



Farsight

MORNING FARSIGHT

Tuesday, October 30, 2018

BEL

CMP:RS 86.50

TRGT:RS 105

TIME HORIZON: 1 YEAR

BEL looks a good buy, as company having reported second consecutive quarter with stellar performance amid all the media hullabaloo of margin contraction, while company continues to march ahead with massive order book and robust earnings growth. In Q2FY19, BEL reported sales growth of 35% at Rs 3,282 cr, despite high base (as in Q2FY19 BEL had achieved revenue growth of 38% YoY). EBITDA growth was at 44% at Rs 854 cr with EBITDA margin of 25.3%, against Rs 23.9% YoY, way ahead of meaningless brokerage estimates of 18%. One must also note that overall, 1HFY19EBITDA of Rs 1,165 cr with margins of 21.2% is notably above FY19 margin guidance of 17%-19% and also 320 bps higher than H1FY18 EBITDA margin of 18%. PAT was placed at Rs 571 cr, up by 39% YoY against Rs 412 cr, despite sharply lower other income of Rs 14 cr against Rs 53 cr YoY. On the balance-sheet front, Current financial assets as of H1FY19 of Rs 9,022 cr increased by about Rs 1,150 cr H1FY18. This can be attributed largely to an increase in accrued income in other financial assets, as witnessed in FY18, as BEL is likely to receive 15% advance on an order value of Rs 9,200 cr for LRSAM. Order inflows of Rs 10,755 cr (+240% YoY) were due largely to the booking of the LRSAM contract in 2Q (Rs 9,200 cr and H1FY19 order inflows of over Rs 14,400 cr has almost achieved the full-year FY19 order inflow guidance of Rs 15,000 to Rs 16,000 cr). Given that the company expects a big-ticket order for seven squadrons of Akash missiles (Rs 5,500 cr) in FY19, and likely to meaningfully exceed the aforementioned FY19 order inflow guidance. Order book as of Sep-18 stood at Rs 48,995 cr. BEL meets the country's defense electronic needs (-55% market share). It is a play on India's growing capital outlay on defense and thrust on import substitution. BEL's strong In-house and joint R&D focus with DRDO is a competitive advantage. Order inflows are a key determinant of stock price performance, and we think BEL is on track to beat FY19 guidance and street estimates as well. On an estimated EPS of Rs 6.5 for FY19, stock is trading at PE of 13.5x, which is seen attractive and at discount to major US/Euro defence majors Share ruling at Rs 86.50 can move to Rs 105 in 1 year. Buy as an investor only

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Disclosure of interest statement – • Analyst interest of the stock / Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.