

# Bharat Electronics

Estimate change



TP change



Rating change

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Bloomberg	BHE IN
Equity Shares (m)	2,437
M.Cap.(INRb)/(USD\$b)	417.1 / 5.6
52-Week Range (INR)	192 / 86
1, 6, 12 Rel. Per (%)	-9/18/30
12M Avg Val (INR M)	2012

## Financials & Valuations (INR b)

Y/E Mar	2021	2022E	2023E
Sales	140.6	157.7	174.8
EBITDA	31.8	33.4	36.5
PAT	20.7	23.1	25.2
EBITDA (%)	22.6	21.2	20.9
EPS (INR)	8.5	9.5	10.3
EPS Gr. (%)	15.1	11.9	8.9
BV/Sh. (INR)	44.6	50.3	56.5

## Ratios

Net D/E	(0.5)	(0.4)	(0.4)
RoE (%)	19.0	18.8	18.3
RoCE (%)	19.9	20.0	19.4
Payout (%)	40.0	40.0	40.0

## Valuations

P/E (x)	20.2	18.1	16.6
P/BV (x)	3.8	3.4	3.0
EV/EBITDA (x)	11.5	11.0	9.9
Div Yield (%)	2.0	2.2	2.4
FCF Yield (%)	11.1	2.1	3.6

## Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	51.1	51.1	51.1
DII	28.9	30.2	32.2
FII	14.1	11.6	7.9
Others	5.9	7.1	8.8

FII Includes depository receipts

CMP: INR171

TP: INR205 (+20%)

Buy

## Gradual ramp-up expected in execution

### Maintains FY22 guidance despite miss in 1QFY22

- Bharat Electronics (BHE)'s 1QFY22 revenue came in 32% below our estimate, with the miss attributed to lower execution on account of the COVID disruption. With lower execution and elevated commodity costs, the EBITDA margin stood at 3.8% (v/s 8.8% YoY), largely attributable to the lower absorption of fixed costs, such as employee expenses.
- The margin depends on the sales mix between deliverables; hence, it tends to be volatile on a quarterly basis. BHE's current order book is strong at INR545b, with an OB/revenue ratio of 3.9x. **The company maintained its revenue guidance at 15–17% growth and margin guidance at ~22% for FY22, and is confident of achieving this despite the miss in 1QFY22.**
- While its 1QFY22 performance has been below expectations, we believe BHE has sufficient levers to recover lost sales over 9MFY22 and meet its guidance. Notably, 1Q has historically contributed 10–15% to the topline (over FY15–20). While we cut our FY22E EPS by 5%, we broadly maintain our FY23–24E EPS and forecast a revenue/EBITDA/PAT CAGR of 11%/8%/10% over FY21–24E. Our TP stands at INR205/share (20x FY23E EPS). Maintain **Buy**.

### Disappointment across parameters

- **1QFY22 snapshot:** Revenue stood at INR16.3b (flat YoY) and was 32% below our estimates. EBITDA stood at INR629m (down 57% YoY and 85% below our estimates). EBITDA margins came in at 3.8% (v/s 8.8% in 1QFY21). PBT stood at INR152m, aided by higher other income (INR447m v/s our est. of INR250m). Adj. PAT was down 79% YoY to INR112m (v/s our est of INR2.5b).
- Order inflows stood at ~INR26b, with OB strong at INR545b (OB/rev ~3.9x).

### Highlights from management commentary

- BHE is working on entering newer segments, including lithium ion battery manufacturing. The lithium ion technology is not a new area for BHE as the company has been using it in defense applications for over a decade. It has initiated discussions with OLA and could start manufacturing lithium ion batteries if the discussion materializes. In this case, BHE would apply for PLI as well.
- BHE expects more than INR150b worth of order inflows in FY22. Large orders such as D-29 and Himshakti are expected to come in 2QFY22.
- The management expects INR10–15b worth of orders per year from the Metro business from FY23.

### Valuation and view

- We forecast a revenue/EBITDA/PAT CAGR of 11%/8%/10% over FY21–24E. We have built in a sufficient margin cushion as we assume an EBITDA margin of ~21% over FY22–24 (v/s 22.6% reported in FY21). Our TP stands at INR205/share (20x FY23E EPS). At CMP, the stock trades at 18x/17x FY22E/FY23E P/E, despite RoE/RoCE of ~19%/20% (FY23E), dividend yield of ~2%, and FCF yield of 2–4%. We maintain a **Buy** rating. Higher growth in the non-Defense business poses an upside risk to our EPS estimates, while working capital deterioration poses a key downside risk to valuations.

