

November 19, 2020

Q2FY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	ACCUMULATE		HOLD	
Target Price	110		99	
Sales (Rs. m)	1,54,707	1,76,820	1,41,577	1,57,520
% Chng.	9.3	12.3		
EBITDA (Rs. m)	29,688	34,816	27,169	31,016
% Chng.	9.3	12.3		
EPS (Rs.)	8.4	9.9	7.6	8.7
% Chng.	10.9	14.4		

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	1,29,211	1,36,845	1,54,707	1,76,820
EBITDA (Rs. m)	27,301	24,618	29,688	34,816
Margin (%)	21.1	18.0	19.2	19.7
PAT (Rs. m)	17,938	16,722	20,537	24,122
EPS (Rs.)	7.4	6.9	8.4	9.9
Gr. (%)	(6.9)	(6.8)	22.8	17.5
DPS (Rs.)	2.4	2.2	2.7	3.2
Yield (%)	2.3	2.1	2.6	3.1
RoE (%)	19.0	16.0	17.6	18.3
RoCE (%)	25.2	20.1	21.7	22.6
EV/Sales (x)	1.8	1.8	1.6	1.4
EV/EBITDA (x)	8.6	9.8	8.1	7.1
PE (x)	14.0	15.0	12.2	10.4
P/BV (x)	2.5	2.3	2.0	1.8

Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.118 / Rs.56
Sensex / Nifty	43,600 / 12,772
Market Cap	Rs.251bn/ \$ 3,382m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.1751.46m

Shareholding Pattern (%)

Promoter's	51.14
Foreign	9.60
Domestic Institution	31.59
Public & Others	7.67
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	14.5	65.5	(7.5)
Relative	6.2	14.6	(14.1)

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Strong execution, Outlook remains positive

Quick Pointers:

- Sales grew by 16% YoY led by ramp up in execution of large value projects like LRSAM, ventilators and IACCS.
- Management expects revenue growth of 10-15% in FY21E with lumpy execution from IACCS, LRSAM, Akash and Homeland Security projects.

Bharat Electronics (BEL) reported a strong quarter where revenue grew by 16% YoY leading to higher profitability. Execution of large value projects such as LRSAM and IACCS, Ventilator (Rs8-9bn) along with smart city & HLS orders led to higher topline. Order inflows declined 78% YoY at Rs16bn as base quarter had high value order of Akash Missile and some deferment of high value orders leading to order book of Rs522bn (down 7% YoY). The key orders booked were electronics warfare system, naval fire-control system, advanced composite communication system and 3D surveillance radar. Export OB improved 26% YoY to USD199mn. Management has guided double digit growth (~10-15%) with strong margins of 20-21% for FY21E.

Given BEL's decent 1HFY21 performance, we believe company not only maintained profitability but has very well maintained its balance sheet. Though working capital stress continued in 1H due to delay in payments from PSU's, we expect it to improve in 2H given improvement in the overall economic activity. Based on healthy 1H and optimistic outlook we have increased our revenue/PAT estimate by 5%/9%/12% and 10%/11%/14% for FY21E/22E/23E. We have upgraded the stock to Accumulate from HOLD with revised TP of Rs110 (earlier TP Rs99).

Strong performance on all fronts: Sales came in at ~Rs32bn (up, 16% YoY) vs (PLe ~Rs27bn) led by better execution despite challenges. EBITDA grew by 14.5% YoY to Rs6.2bn (PLe ~Rs4.4n) with EBITDA margins coming in at 19.6% vs 19.9% in 2QFY20 on account of higher sales. PBT was up 18% YoY to Rs5.6bn (PLe ~Rs3.9bn) due to higher other income (up,82% YoY) and overall strong operating performance. PAT came in at Rs4bn (PLe Rs3bn), up 17% YoY.

Healthy Order book provides revenue visibility: Order inflows for the quarter stood at Rs16bn down 78% YoY (base quarter had high value order Akash Missile) and deferral of high value orders. The key orders booked were Electronics warfare system, Naval fire-control system, advanced composite communication system and 3D surveillance radar. Export OB improved 26% YoY to USD199mn.

Orders expected during FY21E: Electronics Warfare Systems, Akash Weapon System Army, Smart City Business and Avionics package for LCA are various orders expected during FY21E.

