



Bharat Electronics Ltd.(#)

Market Cap. (in Mn)
Rs. 265,588
52 Week H/L
RS.117/73
CMP
Rs.109
Target Price
Rs.139

STOCK DATA

Recommendation	BUY
Reuters Code	BAJE.BO
Bloomberg Code	BHE IN
BSE Code	500049
NSE Symbol	BEL
Face Value	Rs. 1
Shares Outstanding*	2,437 Mn
Avg. Daily Volume (6m)	12,321,761 shares
Price Performance (%)	
1M	3M
13	(2)
6M	18
200 Days EMA Rs. 102	

* On fully diluted equity Shares

SHARE HOLDING (%)

Promoters	58.8
FII	8.9
FI/Bank	21.9
Body Corporate	3.4
Public & Others	7.0

Pacesetter with a focus on technological innovation making strategic efforts to stay competitive

BEL is staying ahead of the curve with efforts like investing close to 10% of its turnover in R&D, making regular CAPEX to modernize its plants, machinery and infrastructure, and consistently changing its employee mix where the percentage of scientists and engineers now stands above 50% of the overall workforce. The effects of these moves are evident in the increasing share of Indigenous products and diminishing share of ToT products in the revenue. These initiatives ensure that BEL stays competitive in a rapidly evolving technological environment.

Healthy Order Book and Order Inflow gives good visibility for near future

BELs order book as of 1st April 2019 stood at Rs. 51,798 Cr, and had order inflows of Rs. 23,431 Cr in FY19. The current order book gives a visibility for the next 4.3 years. To add to it, the execution of orders has also picked up and has helped improve BELs inventory turnover and its return ratios.

Strong Financial performance yielding good net income, which is being shared with the shareholders

BELs revenue has grown at a CAGR of 15.3% over the last 5 years. EBITDA has grown at a CAGR of 25.8% over the last 5 years. The company had a net income of Rs.1,927.3 Cr and a net margin of 15.9% for FY19. The company has increased its Dividend Payout consistently over the last 5 years, up to 43% in FY19 from 22% in FY15.

OUTLOOK & VALUATION

We believe BEL is well positioned to benefit from rising defence expenditure based on its strong manufacturing platform which is supported by R&D and regular Capex towards up-gradation of its technologies and infrastructure. BEL has a proven track record of operational excellence as well as an order book that gives good visibility for the near term. We believe BELs topline can grow at 14% CAGR over FY19-21E backed by improved order execution. As the election season is behind us, we believe the revenue from Defence segment should bump up to its usual ~85% levels. We estimate FY21E PAT to come at Rs.22,516 Mn & EPS to come at Rs. 9.24. We assign a P/E multiple of 15x and arrive at a target price of Rs.139 for FY21E which is an upside of 29%.

Y/E Mar	Revenue (Rs. Mn)	EBITDA (Rs. Mn)	PAT (Rs. Mn)	NPM (%)	REPS (Rs.)	P/E (x)	P/S (x)	P/BV (x)
FY18	103,223	19,997	13,993	13.6	5.7	24.7	3.4	4.5
FY19	120,846	28,621	19,273	15.9	7.9	11.8	1.9	2.5
FY20E	138,973	30,227	18,669	13.0	7.7	15.0	2.0	2.9
FY21E	157,039	36,512	22,516	14.0	9.2	15.0	2.2	3.1

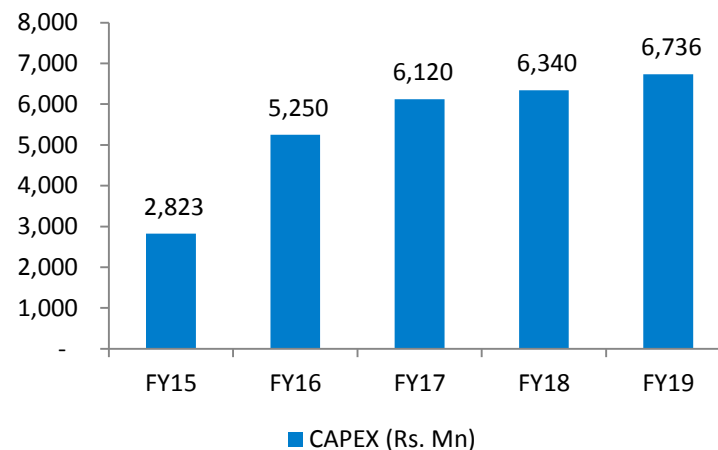
Investment Rationale- Focus on Technological Development & R&D

Consistent efforts to stay up to date with the latest technologies and maintain international infrastructure standards. This is supported by a CAPEX cycle funded fully through internal accruals.

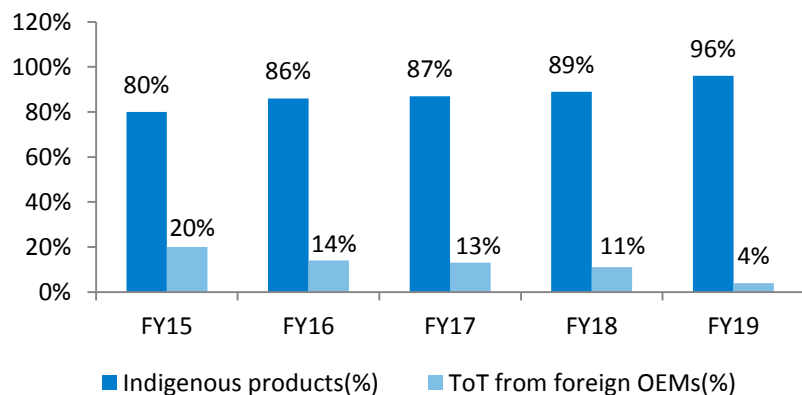
The CAPEX is mainly done towards Modernization of Plant and Machinery, Test Instruments, R&D investments , Infrastructure up gradation etc.

