

Bharat Electronics

BSE SENSEX

37,397

S&P CNX

11,085

CMP: INR98
TP: INR130 (+32%)
Buy

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Bloomberg	BHE IN
Equity Shares (m)	2,437
M.Cap.(INRb)/(USDb)	239.8 / 3.5
52-Week Range (INR)	124 / 73
1, 6, 12 Rel. Per (%)	-7/14/-8
12M Avg Val (INR M)	1158
Free float (%)	41.2

Financials & Valuations (INR b)

Y/E Mar	2019	2020E	2021E
Net Sales	120.8	139.5	161.4
EBITDA	28.6	29.4	32.4
NP	19.3	18.3	20.1
EPS (INR)	7.9	7.5	8.2
EPS Gr. (%)	37.7	-5.1	9.6
BV/Sh (INR)	36.5	41.0	45.9
RoE (%)	21.6	18.3	17.9
RoCE (%)	23.1	19.5	19.0
P/E (x)	12.5	13.2	12.0
P/BV (x)	2.7	2.4	2.2

Estimate change



TP change



Rating change



Margin-led operational outperformance; Earnings visibility healthy with reasonable valuations

- Operational results above estimates:** 1QFY20 revenue remained flat YoY at INR21.0b (5% below our est. of INR22.2b). *(It is important to note that 1QFY19 revenue included INR4.5b contribution from EVMs, which drove full-year FY19 revenues)* Thus, excluding the EVM revenue contribution, core business revenue increased 27% YoY. 1QFY20 revenue was supported by execution of IACCS, radars, smart city business, upgrade of communication equipment, etc. EBITDA grew 12% YoY to INR3.5b (ahead of our est. of INR3.2b), while reported net profit increased 14% YoY to INR2.0b.
- Margin improvement on better revenue mix:** Gross margin during the quarter improved 240bp YoY to 49.7%, supported by execution of indigenous products and absence of low margin EVM orders. EBITDA margin too improved 180bp to 16.6%. Better revenue mix and higher indigenization levels led to margin improvement. BHE expects EBITDA margins to moderate to 20-21% for FY20E.
- Order backlog robust at INR517b (+24% YoY).** Order backlog stands healthy providing strong revenue visibility of 4.3x its TTM revenue. Order inflow declined 45% YoY to INR19.6b in 1QFY20 given the delay in finalization of large ticket orders on account of the general elections. Key orders booked during the quarter are for communication equipment, AMC for radars, and an export order for communication equipment. BHE expects finalization of the *Akash* missile, coastal surveillance system and the *Samyukta* upgrade to conclude in FY20, which should lead to an order inflow of INR209b (v/s INR232b in FY19).
- Valuation and view:** Given the current order backlog position, execution timelines and capabilities of the company, we maintain a **Buy** rating on the stock with TP of INR130 (16x Mar'21E EPS, in line with its 10-year average P/E multiple of 16.8x).

Quarterly Performance

(INR M)

