

Strong all-round performance...

Bharat Electronics (BEL) reported revenues at ₹ 3189 crore, growth of 16.3% YoY, above our estimate of ₹ 2502 crore on the back of normalising supply chain, Ventilator order and business operations leading to execution pick-up. Absolute EBITDA for the quarter was at ₹ 623.4 crore (vs. our estimate of ₹ 329.4 crore) up 14.4% YoY. EBITDA margin was better than estimate at 19.6% (above our estimate of 13.2%) down marginally by ~30 bps YoY, owing to controlled operating expenses, better than expected execution. Hence, PAT came in at ₹ 397 crore, up 16.9% owing to better execution, higher other income, which grew 82% to ₹ 27 crore on a YoY basis.

Decent order inflows, sustainable execution key to growth...

For Q2FY21, BEL received bagged decent orders of ~₹ 1561 crore (₹ 4981 crore for H1FY21), which included advanced composite communications systems, electronic warfare system, naval fire control system and 3D surveillance radar. BEL continues to have a strong order book and order inflows. Order book as on Q2FY21 was robust at ₹ 52148 crore (vs. ₹ 53751 crore in Q1FY21). However, overall order inflows in FY21E may get impacted by deferral in some projects amid economic and fiscal challenges. Orders expected in H2FY21E include avionics package for light combat aircraft (LCA), Akash weapon system (Army), electronic warfare system, smart city business, etc. Going ahead, further pick-up in execution and a favourable product mix would help BEL stabilise base EBITDA margins at ~19-20%.

Operating performance, working capital 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 sustained execution in FY21E would lead to a steady operational performance. Cash & cash equivalents for Q2FY21 increased to ~₹ 1124 crore (vs. ~₹ 1000 crore as on Q1FY21).

Valuation & Outlook

Overall, BEL reported strong execution for Q2FY21 and is expected to maintain the momentum stable for H2FY21E while order inflows may get impacted in the medium term due to a delay or deferral in a few projects but overall expected to be decent in current environment. BEL is likely to continue its focus to increase contribution from non-defence segment to ~20%, albeit with lower margins in the next three to five years. Overall strong order book of ₹ 52148 crore continues to provide strong revenue visibility. We expect BEL to report revenue, EBITDA, PAT CAGR of 8.8%, 5.2%, 4.5%, respectively, in FY20-22E. We revise our target price to ₹ 110 (13.5x on FY22E EPS) and change our rating from HOLD to **BUY**. Any disappointment on execution front may significantly impact the operating performance of BEL.

Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20E-22E)
Revenues	10,322	12,085	12,921	13,705	15,307	8.8
EBITDA	2,000	2,862	2,730	2,659	3,022	5.2
EBITDA margin (%)	19.4	23.7	21.1	19.4	19.7	
Net Profit	1,399	1,927	1,794	1,686	1,957.7	4.5
EPS (₹)	5.7	7.9	7.4	6.9	8.0	
P/E (x)	16.0	11.6	12.5	13.3	11.5	
EV/EBITDA (x)	10.9	7.6	7.7	8.0	7.0	
RoCE (%)	25.0	30.0	25.1	22.3	23.8	
RoE (%)	18.0	21.4	18.2	15.9	17.0	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹22417 Crore
Total Debt (FY 20)	₹49.3 Crore
Cash and Inv (FY 20)	₹1556.3 crore
EV (FY 20)	₹20910 Crore
52 week H/L (₹) (BSE)	119 / 56
Equity capital	₹243.7 Crore
Face value	₹1

Key Highlights

- Continues to have strong order book, order inflows. Q2FY21 order inflows at ₹ 1561 crore with order book at ₹ 52148 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 target price of ₹ 110; upgrade rating from HOLD to BUY

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Operating Income	3,189	2,502	2,742.7	16.3	1,671	90.9	Better revenue growth on the back of normalising supply chain and business operations
Other income	27	26	15.0	82.4	18	49.1	
Total Revenue	3,216	2,528	2,757.7	16.6	1,689.0	90.4	
Raw materials costs	1,754	1,406	1,459.9	20.1	823	113.0	
Employees Expenses	497	515	507.3	-2.1	512	-2.9	
Other Expenses	314	251	230.8	36.2	189	66.5	
Total Expenditure	2,565	2,172	2,198.0	16.7	1,524	68.3	
EBITDA	623.4	329.4	544.7	14.4	146.7	325.1	
EBITDA margins (%)	19.6	13.2	19.9	-31 bps	8.8	1077 bps	Margin improvement owing to controlled operating expenses and better than expected execution
Interest	0.3	0.0	1.2		0.1		
Depreciation	91.4	92.0	85.7	6.7	88.8	2.9	
Tax	162.2	71.7	133.4	21.6	22.1	633.5	
PAT	397.0	191.9	339.5	16.9	54.1	634.0	

