

Retail Equity Research (South India Focus)

Bharat Electronics Ltd

Defence Electronics

BSE CODE : 500049 NSE CODE: BEL
BLOOMBERG CODE: BHE:IN SENSEX : 60,068

Accumulate

12 Months Investment Period Rating as per Mid Cap

CMP Rs. 202 TARGET Rs. 228 RETURN 13% ↑
(Closing: 04-11-21)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↑

Strong visibility...eyeing greater pie in non-defence

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

- Q2FY22 Revenue & PAT grew by 15% & 54% YoY led by strong execution.
- EBITDA margin expanded by 380bps YoY to 23.4% on account of scale benefits and lower expenses.
- Order back log is at Rs54,627cr (4x FY21 sales). FY22 order inflow expected to be at Rs17,000cr, provides strong earning visibility for next 3 years.
- BEL's niche technological & execution capabilities and government focus on indigenisation and increasing use of electronics in warfare, higher opportunities in large projects is likely.
- EBITDA margin is expected to be in the range of 22% given higher indigenous content and scale benefits.
- Given strong order book visibility, improvement in execution and stable margin profile ~22%, we recommend "Accumulate" rating on stock. We roll forward to FY24E and value BEL at 18x on FY24E with target price of Rs228.

Execution pick-up...domestic players to gain

Q2FY22 revenue grew by 15% YoY led by pick-up in execution with improvement in supply chains. The New defence acquisition policy (DAP) 2020 is expected to enhance indigenous manufacturing through active participation of public & private sectors and to cut imports. Further, import embargo is in place for large items, given this scenario domestic manufacturers is expected to benefit. With increasing share of electronics in defence equipment's, we believe that BEL will be a key beneficiary out of this.

Order pipeline strong...opportunities in non defence areas

Q2FY22 order inflow was Rs3,690cr. The current order backlog is at Rs54,623cr, 4.0x FY21 sales, provides significant earnings visibility for next 3 years. Management has guided Rs.17,000cr of orders. Going ahead, strong order pipeline led by big ticket orders like QRSAM, repeat orders of LRSAM (missile projects), Electronic warfare systems, Avionics package for light combat aircraft and AWACS etc. BEL is also pursuing opportunities in non defence areas like healthcare which includes ventilators, oxygen concentrators. Also working in smart city projects, airport, vehicle charging infra and also plans to manufacture Lithium cells with indigenous technology. Management plans to scale-up its Non-Defence business to ~25% from current ~10% of total sales. We expect revenue to grow by 14% CAGR over FY21-24E.

EBITDA margin to remain stable...

EBITDA margin improved by 380 bps YoY to 23.4% led by scale benefits & lower cost. PAT grew by 54% YoY. Going ahead, we believe BEL's EBITDA margin will be at ~22% led by higher indigenous content and improved scale. We expect earnings to grow by 14% CAGR over FY21-24E.

Valuations

Strong order backlog and improvement in order pipeline is providing clear earning visibility for next 3 years. Government focus on indigenous procurement and increasing share of electronics in defence, we continue to maintain our positive stance on BEL. We roll forward to FY24E and value BEL at P/E of 18x on FY24E and recommend Accumulate rating, with a target price of Rs228.

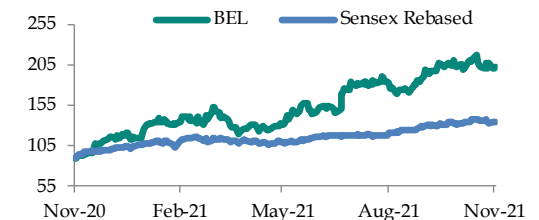
Company Data

Market Cap (cr)	Rs.48,444
Enterprise Value (cr)	Rs.45,430
Outstanding Shares (cr)	244
Free Float	49.0%
Dividend Yield	2.0%
52 week high	Rs.222
52 week low	Rs.89
6m average volume (cr)	0.3
Beta	1.0
Face value	Rs.1

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	51.1	51.1	51.1
FII's	11.6	14.1	15.7
MFs/Institutions	30.2	28.9	28.3
Public	6.0	5.0	4.4
Others	1.1	0.9	0.5
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	15.1%	46.4%	127.1%
Absolute Sensex	10.7%	22.1%	47.9%
Relative Return*	4.4%	24.3%	79.2%

