

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.

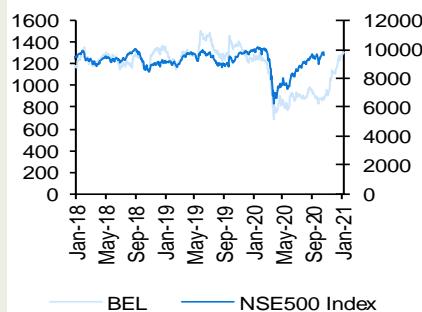


QUALITY. TECHNOLOGY. INNOVATION.

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

Price Performance



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

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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

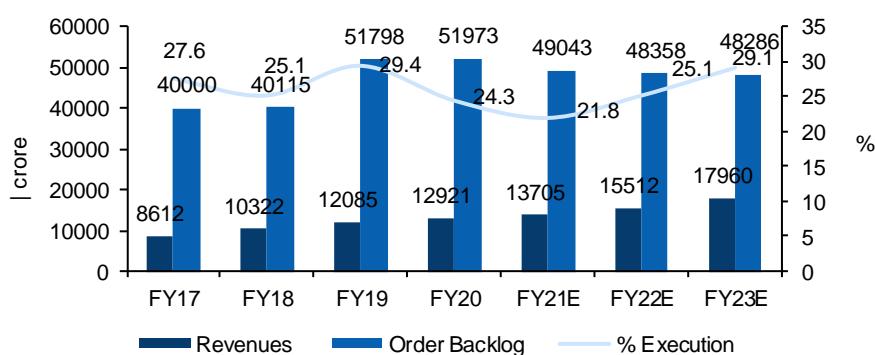
Exhibit 1: Change in estimates

(₹Crore)	FY20		FY21E			FY22E			FY23E	
	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

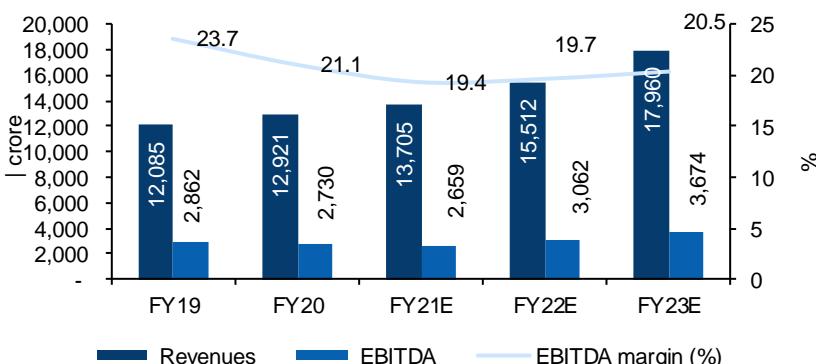
Financial story in charts

Exhibit 2: Order backlog and percentage execution



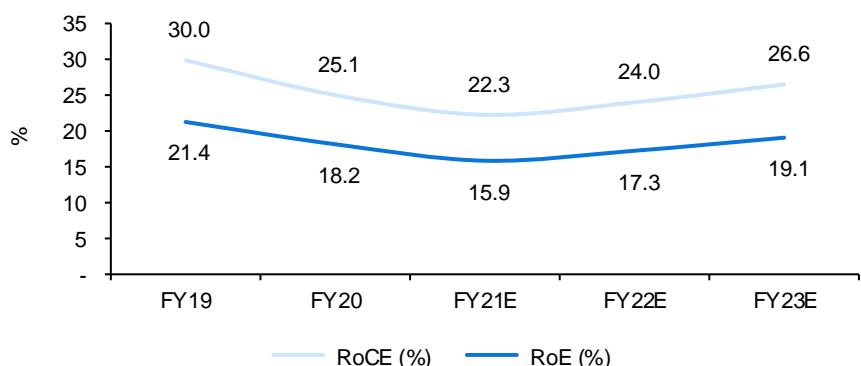
Source: Company, ICICI Direct Research

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)	FY20	FY21E	FY22E	₹ crore
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 Itc	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 6: Cash flow statement				
(₹ Crore)	FY20	FY21E	FY22E	₹ crore
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 A	(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 7: Balance sheet				
(₹ Crore)	FY20	FY21E	FY22E	₹ crore
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 Liabilitie	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 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

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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