

# Bharat Electronics Ltd. (BEL)

14-Aug-18

**Rating BUY**

**CMP 116**  
**Target Price 168**  
**Potential Upside 49%**

## Important Data

**Market Cap 28264 Cr**  
**EV 24516 Cr**  
**96.75-**  
**52 Week Range 192.95**  
**No of Shares 243.66 Cr**  
**Free Float (%) 33.99%**  
**TTM P/E (x) 20.59**  
**EV/ TTM EBITDA (x) 11.53**  
**Beta 1.25**

## Market Data

**NIFTY 11,477.65**  
**10 Yr. Govt. Bond**  
**Yield 7.79%**  
**USD/INR 68.65**

## Prathamesh Sawant

Analyst  
[prathamesh.sawant@mangkesha.com](mailto:prathamesh.sawant@mangkesha.com)  
0220 6190 8021

**BEL bags LRSAM order worth Rs. 92 Bn. Further expected order execution of voting machines (EVM & VVPAT) due November, 2018 would see increased revenue booking in coming quarters.**

- **New Order** - The company has bagged its highest ever single value order from MDL & GSRE for supply and services of LRSAM systems for 7 ships **worth Rs. 9200 Cr**
- **Revenue booking** - The voting machine segment execution will lead to improvement in margins in coming two quarters.
- **Revenue Visibility** - Order book as on 9/8/2018 – 50,845 Crs which is 5x FY18 Sales and is growing healthily.
- **Structural positives** - Expected increase in defence budget both in absolute terms as well as % of GDP which is currently at 2.1% (lowest ever in history)\* to tackle collusive threat of China and Pakistan.
- **Other Avenues** - BEL is trying to explore diversification possibilities in other Strategic Sectors like Homeland Security (BSFM), Solar, Space, etc. In Homeland Security and Solar, BEL has bagged a few projects and is under execution.

Particulars	Mar-16 (A)	Mar-17 (A)	Mar-18 (A)	Mar-19 (E)	Mar-20 (E)
Net Sales	7,574.1	8,888.9	10,153.1	12,285.2	14,022.4
Other Operating Income	155.1	331.8	332.1	363.3	414.6
Operating Expenses	6,339.9	7,433.7	8,450.0	9,784.9	10,986.6
Operating Profit	1,389.3	1,787.0	2,035.2	2,863.6	3,450.4
PBT	1,730.8	1,982.6	1,957.0	2,711.7	3,226.7
Tax	427.2	485.5	549.8	761.8	968.0
PAT	1,303.6	1,497.0	1,407.3	1,949.9	2,258.7
EPS	5.07	6.2	5.83	8.00	9.27

Source: Company Data, MKSL Research

**The company currently trades at P/E of 20.7x FY18 & 15x FY19 earnings. Given the improved order execution, potential growth from new segments and strong inflow of new orders we are enthused and expect the company to trade at 21x FY19 earnings, setting our target price as Rs 168 for BEL. Key risks to our estimates are delay in order inflows and worsening cash conversion cycle.**

## Investment Rationale

**Highest ever Single Value Order:** Bharat Electronics Ltd. has entered into contracts with M/s Mazagon Dock Shipbuilders Ltd. (MDL), Mumbai and M/s Garden Reach Shipbuilders and Engineers Ltd (GRSE), Kolkata for supply and services of LRSAM systems for 7 ships being built by MDL and GRSE, for the new ship building program. The total value of the contracts is about Rs.9200 Crores. The supplies/deliveries will be made meeting the manufacturing timeline of the new ship. This is the highest ever single value order BEL has been awarded.

**Revenue booking from EVM & VVPATs** – As per Election Commission's submission VVPATs had been made mandatory by the Supreme Court and are now to be used for all polling stations during the Lok Sabha elections in 2019 and an order of 16.15 lakh VVPATs had been placed by the poll panel with Bharat Electronics Limited (BEL), Bangalore and Electronics Corporation of India Ltd (ECIL), Hyderabad in May 2017. Out of these 16.15 lakh only 5.88 lakh units have been produced by these PSUs (4.36 lakh by BEL and 1.52 lakh by ECIL), which is 36% of the total quantity to be supplied.