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

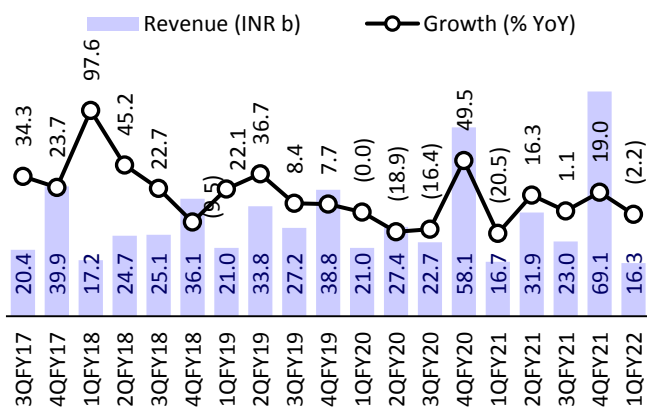
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Quarterly Performance

(INR m)

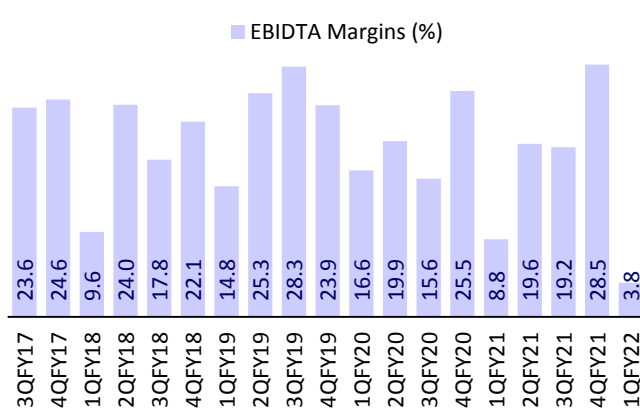
Y/E March	FY21				FY22				FY21	FY22E	MOSL 1QE	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE				
<b>Sales</b>	<b>16,706</b>	<b>31,887</b>	<b>22,962</b>	<b>69,083</b>	<b>16,346</b>	<b>35,918</b>	<b>29,621</b>	<b>75,776</b>	<b>1,40,638</b>	<b>1,57,661</b>	<b>24,011</b>	<b>(32)</b>
Change (%)	(20.5)	16.3	1.1	19.0	(2.2)	12.6	29.0	9.7	8.8	12.1	43.7	
<b>EBITDA</b>	<b>1,467</b>	<b>6,235</b>	<b>4,404</b>	<b>19,706</b>	<b>629</b>	<b>7,543</b>	<b>6,220</b>	<b>19,006</b>	<b>31,811</b>	<b>33,398</b>	<b>4,082</b>	<b>(85)</b>
Change (%)	(57.9)	14.5	24.1	32.9	(57.2)	21.0	41.3	(3.5)	16.5	5.0	178.2	
As of % Sales	8.8	19.6	19.2	28.5	3.8	21.0	21.0	25.1	22.6	21.2	17.0	
Depreciation	888	914	945	917	922	950	1,000	1,187	3,663	4,059	1,020	
Interest	1	3	2	56	1	4	3	52	61	61	2	
Other Income	184	274	231	572	447	350	400	403	1,261	1,600	250	
<b>PBT</b>	<b>762</b>	<b>5,592</b>	<b>3,688</b>	<b>19,305</b>	<b>152</b>	<b>6,939</b>	<b>5,617</b>	<b>18,170</b>	<b>29,348</b>	<b>30,878</b>	<b>3,310</b>	<b>(95)</b>
Tax	221	1,622	1,070	5,782	40	1,746	1,414	4,571	8,694	7,772	833	
Effective Tax Rate (%)	29.0	29.0	29.0	29.9	26.5	25.2	25.2	25.2	29.6	25.2	25.2	
<b>Reported PAT</b>	<b>541</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>	<b>5,192</b>	<b>4,204</b>	<b>13,599</b>	<b>20,654</b>	<b>23,106</b>	<b>2,477</b>	<b>(95)</b>
Change (%)	(73.6)	17.0	21.7	30.7	(79.4)	30.8	60.5	0.6	15.1	11.9	357.6	
<b>Adj PAT</b>	<b>541</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>	<b>5,192</b>	<b>4,204</b>	<b>13,599</b>	<b>20,654</b>	<b>23,106</b>	<b>2,477</b>	<b>(95)</b>
Change (%)	(73.6)	17.0	21.7	30.7	(79.4)	30.8	60.5	0.6	15.1	11.9	357.6	

