



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

**Reco/View**

Reco: Buy	↔
CMP: Rs. 131	
Price Target: Rs. 152	↔

↑ Upgrade ↔ Maintain ↓ Downgrade

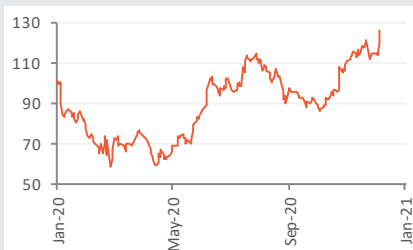
**Company details**

Market cap:	Rs. 31,980 cr
52-week high/low:	Rs. 141/56
NSE volume: (No of shares)	10.8 lakh
BSE code:	500049
NSE code:	BEL
Free float: (No of shares)	119.1 cr

**Shareholding (%)**

Promoters	51.1
FII	10.3
DII	31.3
Others	7.3

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	14	46	32	31
Relative to Sensex	14	29	9	17

Sharekhan Research, Bloomberg

**Summary**

- We retain a Buy rating on Bharat Electronics Limited (BEL) with an unchanged price target of Rs. 152 considering reasonable valuations and strong execution capabilities.
- Q3FY21 was an operationally strong quarter leading to higher net profit y-o-y. Revenues were flat y-o-y although lower than estimates. Management declared interim dividend of Rs. 1.40/- per equity share.
- Order book remains healthy at Rs. 54,791 crore (4.2x its TTM revenue), which provides sustainable revenue visibility; expect pickup in order intake during FY2022E
- BEL is well-placed to benefit from rising defence expenditure supported by a strong manufacturing base, execution track record and continued focus on in-house R&D capabilities.

Bharat Electronics Limited (BEL) reported an operationally strong quarter leading to higher net profit y-o-y, revenues were flat y-o-y although lower than estimates. Consolidated revenues came at Rs 2,320 crore, which remained flat y-o-y (lower than estimates) on the back of lower execution (earlier, in H1, emergency execution of ventilator orders drove up revenues). Higher gross margins (up 497 bps y-o-y) on better management of RM costs offset by higher other expenses lead to operating margins of 19.7% (up 400 bps y-o-y) better than estimates. Accordingly operating profit came at Rs. 456.2 crore (up 27.9% y-o-y). Better operating leverage offset by lower other income (down 29.6% y-o-y), led a to 25% growth in net profit to Rs 278.5 crore (lower than estimates). Order book remained healthy at Rs. 54,791 crore (4.2x TTM revenue). Earlier, the management had indicated that it bagged orders worth ~Rs. 7,500 crore till December (and another Rs. 6,000 crore+ orders under negotiation) and based on the healthy order pipeline, it is confident of achieving an order inflows of Rs. 15,000 crore in FY21E. On the order pipeline front, BEL cumulatively has a healthy pipeline including quick reaction surface-to-air Missile (QRSAM) opportunity order size of ~Rs. 30,000 crore over the next 5-7 years wherein Rs. 15,000-20,000 crore of such orders should come through in FY22E-23E). Others include long-range surface missiles (Rs. 15,000-crore worth of LRSAM missile system order should come in FY22E) and opportunities in electronics warfare systems, Akash Weapon Systems (Army) sensors and drones, etc. Earlier in the quarter, BEL has also bagged an order for procurement of 10 Lynx U2 Fire Control systems for frontline warships of the Indian Navy for Rs. 1,355 crore under Buy (Indian) category being developed indigenously. The company has also signed a contract with Indian Navy to supply 20 laser dazzlers, a non-lethal weapon for warning and stopping suspicious vehicles, boats and aircraft, which would be manufactured by BEL's Pune plant. Further, in a recent development, the government has also approved export of the Akash surface-to-air missile to friendly countries and constituted a committee, headed by the Defence Minister, for faster approval of exports of defence platforms, which bodes well for BEL wherein it remains the lead integrator for the Akash surface-to-air missile. BEL remains well-placed to tap on upcoming opportunities under the government's AatmaNirbhar Bharat programme. The company has a major role to play in defence as it is present in all aspects of the sector and the government on its part has been swift in coming out with the directives on plans laid earlier. In the upcoming Budget, there is an expectation of further push to defence initiatives with higher defence allocation along with fast approvals to pending projects which would further give fillip to the AatmaNirbhar Bharat initiative benefitting companies like BEL. Company's strong execution track record and a strong order book providing healthy revenue visibility ahead. We have fine-tuned our estimates for FY2021E-FY2022E. The stock is trading at a reasonable valuation of 15.5x and 13.8x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain a Buy rating on the stock with an unchanged price target (PT) of Rs. 152.

