

July 29, 2020

Q1FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	HOLD		HOLD	
Target Price	99		90	
Sales (Rs. m)	1,41,578	1,54,738	1,31,298	1,49,719
% Chng.	7.8	3.4		
EBITDA (Rs. m)	27,169	30,468	25,196	29,480
% Chng.	7.8	3.4		
EPS (Rs.)	7.6	8.5	7.0	8.1
% Chng.	9.3	4.0		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,29,211	1,29,775	1,41,578	1,54,738
EBITDA (Rs. m)	27,301	22,698	27,169	30,468
Margin (%)	21.1	17.5	19.2	19.7
PAT (Rs. m)	17,938	15,228	18,518	20,640
EPS (Rs.)	7.4	6.2	7.6	8.5
Gr. (%)	(6.9)	(15.1)	21.6	11.5
DPS (Rs.)	2.4	2.0	2.4	2.7
Yield (%)	2.4	2.1	2.5	2.8
RoE (%)	19.0	14.7	16.1	16.1
RoCE (%)	25.2	18.4	19.9	19.9
EV/Sales (x)	1.7	1.7	1.5	1.4
EV/EBITDA (x)	7.8	9.8	8.0	7.2
PE (x)	13.2	15.6	12.8	11.5
P/BV (x)	2.4	2.2	2.0	1.8

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.122 / Rs.56
Sensex / Nifty	38,071 / 11,203
Market Cap	Rs.237bn/ \$ 3,174m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.3058.49m

Shareholding Pattern (%)

Promoter's	55.14
Foreign	7.86
Domestic Institution	32.22
Public & Others	4.78
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	11.3	(3.1)	5.1
Relative	2.2	4.9	4.0

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Strong order book, healthy performance

Quick Pointers:

- Regardless of pandemic BEL reported decent order inflows of Rs34.2bn which includes Ventilators, Advance Torpedo Defense Systems and Smart cities.
- BEL continues to maintain healthy cash balance of Rs10bn (vs Rs15bn in Mar'20); reduced largely towards deferred payment of LRSAM project.

Bharat Electronics (BEL) reported a strong quarter higher than our and street estimates. Revenues came in at Rs16.9bn led by strong execution in Ventilators, part supply of Long Range Surface to Air Missile System, Spares & Services, Smart City, Intelligence gathering system, Thermal Imaging Cameras and Radars repairs. Gross margins expanded by 100bps led by better product mix and lower input expenses. Order Inflows grew by 72% YoY mainly comprising of ventilators(~Rs13bn), advance torpedo defense systems (~Rs8bn) and smart city projects (~Rs4bn). Currently order book stands at Rs538bn (up 4% YoY), of which ~90% belongs to defense related products while balance 10% is contributed by homeland and smart city. Given strong 1Q performance, management maintained its 8-10% revenue guidance for FY21E with stable gross margins in 43-45% range.

We see a short term impact on execution due to pandemic and a medium term impact on OI's due to deferment of few orders. Thus, we expect flattish revenue growth with revenue and PAT at Rs130bn/Rs142bn and Rs15bn/18.5bn for FY21E/22E respectively. The stock is currently trading at 16.2x/13.9x FY21E/ 22E. We maintain Hold rating with a revised TP of Rs99.

Strong performance on all fronts: Sales came in at ~Rs16.7bn (down 21% YoY vs PLe ~Rs18.7bn) impacted due to supply-chain disruption on account of lockdown. EBITDA decreased by 58% YoY to Rs1.5bn (PLe ~Rs777mn). EBITDA margins contracted by 780bps coming in at 8.8% vs 16.6% in 1QFY20 on account of higher other expenses (up 9% YoY). PBT was down by 74% YoY to Rs762mn due to higher depreciation cost (up 7% YoY) and lower other income (down 28% YoY). PAT came in at Rs541mn (PLe Rs33mn), down 74% YoY.

Strong Order book provides revenue visibility: Order inflows for the quarter stood at Rs34.2bn up 72% YoY mainly driven by Ventilators, Advance torpedo defense systems and smart city orders. Akash Missiles order(~Rs53.57bn) bagged during 2QFY20 is expected to commence by the end of FY21E, which would be in addition to the execution of LRSAM order. Order book remains robust at Rs538bn (up 4% YoY) providing revenue visibility for next 2-3 years.