Exhibit 1: Q2FY21 Result Overview (Rs mn)- Strong execution leads to higher profitability, Results above estimates

Y/e March	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	YoY gr. (%)	QoQ gr. (%)	1HFY21	1HFY20	YoY gr. (%)
Revenue	27,427	22,710	58,058	16,706	31,887	16.3	90.9	48,593	48,442	0.3
Total Revenues	27,427	22,710	58,058	16,706	31,887	16.3	90.9	48,593	48,442	0.3
Expenditure	21,980	19,163	43,233	15,239	25,652	16.7	68.3	40,891	39,514	3.5
<i>as % of sales</i>	<i>80.1</i>	<i>84.4</i>	<i>74.5</i>	<i>91.2</i>	<i>80.4</i>			<i>84.1</i>	<i>81.6</i>	
Consumption of RM	14,599	12,758	33,130	8,234	17,540	20.1	113.0	25,774	25,164	2.4
<i>as % of sales</i>	<i>53.2</i>	<i>56.2</i>	<i>57.1</i>	<i>49.3</i>	<i>55.0</i>			<i>53.0</i>	<i>51.9</i>	
Employee Cost	5,073	4,513	5,747	5,117	4,969	(2.1)	(2.9)	10,086	10,315	(2.2)
<i>as % of sales</i>	<i>18.5</i>	<i>19.9</i>	<i>9.9</i>	<i>30.6</i>	<i>15.6</i>			<i>20.8</i>	<i>21.3</i>	
Other expenditure	2,308	1,892	4,356	1,888	3,143	36.2	66.5	5,031	4,035	24.7
<i>as % of sales</i>	<i>8.4</i>	<i>8.3</i>	<i>7.5</i>	<i>11.3</i>	<i>9.9</i>			<i>10.4</i>	<i>8.3</i>	
EBITDA	5,447	3,547	14,826	1,467	6,235	14.5	325.0	7,702	8,929	(13.7)
Depreciation	857	861	950	888	914	6.7	2.9	1,802	1,685	6.9
EBIT	4,591	2,686	13,875	579	5,321	15.9	818.7	5,900	7,244	(18.5)
Other Income	150	332	283	184	274	82.4	49.1	458	405	13.2
Interest	12	1	16	1	3	(75.4)	328.6	4	15	(76.0)
PBT	4,729	3,017	14,142	762	5,592	18.3	633.5	6,355	7,633	(16.7)
Total Tax	1,334	866	3,797	221	1,622	21.6	633.5	1,843	2,191	(15.9)
Adjusted PAT	3,395	2,151	10,345	541	3,971	17.0	633.5	4,512	5,442	(17.1)
(Profit)/loss from JV's/Ass/MI	-	-	-	-	-	-	-	-	-	-
PAT after MI	3,395	2,151	10,345	541	3,971	17.0	633.5	4,512	5,442	(17.1)
Extra ordinary items	-	-	-	-	-	-	-	-	-	-
Reported PAT	3,395	2,151	10,345	541	3,971	17.0	633.5	4,512	5,442	(17.1)
Adjusted EPS	1.4	0.9	4.2	0.2	1.6	17.0	633.5	1.9	2.2	(17.1)
Margins (%)	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	bps	bps	1HFY21	1HFY20	bps
EBIDTA	19.9	15.6	25.5	8.8	19.6	(31)	1,077	15.9	18.4	(258)
EBIT	16.7	11.8	23.9	3.5	16.7	(5)	1,322	12.1	15.0	(281)
EBT	17.2	13.3	24.4	4.6	17.5	30	1,297	13.1	15.8	(268)
PAT	12.4	9.5	17.8	3.2	12.5	7	921	9.3	11.2	(195)
Effective Tax rate	28.2	28.7	26.8	29.0	29.0	79	(0)	29.0	28.7	30

