

Strong all-round performance to continue...

Bharat Electronics (BEL) is expected to ramp up on the execution front in coming years given strong order book size and robust order inflow pipeline over the next couple of years. BEL's strategy to diversify its revenue stream to non-defence segments would de-risk its business given concentrated exposure to defence budgets likely to auger well in long term. BEL is expects to deliver double digit revenue growth over the next two years along with sustained margins at current levels of 20-21%. It expects services to contribute ~10% of revenue in FY21E and gradually to increase to ~25% of revenue over the next five years growing at a CAGR of 10-15%. Overall, diversification strategy, expected double digit growth, sustainable margins and better order inflows suggest a strong performance in the long term.

Strong order pipeline, operational performance to aid execution

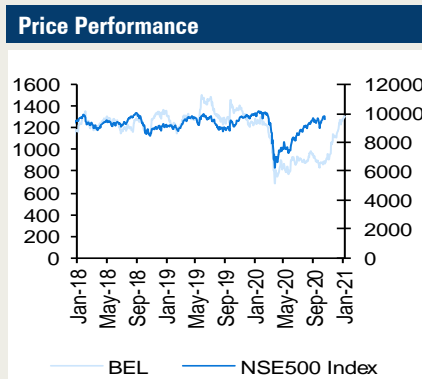
BEL continues to have a strong order book and order inflows. The order book as on Q2FY21 was robust at ₹ 52148 crore (vs. ₹ 53751 crore in Q1FY21). BEL is aiming at order inflows of ~ ₹ 15000 crore for FY21E (vs. ₹ 13000 crore in FY20). It expects orders like Avionics package for LCA, Akash weapon system, LRSAM, smart city business, electronic warfare systems, etc. Future opportunities include Jammer for LCA. Also, LUH and LCH (helicopters) may allow BEL sensors (MAWS and counter-measure dispensers along with HMDS) and weapons to significantly augment BEL's avionics revenue. Going ahead, a further pick-up in execution and a favourable product mix would help BEL stabilise base EBITDA margins at ~20-21%. 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 15% over the next two to three years. On working capital front, government's assurance to release substantial money may stabilise trade receivables in near future. BEL being a zero debt company is able to maintain its working capital without external borrowings.

Valuation & Outlook

Overall, expected double digit revenue growth, sustainable margins, better order inflows and strong order book of ₹ 52148 crore suggests strong performance in 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 introduce FY23E estimates and expect BEL to report revenue, EBITDA, PAT CAGR of 11.6%, 10.4%, 10.2%, respectively, in FY20-23E. We revise our target price from ₹ 110 to ₹ 170 (17x on FY23E EPS) and maintain **BUY** rating.



Particulars	
Particular	Amount
Market Capitalization	₹32650 Crore
Total Debt (FY 20)	₹49.3 Crore
Cash and Inv (FY 20)	₹1556.3 crore
EV (FY 20)	₹31143 Crore
52 week H/L (₹) (BSE)	135 / 56
Equity capital	₹243.7 Crore
Face value	₹1



Key negative 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 of defence PSUs

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Amit Anwani
amit.anwani@icicisecurities.com

Key Financial Summary

(₹crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20E-23E)
Revenues	12,085	12,921	13,705	15,512	17,960	11.6
EBITDA	2,862	2,730	2,659	3,062	3,674	10.4
EBITDA margin (%)	23.7	21.1	19.4	19.7	20.5	
Net Profit	1,927	1,794	1,686	1,988	2,402.8	10.2
EPS (₹)	7.9	7.4	6.9	8.2	9.9	
P/E (x)	16.9	18.2	19.4	16.4	13.6	
EV/EBITDA (x)	11.2	11.4	11.9	10.2	8.5	
RoCE (%)	30.0	25.1	22.3	24.0	26.6	
RoE (%)	21.4	18.2	15.9	17.3	19.1	

