

Supply chain disruptions impact execution...

Bharat Electronics (BEL) reported revenues at ₹ 1671 crore, a decline of 20.5% YoY, below our estimate of ₹ 1740 crore on the back of supply chain disruption affecting execution. Absolute EBITDA for the quarter came in at ₹ 146.7 crore (vs. our estimate of ₹ 208.6 crore), down 57.9% YoY. While EBITDA margins declined ~780 bps YoY to 8.8% (below our estimate of 12%) owing to higher-than-expected other expenses & employee expenses. Consequently, PAT fell 73.6% YoY to ₹ 54.1 crore, impacted by slower execution, higher other expenses and lower other income, which declined 27.7% to ₹ 18.4 crore YoY.

Decent order inflows but sustained execution key to growth...

For Q1FY21, BEL received bagged decent orders to the tune of ~₹ 3420 crore, which included ~₹ 1200 crore order for ventilators, ~₹ 700 crore order on account of naval forces and smart city projects. BEL continues to have a strong order book and order inflows. Order book as on Q1FY21 was robust at ₹ 53752 crore (vs. ₹ 51970 crore in Q4FY20). However, overall order inflows in FY21E may get impacted by deferral in some projects amid economic challenges. Orders expected in FY21E include avionics package for light combat aircraft (LCA), naval fire control systems, electronic warfare system, radar systems, 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. For Q1FY21E, receivables increased to ~₹ 7100 crore (vs. ~₹ 6400 crore in Q4FY20) and will be closely watched. While Cash and cash equivalents for Q1FY21 decreased to ~₹ 1000 crore as on Q1FY21.

Valuation & Outlook

Overall, execution is expected to remain stable for FY21E while order inflows may get impacted in the medium term due to a delay or deferral in a few projects. 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 strong order book of ₹ 53752 crore continues to provide strong revenue visibility. We expect BEL to report revenue, EBITDA, PAT CAGR of 7.3%, 3.4%, 2.0%, respectively, in FY20-22E. We value BEL at 13.5x on FY22E EPS to arrive at a revised target price of ₹ 105. We maintain our **HOLD** rating. Any disappointment on execution front may significantly impact the operating performance of BEL.



Particulars

Particular	Amount
Market Capitalization	₹23879 Crore
Total Debt (FY 20)	₹49.5 Crore
Cash and Inv (FY 20)	₹1296.1 crore
EV (FY 20)	₹22632 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. Q1FY21 order inflows at ₹ 3420 crore with order book at ₹ 53752 crore
- New opportunities like homeland security, cyber security, 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 ₹ 105. Maintain HOLD rating

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Key Financial Summary

(₹ crore)	FY18	FY19	FY20P	FY21E	FY22E	CAGR (FY20E-22E)
Revenues	10,322	12,085	12,921	13,383	14,889	7.3
EBITDA	2,000	2,862	2,730	2,571	2,919	3.4
EBITDA margin (%)	19.4	23.7	21.1	19.2	19.6	
Net Profit	1,399	1,927	1,794	1,614	1,866.8	2.0
EPS (₹)	5.7	7.9	7.4	6.6	7.7	
P/E (x)	17.1	12.4	13.3	14.8	12.8	
EV/EBITDA (x)	11.6	8.1	8.3	8.8	7.5	
RoCE (%)	25.0	30.0	25.9	21.9	23.2	
RoE (%)	18.0	21.4	18.8	15.6	16.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Operating Income	1,671	1,740	2,101.5	-20.5	5,806	-71.2	Revenue impacted by slower execution amid lockdowns
Other income	18	31	25.4	-27.7	28	-35.0	
Total Revenue	1,689	1,771	2,127.0	-20.6	5,834.2	-71.1	
Raw materials costs	823	975	1,056.5	-22.1	3,313	-75.1	
Employees Expenses	512	412	524.2	-2.4	575	-11.0	
Other Expenses	189	145	172.8	9.3	436	-56.7	
Total Expenditure	1,524	1,531	1,753.4	-13.1	4,323	-64.8	
EBITDA	146.7	208.6	348.1	-57.9	1,482.6	-90.1	
EBITDA margins (%)	8.8	12.0	16.6	-779 bps	25.5	-1676 bps	Consequently, margins for Q1FY21 impacted by higher other expenses
Interest	0.1	0.0	0.3		1.6		
Depreciation	88.8	94.0	82.8	7.2	95.0	-6.6	
Tax	22.1	38.6	85.7	-74.2	379.7	-94.2	
PAT	54.1	107.2	204.7	-73.6	1,034.5	-94.8	