Following facilities were established in FY19

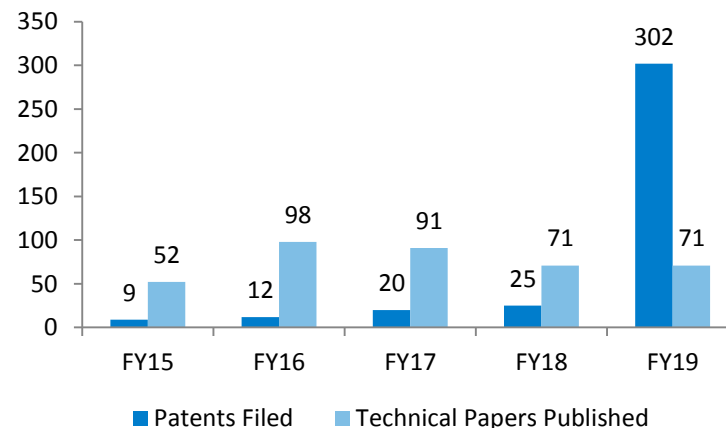
- A shock test facility
- High temperature test facility
- Surface Mount Technology (SMT) Assembly line.



Driven by R&D, most of BELs products are indigenous, only a small portion of the sales comes from products developed using foreign technology under ToT agreements

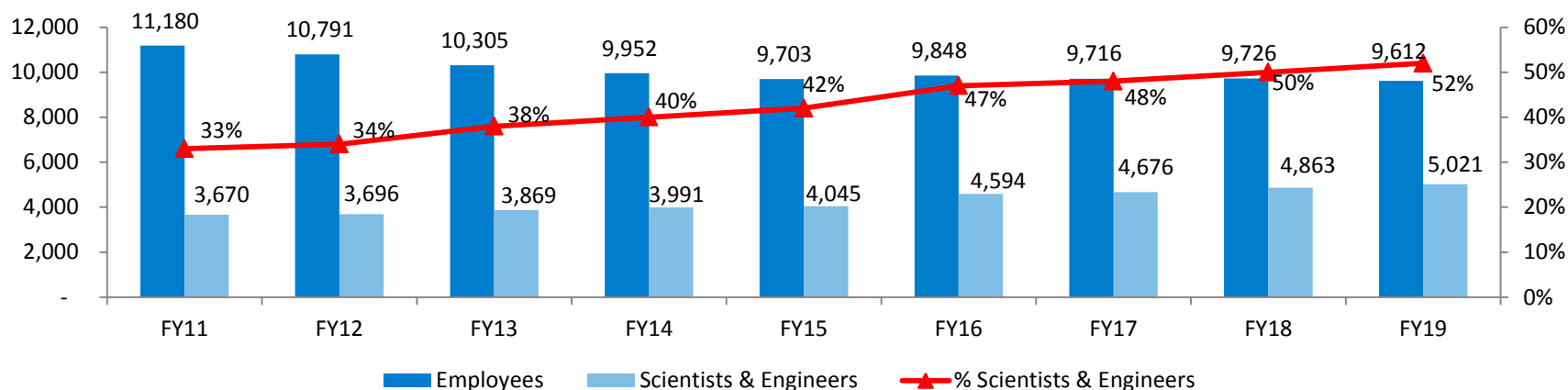


The emphasis and focus on innovation driven by R&D is evident in the number of IPRs filed and Technical Papers published each year.