**Key positives**

- OPM improved 400 bps y-o-y on the back of better gross margins (up 497 bps y-o-y)
- Healthy revenue visibility owing to healthy order book of Rs. 54791 crore (4.2x TTM revenue).

**Key negatives**

- Revenues were flat y-o-y on lower execution

**Our Call**

**Valuation: Maintain Buy with an unchanged PT of Rs. 152:** BEL is well-positioned to deliver strong performance in the coming years given its robust order book, major beneficiary from increasing emphasis on indigenisation. BEL remains our preferred pick in the defence sector on account of its strong manufacturing and R&D base, good cost control, growing indigenisation, and strong balance sheet with improving return ratios. The stock is trading at reasonable valuations of 15.5x and 13.8x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain our Buy rating on the stock with an unchanged PT of Rs. 152.

**Key risk**

- Heightened competition, delayed execution of orders, and slower pace of fresh order intake might affect revenue growth.
- Higher raw-material prices and increased competitive intensity might put pressure on margins.

**Valuations (Consolidated)**

Particulars	FY20	FY21E	FY22E	FY23E
Revenue	12,968	14,146	15,490	16,884
OPM (%)	21.2	19.6	19.8	20.0
Adjusted PAT	1,824	1,879	2,057	2,324
% y-o-y growth	(3.3)	3.0	9.5	13.0
Adjusted EPS (Rs.)	7.5	7.7	8.4	9.5
P/E (x)	17.5	17.0	15.5	13.8
P/B (x)	3.2	2.9	2.7	2.4
EV/EBIDTA (x)	12.7	12.8	11.8	10.7
RoNW (%)	18.9	17.8	18.1	18.6
RoCE (%)	18.0	15.5	15.7	16.0

Source: Company; Sharekhan estimates

**Operationally strong quarter:** Q3FY21 was an operationally strong quarter leading to higher net profit y-o-y, revenues were flat y-o-y although lower than estimates. Consolidated revenues came at Rs 2320 crore which remained flat y-o-y (lower than estimates) on the back of lower execution during the quarter (earlier in H1 emergency execution of ventilator order led to revenue growth). Higher gross margins (up 497 bps y-o-y) on better management of raw materials offset by higher other expenses lead to operating margins of 19.7% (up 400 bps y-o-y) better than estimates. Accordingly operating profit came at Rs 456.2 crore (+27.9% y-o-y). Better operating leverage offset by lower other income (down 29.6% y-o-y), led to a 25% growth in net profit to Rs 278.5 crore (lower than estimates)

**Order book remains healthy:** Order book remained healthy at Rs. 54,791 crore (4.2x of TTM revenue). Earlier the management has indicated that it has bagged orders worth ~Rs 7,500 crore till December (and another Rs. 6,000 crore+ orders under negotiations) and based on the healthy pipeline, the management is confident of achieving order inflows of Rs. 15,000 crore for FY21E.

**Order pipeline remains strong:** BEL has a cumulative order pipeline including Quick Reaction Surface-to-Air Missile (QRSAM) opportunity order size of ~Rs. 30,000 crore over the next 5-7 years wherein Rs 15,000-20,000 crore of such orders should come through in FY22E-23E). Others include Long-Range Surface missiles (Rs 15,000-crore worth of LRSAM missile system orders should come in FY22E) and opportunities in electronics warfare systems, Akash Weapon Systems (Army) sensors and drones, etc. Earlier in the quarter BEL has also bagged an order for procurement of 10 Lynx U2 Fire Control systems for frontline warships of the Indian Navy for Rs. 1,355 crore under Buy (Indian) category being developed indigenously. The company has also signed a contract with Indian Navy to supply 20 laser dazzlers, a non-lethal weapon for warning and stopping suspicious vehicles, boats and aircraft which would be manufactured by BEL's Pune plant. Further, in a recent development, the government has also approved export of the Akash surface-to-air missile to friendly countries and constituted a committee, headed by the Defence Minister, for faster approval of export of defence platforms which bodes well for BEL wherein it remains the lead integrator for the Akash surface-to-air missile. BEL remains well-placed to tap on upcoming opportunities under the government's AatmaNirbhar Bharat programme.

