

September 28, 2021

## Analyst Meet Update

■ Change in Estimates |  Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	245		208	
Sales (Rs. m)	1,64,947	1,92,894	1,64,921	1,92,866
% Chng.	-	-	-	-
EBITDA (Rs. m)	34,952	41,839	34,947	41,833
% Chng.	-	-	-	-
EPS (Rs.)	10.2	12.2	10.2	12.2
% Chng.	-	-	-	-

### Key Financials - Standalone

Y/e Mar	FY20	FY21	FY22E	FY23E
Sales (Rs. m)	1,29,211	1,40,638	1,64,946	1,92,894
EBITDA (Rs. m)	27,301	31,811	34,952	41,839
Margin (%)	21.1	22.6	21.2	21.7
PAT (Rs. m)	17,938	20,654	24,876	29,837
EPS (Rs.)	7.4	8.5	10.2	12.2
Gr. (%)	(6.9)	15.1	20.4	19.9
DPS (Rs.)	2.4	4.0	3.3	3.9
Yield (%)	1.1	1.9	1.6	1.9
RoE (%)	19.0	20.0	21.3	22.1
RoCE (%)	25.2	27.2	26.7	27.6
EV/Sales (x)	3.8	3.3	2.9	2.4
EV/EBITDA (x)	18.2	14.5	13.6	11.1
PE (x)	28.6	24.8	20.6	17.2
P/BV (x)	5.2	4.7	4.1	3.5

### Key Data

BAJE.BO | BHE IN

52-W High / Low	Rs.212 / Rs.86
Sensex / Nifty	59,668 / 17,749
Market Cap	Rs.513bn/ \$ 6,922m
Shares Outstanding	2,437m
3M Avg. Daily Value	Rs.3360.58m

### Shareholding Pattern (%)

Promoter's	51.14
Foreign	10.25
Domestic Institution	31.30
Public & Others	7.31
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	13.5	71.9	115.9
Relative	6.8	41.2	37.4

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## Emerging as defense plus player

We attended analyst meet of Bharat Electronics Ltd (BEL) to understand opportunity and business outlook of the company. Management remains quite optimistic on upcoming opportunities in defense as well as non-defense space as government focus on indigenization, spending and initiative's such as PLI schemes. In order to capitalize on huge opportunities and mitigate risk of defense, BEL is diversifying into different business verticals such as Medical Electronics, Energy Storage, Unmanned System, Space Electronics and Systems, Software Service, etc. Further, it is expanding its global footprint by entering in new regions such as Kenya, Chile, Suriname, Malaysia, Nepal and Bangladesh through strategic collaborations.

Given strong tender pipeline (OI guidance of Rs150-170bn), comfortable order book (Rs558bn, 4.0x TTM revenues), healthy execution capabilities and diversification into newer business verticals like Medical Electronics, Energy Storage, Unmanned System, Space Electronics and Systems, Software Service, etc. we expect BEL to report revenue/PAT CAGR of 17%/20% over FY21-23E. The stock is currently trading at 20.6x/17.2x FY22/FY23E. We maintain our 'BUY' rating on the stock with revised TP of Rs245 (Rs208 earlier) valuing the company at PE of 20x (17x earlier) on FY23E EPS of Rs12.2. TP has been revised upwards, as we believe risk of lower EBITDA margins on account of diversification has been mitigated.

**Aatmanirbhar Bharat initiative to provide robust opportunity:** Government's thrust on infrastructure development and rising indigenization of products through Aatmanirbhar Bharat initiative's is expected to benefit companies like BEL. We believe with healthy execution capabilities, massive opportunity arising in all three defense segment – Army, Navy and Air-force, lean balance sheet, niche technology advantage and healthy market share, BEL is well place to capitalize on upcoming opportunities. Further, it has 30 items under expression of interest in Make-II initiative at various advance stage of development.

**Diversifying into non-defense segment:** To reduce dependence on defense, BEL has been focusing on diversifying into new and allied business verticals such as Medical Electronics, Energy Storage, Unmanned system, Space electronics and systems, Software Service (SAAS- opportunity Rs50bn), Ammunition (Rs5bn/year opportunity), etc. Non-defense segment contributed 20% of total revenue in FY21 and is expected to reach 25-30% in next couple of years.