Exhibit 1: Flat revenue YoY in 1QFY22, 32% below our estimates



Source: MOFSL, Company

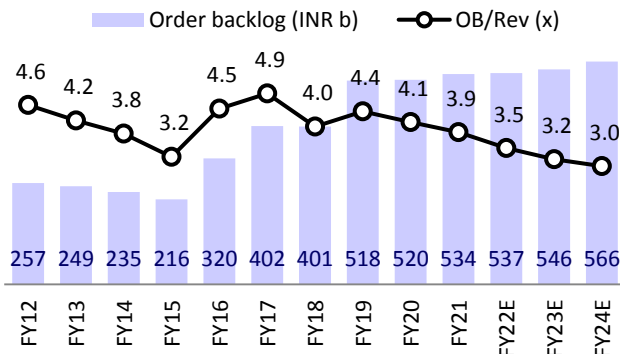
Exhibit 2: EBITDA margin down largely on lower operating leverage



Source: MOFSL, Company

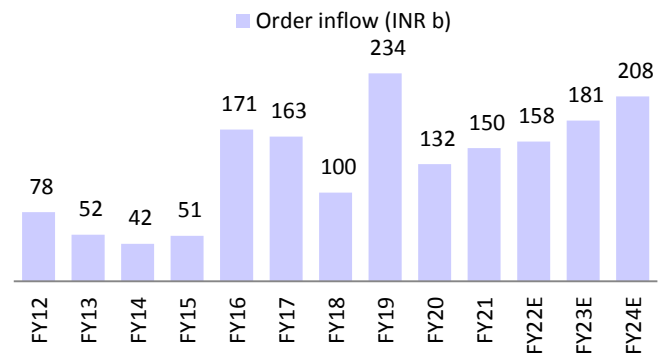
Story in charts

**Exhibit 3: Strong order book position with healthy order book-to-revenue ratio**



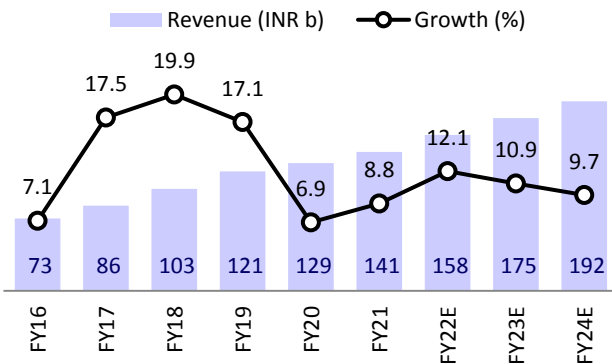
Source: MOFSL, Company

**Exhibit 4: Order inflows to gradually scale up over FY21–24E, aided by growing non-Defense business**



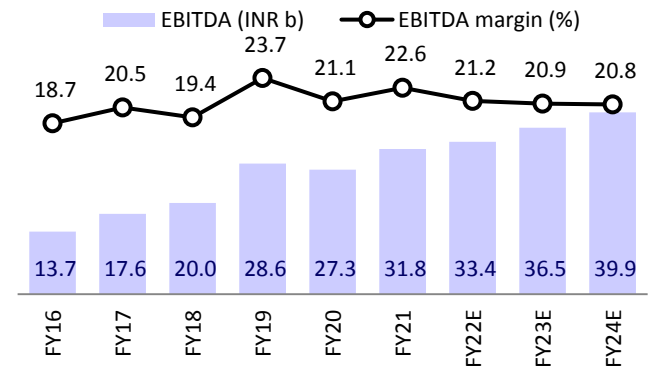
Source: MOFSL, Company

**Exhibit 5: Estimate 11% revenue CAGR over FY21–24**



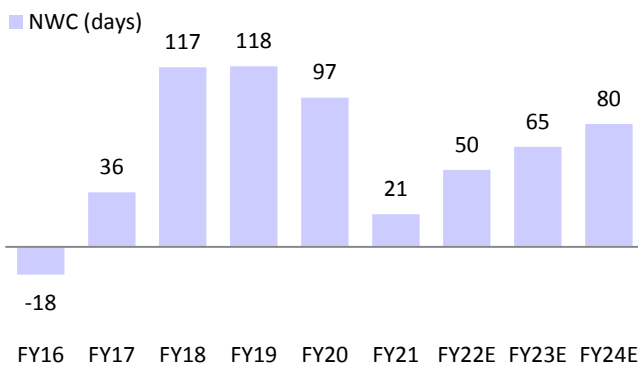
Source: MOFSL, Company

**Exhibit 6: Factor in stable margins of ~21% over FY21–24E**



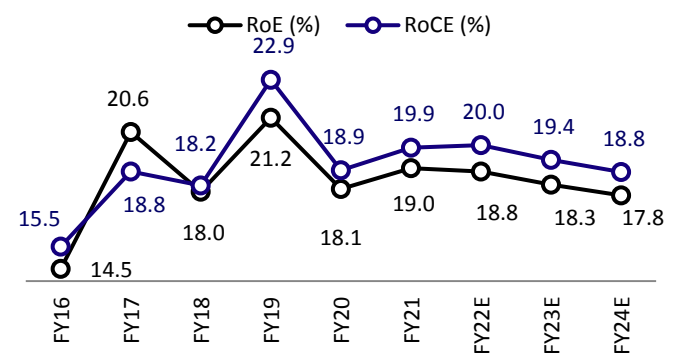
Source: MOFSL, Company

**Exhibit 7: Trend in net working capital days**



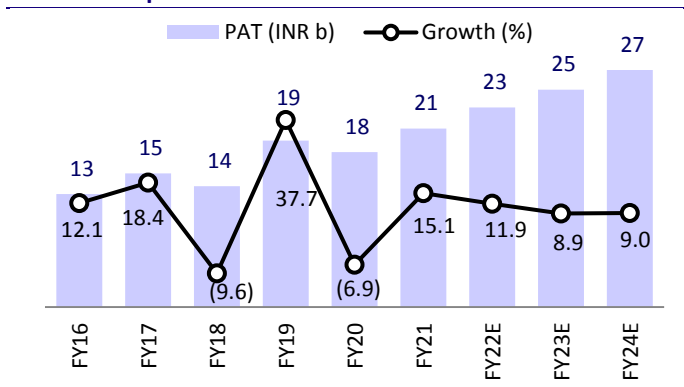
Source: MOFSL, Company

**Exhibit 8: BHE enjoys superior return ratios**



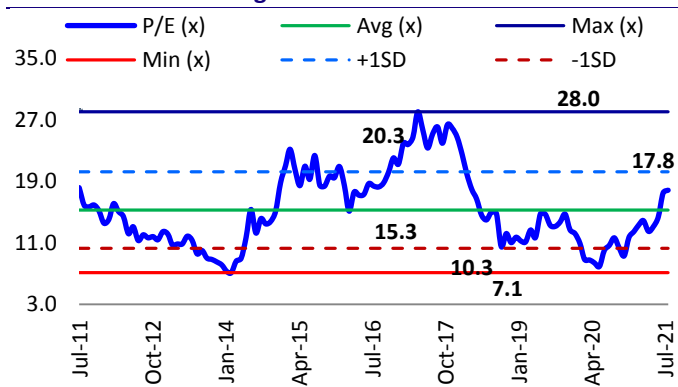
Source: MOFSL, Company

Exhibit 9: Expect 10% PAT CAGR over FY21–24



Source: MOFSL, Company

Exhibit 10: BHE trades at one-year forward P/E of 17.8x, above historical average of ~15.3x



Source: MOFSL



### Highlights from management commentary

#### Order book and order inflows

- Order inflows stood at INR25.7b, of which EVM/VVPAT was INR12.5b. The company also received an order for oxygen concentrators.
- The order outlook is strong as large orders are expected (Himshakti – during the next quarter). Medium-range/Quick-reaction surface-to-air missile (MRSAM/QRSAM) orders are expected over the next financial year. **Overall, order inflows are expected to be >INR150b.**
- Medical electronics: In addition to ventilators and oxygen concentrators, the company is working on a dialysis system.
- The lithium ion technology is not a new area for BHE as the company has been using it in defense applications for over a decade. It has initiated discussions with OLA and could begin manufacturing lithium ion batteries if the discussion materializes. In this case, BHE would apply for the PLI scheme too.
- Lithium ion is not a new technology for BHE as it has been using this technology in defense applications for over a decade. The company aims to begin with batteries for the Automotive industry and eventually extend the whole range of electronic solutions to auto manufacturers, including control systems.
- The Metro business would garner INR10–15b every year from FY23.

