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2015-16 ASIA's MOST ADMIRED BRAND

Bharat Electronics

Weak execution

Q1FY17 Result Update

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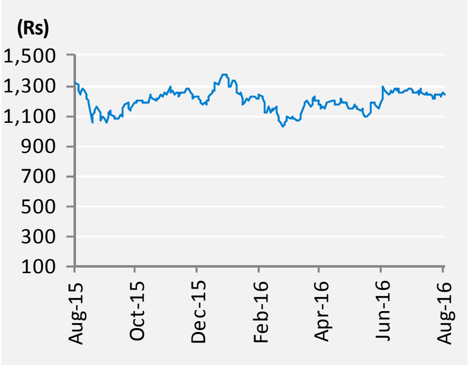
Rating	**Accumulate**
Price	Rs1,240
Target Price	Rs1,454
Implied Upside	17.3%
Sensex	28,183
Nifty	8,711

(Prices as on August 08, 2016)

Trading data			
Market Cap. (Rs bn)			298.0
Shares o/s (m)			240.2
3M Avg. Daily value (Rs m)			395.9
Major shareholders			
Promoters			75.02%
Foreign			3.86%
Domestic Inst.			15.00%
Public & Other			6.13%
Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	(1.4)	0.8	(6.2)
Relative	(5.2)	(15.3)	(6.0)
How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2017	58.3	61.4	*-5.0*
2018	65.3	64.6	*1.1*

Price Performance (RIC: BAJE.BO, BB: BHE IN)



Source: Bloomberg

- **Weak execution led by delay in customer clearance:** Bharat Electronics (BEL) reported sales of Rs8.7bn, down 20% YoY (PLe: Rs11.8bn). Execution suffered due to delay in procuring clearance for shipment from the customer (Hand held thermal imager etc). Management expects revenue to pick up during the course of the year. *Major suppliers during the quarter include 3D tactical control radar, L70 gun upgrade, Fire control systems, New generation Hull mounted sonar etc.* BEL reported EBITDA loss of Rs467mn (PLe: loss of Rs118mn). Other income was up 3% YoY to Rs1.3bn; Adj. PAT was down 52% YoY to Rs361mn (PLe: Rs576mn).

- **Strong order book provides visibility**: Order book at the end of Q1FY17 stood at ~Rs321bn, up 53% YoY. Export order book stood at ~US$103m. Order inflow for Q1FY17 stood at Rs10bn, up 80% YoY. Major orders expected in FY17 include Akash Missile Systems (7 Sqdn), Early warning suite for Fighter Aircraft, Mobile cellular Communication systems, Advanced Composite Communication Systems, Ship Data network, Tactical communication systems., Commander TI Sights etc. *Radars, Missile Systems, Communication and Network Centric Systems, Tank Electronics, Gun Upgrades, Electro-Optic Systems, Electronic Warfare and Avionics Systems* are the key areas that will drive BEL's growth in the medium term.

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Key financials (Y/e March)	**2015**	**2016**	**2017E**	**2018E**
Revenues (Rs m)	68,427	72,952	81,387	91,967
Growth (%)	*9.0*	*6.6*	*11.6*	*13.0*
EBITDA (Rs m)	11,441	14,614	13,018	14,631
PAT (Rs m)	11,672	13,649	14,013	15,690
EPS (Rs)	48.6	18.9	58.3	65.3
Growth (%)	*25.3*	*(61.0)*	*208.0*	*12.0*
Net DPS (Rs)	10.2	4.0	12.2	13.7

Profitability & Valuation	**2015**	**2016**	**2017E**	**2018E**
EBITDA margin (%)	*16.7*	*20.0*	*16.0*	*15.9*
RoE (%)	*15.7*	*16.5*	*14.4*	*14.6*
RoCE (%)	*15.7*	*16.5*	*14.4*	*14.6*
EV / sales (x)	3.5	11.2	2.7	2.4
EV / EBITDA (x)	20.9	56.2	16.6	14.9
PE (x)	25.5	65.5	21.3	19.0
P / BV (x)	3.8	10.2	2.8	2.8
Net dividend yield (%)	*0.8*	*0.3*	*1.0*	*1.1*

Source: Company Data; PL Research

- **Buy-back approved at Rs1305/share:** BEL board approved a buyback of 16.6m shares (~6.8% of outstanding shares) at Rs1305/share amounting to Rs21.7bn. At the end of FY16, BEL had a cash balance of Rs73bn**.**

- **Outlook and Valuation:** The stock is trading at 21.6x FY17E earnings. We believe BEL will be the prime beneficiary of government focus on modernization of current fleet and procurement of new capital equipments. Increased focus on R&D, move towards being system integrator and increased focus on outsourcing are steps in the right direction to increase long term sustainability of business. We continue to believe BEL offers good investment opportunities to investors who want to invest in the Indian Defence sector with a long-term view. We expect stock to deliver earnings CAGR of 11% over FY15-18E. Maintain **'Accumulate'**.

