



#### 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	Change
Reco: Buy	↔
CMP: Rs. 126	
Price Target: Rs. 152	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

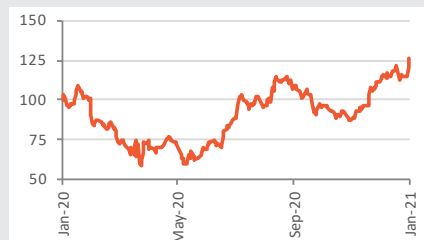
#### Company details

Market cap:	Rs. 30,799 cr
52-week high/low:	Rs. 128 / 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	9.6
DII	31.6
Others	7.7

#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	13	31	43	26
Relative to Sensex	6	8	7	10

Sharekhan Research, Bloomberg

#### Summary

- We retain a Buy rating on Bharat Electronics Limited (BEL) with a revised PT of Rs. 152 rolling forward our valuation multiple to FY2023E.
- BEL is well positioned to benefit from rising defence expenditure supported by a strong manufacturing base, execution track record and continued focus on developing in-house R&D capabilities
- Strong YTD order inflow, healthy order pipeline and order book offer sustainable revenue visibility.
- Management remains confident of double-digit revenue growth, margins of ~20% and order inflows of ~Rs 15000 crore for FY21E.

Bharat Electronics (BEL) remains well placed to tap on upcoming opportunities under the government's Atmanirbhar Bharat programme. The company has a major role to play in defence as it is present in all aspects of the defence sector. The government on its part has been swift in coming out with the directives on the plans laid earlier and the recently concluded Defence Acquisition Council meeting approved capital acquisition proposals for various weapons/platforms/equipment/systems required by India's Army Navy, and Air Force at an approximate cost of Rs. 28,000 crore, wherein Rs. 27,000 crore worth of items will be sourced from Indian companies to give a boost to Atmanirbhar Bharat. The acquisition proposals included DRDO designed and developed Airborne Early Warning & Control Systems for the Indian Air Force wherein BEL is expected to be a major beneficiary. 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. Earlier, the Ministry of Defence had come out with a list of import embargo placed for 101 defence items (BEL at various stages of discussion for manufacturing ~55 items) and expect continuous additions to this list (over 1000 items under review) from the government. In the upcoming budget there is expectation of further push to defence initiatives with fast approvals to pending projects which would further give fillip to the Atmanirbhar Bharat initiative benefitting companies like BEL.

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. Based on a healthy pipeline, the management is confident of achieving an order inflow of Rs. 15,000 crore (~Rs. 7,500 crore already bagged till date and another Rs. 6,000 crore-orders under negotiations) for FY2021E. On the export front, BEL has expanded its global footprint with current order book of \$200 million and management had earlier indicated that it expects the order book to increase to \$500 million over three years. The order book remains healthy at Rs 53150 crore (4x its TTM revenue) providing sustainable revenue visibility backed with strong execution capabilities (running at 100% capacity). Apart from defence, Smart City and Homeland are other focus areas for the company. Smart City and Homeland contributed 10% in order book and 7% in revenue and are expected to reach 15% in the next three years for the civilian business. Overall, management has remained confident of its growth opportunities and expects double-digit revenue growth with margins at around 20% in FY2021E. We believe BEL is well positioned to benefit from the rising defence expenditure, supported by a strong manufacturing base, execution track record, and continued focus on in-house R&D capabilities. The stock is trading at reasonable valuations of 15x and 13x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain our Buy rating on the stock with a revised price target (PT) of Rs. 152 rolling forward our valuation multiple to FY2023E.

#### Our Call

**Valuation: Maintain Buy with a revised 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 15x and 13x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain our Buy rating on the stock with a revised PT of Rs. 152 rolling forward our valuation multiple to FY2023E.

#### Key Risks

- Delayed execution of orders, and slower pace of fresh order intake might affect revenue growth.

