

Strong performance on all fronts...

Bharat Electronics (BEL) reported revenues at ₹ 6908 crore, growth of 19% YoY (vs. I-direct estimate of ₹ 6485 crore), on the back of normalising supply chain and execution business operations. For FY21, revenue came in at ₹ 14063.8 crore up 8.8%, YoY. Absolute EBITDA for the quarter came in at ₹ 1970.6 crore (vs. our estimate of ₹ 1529.8 crore), up 32.9% YoY. EBITDA margin came in better than estimated at 28.5% (above our estimate of 23.6%) improving ~300 bps YoY, owing to reduced other operating expenses and employee expenses. Consequently, PAT came in at ₹ 1352.4 crore, up 30.7% primarily due to higher execution, improved margins. Also, other income was up 102% to ₹ 57 crore, YoY.

Strong order pipeline, execution pick-up to drive growth...

For Q4FY21, BEL bagged strong orders worth ~₹ 5400 crore while order inflows for FY21 came in robust at ₹ 15280 crore (vs. ₹ 13200 crore in FY21). Order book as on FY21 was robust at ₹ 53434 crore (vs. ₹ 54791 crore in Q3FY21). BEL is aiming at order inflows of ~₹ 16000-17000 crore for FY22E. It expects orders in electronic warfare systems, Akash weapon system, avionics package for LCA, smart city business and other non-defence businesses, etc. in the medium term. Future opportunities include Jammer for LCA, QSRAM, etc. Also, LUH and LCH (helicopters) may allow BEL sensors (e.g. counter-measure dispensers) and weapons to significantly augment BEL's avionics revenue in the long term. Going ahead, a further pick-up in execution and a favourable product mix would help BEL stabilise base EBITDA margins in the ~20-22% range. BEL aims to diversify into non-defence areas that now contribute ~10% of order book and ~7% of revenues as of now. The revenue contribution is expected to increase to 20-25% over the next two to three years. BEL being a zero debt company is able to maintain its working capital without external borrowings.

Valuation & Outlook

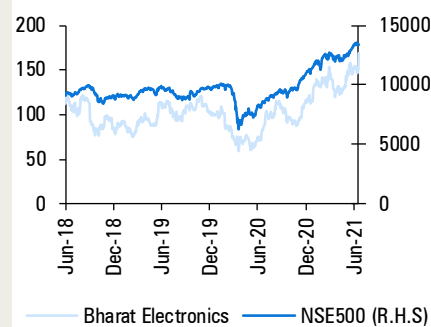
Overall, BEL's strong execution in FY21 is expected to keep the momentum going in coming years despite short term challenges. Overall, expected double digit revenue growth, sustainable margins, better order inflows and strong order book of ₹ 53434 crore suggests strong performance in the long term. Also, strategy to diversify into non-defence areas, focus on increasing exports and services share would aid long term growth and help de-risk its business model. We expect BEL to report revenue, EBITDA, PAT CAGR of 13.9%, 10.3%, 13.0%, respectively, in FY21-23E. We revise our target price to ₹ 205, 19x on FY23E EPS (earlier TP ₹ 170) and reiterate **BUY**.



Particulars

Particular	Amount
Market Capitalization	₹ 40935 Crore
Total Debt (FY20)	₹ 49.3 Crore
Cash and Inv (FY20)	₹ 2551.5 crore
EV (FY20)	₹ 38433 Crore
52 week H/L (₹) (BSE)	170 / 80
Equity capital	₹ 243.7 Crore
Face value	₹ 1

Price Performance



Key risk to our call

- Any disappointment on order inflows and execution delays may significantly affect overall operating performance
- Any downward revision in defence spending by government may lead to some deferral of receivables payments to defence PSUs

