

Retail Equity Research (South India Focus)

# Bharat Electronics Ltd

Defence Electronics

BSE CODE : 500049      NSE CODE: BEL  
BLOOMBERG CODE: BHE:IN      SENSEX : 37,607

**BUY**

12M Investment Period

Rating as per Large Cap

**CMP Rs96    TARGET Rs 112    RETURN 17%** ↑  
(Closing: 31-07-20)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↓

## Execution impacted...strong order inflow

Bharat Electronics Ltd (BEL) is a Navaratna enterprise having 37% market share in Indian Defence Electronics. BEL's core capabilities are in radar & weapons systems, defence communication & electronic warfare.

- Q1FY21 Revenue & PAT declined by 21% & 74% YoY on account of disruptions due to lockdown.
- EBITDA declined by 58% YoY and margin fell by 780bps YoY to 8.8% due to weak execution.
- Order inflow grew by 72% led by Ventilators, smart city projects and Advance Torpedo defence systems.
- The current order backlog is Rs53,752cr (4.3x FY20 sales) provides strong earning visibility for next 3 years.
- We continue to remain constructive on BEL in long term given its niche technological & execution capabilities and government focus on indigenisation.
- Given strong order book visibility and stable order inflow, we maintain "Buy" rating on stock. We value BEL at 13x on FY22E with a revised target price of Rs112.

## Order backlog provides strong visibility

Order inflow for Q1FY21 grew by 72% YoY to Rs3,419cr. Key orders booked during the year include: Ventilators, Advanced torpedo defence systems and smart city projects. The current order backlog is at Rs53,732cr, which 4.3x FY20 sales, provides significant visibility for next 3 years. Further, order pipeline remains strong and the expected order include Electronic warfare systems, Avionics package for light combat aircraft, Naval fire control systems and Radars.

## Execution impacted by disruptions...

Q1FY21 revenue declined by 21% YoY, was impacted by lower than expected execution in core business. However, revenue was supported by execution of Ventilators orders, part supply of LRSM (Long range surface to Air missile system), Radar repair, spare & service for various projects, thermal image cameras and smart city products. The export revenue was USD 1.89mn during the quarter. We expect gradual pick-up in execution going forward as current disruptions ease from H2FY21E. We lower our revenue estimates by 16% for FY21E to factor in the near term impact. We expect revenue to grow by 10% CAGR over FY20-22E.

## EBITDA margin declines...

Gross margin improved by 100bps YoY led by higher contribution from better margin products and higher indigenous content. However, EBITDA declined by 58% YoY and margin by 780bps YoY to 8.8% on account of negative operating leverage. PAT declined by 74% YoY to Rs54cr. We lower our EBITDA margins estimates by 260bps to factor in the impact of Q1FY21. Consequently, our EPS estimates stand increased by 26% for FY21E and we expect earnings to grow by 9% CAGR over FY20-22E.

## Valuations

Despite weak execution we continue to maintain our positive stance on BEL given its strong order backlog and strong order pipeline which is providing clear visibility for next 3 years. Further, expectation of higher defence spending given increasing focus on defence modernisation and indigenous procurement, we value BEL at 13x on FY22E and maintain Buy rating, with a target price of Rs112.

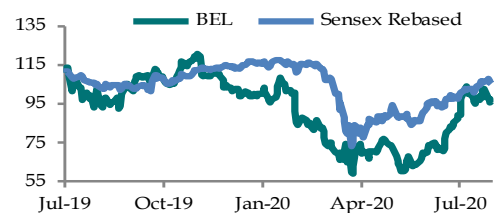
## Company Data

Market Cap (cr)	Rs.23,004
Enterprise Value (cr)	Rs.21,448
Outstanding Shares (cr)	244
Free Float	49.0%
Dividend Yield	4.3%
52 week high	Rs.122
52 week low	Rs.56
6m average volume (cr)	0.3
Beta	1.0
Face value	Rs. 1

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	55.3	51.1	51.1
FII's	12.2	10.7	7.9
MFs/Institutions	25.3	30.2	32.2
Public	5.8	6.0	6.8
Others	1.4	1.9	2.0
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	42.0%	13.1%	-2.9%
Absolute Sensex	18.6%	-5.4%	1.6%
Relative Return*	23.4%	18.5%	-4.5%

\*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	12,921	1,3,368	15,731
Growth (%)	6.9	3.5	17.7
EBITDA	2730	2460	3146
EBITDA Margin(%)	21.1	18.4	20.0
Adjusted PAT	1,794	1,633	2,127
Growth (%)	(6.9)	(9.0)	30.3
Adjusted EPS	7.4	6.7	8.7
Growth (%)	(6.9)	(9.0)	30.0
P/E	13.0	14.3	11.0
P/B	2.4	2.2	2.0
EV/EBITDA	7.9	8.9	6.7
ROE (%)	19.0	16.0	19.2
D/E	0.0	0.0	0.0

