

# Bharat Electronics

BSE SENSEX

28,265

S&amp;P CNX

8,254



## Stock Info

Bloomberg	BHE IN
Equity Shares (m)	2,437
M.Cap.(INRb)/(USDb)	168.2 / 2.4
52-Week Range (INR)	122 / 56
1, 6, 12 Rel. Per (%)	20/-9/-1
12M Avg Val (INR M)	1175
Free float (%)	44.7

## Financials & Valuations (INR b)

Y/E Mar	2020E	2021E	2022E
Sales	128.5	137.9	159.4
EBITDA	24.2	25.8	29.0
PAT	15.8	17.5	19.9
EBITDA (%)	18.9	18.7	18.2
EPS (INR)	6.5	7.2	8.2
EPS Gr. (%)	(17.9)	10.3	13.7
BV/Sh. (INR)	40.7	44.6	48.9

## Ratios

Net D/E	(0.1)	(0.1)	(0.1)
RoE (%)	15.9	16.1	16.7
RoCE (%)	16.7	16.9	17.5
Payout (%)	40.0	40.0	40.0

## Valuations

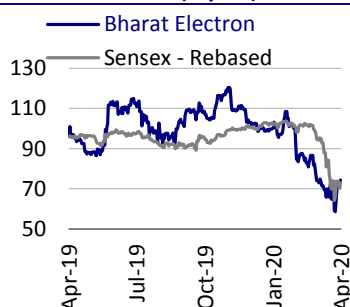
P/E (x)	10.6	9.6	8.5
P/BV (x)	1.7	1.5	1.4
EV/EBITDA (x)	6.6	6.0	5.2
Div Yield (%)	3.8	4.2	4.7
FCF Yield (%)	4.9	7.8	7.1

## Shareholding pattern (%)

As On	Dec-19	Sep-19	Dec-18
Promoter	55.3	55.9	61.9
DII	25.3	25.0	20.8
FII	12.2	11.4	7.1
Others	7.2	7.6	10.3

FII Includes depository receipts

## Stock Performance (1-year)


**CMP: INR69**
**TP: INR86 (+25%)**
**Buy**

## Execution in top gear; Working capital remains key monitorable

- FY20 revenues at record highs:** In a communication to the stock exchanges, Bharat Electronics (BEL) has mentioned that it ended FY20 with record turnover of over INR125b (+6% YoY). The BEL management has further stated that execution could have been higher, if not for the COVID-19 outbreak and the economic slowdown. Execution/acceptance of some major projects could not be completed due to force majeure. Adjusted for the VVPAT/EVM revenue of INR26b last year, FY20 revenue growth stands at 35% YoY. For 4QFY20, the implied execution is likely at INR57.3b (+48% YoY) and better than our expectation. Overall, FY20 revenue is ~9% above our estimate for the full year.
- Execution of large ticket size orders leads revenue beat:** Key projects executed in FY20 include Command & Control Systems, Thermal Imagers for tanks, Upgrades of communication systems, Land-based EW systems, Weapon Repair Facility, Electronic Fuses, various Radars, Smart City Projects, Delhi CCTV project, Schilka upgrade, Avionics Package for LCA, Classroom Jammers, Real Time Information System for Railways and LRSAM. We believe that LRSAM orders entering execution mode now has supported the strong execution.
- Order inflows at INR130b:** The total order inflows for FY20 stood at INR130b. Key new orders include Akash (7 Sqdn), Coastal Surveillance Systems (CSS), Upgrade for EW systems, Radars, AMCs for Radars and Weapon systems, Software Defined Radio (SDR), Sonars, Advanced Communication Systems, etc.
- Order book remains robust at INR518b:** FY20 order book stood at INR518b (flat YoY). This translates into Ob/Rev ratio of 4x, providing strong revenue visibility over the next 3 years. BEL has demonstrated strong execution capability over the years and is well placed in the current troublesome time of COVID-19.
- Working capital remains key monitorable:** While we remain confident of BEL's execution capability and believe it is the best play in the Indian defense sector, we believe the company's re-rating depends on its working capital management. Working capital has deteriorated from 9.8% in FY17 to ~34% currently, leading to negligible FCF generation over the past 4 years. With the government's fiscal deficit likely to come under pressure owing to the economic downturn and COVID-19 related spending, there are risks of working capital worsening further.
- Better placed in turbulent times of COVID-19:** We see limited impact of COVID-19 on India's defense sector spending, which has already been curtailed to the lowest level (as % of GDP). According to media articles, BEL may be roped in for manufacturing ventilators. If this materializes, it can open up a new ~INR10b revenue stream for the company over the next 2 months, which can offset part of the revenue loss, if any, due to the COVID-19 lockdown.
- Valuation and view:** We increase our FY20 earnings estimate by 9% owing to the revenue beat, but largely maintain our FY21/FY22E estimates. We forecast revenue/EBITDA/PAT CAGR of 11%/9%/12% over FY20-22E. We lower our target multiple to 12x from 16x earlier, which is 1SD below its long-term average due to concerns over working capital cycle. Maintain **Buy** with reduced TP of INR86 (Prior: INR115) based on 12x Mar'21E EPS.