Source: Company, PL

Analyst Meet Highlights

- In terms of opportunities, government's focus on Aatmanirbhar Bharat programme and recent ban on import of 101 Defence items, management believes Bharat Electronic is well placed to tap upcoming opportunities. Out of 101 items, BEL is already in various stages of discussion for manufacturing ~55 items highlight in the list.
- Management is looking for decent orders from defence segment such as QRSAM (opp. size ~Rs300bn) LRSAM (~Rs500bn order expected), Electronics Warfare Systems, Akash Weapon System (Army), Coastal Surveillance system, Avionics package for LCA, etc. Further, smart city and homeland are another focus area for the company who contributed 10% in OB, 7% in revenue and will likely reach to 15% in next 3 years for Civilian segment. Other areas such critical medical equipment manufacturing, ventilators, services, etc. are also being evaluated.
- **Export Segment:** BEL has expanded its footprint globally with current order book of US\$200mn. Management expects the order book to increase to US\$500mn over 3 years.
- Based on healthy pipeline, management is confident of achieving an order inflow of Rs150-160bn (~Rs50bn already bagged in 1H) for FY21.
- Management iterated its stands on investment in R&D and would invest 8-10% of revenues going ahead.
- Despite pandemic, the management continues to invest heavily in capex and has maintained its capex guidance to the tune of Rs5.5-6bn (Rs1.5bn already invested in 1H) for FY21. The company is setting up new facilities in AP (~1000-acre land) and Telgana (~100acre). Construction at both facilities is progressing well and expects to commence by FY23.
- Further, the company is expecting order from Indian Army for which capex would be ~Rs1.8bn for 100 acres' land in Hyderabad. Construction activity on the site is expected to start soon as initial tendering for construction is complete. The construction activity at Nimaluru plant is in advanced stage and is expected to be commissioned by July '21.
- For 1H, execution was driven by Ventilators orders (include 13,000 ventilators manufactured & delivered). During 1H, there was rise in inventory level for defence projects and management expects to liquidate the inventory in 2H.
- Due to challenge faced by Ministry of defence and various govt authorities, there has been a rise in trade receivables. Management expects the payment cycle to improve and trade receivable to reduce by 70-80% by FY21 end.
- **Outlook:** - Expect revenue growth of 10-15% for FY21E with margins to be around 20-21% in FY21E. Reiterate FY21 order inflow target of Rs150bn. Mega orders (>Rs50bn each) lined up for FY22-25

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	1,29,211	1,36,845	1,54,707	1,76,820
YoY gr. (%)	6.9	5.9	13.1	14.3
Cost of Goods Sold	71,052	73,896	83,542	95,483
Gross Profit	58,160	62,949	71,165	81,337
Margin (%)	45.0	46.0	46.0	46.0
Employee Cost	20,575	24,632	27,847	31,828
Other Expenses	7,071	9,579	10,056	10,609
EBITDA	27,301	24,618	29,688	34,816
YoY gr. (%)	(4.6)	(9.8)	20.6	17.3
Margin (%)	21.1	18.0	19.2	19.7
Depreciation and Amortization	3,496	3,656	4,297	4,932
EBIT	23,805	20,962	25,391	29,884
Margin (%)	18.4	15.3	16.4	16.9
Net Interest	33	34	36	38
Other Income	1,019	1,368	2,027	2,316
Profit Before Tax	24,792	22,297	27,382	32,163
Margin (%)	19.2	16.3	17.7	18.2
Total Tax	6,853	5,574	6,846	8,041
Effective tax rate (%)	27.6	25.0	25.0	25.0
Profit after tax	17,938	16,722	20,537	24,122
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	17,938	16,722	20,537	24,122
YoY gr. (%)	(6.9)	(6.8)	22.8	17.5
Margin (%)	13.9	12.2	13.3	13.6
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	17,938	16,722	20,537	24,122
YoY gr. (%)	(6.9)	(6.8)	22.8	17.5
Margin (%)	13.9	12.2	13.3	13.6
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	17,938	16,722	20,537	24,122
Equity Shares O/s (m)	2,437	2,437	2,437	2,437
EPS (Rs)	7.4	6.9	8.4	9.9

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	37,644	45,644	53,644	61,644
Tangibles	37,644	45,644	53,644	61,644
Intangibles	-	-	-	-
Acc: Dep / Amortization	12,678	16,334	20,631	25,562
Tangibles	12,678	16,334	20,631	25,562
Intangibles	-	-	-	-
Net fixed assets	24,966	29,310	33,013	36,082
Tangibles	24,966	29,310	33,013	36,082
Intangibles	-	-	-	-
Capital Work In Progress	7,059	7,059	7,059	7,059
Goodwill	-	-	-	-
Non-Current Investments	12,232	13,361	14,122	14,951
Net Deferred tax assets	4,974	4,974	4,974	4,974
Other Non-Current Assets	3,408	4,790	4,641	5,305
Current Assets				
Investments	-	-	-	-
Inventories	39,628	48,739	52,982	67,822
Trade receivables	67,329	67,485	74,174	82,355
Cash & Bank Balance	15,577	9,734	9,840	3,437
Other Current Assets	63,321	71,159	77,353	83,106
Total Assets	2,34,137	2,53,006	2,74,732	3,01,884
Equity				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	96,093	1,07,464	1,21,429	1,37,832
Total Network	98,529	1,09,901	1,23,865	1,40,269
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	24,248	18,746	21,193	24,222
Other current liabilities	1,16,334	1,29,333	1,34,648	1,42,367
Total Equity & Liabilities	2,34,137	2,53,006	2,74,732	3,01,884