Source: Company, ICICI Direct Research

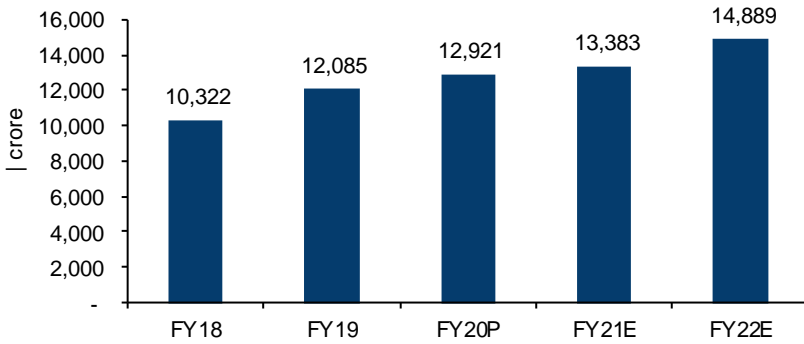
Exhibit 2: Change in estimates

	FY19	FY20P	FY21E			FY22E		
(₹Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,085	12,921	13,180	13,383	1.5	14,576	14,889	2.1
EBITDA	2,862	2,730	2,532	2,571	1.5	2,858	2,919	2.1
EBITDA Margin (%)	23.7	21.1	19.2	19.2	1 bps	19.6	19.6	1 bps
PAT	1,927	1,794	1,590	1,614	1.5	1,815	1,867	2.9
EPS (₹)	7.9	7.4	6.5	6.6	1.9	7.5	7.7	2.2

Source: Company, ICICI Direct Research

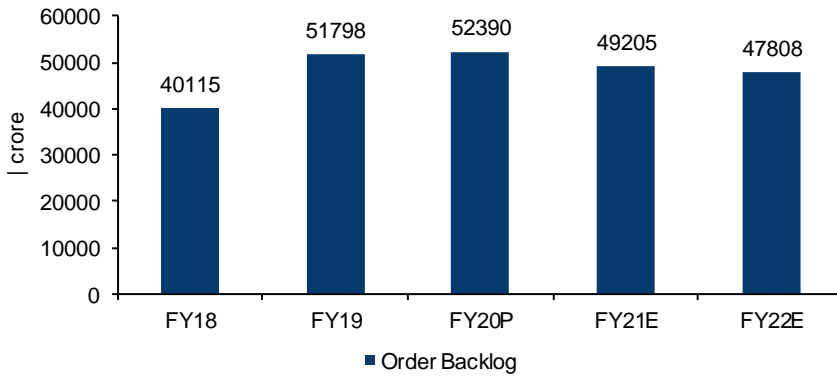
Financial story in charts

Exhibit 3: Revenue trend



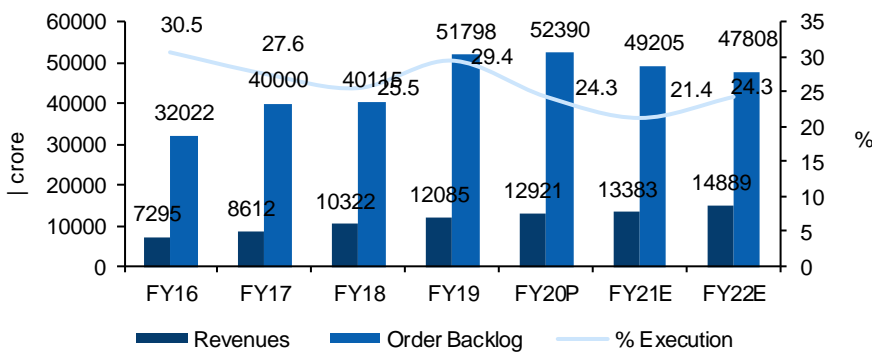
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