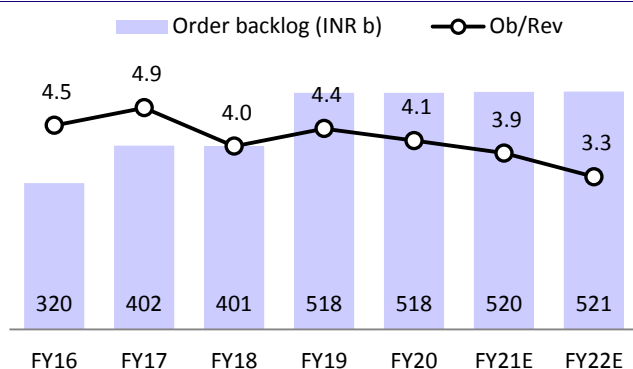
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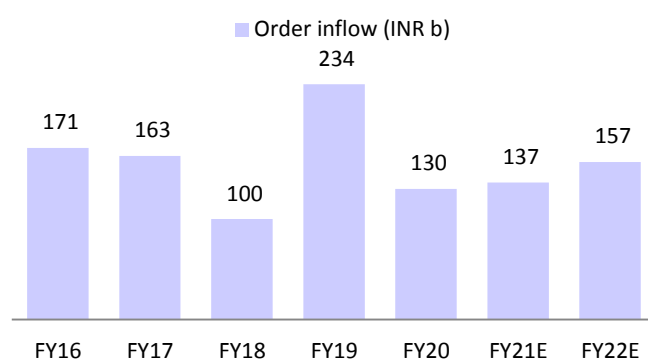
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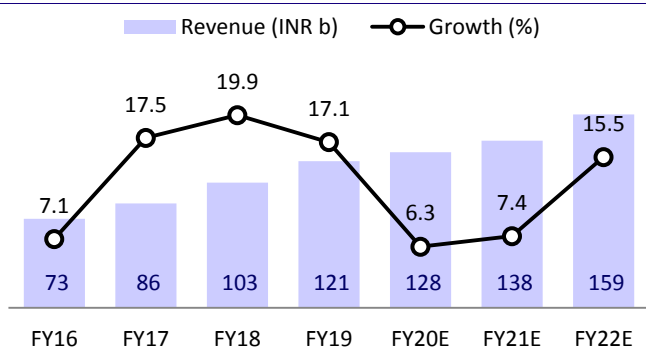
## Story in charts