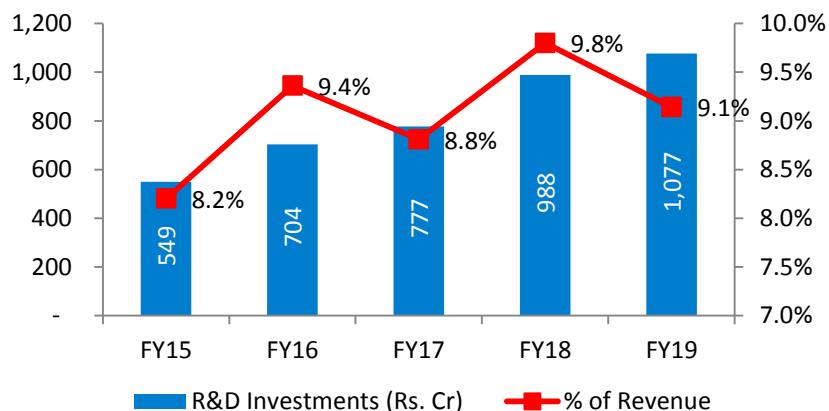


Source: Company, Sushil Finance Research

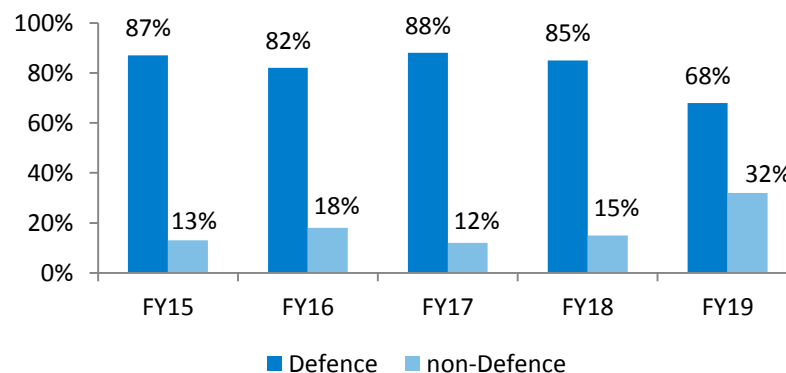
Employee base has been reducing YoY, but the number of Scientists & Engineers in the workforce has grown from 33% in FY11 to 52% in FY19. This, along with increased R&D spending is a great direction for the company's future given the ever increasing need of innovation and up-gradation in defence products



R&D spending is the highest among defense PSUs; BEL spent 9.14% of its FY19 turnover on R&D

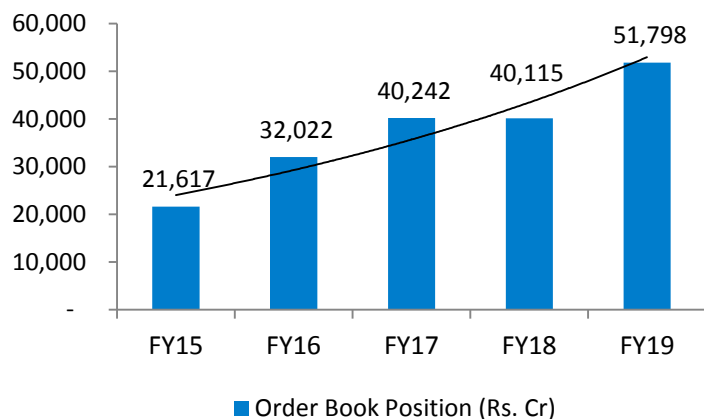


Majority of the revenue comes from Defence segment (high margin) while non-defence contributes around 15%. FY19 was an exception due to increase in orders of EVMs and VVPATs for elections



Source: Company, Sushil Finance Research

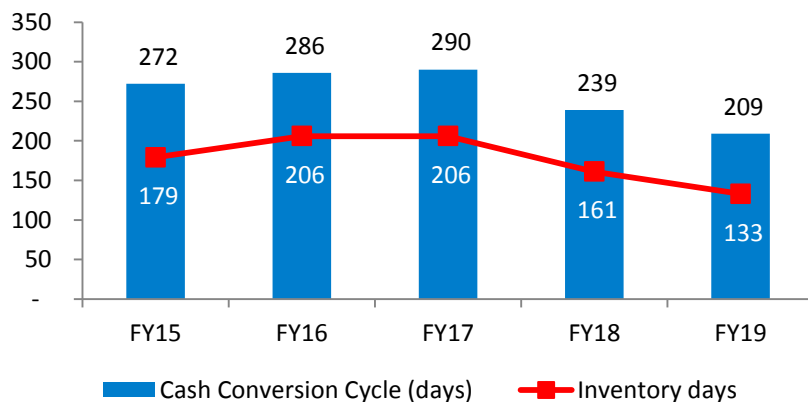
Investment Rationale- Healthy and Growing Order book provides long term revenue visibility; stands at 4.3x FY19 revenue.



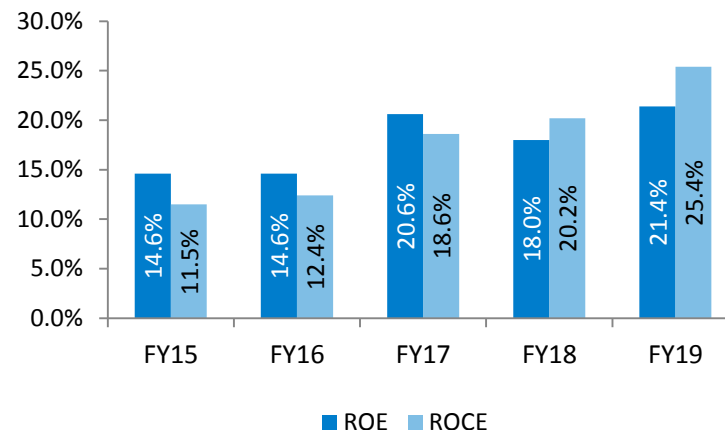
Major Orders executed during FY19

- Integrated Air Command and Control System (IACCS)
- Weapon Locating Radar (WLR)
- CDR TI Sights
- Schilka Upgrade
- Tropo Upgrade
- Integrated Communication System (ICS)
- Ground Based Mobile ELINT System
- Low Intensity Conflict Electronic Warfare System (LIC EWS)
- L-70 Gun Upgrade
- Electronic Voting Machines (EVM)
- Voter Verifiable Paper Audit Trail (VVPAT)

Improving Cash Conversion Cycle led by better inventory control easing pressure on working capital