Therefore the remaining 64% order is to be supplied by November end as per EC's order for 2019 General Elections. Also additional production and supply of additional quantities of EVMs (13.95 lakh ballot units and 9.3 lakh control units) that are required for the 2019 Lok Sabha elections are to be supplied. The EC expects this process would be completed by September 2018 as per schedule.

*Source: <https://thewire.in/government/ec-admits-to-slight-delay-in-vvpat-delivery-for-2019-polls>*

## Investment Rationale

**Structural positives** - Expected increase in defence budget both in absolute terms as well as % of GDP which is currently at 2.1% (lowest ever in history)\* to tackle collusive threat of China and Pakistan.

India's GDP grew at 7.7% in the three months through March from a year earlier, faster than a revised 7 per cent in the previous quarter. The fiscal FY18 growth came in at 6.7 percent. Forecasted figures for Indian GDP are in range of 7.3% - 7.7% making India one of the fastest growing major economies in world. This increases the average military spend of the country which lies in range of 2.1% - 2.7%.

We expect the military budget spending to increase drastically in coming years because of the long due technical upgrade required for defence modernization and operational preparedness. The budgets have grown marginally over years but much of the growth had being cornered by rising manpower cost.

Year	Revenue Expenditure	Capital Expenditure	Total Expenditure
2017-18 (BE)	1,72,774	86,488	2,59,262
2017-18 (A)	1,76,516	86,488	2,63,004
2017-18 (BE)	1,85,323	93,982	2,79,305

Source: MKSL Research

**Other Avenues - Homeland Security:** The Homeland Security market in India is spread across Central, State Governments and Private sectors. The major segments of Homeland security are Critical Infrastructure Protection, Paramilitary, Police & Urban Area Security, Ground Transportation, Port & Maritime Security, Cyber Security etc. The total budget allocation for Union Home ministry for 2017-18 is Rs. 97,187 Crores with a 5% hike over the previous year of Rs. 92,170 Crores, which includes allocation for Homeland Security requirements. Border Security Management is one of the major components of this Homeland Security requirement, which include border management solutions requirement along India-Pakistan and India- Bangladesh. BEL is planning to address the Border Management solution requirements as part of the Homeland Security business.

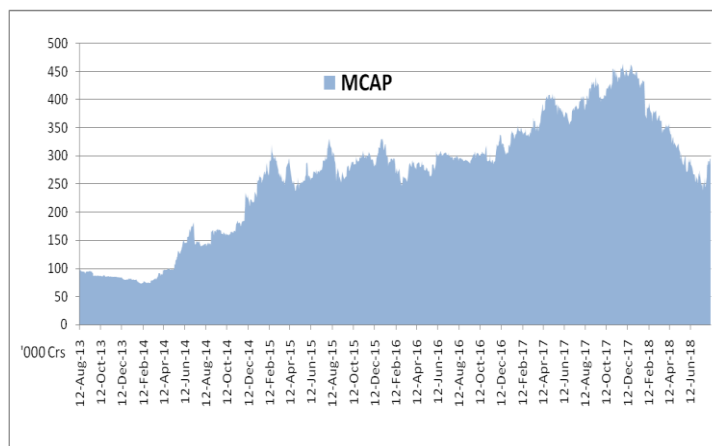
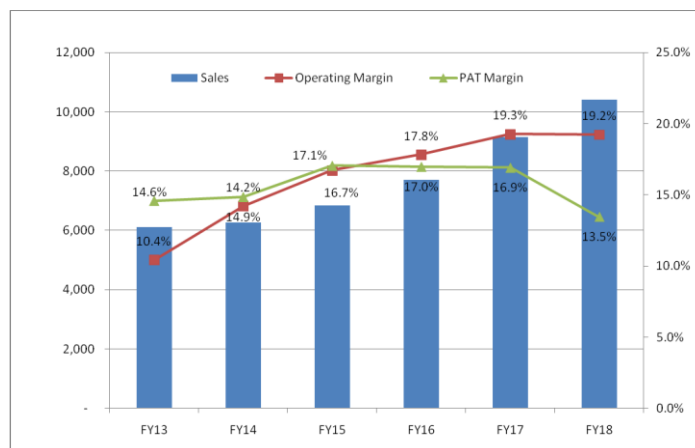
## Investment Rationale

