

Decent performance owing to execution...

Bharat Electronics (BEL) reported revenues at ₹ 5806 crore, up 49.5% YoY, above our estimate of ₹ 5671 crore led by decent execution and spillover of few projects from Q3FY20 to Q4FY20. Absolute EBITDA for the quarter was at ₹ 1482.6 crore, up 59.6% YoY. EBITDA margin improved ~160 bps YoY to 25.5% owing to decent execution and reduction in other expenses. Overall, PAT grew 54.7% YoY to ₹ 1034.5 crore, aided by better execution and lower effective tax rate despite other income decline of 78% to ₹ 28 crore on a YoY basis. Major contributors to the FY20 topline were smart city & homeland security business, thermal imaging cameras, integrated air command and control systems, radar systems and part supply of long range surface to air missile system (LRSAM), etc.

Strong order book but sustained execution key to growth...

During FY20, BEL bagged significant orders like Akash Missile system (7 squadron), coastal surveillance system, upgrade of electronic warfare (EW) system, smart city business, etc. The company continues to have a strong order book and order inflows. Q4FY20 order inflows were at ₹ 2867 crore while FY20 order inflows were at ₹ 13200 crore. Order book as on FY20 was at a robust ₹ 51970 crore. However, order inflows in FY21E may get impacted owing to an expected cut in defence budget amid economic challenges. Orders expected in FY21E include avionics package for light combat aircraft (LCA), EW system, smart city business, spares & services, etc. Going ahead, traction in execution and a favourable product mix would help BEL stabilise base EBITDA margins at round 19-20% levels.

Working capital, operating performance, key monitorables...

Overall, expected cut in defence spending amid economic challenges may lead to some deferral of receivables of defence PSUs including BEL. Hence, working capital will be closely watched in FY21E. However, expected stable execution in FY21E would lead to a steady operational performance. BEL has declared a dividend of ₹ 1.4/share entailing a cash outflow of ~₹ 340 crore. Going ahead, traction in execution and a favourable product mix to help BEL stabilise base EBITDA margins at round 19% to 20% levels.

Valuation & Outlook

Overall, execution is expected to remain stable while order inflows may get impacted in medium term due to expected defence spending cut. BEL is likely to continue its focus to increase contribution from non-defence segment that may contribute ~20% to revenue albeit with lower margins in the next three to five years. Overall robust order book of ₹ 51970 crore continues to provide strong revenue visibility. We expect BEL to post revenue, EBITDA, PAT CAGR of 6.2%, 2.3%, 0.6%, respectively, in FY20-22E. We value BEL at 13.5x P/E on FY22E EPS to arrive at a revised target price of ₹ 100 and change our rating from BUY to **HOLD**. Any disappointment on execution front may significantly impact operating performance of BEL.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20E-22E)
Revenues	10,322	12,085	12,921	13,180	14,576	6.2
EBITDA	2,000	2,862	2,730	2,532	2,858	2.3
EBITDA margin (%)	19.4	23.7	21.1	19.2	19.6	
Net Profit	1,399	1,927	1,794	1,590	1,815.3	0.6
EPS (₹)	5.7	7.9	7.4	6.5	7.5	
P/E (x)	15.3	11.1	12.0	13.5	11.8	
EV/EBITDA (x)	10.4	7.2	7.4	8.0	6.8	
RoCE (%)	25.0	30.0	25.9	21.6	22.6	
RoE (%)	18.0	21.4	18.8	15.4	16.1	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹21442 Crore
Total Debt (FY 19)	₹49.5 Crore
Cash and Inv (FY 19)	₹1296.1 crore
EV (FY 19)	₹20195 Crore
52 week H/L (₹) (BSE)	122 / 56
Equity capital	₹243.7 Crore
Face value	₹1

Key Highlights

- Continues to have strong order book, order inflows. Q4FY20 order inflows at ₹ 2867 crore while FY20 order inflows at ₹ 13200 crore
- New opportunities like homeland security, cyber security and smart cities expected to contribute ~20% to revenue. Currently, it contributes ~8-10% to order book
- Value BEL at 13.5x P/E FY22E EPS to arrive at revised target price of ₹ 100. Change our rating from BUY to HOLD