*over or under performance to benchmark index



Standalone(cr)	FY22E	FY23E	FY24E
Sales	16,162	18,148	20,684
Growth (%)	15.0	12.3	14.0
EBITDA	3,523	3,993	4,551
EBITDA Margin(%)	21.8	22.0	22.0
Adjusted PAT	2,403	2,695	3,082
Growth (%)	16.3	12.2	14.4
Adjusted EPS	9.9	11.1	12.6
Growth (%)	16/3	12.2	14.4
P/E	20.5	18.2	16.0
P/B	4.0	3.5	3.1
EV/EBITDA	13.5	11.7	10.0
ROE (%)	20.9	20.7	20.7
D/E	0.0	0.0	0.0

Quarterly Financials

Profit & Loss

	Q2FY22	Q2FY21	YoY growth %	H1FY22	H1FY21	YoY growth %
Sales	3661	3189	15.0	5,295	4,859	9.0
EBITDA	856	623	37.4	919	770	19.4
EBITDA margins	23.4	19.6	+380bps	17.4	16.0	+150bps
Depreciation	94	91	3.0	186	180	3.4
EBIT	762	532	43.3	733	590	24.2
Interest	-	-	-	1	-	-
Other Income	66	27	140.3	111	46	147.3
Exceptional Items	-	-	-	-	-	-
PBT	828	559	48.0	843	635	32.6
Tax	215	397	32.7	219	184	19.0
Share of profit from Associate	-	-	-	-	-	-
Minority Interest	-	-	-	-	-	-
Reported PAT	613	397	54.3	624	451	38.2
Adjustments	-	-	-	-	-	-
Adjusted PAT	613	397	54.3	624	451	38.2
No. of Shares	244.0	244.0	-	244.0	244.0	-
EPS (Rs)	2.5	1.6	54.3	2.6	1.9	38.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	15,865	17,771	16,162	18,148	2.0	2.1
EBITDA	3,490	3,927	3,523	3,993	1.0	1.7
Margins (%)	22.0	22.1	21.8	22.0	(20bps)	(10bps)
Adjusted PAT	2,378	2,665	2,403	2,695	1.0	1.1
EPS	9.8	10.9	9.9	11.1	0.6	1.5

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Sales	12,921	14,064	16,162	18,148	20,684
% change	6.9	8.8	14.9	12.3	14.0
EBITDA	2,730	3,181	3,523	3,993	4,551
% change	-4.6	16.5	10.8	13.3	14.0
Depreciation	350	366	409	499	576
EBIT	2,380	2,815	3,114	3,494	3,975
Interest	3	6	6	7	7
Other Income	102	126	139	155	197
Share of profit	-	-	-	-	-
PBT	2,479	2,935	3,247	3,642	4,165
% change	-8.3	18.4	10.6	12.2	14.4
Tax	685	869	844	947	1,082.9
Tax Rate (%)	0.3	0.3	0.3	0.3	0.3
Reported PAT	1,794	2,065	2,403	2,695	3,082
Adj.*	-	-	-	-	-
Adj. PAT	1,794	2,065	2,403	2,695	3,082
% change	-6.9	15.1	16.3	12.2	14.4
No. of shares (cr)	244	244	244	244	244
Adj EPS (Rs)	7.4	8.5	9.9	11.1	12.6
% change	-6.9	15.1	16.3	12.2	14.4
DPS (Rs)	4.0	4.2	4.2	4.2	4.2
CEPS (Rs)	8.8	10.0	11.5	13.1	15.0

CASH FLOW

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Deprn.	1,794	2,065	2,403	2,695	3,082
Non-cash adj.	437	778	276	351	385
Changes in W.C	301	2,260	(2,268)	(601)	(790)
C.F. Operation	2,533	5,103	411	2,445	2,678
Capital exp.	(726)	(466)	(1,437)	(700)	(1,000)
Change in inv.	19	(2,161)	12	-	-
Other invest.CF	69	60	139	155	197
C.F - Investment	(639)	(2,569)	(1,298)	(545)	(803)
Issue of equity	-	-	-	-	-
Issue/repay debt	(80)	(53)	(6)	(7)	(7)
Dividends paid	(979)	(1,023)	(1,023)	(1,023)	(1,023)
Other finance.CF	-	(43)	-	-	-
C.F - Finance	(1,059)	(1,075)	(1,029)	(1,029)	(1,029)
Chg. in cash	834	1,459	(1,916)	871	846
Closing cash	1,556	3,016	1,041	1,911	2,757

