bn per year for the next few years. Current order backlog stands at Rs576 bn which gives strong revenue visibility. Services has been growing at 21% CAGR over FY15-19 and is 10% of revenues. This is likely to grow to 25% of revenues over the next 4-5 years. Working capital under stress due to customer's budget constraint, but going ahead improvement in receivables is expected due to advances from recently won Akash Missile order. We have lowered EBITDA margin assumption and hence cut earnings by 7%/4% for FY20/21E respectively. The stock is currently trading at 15.2x/13.7x FY20/21E. We maintain Accumulate rating on stock with TP of Rs120.

12-15% revenue growth in FY20: With strong order backlog of Rs576 bn, management has guided for revenue growth of 12-15% for FY20. Management has guided for execution of first batch of LRSAM during the year. Services business grew at 21% CAGR over FY15-19 and is 10% of revenues, which is likely to grow to 25% of revenues over the next 4-5 years. BEL achieved export sale of 21.6 mn USD in FY19 and further efforts are being taken to increase exports revenue. EBITDA margins to be in the range of 19-21% going ahead.

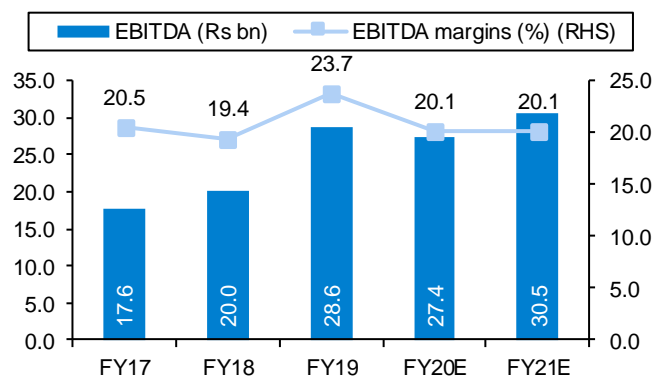
New areas of growth: BEL believes diversification in non-defence segment would drive future growth. Segments like Space Electronics, Solar, Homeland Security, Smart Cards, Telecom, Railways, Civil Aviation, Software as a Service, Fuel Cells, Li-ion Batteries are major focus areas in non-defence segment. Company is also focusing on Artificial Intelligence based projects and Indigenization going ahead.

Robust order pipeline: Order inflow for FY20 is expected to be Rs130-150 bn, YTD order inflow of Rs90 bn (includes Akash Missile Order of Rs54 bn). Order pipeline remain robust with visibility of Rs150-200bn per year for the next few years. Near term large orders expected to be finalized are QRSAM (Phase I ~Rs80-90bn), MRSAM, Akash missile upgrades, etc. The large BMS order has been shelved while TCS has been delayed (~Rs500bn). Homeland security and smart city have emerged as non-defence growth areas with order backlog of ~Rs50bn (~Rs10bn execution in FY20). Management guided for Rs20-25bn of order inflow per year. Current order backlog stands at Rs576 bn (~5x FY19 revenue) which includes Service orders of Rs23 bn.

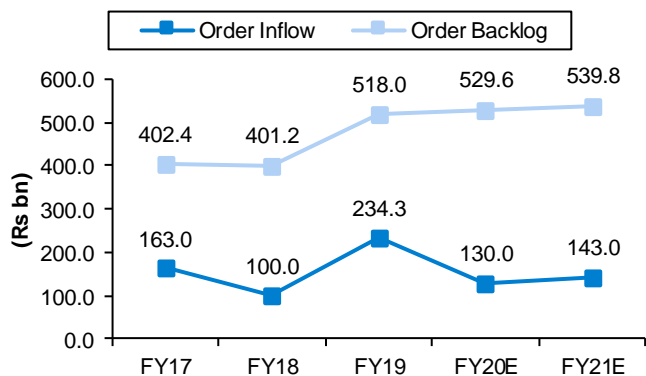
Working Capital under stress: BEL's working capital has been stretched due to budget constraints across clients. However, some improvement in receivables is expected due to advances from the Akash missile order which should restrict further working capital deterioration.