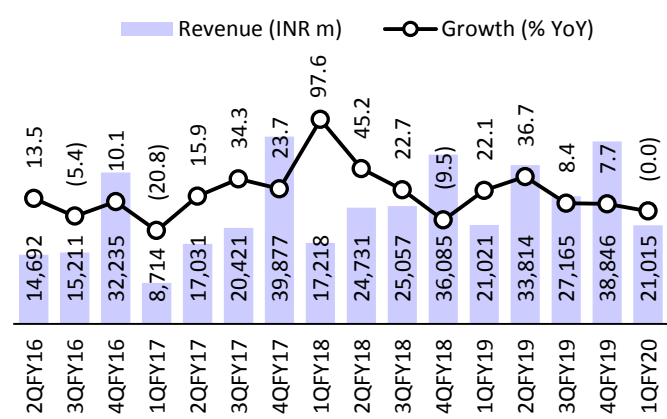
Y/E March	FY19				FY20E				FY19	FY20E	MOSL	Var
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	
Sales	21,021	33,814	27,165	38,846	21,015	35,415	33,423	49,675	120,846	139,529	22,179	-5.2
Change (%)	22.1	36.7	8.4	7.7	0.0	4.7	23.0	27.9	17.1	15.5	5.5	
EBITDA	3,105	8,544	7,681	9,290	3,481	7,822	6,835	12,019	28,621	29,414	3,242	7.4
Change (%)	88	44	73	17	12	-8	-11	29	43	3	4	
As of % Sales	14.8	25.3	28.3	23.9	16.6	22.1	20.4	24.2	23.7	21.1	14.6	
Depreciation	689	743	797	933	828	850	900	1005	3,162	3,583	800	
Interest	3	0	0	119	3	4	5	110	122	122	5	
Other Income	89	143	176	1,288	254	300	315	331	1,695	1,200	250	
PBT	2,502	7,944	7,060	9,526	2,904	7,268	6,245	11,235	27,032	26,909	2,687	8.1
Tax	705	2,230	1,984	2,840	856	2,326	1,998	3,430	7,759	8,611	860	
Effective Tax Rate (%)	28.2	28.1	28.1	29.8	29.5	32.0	32.0	30.5	28.7	32.0	32.0	
Reported PAT	1,797	5,713	5,076	6,686	2,048	4,943	4,247	7,805	19,273	18,298	1,827	12.1
Change (%)	43.4	38.5	67.6	19.7	13.9	-13.5	-16.3	16.7	37.7	-5.1	1.7	
Adj PAT	1,797	5,713	5,076	6,686	2,048	4,943	4,247	7,805	19,273	18,298	1,827	12.1
Change (%)	43.4	38.5	67.6	19.7	13.9	-13.5	-16.3	16.7	37.7	-5.1	1.7	

Nilesh Bhaiya – Research Analyst (Nilesh.Bhaiya@MotilalOswal.com); +91 22 6129 1556

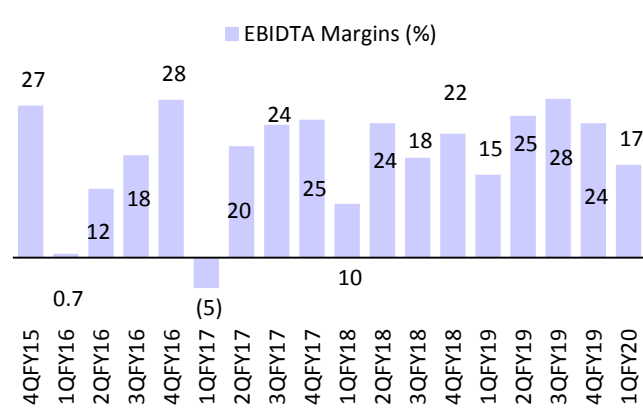
Amit Shah – Research Analyst (Amit.Shah@MotilalOswal.com); +91 22 6129 1543

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Exhibit 1: Revenue remained flat YoY as EVM orders that contributed INR4.5b in 1QFY19 ceased to exist

Source: MOFSL, Company

Exhibit 2: Margin improvement of 180bp YoY to 16.6% supported by execution of better margin orders

Source: MOFSL, Company

Order book stands healthy at INR517b, potential pipeline looks healthy

- Order backlog of INR517b as at 1QFY20 end providing strong revenue visibility of 4.3x its ttm revenue.
- Order inflow declined 45% YoY to INR20b in 1QFY20, given delay in finalization of large ticket orders on account of the election period.
- BHE expects *Akash* missile, coastal surveillance system and Samyukta upgrade order to be finalized in FY20.