**Expanding global footprint:** Exports revenue stood at US\$51.93mn in FY21 primarily from products such as coastal surveillance system, communication equipment, radar spares, sub-assemblies of missile system etc. Currently it has presence in countries such as USA, France, Germany, Turkey, etc. and is expanding its footprint in Kenya, Chile, Suriname, Malaysia, Nepal and Bangladesh through strategic collaborations.

**Strong order pipeline:** BEL has bagged orders worth Rs53bn till date in FY22. Given strong ordering pipeline from LRSAM, Akash Missile System, Integrated Air command & Control system, Naval Equipment, Smart City business, Radars etc. management has guided for order inflows of Rs150-170bn range in FY22.

**Focus on R&D:** As a part of its strategy to indigenise most of its products, the company has been spending heavily on R&D capex (Rs8.7bn in FY21). Going ahead, it would continue to focus on R&D both in-house and collaborative mode for increased value addition and intellectual property creation.

**Capex of Rs18bn towards expansion and modernization:** The company plans to incur a capex of Rs18bn over 3-4 years towards a) setting manufacturing facilities at AP and Hyderabad for new products development such as Advance EP system, EW system, and Missiles & Seekers and b) acquiring land bank at Nagpur and Devanahalli to settle manufacturing facilities for Space, Unmanned Systems, Solar and Explosive handling of Fuzes. We believe, given healthy cash generation and lean balance sheet the company would be able to fund its capex through internal accruals.

#### Exhibit 1: Order summary- project executed; pipeline

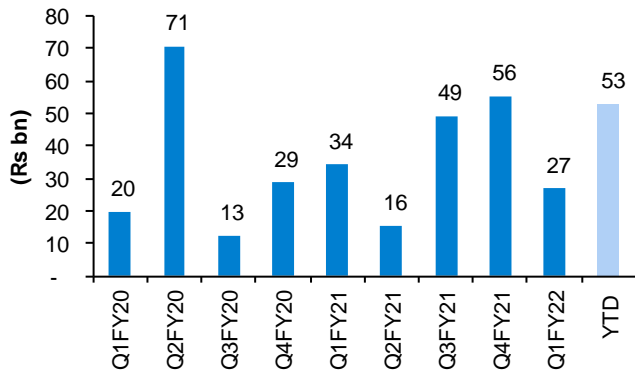
Orders Executed in FY21	Projects pipeline for FY22
Long Range Surface to Air Missile System	Akash Missile System (7 Sqdn)
ICU Ventilator System	Electronic Voting Machines
Integrated Air Command & Control System	Long Range Surface to Air Missile (LRSAM) System
Akash Missile System	Air Force Network (AFNET)
Thermal Imaging Sight	Naval Equipment
Samyukta Upgrade	Integrated Air Command & Control System
Air Force Network (AFNET)	Integrated Perimeter Surveillance System (IPSS)
Smart City Business	Various Radars
Shakti Phase III	Upgrade of Communication Equipment
L-70 Gun Upgrade	Smart City Business
CSS Phase II	Kerala Fibre Optic Network (K-FON)
Software Defined Radio	

Source: Company, PL

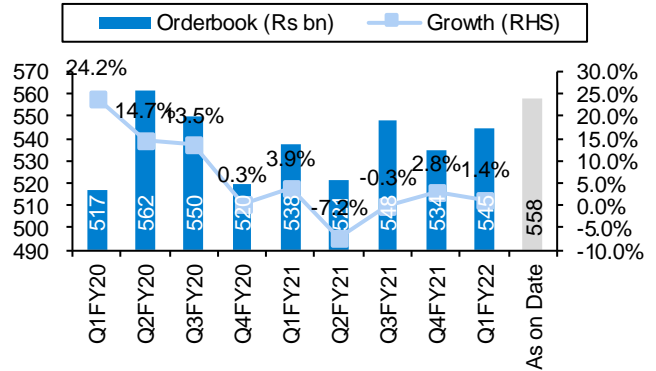
#### Exhibit 2: New products launched in FY21