Exhibit 1: Revenue grew at a CAGR of 12% over FY17-19


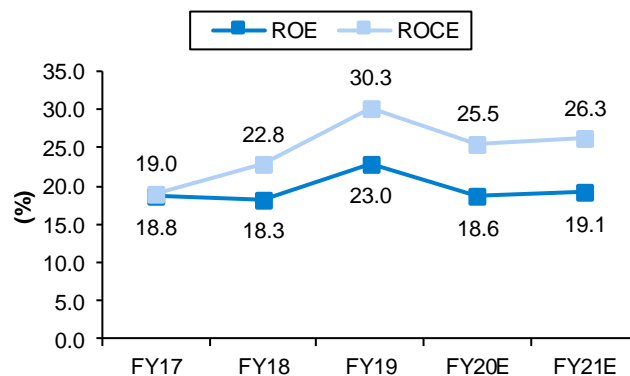
Source: Company, PL

Exhibit 2: EBITDA margins of 19-21% is sustainable


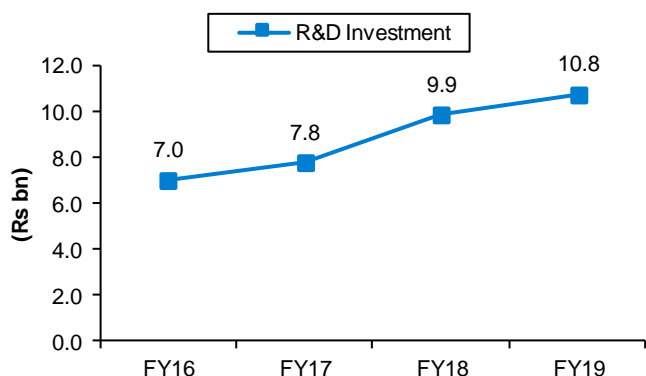
Source: Company, PL

Exhibit 3: OB and OI trend over FY17-21E


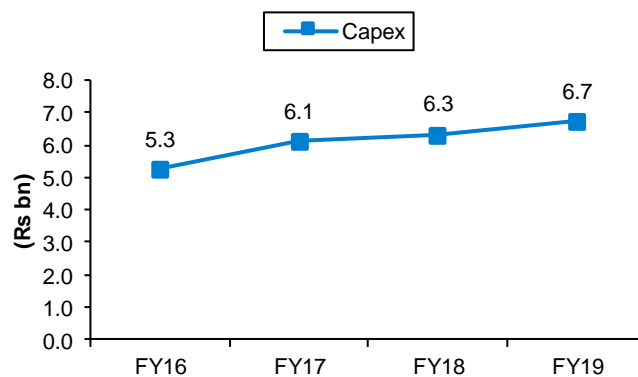
Source: Company, PL

Exhibit 4: Healthy RoE and RoCE


Source: Company, PL

Exhibit 5: Focus on in-house R&D continues


Source: Company, PL

Exhibit 6: 80% capex to be invested in creating new facilities and 20% into modernization & replenishing of existing infra


Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Net Revenues	103,223	120,846	136,285	151,854
YoY gr. (%)	19.9	17.1	12.8	11.4
Cost of Goods Sold	55,188	59,477	72,231	82,153
Gross Profit	48,036	61,369	64,054	69,701
Margin (%)	46.5	50.8	47.0	45.9
Employee Cost	17,723	18,791	21,676	23,588
Other Expenses	10,315	13,957	14,991	15,641
EBITDA	19,997	28,621	27,387	30,472
YoY gr. (%)	13.5	43.1	(4.3)	11.3
Margin (%)	19.4	23.7	20.1	20.1
Depreciation and Amortization	2,510	3,162	3,428	3,725
EBIT	17,487	25,459	23,959	26,747
Margin (%)	16.9	21.1	17.6	17.6
Net Interest	13	122	128	135
Other Income	2,004	1,695	1,831	1,978
Profit Before Tax	19,478	27,032	25,662	28,590
Margin (%)	18.9	22.4	18.8	18.8
Total Tax	5,486	7,759	8,160	9,092
Effective tax rate (%)	28.2	28.7	31.8	31.8
Profit after tax	13,993	19,273	17,501	19,499
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	13,993	19,273	17,501	19,499
YoY gr. (%)	(9.6)	37.7	(9.2)	11.4
Margin (%)	13.6	15.9	12.8	12.8
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	13,993	19,273	17,501	19,499
YoY gr. (%)	(9.6)	37.7	(9.2)	11.4
Margin (%)	13.6	15.9	12.8	12.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	13,993	19,273	17,501	19,499
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	5.7	7.9	7.2	8.0

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
Non-Current Assets				
Gross Block	22,157	29,849	37,541	45,232
Tangibles	22,157	29,849	37,541	45,232
Intangibles	-	-	-	-
Acc: Dep / Amortization	6,113	9,251	12,679	16,404
Tangibles	6,113	9,251	12,679	16,404
Intangibles	-	-	-	-
Net fixed assets	16,044	20,598	24,862	28,829
Tangibles	16,044	20,598	24,862	28,829
Intangibles	-	-	-	-
Capital Work In Progress	8,354	7,458	7,690	7,930
Goodwill	-	-	-	-
Non-Current Investments	9,033	10,194	10,703	11,239
Net Deferred tax assets	4,312	4,712	4,948	5,195
Other Non-Current Assets	5,153	3,648	3,721	3,795
Current Assets				
Investments	-	-	-	-
Inventories	45,513	44,137	50,149	56,294
Trade receivables	50,495	53,692	60,552	67,469
Cash & Bank Balance	7,387	8,840	6,985	6,533
Other Current Assets	38,108	50,671	57,145	63,673
Total Assets	185,228	204,635	227,526	251,817
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	75,174	87,753	95,266	103,638
Total Network	77,610	90,189	97,703	106,074
Non-Current Liabilities				
Long Term borrowings	333	-	-	-
Provisions	8,172	9,214	9,399	9,587
Other non current liabilities	109	350	350	350
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	-	-	-	-
Other current liabilities	98,674	104,262	119,449	135,175
Total Equity & Liabilities	185,228	204,634	227,526	251,817