Exhibit 3: Key orders acquired by BHE in 1QFY20

1QFY20	❖ Communication equipment
1QFY20	❖ AMC for Radars
1QFY20	❖ Export order for equipment

Source: MOFSL, Company

Exhibit 4: BHE's order expectation to be finalized in FY20

FY18	FY19	FY20
❖ Akash Missile Systems (7 Squadron)	❖ Akash Missile System (7 Sqdn)	❖ Akash Missile system (7 Sqdn)
❖ Long Range surface to air missile for P17A	❖ Long range surface to air missile for P17A	
❖ Commander T1 sight		
❖ Mobile cellular communication system		
❖ EW Systems		

Source: Company, MOFSL

Valuation and view; maintain Buy and TP of INR130

- BHE is well positioned to benefit from the rising defense expenditure, supported by (a) strong manufacturing base and execution track record, (b) relationship with defense and government agencies, (c) strategic collaboration with foreign technology partners for new product development, (d) in-house R&D capabilities (R&D spend at 9.0% of revenues), and (e) increased focus on exports to friendly countries.
- Given current order backlog position, execution timelines and capabilities of the company, We maintain our **Buy** rating with a target price of INR130 (16x Mar'21E EPS, in line with its 10-year average P/E multiple).

Financials and valuations

Income statement			(INR Million)		
Y/E March	2017	2018	2019	2020E	2021E
Net Sales	86,119	103,223	120,846	139,529	161,394
Change (%)	17.5	19.9	17.1	15.5	15.7
Manufacturing Expenses	48,600	60,257	73,435	82,944	100,064
Staff Cost	15,483	17,723	18,791	20,098	21,103
Office & Site Establishment Exps	4,418	5,246	0	7,072	7,861
EBITDA	17,617	19,997	28,621	29,414	32,365
% of Net Sales	20.5	19.4	23.7	21.1	20.1
Depreciation	1,915	2,510	3,162	3,583	4,243
Interest	118	13	122	122	122
Other Income	4,710	2,004	1,695	1,200	1,500
PBT	20,294	19,478	27,032	26,909	29,500
Tax	4,818	5,486	7,759	8,611	9,440
Rate (%)	23.7	28.2	28.7	32.0	32.0
Adjusted PAT	15,476	13,992	19,273	18,298	20,060
Reported PAT	15,476	13,992	19,273	18,298	20,060
Change (%)	18.4	-9.6	37.7	-5.1	9.6

Balance sheet			(INR Million)		
Y/E March	2017	2018	2019	2020E	2021E
Share Capital	2,234	2,437	2,437	2,437	2,437
Reserves	72,937	75,512	86,607	97,462	109,362
Net Worth	75,170	77,949	89,043	99,898	111,799
Loans	167	334	0	0	0
Deffered Tax Liability	-5,323	-4,312	-3,000	-3,000	-3,000
Capital Employed	70,014	73,971	86,043	96,898	108,799
Gross Fixed Assets	19,094	26,572	32,572	38,572	43,572
Less: Depreciation	3,617	6,127	9,290	12,872	17,115
Net Fixed Assets	15,477	20,445	23,282	25,699	26,457
Capital WIP	3,639	3,955	3,955	3,955	3,955
Investments	4,597	9,032	9,032	9,032	9,032
Curr. Assets	142,525	147,167	162,128	202,342	236,072
Inventory	49,050	47,755	55,908	64,551	74,667
Debtors	43,549	57,046	63,474	73,287	84,772
Cash & Bank Balance	37,902	7,387	1,795	17,222	21,942
Loans & Advances	806	730	855	987	1,142
Other Current Assets	11,219	34,249	40,096	46,295	53,549
Current Liab. & Prov.	96,225	106,627	112,353	144,130	166,716
Liabilities	83,222	94,023	97,597	127,092	147,009
Provisions	13,003	12,604	14,756	17,038	19,708
Net Current Assets	46,301	40,540	49,774	58,212	69,356
Misc. Expenses	0	0	0	0	0
Application of Funds	70,014	73,971	86,043	96,898	108,799

