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Q4FY21 result review
and TP change

Defence

Target price: Rs177

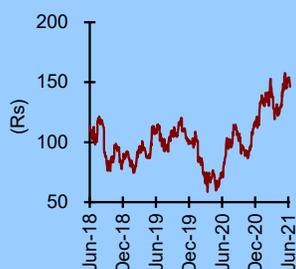
Target price revision
Rs177 from Rs153

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	51.1	51.1	51.1
Institutional investors	41.2	41.6	41.8
MFs and others	25.6	26.3	25.6
FIs/Insurance	5.6	4.6	4.2
FIIIs	10.0	10.7	12.0
Others	7.7	7.3	7.1

Source: BSE India

Price chart



INDIA

Bharat Electronics

BUY

Maintained

Order inflow and execution continue to impress **Rs151**

Bharat Electronics' (BEL) continues to impress with a 9% YoY topline growth and 150bps YoY standalone EBITDA margin expansion for FY21 – a year with a near lost Q1FY21 (revenues declined 20% YoY in Q1FY21) on account of the pandemic. There has been a working capital release of Rs 23bn for FY21, driven by Rs 28bn of H2FY21 working capital release – another remarkable statistic. To add to the achievements, order acquired has been Rs 152bn (~Rs54bn for Q4FY21), thereby maintaining a healthy book to bill of 3.9x on FY21E (standalone) topline of ~ Rs140bn. BEL's performance continues to stand out (execution + margin + orderbook visibility) within listed DPSU space. We continue to maintain BUY with a revised target of Rs177 (Rs153 earlier)

- **FY21 order inflow at Rs152bn.** The FY22 order pipeline is also quite visible with ~Rs125bn of missile orders to BDL and Rs380bn of LCA Mk1A orders to HAL. Q4FY21 witnessed Rs10bn of order inflow from Software defined radio (tactical) for Indian navy. The opportunity from SDR is also significant with BEL already supplying SDR (Naval combat) version and SDR-Air being under evaluation.
- **Near-term order opportunities.** BEL has already accounted for execution of avionics related to LCA Mk 2 as HAL has received Lol for the same. Key elements of the avionics package for LCA Mk 2 include Fly by Wire Digital Flight Control Computer (DFCC). Future opportunities include Jammer for LCA. Also, LUH and LCH (helicopters) may allow sensors (MAWS and counter-measure dispensers along with HMDS) and weapons to significantly augment BEL's avionics revenue.
- **Onus will be on diversification and execution.** BEL targets: i) civilian segment (including medical equipments) to increase from 7% of topline to 15% in the next 2-3 years; ii) to increase the current 10% revenue contribution from service sector (including AMCs); iii) capture a pie of the revenue expenditure budget of the Armed Forces via entry into electronic fuses and RF seekers (new complex in Machilipatnam to be commissioned soon); and iv) gain share in the base business, i.e. *integration of missile complex* (Palasamudram; another separate SBU for QRSAM in Bengaluru), entry into ammunitions, etc. **Diversification away from the base business (Indian defence) is key to achieve medium-term visibility on double-digit revenue growth.**
- **Maintain BUY.** We value BEL at 17x FY23E earnings (vs 15x FY22E earlier). We maintain BUY with a revised target price of Rs177/share. BEL continues to surprise on execution, margins, order inflow, growth despite reaching a commendable scale (compared to Indian defence budget) – FY21 performance highlights the strength of underline business model.

Market Cap	Rs369bn/US\$5bn
Reuters/Bloomberg	BAJE.BO/BHE IN
Shares Outstanding (mn)	2,436.6
52-week Range (Rs)	158/81
Free Float (%)	48.9
FII (%)	12.0
Daily Volume (US\$/'000)	30,872
Absolute Return 3m (%)	19.6
Absolute Return 12m (%)	92.7
Sensex Return 3m (%)	6.1
Sensex Return 12m (%)	52.6

Year to March	FY20	FY21	FY22E	FY23E
Revenue (Rs mn)	129,677	141,087	158,405	176,755
Net Income (Rs mn)	18,239	20,998	24,250	25,398
Dil. EPS (Rs)	7.5	8.6	10.0	10.4
% Chg YoY	(3.3)	15.1	15.5	4.7
P/E (x)	20.2	17.5	15.2	14.5
CEPS (Rs)	9.0	10.2	11.9	12.5
EV/E (x)	12.8	10.5	9.7	8.8
Dividend Yield (%)	1.9	2.6	2.6	2.6
RoCE (%)	24.5	26.6	25.7	23.9
RoE (%)	18.1	19.0	19.4	18.1