#### Quarterly Results (Consolidated)

Particulars	Rs cr				
	Q3FY21	Q3FY20	y-o-y%	Q2FY21	q-o-q%
Net Sales	2,320.4	2,278.1	1.9	3,195.2	(27.4)
Operating expenditure	1,864	1,921	(3.0)	2,568	(27.4)
Operating profit	456.2	356.7	27.9	627.3	(27.3)
Other income	24	33	(29.6)	27	(14.4)
Interest	0	0	233.3	0	33.3
Depreciation	100	92	8.8	97	3.2
PBT	380	298	27.3	558	(32.0)
Tax	109	86	27.6	162	(32.4)
Reported PAT	270	213	27.1	396	(31.8)
Exceptional item	-	1	NA	1	NA
Adj PAT	278.5	222.8	25.0	399.3	(30.2)
EPS (Rs)	1.1	0.9	25.0	4.3	(73.2)
OPM (%)	19.7	15.7	400.3	19.6	2.9
NPM (%)	11.6	9.3	231.2	12.4	(75.1)
Tax Rate (%)	28.8	28.7	-	29.0	-
Tax Rate (%)	29.0	28.3	-	30.6	-

Source: Company; Sharekhan Research

## Outlook and Valuation

### ■ Sector View – AatmaNirbhar Bharat initiative to boost defence manufacturing in India

The government is emphasising on creating an environment so as to boost the AatmaNirbhar Bharat programme in the defence sector and create a level playing field for private players including MSME. To open up the defence sector further, the government is also planning to corporatise ordinance factory boards shortly. Completion of defence projects takes longer than envisaged earlier and, hence, the government is planning to incorporate cost escalation clauses and provide incentives to vendors based on enhanced productivity and performance. Further, a hike in FDI to 74% through the automatic route would boost investments in the sector. This is likely to boost investments in the space as foreign players in the defence sector would look at setting up joint ventures to establish defence manufacturing bases in India considering the large opportunity under play with the opening up of the defence sector. The government is looking at creating a strategic partnership model and hopes that the same will be started for submarines this year, while for naval utility, a helicopter has been taken up for consideration.

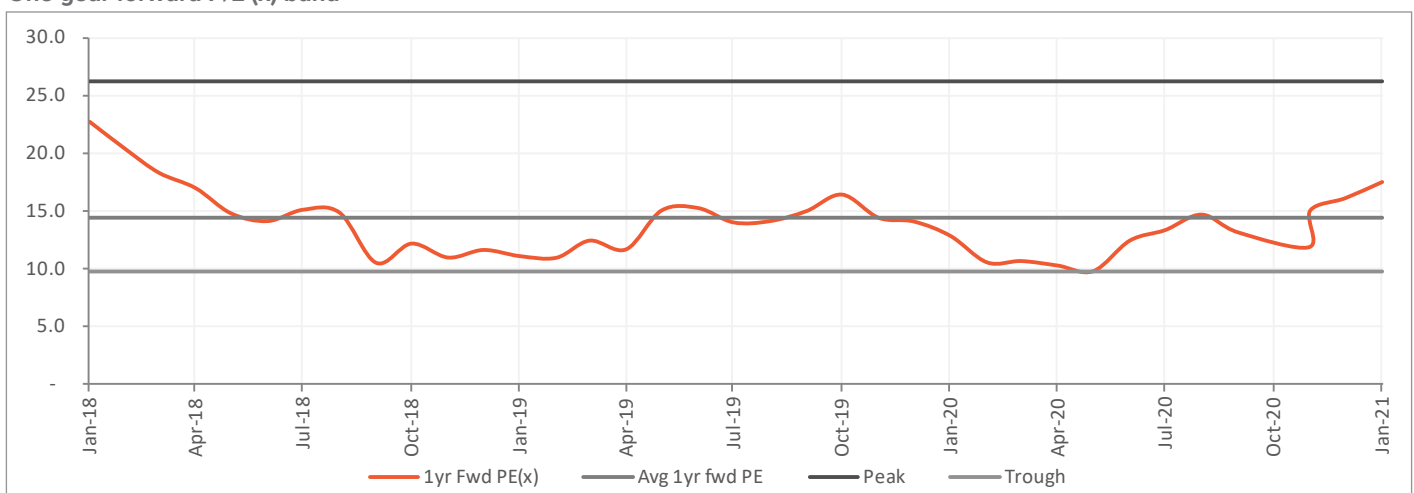
### ■ Company Outlook – Company outlook: Continues to focus on sustainable growth plans

