

BHARAT ELECTRONICS | Defence*New order inflow and strong execution sharpens visibility***LKP****Margins surpass street expectations by a long distance in Q4**

BEL reported earnings which were strong at ₹13.5 bn, against a yoy profit of ₹10.3 bn. This growth was at 30.7% yoy. Revenues expanded by 19% yoy at ₹69.1 bn. BEL reported a robust EBITDA performance as it grew by 33% yoy on the back of strong execution and improving cost structure. On the profitability front, EBITDA margins came in at 28.5% which were up by 300 bps yoy and were way above street's estimates. During the full year, revenues/EBITDA/PAT reported growth of 9%/17%/15% and an EBITDA margin of 22.6%. The order book now stands at ₹534 bn with the company adding ₹155bn in FY21 out of which ₹55 bn was added in Q4. BEL also reported very strong operating cash flows for the year, equivalent to past five years of aggregate. Cash levels including deposits and bank balances have breached the ₹50 bn mark from ₹9 bn seen two years ago, reversing the trend of declining cash levels seen in the prior few years.

Healthy growth guidance for the next two years enhances revenue visibility

Order book at the end of FY21 remained healthy at ₹534 bn (3.8x FY21revenue). Earlier, the management had indicated that it bagged orders worth ~₹75 bn till December (and another ₹60 bn+ orders under negotiation) and based on the healthy order pipeline, it was confident of achieving an order inflows of ₹150 bn in FY21E. The company stood by its guidance and added ₹155 bn of order inflow in FY 21. BEL mentioned prospects of a 15-17% yoy growth in revenues in FY2022 and a healthy growth in order inflows for both FY2022 and FY2023. It is banking on a combination of (1) healthy ordering for weapon systems, (2) increasing relevance of electronic warfare systems (3) opening up of the naval air force equipment market on the back of BEL's efforts in indigenization and (4) support from non-defense areas. It shared several business partnerships that it is in process of closing out in the near term in the area of mobility (metros, pilot plant for lithium ion battery manufacturing). BEL expects margin to remain healthy in the 20-22% range versus 22% average seen over the past two years as it factors in the net impact of higher spending on R&D and operating leverage benefits.

To further track the details of the inflow pipeline over the next 2-3 years we foresee that the portfolio shall include electronic warfare (₹120-130 bn), weapon segments like Akash missile, QRSAM, LRSAM, MRSAM, etc. (₹250-300 bn) and naval equipment including radars, sonars, combat management system and communication systems (₹150-200 bn). BEL expects to garner a significant share from the same. QRSAM itself can be ₹170 bn/₹200 bn inflow in FY2022/23. The company also has a good presence in homeland security related products. Over the medium term, it expects an opportunity worth ₹20 bn for supply of EVMs for next elections scheduled in FY2024.

Key Financials	FY 20	FY 21	FY 22E	FY 23E
Total Sales (₹ bn)	129.2	140.6	157.9	176.0
EBITDA Margins (%)	21.1%	22.6%	22.0%	23.0%
PAT Margins (%)	13.9%	14.7%	14.5%	15.2%
EPS (₹)	7.5	8.6	9.5	11.1
P/E (x)	23.4	20.3	18.3	15.7
P/BV (x)	4.3	3.9	3.5	3.2
EV/EBITDA (x)	14.8	12.2	11.0	9.2
ROE (%)	18.2%	19.1%	19.1%	20.3%
ROCE (%)	21.4%	22.9%	22.4%	23.8%
Dividend yield (%)	2.3	2.4	2.7	3.5

Rating	Buy
Current Market Price (₹)	175
12 M Price Target (₹)	212
Potential upside (%)	21

Stock Data

FV (₹) :	1
Total Market Cap (₹ bn) :	426
Free Float Market Cap (₹ bn) :	209
52-Week High / Low (₹) :	84 / 177
2-Year High / Low (₹) :	56 / 177
1 Year Avg. Dly Traded Volume (in lakh)	163
BSE Code / NSE Symbol	500049 / BEL
Bloomberg :	BHE IN

Shareholding Pattern (%)