**Solar:** Government has set an ambitious target of 175 GW by 2022 from renewable energy sources like solar, wind and others. The target for Solar Energy is 100 GW by 2022. The Government has made more budget allocation of Rs. 3,361 Crores for Solar Power, compared to that of the wind energy indicating that the Government will continue to give priority to solar energy. In 2017-18 budgets, Government announced setting up of an additional 20 GW of Solar Power capacity. To facilitate solar installations, import duty on solar tempered glass that goes into manufacturing of solar panels and modules have been cut from 5% to 0%. The materials that go into making solar tempered glass will now attract countervailing duty of 6% compared to 12.5% earlier. Also, under the Indian Railways 1 GW solar mission, the budget support to power 2,000 railway stations has been extended.

**Space:** ISRO has launched 55 missions in last five years and is planning to double the number of missions with an average of 12 launches per annum from year 2017-18 onwards. In commensurate with the plans of ISRO, the Department of Space (DoS) has been allocated a budget of Rs. 9,094 Crores for 2017-18 up from Rs. 8,045 Crores in the previous year. Out of the total budget, Rs. 8,324 Crores is for Central Sector Schemes that include technology, applications and sciences relating to space and for INSAT Satellite Systems. BEL is exploring collaboration with ISRO leveraging their technological capabilities in design and development of various products/systems for possible use in Defence applications.

# Bharat Electronics Ltd. (BEL)

## Financials



Particulars	FY12	FY13	FY14	FY15	FY16	FY17
ROA (%)	5.26	5.63	6.01	7.58	8.04	9.03
ROE (%)	15.60	14.88	13.95	15.64	15.49	18.77
ROCE (%)	20.29	18.75	17.68	19.73	20.62	24.73
DPR (%)	20.05	20.05	20.01	20.01	31.21	32.47
CCC	260.20	277.76	317.79	309.26	278.98	271.25
Current Ratio(x)	1.49	1.63	1.76	2.01	1.88	1.61
Quick Ratio(x)	1.21	1.26	1.35	1.52	1.39	1.05

## NOTES

---

## DISCLAIMER

---

This research report has been prepared by Mangal Keshav Securities Pvt. Limited (MKSL) to provide information about the company covered in the report and may be distributed by it and/or its associates solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of MKSL. This report has been prepared independent of the companies covered herein.

MKSL is registered with the Securities and Exchange Board of India (SEBI) as a Research Analyst and a Stock Broker having trading memberships of the BSE Ltd. (BSE), National Stock Exchange of India Ltd. (NSE). No material disciplinary action has been taken by SEBI against MKSL in the past two financial years which may impact the investment decision making of the investor.

MKSL renders stock broking services primarily to institutional investors and provides the research services to its institutional clients/investors.

MKSL and/or its associates, their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) covered under this report or (c) act as an advisor or lender/borrower to, or may have any financial interest in, such company(ies) or (d) considering the nature of business/activities that MKSL is engaged in, it may have potential conflict of interest at the time of publication of this report on the subject company(ies).

Neither MKSL nor its associates or the Research Analyst(s) named in this report or his/her relatives individually own one per cent or more securities of the company(ies) covered under this report, at the relevant date as specified in the SEBI (Research Analysts) Regulations, 2014.

The Research Analyst(s) principally responsible for the preparation of this research report and members of their household are prohibited from buying or selling debt or equity securities, including but not limited to any option, right, warrant, future, long or short position issued by company(ies) covered under this report. The Research Analyst(s) principally responsible for the preparation of this research report or their relatives (as defined under SEBI (Research Analysts) Regulations, 2014); (a) do not have any financial interest in the company(ies) covered under this report or (b) did not receive any compensation from the company(ies) covered under this report, or from any third party, in connection with this report or (c) do not have any other material conflict of interest at the time of publication of this report. Research Analyst(s) are not serving as an officer, director or employee of the company(ies) covered under this report.

The Research Analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that:

- All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and
- No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and MKSL does not warrant its accuracy or completeness. MKSL may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision.