



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

Analyst: Abhilasha Satale (022) 67141435

## Company Update @ Dalal & Broacha

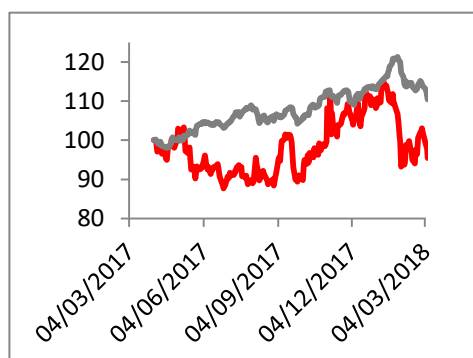
### Not Rated

Current Price	116
Target Price	NA
Upside	NA
52 Week Range	96/193

### Key Share Data

Market Cap (Rs.bn)	285
Market Cap (US\$ bn)	4.4
No of o/s shares (mn)	2436.4
Face Value	1
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	10119
BSE Code	500049
NSE Code	BEL
Bloomberg	BHE IN

### Price performance



### % Shareholding

	Jun-18	Mar-18
Promoters	66.01	66.79
Institutions	24.36	24.29
Others	8.98	8.92
<b>Total</b>	<b>100</b>	<b>100</b>

BEL is India's defense electronics company with presence in Radars, Surface to Air Missiles, Avionics, strategic communications and electro optics. Defense revenue contributes 88% to total revenue and 12% is contributed by civil orders. Indigenous revenues accounted for 83% in FY18 and 17% of revenues contributed by ToT (Transfer of Technology) from foreign OEMs.

**Order inflows to improve in FY19E:** BEL's order inflows have been lumpy and order inflows in FY18 have gone down by 30% to Rs110bn. However, Order inflows have improved in FY19E which will improve earnings outlook. BEL has entered into a contract worth Rs92bn for the supply and service of LRSAM systems for seven ships being built by Mazagon Dock Shipbuilders (MDL). Execution period for this order is likely to be in the 66-80 months range. This order has improved BEL's order book to ~INR500bn, further improving visibility to 5x. With the LRSAM order, BEL's YTD19 order intake now stands at INR125bn (FY19 estimate is INR200bn). Apart from this Akash missile order (INR55-60bn) to be awarded in H2FY19, which will further enhance visibility.

**EVM orders to act as icing on cake:** In the current order book Rs30bn are EVM (Electronic Voting Machines) orders. In 2018-19 thirteen states are likely to announce elections and also Lok Sabha elections will be held in 2019E. This might further improve EVM orders. However, EVM orders are low margin orders and has high working capital needs. This is likely to impact margin for BEL by 40-50bps in FY19E. BEL is also working in strategic areas like Electronic Fuzes, Homeland Security Solutions, Smart Cities, Cyber security etc.

**Strong competitive MOAT with huge opportunity size:** Defense expenditure is likely to be \$80bn over next 5-10 years. BEL is likely to be major beneficiary of this and it is well-positioned to grab the opportunity. BEL is likely to incur capex of Rs5-6bn p.a. for development of new products. It has set up state of art new factories at Machilipatnam for Electro Optics and Anantapur for future Missile programs. R&D spends for BEL is likely to be 9-10% of its revenue. These initiatives will improve revenues for BEL.

**Exports to improve:** BEL's exports have gone down from \$60mn (5% of sales) to \$26mn (2% of sales) yoy in FY18. Management has target to improve exports to 10% of sales over medium term. Current export order book is \$92mn including offset order of \$35mn which will give BEL better margin. Major export markets for BEL are Malaysia, Myanmar, Sri Lanka and Egypt.

**Valuation:** Management has guided for sustainable revenue growth of 12-15%. Margin for BEL is likely to be maintained at 18-19%. The company holds Rs40bn cash in its balancesheet and earns high ROE and ROCE of 19% and 20% respectively. As per consensus estimates BEL is likely to post EPS of Rs6.5 and Rs7.3 in FY19E and FY20E respectively. The recent price correction makes valuation attractive. BEL is trading at 18x FY19E and 16x FY20E earnings and 11.5x FY19E and 10x FY20E EV/EBITDA. We Expect BEL to offer better returns from current levels.

Year	Net Sales	OPM%	PAT	%growth	EPS	PE(x)	RoE%	RoCE%
FY15	70,926.3	16.6%	11,970.4	26%	15.0	7.8	16%	12%
FY16	73,537.7	18.9%	13,367.5	11.7	5.6	20.8	12%	9%
FY17	86,539.8	20.5%	15,233.7	14.0	6.8	17.0	10%	8%
FY18	100,065.8	16.8%	13,997.1	(8.1)	5.7	20.2	11%	8%