	Mar-21	Dec-20	Sep-20	Jun-20
GOI	51.14	51.14	51.14	51.14
FPIs	11.58	10.25	9.60	7.86
MFs	25.63	26.26	25.57	25.65
Insurance	3.77	4.30	5.29	6.20
Others	7.88	8.05	8.40	9.15

Source: BSE

Price Performance (%)

(%)	1M	3M	6M	1YR
BEL	21%	43%	52%	99%
Nifty 50	2%	9%	13%	53%

* To date / current date : June 29, 2021

BEL vs Nifty 50

Non-defense initiatives

- **Healthcare** - BEL has delivered the first set of 30,000 ventilators and will now be delivering 25,000 oxygen concentrators and haemo-dialysis machine.
- **Metro** - It expects to grow the metro segment by jointly developing products. It has signed an MoU with the Delhi Metro for design and development of products for future metros, which will be developed in the country. BEL will make the products but intellectual property rights will lie with both the parties. It will work out a royalty-based methodology in this. It also expects to reduce reliance on imported components for metros via indigenized products made by BEL.
- **E-vehicle** - It has signed an MoU with HPCL where they will have their own electric chargers at HPCL outlets. It is also working with e-vehicle manufacturers for batteries for e-vehicles. They are also in process to manufacture lithium cells with indigenous technology or with a foreign technology tie-up. BEL has already entered the space of making battery packs and now plans to set up their own plant to make lithium ion batteries. The total investment is expected to be around ₹5-10 bn and the company is looking out for players who can contribute in technology as well as equity for setting up this project.
- **Space** - BEL is participating in tender for building a PSLV rocket along with Adani and BEML. In aerospace, they are working with HAL and many orders are coming for electro optic sensors and composite manufacturing facility for manufacturing composite parts for the LCA program. It will also work on the navigational platform.
- **Smart city** - The company is already doing a lot of projects in the smart city segment and expects to expand in smart cities in a much bigger way. It is already working very closely with the Airports Authority to increase indigenization in upcoming airports of India.

Capex outlook

It is investing in setting up facilities in Neemaluru for electro-optics and IF seekers, Palasamudram for RF seekers, Telangana for EW system, Devanhalli for space electronics division and Nagpur for electronic fuses, e-vehicles and artillery ammunition. It expects to spend nearly ₹8 bn over the next two years on capex.

Margin outlook remains bright

BEL is confident of maintaining margins around 20-22% for FY2022E despite higher commodity prices as it has a strong indigenous portfolio of products, which has reduced dependence on imports and other commodity prices. In order to address semi-conductor shortage, the company plans to create its own foundry for manufacturing semi-conductors if the current situation of shortage doesn't ease out. Also, BEL intends to add nearly 1,000 employees for new competencies. It intends to reduce employee cost to 12% of sales going forward on higher outsourcing of certain functions.

Quarterly Financial Snapshot

(₹ mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Total net sales	69,084	22,962	200.9%	58,058	19.0%
RM cost	40,693	11,811	244.5%	33,130	22.8%
Employee cost	4,782	4,539	5.4%	5,747	-16.8%
Other expenses	3,903	2,209	76.7%	4,356	-10.4%
EBITDA	19,706	4,403	347.5%	14,826	32.9%
EBITDA Margins (%)	28.5%	19.2%	930 bps	25.5%	300 bps
Other income	572	231	147.3%	283	102.0%
Depreciation	917	945	-3.0%	950	-3.5%
Interest	56	2	3368.8%	16	244.7%
PBT	19,305	3,688	423.4%	14,142	36.5%
Tax	5,782	1,070	440.5%	3,797	52.3%
PAT	13,524	2,619	416.5%	10,345	30.7%
PAT margins (%)	19.6%	11.4%	71.7%	17.8%	9.9%
Exceptional items	-	-	N/A	-	N/A
Adjusted PAT	13,524	2,619	416.5%	10,345	30.7%
APAT margins (%)	20.0%	11.6%	840 bps	18.1%	190 bps