Orders expected during FY21E: Electronics Warfare Systems, Avionics Package for Light Combat Aircraft (~Rs10bn), Naval Fire Control System and Radar Systems (Rs20bn), various upgradation orders (~Rs30bn) are some of the orders expected during FY21E.

Exhibit 1: Q1FY21 Result Overview (Rs mn)- Gross Margin expansion led by better product mix

Y/e March	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY gr. (%)	QoQ gr. (%)	FY21E	FY20	YoY gr. (%)
Revenue	21,015	27,427	22,710	58,058	16,706	(20.5)	(71.2)	1,29,775	1,29,211	0.4
Total Revenues	21,015	27,427	22,710	58,058	16,706	(20.5)	(71.2)	1,29,775	1,29,211	0.4
Expenditure	17,534	21,980	19,163	43,233	15,239	(13.1)	(64.8)	1,07,078	1,01,910	5.1
<i>as % of sales</i>	<i>83.4</i>	<i>80.1</i>	<i>84.4</i>	<i>74.5</i>	<i>91.2</i>			<i>82.5</i>	<i>78.9</i>	
Consumption of RM	10,565	14,599	12,758	33,130	8,234	(22.1)	(75.1)	70,079	71,052	(1.4)
<i>as % of sales</i>	<i>50.3</i>	<i>53.2</i>	<i>56.2</i>	<i>57.1</i>	<i>49.3</i>			<i>54.0</i>	<i>55.0</i>	
Employee Cost	5,242	5,073	4,513	5,747	5,117	(2.4)	(11.0)	25,955	20,575	26.1
<i>as % of sales</i>	<i>24.9</i>	<i>18.5</i>	<i>19.9</i>	<i>9.9</i>	<i>30.6</i>			<i>20.0</i>	<i>15.9</i>	
Other expenditure	1,728	2,308	1,892	4,356	1,888	9.3	(56.7)	11,044	10,283	7.4
<i>as % of sales</i>	<i>8.2</i>	<i>8.4</i>	<i>8.3</i>	<i>7.5</i>	<i>11.3</i>			<i>8.5</i>	<i>8.0</i>	
EBITDA	3,481	5,447	3,547	14,826	1,467	(57.9)	(90.1)	22,698	27,301	(16.9)
Depreciation	828	857	861	950	888	7.2	(6.6)	3,657	3,496	4.6
EBIT	2,653	4,591	2,686	13,875	579	(78.2)	(95.8)	19,041	23,805	(20.0)
Other Income	254	150	332	283	184	(27.7)	(35.0)	1,298	1,019	27.3
Interest	3	12	1	16	1	(78.1)	(95.7)	34	33	5.0
PBT	2,904	4,729	3,017	14,142	762	(73.7)	(94.6)	20,304	24,792	(18.1)
Total Tax	857	1,334	866	3,797	221	(74.2)	(94.2)	5,076	6,853	(25.9)
Adjusted PAT	2,047	3,395	2,151	10,345	541	(73.6)	(94.8)	15,228	17,938	(15.1)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	2,047	3,395	2,151	10,345	541	(73.6)	(94.8)	15,228	17,938	(15.1)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	2,047	3,395	2,151	10,345	541	(73.6)	(94.8)	15,228	17,938	(15.1)
Adjusted EPS	0.8	1.4	0.9	4.2	0.2	(73.6)	(94.8)	6.2	7.4	(15.1)
Margins (%)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	bps	bps	FY21E	FY20	bps
EBIDTA	16.6	19.9	15.6	25.5	8.8	(778)	(1,675)	17.5	21.1	(364)
EBIT	12.6	16.7	11.8	23.9	3.5	(916)	(2,043)	14.7	18.4	(375)
EBT	13.8	17.2	13.3	24.4	4.6	(925)	(1,979)	15.6	19.2	(354)
PAT	9.7	12.4	9.5	17.8	3.2	(650)	(1,458)	11.7	13.9	(215)
Effective Tax rate	29.5	28.2	28.7	26.8	29.0	(50)	215	25.0	27.6	(264)