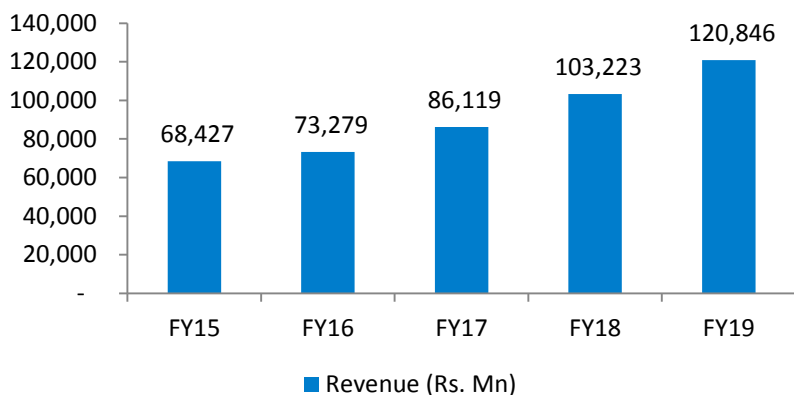
Consistently delivering robust return ratios



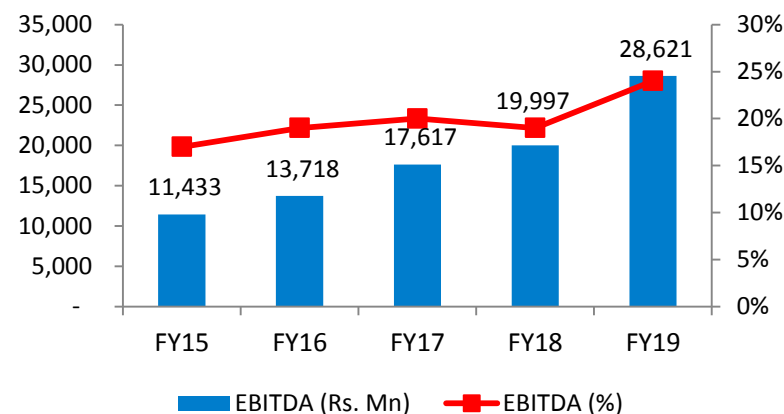
Source: Company, Sushil Finance Research

Investment Rationale-Strong Financial performance yielding good net income, which is being shared with the shareholders

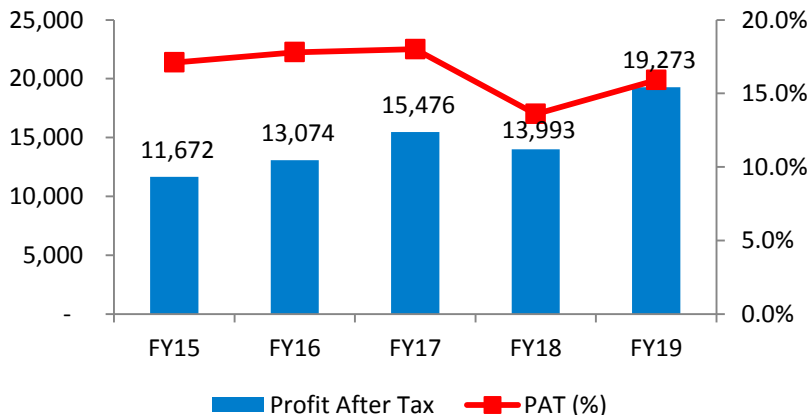
Delivered revenue growth of 15.3% CAGR over last 5 years led by 'Make in India' initiative for capital goods



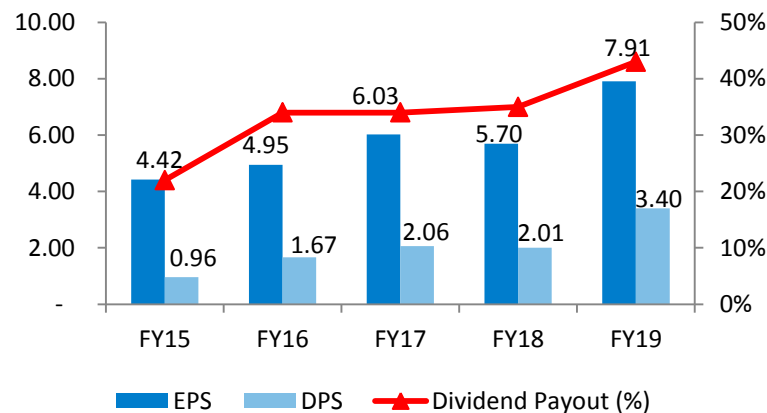
Healthy EBITDA & growing EBITDA margin achieved by efficient management of raw material costs



PAT Growth of 13.4% CAGR over the last 5 years



Increasing Dividend Payout over the last 5 years; doubled from 22% in FY15 to 43% in FY19



Source: Company, Sushil Finance Research

Company Overview

Bharat Electronics Ltd (BEL), established in 1954 by the Government of India under the Ministry of Defence to meet the specialized electronics needs of the defence and armed forces. BEL is headquartered in Bangalore and has a total of 9 manufacturing facilities across India. Over the years, BEL has become a technologically advanced multi-product company servicing the needs of both defence and civilian segments. Typically, almost 85% of the revenue comes from the defence sector while non defence makes up for around 15%. BEL was conferred with the Navratna status by the government of India in 2007. As of 1st April'19, the company has an employee base of 9,612. Close to 50% of BEL's employees are scientists/ engineers and BEL spends ~9% of its turnover in R&D. This commitment to research has led to ~96% of the turnover coming from sale of Indigenous products and only ~4% from Transfer of Technology from foreign OEMs. The company has 2 subsidiaries; BEL Optronics Devices Ltd & BEL-THALES Systems Ltd.