Source: Company, ICICI Direct Research

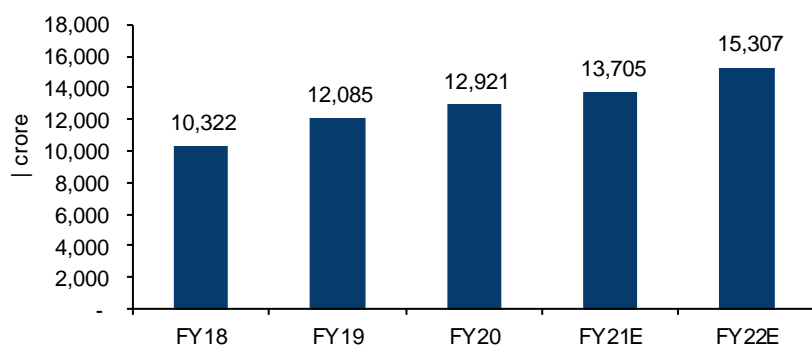
Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E		
(₹Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,085	12,921	13,383	13,705	2.4	14,889	15,307	2.8
EBITDA	2,862	2,730	2,571	2,659	3.4	2,919	3,022	3.5
EBITDA Margin (%)	23.7	21.1	19.2	19.4	19 bps	19.6	19.7	14 bps
PAT	1,927	1,794	1,614	1,686	4.5	1,867	1,958	4.9
EPS (₹)	7.9	7.4	6.6	6.9	4.9	7.7	8.0	4.3

Source: Company, ICICI Direct Research

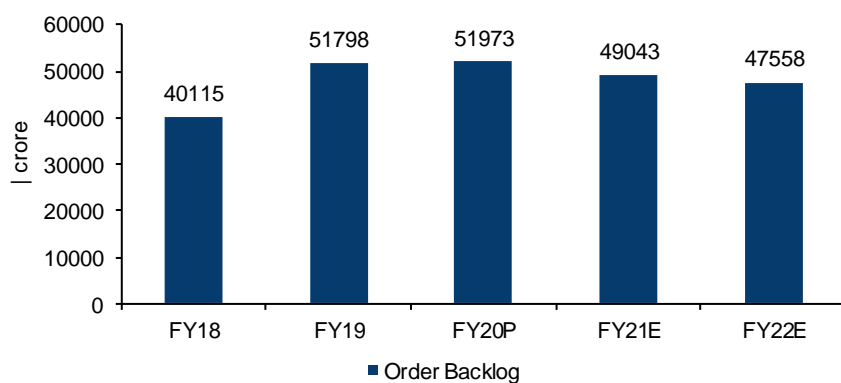
Financial story in charts

Exhibit 3: Revenue trend



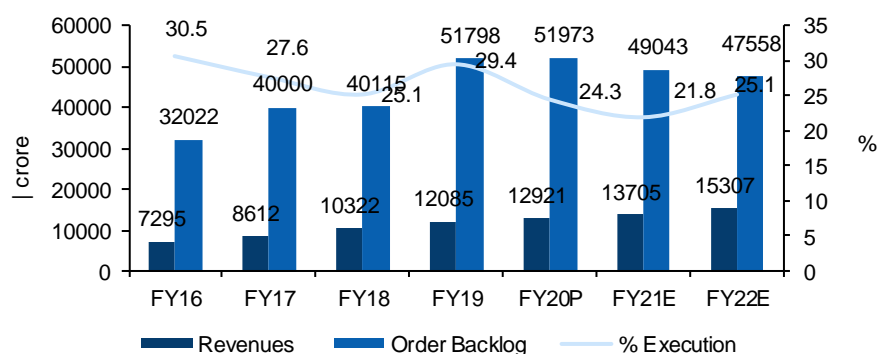
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