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,29,211	1,29,775	1,41,578	1,54,738
YoY gr. (%)	6.9	0.4	9.1	9.3
Cost of Goods Sold	71,052	70,079	76,452	83,558
Gross Profit	58,160	59,697	65,126	71,179
Margin (%)	45.0	46.0	46.0	46.0
Employee Cost	20,575	25,955	25,484	27,853
Other Expenses	6,727	7,787	9,203	9,284
EBITDA	27,301	22,698	27,169	30,468
YoY gr. (%)	(4.6)	(16.9)	19.7	12.1
Margin (%)	21.1	17.5	19.2	19.7
Depreciation and Amortization	3,496	3,657	4,297	4,937
EBIT	23,805	19,041	22,872	25,531
Margin (%)	18.4	14.7	16.2	16.5
Net Interest	33	34	36	38
Other Income	1,019	1,298	1,855	2,027
Profit Before Tax	24,792	20,304	24,691	27,520
Margin (%)	19.2	15.6	17.4	17.8
Total Tax	6,853	5,076	6,173	6,880
Effective tax rate (%)	27.6	25.0	25.0	25.0
Profit after tax	17,938	15,228	18,518	20,640
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	17,938	15,228	18,518	20,640
YoY gr. (%)	(6.9)	(15.1)	21.6	11.5
Margin (%)	13.9	11.7	13.1	13.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	17,938	15,228	18,518	20,640
YoY gr. (%)	(6.9)	(15.1)	21.6	11.5
Margin (%)	13.9	11.7	13.1	13.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	17,938	15,228	18,518	20,640
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	7.4	6.2	7.6	8.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	37,713	45,713	53,713	61,713
Tangibles	37,713	45,713	53,713	61,713
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,747	16,404	20,701	25,638
Tangibles	12,747	16,404	20,701	25,638
Intangibles	-	-	-	-
Net fixed assets	24,966	29,309	33,012	36,075
Tangibles	24,966	29,309	33,012	36,075
Intangibles	-	-	-	-
Capital Work In Progress	7,059	7,059	7,059	7,059
Goodwill	-	-	-	-
Non-Current Investments	13,048	13,947	14,689	15,475
Net Deferred tax assets	4,974	4,974	4,974	4,974
Other Non-Current Assets	3,408	4,542	4,247	4,642
Current Assets				
Investments	-	-	-	-
Inventories	39,628	46,221	48,486	59,351
Trade receivables	58,410	63,999	67,880	72,070
Cash & Bank Balance	23,263	15,766	20,010	19,515
Other Current Assets	63,321	67,483	70,789	72,727
Total Assets	2,34,137	2,49,625	2,67,589	2,88,462
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	96,093	1,06,448	1,19,040	1,33,075
Total Network	98,529	1,08,885	1,21,477	1,35,512
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	15,930	17,777	19,394	21,197
Other current liabilities	1,24,651	1,27,937	1,31,692	1,36,727
Total Equity & Liabilities	2,34,137	2,49,625	2,67,589	2,88,462

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	24,792	20,304	24,691	27,520
Add. Depreciation	3,496	3,657	4,297	4,937
Add. Interest	33	34	36	38
Less Financial Other Income	1,019	1,298	1,855	2,027
Add. Other	-	-	-	-
Op. profit before WC changes	28,321	23,995	29,024	32,495
Net Changes-WC	12,352	(12,897)	(4,003)	(10,793)
Direct tax	(6,853)	(5,076)	(6,173)	(6,880)
Net cash from Op. activities	33,819	6,023	18,848	14,822
Capital expenditures	(9,504)	(8,612)	(8,642)	(8,674)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
Net Cash from Inv. activities	(9,504)	(8,612)	(8,642)	(8,674)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(6,911)	(4,873)	(5,926)	(6,605)
Interest paid	(33)	(34)	(36)	(38)
Others	(2,949)	-	-	-
Net cash from Fin. activities	(9,893)	(4,907)	(5,962)	(6,643)
Net change in cash	14,423	(7,496)	4,244	(495)
Free Cash Flow	26,355	(1,977)	10,848	6,822