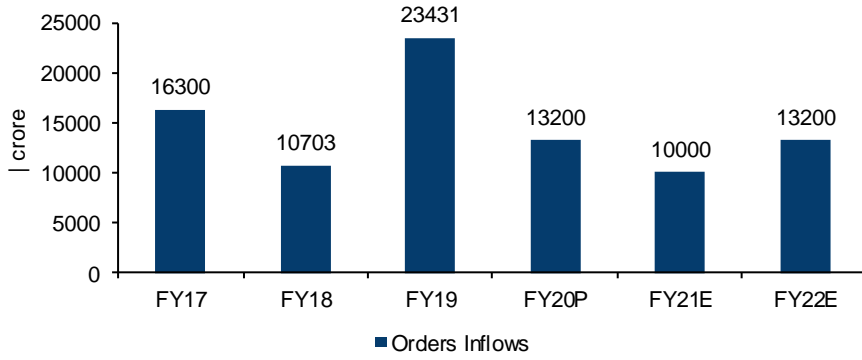
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



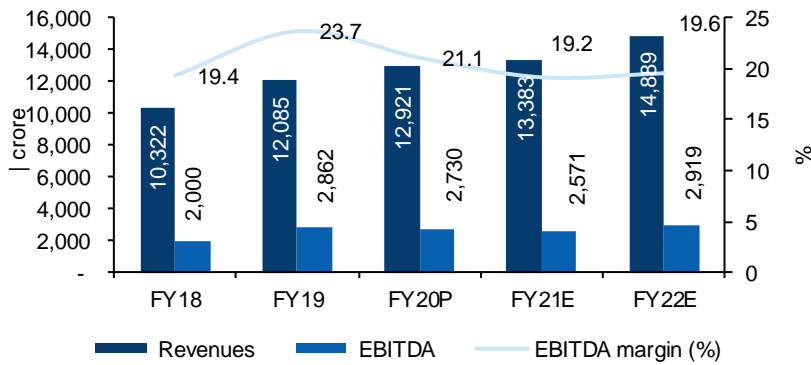
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



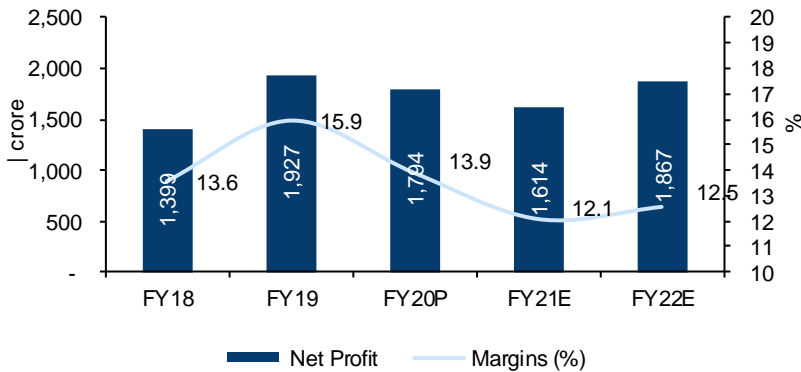
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