Source: Company, ICICI Direct Research

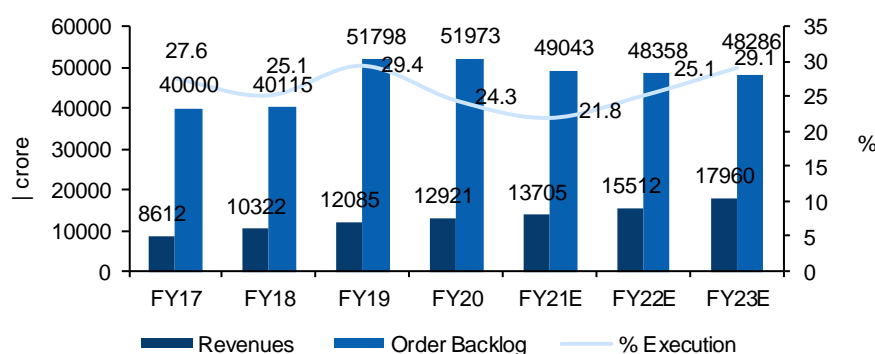
Exhibit 1: Change in estimates

	FY20		FY21E		FY22E		FY23E	
(₹Crore)	Actual	Old	New	% Change	Old	New	% Change	Introduced
Revenue	12,921	13,705	13,705	0.0	15,307	15,512	1.3	17,960
EBITDA	2,730	2,659	2,659	0.0	3,022	3,062	1.3	3,674
EBITDA Margin (%)	21.1	19.4	19.4	0 bps	19.7	19.7	0 bps	20.5
PAT	1,794	1,686	1,686	0.0	1,958	1,988	1.5	2,403
EPS (₹)	7.4	6.9	6.9	0.0	8.0	8.2	2.0	9.9

Source: Company, ICICI Direct Research

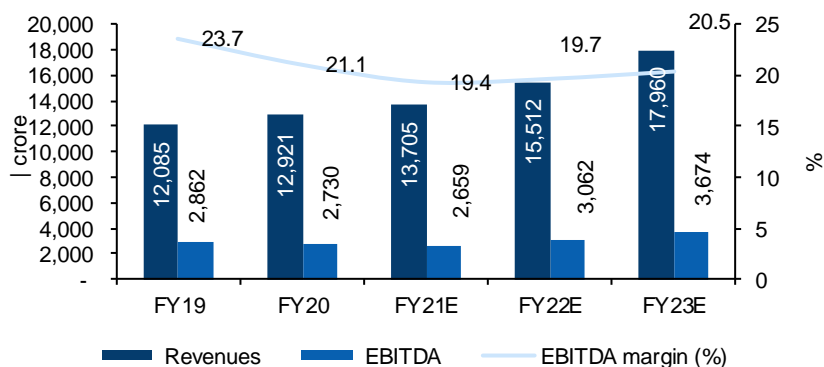
Financial story in charts

Exhibit 2: Order backlog and percentage execution



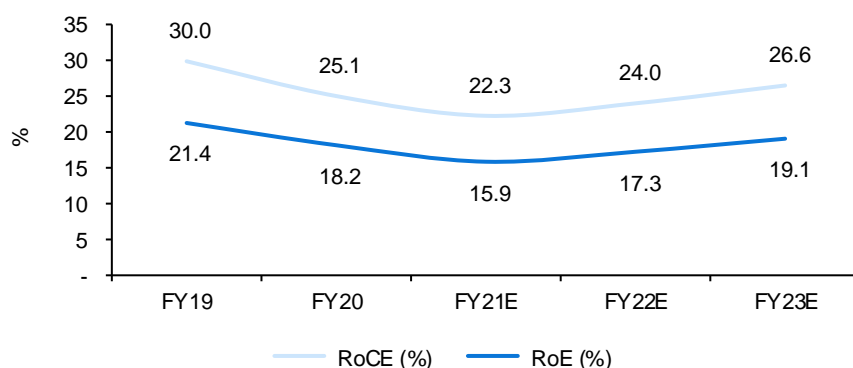
Source: Company, ICICI Direct Research

Exhibit 3: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 4: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement					₹ crore
(₹Crore)	FY20	FY21E	FY22E	FY23E	
Net Sales	12,608	13,430	15,185	17,572	
Other operating income	313	275	326	388	
Revenue	12,921	13,705	15,512	17,960	
% Growth		6.1	13.2	15.8	
Other income	101.9	125.0	168.0	186.0	
Total Revenue	13,023	13,837	15,512	17,960	
% Growth		6.2	12.1	15.8	
Total Raw Material Costs	7,105	7,554	8,473	9,788	
Employee Expenses	2,058	2,236	2,475	2,776	
Other expenses	1,028	1,256	1,501	1,722	
Total Operating Expenditure	10,191	11,046	12,450	14,286	
Operating Profit (EBITDA)	2,730	2,659	3,062	3,674	
% Growth		(2.6)	15.2	20.0	
Interest	3	10	4	3	
PBDT	2,829	2,774	3,226	3,857	
Depreciation	350	406	458	515	
PBT before Exceptional It	2,479	2,368	2,769	3,342	
Total Tax	685	682	781	939	
PAT before MI	1,794	1,686	1,988	2,403	
Minority Interest	-	-	-	-	
PAT	1,794	1,686	1,988	2,403	
% Growth		(6.0)	17.9	20.9	
EPS	7.4	6.9	8.2	9.9	

