

Investor's delight - Bharat Electronics Limited , "Strong play in Defence electronics; big opportunity to be captured" - "BUY"

Bharat Electronics Limited (BEL) is one of nine PSUs under the Ministry of Defence of India. It has been granted Navratna status by the Government of India. It primarily manufactures advanced electronic products for the Indian Armed Forces.

Beneficiary of Atmanirbhar Bharat Abhiyan and minimal impact of COVID-19 crisis..

Defence being the major revenue segment of BEL; BEL does not foresee any fall in the demand for its products/ services due to COVID impact on a long term basis, though there may be a little delay in order acquisition in the short term.

Enhanced focus of the Government of India on Self Reliance (Atmanirbhar Bharat Abhiyan), is likely to boost the Company's prospects as an leading indigenous solution provider in defence sector and will have a favourable impact on the Company's performance in the coming years. The recent ban on import of 101 Defence items will augur well for the Company. Out of 101 items, BEL is already in various stages of discussion for manufacturing ~55 items highlight in the list.

Defence has contributed 82% of sales revenue in FY20 as against 68% in FY19, with the balance 18% coming from the non-defence sector.

Order Book Position and future growth

The Order Book of the Company stands around Rs. 52,00 Crores (4x of FY20 revenue) which provides strong visibility. The major projects planned for execution during 2020-21 are Long Range Surface to Air Missile System (LRSAM), ICU Ventilators, Akash Missile System (7 Sqdn), Coastal Surveillance System (CSS) Phase-II, Kerala Fibre Optic Network (K-FON), Shakti Ph-III, Integrated Perimeter Security System (IPSS), HUMSA NG Systems, Integrated Air Command & Control System (IACCS), Samyukta Upgrade, Thermal Imagers for tanks, Smart City Projects, Electronic Fuzes, Delhi CCTV, Naval Airfield Integrated Security System (NAISS), Software Defined Radios. The Company has received orders worth about Rs. 13,200 crores during FY20. Major Orders received include Akash, Chain of Static Sensors (CSS) Ph.II, Upgrade for EW system, Radars, AMCs for Radars & Weapon Systems, Software Defined Radio (SDR), Sonars, Advanced Communication Systems etc. The management is confident of achieving an order inflow of Rs. 15,000 - 16000 crores (~Rs. 5,000 crores order inflow in H1FY21.)

BEL is targeting a healthy growth of 12-15 percent during FY21. Segments like Radar and Missile Systems, Communication and Network Centric systems, Anti-Submarine Warfare & Sonar Systems, Tank Electronics, Gun upgrades, Electro Optic systems and Electronic Warfare & Avionics systems will continue to drive the Company's growth in the coming years.

Strong focus on Research & Development

R&D has been the main focus area of the Company for increasing indigenisation and value addition in the products / systems. The total investment on R&D as a percentage of turnover during the year was 7.5% which is one of the highest among the defence PSUs. It is Company's constant effort towards indigenous development that has led it to achieve 79% of its turnover from indigenous products. 21 percent of its revenues came from products manufactured through ToT from foreign OEMs.

Introduction of new products/systems

Key major products / systems introduced during FY20 are Radars for export, CSS for Maldives, Ship to Shore Communication System, Systems for Akash NG, Digital Flight Control Computer (DFCC) Mk-IA, Battlefield Surveillance System (BSS), CDMA based wireless communication system, IFDSS, Software Defined Radio (SDR)-TAC, COMNET Guinea, Missile Data Link Unit MK II, Radar Warning Receiver, Tethered UAV, Handheld Signal Generator, NAISS, IPSS, Varunastra Acoustic System (VAS), Bharani Mk-II Radar, IFF MK-XII etc.