Maareech Advanced Torpedo Decoy System (ATDS)
Low profile Ku Band SOTM
Instant Fire Detection and Suppression System (IFDSS -FICV/T90/T70)
Indigenous ASR-MSSR for Civil Aviation
BFSR Upgrade
Mountain Version of Weapon Locating Radar (WLR)
Compact Tracking Radar for GFCS Lynx U2
CMS System for P-15B class of Ships
ASW Fleet functionalities for CMS - 17 Systems

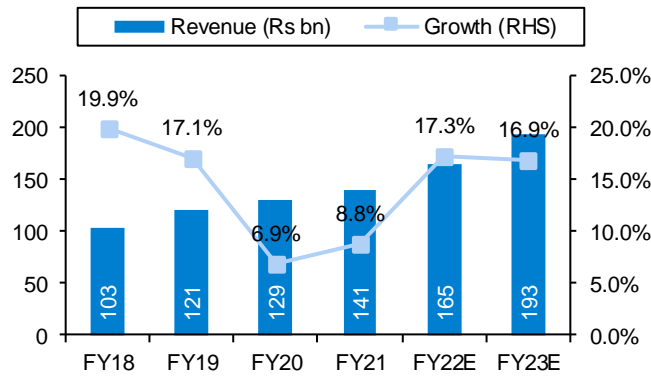
Source: Company, PL

**Exhibit 3: Order inflow came in at Rs53bn till date in FY22**


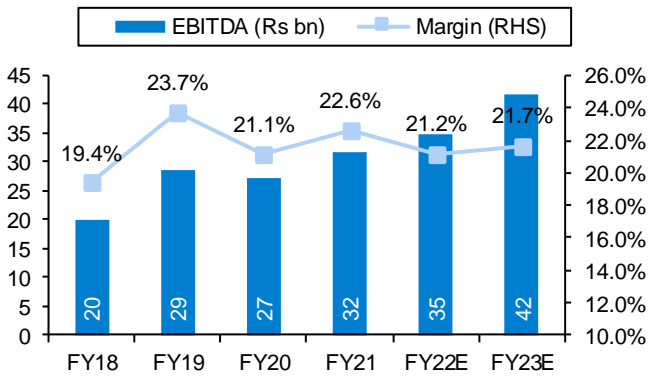
Source: Company, PL

**Exhibit 4: Order book stand strong at Rs558bn as on date**


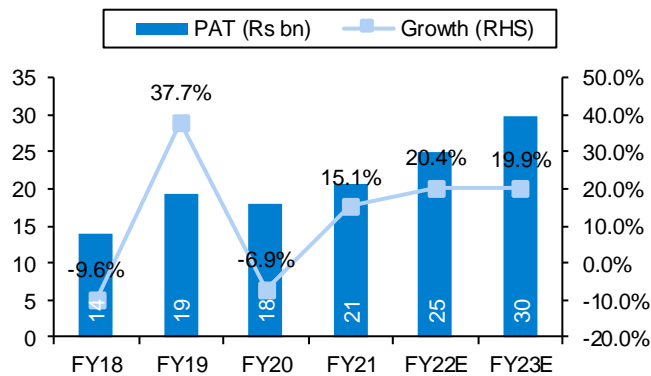
Source: Company, PL

**Exhibit 5: Revenue to grow at 17% CAGR over FY21-FY23E**


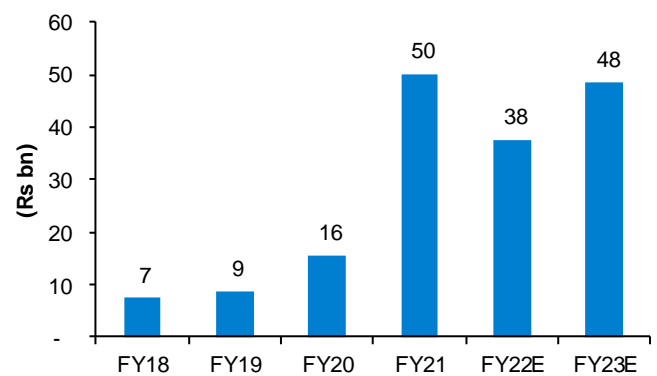
Source: Company, PL

**Exhibit 6: EBITDAM to remain healthy at ~22%**


Source: Company, PL

**Exhibit 7: PAT to report 20% CAGR over FY21-FY23E**


Source: Company, PL

**Exhibit 8: Cash balance is strong at Rs50bn as on FY21**


Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>1,29,211</b>	<b>1,40,638</b>	<b>1,64,946</b>	<b>1,92,894</b>
YoY gr. (%)	6.9	8.8	17.3	16.9
Cost of Goods Sold	71,052	78,278	92,370	1,08,021
Gross Profit	58,160	62,360	72,576	84,874
Margin (%)	45.0	44.3	44.0	44.0
Employee Cost	20,575	19,407	23,093	27,005
Other Expenses	7,071	8,747	10,722	11,574
<b>EBITDA</b>	<b>27,301</b>	<b>31,811</b>	<b>34,952</b>	<b>41,839</b>
YoY gr. (%)	(4.6)	16.5	9.9	19.7
Margin (%)	21.1	22.6	21.2	21.7
Depreciation and Amortization	3,496	3,663	3,881	4,516
<b>EBIT</b>	<b>23,805</b>	<b>28,148</b>	<b>31,071</b>	<b>37,323</b>
Margin (%)	18.4	20.0	18.8	19.3
Net Interest	33	61	64	67
Other Income	1,019	1,261	2,161	2,527
<b>Profit Before Tax</b>	<b>24,792</b>	<b>29,348</b>	<b>33,168</b>	<b>39,782</b>
Margin (%)	19.2	20.9	20.1	20.6
Total Tax	6,853	8,694	8,292	9,946
Effective tax rate (%)	27.6	29.6	25.0	25.0