#### Execution update

- BHE has maintained guidance at 15–17% growth and EBITDA margin guidance at 22%. The company is very confident of achieving this as 3Q and 4Q are generally higher in terms of deliverables.
- Services contributed INR2b during the quarter.
- Over the next few years, BHE could clock 15–17% growth. Various emergency orders are planned. Many follow-up orders are expected to come in, such as MRSAM/QRSAM. BHE is also entering newer areas such as Metros and Traffic Management Systems.

#### Other takeaways

- Supply chain: It has not experienced a shortage in semiconductors or any other materials.
- BHE has shifted to the new corporate tax regime.

- A new CMD is yet to be appointed.
- Other expenses are down YoY as the base year involved the execution of ventilator orders on a ToT project. With over a year now since those orders have been supplied, the related provisions have been withdrawn on the project, which is reflected in other income.
- Cash reserves continue to be strong.

**Exhibit 11: Earnings change summary**

Earnings Change INR m	Old			New			Change		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Revenue	1,63,004	1,78,380	1,93,996	1,57,661	1,74,775	1,91,710	-3	-2	-1
EBITDA	35,332	37,774	40,687	33,398	36,483	39,869	-5	-3	-2
EBITDA margin	21.7%	21.2%	21.0%	21.2%	20.9%	20.8%	-0.5	-0.3	-0.2
Adj. PAT	24,384	26,006	27,980	23,106	25,153	27,425	-5	-3	-2

Source: MOFSL, Company

**Valuation and view**

- **Best play in India's Defense industry:** BHE is well-positioned to benefit from rising defense expenditure, aided by: a) a strong manufacturing base and execution track record, b) its relationship with defense and government agencies, c) strategic collaboration with foreign technology partners for the development of new products, d) its in-house R&D capabilities (R&D spend over 9% of revenue, with the aim to scale this up to 10%), and e) its higher focus on exports to friendly countries.
- **Strong order book position provides robust revenue visibility:** BHE had a robust order backlog of INR545b as at 1QFY22-end, translating to an OB/revenue ratio of 3.9x. This offers the company superior revenue visibility.
- **Maintain Buy, with TP of INR205/share:** We forecast a revenue/EBITDA/PAT CAGR of 11%/8%/10% over FY21–24E. We have built in a sufficient margin cushion as we assume an EBITDA margin of ~21% over FY22–24E (v/s 22.6% reported in FY21). While 1QFY22 performance has been below expectations, we believe BHE has sufficient levers to recover lost sales over 9MFY22 and meet its guidance. Notably, 1Q has historically contributed 10–15% to the topline (over FY15–20). While we cut our FY22E EPS by 5%, we broadly maintain our FY23–24E EPS. Our TP stands at INR205/share (20x FY23E EPS). **Maintain Buy.**