Exhibit 1: Q1FY17 Result Overview (Rs m)

Y/e March (Rs Mn)	Q1FY17	Q1FY16	*YoY gr. (%)*
Net Sales	**8,714**	**10,997**	***(20.8)***
Expenditure			
Raw Material	4,699	6,936	*(32.3)*
% of Net Sales	*53.9*	*63.1*	
Personnel Cost	3,164	2,946	*7.4*
% of Net Sales	*36.3*	*26.8*	
Others	1,319	1,038	*27.1*
% of Net Sales	*15.1*	*9.4*	
Total Expenditure	**9,181**	**10,919**	***(15.9)***
EBITDA	**(467)**	**78**	***(699.4)***
Margin (%)	*(5.4)*	*0.7*	*(856.4)*
Other Income	1,387	1,337	*3.8*
Depreciation	435	408	*6.7*
EBIT	**486**	**1,008**	***(51.8)***
Interest	-	-	
Exceptional Items	-	-	
PBT	**486**	**1,008**	***(51.8)***
Total Taxes	125	241	*(48.0)*
ETR (%)	*25.7*	*23.9*	
PAT	**361**	**767**	***(52.9)***
Other Comprehensive income	(130)	(133)	
Total Comprehensive income	**231**	**634**	***(63.5)***

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	**68,427**	**72,952**	**81,387**	**91,967**
Raw Material Expenses	37,806	37,908	48,018	55,180
Gross Profit	30,621	35,044	33,369	36,787
Employee Cost	12,635	13,018	14,451	15,029
Other Expenses	6,546	7,411	5,901	7,127
EBITDA	**11,441**	**14,614**	**13,018**	**14,631**
Depr. & Amortization	1,540	1,689	1,716	1,807
Net Interest	14	45	34	38
Other Income	4,780	5,322	6,470	7,075
Profit before Tax	**14,667**	**18,202**	**17,738**	**19,861**
Total Tax	2,994	4,553	3,725	4,171
Profit after Tax	**11,672**	**13,649**	**14,013**	**15,690**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**11,672**	**13,649**	**14,013**	**15,690**
Avg. Shares O/S (m)	**240.2**	**720.7**	**240.2**	**240.2**
EPS (Rs.)	**48.6**	**18.9**	**58.3**	**65.3**

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	78,137	87,401	107,829	107,819
Total Debt	—	—	—	—
Other Liabilities	(3,378)	(3,723)	(2,716)	(2,716)
Total Liabilities	**74,759**	**83,678**	**105,113**	**105,103**
Net Fixed Assets	8,305	13,881	9,180	9,373
Goodwill	—	—	—	—
Investments	191	3,179	120	120
Net Current Assets	66,263	66,617	95,814	95,610
Cash & Equivalents	*58,815*	*73,319*	*81,500*	*79,453*
Other Current Assets	*80,504*	*86,119*	*113,050*	*127,747*
Current Liabilities	*73,056*	*92,822*	*98,737*	*111,589*
Other Assets	—	—	—	—
Total Assets	**74,760**	**83,678**	**105,113**	**105,103**

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	18,826	29,488	15,730	17,498
C/F from Investing	(1,434)	(2,886)	(1,394)	(2,000)
C/F from Financing	(150)	(149)	(150)	(150)
Inc. / Dec. in Cash	17,242	26,453	14,186	15,348
Opening Cash	43,274	60,516	86,969	80,140
Closing Cash	60,516	86,969	80,140	93,644
FCFF	16,826	27,489	(7,286)	13,653
FCFE	16,826	27,489	(7,286)	13,653

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	**14,677**	**15,172**	**32,149**	**8,714**
EBITDA	**1,754**	**2,926**	**9,988**	**(467)**
% of revenue	*12.0*	*19.3*	*31.1*	*(5.4)*
Depr. & Amortization	403	414	468	435
Net Interest	(1,373)	(1,353)	(1,296)	(1,387)
Other Income	1,375	1,355	1,336	1,387
Profit before Tax	**2,723**	**3,865**	**10,816**	**486**
Total Tax	656	908	2,799	125
Profit after Tax	**2,068**	**2,957**	**8,017**	**361**
Adj. PAT	**2,068**	**2,957**	**8,017**	**361**

Source: Company Data, PL Research.

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	9.0	6.6	11.6	13.0
EBITDA (%)	28.3	27.7	(10.9)	12.4
PAT (%)	25.3	16.9	2.7	12.0
EPS (%)	25.3	(61.0)	208.0	12.0
Profitability				
EBITDA Margin (%)	16.7	20.0	16.0	15.9
PAT Margin (%)	17.1	18.7	17.2	17.1
RoCE (%)	15.7	16.5	14.4	14.6
RoE (%)	15.7	16.5	14.4	14.6
Balance Sheet				
Net Debt : Equity	(0.8)	(0.8)	(0.8)	(0.7)
Net Wrkng Cap. (days)	(28)	(123)	(85)	(81)
Valuation				
PER (x)	25.5	65.5	21.3	19.0
P / B (x)	3.8	10.2	2.8	2.8
EV / EBITDA (x)	20.9	56.2	16.6	14.9
EV / Sales (x)	3.5	11.2	2.7	2.4
Earnings Quality				
Eff. Tax Rate	20.4	25.0	21.0	21.0
Other Inc / PBT	32.6	29.2	36.5	35.6
Eff. Depr. Rate (%)	6.0	6.1	5.8	5.7
FCFE / PAT	144.2	201.4	(52.0)	87.0

Source: Company Data, PL Research.

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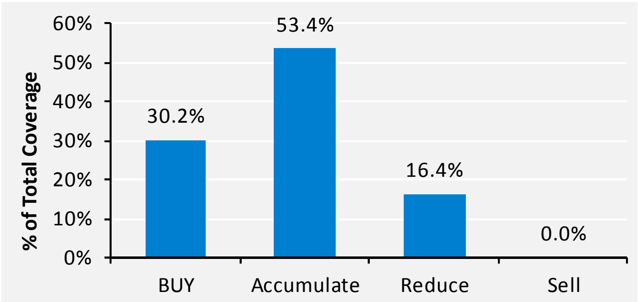

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BUY	:	Over 15% Outperformance to Sensex over 12-months
Accumulate	:	Outperformance to Sensex over 12-months
Reduce	:	Underperformance to Sensex over 12-months
Sell	:	Over 15% underperformance to Sensex over 12-months
Trading Buy	:	Over 10% absolute upside in 1-month
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Not Rated (NR)	:	No specific call on the stock
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