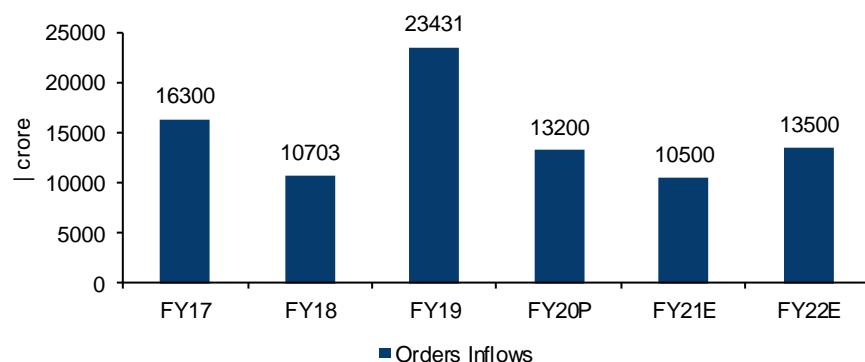
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



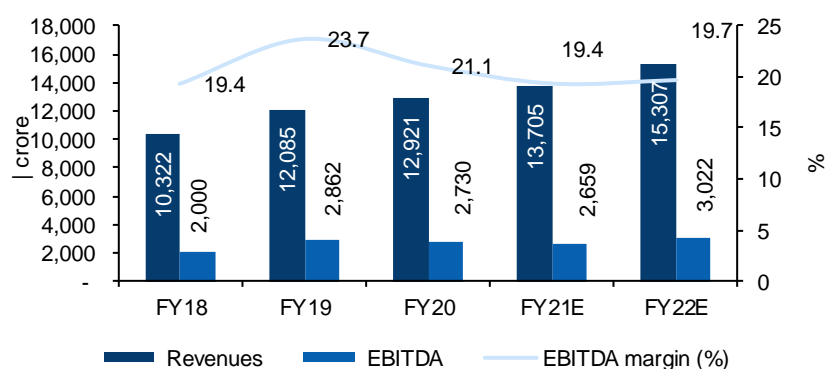
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



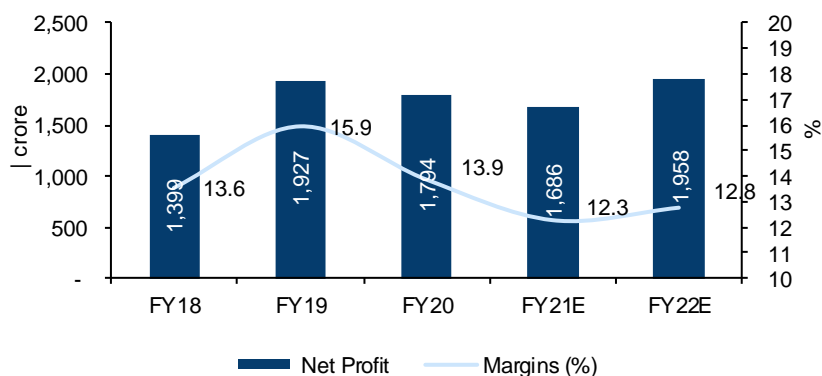
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



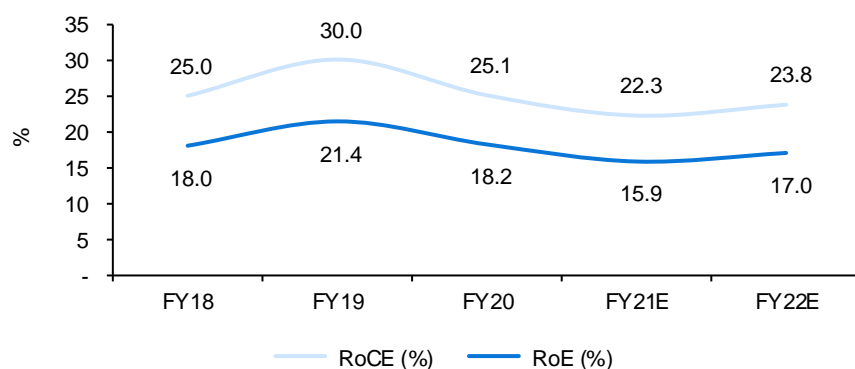
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend

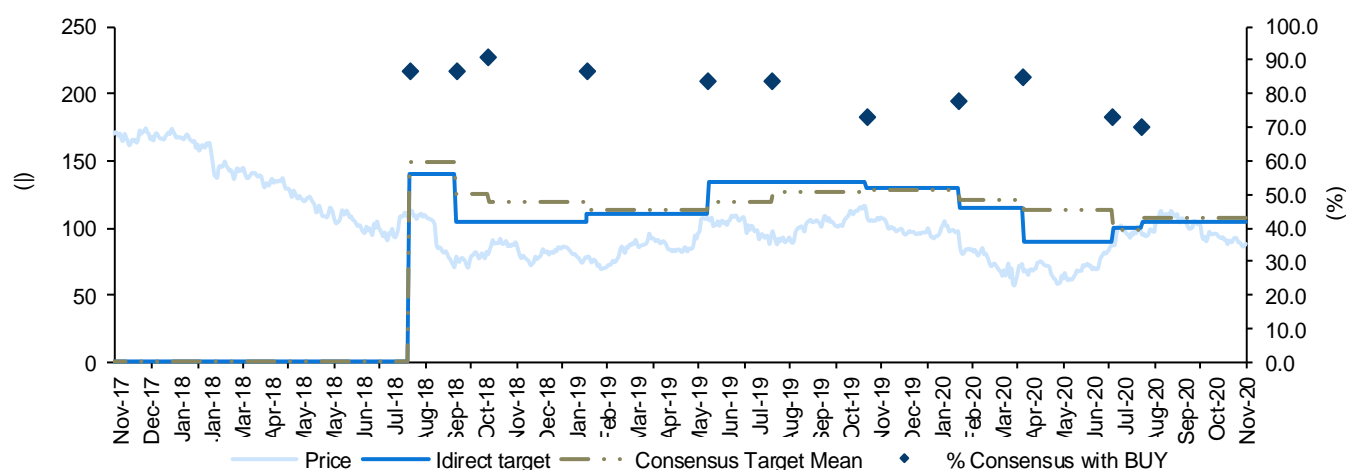


Source: Company, ICICI Direct Research

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	30-Jun-20	51.1	1,245.97m	0.00m
2	Hdfc Asset Managemen	30-Sep-20	5.6	136.75m	0.10m
3	Reliance Capital Tru	2-Nov-20	4.9	120.29m	2.16m
4	Cpse Etf	30-Jun-20	4.9	118.19m	27.63m
5	Life Insurance Corp	30-Jun-20	3.3	80.78m	0.00m
6	Kotak Mahindra Asset	30-Sep-20	3.3	79.92m	1.58m
7	Mirae Asset Global I	30-Sep-20	2.9	70.96m	7.85m
8	Sbi Funds Management	30-Sep-20	2.2	54.00m	(0.51)m
9	Icici Prudential Ass	30-Jun-20	1.5	37.39m	0.00m
10	Aditya Birla Sun Lif	30-Jun-20	1.3	30.38m	(24.57)m

Source: Reuters, ICICI Direct Research

Exhibit 12: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	55.9	55.3	51.1	51.1	51.1
FII	11.4	12.2	10.7	7.9	9.6
DII	25.0	25.3	30.2	32.2	31.6
Others	7.6	7.2	8.0	8.8	7.7

Source: Company, ICICI Direct Research

Financial summary

Exhibit 13: Profit and loss statement ₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Net Sales	11,789	12,608	13,430	14,985
Other operating income	295	313	275	322
Revenue	12,085	12,921	13,705	15,307
% Growth		6.9	6.1	11.7
Other income	169.5	101.9	125.0	168.0
Total Revenue	12,254	13,030	13,705	15,307
% Growth		6.3	5.2	11.7
Total Raw Material Costs	5,948	7,105	7,554	8,362
Employee Expenses	1,879	2,058	2,236	2,443
Other expenses	1,396	1,028	1,256	1,481
Total Operating Expenditure	9,223	10,191	11,046	12,286
Operating Profit (EBITDA)	2,862	2,730	2,659	3,022
% Growth		(4.6)	(2.6)	13.6
Interest	12	3	10	4
PBDT	3,019	2,829	2,774	3,186
Depreciation	316	350	406	452
PBT before Exceptional It	2,703	2,479	2,368	2,734
Total Tax	776	685	682	777
PAT before MI	1,927	1,794	1,686	1,958
Minority Interest	-	-	-	-
PAT	1,927	1,794	1,686	1,958
% Growth		(6.9)	(6.0)	16.1
EPS	7.9	7.4	6.9	8.0