**Exhibit 1: Comfortable order book position with OB/Rev >3x**


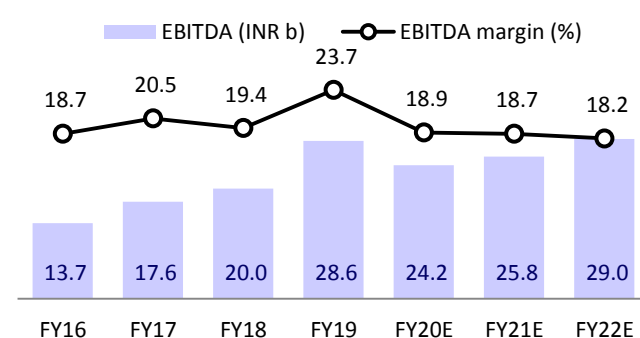
Source: MOFSL, Company

**Exhibit 2: Robust order inflow trend**


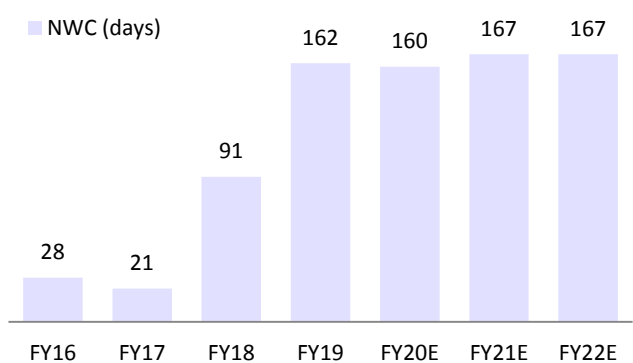
Source: MOFSL, Company

**Exhibit 3: Estimate revenue CAGR of 11.4% over FY20-22E**


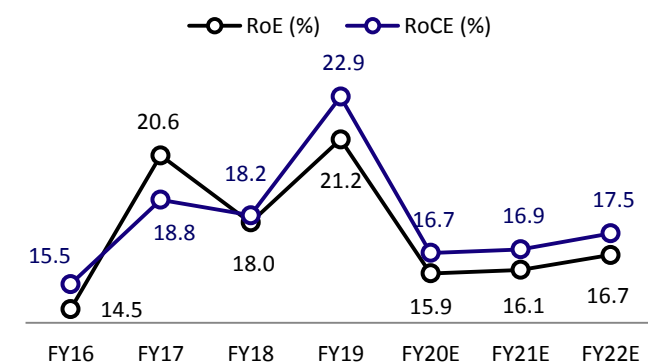
Source: MOFSL, Company

**Exhibit 4: Factored in margin erosion of 70bp over FY20-22E**


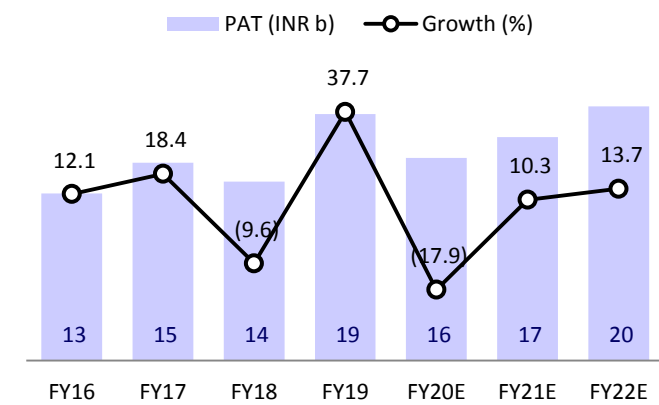
Source: MOFSL, Company

**Exhibit 5: Net working capital days trend**


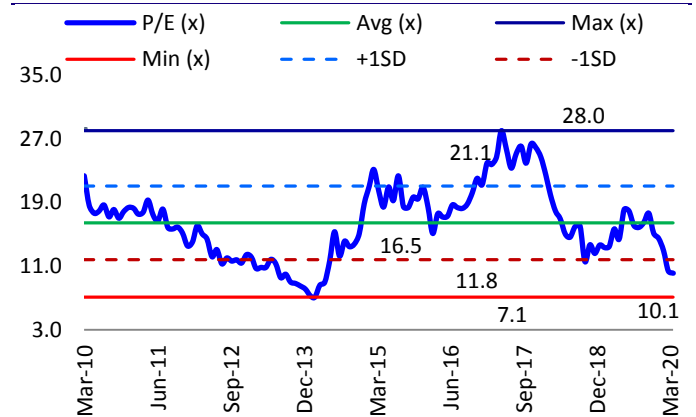
Source: MOFSL, Company

**Exhibit 6: BEL enjoys superior return ratios**


Source: MOFSL, Company

**Exhibit 7: PAT estimated at 12% CAGR over FY20-22E**

Source: MOFSL, Company

**Exhibit 8: BEL trading at 1-yr fwd P/E multiple of 10.1x v/s historical average of 16.5x, provides valuation comfort**

Source: MOFSL

**Exhibit 9: Increase FY20 earnings by 9%, maintain FY21/FY22E estimates**

Earnings Change INR m	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	1,18,352	1,37,293	1,59,557	1,28,453	1,37,937	1,59,365	9.0	0.0	0.0
EBITDA	22,353	25,974	28,981	24,218	25,811	28,993	8.0	-1.0	0.0
EBITDA margin	18.9%	18.9%	18.2%	18.9%	18.7%	18.2%	-0.0	-0.2	0.0
Adj. PAT	14,479	17,581	19,850	15,831	17,460	19,859	9.0	-1.0	0.0