#### Valuations (Consolidated)

Particulars	Rs cr			
	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)	17.0	16.5	15.1	13.3
P/B (x)	3.1	2.8	2.6	2.4
EV/EBIDTA (x)	12.3	12.4	11.5	10.4
RoNW (%)	18.9	17.8	18.1	18.6
RoCE (%)	18.0	15.4	15.7	16.0

Source: Company; Sharekhan estimates

**Major beneficiary to defence opportunities:** BEL has a major role to play in defence as it is present in all aspects of the defence sector. The government has been swift in coming out with the directives on plans laid earlier and the recently concluded Defence Acquisition Council meeting approved capital acquisition proposals for various weapons/platforms/equipment/systems required by India's Army Navy, and Air Force at an approximate cost of Rs. 28,000 crore, wherein Rs. 27,000 crore worth of items will be sourced from Indian companies to give a boost to Atmanirbhar Bharat. The acquisition proposals included DRDO designed and developed Airborne Early Warning & Control Systems for the Indian Air Force wherein BEL is expected to be a major beneficiary. 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. Earlier, the Ministry of Defence had come out with a list of import embargo placed for 101 defence items (BEL at various stages of discussion for manufacturing ~55 items) and expect continuous additions to this list (over 1000 items under review) from the government. In the upcoming budget there is expectation of further push to defence initiatives with fast approvals to pending projects which would further give fillip to the Aatmanirbhar Bharat initiative benefitting companies like BEL.

**List of products in 101 Defence embargo import list wherein BEL remains the beneficiary**

Name of platform/weapon/system/equipment	Beneficiary companies with local product manufacturing capabilities
Short Range Surface to Air Missiles (Land variant)	BEL, L&T, Bharat Dynamics
Shipborne Cruise Missiles	BEL, L&T, Bharat Dynamics
Multi Barrel Rocket Launcher (MBRL) (Pinaka Variant)	BEL, L&T, Bharat Dynamics
Missile Destroyers	BEL, L&T, Bharat Dynamics
Simulators Presenting Smart Ranges And Multi-Function Targets	BEL, L&T, Hindustan Aeronautics
Battalion Support Weapons Simulators	BEL, L&T, Hindustan Aeronautics
Container-based Simulators for Live Fire Training	BEL, L&T, Hindustan Aeronautics
Tailor-made Simulators for Counter Insurgency (CI) / Counter Terrorism (CT) based Training	BEL, L&T, Hindustan Aeronautics
Force-on-force Live Tactical Simulators / Infantry Weapon	BEL, L&T, Hindustan Aeronautics
Tank Simulators (driving, as well as, crew gunnery)	BEL, L&T, Hindustan Aeronautics
Simulators for A Vehicles / B Vehicles	BEL, L&T, Hindustan Aeronautics
Software Defined Radio (TAC) for IN	BEL, L&T, Hindustan Aeronautics
Simulators for Towed and Self Propelled Guns of Air Defence	BEL, L&T, Hindustan Aeronautics
Simulators for Correction of Fire by Observer	BEL, L&T, Hindustan Aeronautics
Next Generation Maritime Mobile Coastal Battery (Long Range)	BEL, L&T, Hindustan Aeronautics
Advance Landing Ground Communication Terminals (ALGCTs) for AGLsDec	BEL, L&T, Hindustan Aeronautics
155mm / 39 Cal Ultra-Light Howitzer	BEL, L&T
Successor of Flycatcher & Upgraded Super Fledermaus (USFM) / Air Defence Fire Control Radar (ADFCR)	BEL, L&T
Radar Warning Receiver (RWR) for Transport Aircraft	BEL, L&T
Ground Based Mobile ELINT System	BEL, L&T
Digital Tropo Scatter / LOS Communication System	BEL, L&T
Low Level Transportable Radar	BEL, L&T
High Power Radar (HPR)	BEL, L&T
CBRN Detection & Monitoring System	BEL, L&T
CBRN Decontamination & Protection System	BEL, L&T
Shipborne Sonar System for Large Ships	BEL, L&T
Hull Mounted Submarine Sonar	BEL, L&T
Inertial Navigation System for Ship Application	BEL
EW Systems	BEL, L&T
EW Suit for MI-17 V5	BEL, L&T
Light Low Level Terrain Radar (L L LWR)	BEL, L&T
Electronic Fuses for Artillery Ammunitions	BEL, L&T
Bi- Modular Charge System (BMCS )	BEL, L&T

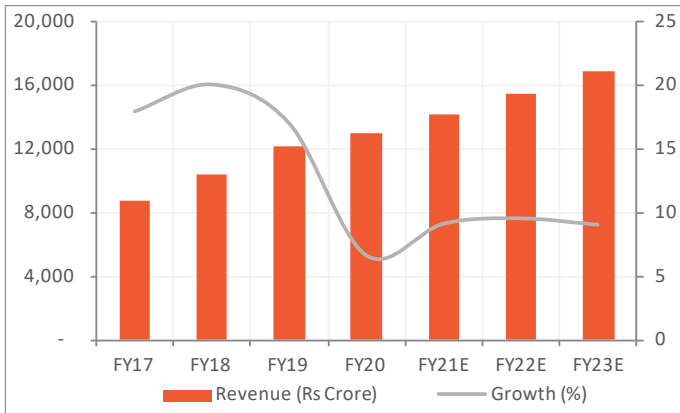
Source: Ministry of Defence, Sharekhan Research

**Order inflow pipeline stays strong:** BEL cumulatively has a healthy order inflow pipeline, including Quick Reaction Surface-to-Air Missile (QRSAM) 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. Based on a healthy pipeline, the management is confident of achieving an order inflow of Rs. 15,000 crore (~Rs. 7,500 crore already bagged till date and another Rs. 6,000 crore+ orders under negotiations) for FY2021E. On the export front, BEL has expanded its global footprint with current order book of \$200 million and management had earlier indicated that it expects the order book to increase to \$500 million over three years. The order book remains healthy at Rs 53150 crore (4x its TTM revenue) providing sustainable revenue visibility backed with strong execution capabilities (running at 100% capacity).

**Business diversification provides added opportunities:** Apart from defence, Smart City and Homeland are other focus areas for the company. Smart City and Homeland contributed 10% in order book and 7% in revenue and are expected to reach 15% in the next three years for the civilian segment. Further other initiatives like 1) Batteries and cells company had signed MoU with DRDO labs for naval applications; (2) Innovation cell in IIT Chennai for start-ups/incubators; (3) Issued EoI for 55 items under Make in India – 195 items identified for indigenisation to bear fruits in long run. The management has also iterated its stand on investment in R&D and would invest 8%-10% of revenue going ahead.