Source: Company, ICICI Direct Research

Exhibit 15: Balance sheet ₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Equity Capital	243.7	243.7	243.7	243.7
Reserve and Surplus	8,775	9,609	10,389	11,247
Total Shareholders funds	9,019	9,853	10,632	11,490
Other Non Current Liabilities	5.0	1.3	1.3	1.3
Total Debt	30	49	49	31
Total Liabilities	9,116	9,972	10,752	11,591
Gross Block	2,216	2,985	4,597	5,147
Acc: Depreciation	925	1,268	1,673	2,125
Net Block	2,060	2,497	2,924	3,022
Capital WIP	721	683	400	600
Total Fixed Assets	2,806	3,202	3,347	3,645
Non Current Assets	1,814	2,061	2,061	2,061
Inventory	4,455	3,963	4,506	4,760
Debtors	5,369	6,733	7,698	8,094
Loans and Advances	1,587	1,409	1,409	1,409
Other Current Assets	3,268	4,675	4,838	5,051
Cash	722	1,556	1,150	1,416
Total Current Assets	15,682	18,646	19,910	21,040
Current Liabilities	1,573	2,567	2,771	3,070
Provisions	1,380	1,476	1,591	1,642
Total Current Liabilities	11,348	13,939	14,567	15,157
Net Current Assets	4,334	4,707	5,342	5,883
Total Assets	9,116	9,972	10,752	11,591

Source: Company, ICICI Direct Research

Exhibit 14: Cash flow statement ₹ crore

(₹Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	1,927	1,794	1,686	1,958
Depreciation	316	350	406	452
Interest	12	3	10	4
Cash Flow before WC cha	2,256	2,147	2,102	2,413
Changes in inventory	321	492	(543)	(254)
Changes in debtors	335	(1,364)	(965)	(396)
Changes in loans & Advan	(1,560)	178	-	-
Changes in other current a	(1,737)	(1,408)	(163)	(213)
Net Increase in Current As	(1,272)	(2,130)	(1,670)	(864)
Changes in creditors	(674)	994	204	299
Changes in provisions	119	96	115	52
Net Inc in Current Liabilities	663	2,591	629	590
Net CF from Operating acti	1,647	2,608	1,060	2,139
Changes in deferred tax a	(40)	(26)	-	-
(Purchase)/Sale of Fixed I	(680)	(746)	(550)	(750)
Net CF from Investing activ	(969)	(829)	(550)	(750)
Dividend and Dividend Tax	(617)	(910)	(873)	(1,061)
Net CF from Financing Act	(687)	(944)	(917)	(1,123)
Net Cash flow	(9)	834	(407)	266
Opening Cash/Cash Equiv	731	722	1,556	1,150
Closing Cash/ Cash Equiv	722	1,556	1,150	1,416

*calculated, Source: Company, ICICI Direct Research

Exhibit 16: Key ratios

(Year-end March)	FY19	FY20	FY21E	FY22E
EPS	7.9	7.4	6.9	8.0
Cash per Share	3.0	6.4	4.7	5.8
BV	37.0	40.4	43.6	47.2
Dividend per share	2.1	3.1	3.0	3.6
Dividend payout ratio	0.3	0.4	0.4	0.5
EBITDA Margin	23.7	21.1	19.4	19.7
PAT Margin	16.3	14.2	12.6	13.1
RoE	21.4	18.2	15.9	17.0
RoCE	30.0	25.1	22.3	23.8
RoIC	30.6	28.5	23.6	25.4
EV / EBITDA	7.6	7.7	8.0	7.0
P/E	11.6	12.5	13.3	11.5
EV / Net Sales	1.8	1.6	1.6	1.4
Sales / Equity	1.3	1.3	1.3	1.3
Market Cap / Sales	1.9	1.7	1.6	1.5
Price to Book Value	2.5	2.3	2.1	2.0
Asset turnover	1.3	1.3	1.3	1.3
Debtors Turnover Ratio	2.2	2.1	1.9	1.9
Creditors Turnover Ratio	6.3	6.2	5.1	5.2
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.8	3.5	3.6	3.6
Quick Ratio	2.7	2.7	2.8	2.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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