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Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Operating Income	5,806	5,671	3,884.6	49.5	2,271	155.6	Revenue driven by decent execution and spillover of a few Q3FY20 projects
Other income	28	86	128.8	-78.0	33	-14.7	
Total Revenue	5,834	5,758	4,013.4	45.4	2,304.2	153.2	
Raw materials costs	3,313	3,054	1,965.7	68.5	1,276	159.7	
Employees Expenses	575	541	442.0	30.0	451	27.3	
Other Expenses	436	906	547.9	-20.5	189	130.3	
Total Expenditure	4,323	4,501	2,955.6	46.3	1,916	125.6	
EBITDA	1,482.6	1,169.8	929.0	59.6	354.7	318.0	
EBITDA margins (%)	25.5	20.6	23.9	162 bps	15.6	992 bps	Consequently, margins for Q4FY20 improved, led by a reduction in other expenses
Interest	1.6	0.0	11.9		0.1		
Depreciation	95.0	103.4	93.3	1.9	86.1	10.3	
Tax	379.7	328.1	284.0	33.7	86.6	338.6	
Other Income	28.3	86.4	128.8	-78.0	33.2	-14.7	
PAT	1,034.5	824.6	668.6	54.7	215.1	381.0	

Source: Company, ICICI Direct Research

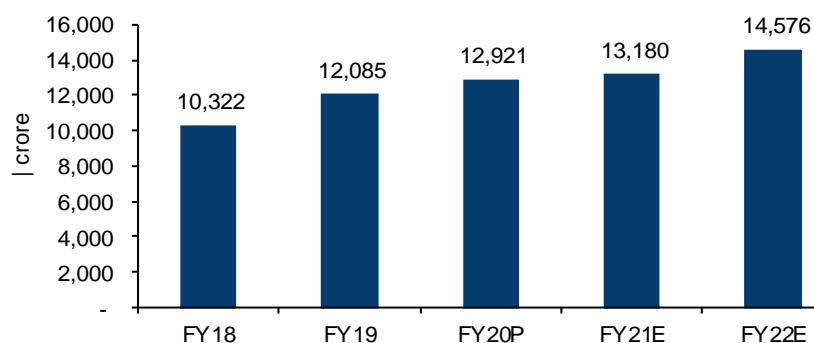
Exhibit 2: Change in estimates

	FY19	FY20P	FY21E			FY22E		
(₹Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,085	12,921	12,857	13,180	2.5	14,019	14,576	4.0
EBITDA	2,862	2,730	2,312	2,532	9.5	2,672	2,858	7.0
EBITDA Margin (%)	23.7	21.1	18.0	19.2	121 bps	19.1	19.6	51 bps
PAT	1,927	1,794	1,436	1,590	10.8	1,674	1,815	8.4
EPS (₹)	7.9	7.4	5.9	6.5	10.6	6.9	7.5	8.0

Source: Company, ICICI Direct Research

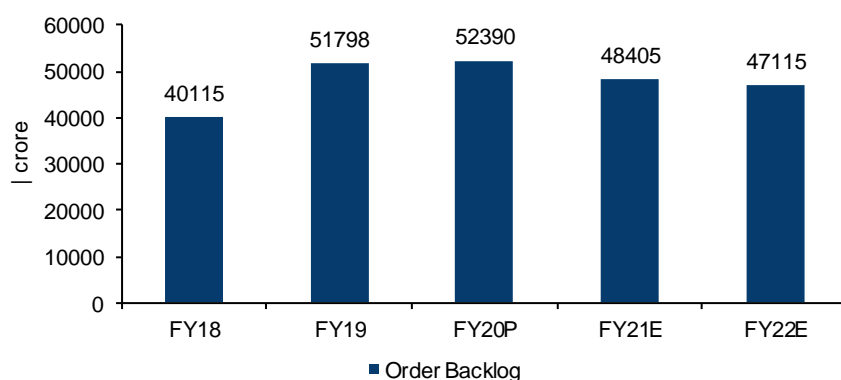
Financial story in charts

Exhibit 3: Revenue trend



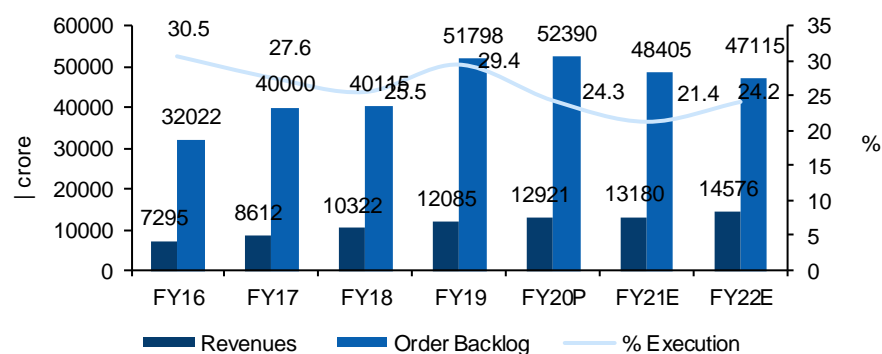
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