Source: MOFSL, Company

## Financials and valuations

Income Statement						(INR M)
Y/E March	2017	2018	2019	2020E	2021E	2022E
<b>Total Revenues</b>	<b>86,119</b>	<b>1,03,223</b>	<b>1,20,846</b>	<b>1,28,453</b>	<b>1,37,937</b>	<b>1,59,365</b>
Change (%)	17.5	19.9	17.1	6.3	7.4	15.5
Raw Materials	48,600	60,257	67,002	77,072	83,452	98,010
Staff Cost	15,483	17,723	18,791	20,429	21,563	24,403
Other Expenses	4,418	5,246	6,433	6,735	7,110	7,959
<b>EBITDA</b>	<b>17,617</b>	<b>19,997</b>	<b>28,621</b>	<b>24,218</b>	<b>25,811</b>	<b>28,993</b>
% of Total Revenues	20.5	19.4	23.7	18.9	18.7	18.2
Depreciation	1,915	2,510	3,162	3,459	3,857	4,332
Interest	118	13	122	122	122	122
Other income	4,710	2,004	1,695	1,200	1,500	2,000
<b>PBT</b>	<b>20,294</b>	<b>19,478</b>	<b>27,032</b>	<b>21,836</b>	<b>23,333</b>	<b>26,539</b>
Tax	4,818	5,486	7,759	6,005	5,873	6,680
Rate (%)	23.7	28.2	28.7	27.5	25.2	25.2
<b>Adjusted PAT</b>	<b>15,476</b>	<b>13,992</b>	<b>19,273</b>	<b>15,831</b>	<b>17,460</b>	<b>19,859</b>
<b>Reported PAT</b>	<b>15,476</b>	<b>13,992</b>	<b>19,273</b>	<b>15,831</b>	<b>17,460</b>	<b>19,859</b>
Change (%)	18.4	-9.6	37.7	-17.9	10.3	13.7

Balance Sheet						(INR M)
Y/E March	2017	2018	2019	2020E	2021E	2022E
Share Capital	2,234	2,437	2,437	2,437	2,437	2,437
Reserves	72,937	75,512	88,393	96,828	1,06,131	1,16,712
<b>Net Worth</b>	<b>75,170</b>	<b>77,949</b>	<b>90,830</b>	<b>99,265</b>	<b>1,08,568</b>	<b>1,19,149</b>
Loans	167	334	0	0	0	0
Deferred Tax Liability	-5,323	-4,312	-4,712	-4,712	-4,712	-4,712
<b>Capital Employed</b>	<b>70,014</b>	<b>73,971</b>	<b>86,118</b>	<b>94,553</b>	<b>1,03,856</b>	<b>1,14,437</b>
Gross Fixed Assets	19,094	26,572	34,595	40,595	45,595	50,595
Less: Depreciation	3,617	6,127	9,288	12,747	16,604	20,936
<b>Net Fixed Assets</b>	<b>15,477</b>	<b>20,445</b>	<b>25,307</b>	<b>27,847</b>	<b>28,991</b>	<b>29,659</b>
Capital WIP	3,639	3,955	2,751	2,751	2,751	2,751
Investments	4,597	9,032	10,193	10,193	10,193	10,193
<b>Curr. Assets</b>	<b>1,42,525</b>	<b>1,47,167</b>	<b>1,61,672</b>	<b>1,74,730</b>	<b>1,91,820</b>	<b>2,21,913</b>
Inventory	49,050	47,755	44,548	47,352	50,848	58,747
Debtors	43,549	57,046	53,692	59,827	64,244	74,225
Cash & Bank Balance	37,902	7,387	8,840	9,522	14,415	16,947
Loans & Advances	806	730	729	775	832	961
Other Assets	11,219	34,249	53,864	57,254	61,481	71,033
<b>Current Liab. &amp; Prov.</b>	<b>96,225</b>	<b>1,06,627</b>	<b>1,13,804</b>	<b>1,20,968</b>	<b>1,29,899</b>	<b>1,50,079</b>
Current Liabilities	83,222	94,023	1,00,008	1,06,303	1,14,152	1,31,886
Provisions	13,003	12,604	13,796	14,665	15,747	18,194
<b>Net Current Assets</b>	<b>46,301</b>	<b>40,540</b>	<b>47,868</b>	<b>53,762</b>	<b>61,921</b>	<b>71,834</b>
<b>Application of Funds</b>	<b>70,014</b>	<b>73,971</b>	<b>86,118</b>	<b>94,553</b>	<b>1,03,856</b>	<b>1,14,437</b>