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY18	FY19	FY20E	FY21E
PBT	19,478	27,032	25,662	28,590
Add. Depreciation	2,510	3,162	3,428	3,725
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	27,387	30,472
Net Changes-WC	(23,127)	(7,809)	(4,016)	(3,719)
Direct tax	(4,474)	(8,159)	(8,396)	(9,339)
Net cash from Op. activities	(7,604)	12,652	14,975	17,414
Capital expenditures	(7,803)	(6,821)	(7,923)	(7,932)
Interest / Dividend Income	-	-	-	-
Others	26	735	1,276	1,396
Net Cash from Invst. activities	(7,777)	(6,086)	(6,648)	(6,536)
Issue of share cap. / premium	203	-	-	-
Debt changes	-	-	-	-
Dividend paid	(7,415)	(7,554)	(6,169)	(9,987)
Interest paid	-	-	-	-
Others	(8,090)	2,773	(4,014)	(1,343)
Net cash from Fin. activities	(15,301)	(4,781)	(10,182)	(11,330)
Net change in cash	(30,682)	1,786	(1,855)	(452)
Free Cash Flow	(15,407)	5,831	7,052	9,482

Source: Company Data, PL Research

Key Financial Metrics

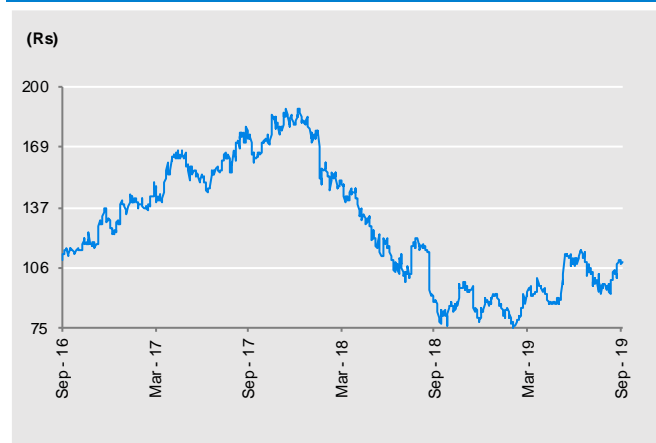
Y/e Mar	FY18	FY19	FY20E	FY21E
Per Share(Rs)				
EPS	5.7	7.9	7.2	8.0
CEPS	6.8	9.2	8.6	9.5
BVPS	31.9	37.0	40.1	43.5
FCF	(6.3)	2.4	2.9	3.9
DPS	2.6	2.1	3.4	3.8
Return Ratio(%)				
RoCE	22.8	30.3	25.5	26.3
ROIC	18.2	24.1	18.8	19.1
RoE	18.3	23.0	18.6	19.1
Balance Sheet				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Working Capital (Days)	-	-	-	-
Valuation(x)				
PER	18.8	13.7	15.1	13.5
P/B	3.4	2.9	2.7	2.5
P/CEPS	16.0	11.8	12.6	11.4
EV/EBITDA	12.8	8.9	9.4	8.4
EV/Sales	2.5	2.1	1.9	1.7
Dividend Yield (%)	2.4	1.9	3.1	3.5

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	30-Jul-19	Accumulate	120	98
2	4-Jul-19	Accumulate	120	114
3	31-May-19	Accumulate	120	113
4	5-Apr-19	BUY	112	97
5	5-Oct-18	BUY	112	82

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	538
3	Bharat Electronics	Accumulate	120	98
4	BHEL	Hold	56	57
5	Cummins India	Hold	619	570
6	Engineers India	BUY	139	103
7	GE T&D India	Hold	179	175
8	Kalpataru Power Transmission	BUY	624	482
9	KEC International	BUY	352	294
10	Larsen & Toubro	BUY	1,710	1,400
11	Power Grid Corporation of India	BUY	224	211
12	Siemens	BUY	1,263	1,101
13	Thermax	Accumulate	1,147	1,091
14	Triveni Turbine	Accumulate	124	103
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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