<b>Profit after tax</b>	<b>17,938</b>	<b>20,654</b>	<b>24,876</b>	<b>29,837</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>17,938</b>	<b>20,654</b>	<b>24,876</b>	<b>29,837</b>
YoY gr. (%)	(6.9)	15.1	20.4	19.9
Margin (%)	13.9	14.7	15.1	15.5
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>17,938</b>	<b>20,654</b>	<b>24,876</b>	<b>29,837</b>
YoY gr. (%)	(6.9)	15.1	20.4	19.9
Margin (%)	13.9	14.7	15.1	15.5
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	17,938	20,654	24,876	29,837
<b>Equity Shares O/s (m)</b>	<b>2,437</b>	<b>2,437</b>	<b>2,437</b>	<b>2,437</b>
<b>EPS (Rs)</b>	<b>7.4</b>	<b>8.5</b>	<b>10.2</b>	<b>12.2</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>37,644</b>	<b>40,454</b>	<b>48,454</b>	<b>56,454</b>
Tangibles	37,644	40,454	48,454	56,454
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>12,678</b>	<b>16,227</b>	<b>20,108</b>	<b>24,624</b>
Tangibles	12,678	16,227	20,108	24,624
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>24,966</b>	<b>24,227</b>	<b>28,345</b>	<b>31,829</b>
Tangibles	24,966	24,227	28,345	31,829
Intangibles	-	-	-	-
Capital Work In Progress	7,059	7,936	7,936	7,936
Goodwill	-	-	-	-
Non-Current Investments	12,232	13,667	16,247	19,000
Net Deferred tax assets	4,974	4,634	4,634	4,634
Other Non-Current Assets	3,408	3,908	4,948	5,787
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	39,628	49,547	58,748	68,702
Trade receivables	67,329	65,515	85,863	89,841
Cash & Bank Balance	15,577	50,082	37,621	48,419
Other Current Assets	63,321	70,365	74,226	77,158
<b>Total Assets</b>	<b>2,34,137</b>	<b>2,85,898</b>	<b>3,15,585</b>	<b>3,50,601</b>
<b>Equity</b>				
Equity Share Capital	2,437	2,437	2,437	2,437
Other Equity	96,093	1,05,642	1,22,558	1,42,847
<b>Total Network</b>	<b>98,529</b>	<b>1,08,079</b>	<b>1,24,995</b>	<b>1,45,284</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	24,248	32,968	22,595	26,424
Other current liabilities	1,16,334	1,49,484	1,72,629	1,83,528
<b>Total Equity &amp; Liabilities</b>	<b>2,34,137</b>	<b>2,85,898</b>	<b>3,15,585</b>	<b>3,50,601</b>