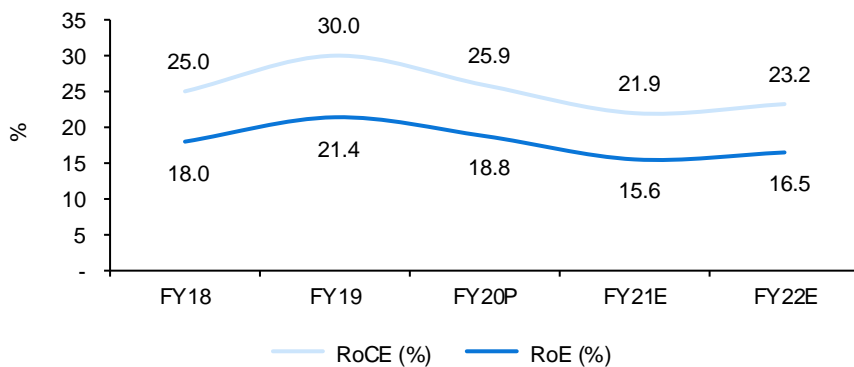
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



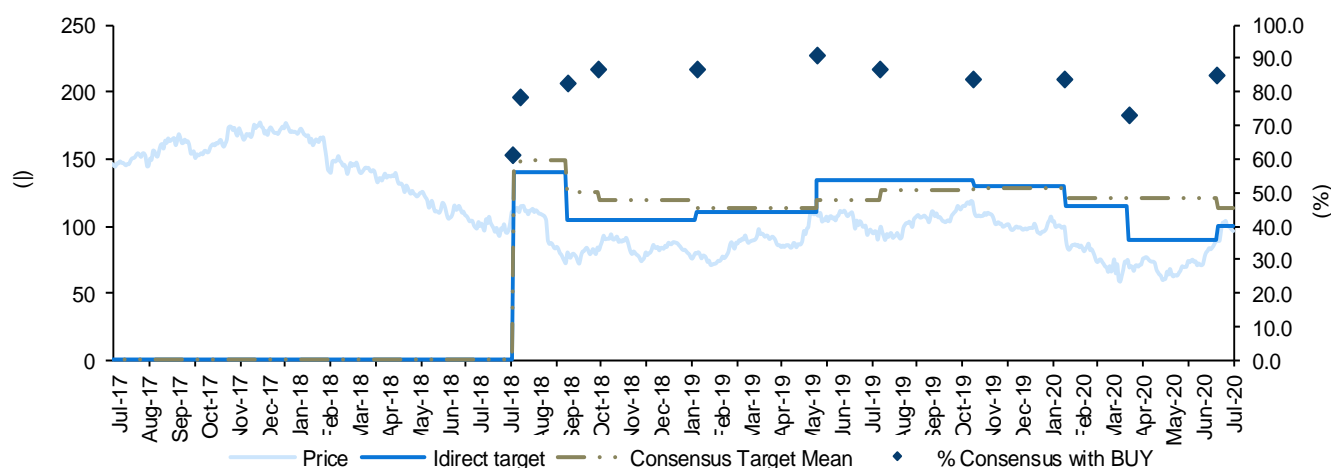
Source: Company, ICICI Direct Research

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	15-Jul-20	5.1	124.16m	(2.63)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	4.34m
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	30-Jun-20	2.0	49.52m	(4.22)m
10	Icici Prudential Ass	31-Mar-20	1.8	44.35m	4.60m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	58.8	55.9	55.3	51.1	51.1
FII	8.9	11.4	12.2	10.7	7.9
DII	21.9	25.0	25.3	30.2	32.2
Others	10.4	7.6	7.2	8.0	8.8