The products manufactured by BEL come under the following segments:

Defence

Defence Communication Products
Land based Radars
Naval Systems
Avionics
Electro Optics
Tank and Armored Fighting Vehicle Electronic Systems
Weapon Systems
C4I Systems
Shelters and Masts
Simulators
Batteries
Components/ Devices

Non-Defence

e-governance systems
Homeland Security
Civilian Radars
Turnkey Projects
Components/ Devices
Telecom, Broadcast Systems

Services

Designing, Machining, Fabrication and Assembling

Company Overview

Following are some examples of the products that BEL manufactures:



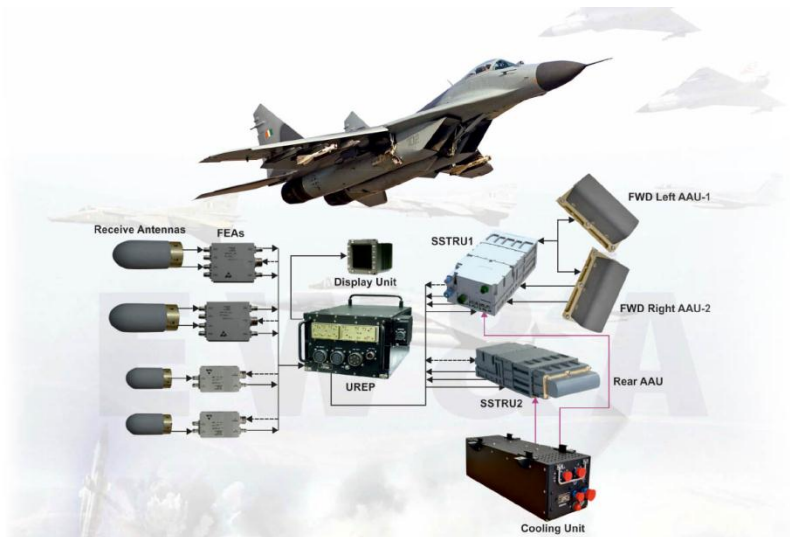
Secure Tactical Radio System VHF Mark II



Transportable Satellite Terminal (TST)

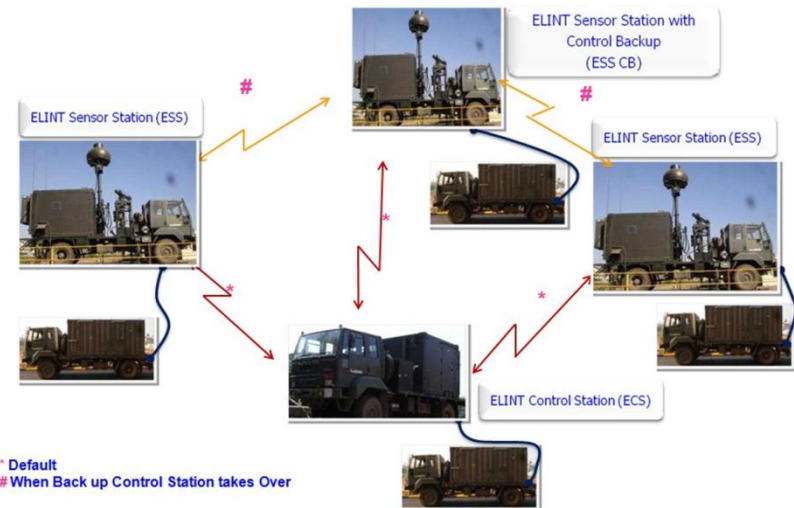


Integrated Communication Network System



EW Suite for Fighter Aircraft

Source: Company, Sushil Finance Research



Mobile Ground based ELINT System

Company Overview

Performance Highlights from FY19

- Commissioning of 33.5MW Solar PV Power Plants in various Ordnance Factories facilities.
- BSTC (BEL Software Technology Centre) was formed as a separate SBU.
- Inauguration on India's first indigenously developed Metro Gate SWAGAT – an automatic fare collection gating system jointly developed by BEL and C-DAC. It is compliant with the National Common Mobility Card (NCMC) ecosystem for hassle free commute across India.
- New marketing offices were set up at Sri Lanka and Myanmar.
- Excellent 'MOU' Rating for 2017-18 from DPE.
- Received LRSAM order worth Rs. 9,236 Crores.
- New Surface Mount Technology (SMT) Assembly Line in Network Centric System Hangar at BEL Bengaluru and BEL Panchkula Units.
- BEL secured patent for innovation in EVM.
- Networking and Cyber Security Group formed in MilCom SBU of BEL Bengaluru Unit.
- DGQA Green Channel Status certification for Radar spares.
- Received ISO 27001 Information Security Management System Certification.
- BEL filed for 175 Patents and 127 Copyrights in the areas of Electro optics, Surveillance, Radar Technology, Communication Technology and Software Technology.
- BEL empanelled totally 237 organizations, which include 29 collaborative R&D partners, 145 design service providers, 30 consultants and 38 Production service providers and 5 organizations for supporting both design and production.

New Strategic Initiatives

BEL is working in strategic areas like Homeland Security Solutions, Smart cities, Cyber Security, Ammunition, Software and Artificial Intelligence, Seekers and Missiles, Solar Projects, Unmanned Systems including Robotics, Space Electronics, Energy Storage Products, Satellite Integration and Composites in line with emerging needs of customers.

Recent Quarter

- Net Sales for the quarter stood at Rs. 21,015 Mn, flat YoY and a de-growth of 46% QoQ due to base effect of lack of EVM orders in the current quarter.
- EBITDA for the quarter stood at Rs. 3,481 Mn, an increase of 12% YoY due to contraction of operational expenses.
- EBITDA margin came in at 16.6% as against 14.8% in Q1FY19.
- PAT for the quarter stood at Rs. 2,047 Mn, an increase of 14% YoY with the increase in other income providing a boost at the pre-tax level.
- Net margin came in at 9.7% as against 8.6% in the corresponding quarter last year.

Particulars	Q1FY20	Q1FY19	YoY	Q4FY19	QoQ
Revenue	21,015	21,021	(0.03%)	38,846	(46%)
Cost of Goods Sold	10,565	11,072	(5%)	19,657	(46%)
Employee Benefit Expenses	5,242	4,728	11%	4,420	19%
Other Expenses	1,728	2,115	(18%)	5,479	(68%)
EBITDA	3,481	3,105	12%	9,290	(63%)
<i>EBITDA margin</i>	<i>16.60%</i>	<i>14.80%</i>	179 Bps	<i>23.90%</i>	(735 Bps)
Depreciation	828	689	20%	933	(11%)
Interest expense	3	3	19%	119	(97%)
PBT	2,904	2,502	16%	9,526	(70%)
<i>PBT margin</i>	<i>13.80%</i>	<i>11.90%</i>	192 Bps	<i>24.50%</i>	(1070 Bps)
Tax expense	857	705	22%	2,840	(70%)
PAT	2,047	1,797	14%	6,686	(69%)
<i>PAT margin</i>	<i>9.70%</i>	<i>8.60%</i>	119 Bps	<i>17.20%</i>	(747 Bps)
EPS	0.84	0.74	14%	2.74	(69%)

Key Highlights during the quarter

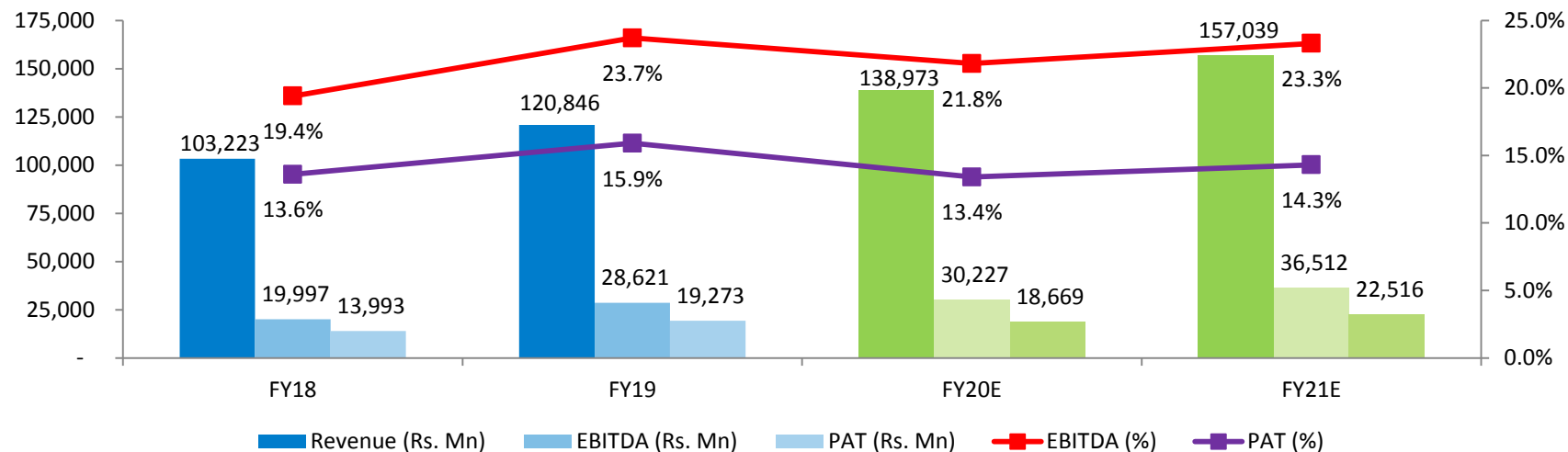
- Orders Acquired- Communications Equipment, AMC of Radars, Export order for equipment
- Orders Executed- Upgrade of Communication system, Integrated air command and control system, Naval Equipment, Radars, Real time information systems