Source: Company Data, PL Research

**Cash Flow (Rs m)**

Y/e Mar	FY20	FY21	FY22E	FY23E
PBT	24,792	29,348	33,168	39,782
Add. Depreciation	3,496	3,663	3,881	4,516
Add. Interest	30	61	64	67
Less Financial Other Income	1,019	1,261	2,161	2,527
Add. Other	(321)	689	-	-
Op. profit before WC changes	27,997	33,761	37,113	44,366
Net Changes-WC	3,013	22,597	(23,724)	(3,492)
Direct tax	(5,684)	(5,323)	(8,292)	(9,946)
<b>Net cash from Op. activities</b>	<b>25,325</b>	<b>51,035</b>	<b>5,097</b>	<b>30,928</b>
Capital expenditures	(7,264)	(4,664)	(9,533)	(10,515)
Interest / Dividend Income	692	600	-	-
Others	182	(21,622)	-	-
<b>Net Cash from Inv. activities</b>	<b>(6,389)</b>	<b>(25,686)</b>	<b>(9,533)</b>	<b>(10,515)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	(250)	(83)	-	-
Dividend paid	(9,793)	(10,227)	(7,960)	(9,548)
Interest paid	(30)	(58)	(64)	(67)
Others	(520)	(385)	-	-
<b>Net cash from Fin. activities</b>	<b>(10,593)</b>	<b>(10,754)</b>	<b>(8,024)</b>	<b>(9,615)</b>
<b>Net change in cash</b>	<b>8,343</b>	<b>14,594</b>	<b>(12,461)</b>	<b>10,798</b>
Free Cash Flow	18,053	46,357	(2,903)	22,928

Source: Company Data, PL Research

**Key Financial Metrics**

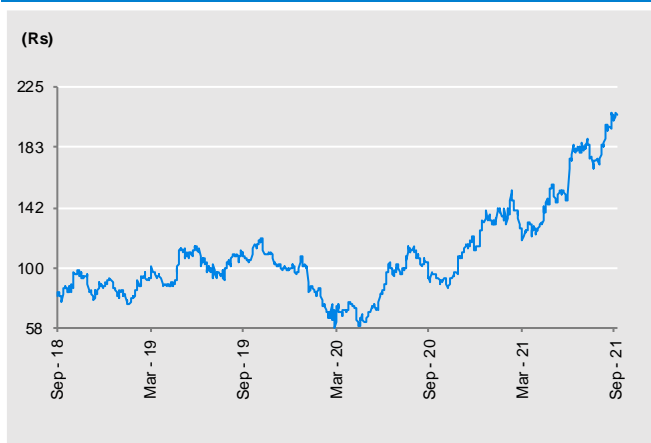
Y/e Mar	FY20	FY21	FY22E	FY23E
<b>Per Share(Rs)</b>				
EPS	7.4	8.5	10.2	12.2
CEPS	8.8	10.0	11.8	14.1
BVPS	40.4	44.4	51.3	59.6
FCF	7.4	19.0	(1.2)	9.4
DPS	2.4	4.0	3.3	3.9
<b>Return Ratio(%)</b>				
RoCE	25.2	27.2	26.7	27.6
ROIC	21.9	37.2	29.5	32.3
RoE	19.0	20.0	21.3	22.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.5)	(0.3)	(0.3)
Net Working Capital (Days)	234	213	270	250
<b>Valuation(x)</b>				
PER	28.6	24.8	20.6	17.2
P/B	5.2	4.7	4.1	3.5
P/CEPS	23.9	21.1	17.8	14.9
EV/EBITDA	18.2	14.5	13.6	11.1
EV/Sales	3.8	3.3	2.9	2.4
Dividend Yield (%)	1.1	1.9	1.6	1.9