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Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Revenues	12,085	12,921	14,064	16,298	18,245	13.9
EBITDA	2,862	2,730	3,181	3,418	3,867	10.3
EBITDA margin (%)	23.7	21.1	22.6	21.0	21.2	
Net Profit	1,927	1,794	2,065	2,324	2,637.1	13.0
EPS (₹)	7.9	7.4	8.5	9.5	10.8	
P/E (x)	21.2	22.8	19.8	17.6	15.5	
EV/EBITDA (x)	14.1	14.4	12.1	11.1	9.8	
RoCE (%)	30.0	25.1	27.1	26.7	27.7	
RoE (%)	21.4	18.2	19.1	19.7	20.5	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Operating Income	6,908	6,485	5,805.9	19.0	2,296	200.9	Strong performance on the back of normalising supply chain and operations
Other income	57	56	28.3	102.0	23	147.3	
Total Revenue	6,966	6,541	5,834.2	19.4	2,319.4	200.3	
Raw materials costs	4,069	3,780	3,313.0	22.8	1,181	244.5	
Employees Expenses	478	643	574.7	-16.8	454	5.3	
Other Expenses	390	531	435.6	-10.4	221	76.7	
Total Expenditure	4,938	4,955	4,323.3	14.2	1,856	166.1	
EBITDA	1,970.6	1,529.8	1,482.6	32.9	440.4	347.5	
EBITDA margins (%)	28.5	23.6	25.5	299 bps	19.2	935 bps	Margin improvement owing to reduced operating expenses and employee expenses
Interest	5.6	3.0	1.6		0.2		
Depreciation	91.7	108.6	95.0	-3.5	94.5	-3.0	
Tax	578.2	425.0	379.7	52.3	107.0	440.5	
PAT	1,352.4	1,049.3	1,034.5	30.7	261.9	416.5	

Source: Company, ICICI Direct Research

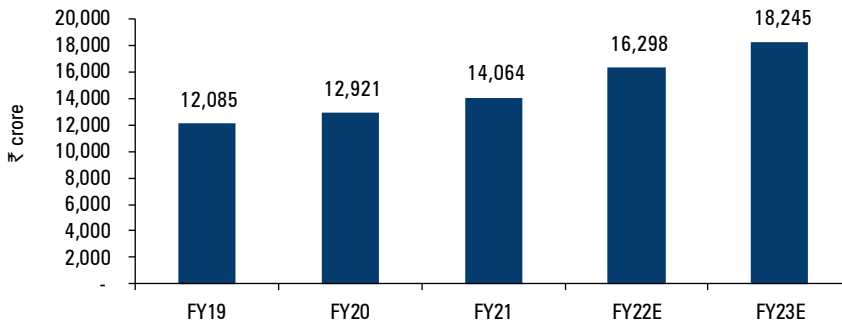
Exhibit 2: Change in estimates

	FY20	FY21	FY22E			FY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	12,921	14,064	15,494	16,298	5.2	17,940	18,245	1.7
EBITDA	2,730	3,181	3,059	3,418	11.7	3,685	3,867	4.9
EBITDA Margin (%)	21.1	22.6	19.7	21.0	123 bps	20.5	21.2	65 bps
PAT	1,794	2,065	1,980	2,324	17.4	2,400	2,637	9.9
EPS (₹)	7.4	8.5	8.1	9.5	17.8	9.9	10.8	9.3