Source: Company Data, PL Research

Key Financial Metrics

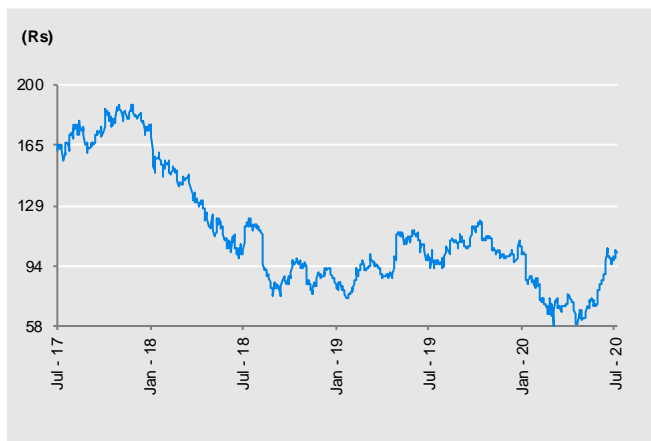
Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.4	6.2	7.6	8.5
CEPS	8.8	7.8	9.4	10.5
BVPS	40.4	44.7	49.9	55.6
FCF	10.8	(0.8)	4.5	2.8
DPS	2.4	2.0	2.4	2.7
Return Ratio(%)				
RoCE	25.2	18.4	19.9	19.9
ROIC	24.2	16.2	18.0	17.6
RoE	19.0	14.7	16.1	16.1
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.2)	(0.1)
Net Working Capital (Days)	232	260	250	260
Valuation(x)				
PER	13.2	15.6	12.8	11.5
P/B	2.4	2.2	2.0	1.8
P/CEPS	11.1	12.6	10.4	9.3
EV/EBITDA	7.8	9.8	8.0	7.2
EV/Sales	1.7	1.7	1.5	1.4
Dividend Yield (%)	2.4	2.1	2.5	2.8

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	27,427	22,710	58,058	16,706
YoY gr. (%)	(18.9)	(16.4)	49.5	(20.5)
Raw Material Expenses	14,599	12,758	33,130	8,234
Gross Profit	12,828	9,952	24,929	8,472
Margin (%)	46.8	43.8	42.9	50.7
EBITDA	5,447	3,547	14,826	1,467
YoY gr. (%)	(36.2)	(53.8)	59.6	(57.9)
Margin (%)	19.9	15.6	25.5	8.8
Depreciation / Depletion	857	861	950	888
EBIT	4,591	2,686	13,875	579
Margin (%)	16.7	11.8	23.9	3.5
Net Interest	12	1	16	1
Other Income	150	332	283	184
Profit before Tax	4,729	3,017	14,142	762
Margin (%)	17.2	13.3	24.4	4.6
Total Tax	1,334	866	3,797	221
Effective tax rate (%)	28.2	28.7	26.8	29.0
Profit after Tax	3,395	2,151	10,345	541
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	3,395	2,151	10,345	541
YoY gr. (%)	(40.6)	(57.6)	54.7	(73.6)
Margin (%)	12.4	9.5	17.8	3.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,395	2,151	10,345	541
YoY gr. (%)	(40.6)	(57.6)	54.7	(73.6)
Margin (%)	12.4	9.5	17.8	3.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,395	2,151	10,345	541
Avg. Shares O/s (m)	2,234	2,234	2,234	2,234
EPS (Rs)	1.5	1.0	4.6	0.2

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	90	104
2	01-Jul-20	Hold	90	89
3	16-Apr-20	Hold	89	70
4	31-Jan-20	Hold	108	101
5	03-Jan-20	Hold	118	101
6	05-Nov-19	Hold	118	113
7	03-Oct-19	Accumulate	128	105
8	17-Sep-19	Accumulate	120	108
9	30-Jul-19	Accumulate	120	98

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	264	215
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	90	104
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	111
7	Container Corporation of India	Accumulate	468	434
8	Cummins India	BUY	472	411
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	261	258
16	KEC International	BUY	296	275
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	33
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,157
24	Thermax	Accumulate	798	760
25	Triveni Turbine	BUY	83	75
26	Voltamp Transformers	BUY	1,244	1,132

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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