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Table 1: Q4FY21 result review (standalone)

(Rs mn)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	% Chg YoY	% Chg QoQ	FY21	FY20	% Chg YoY
Net Sales	58,058	16,706	31,887	22,962	69,083	19.0	200.9	140,638	129,211	8.8
Other Operating income	804	310	237	398	1,513	88.3	280.6	2,457	3,134	(21.6)
Sales Ex Other Op income	57,255	16,396	31,650	22,565	67,571	18.0	199.4	138,182	126,078	9.6
Gross Margin	24,929	8,472	14,347	11,152	28,390	13.9	154.6	62,360	58,160	7.2
Gross Margin (%)	42.9	50.7	45.0	48.6	41.1	(4.3)		44.3	45.0	
Gross Margin ex Other Op Income	24,125	8,162	14,110	10,754	26,877	11.4	149.9	59,903	55,026	8.9
Gross Margin ex Other Op Income (%)	42.1	49.8	44.6	47.7	39.8			43.4	43.6	
Employee Costs	5,747	5,117	4,969	4,539	4,782	(16.8)	5.3	19,407	20,575	(5.7)
EBITDA	14,826	1,467	6,235	4,404	19,706	32.9	347.5	31,811	27,301	16.5
EBITDA Margin (%) on net sales	25.5	8.8	19.6	19.2	28.5	11.7	48.7	22.6	21.1	
EBITDA Ex Other Op Income	14,022	1,158	5,998	4,006	18,193	29.7	354.1	29,355	24,168	21.5
EBITDA Ex Other Op Income (%)	24.5	7.1	19.0	17.8	26.9			21.2	19.2	
PAT	10,345	541	3,971	2,619	13,524	30.7	416.5	20,654	17,938	15.1

Source: Company data, I-Sec research

Table 2: Q4FY21 result review (consolidated)

(Rs mn)	Q4FY21	Q4FY20	%Chg YoY	Q3FY21	%Chg QoQ	FY21	FY20	%Chg YoY
Net Sales / Income from Operations	67,700	57,286	18.2	22,699	198.2	138,497	126,366	9.6
Total Income	69,175	58,168	18.9	23,204	198.1	141,087	129,677	8.8
Expenditure								
Change in Stock	2,920	7,555		(3,091)		(1,247)	2,493	
Consumption of Material	30,542	25,245	21.0	13,192	131.5	67,175	58,970	13.9
Purchase of traded goods	7,236	234	2,999.1	1,727	319.1	12,332	9,510	29.7
Employee Costs	4,807	5,804	(17.2)	4,579	5.0	19,559	20,747	(5.7)
Other Expenditure	3,861	4,391	(12.1)	2,235	72.8	11,163	10,412	7.2
Total Expenditure	49,366	43,228	14.2	18,642	164.8	108,982	102,132	6.7
EBITDA	19,809	14,940	32.6	4,562	334.2	32,105	27,545	16.6
<i>EBITDA Margin</i>	29	26	11.5	20	45.6	23	21	7.1
Other Income	575	286	100.8	235	144.6	1,250	994	25.7
Depreciation	968	1,006	(3.7)	998	(2.9)	3,873	3,718	4.2
Interest and Finance Costs	56	19	190.2	4	1,300.0	64	36	76.9
PBT	19,360	14,201	36.3	3,796	410.1	29,418	24,784	18.7
Tax Expense	5,802	3,812	52.2	1,094	430.2	8,724	6,858	27.2
MI and Profit from associates	124	81	54.3	84	48.2	304	321	(5.2)
PAT	13,682	10,470	30.7	2,785	391.3	20,998	18,247	15.1

Source: Company data, I-Sec research; for YoY comparison refer to summary financials.

Maintain BUY

We maintain BUY with a revised target price of Rs177/share. We value the company as 17x FY23E EPS (vs 15x FY23E earlier).

Key risks

Being able to achieve/reach close to its targeted execution amidst moderating cashflow pressures is the bull case for BEL.