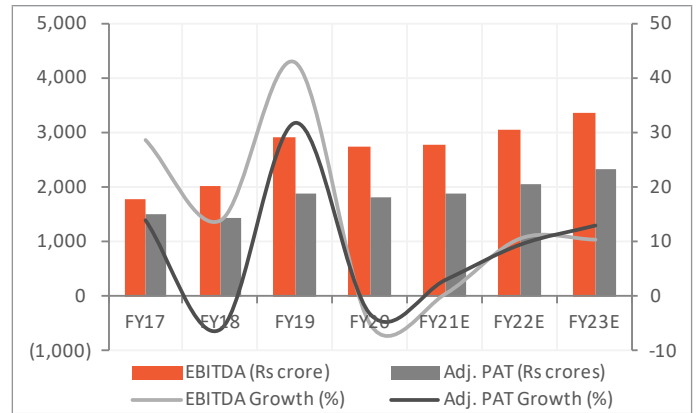
Financials in charts

Revenue and growth trend



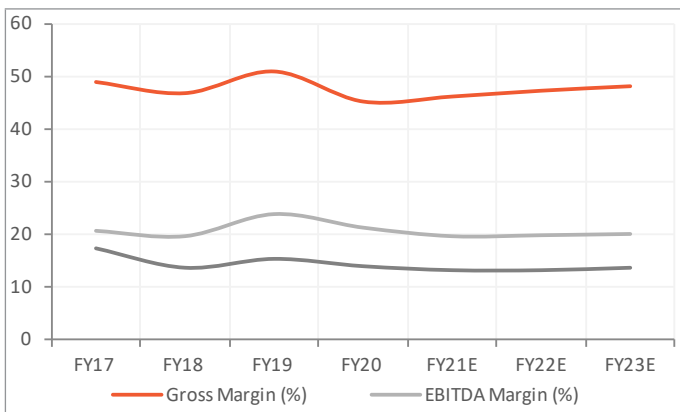
Source: Company, Sharekhan Research

OPM and net profit trend



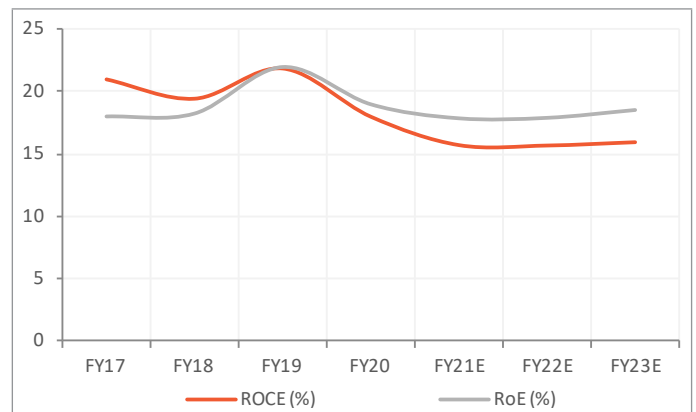
Source: Company, Sharekhan Research

Margin trend



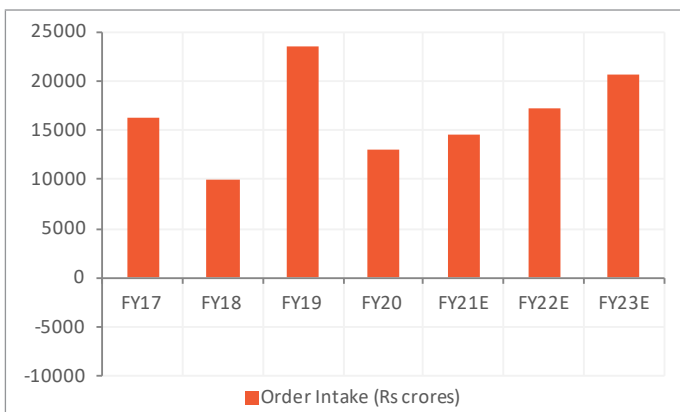
Source: Company, Sharekhan Research

Return ratios



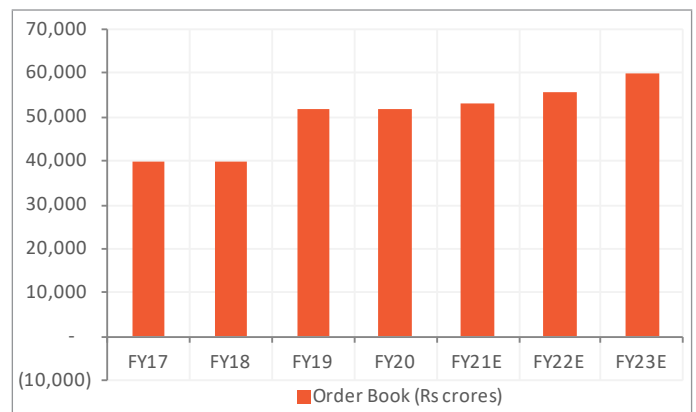
Source: Company, Sharekhan Research

Order book trend



Source: Company, Sharekhan Research

Order inflow trend



Source: Company, Sharekhan Research

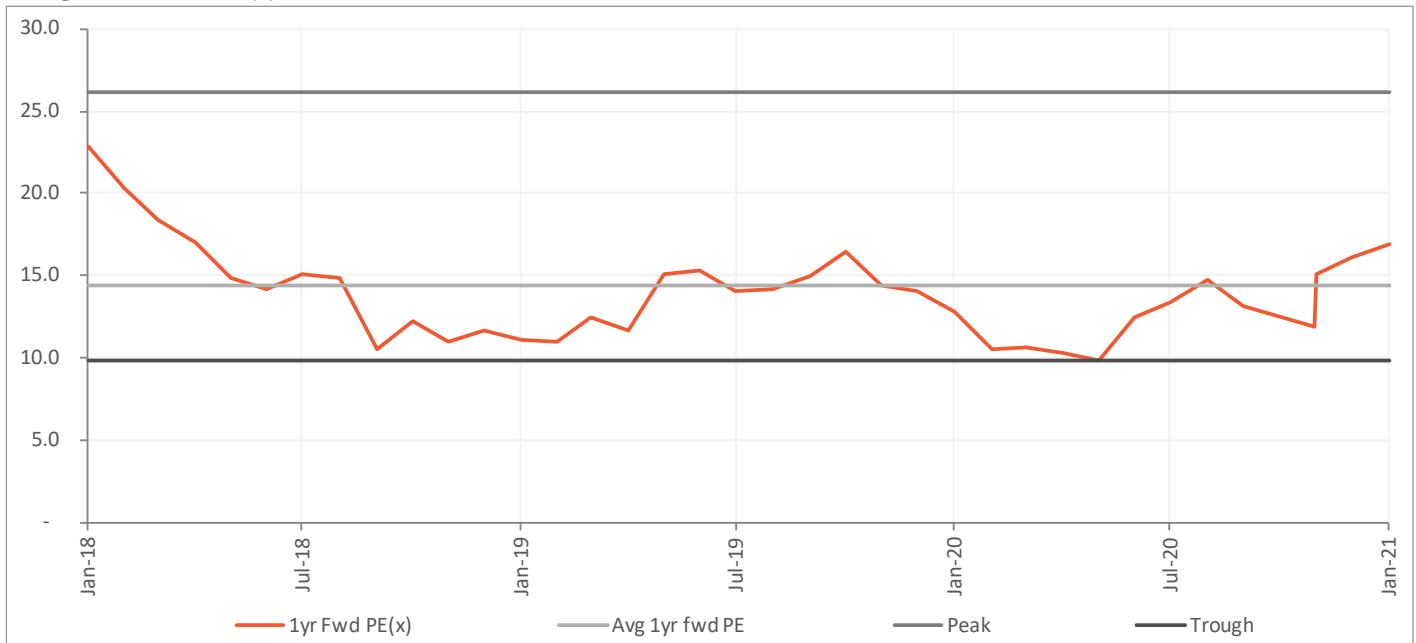
## Outlook and Valuation

■ **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 MSMEs. To open up the defence sector further, the government is also planning to corporatise ordinance factory boards shortly. Completion of the defence project takes longer than envisaged earlier and, hence, the government is planning to incorporate a cost escalation clause and provide incentives to vendors based on enhanced productivity and performance. Further, the government has increased FDI to 74% through the automatic route to boost investments in this space. Now foreign players in the defence sector would look at setting up joint ventures to establish a defence manufacturing base 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 a naval utility, a helicopter has been taken up for consideration.

■ **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 businesses, 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 a revised 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 15x and 13x its FY2022E and FY2023E earnings, respectively. With improving growth visibility, we retain our Buy rating on the stock with a revised PT of Rs. 152 rolling forward our valuation multiple to FY2023E.

### 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 robust balance sheet with improving return ratios.

## Key Risks

- ◆ Delayed execution of orders, and slower pace of fresh order intake might affect revenue growth.

## 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.