Source: Company, LKP Research

Outlook and Valuation

BEL reported a strong FY2021 on all key metrics. It is leveraging its past R&D investments and change in defense ministry's stance on import ban and increasing its levels of indigenization. Its impetus on outsourcing low-value-addition functions is further helping in improving and de-risking its cost structure. BEL is expected to utilize the above cost savings to increase its spending on R&D and capex and enter new markets. BEL has been able to negate the overhang of lower margin in nomination-based contracts by reducing quantum of imports. It is also focusing on up-skilling its workforce and adding to employee count in new areas with good growth prospects. Its strong order book, well-defined and distinct order pipeline gives us a very strong visibility over mid to long term. BEL's new initiatives in non-defense streams is expected to gain momentum soon and contribute meaningfully to the topline. On the back of strong topline and margin performance, huge cash surplus raised in FY 21, comfortable WC cycle, rich return ratios and 50% dividend payout ratio, we have raised our target price on higher estimates to ₹212 (19x FY 23E earnings).

Trend of order inflow (₹ bn)



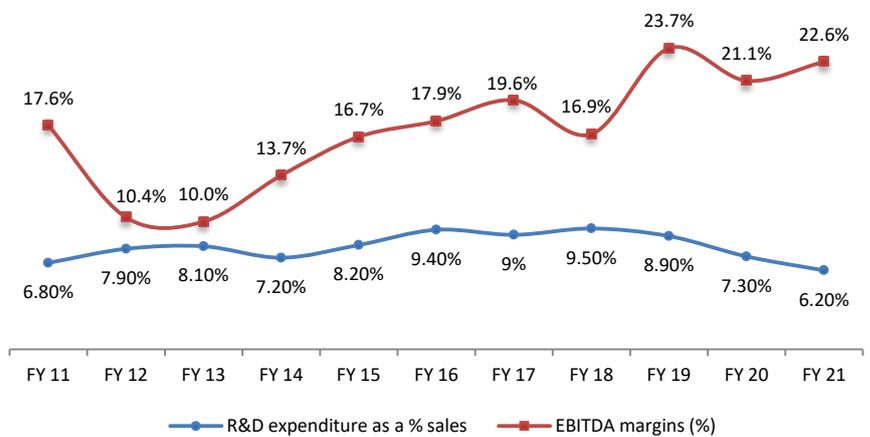
Source: Company, LKP Research

Number of employees Employee cost per employee(Rs mn)



Source: Company, LKP Research

R&D expenditure v/s EBITDA margins



Source: Company, LKP Research

Income Statement

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Total Revenues	1,29,211	1,40,638	1,57,870	1,76,000
Raw Material Cost	71,052	78,278	87,618	95,040
Employee Cost	20,575	19,407	22,891	24,640
Other Exp	10,283	11,142	12,630	15,840
EBITDA	27,301	31,812	34,731	40,480
EBITDA Margin(%)	21.1%	22.6%	22.0%	23.0%
Depreciation	3,496	3,663	4,201	4,651
EBIT	23,805	28,148	30,531	35,829
EBIT Margin(%)	18.4%	20.0%	19.3%	20.4%
Other Income	1,019	1,261	1,280	1,300
Interest	33	61	50	45
PBT	24,792	29,348	31,761	37,084
PBT Margin(%)	19.2%	20.9%	20.1%	21.1%
Tax	6,853	8,694	8,893	10,384
Adjusted PAT	17,938	20,654	22,868	26,701
APAT Margins (%)	13.9%	14.7%	14.5%	15.2%
Exceptional items	0	0	0	0
PAT	17,938	20,654	22,868	26,701
PAT Margins (%)	13.9%	14.7%	14.5%	15.2%