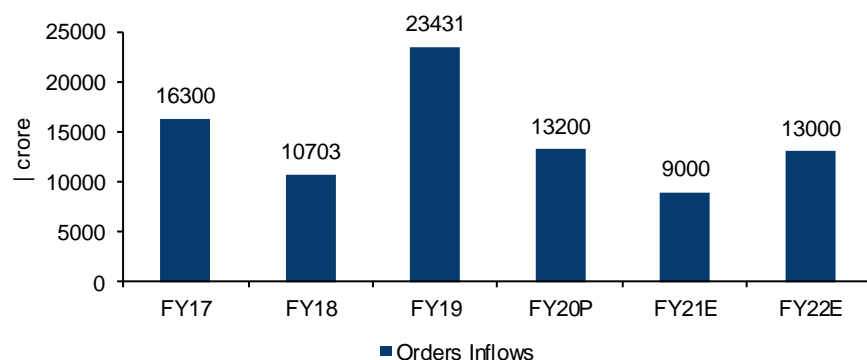
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



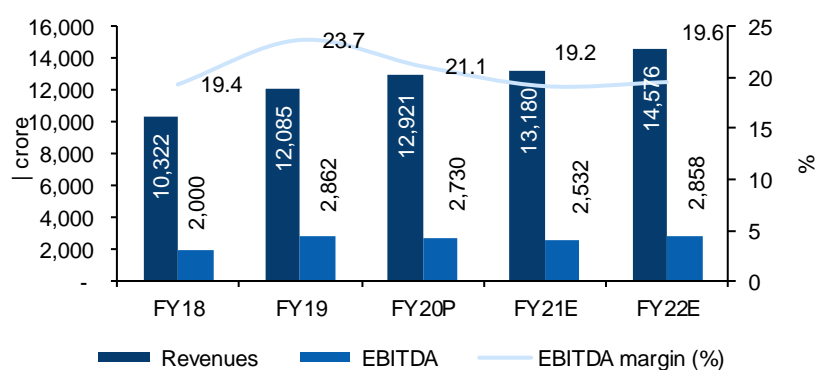
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



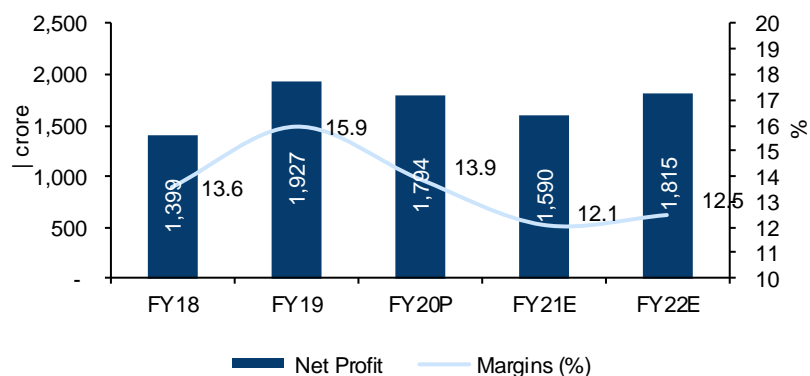
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



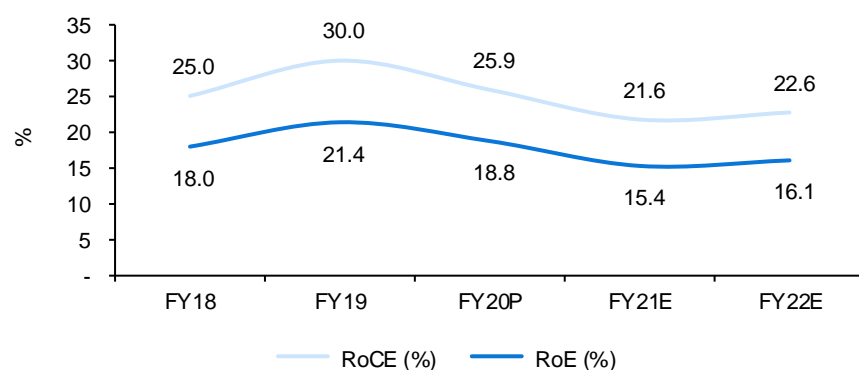
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend

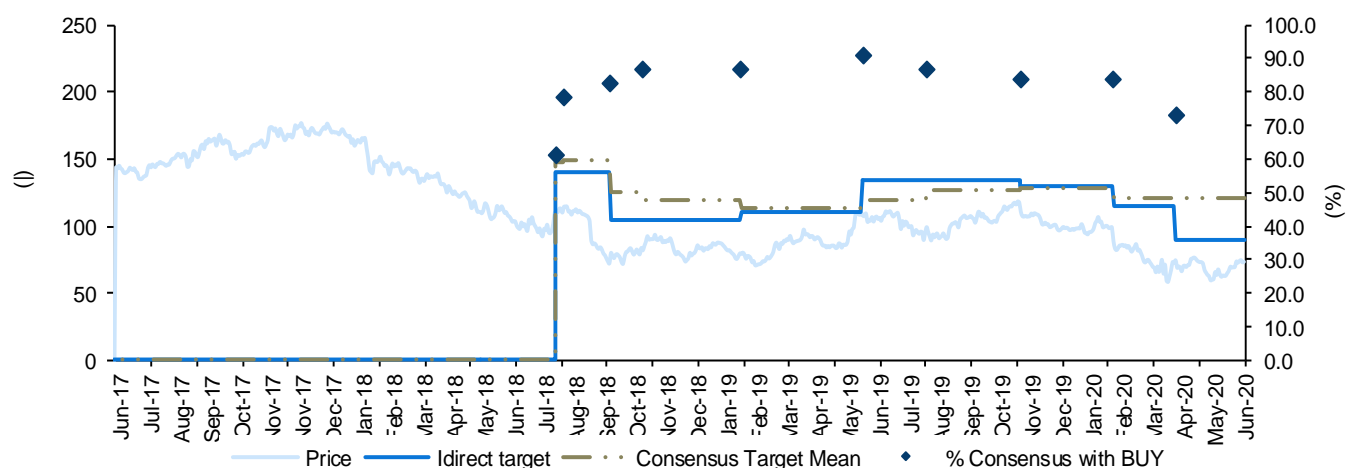


Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 10: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 11: Top 10 Shareholders

Rank	Investor Name	Filing Date	% O/S	osition (%)	Change
1	Government Of India	31-Mar-20	51.1	1,245.97m	0.00m
2	Hdfc Asset Managemen	31-May-20	5.3	129.51m	2.71m
3	Reliance Capital Tru	10-Jun-20	5.1	124.16m	(2.92)m
4	Cpse Etf	31-Dec-19	3.7	90.56m	23.11m
5	Mirae Asset Global I	31-May-20	3.7	89.59m	6.16m
6	Kotak Mahindra Asset	31-May-20	3.6	86.51m	4.43m
7	Life Insurance Corp	31-Mar-20	2.4	57.44m	(20.22)m
8	Aditya Birla Sun Lif	31-Mar-20	2.3	54.95m	18.70m
9	Sbi Funds Management	31-May-20	2.2	54.22m	4.59m
10	Icici Prudential Ass	31-Mar-20	1.8	44.35m	4.60m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	58.8	58.8	55.9	55.3	51.1
FII	7.5	8.9	11.4	12.2	10.7
DII	22.9	21.9	25.0	25.3	30.2
Others	10.8	10.4	7.6	7.2	8.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore

(₹Crore)	FY19	FY20P	FY21E	FY22E
Net Sales	11,789	12,608	12,985	14,290
Other operating income	295	313	195	286
Revenue	12,085	12,921	13,180	14,576
% Growth		6.9	2.0	10.6
Other income	169.5	101.9	125.0	140.0
Total Revenue	12,254	13,030	13,180	14,576
% Growth		6.3	1.2	10.6
Total Raw Material Costs	5,948	7,105	7,272	7,974
Employee Expenses	1,879	2,058	2,169	2,286
Other expenses	1,396	1,028	1,208	1,458
Total Operating Expenditure	9,223	10,191	10,648	11,718
Operating Profit (EBITDA)	2,862	2,730	2,532	2,858
% Growth		(4.6)	(7.3)	12.9
Interest	12	3	18	18
PBDT	3,019	2,829	2,639	2,980
Depreciation	316	350	409	445
PBT before Exceptional Item	2,703	2,479	2,231	2,535
Total Tax	776	685	640	720
PAT before MI	1,927	1,794	1,590	1,815
Minority Interest	-	-	-	-
PAT	1,927	1,794	1,590	1,815
% Growth		(6.9)	(11.3)	14.1
EPS	7.9	7.4	6.5	7.5

