

July 06, 2011

Investment Rationale

Robust order book to provide revenue visibility

Bharat Electronics (BEL) currently has an order book of ₹236bn which has almost doubled from ₹113bn at the end of FY10. The current order book is 4.3x its FY11 revenue, thus providing enough revenue visibility for the next four years. The company expects around ₹100bn of order inflow in current fiscal FY12E. During April-May 2011 it has secured ₹1.4bn orders so far and is expecting around ₹6bn orders from coastal surveillance latest by July or mid August 2011. Another big ticket order of ₹36bn from Bharat Dynamics (part of ₹120bn Akash missiles order) is expected to come in next few months. Despite having a burgeoning order book management has guided for a conservative revenue figure of ₹62bn in FY12E mainly due to execution issues on the customer side. BEL's long term book to bill ratio has averaged around 2x, but of late due to this execution issues and winning of some big ticket orders the book to bill ratio has gone up to 4x.

Strong cash balance to provide downside cushion

The company has a strong cash balance in its books. At FY11 end it had ₹65bn of cash and cash equivalents in its books (₹812/share). However liabilities for FY11 had gone up from ₹44.3bn to ₹76bn, adjusting for the same per share cash works out to be ₹533, which provides enough downside cushion for the stock.

Enough spending to boost up R&D efforts

BEL has always maintained its focus on R&D activities. It's turnover from indigenously developed products is 78% at present. The company plans to increase its R&D expenses by 28.6% to ₹4.5bn in FY12E compared to ₹3.5bn in FY10. A new D&E facility has been opened at Hyderabad unit for design and development activities in the area of electronic warfare system.

Lower employee costs as provisions have already been made for next 10 years

Rise in employee costs would now be a thing of the past as BEL has already made provisions for wage hike for the next 10 years and the next pay revision is scheduled in distant 2016, thus stabilizing its staff costs which will in turn have a soothing effect on BEL's margins.

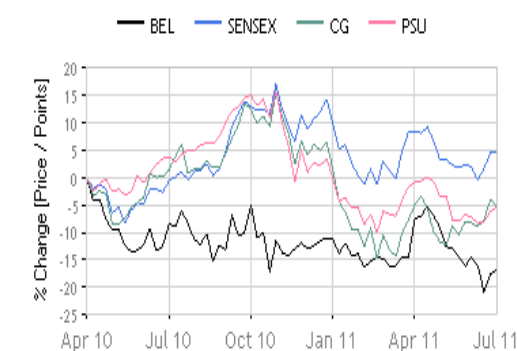
Outlook and Valuation

With 12% increase in defense budget allocation in Union Budget 2011-12, the addressable market for BEL is expanding, which is evident from near doubling of its order book in FY11. At the current market price of ₹1643, the stock is trading at a P/E of 12.4x FY13E estimated EPS of ₹132.3 and appears attractively priced given its robust order book and strong cash balance (₹533/share) on its books. We believe the stock is attractively priced at current levels and can trade at 15x FY13E earnings, thus providing a target price of ₹1985, a decent 20.8% upside from the current level.

Key Data	
Face Value ₹	10.0
No. of Shares, Mn	80
Mcap ₹ Mn	131440
Mcap, USD Mn @ 45	2921
52 Week H/L ₹	1927/1547
2 Week Avg Qty	13490

Share holding, March'11	
	% Holding
Promoters	75.9
FII	5.8
DII	14.7
Public & Others	3.6
Total	100.0

Particulars	₹
CMP	1643
Target Price	1985



Key Financials (consolidated)

Profit and loss	FY10	FY11	FY12E	FY13E
Revenues	55684.1	57727.5	67541.2	79023.2
Expenses	45226.3	47077.5	56261.9	66142.5
EBITDA	10457.8	10650.0	11279.4	12880.8
Other Income	1791.9	2498.8	3268.4	3640.9
Depreciation	1223.0	1269.1	1485.9	1738.5
Interest	5.8	4.7	5.2	5.4
PBT	10707.3	11875.1	13056.7	14777.8
Taxes	3332.6	3093.5	3695.0	4196.9
PAT	7373.1	8778.4	9361.6	10580.9
EPS (₹)	92.2	109.7	117.0	132.3
P/E (x)	17.8	15.0	14.0	12.4
EV/EBITDA (x)	9.1	6.2	7.9	6.4
P/BV (x)	2.9	2.6	2.2	1.8
ROE (%)	16.5	18.3	16.7	16.0

Source: Company & Sunidhi Research



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