## Financials and valuations

Income Statement							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Total Revenue</b>	<b>1,03,223</b>	<b>1,20,846</b>	<b>1,29,211</b>	<b>1,40,638</b>	<b>1,57,661</b>	<b>1,74,775</b>	<b>1,91,710</b>
Change (%)	19.9	17.1	6.9	8.8	12.1	10.9	9.7
Raw Materials	60,257	67,002	76,984	84,869	97,836	1,09,155	1,19,732
Staff Cost	17,723	18,791	20,575	19,407	21,576	23,986	26,661
Other Expenses	5,246	6,433	4,351	4,552	4,850	5,150	5,448
<b>EBITDA</b>	<b>19,997</b>	<b>28,621</b>	<b>27,301</b>	<b>31,811</b>	<b>33,398</b>	<b>36,483</b>	<b>39,869</b>
% of Total Revenue	19.4	23.7	21.1	22.6	21.2	20.9	20.8
Depreciation	2,510	3,162	3,496	3,663	4,059	4,509	4,959
Interest	13	122	33	61	61	61	61
Other income	2,004	1,695	1,019	1,261	1,600	1,700	1,800
<b>PBT</b>	<b>19,478</b>	<b>27,032</b>	<b>24,792</b>	<b>29,348</b>	<b>30,878</b>	<b>33,613</b>	<b>36,649</b>
Tax	5,486	7,759	6,853	8,694	7,772	8,460	9,225
Rate (%)	28.2	28.7	27.6	29.6	25.2	25.2	25.2
<b>Adjusted PAT</b>	<b>13,992</b>	<b>19,273</b>	<b>17,938</b>	<b>20,654</b>	<b>23,106</b>	<b>25,153</b>	<b>27,425</b>
<b>Reported PAT</b>	<b>13,992</b>	<b>19,273</b>	<b>17,938</b>	<b>20,654</b>	<b>23,106</b>	<b>25,153</b>	<b>27,425</b>
Change (%)	-9.6	37.7	-6.9	15.1	11.9	8.9	9.0

Balance Sheet							(INR m)
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
Share Capital	2,437	2,437	2,437	2,437	2,437	2,437	2,437
Reserves	75,512	88,393	96,824	1,06,331	1,20,195	1,35,287	1,51,741
<b>Net Worth</b>	<b>77,949</b>	<b>90,830</b>	<b>99,261</b>	<b>1,08,768</b>	<b>1,22,631</b>	<b>1,37,723</b>	<b>1,54,178</b>
Loans	334	0	0	0	0	0	0
Deferred Tax Liability	-4,312	-4,712	-4,974	-4,634	-4,634	-4,634	-4,634
<b>Capital Employed</b>	<b>73,971</b>	<b>86,118</b>	<b>94,287</b>	<b>1,04,134</b>	<b>1,17,998</b>	<b>1,33,089</b>	<b>1,49,544</b>
Gross Fixed Assets	26,572	34,595	42,815	45,103	50,103	55,103	60,103
Less: Depreciation	6,127	9,288	12,784	16,448	20,507	25,016	29,975
<b>Net Fixed Assets</b>	<b>20,445</b>	<b>25,307</b>	<b>30,030</b>	<b>28,655</b>	<b>29,596</b>	<b>30,087</b>	<b>30,127</b>
Capital WIP	3,955	2,751	1,994	3,507	3,507	3,507	3,507
Investments	9,032	10,193	12,233	13,668	13,668	13,668	13,668
<b>Curr. Assets</b>	<b>1,47,167</b>	<b>1,61,672</b>	<b>1,89,879</b>	<b>2,40,068</b>	<b>2,62,502</b>	<b>2,90,682</b>	<b>3,19,068</b>
Inventory	47,755	44,548	39,628	49,547	55,544	61,573	67,539
Debtors	57,046	53,692	40,055	41,869	46,937	52,031	57,073
Cash and Bank Balance	7,387	8,840	15,562	50,085	49,523	54,585	60,093
Loans and Advances	730	729	400	0	0	0	0
Other Assets	34,249	53,864	94,235	98,568	1,10,498	1,22,493	1,34,362
<b>Current Liab. and Prov.</b>	<b>1,06,627</b>	<b>1,13,804</b>	<b>1,39,850</b>	<b>1,81,764</b>	<b>1,91,274</b>	<b>2,04,854</b>	<b>2,16,826</b>
Current Liabilities	94,023	1,00,008	1,25,091	1,64,265	1,71,657	1,83,108	1,92,972
Provisions	12,604	13,796	14,759	17,499	19,617	21,746	23,854
<b>Net Current Assets</b>	<b>40,540</b>	<b>47,868</b>	<b>50,029</b>	<b>58,304</b>	<b>71,227</b>	<b>85,828</b>	<b>1,02,242</b>
<b>Application of Funds</b>	<b>73,971</b>	<b>86,118</b>	<b>94,287</b>	<b>1,04,134</b>	<b>1,17,998</b>	<b>1,33,089</b>	<b>1,49,544</b>