Source: Company Data, PL Research

**Quarterly Financials (Rs m)**

Y/e Mar	Q2FY21	Q3FY21	Q4FY21	Q1FY22
<b>Net Revenue</b>	<b>31,887</b>	<b>22,962</b>	<b>69,083</b>	<b>16,346</b>
YoY gr. (%)	16.3	1.1	19.0	(2.2)
Raw Material Expenses	17,540	11,811	40,693	9,547
Gross Profit	14,347	11,152	28,390	6,799
Margin (%)	45.0	48.6	41.1	41.6
<b>EBITDA</b>	<b>6,235</b>	<b>4,404</b>	<b>19,706</b>	<b>629</b>
YoY gr. (%)	14.5	24.1	32.9	(57.2)
Margin (%)	19.6	19.2	28.5	3.8
Depreciation / Depletion	914	945	917	922
<b>EBIT</b>	<b>5,321</b>	<b>3,459</b>	<b>18,789</b>	<b>(294)</b>
Margin (%)	16.7	15.1	27.2	(1.8)
Net Interest	3	2	56	1
Other Income	274	231	572	447
<b>Profit before Tax</b>	<b>5,592</b>	<b>3,688</b>	<b>19,305</b>	<b>152</b>
Margin (%)	17.5	16.1	27.9	0.9
Total Tax	1,622	1,070	5,782	40
Effective tax rate (%)	29.0	29.0	29.9	26.5
<b>Profit after Tax</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>
YoY gr. (%)	17.0	21.7	30.7	(79.4)
Margin (%)	12.5	11.4	19.6	0.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>
YoY gr. (%)	17.0	21.7	30.7	(79.4)
Margin (%)	12.5	11.4	19.6	0.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>3,971</b>	<b>2,619</b>	<b>13,524</b>	<b>112</b>
Avg. Shares O/s (m)	2,437	2,437	2,437	2,437
<b>EPS (Rs)</b>	<b>1.6</b>	<b>1.1</b>	<b>5.6</b>	<b>-</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Aug-21	BUY	208	171
2	06-Jul-21	BUY	208	181
3	23-Jun-21	BUY	208	169
4	07-Apr-21	Accumulate	110	131
5	08-Jan-21	Accumulate	110	132
6	19-Nov-20	Accumulate	110	103
7	08-Oct-20	Hold	99	94

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	Hold	1,687	1,684
2	Ahluwalia Contracts (India)	Accumulate	410	370
3	Apar Industries	BUY	790	680
4	Ashoka Buildcon	BUY	160	102
5	Bharat Electronics	BUY	208	171
6	BHEL	Sell	34	59
7	Capacite's Infraprojects	BUY	270	207
8	Container Corporation of India	Hold	607	644
9	Cummins India	Accumulate	1,051	976
10	Engineers India	BUY	129	71
11	GE T&D India	Hold	139	133
12	H.G. Infra Engineering	BUY	696	571
13	IRB Infrastructure Developers	BUY	192	152
14	ITD Cementation India	BUY	97	83
15	J.Kumar Infraprojects	BUY	272	215
16	Kalpataru Power Transmission	BUY	576	472
17	KEC International	Accumulate	445	419
18	KNR Constructions	Accumulate	314	286
19	Larsen & Toubro	BUY	1,855	1,598
20	NCC	BUY	111	89
21	PNC Infratech	BUY	372	310
22	Power Grid Corporation of India	BUY	205	170
23	Sadbhav Engineering	BUY	97	61
24	Siemens	Accumulate	2,310	2,192
25	Thermax	Accumulate	1,559	1,360
26	Triveni Turbine	BUY	156	130
27	Voltamp Transformers	Accumulate	1,825	1,604

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly



## **ANALYST CERTIFICATION**

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We/I, Mr. Viral Shah- BE Chemical Engineering, MBA Finance, Mr. Nilesh Soni- BCom, MBA (Finance) Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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