Key Ratios

YE Mar	FY 20	FY 21	FY 22E	FY 23E
Per Share Data (₹)				
Adj. EPS	7.5	8.6	9.5	11.1
CEPS	8.9	10.2	11.3	13.1
BVPS	41.1	45.1	49.9	54.9
DPS	4.1	4.3	4.8	6.1
Growth Ratios(%)				
Total revenues	6.9%	8.8%	12.3%	11.5%
EBITDA	21.1%	22.6%	22.0%	23.0%
EBIT	-6.5%	18.2%	8.5%	17.4%
PAT	-6.9%	15.1%	10.7%	16.8%
Valuation Ratios (X)				
PE	23.4	20.3	18.3	15.7
P/CEPS	19.6	17.2	15.5	13.4
P/BV	4.3	3.9	3.5	3.2
EV/Sales	3.1	2.8	2.4	2.1
EV/EBITDA	14.8	12.2	11.0	9.2
Operating Ratios (Days)				
Inventory days	110.5	127.6	110.0	100.0
Receivable Days	190.2	179.4	165.0	160.0
Payables day	92.0	110.4	88.0	80.0
Net Debt/Equity (x)	0.00	0.00	0.00	0.00
Profitability Ratios (%)				
ROCE	21.4%	22.9%	22.4%	23.8%
ROE	18.2%	19.1%	19.1%	20.3%
Dividend payout ratio (%)	54.6%	49.5%	50.0%	55.0%
Dividend yield(%)	2.3	2.4	2.7	3.5

Source: Company, LKP Research

Balance Sheet

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
Equity and Liabilities				
Equity Share Capital	2,437	2,437	2,437	2,437
Reserves & Surplus	96,093	1,05,642	1,17,076	1,29,092
Total Networth	98,530	1,08,079	1,19,513	1,31,528
Total debt	0	0	0	0
Long term provisions	11,606	14,074	16,074	18,074
Deferred tax assets/liabilities	689	649	649	649
Other long term liabilities	507	82	82	82
Current Liab & Prov				
Trade payables	32,567	42,533	38,062	38,575
Short term provisions+ borrowings	3,154	3,425	3,425	3,425
Other current liabilities	92,060	1,21,689	1,25,689	1,29,689
Total current liab and provs	1,27,781	1,67,647	1,67,176	1,71,689
Total Equity & Liabilities	2,39,112	2,90,531	3,03,494	3,22,023
Assets				
Net block	24,966	24,227	26,026	26,375
Capital WIP	1,994	3,507	4,507	5,507
Intangible assets under devt	5,065	4,430	4,430	4,430
Non current investments	12,233	13,667	13,667	13,667
Long term loans and advances	5,500	5,028	5,028	5,028
Other non current assets	3,408	3,908	3,908	3,908
Total fixed assets	53,166	54,766	57,565	58,915
Cash, cash equiv & bank deposits	17,183	50,156	58,421	67,924
Inventories	39,102	49,153	47,577	48,219
Trade receivables	67,329	69,142	71,366	77,151
Other current assets	62,332	67,314	68,564	69,814
Total current Assets	1,85,946	2,35,765	2,45,928	2,63,108
Total Assets	2,39,112	2,90,531	3,03,494	3,22,023

Cash Flow

(₹ mn)	FY 20	FY 21	FY 22E	FY 23E
PBT	24,792	29,348	31,761	37,084
Depreciation	3,496	3,663	4,201	4,651
Interest	30	58	50	45
Chng in working capital	3,008	22,659	-369	-1,163
Tax paid	-5,684	-5,323	-8,893	-10,384
Other operating activities	-323	644	0	0
Cash flow from operations (a)	25,318	51,034	26,749	30,233
Capital expenditure	-7,272	-4,677	-7,000	-6,000
Chng in investments	-1,140	-1,678	0	0
Other investing activities	2,023	-19,331	0	0
Cash flow from investing (b)	-6,389	-25,686	-7,000	-6,000
Free cash flow (a+b)	18,929	25,348	19,749	24,233
Inc/dec in borrowings	-250	-83	0	0
Dividend paid (incl. tax)	-9,793	-10,227	-11,434	-14,685
Interest paid	-30	-58	-50	-45
Other financing activities	-513	0	0	0
Cash flow from financing (c)	-10,586	-10,755	-11,484	-14,730
Net chng in cash (a+b+c)	8,343	14,594	8,265	9,503
Closing cash & cash equivalents	15,562	30,156	38,421	47,924

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