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Basic (INR)</b>							
<b>Adj. EPS</b>	<b>5.7</b>	<b>7.9</b>	<b>7.4</b>	<b>8.5</b>	<b>9.5</b>	<b>10.3</b>	<b>11.3</b>
Cash EPS	6.8	9.2	8.8	10.0	11.1	12.2	13.3
Book Value	32.0	37.3	40.7	44.6	50.3	56.5	63.3
DPS	2.0	2.1	3.1	3.4	3.8	4.1	4.5
Payout (incl. Div. Tax.)	35	27	42	40	40	40	40
<b>Valuation (x)</b>							
P/E	29.8	21.6	23.3	20.2	18.1	16.6	15.2
Cash P/E	25.3	18.6	19.5	17.2	15.4	14.1	12.9
EV/EBITDA	20.5	14.3	14.7	11.5	11.0	9.9	9.0
EV/Sales	4.1	3.5	3.2	2.7	2.4	2.1	1.9
Price/Book Value	5.4	4.6	4.2	3.8	3.4	3.0	2.7
Dividend Yield (%)	1.2	1.2	1.8	2.0	2.2	2.4	2.6
<b>Profitability Ratios (%)</b>							
RoE	18.0	21.2	18.1	19.0	18.8	18.3	17.8
RoCE	18.2	22.9	18.9	19.9	20.0	19.4	18.8
RoIC	32.4	30.8	26.7	39.1	49.8	42.5	39.1
<b>Turnover Ratios</b>							
Debtors (Days)	202	162	113	109	109	109	109
Inventory (Days)	169	135	112	129	129	129	129
Asset Turnover (x)	3.8	3.4	2.9	3.1	3.1	3.1	3.1
<b>Leverage Ratio</b>							
Net Debt/Equity (x)	(0.1)	(0.1)	(0.2)	(0.5)	(0.4)	(0.4)	(0.4)

### Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E	(INR m) FY24E
<b>PBT before EO Items</b>	<b>19,478</b>	<b>27,032</b>	<b>24,792</b>	<b>29,348</b>	<b>30,878</b>	<b>33,613</b>	<b>36,649</b>
Depreciation	2,510	3,162	3,496	3,663	4,059	4,509	4,959
Interest and other	-1,434	-69	-292	750	61	61	61
Direct Taxes Paid	6,512	7,669	5,684	5,323	7,772	8,460	9,225
(Inc.)/Dec. in WC	-21,929	-7,796	3,013	22,597	-13,485	-9,538	-10,906
<b>CF from Operations</b>	<b>-7,885</b>	<b>14,660</b>	<b>25,325</b>	<b>51,035</b>	<b>13,742</b>	<b>20,184</b>	<b>21,539</b>
(Inc.)/Dec. in FA	-7,779	-7,054	-7,264	-4,664	-5,000	-5,000	-5,000
<b>Free Cash Flow</b>	<b>-15,665</b>	<b>7,606</b>	<b>18,062</b>	<b>46,371</b>	<b>8,742</b>	<b>15,184</b>	<b>16,539</b>
(Pur.)/Sale of Investments	-2,844	132	-731	-1,094	0	0	0
<b>CF from Investments</b>	<b>-10,623</b>	<b>-6,922</b>	<b>-7,995</b>	<b>-5,758</b>	<b>-5,000</b>	<b>-5,000</b>	<b>-5,000</b>
(Inc.)/Dec. in Networth	-3,723	-333	-250	-83	0	0	0
(Inc.)/Dec. in Debt	167	0	-13	-16	0	0	0
Interest Paid	259	489	552	428	61	61	61
Dividend Paid	8,192	5,463	9,793	10,227	9,242	10,061	10,970
<b>CF from Fin. Activity</b>	<b>-12,006</b>	<b>-6,285</b>	<b>-10,608</b>	<b>-10,754</b>	<b>-9,303</b>	<b>-10,122</b>	<b>-11,031</b>
<b>Inc./Dec. in Cash</b>	<b>-30,515</b>	<b>1,453</b>	<b>6,722</b>	<b>34,522</b>	<b>-562</b>	<b>5,062</b>	<b>5,508</b>
Add: Beginning Balance	37,902	7,387	8,840	15,562	50,085	49,523	54,585
<b>Closing Balance</b>	<b>7,387</b>	<b>8,840</b>	<b>15,562</b>	<b>50,085</b>	<b>49,523</b>	<b>54,585</b>	<b>60,093</b>

NOTES



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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