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	24,792	22,297	27,382	32,163
Add. Depreciation	3,496	3,656	4,297	4,932
Add. Interest	30	34	36	38
Less Financial Other Income	1,019	1,368	2,027	2,316
Add. Other	(321)	-	-	-
Op. profit before WC changes	27,997	25,987	31,715	37,132
Net Changes-WC	3,013	(12,290)	(9,546)	(19,097)
Direct tax	(5,684)	(5,574)	(6,846)	(8,041)
Net cash from Op. activities	25,325	8,123	15,324	9,995
Capital expenditures	(7,264)	(8,581)	(8,610)	(8,640)
Interest / Dividend Income	692	-	-	-
Others	182	-	-	-
Net Cash from Inv. activities	(6,389)	(8,581)	(8,610)	(8,640)
Issue of share cap. / premium	-	-	-	-
Debt changes	(250)	-	-	-
Dividend paid	(9,793)	(5,351)	(6,572)	(7,719)
Interest paid	(30)	(34)	(36)	(38)
Others	(520)	15	-	-
Net cash from Fin. activities	(10,593)	(5,370)	(6,608)	(7,757)
Net change in cash	8,343	(5,828)	106	(6,402)
Free Cash Flow	18,053	123	7,324	1,995

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	7.4	6.9	8.4	9.9
CEPS	8.8	8.4	10.2	11.9
BVPS	40.4	45.1	50.8	57.6
FCF	7.4	0.1	3.0	0.8
DPS	2.4	2.2	2.7	3.2
Return Ratio(%)				
RoCE	25.2	20.1	21.7	22.6
ROIC	21.9	16.6	17.8	17.4
RoE	19.0	16.0	17.6	18.3
Balance Sheet				
Net Debt : Equity (x)	(0.2)	(0.1)	(0.1)	0.0
Net Working Capital (Days)	234	260	250	260
Valuation(x)				
PER	14.0	15.0	12.2	10.4
P/B	2.5	2.3	2.0	1.8
P/CEPS	11.7	12.3	10.1	8.6
EV/EBITDA	8.6	9.8	8.1	7.1
EV/Sales	1.8	1.8	1.6	1.4
Dividend Yield (%)	2.3	2.1	2.6	3.1

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY20	Q4FY20	Q1FY21	Q2FY21
Net Revenue	22,710	58,058	16,706	31,887
YoY gr. (%)	(16.4)	49.5	(20.5)	16.3
Raw Material Expenses	12,758	33,130	8,234	17,540
Gross Profit	9,952	24,929	8,472	14,347
Margin (%)	43.8	42.9	50.7	45.0
EBITDA	3,547	14,826	1,467	6,235
YoY gr. (%)	(53.8)	59.6	(57.9)	14.5
Margin (%)	15.6	25.5	8.8	19.6
Depreciation / Depletion	861	950	888	914
EBIT	2,686	13,875	579	5,321
Margin (%)	11.8	23.9	3.5	16.7
Net Interest	1	16	1	3
Other Income	332	283	184	274
Profit before Tax	3,017	14,142	762	5,592
Margin (%)	13.3	24.4	4.6	17.5
Total Tax	866	3,797	221	1,622
Effective tax rate (%)	28.7	26.8	29.0	29.0
Profit after Tax	2,151	10,345	541	3,971
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	2,151	10,345	541	3,971
YoY gr. (%)	(57.6)	54.7	(73.6)	17.0
Margin (%)	9.5	17.8	3.2	12.5
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,151	10,345	541	3,971
YoY gr. (%)	(57.6)	54.7	(73.6)	17.0
Margin (%)	9.5	17.8	3.2	12.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,151	10,345	541	3,971
Avg. Shares O/s (m)	2,234	2,234	2,234	2,234
EPS (Rs)	1.0	4.6	0.2	1.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Hold	99	94
2	29-Jul-20	Hold	99	97
3	08-Jul-20	Hold	90	104
4	01-Jul-20	Hold	90	89
5	16-Apr-20	Hold	89	70
6	31-Jan-20	Hold	108	101
7	03-Jan-20	Hold	118	101

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	880	894
2	Ahluwalia Contracts (India)	BUY	288	237
3	Ashoka Buildcon	BUY	147	69
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	144
7	Container Corporation of India	BUY	468	378
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	86
11	H.G. Infra Engineering	BUY	259	186
12	IRB Infrastructure Developers	BUY	152	109
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	105
15	Kalpataru Power Transmission	BUY	296	251
16	KEC International	Accumulate	339	338
17	KNR Constructions	BUY	336	255
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	36
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	48
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	790
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,283	1,032

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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