## Financials and valuations

### Ratios

Y/E March	2017	2018	2019	2020E	2021E	2022E
<b>Basic (INR)</b>						
<b>Adj EPS</b>	<b>6.3</b>	<b>5.7</b>	<b>7.9</b>	<b>6.5</b>	<b>7.2</b>	<b>8.2</b>
Cash EPS	7.1	6.8	9.2	7.9	8.7	9.9
Book Value	30.6	32.0	37.3	40.7	44.6	48.9
DPS	2.3	2.0	3.4	2.6	2.9	3.3
Payout (incl. Div. Tax.)	36	35	43	40	40	40
<b>Valuation (x)</b>						
P/E	25.4	12.0	8.7	10.6	9.6	8.5
Cash P/E	22.6	10.2	7.5	8.7	7.9	7.0
EV/EBITDA	20.2	8.1	5.6	6.6	6.0	5.2
EV/Sales	4.3	1.6	1.4	1.3	1.1	1.0
Price/Book Value	5.2	2.2	1.9	1.7	1.5	1.4
Dividend Yield (%)	1.4	2.9	4.9	3.8	4.2	4.7
<b>Profitability Ratios (%)</b>						
RoE	20.6	18.0	21.2	15.9	16.1	16.7
RoCE	18.8	18.2	22.9	16.7	16.9	17.5
RoIC	74.6	32.4	30.8	22.1	22.1	22.9
<b>Turnover Ratios</b>						
Debtors (Days)	185	202	162	170	170	170
Inventory (Days)	208	169	135	135	135	135
Asset Turnover (x)	4.3	3.8	3.4	3.1	3.0	3.1
<b>Leverage Ratio</b>						
Debt/Equity (x)	(0.5)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

### Cash Flow Statement

Y/E March	2017	2018	2019	2020E	2020E	2020E
<b>(INR M)</b>						
<b>PBT before EO Items</b>	<b>20,294</b>	<b>19,478</b>	<b>27,032</b>	<b>21,836</b>	<b>23,333</b>	<b>26,539</b>
Depreciation	1,915	2,510	3,162	3,459	3,857	4,332
Interest & other	118	13	122	122	122	122
Direct Taxes Paid	4,818	5,486	7,759	6,005	5,873	6,680
(Inc)/Dec in WC	-12,031	-24,754	-5,875	-5,212	-3,266	-7,380
<b>CF from Operations</b>	<b>5,479</b>	<b>-8,239</b>	<b>16,682</b>	<b>14,201</b>	<b>18,172</b>	<b>16,933</b>
(Inc)/Dec in FA	-6,970	-7,793	-6,820	-6,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>-1,491</b>	<b>-16,032</b>	<b>9,862</b>	<b>8,201</b>	<b>13,172</b>	<b>11,933</b>
(Pur)/Sale of Investments	-1,406	-4,435	-1,161	0	0	0
<b>CF from Investments</b>	<b>-8,375</b>	<b>-12,228</b>	<b>-7,981</b>	<b>-6,000</b>	<b>-5,000</b>	<b>-5,000</b>
(Inc)/Dec in Networth	-24,448	-4,511	2,888	0	0	0
(Inc)/Dec in Debt	167	167	-334	0	0	0
Interest Paid	118	13	122	122	122	122
Dividend Paid	6,457	5,692	9,680	7,396	8,157	9,278
<b>CF from Fin. Activity</b>	<b>-30,856</b>	<b>-10,048</b>	<b>-7,248</b>	<b>-7,518</b>	<b>-8,279</b>	<b>-9,400</b>
<b>Inc/Dec of Cash</b>	<b>-33,752</b>	<b>-30,515</b>	<b>1,453</b>	<b>682</b>	<b>4,893</b>	<b>2,532</b>
Add: Beginning Balance	71,653	37,902	7,387	8,840	9,522	14,415
<b>Closing Balance</b>	<b>37,901</b>	<b>7,387</b>	<b>8,840</b>	<b>9,522</b>	<b>14,415</b>	<b>16,947</b>