The company has been continuously focusing on sustainable growth plans; and in this regard, the company has taken various initiatives such as i) focus on enhancing the R&D capability to introduce futuristic products to bag new orders, ii) enhance manufacturing capabilities through timely modernisation and expansion of facilities, iii) enter into joint ventures in existing and emerging businesses to enhance business visibility, thereby providing impetus on 'Make in India' initiative, and iv) focus on increasing defence exports to enhance foreign exchange earnings.

### ■ Valuation – Maintain Buy with an unchanged PT of Rs. 152

BEL is well-positioned to deliver strong performance in the coming years given its robust order book, major beneficiary from increasing emphasis on indigenisation. BEL remains our preferred pick in the defence sector on account of its strong manufacturing and R&D base, good cost control, growing indigenisation, and strong balance sheet with improving return ratios. The stock is trading at reasonable valuations of 15.5x and 13.8x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain our Buy rating on the stock with an unchanged PT of Rs. 152.

#### One-year forward P/E (x) band



Source: Sharekhan Research

## About company

BEL is a PSU with strong manufacturing and R&D capabilities and robust cost-control measures. The company manufactures electronics, communication, and defence equipment and stands to benefit from enhanced budgetary outlay for strengthening and modernising India's security.

## Investment theme

The government's Make in India and AatmaNirbhar Bharat initiatives along with rising spends for modernising defence equipment will support earnings growth in the coming years, as BEL is one of the key players with strong research and manufacturing capabilities in the defence space in the country. A robust order book provides strong revenue and earnings visibility. BEL remains our preferred pick in the defence sector on account of its strong manufacturing and R&D base, good cost control, growing indigenisation, and strong balance sheet with improving return ratios.

## Key Risks

- ◆ Heightened competition, delayed execution of orders, and slower pace of fresh order intake might affect revenue growth.
- ◆ Higher raw-material prices and increased competitive intensity might put pressure on margins.

## Additional Data

### Key management personnel

Venkateswara Gowtama Mannava	Executive Chairperson
Amit Sahai	Non-Executive - Non-Independent Director
Manjula Jillellamudi	Non-Executive - Non-Independent Director
Shikha Gupta	Executive Director
Anandi Ramalingam	Executive Director
Mahesh Venkatachaliah	Executive Director
Vinay Kumar Katyal	Executive Director
Shivakumaran Madaiah Kariyanakatte	Executive Director
Koshy Alexander	Executive Director & Chief Financial Officer
S Sreenivas	Company Secretary & Compliance office

Source: Company Website

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	HDFC Asset Management Co Ltd	5.60
2	CPSE ETF	4.85
3	Reliance Capital Trustee Co Ltd	4.84
4	Life Insurance Corporation of India	3.32
5	Kotak Mahindra Asset Management Co Ltd	3.20
6	Mirae Asset Global Investments	2.81
7	SBI Equity Hybrid Fund	2.22
8	ICICI Prudential Asset Management Co Ltd	1.53
9	Aditya Birla SunLife Trustee Co Pvt Ltd	1.25
10	Aditya Birla SunLife Management Co Ltd	1.12

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: [compliance@sharekhan.com](mailto:compliance@sharekhan.com);

For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com); Investment in securities market are subject to market risks, read all the related documents carefully before investing.