29 April 2003
Visit Note

Bharat Electronics Limited

Rs. 246

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We visited Bharat Electronics Limited (BEL) to get an insight about the company's future gameplan. We came out convinced after the meeting and are optimistic about the company's future growth prospects.

Key takeaways from our meeting with the company's management.

Record Order Book position

BEL has ended the year with a record order book position as on 31 March 2003. The order book position has increased to Rs6930cr in FY03 from Rs4131cr in FY02. Of the total order book, Defence accounts for 75-80%. The balance is from the civilian sector. Traditionally, 60-65% of the order backlog has got converted into revenues for the company. ***BEL has signed an MoU with the Government of India (GoI) to achieve sales of Rs2750cr in FY04.*** During FY03, BEL had signed an MoU for a turnover target of Rs2050cr. The company, however, surpassed it with a huge margin and reported turnover of Rs.2570 crores. Given the strong order book position we believe that the current MoU will be surpassed easily.

No threat from private players

Though the electronic defence sector has opened up for the private players as well, due to its superior technology and low cost, BEL does not face any kind of threat. Moreover, earlier too some of the bids were won through international competitive bidding (ICB) and BEL has the requisite technology which is a key for getting defence orders. This is clearly shown in the kind of orders that BEL has managed to bag from the defence sector in the current year. Moreover, there are around 1000 personnel at the company's R&D centre working towards continues upgradation and newer products. It may be noted here that around ***65%*** of the products sold by BEL are indigenously manufactured.

Non-defence sales growing at a fast pace

Non-defence products and exports have been the thrust areas for BEL. Non-defence products, which accounted for a mere 20% of sales a few years back, has been steadily increasing. During FY03, non-defence products accounted for 28% of sales and are expected to grow at a faster clip than the defence segment.

New products in non-defence segment

On the anvil are plans to manufacture set-top boxes, the demand for which is expected to boom post CAS implementation. BEL does not plan to incur any capex for this project. It would be utilising its existing infrastructure. BEL is aiming at grabbing a 20% market share in set-top boxes. BEL is one also one of the major producers of electronic voting machines. With the general hustings round the corner, BEL is expected to bag good orders from this segment. The company is also in talks with the Singaporean Government for the supply of electronic voting machines.

Employee cost to remain stable

BEL's employee cost was a major concern a few years back. Two year's back, the company launched a VRS scheme on account of which the employee cost has now stabilised. In FY99, BEL's employee strength was 15500 which stands reduced at 13750 in FY03. BEL had signed wage settlement bill with the employees union in April 97, which is valid for 10 years. A revision in wages would be coming up only towards FY06. Moreover, employee cost as a percentage of sales has declined from 23% in FY01 to 15% in FY03 on the back of increased turnover.

Healthy cash position

BEL has a strong cash position of around Rs700-725cr in FY03 as compared to Rs585cr it had last year. The cash per share works out to Rs87-90. No major capex plans have been drawn up for the next two years –Rs100cr would be spent towards upgradation and automation of facilities. BEL has also reduced its debt from Rs80cr in FY02 to around Rs40cr in FY03. We believe that the company will become debt free in a couple of years.

Financials

BEL reported a turnover (provisional) of Rs2571cr in FY03, an increase of 34% over FY02. Net profit spiked by 39% in FY03 to Rs275cr. Though we are still working on the numbers, we believe that BEL should end with FY04 with a turnover of more than Rs2750cr (MoU with GoI). We expect BEL's EPS for FY04 to be in the range of Rs41-43. At current levels, the stock is trading at 5.8x FY04E earnings. We will follow up with a detailed report on the company very soon.

Rs crore

	FY00	**FY01**	**FY02**
Gross Sales	1475.9	1695.1	1918.1
Expense	1238.1	1420.5	1579.4
PBITDA	237.8	274.6	338.7
PBITDA (%)	16.1	16.2	17.7
Other Income	11.3	24.9	17.4
Depreciation	48.0	51.9	49.1
PBIT	201.1	247.5	306.9
Interest	38.2	29.0	24.5
PBT	163.0	218.5	282.4
Tax	58.5	64.7	85.1
PAT	104.5	153.8	197.4
PAT (%)	7.1	9.1	10.3
Equity	80.0	80.0	80.0
EPS (Rs)	13.1	19.2	24.7

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Stock Ratings	Absolute Returns
Buy:	> 25%
Out Performer:	16 - 25%
Market Performer:	0 - 15%
Under Performer:	< 0%

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