Financials and valuations

Ratios

Y/E March	2017	2018	2019	2020E	2021E
Adjusted EPS	6.3	5.7	7.9	7.5	8.2
Growth (%)	27.2	-8.8	37.7	-5.1	9.6
Cash EPS	7.1	6.8	9.2	9.0	10.0
Book Value	30.6	32.0	36.5	41.0	45.9
DPS	2.3	2.0	2.8	2.6	2.9
Payout (incl. Div. Tax.)	36	35	35	35	35
Valuation (x)					
P/E (standalone)	25.4	17.2	12.5	13.2	12.0
Cash P/E	22.6	14.6	10.8	11.0	9.9
EV/EBITDA	20.2	11.7	8.4	7.6	6.8
EV/Sales	4.3	2.3	2.0	1.6	1.4
Price/Book Value	5.2	3.1	2.7	2.4	2.2
Dividend Yield (%)	1.4	2.0	2.8	2.6	2.9
Profitability Ratios (%)					
RoE	20.6	18.0	21.6	18.3	17.9
RoCE	18.8	18.2	23.1	19.5	19.0
RoIC	74.6	32.4	29.1	25.5	27.2
Turnover Ratios					
Debtors (Days)	185	202	192	192	192
Inventory (Days)	208	169	169	169	169
Fixed Asset Turnover (x)	4.3	3.8	3.6	3.5	3.6

Cash flow statement

(INR Million)

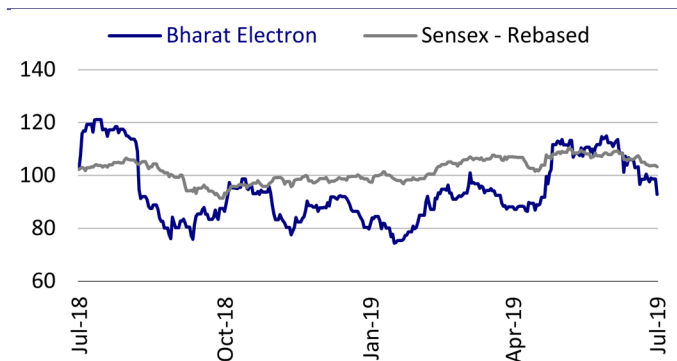
Y/E March	2017	2018	2019	2020E	2021E
PBT before Extraordinary Items	20,294	19,478	27,032	26,909	29,500
Add : Depreciation	1,915	2,510	3,162	3,583	4,243
Interest	118	13	122	122	122
Less : Direct Taxes Paid	4,818	5,486	7,759	8,611	9,440
(Inc)/Dec in WC	-12,031	-24,754	-14,827	6,989	-6,424
CF from Operations	5,479	-8,239	7,730	28,992	18,002
Extra-ordinary Income	0	0	0	0	0
CF from Operations after EOI	5,479	-8,239	7,730	28,992	18,002
(Inc)/Dec in FA	-6,970	-7,793	-6,000	-6,000	-5,000
Free Cash Flow	-1,491	-16,032	1,730	22,992	13,002
(Pur)/Sale of Investments	-1,406	-4,435	1	0	0
CF from Investments	-8,375	-12,228	-6,000	-6,000	-5,000
(Inc)/Dec in Networth	-24,448	-4,511	973	0	0
(Inc)/Dec in Debt	167	167	-334	0	0
Less : Interest Paid	118	13	122	122	122
Dividend Paid	6,457	5,692	7,840	7,443	8,160
CF from Fin. Activity	-30,856	-10,048	-7,322	-7,565	-8,282
Inc/Dec of Cash	-33,752	-30,515	-5,591	15,427	4,720
Add: Beginning Balance	71,653	37,902	7,387	1,795	17,222
Closing Balance	37,901	7,387	1,796	17,222	21,942

Corporate profile

Company description

Bharat Electronics Limited (BHE) was established at Bangalore, India, by the Government of India under the Ministry of Defence in 1954 to meet the specialized electronic needs of the Indian defence services. Over the years, it has grown into a multiproduct, multi-technology, multi-unit company servicing the needs of customers in diverse fields in India and abroad.