Also, continued strength in order inflows from the base business (Indian defence) can help future execution and reduce the necessity for diversification.

Cause of concern is the extent of cashflow pressures. We expect these pressures to moderate in the medium term with ease in defence budgetary allocation.

Financial summary

Table 3: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Income	129,677	141,087	158,405	176,755
Operating Expenses	102,132	108,982	122,501	138,899
EBITDA	27,545	32,105	35,904	37,856
% margins	21.2	22.8	22.7	21.4
Depreciation & Amortisation	3,719	3,873	4,674	5,074
Gross Interest	36	64	18	18
Other Income	994	1,250	873	873
Recurring PBT	24,784	29,418	32,085	33,638
Less: Taxes	-	-	-	-
Add: Share of profit from associates	6,858	8,724	8,060	8,453
Recurring Net Income	9	-	39	50

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	187,381	237,156	216,220	247,365
of which cash & cash eqv.	16,809	30,429	20,659	35,703
Total Current Liabilities & Provisions	142,120	184,092	148,372	163,097
Net Current Assets	45,261	53,064	67,848	84,268
Investments	1,621	1,899	1,899	1,899
Strategic/Group	1,621	1,899	1,899	1,899
Other Marketable	-	-	-	-
Net Fixed Assets	27,126	26,521	25,908	24,834
Capital Work-in-Progress	8,280	8,827	8,996	9,088
Goodwill	19,076	20,517	20,494	20,545
Total Assets	101,364	110,827	125,144	140,634
Liabilities				
Borrowings	507	82	82	82
Deferred Tax Liability	-	-	-	-
Government Grants	-	-	-	-
Minority Interest	142	150	188	239
Equity Share Capital	2,437	2,437	2,437	2,437
Reserves & Surplus	98,279	108,159	122,438	137,876
Net Worth	100,715	110,596	124,875	140,313
Total Liabilities	101,364	110,827	125,144	140,634

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	22,646	28,884	27,844	29,403
Working Capital Changes	3,058	22,048	(24,554)	(1,376)
Capital Commitments	(7,466)	(4,693)	(4,169)	(4,091)
Free Cashflow	18,238	46,240	(878)	23,936
Investing Cashflow	(6,490)	(25,952)	(3,296)	(3,218)
Issue of Share Capital	-	-	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(250)	(469)	-	-
Others	(9,835)	(10,289)	(9,765)	(9,765)
Extraordinary Items	-	-	-	-
Chg. in Cash	9,130	14,223	(9,770)	15,044

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
EPS(Basic Recurring)	7.5	8.6	10.0	10.4
Diluted Recurring EPS	7.5	8.6	10.0	10.4
Recurring Cash EPS	9.0	10.2	11.9	12.5
Dividend per share (DPS)	2.8	4.0	4.0	4.0
Book Value per share (BVPS)	41.3	45.4	51.2	57.6
Growth Ratios (%)				
Operating Income	6.6	8.8	12.3	11.6
EBITDA	(5.2)	16.6	11.8	5.4
Recurring Net Income	(3.3)	15.1	15.5	4.7
Valuation Ratios (x)				
P/E	20.2	17.5	15.2	14.5
P/CEPS	16.8	14.8	12.7	12.1
P/BV	3.7	3.3	2.9	2.6
EV / EBITDA	12.8	10.5	9.7	8.8
EV / FCF	19.3	7.3	(395.4)	13.9
Operating Ratios (%)				
Raw Material/Sales	54.7	55.5	57.1	58.8
SG&A/Sales	8.0	7.9	7.2	7.2
Other Income / PBT	4.0	4.2	2.7	2.6
Effective Tax Rate	27.7	29.7	25.1	25.1
NWC / Total Assets	0.4	0.5	0.5	0.6
Inventory Turnover	1.8	1.6	1.5	1.5
Asset Turnover	1.3	1.3	1.3	1.3
Net D/E Ratio (x)	(0.2)	(0.3)	(0.2)	(0.3)
Return/Profitability Ratios (%)				
Recurring Net Income Margins	14.1	14.9	15.3	14.4
RoCE	24.5	26.6	25.7	23.9
RoNW	18.1	19.0	19.4	18.1
Dividend Pay-out Ratio	37.4	46.4	40.2	38.4
EBITDA Margins	21.2	22.8	22.7	21.4

Source: Company data, I-Sec research

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