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	13,185	14,597
Other operating income	295	313	198	292
Revenue	12,085	12,921	13,383	14,889
% Growth		6.9	3.6	11.3
Other income	169.5	101.9	125.0	160.0
Total Revenue	12,254	13,030	13,383	14,889
% Growth		6.3	2.7	11.3
Total Raw Material Costs	5,948	7,105	7,384	8,145
Employee Expenses	1,879	2,058	2,202	2,335
other expenses	1,396	1,028	1,226	1,489
Total Operating Expenditure	9,223	10,191	10,812	11,969
Operating Profit (EBITDA)	2,862	2,730	2,571	2,919
% Growth		(4.6)	(5.8)	13.5
Interest	12	3	18	18
PBDT	3,019	2,829	2,678	3,061
Depreciation	316	350	415	454
PBT before Exceptional Item	2,703	2,479	2,263	2,607
Total Tax	776	685	650	740
PAT before MI	1,927	1,794	1,614	1,867
Minority Interest	-	-	-	-
PAT	1,927	1,794	1,614	1,867
% Growth		(6.9)	(10.0)	15.7
EPS	7.9	7.4	6.6	7.7

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	10,106	11,037
Total Shareholders funds	9,019	9,546	10,350	11,281
Other Non Current Liabilities	4.8	1.1	1.1	1.1
Total Debt	31	50	50	31
Total Liabilities	9,116	9,665	10,470	11,381
Gross Block	2,697	3,071	3,523	3,773
Acc: Depreciation	613	962	1,377	1,831
Net Block	2,084	2,108	2,146	1,942
Capital WIP	721	683	400	600
Total Fixed Assets	2,806	2,791	2,546	2,542
Non Current Assets	1,814	2,061	2,061	2,061
Inventory	4,455	3,963	4,693	4,936
Debtors	5,600	6,974	7,553	7,954
Loans and Advances	1,370	1,534	1,534	1,534
Other Current Assets	1,830	2,326	2,369	2,457
Cash	829	1,296	1,301	1,961
Total Current Assets	15,844	18,039	19,397	20,788
Current Liabilities	2,474	2,645	2,713	3,019
Provisions	1,380	1,380	1,587	1,612
Total Current Liabilities	11,348	13,226	13,535	14,010
Net Current Assets	4,496	4,813	5,862	6,778
Total Assets	9,116	9,665	10,470	11,381

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement				
₹ crore				
(₹Crore)	FY19	FY20P	FY21E	FY22E
Profit after Tax	1,927	1,794	1,614	1,867
Depreciation	316	350	415	454
Interest	12	3	18	18
Cash Flow before WC change	2,256	2,147	2,047	2,339
Changes in inventory	321	492	(731)	(242)
Changes in debtors	105	(1,374)	(579)	(401)
Changes in loans & Advances	(1,343)	(164)	-	-
Changes in other current assets	(299)	(496)	(43)	(88)
Net Increase in Current Assets	(1,327)	(1,728)	(1,353)	(731)
Changes in creditors	226	171	68	305
Changes in provisions	119	-	208	25
Net Inc in Current Liabilities	663	1,879	309	475
Net CF from Operating activities	1,592	2,297	1,002	2,083
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)	(777)	(899)
Net CF from Financing Activities	(686)	(1,251)	(827)	(973)
Net Cash flow	98	467	5	660
Opening Cash/Cash Equivalents	731	829	1,296	1,301
Closing Cash/ Cash Equivalents	829	1,296	1,301	1,961

*calculated, Source: Company, ICICI Direct Research

Exhibit 16: Key ratios				
(Year-end March)	FY19	FY20P	FY21E	FY22E
EPS	7.9	7.4	6.6	7.7
Cash per Share	3.4	5.3	5.3	8.0
BV	37.0	39.2	42.5	46.3
Dividend per share	3.4	4.2	2.6	3.1
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	12.8
RoE	21.4	18.8	15.6	16.5
RoCE	30.0	25.9	21.9	23.2
RoIC	31.0	28.7	23.7	26.4
EV / EBITDA	8.1	8.3	8.8	7.5
P/E	12.4	13.3	14.8	12.8
EV / Net Sales	1.9	1.8	1.7	1.5
Sales / Equity	1.3	1.4	1.3	1.3
Market Cap / Sales	2.0	1.8	1.8	1.6
Price to Book Value	2.6	2.5	2.3	2.1
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	3.6
Quick Ratio	2.3	2.7	2.7	2.6

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: < -15%



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