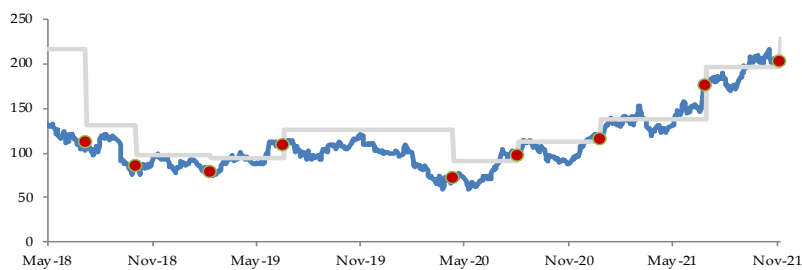
BALANCE SHEET

Y.E March (Rs Cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	1,556	3,016	1,041	1,911	2,757
Accounts Receivable	6,733	6,552	7,749	8,701	9,917
Inventories	3,963	4,955	6,036	6,790	7,739
Other Cur. Assets	6,798	9,520	9,303	10,447	11,906
Investments	1,162	1,331	1,331	1,331	1,331
Gross Fixed Assets	3,764	4,045	5,045	6,045	7,045
Net Fixed Assets	2,497	2,423	3,014	3,514	3,938
CWIP	199	351	800	500	500
Intangible Assets	506	443	455	455	455
Def. Tax (Net)	497	463	497	497	497
Other Assets	-	-	-	-	-
Total Assets	23,911	29,053	30,226	34,147	39,041
Current Liabilities	3,655	4,602	4,276	4,810	5,482
Provisions	1,476	1,750	1,815	2,039	2,323
Debt Funds	2	1	-	-	-
Other Liabilities	8,925	11,893	11,946	13,439	15,316
Equity Capital	244	244	244	244	244
Reserves & Surplus	9,609	10,564	11,944	13,617	15,676
Shareholder's Fund	9,853	10,808	12,188	13,860	15,920
Total Liabilities	23,911	29,053	30,226	34,147	39,041
BVPS	40	44	50	57	65

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab & Return					
EBITDA margin (%)	21.1	22.6	21.8	22.0	22.0
EBIT margin (%)	18.4	20.0	19.3	19.3	19.2
Net profit mgn.(%)	13.9	14.7	14.9	14.9	14.9
ROE (%)	19.0	20.0	20.9	20.7	20.7
ROCE (%)	18.3	20.5	21.0	20.7	20.7
W.C & Liquidity					
Receivables (days)	170.9	172.4	161.5	165.4	164.3
Inventory (days)	216.2	207.9	218.5	226.7	225.3
Payables (days)	161.5	192.5	176.5	160.6	159.6
Current ratio (x)	3.7	3.8	4.0	4.1	4.1
Quick ratio (x)	2.3	2.1	2.1	2.2	2.3
Turnover & Leverage					
Gross asset T.O (x)	3.8	3.6	3.6	3.3	3.2
Total asset T.O (x)	0.6	0.5	0.5	0.6	0.6
Int. covge. ratio (x)	730.2	463.0	510.5	537.5	602.2
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	3.6	3.2	2.9	2.6	2.2
EV/EBITDA (x)	17.2	14.3	13.5	11.7	10.0
P/E (x)	27.4	23.8	20.5	18.2	16.0
P/BV (x)	5.0	4.6	4.0	3.5	3.1

Recommendation summary (Last 3 years)



Dates	Rating	Target
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
03-August-20	BUY	112
28-December-20	BUY	138
30-June-21	BUY	197
08-November-21	Accumulate	228

Source: Bloomberg, Geojit Research.

Investment 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.

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Neutral- The analyst has no investment opinion on the stock under review

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