Order book position

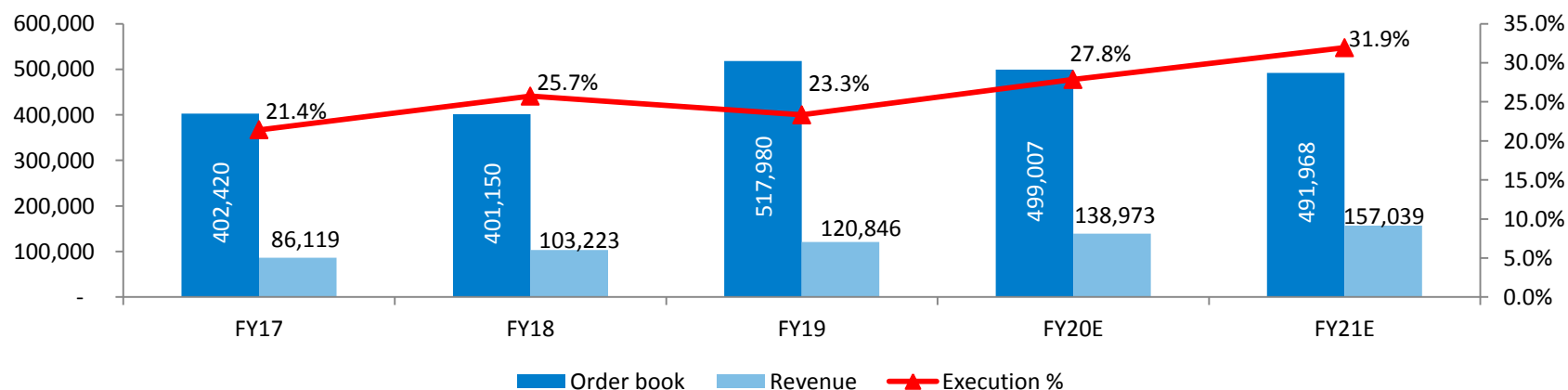
The order book of the company as of 1st July 2019 was Rs. 51,715 crores.

The order book comprises of mainly major programs like Long Range Surface to Air Missile System (LR-SAM), Weapon Repair Facility for Naval Ships, Kerala-Fibre Optics Network (K-FON), Smart City Projects, Integrated Perimeter Security Solution (IPSS), Naval Airfield Integrated Security System (NIASS).

Financial Projections



We expect execution to improve to 31.9% in FY21E led by growth in revenue and improving inventory turnover



Source: Company, Sushil Finance Research

Financial Statements

Profit & Loss Statement

(Rs. Mn)

Y/E Mar.	FY18	FY19	FY20E	FY21E
Revenue	103,223	120,846	138,973	157,039
Raw Material Cost	55,188	59,477	69,834	77,342
Employee Cost	17,723	18,791	22,236	25,911
Other Expenses	10,315	13,957	16,677	17,274
EBITDA	19,997	28,621	30,227	36,512
<i>EBITDA Margin (%)</i>	<i>19%</i>	<i>24%</i>	<i>22%</i>	<i>23%</i>
Depreciation	2,510	3,162	4,169	4,711
EBIT	17,487	25,459	26,057	31,800
<i>EBIT Margin (%)</i>	<i>17%</i>	<i>21%</i>	<i>19%</i>	<i>20%</i>
Finance Costs	13	122	139	157
Other Income	2,004	1,695	1,946	1,963
Profit before Tax	19,478	27,032	27,864	33,606
Tax Expense	5,486	7,759	9,195	11,090
Net Profit	13,993	19,273	18,669	22,516
<i>Net Margin (%)</i>	<i>14%</i>	<i>16%</i>	<i>13%</i>	<i>14%</i>
EPS	5.74	7.91	7.66	9.24

Balance Sheet Statement

(Rs. Mn)

Y/E Mar.	FY18	FY19	FY20E	FY21E
PP&E (incl. CWIP)	19,999	23,349	26,129	29,269
Other Non-Current	22,897	23,261	23,485	23,846
Inventories	45,513	44,137	49,811	54,909
Trade Receivables	50,495	53,692	57,905	60,400
Cash and Bank Balances	7,387	8,840	7,136	4,913
Other Current Assets	38,938	51,356	58,724	65,951
Total Assets	185,228	204,634	223,190	239,289
Equity Share Capital	2,437	2,437	2,437	2,437
Reserves & Surplus	75,174	87,753	96,450	108,996
Borrowings (LT)	333	-	-	-
Other Non-Current	8,611	10,184	10,184	10,184
Trade Payables	14,011	14,350	16,240	17,780
Other Financial Liabilities	8,458	10,363	9,889	8,915
Other Current Liabilities	71,773	74,967	83,408	86,396
Current Tax Liab & Provisions	4,433	4,582	4,582	4,582
Total Liabilities	185,228	204,634	223,190	239,289

Source: Company, Sushil Finance Research

Financial Statements

Cash Flow Statement

(Rs. Mn)