Report date	December 08, 2020
CMP	Rs. 111.4 (Face value: Re. 1)
Target price	Rs. 145
Upside	30%
52 week high/low	Rs. 118.45/Rs. 56.10
EPS (TTM)	Rs. 6.98
P/E (x)	16x
Book value per share	Rs. 42.2
P/BV(x)	2.84
Market Cap:	Rs. 27,441 crores

Particulars (Rs. crores)	H1FY21	FY20	FY19	FY18
Revenue from operations	4,859	12,608	11,789	10,085
EBITDA	816	2,832	3,032	2,200
EBITDA (%)	16.7	22.5	25.7	21.8
Profit after tax	451	1,794	1,927	1,399
PAT margin (%)	9.28	14.2	16.3	13.9
Equity share cap.	243.66	243.66	243.66	243.66
Networth	10,304	9,853	9,019	7,761
Book value (Rs.)	42.2	40.44	37.01	31.85
EPS (Rs.)	1.85	7.36	7.91	5.70
P/E (x)	-	16	15	20
RoE (%)	-	18.2	21.4	18

Source: Company

Strategic new initiatives

The Company is working in strategic areas like Homeland Security solutions, Smart City, Li-Ion Cells/Fuel Cells, Solar Projects, Space Electronics including Satellite Integration, Network & Cyber Security, Railways & Metro solutions, Composites, Software Services, Unmanned Systems including Robotics, RF and IR Seekers, Missiles, Rockets, Glide Bombs & Ammunition in-line with the emerging needs of the Customers.

Investment recommendation and rationale

We believe the Company - has a big opportunity to be seized as India is one of the largest spent on defence considering threats from neighboring countries. With regards to factors like: a) biggest beneficiary of Make in India focus by Government of India and Atmanirbhar Bharat Abhiyan, c) entry barrier for a new private sector player considering the scale it has achieved over the years and the technology prowess it has led by strong R&D team, d) strong order book of around Rs. 52,000 crores which provides revenue visibility for four years, e) BEL has filed 160 Intellectual Property Rights (IPR) applications in the areas of Electro optics, Surveillance, Radar technology, Communication technology and Software technology. d) Strong Balance Sheet with virtually zero debt; g) Generating good ROE despite capital intensive business, f) dividend yield of three percent, f) decent past financial performance in topline, EBITDA and PAT in the last six years which is expected to continue, g) expect strong execution of orders in H2FY21 which can led to re-rating of P/E multiple, h) Management has given a guidance of double digit growth in topline with EBITDA margins of 20 percent, we recommend a "BUY" for a target of Rs. 145 for investors with a horizon for 9-12 months (17x at estimated FY22 EPS of Rs. 8.5)

Business prospects and growth outlook

- 1) The Company is foraying into new business areas and keeping pace with the fast changing technological advancements besides enhancing operational efficiency. In addition, the Government's emphasis on 'Make in India' initiative in Defence sector provides a great opportunity for the Company to enhance indigenization efforts and to address the emerging opportunities in Indian Defence sector. The Company is always focused on enhancing capabilities and competitiveness through indigenisation, diversification, continuous modernisation, creating several world-class facilities for R&D, Testing, Production, Skill development and outsourcing to Indian industries with increased thrust on MSME sectors.
- 2) In the non - defence segment the Company is pursuing business in the field of Homeland Security solutions, Smart City, Energy Storage Products including e-Vehicle Charging Stations, Solar, Space Electronics including Satellite Integration, Network & Cyber Security, Railways & Metro Solutions, Airports Solutions, EVMs, Telecom Products, PNVDS, Medical Electronics, Composites and Software Solutions. The future for the Company looks promising as well as challenging. The Defence Sector is being opened up for private sector participation with evolutions of Defence Procurement Procedure. In this changing business scenario, the Company is focusing on enhancing interaction levels and building long term relationships with emerging Strategic Partners, Customers and other key stakeholders in the Indian defence industry. The real impact of Covid-19 on the Company is to be seen in the near future as the situation is evolving. However, the Company has started taking mitigation measure to reduce the impact on the performance.
- 3) The Government has introduced "Make-II" procedure for enhancing the participation of Indian Industry including MSME's in providing the import substitution and for promotion of innovative solutions for defence equipment. The Company has also responded to many of the "Make-II" projects which are in line with BEL's business.
- 4) It is important for BEL to stay abreast of technology and develop new products regularly to meet the requirements of the customers and in providing the cost effective & innovative solutions. Thrust on R&D across the Company will continue with roadmaps drawn for future products, new technology areas, intellectual property creation, acquisition of key technologies and filing of patents.
- 5) The Company is also laying greater emphasis on working closely with DRDO labs, research institutions and academic institutions as well as with niche technology companies & consultants for development of new products and systems. The Company is working on emerging technologies such as Artificial Intelligence, Big Data Analytics, Internet of Things, 5G Wireless communication, Robotics & Computer vision, Augmented & Virtual Reality, Quantum Cryptography etc. under the R&D collaboration with academia and start-ups.
- 6) To retain the leadership position in strategic electronics, the Company has evolved various strategies and has developed action plans to face competition and maintain technological edge.
- 7) Some of the major projects planned for execution during 2020-21 are Long Range Surface to Air Missile System (LRSAM), ICU Ventilators, Akash Missile System (7 Sqdn), Coastal Surveillance System (CSS) Phase-II, Kerala Fibre Optic Network (K-FON), Shakti Ph-III, Integrated Perimeter Security System (IPSS), HUMSA NG Systems, Integrated Air Command & Control System (IACCS), Samyukta Upgrade, Thermal Imagers for tanks, Smart City Projects, Electronic Fuzes, Delhi CCTV, Naval Airfield Integrated Security System (NAISS), Software Defined Radios.
- 8) The Company has been granted three (3) patents in 2019-20, with this the total no. of patents granted is ten (10). As many as 135 technical papers were published by scientists and R&D engineers of BEL in various National and International journals / seminars / conferences. The Company has filed for 160 IPRs (including 94 Patents).

Exports

- 1) The Company has been giving an increased thrust towards harnessing the export potential of Defence electronics products & systems including Homeland Security Solutions, Border Protections Systems and state of the art systems & solution and professional electronics to address civilian market, which represents its core area of business.
- 2) BEL has been exporting various products and systems to foreign countries and Original Equipment Manufacturers (OEMs). Having established a healthy relationship with its current & prospective customers and based on their requirements, BEL is regularly interacting with Ministry of External Affairs & Ministry of Defence for enabling supply of various products and systems to them.
- 3) BEL is also exploring civil and medical equipment's market in developed, developing & third world countries with product and solutions like Artificial Intelligence based solutions, software development for various civilian projects,

post office and school's upgradation projects, smart cities, critical infrastructure development, solar power generation projects, ventilators, etc.

- 4) BEL is focusing on the various opportunities in the area of helping OEM's to meet offset obligations in various Request for Proposals (RFPs) of Ministry of Defence on account of offset policy incorporated in the Defence Procurement Procedure. In this regard BEL is closely working and partnering with various major foreign Aerospace and Defence Companies.
- 5) BEL is also offering proven products and systems to meet the specific requirements of customers. BEL has identified contract manufacturing (build to print and build to spec) and Transfer of Technology of the latest systems and solution as new areas of emerging export opportunities.
- 6) Further efforts are being made to establish long term supply chain relationship with global players. BEL with concentrated effort is focusing on the various Make in India programs. BEL has offered its various products and services to major Platform OEM's and their Tier-I suppliers. This has helped the Company in leveraging partnership for co-development, co-production and similar arrangements with various OEM's to get the manufacturing of the products at the Company and utilization of services of Company not only for Indian programs but also for their Global requirements.
- 7) On the Export front, the order book as on 1st April 2020 is US \$ 164.01 Million including Offset orders of US \$ 73.65 Million. To give greater thrust to exports, the Company has opened marketing office at Oman during the year, in addition to the offices which are operational at New York, Myanmar, Singapore, Vietnam and Sri Lanka. Management expects the order book to increase to US\$500mn over 3 years.
- 8) The Company has put in efforts for increasing the business opportunities in South East Asia, Europe, Middle East, Africa and North America by incessant engagement with Customers and is also working closely with other Indian Companies & local partners in respective countries as part of maximizing geo-strategic reach and to increase global footprint.

Impressive past financial performance

The Company witnessed impressive financial performance in the last 6 years. Topline has witnessed a CAGR of ~12 percent. PAT too has registered a good CAGR of 11.53 percent.

Good Q2FY21 performance

Bharat Electronics Limited (BEL) (Navratna Defence PSU) witnessed a topline growth of 18.9 percent growth to touch Rs. 3164.99 crores on yoy basis. Profit Before Tax (PBT) during the 2nd Quarter of FY 2020-21 stood at Rs. 559.22 cr, over the Profit Before Tax (PBT) of Rs. 472.90 crores recorded in the corresponding period of the previous year.

Profit After Tax (PAT) registered a growth of 17 percent on yoy basis to touch Rs. 397.05 crores.

For the half year ending September 2020, the company has achieved a Turnover of Rs. 4804.62 cr over the Turnover of Rs. 4703.23 cr recorded in the corresponding period of the previous year. Profit Before Tax (PBT) during the 1st half of FY 2020-21 stood at Rs. 635.46 cr, over the Profit Before Tax (PBT) of Rs. 763.29 crores recorded in the corresponding period of the previous year.

Disclosure under SEBI Research Analyst Regulations 2014:

- a) Analyst holding: No
- b) Company holding: No
- c) Directors holding: No
- d) Group/Associates Position: No
- e) Relationship with management: No
- f) Any Compensation Received by our Company/Associate during the last 12 months: No
- g) Our Company/Associate have managed the public offering of securities for the subject Company in the past 12 months: No

Recommendation parameters for fundamental reports:

Buy – Absolute return of 20% and above

Accumulate – Absolute return between 15% and above

Book profits: On achieving the price target given in the research report for a particular Company or on a occurrence of a specific event leading to change in fundamentals of the Company recommended

Disclaimer

Ajcon Global Services Limited is a fully integrated investment banking, merchant banking, corporate advisory, stock broking, commodity and currency broking. Ajcon Global Services Limited research analysts responsible for the preparation of the research report may interact with trading desk personnel, sales personnel and other parties for gathering, applying and interpreting information.

Ajcon Global Services Limited is a SEBI registered Research Analyst entity bearing registration Number INH000001170 under SEBI (Research Analysts) Regulations, 2014.

Individuals employed as research analyst by Ajcon Global Services Limited or their associates are not allowed to deal or trade in securities that the research analyst recommends within thirty days before and within five days after the publication of a research report as prescribed under SEBI Research Analyst Regulations.

Subject to the restrictions mentioned in above paragraph, We and our affiliates, officers, directors, employees and their relative may: (a) from time to time, have long or short positions acting as a principal in, and buy or sell the securities or derivatives thereof, of Company mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage.

Ajcon Global Services Limited or its associates may have commercial transactions with the Company mentioned in the research report with respect to advisory services.

The information and opinions in this report have been prepared by Ajcon Global Services Limited and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of Ajcon Global Services Limited While we would endeavour to update the information herein on a reasonable basis, Ajcon Global Services Limited is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent Ajcon Global Services Limited from doing so. This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. Ajcon Global Services Limited will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Ajcon Global Services Limited accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a



guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Ajcon Global Services Limited or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

Ajcon Global Services Limited encourages independence in research report preparation and strives to minimize conflict in preparation of research report. Ajcon Global Services Limited or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither Ajcon Global Services Limited nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that Akash Jain – MBA (Financial Markets) or any other Research Analysts of this report has not received any compensation from the company mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

Ajcon Global Services Limited or its subsidiaries collectively or Directors including their relatives, Research Analysts, do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that Akash Jain – MBA (Financial Markets) research analyst or any other Research Analysts of Ajcon Global do not serve as an officer, director or employee of the companies mentioned in the report.

Ajcon Global Services Limited may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. Neither the Research Analysts nor Ajcon Global Services Limited have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on Ajcon Global Services Limited by any Regulatory Authority impacting Equity Research Analysis activities.

Analyst Certification

I, Akash Jain MBA (Financial Markets), research analyst, author and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. I also certify that no part of compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view (s) in this report.

For research related queries contact:

Mr. Akash Jain – Vice President (Research) at research@ajcon.net, 022-67160431 (D)

CIN: L74140MH1986PLC041941

SEBI registration Number: INH000001170 as per SEBI (Research Analysts) Regulations, 2014.

Website: www.ajcononline.com

Registered and Corporate office

408 - (4th Floor), Express Zone, "A" Wing, Cello – Sonal Realty, Near Oberoi Mall and Patel's, Western Express Highway, Goregaon (East), Mumbai – 400063. Tel: 91-22-67160400, Fax: 022-28722062