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P&L (Rs mn)	FY14	FY15	FY16	FY17	FY18	Cash Flow St (Rs. mn)	FY14	FY15	FY16	FY17	FY18
Net Sales	65,178.6	70,926.3	73,537.7	86,539.8	100,065.8	Net Profit	9,520.4	11,968.8	13,361.1	15,231.6	13,997.1
Raw Materials	37,570.6	38,941.5	37,865.9	43,906.3	55,148.5	Add: Dep. & Amort.	(1,498.7)	(1,661.5)	(1,919.6)	(2,116.3)	(2,510.0)
Employee Cost	10,461.2	12,810.0	12,672.1	15,594.4	17,723.0	Cash profits	8,021.7	10,307.3	11,441.5	13,115.3	11,487.1
Other Expenses	7,898.8	7,379.5	9,069.4	9,263.1	10,351.0	(Inc)/Dec in					
Operating Profit	9,248.0	11,795.3	13,930.3	17,776.0	16,843.3	-Sundry debtors	2,546.6	1,565.0	(3,976.6)	457.4	9,530.9
Depreciation	1,498.7	1,661.5	1,919.6	2,116.3	2,510.0	-Inventories	2,152.5	2,168.9	754.2	4,623.5	2,365.8
PBIT (Excl O. Income)	7,749.3	10,133.8	12,010.7	15,659.7	14,333.3	-Loans/advances	2,855.8	1,318.6	(3,062.9)	(1,662.5)	17.4
Other income	4,378.0	5,073.1	5,726.4	4,608.1	5,161.5	<sup>1</sup> Current Liab and Provisions	(2,035.2)	(452.2)	2,046.7	(2,862.5)	(10,189.5)
Interest	68.1	74.4	97.4	178.7	12.7	Change in working capital					
PBT	12,059.2	15,132.5	17,639.7	20,089.1	19,482.1	CF from Oper. activities	5,031.1	3,441.5	(5,199.1)	3,042.9	2,326.1
Exceptionals						Capex	3,504.5	4,932.4	4,161.8	4,397.1	6,355.7
Profit before tax (post exceptional)	12,059.2	15,132.5	17,639.7	20,089.1	19,482.1	CF from Inv. activities	808.1	(707.8)	3,664.9	(1,479.4)	(639.4)
Provision for tax	2,542.4	3,162.1	4,272.2	4,855.4	5,485.0	CF from Fin. activities	(3,353.0)	(976.9)	4,147.7	2,407.6	2,263.5
Reported PAT	9,516.8	11,970.4	13,367.5	15,233.7	13,997.1	Cash generated (utilised)	609.6	3,073.7	20,485.5	5,751.6	8,493.9
M	3.6	(1.6)	(6.4)	(2.1)	-	Cash at start of the year	1,548.7	46,045.3	60,379.2	72,161.1	38,271.8
Net Profit	9,520.4	11,968.8	13,361.1	15,231.6	13,997.1	Cash at end of the year	46,045.3	60,379.2	72,161.1	38,271.8	79,513.7
Adjusted Profit (excl Exceptionals)	9,463.2	11,957.3	13,371.7	15,221.5	13,997.1						
III E					13,997.1						
Balance Sheet (Rs Mn)	FY14	FY15	FY16	FY17	FY18	Ratios	FY14	FY15	FY16	FY17	FY18
Equity capital	800.0	800.0	2,400.0	2,233.6	2,436.6	OPM	14.2	16.6	18.9	20.5	16.8
Reserves	71,402.6	80,368.4	90,061.6	75,124.1	77,720.2	NPM	13.7	15.7	16.9	16.7	13.3
Net worth	72,202.6	81,168.4	92,461.6	77,357.7	80,156.8	Tax rate	21.1	20.9	24.2	24.2	28.2
M	37.7	61.1	47.7	137.2	130.3	Growth Ratios (%)					
Non Current Liabilities	5,850.0	6,361.3	9,023.4	10,815.2	10,548.8	Net Sales	29.7	8.8	4	17.7	15.6
Current Liabilities	71,710.1	69,450.0	84,232.8	87,025.0	98,679.0	Operating Profit	0.3	27.5	18.1	27.6	(5.2)
CAPITAL EMPLOYED	149,800.4	157,040.8	185,765.5	175,335.1	189,514.9	PBIT	55.8	30.8	18.5	30.4	(8.5)
Non Current Assets	27,126.5	22,649.5	28,294.6	37,011.1	46,797.1	PAT	42.1	26.4	11.8	13.8	(8.0)
Fixed Assets	6,947.3	10,730.1	12,318.4	15,009.8	16,895.9	Per Share (Rs.)					
CWIP	4,582.3	1,403.3	4,297.9	7,428.1	4,439.7	Net Earnings (EPS)	11.9	15.0	5.6	6.8	5.7
Deferred Tax Asset	3,015.1	3,384.3	4,586.0	5,289.4	4,300.6	Cash Earnings (CPS)	10.0	12.9	4.8	5.9	4.7
Long Term Loans and Advances	12,581.8	7,131.8	7,092.3	9,283.8	21,160.9	Dividend	2.6	8.7	9.3	10.9	13.0
Other Non-current assets						Book Value	90.3	101.5	38.5	34.6	32.9
Current Assets	122,673.9	134,391.3	157,470.9	138,324.0	142,717.8	Free Cash Flow	(0.4)	(0.2)	3.5	0.2	0.2
Investments	-	0.5	4,624.6	4,910.8	-	Valuation Ratios					
Inventories	33,445.2	34,279.5	41,576.5	48,824.5	48,035.6	PIE(x)	9.7	7.8	20.8	17.0	20.2
Trade Receivables	41,558.8	38,053.2	37,219.1	43,682.6	-	PIB(x)	1.3	1.1	3.0	3.3	3.5
Cash and Bank Balances	46,045.3	60,379.2	72,161.1	38,271.8	79,513.7	EV/EBIDTA(x)	5.8	3.4	15.4	12.9	12.6
Short Term Loans and Advances						Div. Yield(%)	2.3	7.5	8.0	9.4	11.2
Other Current Assets	1,624.6	1,678.9	1,889.6	2,634.3	15,168.5	FCF Yield(%)	(0.4)	(0.2)	3.1	0.2	0.2
CAPITAL DEPLOYED	149,800.4	157,040.8	185,765.5	175,335.1	189,514.9	Return Ratios (%)					
						ROE	16.9%	15.8%	12.1%	10.4%	10.5%
						ROCE	13.2%	11.9%	9.0%	8.1%	8.5%



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