Source: Company, ICICI Direct Research

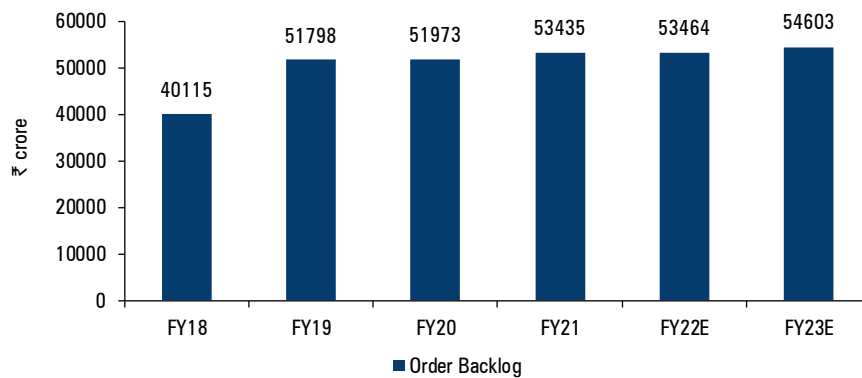
Financial story in charts

Exhibit 3: Revenue trend



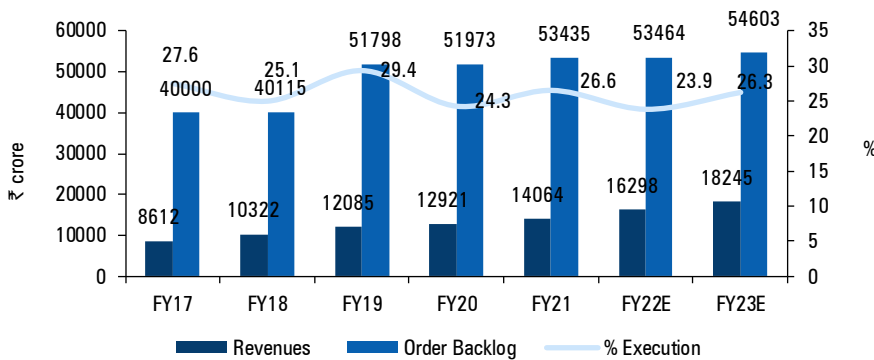
Source: Company, ICICI Direct Research

Exhibit 4: Order backlog trend



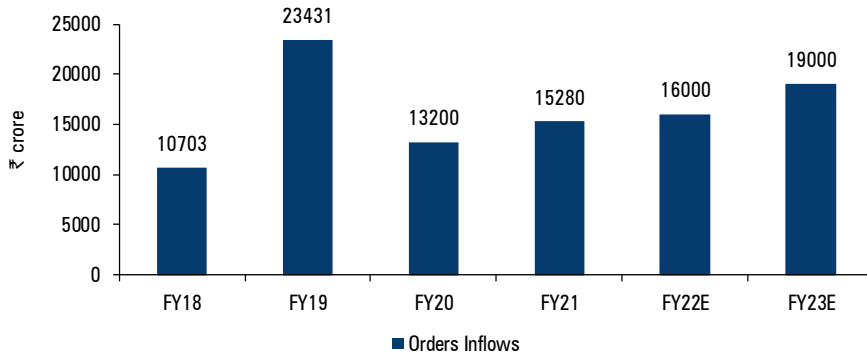
Source: Company, ICICI Direct Research

Exhibit 5: Order backlog and percentage execution



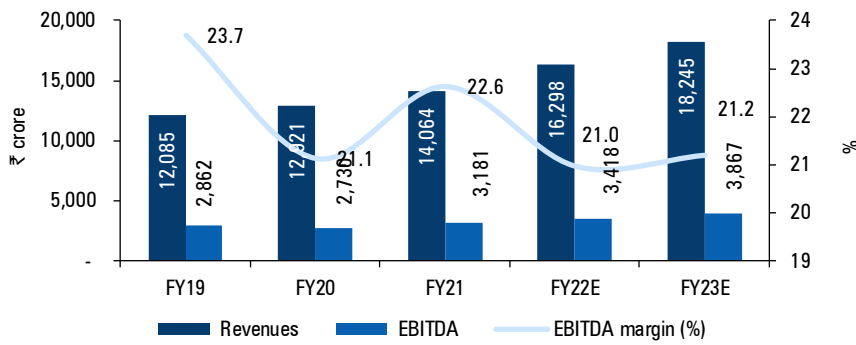
Source: Company, ICICI Direct Research

Exhibit 6: Order inflow trend



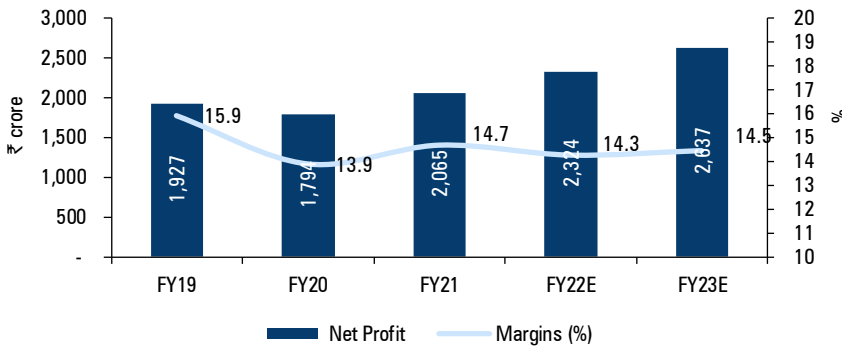
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



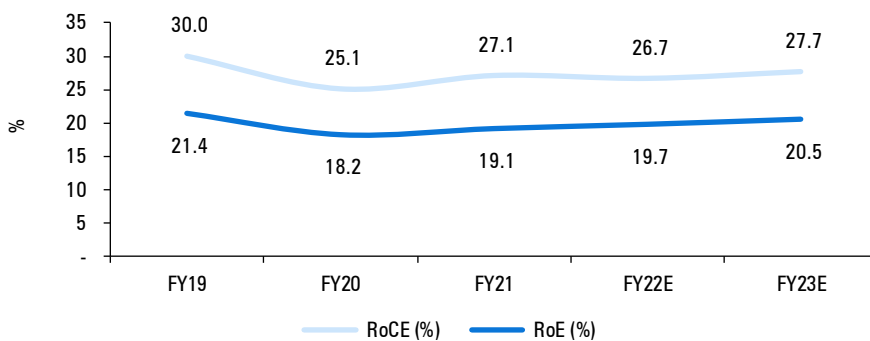
Source: Company, ICICI Direct Research

Exhibit 8: PAT and PAT margins trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement					₹ crore
(₹ Crore)	FY20	FY21	FY22E	FY23E	
Net Sales	12,608	13,818	15,971	17,861	
Other operating income	313	246	327	384	
Revenue	12,921	14,064	16,298	18,245	
% Growth		8.8	15.9	11.9	
Other income	101.9	126.1	160.0	178.0	
Total Revenue	13,023	14,199	16,298	18,245	
% Growth		9.0	14.8	11.9	
Total Raw Material Costs	7,105	7,828	9,231	10,377	
Employee Expenses	2,058	1,941	2,132	2,304	
other expenses	1,028	1,114	1,517	1,697	
Total Operating Expenditure	10,191	10,883	12,881	14,378	
Operating Profit (EBITDA)	2,730	3,181	3,418	3,867	
% Growth		16.5	7.4	13.1	
Interest	3	6	5	5	
PBDT	2,829	3,301	3,573	4,040	
Depreciation	350	366	432	476	
PBT before Exceptional Items	2,479	2,935	3,141	3,564	
Total Tax	685	869	817	927	
PAT before MI	1,794	2,065	2,324	2,637	
Minority Interest	-	-	-	-	
PAT	1,794	2,065	2,324	2,637	
% Growth		15.1	12.5	13.5	
EPS	7.4	8.5	9.5	10.8	