## NOTES

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
	we refrain from assigning recommendation

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# Look beyond COVID-19

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Geojit Research

**Stay Home, Stay Safe and Buy safe assets to capitalize from the chaos**

Dated 13<sup>th</sup> April 2020

# Bharat Electronics

CMP:Rs.71

TARGET (12month) : Rs.90

RETURN:+27%

RATING: BUY

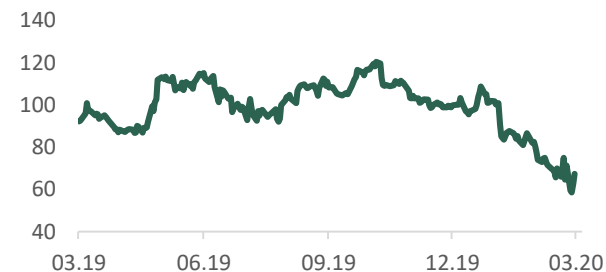
**Bharat Electronics Ltd (BEL) is a Navaratna enterprise having 37% market share in Indian Defence Electronics with core capabilities in radar & weapons systems, defence communication & electronic warfare.**

- BEL is well positioned to benefit from rising defence expenditure, given its technological superiority (in-house R&D spend ~10% of revenues) & strong execution capabilities and GoI focus on indigenous procurement,.
- Covid is not going impact defense spending, while strong execution and dividend yield of 5.4% make it attractive.
- Current order back log is at Rs54,959cr (4.5x FY19 sales), provides strong earning visibility for next 3 years. Order inflow till date was Rs10,000cr.
- Currently BEL is trading at 1 year forward at P/E of 8x which 38% discount of historical average of 13x. Given strong balance sheet, RoE ~20% and dividend yield of 5.4%, its seems attractive, given strong earnings visibility.
- We value BEL at 10x on FY21E and recommend Buy rating with a target price of Rs.90.

Company Data	
Market Cap (cr)	Rs.17,093
Enterprise Value (Cr)	Rs.16,134
Outstanding Shares (cr)	244
Free Float (%)	44.7
Dividend Yield (%)	4.4
52 week high	Rs.122
52 week low	Rs.56
6m average volume (cr)	11.3
Beta	0.81
Face value	Rs.1

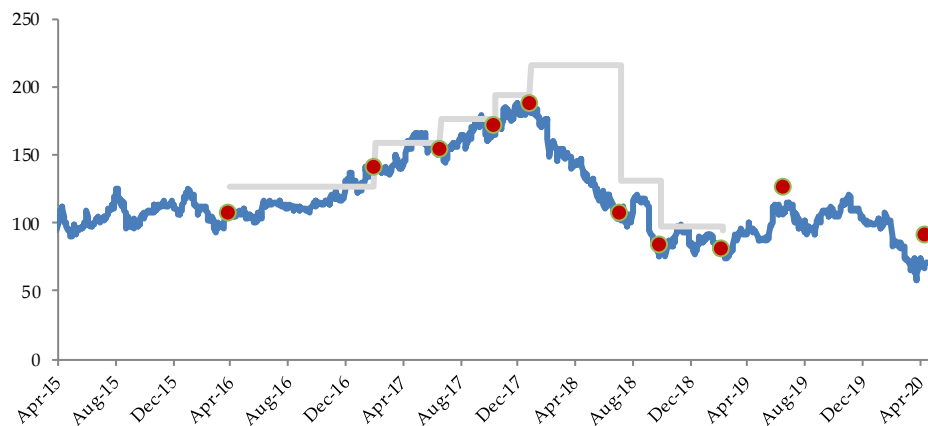
Shareholding %	Q1FY20	Q2FY20	Q3FY20
Promoters	58.8	55.9	55.3
FII's	8.9	11.4	12.2
MFs/Insti	21.9	25.0	25.3
Public	6.7	5.9	5.8
Others	3.7	1.7	1.4
Total	100.0	100.0	100.0
Promoters Pledge	Nil	Nil	Nil

## Price history (1 year)



# General Disclosure and Disclaimer

## 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

## Investment Rating Criteria

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

### 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.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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