Exhibit 1: Sensex rebased



Source: MOFSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Jun-19	Mar-19	Jun-18
Promoter	58.8	58.8	66.0
DII	21.9	22.9	19.0
FII	8.9	7.5	6.1
Others	10.4	10.8	9.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Life Insurance Corporation Of India	3.3
CPSE ETF	2.8
Aditya Birla Sun Life Trustee Private Limited A/C Aditya Birla Sun Life	2.8
L And T Mutual Fund Trustee Limited - L And T Hybrid Equity Fund	1.3
Sbi Blue Chip Fund	1.1

Source: Capitaline

Exhibit 4: Top management

Name	Designation
M V Gowtama	Chairman & Managing Director
Nataraj Krishnappa	Director
Vinay Kumar Katyal	Director
Koshy Alexander	Director (Finance)
Shivakumaran K M	Director (Human Resources)
Anandi Ramalingam	Director (Marketing)
Mahesh V	Director (Research & Devplmnt)
S Sreenivas	Company Secretary

Source: Capitaline

Exhibit 5: Directors

Name	Name
Bhaskar Ramamurthi	Surendra Singh Sirohi
Mukka Harish Babu	Usha Mathur
R K Shevgaonkar	Vijay Shankar Madan
Sharad Kumar Sanghi	J Manjula
	Amit Sahai

*Independent

Exhibit 6: Auditors

Name	Type
GNV & Associates	Cost Auditor
Malani Somani Chandak & Associates	Branch
Suri & Co	Statutory
Thirupal Gorige & Associates LLP	Secretarial Audit

Source: Capitaline

Exhibit 7: MOFSL forecast v/s consensus

EPS (INR)	MOFSL forecast	Consensus forecast	Variation (%)
FY20	7.5	7.7	-2.2
FY21	8.2	8.4	-1.9

Source: Bloomberg

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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Registered Office Address: Motilal Oswal Tower, Rahimtullah Sayani Road, Opposite Parel ST Depot, Prabhadevi, Mumbai-400025; Tel No.: 022 71934200/ 022-71934263; Website www.motilaloswal.com. CIN no.: L67190MH2005PLC153397. Correspondence Office Address: Palm Spring Centre, 2nd Floor, Palm Court Complex, New Link Road, Malad(West), Mumbai-400 064. Tel No: 022 7188 1000.

Registration Nos.: Motilal Oswal Financial Services Limited (MOFSL)*: INZ000158836(BSE/NSE/MCX/NCDEX); CDSL and NSDL: IN-DP-16-2015; Research Analyst: INH000000412. AMFI: ARN - 146822; Investment Adviser: INA000007100; Insurance Corporate Agent: CA0579;PMS:INP000006712. Motilal Oswal Asset Management Company Ltd. (MOAMC): PMS (Registration No.: INP000000670); PMS and Mutual Funds are offered through MOAMC which is group company of MOFSL. Motilal Oswal Wealth Management Ltd. (MOWML): PMS (Registration No.: INP000004409) is offered through MOWML, which is a group company of MOFSL. Motilal Oswal Financial Services Limited is a distributor of Mutual Funds, PMS, Fixed Deposit, Bond, NCDs, Insurance Products and IPOs. Real Estate is offered through Motilal Oswal Real Estate Investment Advisors II Pvt. Ltd. which is a group company of MOFSL. Private Equity is offered through Motilal Oswal Private Equity Investment Advisors Pvt. Ltd which is a group company of MOFSL. Research & Advisory services is backed by proper research. Please read the Risk Disclosure Document prescribed by the Stock Exchanges carefully before investing. There is no assurance or guarantee of the returns. Investment in securities market is subject to market risk, read all the related documents carefully before investing. Details of Compliance Officer: Name: Neeraj Agarwal, Email ID: na@motilaloswal.com, Contact No.:022-71881085.

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