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore

(₹Crore)	FY19	FY20P	FY21E	FY22E
Equity Capital	243.7	243.7	243.7	243.7
Reserve and Surplus	8,775	9,302	10,095	11,000
Total Shareholders funds	9,019	9,546	10,338	11,243
Other Non Current Liabilities	4.8	1.1	1.1	1.1
Total Debt	31	50	50	31
Total Liabilities	9,116	9,665	10,458	11,344
Gross Block	2,697	3,071	3,523	3,773
Acc: Depreciation	613	962	1,371	1,815
Net Block	2,084	2,108	2,153	1,958
Capital WIP	721	683	400	600
Total Fixed Assets	2,806	2,791	2,553	2,558
Non Current Assets	1,814	2,061	2,061	2,061
Inventory	4,455	3,963	4,622	4,832
Debtors	5,600	6,974	7,439	7,787
Loans and Advances	1,370	1,534	1,534	1,534
Other Current Assets	1,830	2,326	2,333	2,405
Cash	829	1,296	1,299	1,936
Total Current Assets	15,844	18,039	19,174	20,440
Current Liabilities	2,474	2,645	2,672	2,955
Provisions	1,380	1,380	1,563	1,578
Total Current Liabilities	11,348	13,226	13,330	13,716
Net Current Assets	4,496	4,813	5,844	6,724
Total Assets	9,116	9,665	10,458	11,344

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

(₹Crore)	FY19	FY20P	FY21E	FY22E
Profit after Tax	1,927	1,794	1,590	1,815
Depreciation	316	350	409	445
Interest	12	3	18	18
Cash Flow before WC change	2,256	2,147	2,017	2,278
Changes in inventory	321	492	(659)	(210)
Changes in debtors	105	(1,374)	(465)	(348)
Changes in loans & Advances	(1,343)	(164)	-	-
Changes in other current assets	(299)	(496)	(7)	(72)
Net Increase in Current Assets	(1,327)	(1,728)	(1,131)	(630)
Changes in creditors	226	171	27	283
Changes in provisions	119	-	184	15
Net Inc in Current Liabilities	663	1,879	103	386
Net CF from Operating activities	1,592	2,297	989	2,034
Changes in deferred tax assets	(40)	(26)	-	-
(Purchase)/Sale of Fixed Assets	(680)	(335)	(170)	(450)
Net CF from Investing activities	(807)	(579)	(170)	(450)
Dividend and Dividend Tax	(997)	(1,231)	(766)	(874)
Net CF from Financing Activities	(686)	(1,251)	(816)	(948)
Net Cash flow	98	467	3	636
Opening Cash/Cash Equivalents	731	829	1,296	1,299
Closing Cash/Cash Equivalents	829	1,296	1,299	1,936

*calculated, Source: Company, ICICI Direct Research

Exhibit 16: Key ratios

(Year-end March)	FY19	FY20P	FY21E	FY22E
EPS	7.9	7.4	6.5	7.5
Cash per Share	3.4	5.3	5.3	7.9
BV	37.0	39.2	42.4	46.1
Dividend per share	3.4	4.2	2.6	3.0
Dividend payout ratio	0.4	0.6	0.4	0.4
EBITDA Margin	23.7	21.1	19.2	19.6
PAT Margin	16.3	14.2	12.2	12.7
RoE	21.4	18.8	15.4	16.1
RoCE	30.0	25.9	21.6	22.6
RoIC	31.0	28.7	23.4	25.8
EV / EBITDA	7.2	7.4	8.0	6.8
P/E	11.1	12.0	13.5	11.8
EV / Net Sales	1.7	1.6	1.5	1.3
Sales / Equity	1.3	1.4	1.3	1.3
Market Cap / Sales	1.8	1.7	1.6	1.5
Price to Book Value	2.4	2.2	2.1	1.9
Asset turnover	1.3	1.3	1.3	1.3
Debtors Turnover Ratio	2.1	2.1	1.8	1.9
Creditors Turnover Ratio	5.1	5.0	5.0	5.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.4	3.7	3.8	3.7
Quick Ratio	2.3	2.7	2.7	2.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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