Anil R  
Research Analyst

## Quarterly Financials (Consolidated)

### Profit & Loss

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
<b>Sales</b>	<b>1,671</b>	<b>2,102</b>	<i>(20.5)</i>	<b>5,806</b>	<i>(71.2)</i>
<b>EBITDA</b>	<b>147</b>	<b>348</b>	<i>(57.0)</i>	<b>1,483</b>	<i>(90.1)</i>
EBITDA margins	<b>8.8</b>	<b>16.6</b>	<i>(780bps)</i>	<b>25.5</b>	<i>(1680bps)</i>
Depreciation	89	83	7.2	95	(6.6)
<b>EBIT</b>	<b>58</b>	<b>265</b>	<i>(78.2)</i>	<b>1,388</b>	<i>(96.0)</i>
Interest	-	-	-	2	-
Other Income	18	25	<i>(28.0)</i>	28	<i>(35.0)</i>
Exceptional Items	-	-	-	-	-
<b>PBT</b>	<b>76</b>	<b>290</b>	<i>(74.0)</i>	<b>1,414</b>	<i>(95.0)</i>
Tax	22	86	<i>(74.2)</i>	380	<i>(94.2)</i>
Share of profit from Associate	-	-	-	-	-
Minority Interest	-	-	-	-	-
<b>Reported PAT</b>	<b>54</b>	<b>205</b>	<i>(73.6)</i>	<b>1,035</b>	<i>(95.0)</i>
Adjustments	-	-	-	-	-
<b>Adjusted PAT</b>	<b>54</b>	<b>205</b>	<i>(73.6)</i>	<b>1,035</b>	<i>(95.0)</i>
No. of Shares	<b>243.7</b>	<b>243.7</b>	-	<b>243.7</b>	-
<b>EPS (Rs)</b>	<b>0.22</b>	<b>4.2</b>	<i>(73.6)</i>	<b>4.3</b>	<i>(95.0)</i>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY21E	FY22E	FY21E	FY22E	
Revenue	15,950	13,368	15,731	<i>(16.2)</i>	-	
EBITDA	3,349	2,460	3,146	<i>(27.0)</i>	-	
Margins (%)	21.0	18.4	20.0	<i>(260bps)</i>	-	
Adj. PAT	2,197	1,633	2,127	<i>(26.0)</i>	-	
EPS	9.0	6.7	8.7	<i>(26.0)</i>	-	

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Sales</b>	<b>10,322</b>	<b>12,085</b>	<b>12,921</b>	<b>13,368</b>	<b>15,731</b>
% change	19.9	17.1	6.9	3.5	17.7
<b>EBITDA</b>	<b>2,000</b>	<b>2,862</b>	<b>2,730</b>	<b>2,460</b>	<b>3,146</b>
% change	13.5	43.1	(4.6)	(9.9)	27.9
Depreciation	251	316	350	391	430
EBIT	1,749	2,546	2,380	2,069	2,716
Interest	1	12	3	3	3
Other Income	200	170	102	111	123
<b>PBT</b>	<b>1,948</b>	<b>2,703</b>	<b>2,479</b>	<b>2,177</b>	<b>2,836</b>
% change	(4.0)	38.8	(8.3)	(12.2)	30.3
Tax	549	776	685	544	709
Tax Rate (%)	28.2	28.7	27.6	25.0	25.0
<b>Reported PAT</b>	<b>1,401</b>	<b>1,927</b>	<b>1,794</b>	<b>1,633</b>	<b>2,127</b>
Adj.*	(2)	-	-	-	-
<b>Adj. PAT</b>	<b>1,399</b>	<b>1,927</b>	<b>1,794</b>	<b>1,633</b>	<b>2,127</b>
% change	(9.6)	37.7	(6.9)	(9.0)	30.3
No. of shares (cr)	243.7	243.7	243.7	243.7	243.7
<b>Adj EPS (Rs)</b>	<b>5.7</b>	<b>7.9</b>	<b>7.4</b>	<b>6.7</b>	<b>8.7</b>
% change	(17.1)	37.7	(6.9)	(9.0)	30.3
DPS (Rs)	3.1	2.5	4.0	4.0	4.0
CEPS (Rs)	6.8	9.2	8.8	8.3	10.5

### BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	738	722	1,556	1,073	1,962
Accounts Receivable	5,050	5,369	6,023	7,142	7,542
Inventories	4,739	4,455	3,963	4,567	5,405
Other Cur. Assets	4,222	5,621	7,466	7,695	9,055
Investments	903	1,019	1,223	1,223	1,223
Gross Fixed Assets	2,216	2,985	3,771	4,371	4,871
Net Fixed Assets	1,604	2,060	2,497	2,706	2,776
CWIP	395	275	199	300	300
Intangible Assets	440	471	506	506	506
Def. Tax (Net)	431	471	497	497	497
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>18,523</b>	<b>20,463</b>	<b>23,911</b>	<b>25,709</b>	<b>29,267</b>
Current Liabilities	2,350	2,633	3,306	3,611	4,176
Provisions	1,260	1,380	1,476	1,502	1,767
Debt Funds	33	-	-	-	-
Other Liabilities	7,118	7,432	9,276	10,090	11,669
Equity Capital	244	244	244	244	244
Reserves & Surplus	7,517	8,775	9,609	10,263	11,441
Shareholder's Fund	7,761	9,019	9,853	10,506	11,654
<b>Total Liabilities</b>	<b>18,523</b>	<b>20,463</b>	<b>23,911</b>	<b>25,709</b>	<b>29,267</b>
BVPS	32	37	40	43	48

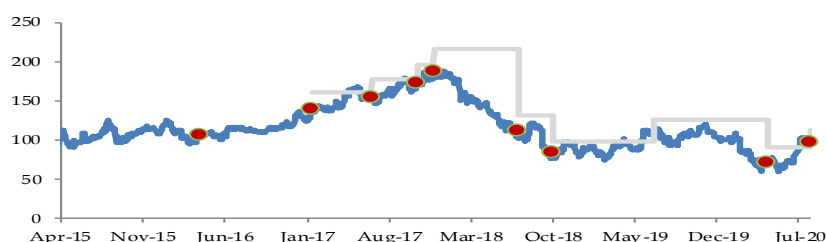
### CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	1,399	1,927	1,794	1,633	2,127
Non-cash adj.	(25)	318	437	283	310
Changes in W.C	(2,163)	(747)	301	(827)	(189)
<b>C.F. Operation</b>	<b>(789)</b>	<b>1,498</b>	<b>2,533</b>	<b>1,088</b>	<b>2,248</b>
Capital exp.	(778)	(738)	(726)	(701)	(500)
Change in inv.	662	(277)	19	-	-
Other invest.CF	159	129	69	111	123
<b>C.F - Investment</b>	<b>41</b>	<b>(886)</b>	<b>(639)</b>	<b>(589)</b>	<b>(377)</b>
Issue of equity	(372)	-	-	-	-
Issue/repay debt	(9)	(82)	(80)	(3)	(3)
Dividends paid	(819)	(546)	(979)	(979)	(979)
Other finance.CF	-	-	-	-	-
<b>C.F - Finance</b>	<b>(1,201)</b>	<b>(628)</b>	<b>(1,059)</b>	<b>(983)</b>	<b>(983)</b>
Chg. in cash	(1,948)	(16)	834	(484)	889
Closing cash	738	722	1,556	1,073	1,962

### RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
<b>Profitab &amp; Return</b>					
EBITDA margin (%)	19.4	23.7	21.1	18.4	20.0
EBIT margin (%)	16.9	21.1	18.4	15.5	17.3
Net profit mgn.(%)	13.6	15.9	13.9	12.2	13.5
ROE (%)	18.3	23.0	19.0	16.0	19.2
ROCE (%)	19.6	22.8	19.0	16.1	19.2
<b>W.C &amp; Liquidity</b>					
Receivables (days)	166.3	157.3	160.9	179.7	170.4
Inventory (days)	319.1	282.1	216.2	200.8	203.0
Payables (days)	150.6	152.9	152.6	162.8	158.5
Current ratio (x)	4.1	4.0	4.0	4.0	4.0
Quick ratio (x)	2.5	2.3	2.3	2.3	2.3
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	5.4	4.6	3.8	3.3	3.4
Total asset T.O (x)	0.6	0.6	0.6	0.5	0.6
Int. covge. ratio (x)	1377	208.5	730.2	634.6	833.3
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	2.2	1.8	1.7	1.6	1.3
EV/EBITDA (x)	11.2	7.8	7.9	8.9	6.7
P/E (x)	16.7	12.1	13.0	14.3	11.0
P/BV (x)	3.0	2.6	2.4	2.2	2.0

## Recommendation summary



Dates	Rating	Target
28-March-16	BUY	127
31-January-17	BUY	160
19-June-17	BUY	177
13-October-17	BUY	195
26-December-17	BUY	216
06-July-18	BUY	131
03-October-18	BUY	97
11-February-19	BUY	94
19-June-19	BUY	126
15-April-20	BUY	90
03-August-20	BUY	112

Source: Bloomberg, Geojit Research.

## Investment Criteria

Ratings	Large caps	Midcaps	Small caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10% - 15%	Upside is between 10% - 20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated</b>	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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