

Result Update – Q4FY20

- Bharat Electronics Ltd. (BEL) reported consolidated revenues of ₹58.16 billion in Q4FY20, reflecting a solid increase of 49.2% year over year (y/y) driven by strong execution. EBITDA jumped 56% y/y to ₹14.94 billion in the quarter while EBITDA margin came in at 25.7% as against 24.6% in the previous year quarter.
- Though operational issues and delay in execution of projects substantially impacted performance in 9MFY20, the company was able to significantly expedite execution in Q4FY20.
- The quarter witnessed increase in raw material cost, offset by lower other expenses. Overall, Profit after tax (PAT) surged 74.3% y/y ₹10.47 billion. The company has not shifted to new low tax regime given the benefits from its deferred tax asset book.
- For FY20, revenues increased 6.6% y/y to ₹129.68 billion while PAT declined 3.3% y/y to ₹18.24 billion.
- During the year, among major orders, the company received AMC for Akash Missile System, Coastal Surveillance System, upgrade of EW system and smart city business. The company witnessed order inflows of ₹132 billion in the year.
- For FY21, the company expects orders including EW Systems, avionics package for light combat aircraft and smart city business. As of Apr1, 2020, the company's order book stood at ₹519.70 billion, reflecting healthy revenue visibility.
- Amid the COVID-19 crisis, we believe the company is likely to face short term challenges in terms of execution and order inflow. However over the medium to long term, the company remains well positioned for growth given its strong order book position, expertise in executing complex projects, healthy client base and cost reduction efforts. Also, the company should benefit from diversification initiatives as it remains focused on growing its non-defence business such as Homeland Security, Smart City, Space Electronics, Weather Radars, etc.
- We have updated our estimates factoring in latest numbers and continue to remain positive on the company and maintain **BUY** rating with a target price of **₹120 per share**.

Financials:

Consolidated Financials						
(In ₹ mn)	Q4-FY20	Q4-FY19	Chg	FY20	FY19	Chg
Net Sales	58,168	38,992	49.2%	129,677	121,642	6.6%
Operating Expense	43,228	29,416	47.0%	102,132	92,579	10.3%
EBITDA	14,940	9,577	56.0%	27,545	29,062	-5.2%
Other Income	286	358	-20.0%	994	730	36.2%
Depreciation	1,006	994	1.2%	3,719	3,381	10.0%
EBIT	14,220	8,941	59.1%	24,820	26,411	-6.0%
Interest	19	114		36	128	
PBT	14,201	8,827	60.9%	24,784	26,283	-5.7%
Tax	3,812	2,881		6,858	7,803	
Exceptional Items	-	-		-	-	
PAT	10,389	5,946	74.7%	17,926	18,480	-3.0%
Minority /Other Adj.	78	60		312	384	
Consolidated PAT	10,467	6,006	74.3%	18,239	18,864	-3.3%

Margins	Q4-FY20	Q4-FY19	Chg BPS	FY20	FY19	Chg BPS
Operating Margin %	25.7%	24.6%	112	21.2%	23.9%	-265
Net Margin %	18.0%	15.4%	259	14.1%	15.5%	-144



Consolidated Financials:

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Net Sales	121,642	129,677	130,445	143,590
Operating Expense	93,965	102,132	104,916	115,201
EBITDA	27,676	27,545	25,529	28,389
Other Income	2,148	994	1,304	1,436
Depreciation	3,381	3,719	4,038	4,289
EBIT	26,443	24,820	22,796	25,536
Interest	159	36	38	40
Misc. items	-	-	-	-
PBT	26,283	24,784	22,758	25,496
Tax	7,803	6,858	6,297	7,055
Minority Interest	384	312	-	-
PAT	18,864	18,239	16,461	18,441
Margins	FY-19	FY-20	FY-21E	FY-22E
Sales Growth %	17.0%	6.6%	0.6%	10.1%
Operating Margin %	22.8%	21.2%	19.6%	19.8%
Net Margin %	15.5%	14.1%	12.6%	12.8%

(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
Liabilities				
Equity Share Capital	2,437	2,437	2,437	2,437
Reserves & Surplus	89,678	98,279	114,740	133,181
Totat Shareholder's Funds	92,115	100,715	117,176	135,618
Minority Interest	133	142	142	142
Long-Term Liabilities	-	-	-	-
Other Long-term Liabilities	11,470	13,969	14,085	14,207
Deferred Tax Liability	(4,720)	(4,987)	(4,987)	(4,987)
Short-term Liabilities	104,488	128,657	114,452	119,374
Total	203,486	238,496	240,869	264,354
Assets				
Net Fixed Assets	31,465	35,406	36,748	38,697
Long-Term L&A	2,983	3,466	3,639	3,821
Non Current Investments	9,645	11,719	11,719	11,719
Other Non-Current Assets	648	526	526	526
Current Asset	158,744	187,381	188,238	209,592
Total	203,486	238,496	240,869	264,354
(In ₹ mn)	FY-19	FY-20	FY-21E	FY-22E
EPS (₹)	7.7	7.5	6.8	7.6
P/E (x)	12.9	13.4	14.8	13.2
P/B (x)	2.6	2.4	2.1	1.8
ROE	20.5%	18.1%	14.0%	13.6%

Source: Company, Anand Rathi Research

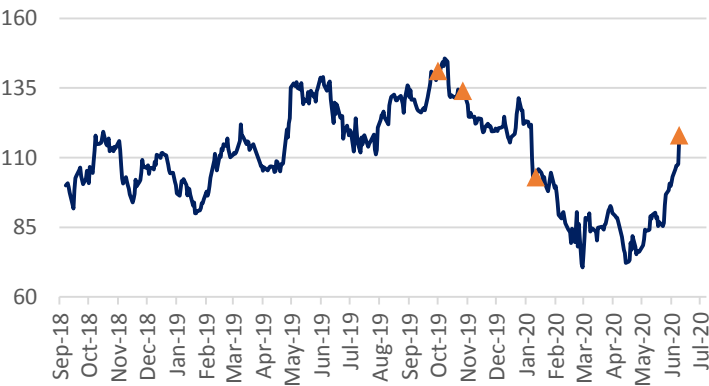
Key Risks:

- ☐ Delay in project execution.
- ☐ Slowdown in order inflows.
- ☐ Any adverse regulatory policy affecting pricing.



Rating and Target Price history:

BHE IN rating history & price chart



Source: Bloomberg, Anand Rathi Research

NOTE: Prices are as on 10 July 2020 close.

BHE IN rating details

Date	Rating	Target Price (₹)	Share Price (₹)
17-Oct-19	BUY	135	113
21-Nov-19	BUY	135	110
7-Feb-20	BUY	120	88
10-Jul-20	BUY	120	100

Source: Bloomberg, Anand Rathi Research



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