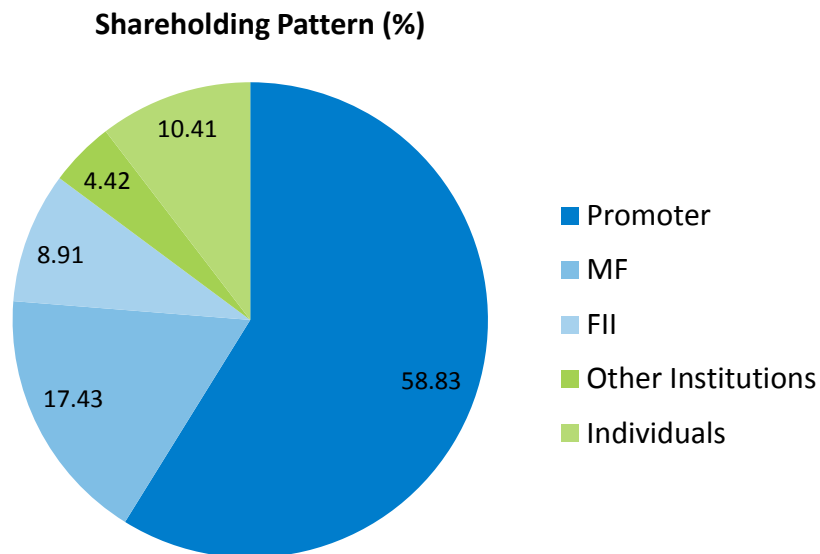
Y/E Mar.	FY18	FY19	FY20E	FY21E
PBT	19,478	27,032	27,864	33,606
Depreciation	2,510	3,162	4,169	4,711
Interest	13	122	139	157
CFO before Working Cap chg	22,001	30,316	32,172	38,475
Chg in Receivables	(6,946)	(3,197)	(4,213)	(2,494)
Chg in Payables	705	339	1,890	1,539
Chg in Inventories	3,044	1,377	(5,675)	(5,098)
Chg in Other Cur. Assets	(29,532)	(12,613)	(7,368)	(7,227)
Chg in Other Cur. Liabilities	8,108	3,178	8,442	2,988
Income Taxes Paid	(5,486)	(7,759)	(9,195)	(11,090)
Cash Flow from Operations	(8,105)	11,642	16,053	17,093
Capex	(22,509)	(6,513)	(6,949)	(7,852)
Other Adjustments	-	(13,195)	-	-
Cash Flow from Investing	(22,509)	(19,708)	(6,949)	(7,852)
Chg in Borrowings	2,352	1,905	(474)	(974)
Chg in Other Non-Cur.Assets	(1,402)	(23)	(224)	(361)
Finance Costs	(13)	(122)	(139)	(157)
Dividend Paid	(5,865)	(9,971)	(9,971)	(9,971)
Cash Flow from Financing	(4,928)	(8,211)	(10,809)	(11,463)
Opening Cash	37,902	7,387	8,840	7,136
Total Cash Flow	(35,541)	(16,277)	(1,704)	(2,222)
Closing Cash	7,387	8,840	7,136	4,913

Financial Ratio Statement

Y/E Mar.	FY18	FY19	FY20E	FY21E
Growth (%)				
Revenue	20%	17%	15%	13%
EBITDA	14%	43%	6%	21%
Net Profit	-10%	38%	-3%	21%
Profitability (%)				
EBITDA Margin	19%	24%	22%	23%
Net Profit Margin	14%	16%	13%	14%
ROCE	20%	25%	22%	22%
ROE	18%	21%	19%	20%
Per Share Data (Rs.)				
EPS	5.74	7.91	7.66	9.24
BVPS	31.85	37.01	40.58	45.73
DPS	2.01	3.40	3.40	3.40
Valuation (x)				
P/E	24.7	11.8	15	15
P/BV	4.5	2.5	2.8	3
EV/EBITDA	17	7.7	9.3	9.3
P/SALES	3.35	1.88	2.02	2.15
Turnover				
Inventory days	161	133	131	128
Debtor days	179	162	152	140
Creditor days	100	86	85	84

Source: Company, Sushil Finance Research

Shareholding Pattern

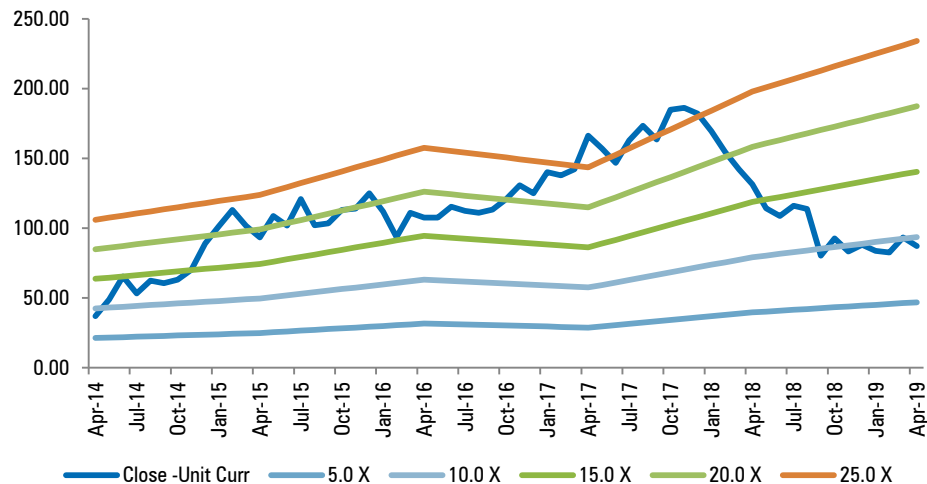


Top Shareholders	% Holding
Government of India	58.83
LIC of India	3.28
CPSE ETF	2.77
Aditya Birla Sun Life Mutual Fund	2.75
HDFC AMC	2.46
Kotak AMC	2.19
Bharat 22 ETF	1.78
L&T Mutual Fund	1.27
SBI Mutual Fund	1.09

Source: Company, Sushil Finance Research

OUTLOOK & VALUATION

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Source: Company, Sushil Finance Research

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Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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