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet					₹ crore
(₹ Crore)	FY20	FY21P	FY22E	FY23E	
Equity Capital	243.7	243.7	243.7	243.7	
Reserve and Surplus	9,609	10,564	11,527	12,619	
Total Shareholders funds	9,853	10,808	11,770	12,862	
Other Non Current Liabilities	1.3	1.3	1.3	1.3	
Total Debt	49	49	31	31	
Total Liabilities	9,972	10,927	11,871	12,963	
Gross Block	2,985	4,057	4,893	5,543	
Acc: Depreciation	1,268	1,634	2,066	2,542	
Net Block	2,497	2,423	2,827	3,001	
Capital WIP	683	736	600	700	
Total Fixed Assets	3,202	3,182	3,450	3,724	
Non Current Assets	2,061	2,256	2,256	2,256	
Inventory	3,963	4,955	5,224	5,498	
Debtors	6,733	7,320	8,395	9,197	
Loans and Advances	1,409	1,700	1,700	1,700	
Other Current Assets	4,675	6,007	6,096	6,112	
Cash	1,556	2,552	2,905	3,118	
Total Current Assets	18,646	22,862	24,649	25,956	
Current Liabilities	2,567	2,785	3,215	3,499	
Provisions	1,476	1,593	1,726	1,872	
Total Current Liabilities	13,939	17,374	18,485	18,974	
Net Current Assets	4,707	5,488	6,164	6,982	
Total Assets	9,972	10,927	11,871	12,963	

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement					₹ crore
(₹ Crore)	FY20	FY21P	FY22E	FY23E	
Profit after Tax	1,794	2,065	2,324	2,637	
Depreciation	350	366	432	476	
Interest	3	6	5	5	
Cash Flow before WC changes	2,147	2,438	2,761	3,118	
Changes in inventory	492	(992)	(270)	(274)	
Changes in debtors	(1,364)	(587)	(1,075)	(803)	
Changes in loans & Advances	178	(291)	-	-	
Changes in other current assets	(1,408)	(1,331)	(89)	(17)	
Net Increase in Current Assets	(2,130)	(3,221)	(1,434)	(1,093)	
Changes in creditors	994	218	430	284	
Changes in provisions	96	117	134	146	
Net Inc in Current Liabilities	2,591	3,435	1,111	488	
Net CF from Operating activities	2,608	2,652	2,439	2,513	
Changes in deferred tax assets	(26)	34	-	-	
(Purchase)/Sale of Fixed Assets	(746)	(346)	(700)	(750)	
Net CF from Investing activities	(829)	(540)	(700)	(750)	
Dividend and Dividend Tax	(910)	(1,169)	(1,315)	(1,492)	
Net CF from Financing Activities	(944)	(1,117)	(1,385)	(1,550)	
Net Cash flow	834	995	354	213	
Opening Cash/Cash Equivalent	722	1,556	2,552	2,905	
Closing Cash/ Cash Equivalent	1,556	2,552	2,905	3,118	

*calculated, Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	7.4	8.5	9.5	10.8
Cash per Share	6.4	10.5	11.9	12.8
BV	40.4	44.4	48.3	52.8
Dividend per share	3.1	4.0	4.5	5.1
Dividend payout ratio	0.4	0.5	0.5	0.5
EBITDA Margin	21.1	22.6	21.0	21.2
PAT Margin	14.2	14.9	14.6	14.8
RoE	18.2	19.1	19.7	20.5
RoCE	25.1	27.1	26.7	27.7
RoC	28.5	33.9	33.6	34.7
EV / EBITDA	11.6	9.6	8.9	7.8
P/E	18.5	16.0	14.3	12.6
EV / Net Sales	2.4	2.2	1.9	1.6
Sales / Equity	1.3	1.3	1.4	1.4
Market Cap / Sales	2.6	2.4	2.0	1.8
Price to Book Value	3.4	3.1	2.8	2.6
Asset turnover	1.3	1.3	1.4	1.4
Debtors Turnover Ratio	2.1	2.0	2.1	2.1
Creditors Turnover Ratio	6.2	5.3	5.4	5.4
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.8	3.7	3.6
Quick Ratio	2.7	2.9	2.8	2.7

Source: Company, ICICI Direct Research

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