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet					₹ crore
(₹Crore)	FY20	FY21E	FY22E	FY23E	
Equity Capital	243.7	243.7	243.7	243.7	
Reserve and Surplus	9,609	10,389	11,260	12,313	
Total Shareholders funds	9,853	10,632	11,504	12,556	
Other Non Current Liabilities	1.3	1.3	1.3	1.3	
Total Debt	49	49	31	31	
Total Liabilities	9,972	10,752	11,604	12,657	
Gross Block	2,985	4,597	5,147	5,847	
Acc: Depreciation	1,268	1,673	2,131	2,647	
Net Block	2,497	2,924	3,016	3,201	
Capital WIP	683	400	600	700	
Total Fixed Assets	3,202	3,347	3,639	3,924	
Non Current Assets	2,061	2,061	2,061	2,061	
Inventory	3,963	4,506	4,824	5,560	
Debtors	6,733	7,698	8,202	9,103	
Loans and Advances	1,409	1,409	1,409	1,409	
Other Current Assets	4,675	4,838	5,119	5,927	
Cash	1,556	1,150	1,389	1,450	
Total Current Assets	18,646	19,910	21,252	23,759	
Current Liabilities	2,567	2,771	3,111	3,543	
Provisions	1,476	1,591	1,664	1,895	
Total Current Liabilities	13,939	14,567	15,350	17,088	
Net Current Assets	4,707	5,342	5,902	6,671	
Total Assets	9,972	10,752	11,604	12,657	

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement					₹ crore
(₹Crore)	FY20	FY21E	FY22E	FY23E	
Profit after Tax	1,794	1,686	1,988	2,403	
Depreciation	350	406	458	515	
Interest	3	10	4	3	
Cash Flow before WC cha	2,147	2,102	2,449	2,921	
Changes in inventory	492	(543)	(318)	(737)	
Changes in debtors	(1,364)	(965)	(505)	(901)	
Changes in loans & Advan	178	-	-	-	
Changes in other current a	(1,408)	(163)	(281)	(808)	
Net Increase in Current As	(2,130)	(1,670)	(1,103)	(2,446)	
Changes in creditors	994	204	340	432	
Changes in provisions	96	115	74	231	
Net Inc in Current Liabilities	2,591	629	783	1,738	
Net CF from Operating acti	2,608	1,060	2,129	2,213	
Changes in deferred tax a	(26)	-	-	-	
(Purchase)/Sale of Fixed I	(746)	(550)	(750)	(800)	
Net CF from Investing activ	(829)	(550)	(750)	(800)	
Dividend and Dividend Tax	(910)	(873)	(1,077)	(1,302)	
Net CF from Financing Act	(944)	(917)	(1,139)	(1,353)	
Net Cash flow	834	(407)	240	60	
Opening Cash/Cash Equiv	722	1,556	1,150	1,389	
Closing Cash/ Cash Equiva	1,556	1,150	1,389	1,450	

*calculated, Source: Company, ICICI Direct Research

Exhibit 8: Key ratios					
(Year-end March)	FY20	FY21E	FY22E	FY23E	
EPS	7.4	6.9	8.2	9.9	
Cash per Share	6.4	4.7	5.7	6.0	
BV	40.4	43.6	47.2	51.5	
Dividend per share	3.1	3.0	3.7	4.4	
Dividend payout ratio	0.4	0.4	0.5	0.5	
EBITDA Margin	21.1	19.4	19.7	20.5	
PAT Margin	14.2	12.6	13.1	13.7	
RoE	18.2	15.9	17.3	19.1	
RoCE	25.1	22.3	24.0	26.6	
RoIC	28.5	23.6	25.7	28.4	
EV / EBITDA	11.4	11.9	10.2	8.5	
P/E	18.2	19.4	16.4	13.6	
EV / Net Sales	2.4	2.3	2.0	1.7	
Sales / Equity	1.3	1.3	1.3	1.4	
Market Cap / Sales	2.5	2.4	2.1	1.8	
Price to Book Value	3.3	3.1	2.8	2.6	
Asset turnover	1.3	1.3	1.3	1.4	
Debtors Turnover Ratio	2.1	1.9	2.0	2.1	
Creditors Turnover Ratio	6.2	5.1	5.3	5.4	
Debt / Equity	0.0	0.0	0.0	0.0	
Current Ratio	3.5	3.6	3.6	3.6	
Quick Ratio	2.7	2.8	2.7	2.7	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah PGDBM; Amit Anwani, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities 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.